Arguments for Capitalism and Socialism

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Editor's Note: This essay is the second in a two-part series authored by Tom on the topic of capitalism and socialism. The first essay, on defining capitalism and socialism, can be viewed here.

Suppose I had a magic wand that allowed one to produce 500 donuts per hour. I say to you, “Let’s make a deal. You use this wand to produce donuts, and then sell those donuts for $500 and give me the proceeds. I’ll give you $10 for every hour you spend doing this. I’ll spend that time playing video games.”

My activity—playing video games—seems pretty easy. Your job requires much more effort. And I might end up with a lot more money than $10 for every hour you work. How is that fair?

In the story, the magic wand is analogous to capital goods: assets (typically machinery and buildings, such as robots, sewing machines, computers, and factories) that make labor, or providing goods and services, more productive. Standard definitions of ‘capitalism’ and ‘socialism’ indicate that, in general, capitalist systems permit people to privately own and control capital goods, whereas socialist systems do not. And capitalist systems tend to contain widespread wage labor, absentee ownership, and property income; socialist systems generally don’t.[1]

Capital goods are morally interesting. As in the case of the magic wand, ownership of capital goods can allow one to make lots of money without working. In contrast, other people have to work for a living. This might be unfair or harmful. This essay surveys and explains the main arguments in this debate.[2]

1. Capitalism

Arguments for capitalism tend to hold that it’s beneficial to society for there to be incentives to produce, own, and use capital goods like the magic wand, or that it’s wrong to forcibly prevent people from doing so. Here are four arguments for capitalism, stated briefly:

(1) Competition: ‘When individuals compete with each other for profits, this benefits the consumer.’[3]

Critique: Competition also may encourage selfish and predatory behavior. Competition can also occur in some socialist systems.[4]

(2) Freedom: ‘Preventing people from owning capital restricts their freedom. Seizing their income in the form of taxes may constitute theft.’[5]

Critiques: Maybe owning property, itself, restricts freedom, by excluding others from using it.[6] If I announce that I own something, I may be thereby announcing that I will force you not to use it. And maybe “freedom” requires the ability to pursue one’s own goals, which in turn requires some amount of wealth.[7] Further, if people must choose between work and starvation, then their choice to work may not be really “free” anyway.[8] And the general distribution of wealth is arguably the result of a morally arbitrary “natural lottery,”[9] which may not actually confer strict property-rights over one’s holdings.[10] I didn’t choose where I was born, nor my parents’ wealth, nor my natural talents, which allow me to acquire wealth. So perhaps it’s not a violation of my rights to take some of that property from me.

(3) Public Goods: “[11] When objects, including capital, must be shared with others, then no one is strongly motivated to produce them. In turn, society is poorer and labor is more difficult because production is inefficient.”[12]

Critique: People might be motivated to produce capital for altruistic reasons,[13] or may be coerced in some socialist systems to do so. Some putatively socialist systems allow for profitable production of capital goods.[14]

(4) Tragedy of the Commons: ‘When capital, natural resources, or the environment are publicly controlled, no one is strongly motivated to protect them.”[15]

Critique: As before, people might be motivated by altruism.[16] Some systems with partially-private control of capital may nevertheless qualify as socialist.[17]
2. Socialism

Arguments for socialism tend to hold that it’s unfair or harmful to have a system like in the story of the magic wand, a system with widespread wage labor and property income. Here are four arguments for socialism, stated briefly:

(1) Fairness: ‘It’s unfair to make money just by owning capital, as is possible only in a capitalist system.’[18]

Critique: Perhaps fairness isn’t as morally important as consent, freedom, property rights, or beneficial consequences. And perhaps wage laborers consent to work, and capital owners have property rights over their capital.[19]

(2) Inequality: ‘When people can privately own capital, they can use it to get even richer relative to the poor, and the wage laborers are left poorer and poorer relative to the rich, thereby worsening the inequality that already exists between capital-owners and wage-laborers.’[20]

Critiques: This is a disputable empirical claim.[21] And perhaps the ability to privately own capital encourages people to invest in building capital goods, thereby making goods and services cheaper. Further, perhaps monopolies commonly granted by social control over capital are ‘captured’ by wealthy special-interests,[22] which harm the poor by enacting regressive laws.[23]

(3) Labor: ‘Wage laborers are alienated from their labor, exploited, and unfree because they must obey their bosses’ orders.’[24]

Critique: If this alienation and exploitation are net-harmful to workers, then why do workers consent to work? If the answer is ‘because they’ll suffer severe hardship otherwise,’ then strictly speaking, this is a critique of allowing poverty, not a critique of allowing wage labor.

(4) Selfishness: ‘When people can privately own capital, they selfishly pursue profit above all else, which leads to further inequality, environmental degradation, non-productive industries, economic instability, colonialism, mass murder, and slavery.’

Critique: These are also disputable empirical claims. Maybe when people are given control over socially-owned capital, they selfishly extract personal wealth from it.[25] Maybe when the environment is socially controlled, everyone is individually motivated to over-harvest and pollute.[26] State intervention in the economy may be a major cause of the existence of non-productive industry, pollution, and economic instability.[27] Last, some of the worst perpetrators of historical evils are governments, not private corporations.[28]

3. Conclusion

It is difficult to justifiably draw general conclusions about what a pure capitalism or socialism would be like in practice.[29] But an examination of the merits and demerits of each system gives us some guidance about whether we should move a society in either direction.

Notes

[1] See my Defining Capitalism and Socialism for an explanation of how to define these systems.


[3] By analogy, different people might try to construct even better magic wands, or use them for better purposes. Typically the benefits are thought to include lower prices, increased equality, innovation, and more options. See Smith 2003 [1776]: bk. 1, ch. 2 and Friedman and Friedman 1979: ch. 1.


[5] By analogy, if I legitimately own the magic wand, then what gives you the right to threaten violence against me if I don’t give it to you? Nozick 1974: ch. 7 presents a general discussion of how socialism might restrict freedom and how taxation may be akin to theft or forced labor.


[8] See e.g. Burawoy 1979 for a discussion of whether workers consent to work. See also Marx 2004 (1867): vol. IV, ch. VII.


[10] Relatedly, while one may currently hold capital, one may greatly owe the existence of that product to many other people or to society in general. See e.g.
Kropotkin 2015 [1913]: chs. 1-3 and Murphy and Nagel 2002.

[11] A public good is a good that is non-excludable (roughly, it is expensive to prevent people from using it) and non-rivalrously consumed (roughly, preventing people from using it causes harm without benefiting anyone) (Cowen 2008).

[12] By analogy, why bother building magic wands at all if someone else is immediately going to take it from me and start using it? Standard economic theory holds that public goods (non-excludable and non-rivalrous goods) will, on the free market, be underproduced. This is normally taken to be an argument for government to produce public goods. See e.g. Gaus 2008: 84 ff.

[13] For example, according to Marxist communism, the ideal socialist society would comprise production for use, not for profit. See e.g. Marx 2004 [1867]: vol. 1 ch. 7. See also Kropotkin 1902, which is a defense of the general claim that humans will tend to be altruistic, at least in anarcho-communist systems.

[14] In a market-socialist system (cf. Schweickart 2011), it is possible to make capital goods and sell them at a profit that gets distributed to the laborers.

[15] By analogy, if I know that anyone in the neighborhood can use the magic wand, I might not invest my own time and money to maintain it. But if it’s mine alone, I care a lot more about maintaining it. This is the basis of the well-known ‘Tragedy of the Commons’ alleged problem. See, e.g., Hardin 1968.


[17] As before, in Schweickart’s (2011) system, firms will be motivated to protect capital if they must pay for capital’s depreciation, even though the capital is owned by society.

[18] By analogy, as noted, the wand-owner might make lots of money for basically doing no work. Sherman 1995: 130; Schweickart 2011: § 3.2.

[19] See e.g. Friedman 2002 for a collection of consequentialist arguments for capitalism, and Nozick 1974: chs. 3 and 7 for some arguments concerning freedom and capitalist systems.

[20] By analogy, the wand-owner might accumulate so much money as to start buying other magic wands and renting those out as well. See e.g. Piketty 2014.

[21] Taking the world as a whole, wealth in absolute terms has been increasing greatly, and global poverty has been decreasing steeply, including in countries that have moved in mostly capitalist directions. See e.g. World Bank Group 2016: 3. Friedman 1989: ch. 5 argues that capitalism is responsible for the improved position of the poor today compared to the past.

[22] See e.g. Friedman 1989: ch. 7 for a discussion of regulatory capture.


[24] By analogy, the person I’ve hired to use the wand might need to obey my orders, because they don’t have a wand of their own to rent out, and they might starve without the job I’ve offered them. Marx 2009 [1932] introduces and develops this concept of alienation. See Dan Lowe’s 2015 Karl Marx’s Conception of Alienation for an overview. See also Anderson 2015 for an argument that private corporations coercively violate their workers’ freedom.

[25] See n. 21 above. This result is most-obvious in countries in which dictators enrich themselves, but there is nothing in principle preventing rulers of ostensibly democratic countries from doing so as well. Presumably this worry explains the presence of the Emoluments Clause in the U. S. Constitution.


[27] See e.g. Friedman 2002: chs. III and V and the example of compliance costs for regulations.


[29] All or nearly all large-scale economies have been mixed economies. In contrast, a pure capitalism would be an anarcho-capitalism (see e.g. Gaus 2010: 75 ff. and Huemer 2013), and a pure socialism wouldn’t permit people to privately own scissors. See also the entry “Defining Capitalism and Socialism.”

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