



## SPECIAL REPORT

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# Comparing Free Enterprise and Socialism

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*What is being offered by contemporary socialists are fairy tales, and we should not mistake them for the truth. These portrayals of socialism and their caricature of capitalism are inaccurate, vacuous, and utopian. Socialism takes from those who work, take risks, innovate, educate themselves, or save and gives to those who do not—or to those who have political power. A century ago, at the advent of the Russian Revolution, one could be a socialist and hope in good faith that socialism could achieve, or at least advance, its utopian aspirations. Now, socialism has a long record of dismal failure. In fact, it has been tried many dozens of times and failed each time.*

The U.S. economic system today is neither free enterprise nor socialism. It is a hybrid of the two with a strong element of crony capitalism. Many American politicians are now overtly calling for socialist or highly progressive policies, usually in the name of economic equality.

This *Special Report* compares free enterprise to socialism and briefly addresses a series of foundational issues regarding competing economic systems. Topics addressed include socialism, free enterprise, crony capitalism, how socialism is marketed, economic or distributive justice, poverty, the morality of socialism and free enterprise, the economic record of socialism and free enterprise, the efficacy of markets, the Nordic countries' experience, innovation and entrepreneurship, equality, social cooperation, private property and individual liberty, socialism and the middle class, and the U.S. economy today. Readers who wish to read further on a particular topic will find additional relevant materials in the endnotes.

## **What Is Socialism?**

State ownership of the means of production is the central tenet of traditional socialist or communist thought.<sup>1</sup> Traditional socialist and communist

economic policies involve state-owned enterprises and a high degree of state control over all aspects of economic life.<sup>2</sup>

Over time, politicians came to understand that they did not need to have legal ownership of, or legal title to, businesses or other property in order to control them by regulation, administrative actions, or taxation.<sup>3</sup> Furthermore, not having legal title meant that they could disclaim responsibility when government control did not work out well. Thus, the meaning of the term “socialist” evolved considerably during the last half of the 20th century to mean a strong state role in the economy, the pursuit of aggressive redistributionist policies, high levels of taxation and regulation, and a large welfare state—but not necessarily government ownership of the means of production.<sup>4</sup>

In this sense, many 21st-century proponents of “socialism” promote policies designed to promote greater economic equality and to protect workers that are often indistinguishable from those of modern progressives, social democrats, or labor parties.<sup>5</sup> In contemporary Europe, however, calls for state ownership of enterprises, especially banks, transportation companies, and utilities are now once again on the rise.<sup>6</sup> Thus, the traditional socialist understanding

appears to be regaining some ground. Both forms of socialism are collectivist ideologies that seek to radically reduce individual economic freedom in favor of political control over economic life.<sup>7</sup>

### **What Is Free Enterprise?**

Free enterprise or a free-market<sup>8</sup> system is an economic system based on voluntary exchange<sup>9</sup> in which entrepreneurs and businesses compete by offering goods and services to other businesses or consumers.<sup>10</sup> Firms successfully compete by offering better and less expensive products or by offering innovative new products. Firms that make poor investments or fail to innovate by improving products or reducing prices typically become unprofitable and ultimately fail. They are allowed to do so.

Workers and employers reach mutually agreeable terms of employment and are typically free to end the employer–employee relationship when they want to do so.<sup>11</sup> Markets and, critically, the price mechanism<sup>12</sup> are allowed to operate with little government interference. A free-enterprise system: (1) provides robust private property rights;<sup>13</sup> (2) enforces contracts;<sup>14</sup> (3) provides rules against fraud; (4) maintains rules against imposing substantial negative externalities (pollution, for example);<sup>15</sup> and (5) entails government provision of true public goods.<sup>16</sup> Free enterprise is sometimes called capitalism,<sup>17</sup> although free enterprise is about much more than the accumulation or use of capital.

### **Who Should Control the Economy: Politicians or the People?**

The central economic question facing any society is the degree to which economic life should be organized or controlled by the state or based on a spontaneous order arising from the voluntary actions of individuals and civil society.<sup>18</sup> Should economic cooperation be voluntary, as it is in free markets, or based on government coercion, as it is with socialism? In other words, who should control the economy—politicians (democratically elected or otherwise) and bureaucrats or the people?

Communists, socialists, social democrats, and progressives support an economy largely planned and controlled by government. Conservatives, classical liberals, and libertarians support an economy governed by the rule of law where people interact and cooperate largely free of government interference.

### **Crony Capitalism, Special Privileges, Rent Seeking, Industrial Policy, and Mercantilism**

There are many names for businesses seeking to use the power of government to obtain competitive advantage or special privileges. Writing in the 18th century, Adam Smith called it the “mercantile system”<sup>19</sup> (others later referred to it as mercantilism). During the 19th century, it was often called “special privileges.”<sup>20</sup> Economists often call it “rent seeking.”<sup>21</sup> More recently, it has been called corporate welfare,<sup>22</sup> crony capitalism,<sup>23</sup> industrial policy,<sup>24</sup> state capitalism,<sup>25</sup> venture socialism,<sup>26</sup> political capitalism,<sup>27</sup> or political entrepreneurship.<sup>28</sup> By whatever name we call it, when government and businesses collude to distort the marketplace and to restrain competition and entrepreneurship, it reduces social welfare and harms consumers, economic growth, job creation, and overall incomes.<sup>29</sup> It allocates income and wealth based on political power and favoritism.

Government should not be about exploiting the power of government for the benefit of special interests, whether those interests are business interests, labor union interests, or other interests. Policymakers have an obligation neither to distort the marketplace to favor the politically connected nor to not create artificial barriers to competition. To do otherwise is not only economically counterproductive<sup>30</sup> but endangers the public trust in government when discharging its appropriate functions.<sup>31</sup>

The level of crony capitalist interventions by government in the marketplace today is staggering. The federal government alone provides over \$100 billion in direct corporate welfare payments to businesses.<sup>32</sup> The government massively interferes in credit markets by making loans and loan guarantees to favored business.<sup>33</sup> It insures risks with exposure of trillions of dollars.<sup>34</sup> It bails out failed businesses.<sup>35</sup> It operates or sponsors large business.<sup>36</sup> State and local governments, in particular, actively create cartels and impose unneeded occupational licensing regimes.<sup>37</sup> Government interferes in international trade, protecting some industries at the expense of others.<sup>38</sup> It regulates to the advantage of politically connected businesses.

This crony capitalist economy is one of the reasons that \$2.6 billion is spent lobbying the federal government each year and billions more are spent trying to influence legislative and regulatory outcomes in more subtle ways.<sup>39</sup> In many cases, it is more cost-effective

to lobby government to achieve competitive advantage than to invest in productivity-enhancing equipment or research and development to bring better or less expensive products or services to market.

## Marketing Socialism

Senator Bernie Sanders (D-VT) says that “Democratic socialism means that we must create an economy that works for all, not just the very wealthy.”<sup>40</sup> Socialist popularizer Danny Katz writes, “Socialism is a society whose top priority is meeting all of its people’s needs—ranging from food, shelter, and health care to art, culture, and companionship.”<sup>41</sup> *Teen Vogue* opines “Capitalism takes the position that ‘greed is good,’” while “anti-capitalists view capitalism as an inhuman, anti-democratic, unsustainable, deeply exploitative system that must be dismantled.” *Teen Vogue* continues, “In a capitalist country, the focus is on profits over anything else; in a socialist country, the public is seen to be more important, and social welfare is a major priority.”<sup>42</sup> During the last election campaign, democratic socialist Alexandria Ocasio-Cortez (D-NY) said, “In the wealthiest nation in the world, working families shouldn’t have to struggle. This movement for Congress is about education and healthcare; it’s about housing, jobs, justice, and civil rights. It’s about preparing for the future of our environment, energy, and infrastructure. It’s about championing the dignity of our neighbors. And it’s about getting money out of politics.”<sup>43</sup>

A central tenet of good marketing is to frame the presentation so that the seller is offering what the potential buyer already wants to buy. That is much easier than convincing the buyer that he needs the product. Socialist marketing, in this sense, is quite astute. Given the marketing campaign conducted on its behalf, it is little wonder so many have heeded the siren call of socialism. Who, after all, is opposed to “an economy that works for all” or “meets all of its people’s needs”? Everyone wants education, health care, housing, jobs, justice, companionship, and the like for themselves, their family, and their neighbors. The problem with these marketing riffs in support of socialism is that socialism will *thwart* rather than further these objectives.

What is being offered by contemporary socialists is a fairy tale.<sup>44</sup> Although we may appreciate the literary qualities in a good yarn, we should not mistake them for the truth. These portrayals of socialism and their caricature of capitalism are inaccurate, vacuous,

and utopian.<sup>45</sup> Socialism takes from those who work, take risks, innovate, educate themselves, or save and gives to those who do not—or to those who have political power. Socialists love to compare an idealized Socialist utopia to real-world “capitalism” and act as if socialism has never been tried.<sup>46</sup> A century ago, at the advent of the Russian Revolution, one could be a socialist and hope in good faith that it could achieve, or at least advance, its utopian aspirations. Now, socialism has a long record of dismal failure. In fact, it has been tried many dozens of times and failed each time. As discussed below, to the extent that socialism is seriously tried, it ensures mass poverty. But even socialism-lite reduces the material well-being of average people.<sup>47</sup> Moreover, socialism is profoundly unjust.

## Economic Justice, Distributive Justice, and Social Justice

A society’s understanding of economic justice—often called distributive justice by philosophers—is of central importance to how the society is organized, whether it is prosperous and whether its members can flourish.

Conservatives,<sup>48</sup> classical liberals,<sup>49</sup> and libertarians<sup>50</sup> celebrate the fact that people have unequal (or diverse) talents, propensities to work, preferences, risk averseness, attachments, and cultures because these are central to the rich tapestry of an enlightened, humane, and prosperous society. These differences will inevitably lead to economic differences. This unplanned spontaneous order<sup>51</sup> and unequal distribution of material goods is just if the distribution is the result of individuals acting freely in accordance with just rules.<sup>52</sup> The core of the conservative, classical liberal, and libertarian view of economic justice is respect for voluntary exchange and private property.<sup>53</sup>

Any political system that mandated economic equality would be unjust. This becomes intuitively obvious to most if a few common situations are considered. Is it fair, equitable, or just that someone who works 80 hours per week should be paid the same as someone who works 40 hours per week or the same as someone who can work but chooses not to work at all? Should someone who has a dangerous or unpleasant job be paid the same as someone who has a safe, pleasant job? Should someone who works hard and does what his or her employer needs to be done be paid the same as someone who shirks responsibility and does as little work as possible? Should someone who is experienced, knowledgeable,

and competent be paid the same as someone who is not? Should someone who prepared for a profession, paying tens of thousands of dollars of tuition and studying for years without compensation, be paid the same as someone who has not? Should someone who risks years of effort, for little or no compensation, to launch a business that brings a beneficial new idea, good, or service to the marketplace be compensated the same as someone who bears little risk? Should a person who defers consumption by saving and investing for the future have the same income as someone who never saves? Should all students' grades be the same? Should admission to better universities be determined by lottery rather than academic merit?<sup>54</sup> Most would answer no.

The intuitive sense of distributive justice raised by these questions is that it is unjust to treat unequal situations equally. It is a sense that justice requires goods, both material and intangible, to be distributed on the basis of merit, contribution, what is deserved, or "just desserts," however defined, and that justice involves individual actions rather than a given distributional pattern to be determined in advance and enforced by the state.<sup>55</sup> In other words, how or why someone's wealth or income was obtained matters morally.

Most modern liberals, progressives, or socialists largely reject this view.<sup>56</sup> To them, income or wealth inequality is morally problematic no matter the reason for the inequality because our natural endowments, inclinations, character, family, and social background are undeserved. If an individual works hard or is smart in school, employment, or enterprise and is therefore better compensated than others, progressives regard that as unfair because, they argue, the intelligence and work ethic involved came largely from genetic, family, or social factors.<sup>57</sup> This view entails rejecting either the reality of, or the importance of, our freedom, our individuality, and many of the most important aspects of our humanity since, they believe, our character and our dispositions to work, to think, or even to love<sup>58</sup> are not chosen by us but determined by factors other than our choices. Using various principles, guideposts, or definitions, usually involving one of many competing conceptions of "equality," "fairness," or "social justice,"<sup>59</sup> they seek to have government enforce a predetermined distribution of economic goods. Individual effort and merit are largely irrelevant to their conception of economic justice.

Most conservatives, classical liberals, and libertarians do not find it to be of particular moral concern that a middle-income person has a lower income or less wealth than an affluent professional or that a millionaire has a lower income or less wealth than a billionaire. Relative wealth or income ratios do not cause them anxiety. They are not ideologically committed to some pre-determined, government-enforced distributional outcome.<sup>60</sup> They reject the view that wealth or income is like manna from heaven to be distributed by the state.<sup>61</sup> They prefer unequal prosperity to equal stagnation and poverty. They support fairness, not equality of outcomes, and do not regard an equality of outcomes as fair or just.<sup>62</sup> Instead, they seek equal protection of the law or equal justice under law. Their sense of economic justice is largely predicated on supporting voluntary exchange, choice, economic freedom, and private property.<sup>63</sup>

## Poverty

What conservatives, classical liberals and many libertarians find to be of moral concern is not income or wealth inequality *per se* but poverty,<sup>64</sup> because poverty hinders the ability of the poor to flourish and to lead a fulfilling life.<sup>65</sup> Public policies, private charity, education, and other initiatives to address poverty and create opportunity are warranted but the pursuit of economic equality is not. The objective of these efforts to alleviate poverty should be to create self-sufficiency rather than dependency so that people may thrive. Existing programs fail to meet those objectives.<sup>66</sup> Poverty in this objective sense means inadequate economic means to flourish or to live a good and decent life. It does not mean "relative poverty" or "inequality" because poverty in this relative sense cannot ever, even in principle, be abolished since some will always have less than others.

After millennia where the mass of humanity lived in grinding poverty and even the affluent lived lives that would be considered hard today, free enterprise lead to the Great Enrichment, a 30-fold improvement in the material well-being of humanity that has lifted many billions of people out of poverty and allowed for longer, more fulfilling lives.<sup>67</sup> In contrast, there is no more reliable means of driving a large proportion of a country's population into poverty than to seriously implement a socialist agenda.<sup>68</sup>

Poverty is not a function of economic inequality. "Economic policy," narrowly construed, can have a substantial impact on opportunity and the incomes of the

broader public but typically is not the cause of long-term poverty. Sometimes people are poor because of chronic mental or physical conditions or infirmities that make work difficult or impossible. Other poverty is driven by counterproductive behavior that causes people not to thrive, including substance abuse, failing to graduate from high school, having children before marriage, or failure to seek work.<sup>69</sup>

Furthermore, existing government policies are ineffective or *cause*, rather than alleviate, poverty.<sup>70</sup> Government policies cause poverty by: (1) creating a poverty trap so that working makes little or no economic sense for low-income persons;<sup>71</sup> (2) making it illegal for less-skilled workers to work;<sup>72</sup> (3) creating barriers to employment;<sup>73</sup> (4) raising costs and prices;<sup>74</sup> (5) slowing economic growth;<sup>75</sup> and (6) impeding opportunity generally.<sup>76</sup> Although work is both economically, socially, and psychologically uplifting,<sup>77</sup> government policies systematically discourage work.<sup>78</sup> Labor force participation rates, particularly for men, have declined precipitously.<sup>79</sup>

## Is Socialism Ethical?

Socialism is unethical for at least nine main reasons.

1. In seeking to achieve equality of outcomes by some measure or some other government-dictated allocation of income or wealth, it seeks to treat unequal circumstances equally.<sup>80</sup> Those who work, study, take risks, defer consumption, or undertake unpleasant tasks would be provided equal incomes to those who do not.
2. Socialism systematically tramples on our liberty and involves the systematic application of coercion.<sup>81</sup> Politicians and bureaucrats—not people themselves—would make many of the most important decisions in our lives and severely restrict our choices.
3. Socialism necessarily involves denigrating our humanity, dignity, and ability to flourish. It would radically curtail the ability to choose one's calling, to chart our own course in life, to excel, to be creative or innovative, to dissent, and to raise our families as we decide to be best.<sup>82</sup>
4. Mild socialism harms the public's standard of living. To the extent that socialism is seriously implemented, it demonstrably leads to mass poverty and deprivation. There are no counterexamples. Knowingly adopting a set of policies that will lead to mass deprivation or even a markedly lower standard is unethical.<sup>83</sup>
5. Socialism is a poor steward of scarce resources. It encourages overuse and over-consumption of underpriced resources<sup>84</sup> and makes achieving any particular economic end more costly in terms of resources used. Moreover, it typically increases externalities, such as pollution, imposed on society.<sup>85</sup>
6. Taking another's money for yourself or to give to someone else—whether using government as an intermediary or not—is not morally praiseworthy. Having George “rob Peter to pay Paul” or allowing Paul to take from Peter does not rise to the level of virtue or have moral merit. Voluntarily using your own time and money to help another is a different matter. Beneficence, charity, and compassion are virtues.<sup>86</sup> But charitable acts involve voluntarily giving of yourself to another—not compliance with state coercion.
7. By placing most power in society in the state and removing power and resources from the private sector, socialism harms voluntary associations, civil society, and the communities and the web of relationships that they constitute. Socialism impedes and often seeks to suppress relationships fostered by non-governmental institutions and centers of power and influence not controlled by the state.<sup>87</sup>
8. Socialism stifles dissent and free speech<sup>88</sup> and promotes a deadening, bureaucratic uniformity. Government control or regulation of the media, political speech, and elections is the norm in socialist countries.
9. Socialism endorses and formalizes counterproductive envy,<sup>89</sup> resentment, and hostility toward achievement and accomplishment. It seeks to tear down and diminish those who excel or succeed.<sup>90</sup>

Socialism's moral failures can be summarized as follows:

- It treats unequal circumstances equally;
- It systematically empowers politicians, bureaucrats, and the politically powerful at the expense of individual freedom and choice;
- It denigrates our humanity, dignity, and ability to flourish;
- It demonstrably reduces a society's standard of living and dramatically increases poverty;
- It wastes scarce resources;
- It makes charity and compassion difficult, increases dependency, and reduces self-sufficiency;
- It harms voluntary associations, civil society, and the family;
- It stifles dissent and free speech and promotes a deadening, bureaucratic uniformity; and
- It endorses and formalizes counterproductive envy and resentment.

### Is Free Enterprise Moral?

Free enterprise does not suffer from socialism's moral failings. The moral advantages of free enterprise can be summarized as follows:

- It rests on voluntary cooperation among free people whether as workers, managers, investors, or consumers and rejects coercion;
- It empowers ordinary people rather than politicians, bureaucrats, and the politically well-connected;
- It allows people to author their own lives, to choose their own calling, to innovate, to create, to be different, and to flourish;
- It leads to dynamism and an improved standard of living and has lifted more people out of poverty than any other system;
- It encourages the sound stewardship of scarce resources;

- It affords the dignity of self-sufficiency rather than offering the corrosive lethargy of dependence;
- It rewards work, prudence, thrift, diligence, creativity, and innovation;<sup>91</sup>
- It leaves room for, and does not seek to control, voluntary associations, civil society, charity, and family in society; and
- It leaves room for people to lead different kinds of lives, to be different, to dissent, and to speak freely.

### Socialism's Record

A *Washington Post* columnist, Elizabeth Bruenig, opines that "it is time to give socialism a try,"<sup>92</sup> as if socialism has never been tried. It has been tried many dozens of times. Everywhere it has been seriously tried, it has led to mass poverty and despair. Socialism's record is unblemished by success. It is an old, tried, *failed* ideology. To deny this evident historical fact requires a willing blindness or an extraordinary degree of historical ignorance.

The adoption of any set of policies that achieved anything approaching *actual* economic equality would so alter incentives, destroy productivity, and impede the ability of society to develop the information and dynamism necessary to meet the needs and wants of its people, that general impoverishment is the known result.<sup>93</sup> Moreover, it is naïve to believe that people in politics or government are somehow different, special, or better than others. They generally act in their own interest and are no more or less charitable or selfless than those outside government.<sup>94</sup> Politics in general should be stripped of its romance.<sup>95</sup> Socialism amounts to the politicization of nearly all aspects of our lives. It should be understood for the exercise of bureaucratic and political power on behalf of powerful interests that it is.

Recent examples of socialist failure include Venezuela,<sup>96</sup> North Korea,<sup>97</sup> Greece,<sup>98</sup> Cuba,<sup>99</sup> and Brazil.<sup>100</sup> Dramatic examples of past socialist failures include the Maoist People's Republic of China,<sup>101</sup> the Union of Soviet Socialist Republics,<sup>102</sup> and the other Council for Mutual Economic Assistance (COMECON) countries (including the People's Republic of Bulgaria, the Republic of Cuba, the Czechoslovak Socialist Republic, the German Democratic Republic (East Germany), the Hungarian People's Republic,

the Mongolian People’s Republic, the Polish People’s Republic, the Socialist Republic of Romania, the Socialist Republic of Vietnam, and the People’s Socialist Republic of Albania),<sup>103</sup> Khmer Rouge Cambodia, and several dozen developing countries.<sup>104</sup> Socialism has often led to mass murder. Socialist regimes have killed 100 million to 110 million people (not counting national socialist Germany).<sup>105</sup>

Where less extreme versions of socialism have been tried, usually in democratic societies, it has led to a pronounced slowdown in growth and usually a decline in the standard of living. Even more moderate steps to reduce economic inequality—such as those associated with modern welfare-state progressivism or mixed economy social democracy—have a significant cost in terms of reduced incomes and social welfare.<sup>106</sup> In other words, economic equality would dramatically reduce the size of the economic pie that egalitarians seek to divide equally.<sup>107</sup>

American progressives have called for a wealth tax<sup>108</sup> and federal income taxes of 70 percent.<sup>109</sup> Higher marginal tax rates and a higher user cost of capital reduce the productive capacity of an economy and reduce real wages.<sup>110</sup> These losses do not increase linearly but instead increase with the square of the marginal tax rate.<sup>111</sup> Where socialism has been reversed or relaxed, living standards quickly improve.<sup>112</sup>

A relatively simple way to determine whether ordinary people find socialist countries to be superior or inferior to relatively free countries is to observe relative immigration and emigration. People “vote with their feet.” Socialist countries typically either have significant out-migration or must build walls and use coercion to keep people within the country.<sup>113</sup> Relatively free countries have high levels of immigration or have border enforcement designed to keep people out.<sup>114</sup>

## The Record of Free Enterprise

Free enterprise caused a 30-fold improvement in the well-being of ordinary people over two centuries.<sup>115</sup> There is a strong correlation between economic freedom and material well-being.<sup>116</sup> Economic growth and living standards improve when societies increase economic freedom. The move toward greater economic freedom has lifted billions of people out of socialist-caused poverty, most notably in China and India.<sup>117</sup> In the developing world, free-enterprise policies can lift a country from poverty to a Southern European standard of living over a few decades.<sup>118</sup>

## Why Markets “Work”

Free markets are much better at providing low-cost, high-quality goods and services that people want than a government-controlled economy. To the extent that government interferes with market processes and substitutes political control for unimpeded markets, economic performance will decline. There are six primary (and interrelated) reasons for the superior efficacy of markets over politics as the regulator of economic life.<sup>119</sup>

- Competition increases choice and promotes efficiency;
- Markets provide better incentives;
- The price mechanism better allocates scarce resources to meet consumer wants than bureaucracy or politics;
- Markets and private enterprises better develop and use information;
- Markets and private enterprises provide greater and more rapid innovation and discovery; and
- Markets employ distributed planning rather than central planning.

**Competition.** Under free enterprise, firms compete to provide consumers and other firms goods and services. Those that provide better quality or lower prices earn a profit for their owners. Those that do not experience losses and, if they do not adapt, fail.<sup>120</sup> This process drives costs down and drives prices toward marginal costs. It rewards innovation, quality, cost control, and understanding consumer wants and needs. Government routinely restricts competition, driving up prices and restricting choice and innovation.<sup>121</sup>

**Incentives.** People respond to incentives. People will work, save, and invest more if there is an incentive to do so.<sup>122</sup> People will tend to work for employers or in occupations that pay better. People will tend to invest where returns are expected to be higher. This allocates scarce resources to where they are most in demand. By taxation, tariffs, regulation, and inflation, government routinely reduces the incentive to work, save, and invest—and alters incentives to distort markets and make them less effective.<sup>123</sup>

**The Price Mechanism.** As the price of something goes up, people will supply more of it and demand less of it. This mechanism enables the supply of resources to rapidly move from uses where they are less valued to where they are more highly valued.<sup>124</sup> Government policies that interfere with the price mechanism misallocate resources and can create, for example, shortages or overuse of a resource.<sup>125</sup>

**Information.** Perhaps the most under-appreciated function of markets is how they rapidly obtain and convey information to economic actors. The preferences, expectations, and actions of billions of people are reflected in the price of goods and services and in capital markets. It is simply impossible for government to collect and act on this information with anything approaching the speed and effectiveness of markets.<sup>126</sup>

**Innovation and Discovery.** As discussed below in greater detail, innovation and entrepreneurship are critical to improving the lives of ordinary people. But the high levels of risk associated with entrepreneurial ventures will only be undertaken if the potential rewards are high as well. In a free economy, entrepreneurs do not need political or bureaucratic approval or that of a scientific committee. They can risk their own time and money and that of their investors. If they are right about their ideas, we all win. If they are wrong, only they and their investors lose. Political actors investing taxpayer funds—rather than their own—and investing for political rather than economic reasons do poorly at emulating entrepreneurship. Moreover, government routinely impedes entrepreneurship.<sup>127</sup>

**Distributed Planning.** Socialist economies are often called planned economies. This is a misnomer. The real question is whether the plans are devised by a central government or whether the planning process is distributed among millions of individuals and business. In a socialist economy, people must conform to the government plan established by political and bureaucratic processes. In a free economy, markets coordinate millions of plans, and those plans are continuously altered based on what happens in markets.<sup>128</sup>

## The Nordic Countries

The oft-mentioned “socialist success stories”<sup>129</sup> in the Nordic countries<sup>130</sup> are nothing of the sort: These countries are *not* socialist.<sup>131</sup> Business taxation is highly competitive. Nordic corporate tax rates are lower than the U.S. tax rate—even after U.S. tax reform.<sup>132</sup> Nordic countries do heavily tax individuals,

including middle-income individuals.<sup>133</sup> Unlike the U.S., they impose an additional value-added tax—a consumption tax—at a rate of 24 percent to 25 percent in addition to income and payroll taxes.<sup>134</sup>

As measured by four leading indexes, the Nordic countries are among the most economically free countries in the world. The *2019 Heritage Foundation Index of Economic Freedom*, for example, ranks all the Nordic countries as “mostly free.” Out of 180 countries ranked, Iceland has the 11th most economic freedom in the world with Denmark (14th), Sweden (19th), Finland (20th), and Norway (26th) close behind.<sup>135</sup> The U.S., in comparison, ranks 12th, up from 18th in 2018.<sup>136</sup> As Danish Prime Minister Lars Løkke Rasmussen said in a speech at Harvard University: “I would like to make one thing clear. Denmark is far from a socialist planned economy. Denmark is a market economy.”<sup>137</sup>

This was not always the case. From approximately 1970 to the early 1990s, Sweden, for example, had extremely high tax rates, high levels of government spending, high public-sector employment, and a series of policies aggressively intervening in labor and credit markets. Because of poor economic performance, a cross-party consensus reversed or moderated these policies, marginal tax rates declined, particularly for capital income,<sup>138</sup> and Sweden’s economy dramatically improved.<sup>139</sup> The Nordic countries’ high economic freedom scores reflect these changes.<sup>140</sup>

The Nordic economies have not generally performed as well as the U.S. economy. Average wages and output per capita are lower.<sup>141</sup> The average wage in the U.S. is 21 percent higher than the average wage in the Nordic countries.<sup>142</sup> This is the price they pay for their high taxes.

## Why Do Dynamism, Discovery, Innovation, and Entrepreneurship Matter?

Entrepreneurship matters.<sup>143</sup> It fosters discovery and innovation.<sup>144</sup> Entrepreneurs also engage in the creative destruction of existing technologies, economic institutions, and business production or management techniques by replacing them with new and better ones.<sup>145</sup> Entrepreneurs bear a high degree of uncertainty and are the source of much of the dynamism in our economy.<sup>146</sup> New start-up businesses account for most of the net job creation in the economy.<sup>147</sup> Entrepreneurs innovate, providing consumers with new or better products. They provide other

TABLE 1

## Economic Freedom Ranks

	<b>Heritage Foundation</b> <i>2019 Index of Economic Freedom</i>	<b>Fraser Institute</b> <i>2018 Economic Freedom of the World</i>	<b>World Bank</b> <i>2019 Ease of Doing Business</i>	<b>World Economic Forum</b> <i>2018 Global Competitiveness Index</i>
<b>Countries</b>	180	162	190	140
<b>Country Ranks</b>				
Iceland	11	59	21	24
United States	12	6	8	1
Denmark	14	16	3	10
Sweden	19	43	12	9
Finland	20	22	17	11
Norway	26	25	7	16

### SOURCES:

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- James Gwartney, Robert Lawson, Joshua Hall, and Ryan Murphy, *Economic Freedom of the World: 2018 Annual Report*, Fraser Institute, 2018, Exhibit 1.2, <https://www.freasierinstitute.org/sites/default/files/economic-freedom-of-the-world-2018.pdf> (accessed February 22, 2019).
- World Bank, *Doing Business 2019*, 2019, Ease of Doing Business Ranking, Table 1.1 [http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report\\_web-version.pdf](http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf) (accessed February 22, 2019).
- Klaus Schwab (ed.), *The Global Competitiveness Report 2018*, World Economic Forum, 2018, <http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf> (accessed February 22, 2019).

SR213  heritage.org

businesses with innovative, lower-cost production methods and are, therefore, one of the key factors in productivity improvement and real-income growth.<sup>148</sup>

The vast majority of economic gains from innovation and entrepreneurship accrue to the public at large, rather than entrepreneurs.<sup>149</sup> Entrepreneurs are central to the dynamism, creativity, and flexibility that enables market economies to consistently grow, adapt successfully to changing circumstances, and create sustained prosperity.<sup>150</sup> High levels of entrepreneurship only occur under free enterprise. Government attempts at emulating private entrepreneurship usually end badly.<sup>151</sup>

### The Meaning of Equality

The United States Declaration of Independence states that “All men are created equal,” and the 14th Amendment to the Constitution provides that no state shall “deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the

laws.” The Founders were clear that equality did not mean economic equality.<sup>152</sup>

The principle of equal justice under law has roots in antiquity. The Athenian Pericles, in his famous Funeral Oration,<sup>153</sup> put forth a version of it, as did Aristotle in his *Ethics*.<sup>154</sup> It rests on the idea that we are all God’s children, the principle of self-ownership and shared dignity. John Locke argued that “all men by nature are equal” and have equal rights that must be respected, but that they must also respect the equal rights of others.<sup>155</sup> Edmund Burke said that “In this partnership [civil society] all men have equal rights; but not to equal things.”<sup>156</sup>

Libertarians, classical liberals, and conservatives generally support equal political rights, moral equality, and equality before the law. Most also support equality of opportunity, usually understood as freedom from arbitrary limits on individuals’ ability to pursue lawful aims. Conservatives and classical liberals also typically support publicly funded education to advance equality of opportunity and republican

TABLE 2

## Adjusted Gross Income (AGI), Taxes Paid, and Remaining AGI, 2016

FIGURES ARE IN THOUSANDS

Size of AGI	AGI Less Deficit	Total Federal Income Tax	AGI Minus Total Federal Income Tax
\$500,000 to less than \$1,000,000	\$598,883,785	\$154,658,193	\$444,225,592
\$1,000,000 to less than \$1,500,000	232,354,664	65,170,414	167,184,250
\$1,500,000 to less than \$2,000,000	133,498,257	38,630,696	94,867,561
\$2,000,000 to less than \$5,000,000	329,572,634	95,955,532	233,617,102
\$5,000,000 to less than \$10,000,000	181,546,749	51,950,193	129,596,556
\$10,000,000 or more	481,606,208	121,355,752	360,250,456

**SOURCE:** Internal Revenue Service, “Individual Income Tax Returns Filed and Sources of Income: Table 1.1. All Returns: Selected Income and Tax Items, by Size and Accumulated Size of Adjusted Gross Income, Tax Year 2016 (Filing Year 2017),” <https://www.irs.gov/pub/irs-soi/16in1si.xls> (accessed March 23, 2019).

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self-government. Conservatives and classical liberals are aware of the importance that strong families, a robust civil society, and sound cultural norms play in fostering opportunities and the character formation necessary for pursuing opportunity. This is why they oppose policies that would weaken the family and civil society and defend a culture that is supportive of traditional, “bourgeois” or middle-class virtues.

### Social Cooperation

Progressives often say something like, “Government is simply the name we give to the things we choose to do together.”<sup>157</sup> This is untrue. We “do things together” in businesses, civil society (religious congregations, charities, associations, and other nongovernmental organizations), and in families. The question is whether social cooperation will be *voluntary* or *coerced*. You can elect whether to cooperate with a business (as an employee, customer, or investor) or a nongovernmental organization. While you cannot choose your family (other than your spouse), the nature of the relationship is entirely voluntary for adults.

The nature of social “co-operation” through government is entirely different. It involves involuntary compliance with politically or bureaucratically determined laws, regulation, and taxes—and the sanctions for non-compliance can be severe.

### Private Property and Individual Liberty

Lord Acton famously observed that “Power tends to corrupt and absolute power corrupts absolutely.”<sup>158</sup> In a socialist economy, power is centralized in a few powerful political actors. In a free economy, economic power is distributed among hundreds of millions of people, and even billionaires account for only a small portion of a multi-trillion-dollar economy. One can choose not to do business with a private firm. One must simply comply with government mandates. Private enterprise, private property, and private voluntary associations are the foundation of a free society in which individuals are free to author their own lives.

### Socialism and the Middle Class

We often hear that progressive promises will be paid for by “taxing the rich.” This is arithmetically impossible. In Table 2 above, data from the Internal Revenue Service Statistics of Income shows that imposing a 100 percent flat tax on those with incomes of \$1 million or more would increase federal revenues by about \$986 billion.

Thus, this policy would not even eliminate the federal deficit, currently about \$1.1 trillion annually<sup>159</sup>—let alone pay for utopian progressive causes. Nor does it consider the federal payroll taxes or state and local income, property, and sales taxes already paid by this group. And, of course, this would be a one-time

revenue increase. Once such confiscatory taxes were imposed, these taxpayers would elect not to work, otherwise earn income, or realize capital gains since they would keep none of it.

Middle- and lower-income taxpayers do not bear a high federal income tax burden. In 2015 (the most recent year for which data is available), the top 10 percent of U.S. taxpayers paid 70.6 percent of income taxes.<sup>160</sup> The top quarter paid 86.6 percent of all income taxes.<sup>161</sup> Middle-income taxpayers *do* pay substantial federal payroll taxes, but these taxes fund Social Security and Medicare, both of which are highly progressive once the benefit structure is taken into account.<sup>162</sup> Medicare taxes pay only about one-fifth of the cost of providing the program's benefits for an average worker and three-fifths of the cost for a high-income worker.<sup>163</sup>

The new American socialist or progressive agenda would require roughly doubling federal expenditures. The Congressional Budget Office 10-year federal spending baseline projection is \$57 trillion (\$12.4 trillion or 22 percent of which will be debt-financed).<sup>164</sup> Progressive proposals for single-payer health insurance would increase spending by \$32 trillion to \$33 trillion over 10 years,<sup>165</sup> a 58 percent increase in federal spending.<sup>166</sup> Free college education,<sup>167</sup> the "Green New Deal,"<sup>168</sup> jobs guarantees,<sup>169</sup> and other proposed programs would cost many trillions more. As the European experience with generous welfare states demonstrates, socialist or highly progressive policies must be funded by imposing very high consumption, payroll, and income taxes on the middle class. Notwithstanding the "tax the rich" rhetoric from progressive politicians, there simply is no alternative to dramatically raising middle-class taxes if the progressive agenda were to be implemented.

## The United States Economy Today

Government expenditures amount to 33.6 percent of the gross domestic product (GDP) in the U.S. today.<sup>170</sup> That understates government's burden on the private economy because government itself is included as part of the GDP at cost and because GDP does not account for the depreciation of capital or capital consumption.<sup>171</sup> Government regulations control or influence virtually all business decisions.<sup>172</sup> Electric, gas, and water utilities, the health care sector, and banking are so heavily regulated that they are not privately controlled enterprises in the conventional sense.

Compliance, legal, and lobbying costs have increased substantially over the past decade. Through government-sponsored enterprises, loan guarantees, insurance, spending, tariffs, licensing, and regulation, governments at the federal, state, and local level routinely favor the politically connected and exercise tremendous control over the economy.<sup>173</sup> The U.S. today is a long way from a truly free economy. But politicians and bureaucrats do not control every important aspect of the economy, either. Thus, the U.S. is a long way from being a socialist country. It is a hybrid or mixed economy.

## Conclusion

Socialism has a century-long record of failure. It has been tried many dozens of times. Its record is unblemished by success. If seriously implemented, socialism causes mass privation and misery. But even "socialism lite" substantially reduces the standard of living of ordinary people.

Free enterprise has a record as well. It has led to a 30-fold improvement in the standard of living over two centuries. Developing countries that adopt pro-market policies thrive. Socialist countries that reverse their policies and make pro-market reforms see rapid improvement. Markets and the price system are simply better at providing prosperity because of better incentives to work, save, invest, and innovate; superior development and use of information; and improved allocation and use of scarce resources and competition. Free enterprise lifts people out of poverty and provides civil society or government the means to address poverty. Socialism exacerbates and creates poverty.

If implemented, American socialist and progressive policies would dramatically increase taxes on the middle class. It is arithmetically impossible to pay for the progressive agenda by taxing the rich. Middle-class incomes would decline and unemployment would increase. The European experience illustrates this.

Free enterprise is ethically superior to socialism. An economic system based on voluntary exchange and economic liberty that empowers individuals and families is superior to a system that empowers politicians and bureaucrats. Socialism politicizes virtually everything. Socialism treats unequal circumstances equally and results in injustice. Free enterprise provides the dignity of self-sufficiency rather than offering the corrosive lethargy of dependence. Free enterprise allows people to author their own lives, to choose their own calling, to innovate, to create, to be different, and to flourish.

## **Endnotes**

1. For example, see Karl Marx and Friedrich Engels, *Communist Manifesto* (1848), Section II ("The theory of the Communists may be summed up in the single sentence: Abolition of private property.") excerpted from Karl Marx and Friedrich Engels, *Marx and Engels: Selected Works*, Vol. 1 (Progress Publishers: Moscow, 1969), <https://www.marxists.org/archive/marx/works/download/pdf/Manifesto.pdf> (accessed February 26, 2019). In contrast, "From each according to his ability, to each according to his needs!" (rather than in proportion to his labor) is only in the "higher phase of communist society" according to Marx; see Karl Marx, *Critique of the Gotha Programme* (1875), excerpted from Karl Marx and Friedrich Engels, *Marx and Engels: Selected Works*, Vol. 3, (Progress Publishers: Moscow, 1969), <https://www.marxists.org/archive/marx/works/1875/gotha/> (accessed February 26, 2019). See also Clause IV of the United Kingdom Labour Party Constitution that was in place from 1918 until 1995 ("To secure for the workers by hand or by brain the full fruits of their industry and the most equitable distribution thereof that may be possible upon the basis of the common ownership of the means of production, distribution and exchange, and the best obtainable system of popular administration and control of each industry or service") at "Labourcounts," <http://www.labourcounts.com/oldclausefour.htm> (accessed February 26, 2019); John Martin, "An Attempt to Define Socialism," *The American Economic Review*, Vol. 1, No. 2 (April 1911), pp. 347-354; John Strachey, *Contemporary Capitalism* (New York: Random House, 1956); and Leszek Kolakowski, *Main Currents of Marxism* (Oxford University Press, 2005). Marxists or communists tend to focus on the exploitation or oppression of workers (the proletariat) by capitalists (owners and managers or the bourgeoisie) and class struggle; see, for example, Jason Barker, "Happy Birthday, Karl Marx. You Were Right!" *New York Times*, April 30, 2018, <https://www.nytimes.com/2018/04/30/opinion/karl-marx-at-200-influence.html> (accessed February 26, 2019) ("[E]ducated liberal opinion is today more or less unanimous in its agreement that Marx's basic thesis—that capitalism is driven by a deeply divisive class struggle in which the ruling-class minority appropriates the surplus labor of the working-class majority as profit—is correct."). Socialists and progressives tend to focus on promoting the equal distribution of some measure of material well-being.
2. See, for example, Stephen Eric Bronner, *Socialism Unbound: Principles, Practices, and Prospects*, 2nd ed. (Columbia University Press, 2011), and H. Merian Allen, "Socialism," *The Sewanee Review*, Vol. 20, No. 1 (January 1912), pp. 38-44. See also Deirdre Nansen McCloskey, "Economic Liberty as Anti-Flourishing: Marx and Especially His Followers," in Steven Bilacovics et al., *Economic Freedom and Human Flourishing: Perspectives from Political Philosophy* (Washington, DC: American Enterprise Institute: 2016), pp. 129-149, <https://www.aei.org/wp-content/uploads/2016/06/Economic-Freedom-and-Human-Flourishing-online-final.pdf> (accessed February 26, 2019), and David Prychitko, "Marxism," *Concise Encyclopedia of Economics*, 2nd edition (Carmel, IN: Liberty Fund, 2010), <https://www.econlib.org/library/Enc/Marxism.html> (accessed March 23, 2019). (Note: An online, updated edition of this encyclopedia is available at <http://www.econlib.org/cee-by-category/#content> (accessed March 23, 2019).)
3. Robert L. Bradley Jr. and Roger Donway, "Capitalism, Socialism, and the 'Middle Way': A Taxonomy," *The Independent Review*, Vol. 15, No. 1 (Summer 2010), [http://www.independent.org/pdf/tir/tir\\_15\\_01\\_5\\_bradley.pdf](http://www.independent.org/pdf/tir/tir_15_01_5_bradley.pdf) (accessed February 26, 2019), and Ronald Reagan, "A Time for Choosing," October 27, 1964, <https://web.archive.org/web/20140214035102/http://www.americanrhetoric.com/speeches/ronaldreaganatimeforchoosing.htm> (accessed February 26, 2019) ("Now it doesn't require expropriation or confiscation of private property or business to impose socialism on a people. What does it mean whether you hold the deed to the—or the title to your business or property if the government holds the power of life and death over that business or property? And such machinery already exists.").
4. See, for example, Friedrich A. Hayek, "Preface," to the 1976 Reprint Edition of *The Road to Serfdom* (Chicago: University of Chicago Press, 1944), p. xxiii ("At the time I wrote, socialism meant unambiguously the nationalization of the means of production and the central economic planning which this made possible and necessary. In this sense Sweden, for instance, is today very much less socialistically organized than Great Britain or Austria, though Sweden is commonly regarded as much more socialistic. This is due to the fact that socialism has come to mean chiefly the extensive redistribution of incomes through taxation and the institutions of the welfare state."); Michael Harrington, *Socialism: Past and Future* (Boston, MA: Little Brown & Co., 1989); and Murray N. Rothbard, *The Progressive Era* (Auburn, AL: Mises Institute, 2017) <https://mises.org/library/progressive-era-0> (accessed February 26, 2019). Harvard philosopher Richard Rorty argues this change in meaning occurred earlier in the 20th century. See Richard Rorty, *Achieving Our Country* (Cambridge, MA: Harvard University Press, 1998), p. 49 ("Many progressives who never dreamed of fomenting a revolution or urging the nationalization of the means of production were happy to call themselves 'socialists.'").
5. Sheri Berman, "Unheralded Battle: Capitalism, the Left, Social Democracy, and Democratic Socialism," *Dissent* (Winter 2009), <https://www.dissentmagazine.org/article/unheralded-battle-capitalism-the-left-social-democracy-and-democratic-socialism> (accessed February 26, 2019); Democratic Socialists of America, "About Us," <https://www.dsusa.org/about-us/what-is-democratic-socialism/> (accessed February 26, 2019) ("[W]e are not a separate party. Like our friends and allies in the feminist, labor, civil rights, religious, and community organizing movements, many of us have been active in the Democratic Party. We work with those movements to strengthen the party's left wing, represented by the Congressional Progressive Caucus."); Party of European Socialists, "About Us" <https://www.pes.eu/en/about-us/> (accessed February 26, 2019) ("The Party of European Socialists (PES) brings together the Socialist, Social Democratic, Labour and Democratic Parties from all over the European Union and Norway."); and John E. Roemer, *Egalitarian Perspectives: Essays in Philosophical Economics* (Cambridge, U.K:Cambridge University Press, 1996).
6. Eric Sylvers, "Europe's Populist Left and Right Share a Common Call: State Intervention," *Wall Street Journal*, December 14, 2018, and Benjamin Kentish, "Jeremy Corbyn Supporters Launch Campaign to Bring Back Labour's Historic Clause IV and 'End Capitalism,'" *The Independent*, February 27, 2018, <https://www.independent.co.uk/news/uk/politics/jeremy-corbyn-labour-party-clause-iv-4-capitalism-labour4clause4-a8231351.html> (accessed February 26, 2019) ("We need a Labour government committed to fully carrying out the socialist transformation of society, as encapsulated in Clause IV."). This is reminiscent of earlier communist and socialist calls to take control of the "commanding heights" of the economy. See, for example, Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle Between Government and the Marketplace That Is Remaking the Modern World* (New York: Free Press, 1998), and Bronner, *Socialism Unbound*.

7. The communist fantasy that the state will “wither away” after it has seized the means of production is ahistorical (it has never happened) and a theoretical impossibility (it can never happen). If the state does not constantly enforce its will, our natural “propensity to truck, barter and exchange,” in Adam Smith’s words, will result in the accumulation of private property and inequalities. See Frederick Engels, “Chapter III: Historical Materialism” in *Socialism: Utopian and Scientific* (1880), <https://www.marxists.org/archive/marx/works/1880/soc-utop/ch03.htm> (accessed February 26, 2019) (“When, at last, it becomes the real representative of the whole of society, it renders itself unnecessary. As soon as there is no longer any social class to be held in subjection...a State is no longer necessary. The first act by virtue of which the State really constitutes itself the representative of the whole of society—the taking possession of the means of production in the name of society—this is, at the same time, its last independent act as a State. State interference in social relations becomes, in one domain after another, superfluous, and then dies out of itself; the government of persons is replaced by the administration of things, and by the conduct of processes of production. The State is not ‘abolished.’ It dies out.”), and Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Vol. 1, Ch. II (1776), <https://oll.libertyfund.org/titles.smith-an-inquiry-into-the-nature-and-causes-of-the-wealth-of-nations-cannan-ed-vol-1> (accessed February 26, 2019) (“This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.”).
8. Murray N. Rothbard, “Free Market,” *Concise Encyclopedia of Economics*, 2nd edition (Carmel, IN: Liberty Fund, 2010), <https://www.econlib.org/library/Enc/FreeMarket.html> (accessed February 26, 2019).
9. Because they are voluntary, each person regards themselves as better off after the exchange than before it. Market exchanges are mutually beneficial and positive-sum. See “Mutually Beneficial Exchange” in Samuel Gregg, *Economic Thinking for the Theologically Minded* (Lanham, MD: University Press of America, 2001), and Donald N. McCloskey, *The Applied Theory Of Price* (New York: Macmillan, 1985), Section 5.2, “Exchange Between Two People or Nations,” <http://www.deirdremccloskey.com/docs/price.pdf> (accessed February 26, 2019). See also the discussion of consumer surplus and producer surplus in almost any textbook on price theory or microeconomics.
10. Friedrich A. von Hayek, “Competition as a Discovery Procedure,” *The Quarterly Journal of Austrian Economics*, Vol. 5, No. 3 (Fall, 2002), pp. 9-23 (a translation from the German of “Der Wettbewerb als Entdeckungsverfahren,” a 1968 lecture), [https://mises.org/sites/default/files/qjae5\\_3\\_3.pdf](https://mises.org/sites/default/files/qjae5_3_3.pdf) (accessed February 26, 2019).
11. Richard A. Epstein, “In Defense of the Contract at Will,” *University of Chicago Law Review*, Vol. 51, No. 4 (1984), pp. 947-982, [https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=2290&context=journal\\_articles](https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=2290&context=journal_articles) (accessed February 26, 2019).
12. See the discussion under the heading, “Why Markets ‘Work.’”
13. John Locke, *Second Treatise of Government* (1690), <http://www.gutenberg.org/files/7370/7370-h/7370-h.htm> (accessed February 26, 2019), and Armen A. Alchian, “Property Rights,” *Concise Encyclopedia of Economics*, 2nd ed. (Carmel, IN: Liberty Fund, 2010), <https://www.econlib.org/library/Enc/PropertyRights.html?highlight=%5B%22property%22%5D> (accessed February 26, 2019).
14. Richard A. Epstein, “Contracts Small and Contract Large: Contract Law Through the Lens of Laissez-Faire,” Coase-Sandor Institute for Law & Economics Working Paper No. 49 (1997), [https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1121&context=law\\_and\\_economics](https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=1121&context=law_and_economics) (accessed February 26, 2019).
15. A negative externality is a cost imposed by economic activity on a third party that did not agree to incur that cost. Bryan Caplan, “Externalities,” *Concise Encyclopedia of Economics*, 2nd ed. (Carmel, IN: Liberty Fund, 2010), <https://www.econlib.org/library/Enc/Externalities.html> (accessed February 26, 2019); Arthur Cecil Pigou, *The Economics of Welfare*, Part II, Chapter II (New York: MacMillan, 1920), [http://files.libertyfund.org/files/1410/Pigou\\_0316.pdf](http://files.libertyfund.org/files/1410/Pigou_0316.pdf) (accessed February 26, 2019); and Ronald H. Coase, “The Problem of Social Cost,” *Journal of Law and Economics*, Vol. 3 (October 1960), pp. 1-44, <http://home.cerge-ei.cz/ortmann/UpcesCourse/Coase%20-%20The%20problem%20of%20Social%20Cost.pdf> (accessed February 26, 2019). This is analogous to the common law tort of nuisance. See Sir William Blackstone, Book III, Chapter XIII, in *Commentaries on the Laws of England* (1765), [http://avalon.law.yale.edu/18th\\_century/blackstone\\_bk3ch13.asp](http://avalon.law.yale.edu/18th_century/blackstone_bk3ch13.asp) (accessed February 26, 2019).
16. Public goods exhibit nonexcludability and nonrivalrous consumption. See Tyler Cowen, “Public Goods,” *Concise Encyclopedia of Economics*, 2nd ed. (Carmel, IN: Liberty Fund, 2010), <https://www.econlib.org/library/Enc/PublicGoods.html> (accessed February 26, 2019).
17. Eamonn Butler, *An Introduction to Capitalism* (London: Institute of Economic Affairs, 2018) <https://iea.org.uk/wp-content/uploads/2018/07/Butler-Capitalism-Interactive.pdf> (accessed February 26, 2019); Arthur Seldon, *Capitalism: A Condensed Version* (London: Institute of Economic Affairs, 2007) <https://iea.org.uk/wp-content/uploads/2016/07/uplbook407pdf.pdf> (accessed February 26, 2019); and Robert Hessen, “Capitalism,” *Concise Encyclopedia of Economics*, 2nd ed. (Carmel, IN: Liberty Fund, 2010), <https://www.econlib.org/library/Enc/Capitalism.html> (accessed February 26, 2019).
18. Friedrich von Hayek, “The Pretence of Knowledge,” Nobel Prize Lecture, December 11, 1974, <https://www.nobelprize.org/prizes/economics/1974/hayek/lecture/> (accessed February 26, 2019) (“The recognition of the insuperable limits to his knowledge ought indeed to teach the student of society a lesson of humility which should guard him against becoming an accomplice in men’s fatal striving to control society—a striving which makes him not only a tyrant over his fellows, but which may well make him the destroyer of a civilization which no brain has designed but which has grown from the free efforts of millions of individuals.”).
19. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Book IV, Chapter I; Walter E. Williams, “The Role of Government in a Free Society,” September 11, 2018, <https://www.heritage.org/markets-and-finance/event/the-role-government-free-society> (accessed February 26, 2019); and Deirdre McCloskey, “Is It Humane To Be a Socialist?” November 7, 2018, <https://www.heritage.org/markets-and-finance/event/it-humane-be-socialist> (accessed February 26, 2019).

## COMPARING FREE ENTERPRISE AND SOCIALISM

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20. During the 19th century, a common political slogan in opposition to government-granted monopolies and other special privileges, often attributed to Thomas Jefferson, was "equal rights for all, special privileges for none." So far as the author can determine, Jefferson himself appears to have never actually worded it quite that way. Certainly, it expressed the sentiment of many Framers. James Madison, for example, wrote in a March 23, 1824, letter to Thomas Cooper, "In yielding thus much to the patrons of domestic manufactures, they ought to be reminded that in every doubtful case the Govt. should forbear to intermeddle, and that particular caution should be observed where one part of the community would be favored at the expence of another." James Madison, "From James Madison to Thomas Cooper, 23 March 1824," <https://founders.archives.gov/documents/Madison/04-03-02-0265> (accessed February 26, 2019). For a discussion of opposition to special privileges during the 19th century, see Howard Gillman, *The Constitution Besieged: The Rise & Demise of Lochner Era Police Powers Jurisprudence* (Durham, NC: Duke University Press, 1993), and Michael Les Benedict, "Laissez-Faire and Liberty: A Re-Evaluation of the Meaning and Origins of Laissez-Faire Constitutionalism," *Law and History Review*, Vol. 3 No. 2 (Fall 1985), pp. 293-331, [https://www.researchgate.net/publication/231867671\\_Laissez-Faire\\_and.Liberty\\_A\\_Re-Evaluation\\_of\\_the\\_Meaning\\_and\\_Origins\\_Of\\_Laissez-Faire\\_Constitutionalism](https://www.researchgate.net/publication/231867671_Laissez-Faire_and.Liberty_A_Re-Evaluation_of_the_Meaning_and_Origins_Of_Laissez-Faire_Constitutionalism) (accessed February 26, 2019).
21. David R. Henderson, "Rent Seeking," *Concise Encyclopedia of Economics*, 2nd ed. (Carmel, IN: Liberty Fund, 2010) <http://www.econlib.org/library/Enc/RentSeeking.html> (accessed February 26, 2019), and Paul Dragos Aligica and Vlad Tarko, "Crony Capitalism: Rent Seeking, Institutions and Ideology," *Kyklos*, Vol. 67, No. 2 (May 2014), pp. 156-176, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2423640](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2423640) (accessed February 26, 2019).
22. See, e.g., Tad DeHaven, "Corporate Welfare in the Federal Budget," Cato Institute Policy Analysis No. 703, July 25, 2012, <http://www.cato.org/publications/policy-analysis/corporate-welfare-federal-budget> (accessed February 26, 2019).
23. See, e.g., Randall G. Holcombe, "Crony Capitalism: By-Product of Big Government," *The Independent Review*, Vol. 17, No. 4 (Spring 2013), [http://www.independent.org/pdf/tir/tir\\_17\\_04\\_04\\_holcombe.pdf](http://www.independent.org/pdf/tir/tir_17_04_04_holcombe.pdf) (accessed February 26, 2019); Mike Lee, "Speeches: Opportunity, Cronyism, and Conservative Reform," April 30, 2014, <http://www.lee.senate.gov/public/index.cfm/speeches?ID=002a1917-732e-48b4-bd3d-f314b60a9338> (accessed February 26, 2019); Jeb Hensarling, "A Time for Choosing: The Main Street Economy vs. The Washington Crony Economy," May 20, 2014, <https://documents.mx/rep-jeb-hensarling-r-dallas-speech.html> (accessed February 26, 2019); Peter Schweizer, "The Moral Crisis of Crony Capitalism," *Religion & Liberty*, Vol. 23, No. 1 (June 2013), <https://blog.acton.org/archives/55889-religion-liberty-interview-with-peter-schweizer.html> (accessed February 26, 2019); Samuel Brittan, "The Fight Against Crony Capitalism," *Financial Times*, July 5, 2012; and Luigi Zingales, *A Capitalism for the People: Recapturing the Lost Genius of American Prosperity*, Chapter 3 (New York: Basic Books, 2012).
24. See, for example, Richard B. McKenzie, "Industrial Policy," *Concise Encyclopedia of Economics*, 2nd ed. (Carmel, IN: Liberty Fund, 2010) <http://www.econlib.org/library/Enc1/IndustrialPolicy.html> (accessed February 26, 2019); "The EU's Industrial-Policy Fans Want to Go Back to the '70s," *The Economist*, December 18, 2018; and European Commission, "An Integrated Industrial Policy for the Globalisation Era: Putting Competitiveness and Sustainability at Centre Stage," 2010, <http://aei.pitt.edu/45442/> (accessed February 26, 2019).
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27. Max Weber, *Economy and Society* (Oakland, CA: University of California Press, 1978), originally published as *Wirtschaft und Gesellschaft* (1922); Randall G. Holcombe, "Political Capitalism," *Cato Journal*, Vol. 35, No. 1 (Winter 2015), <https://object.cato.org/sites/cato.org/files/serials/files/cato-journal/2015/2/cj-v35n1-2.pdf> (accessed February 26, 2019); and Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916* (New York: Free Press, 1963).
28. Burton Folsom Jr., *Entrepreneurship vs. the State: A New Look at the Rise of Big Business in America, 1840-1920* (Gateway Books, 1989).
29. See especially the literature on regulatory capture. George J. Stigler, "The Theory of Economic Regulation," *The Bell Journal of Economics and Management Science*, Vol. 2, No. 1 (Spring 1971), pp. 3-21, <https://www.jstor.org/stable/pdf/3003160> (accessed February 26, 2019); Adam Thierer, "Regulatory Capture: What the Experts Have Found," Technology Liberation Front, December 19, 2010, <https://techliberation.com/2010/12/19/regulatory-capture-what-the-experts-have-found/> (accessed February 26, 2019); and Liam Wren-Lewis, "Regulatory Capture: Risks and Solutions," in Antonio Estache, ed., *Emerging Issues in Competition, Collusion and Regulation of Network Industries* (London: Centre for Economic Policy Research, 2011), [https://cepr.org/sites/default/files/geneva\\_reports/GenevaP221.pdf](https://cepr.org/sites/default/files/geneva_reports/GenevaP221.pdf) (accessed February 26, 2019).
30. In formal economic terms, these actions have an excess burden or deadweight loss.
31. John Garen, "Government Cronyism and the Erosion of the Public's Trust: An Exploratory and Cautionary Essay," Mercatus Center, October 11, 2012, [http://mercatus.org/sites/default/files/CronyismandPublicTrust\\_Garen\\_v1-0\\_1.pdf](http://mercatus.org/sites/default/files/CronyismandPublicTrust_Garen_v1-0_1.pdf) (accessed February 26, 2019).
32. Alternative energy, energy conservation, farm subsidies, and housing subsidies are the largest. Cato Institute researcher Tad DeHaven found \$98 billion in FY 2013; there is more now, and his list is incomplete. See Tad DeHaven, "Corporate Welfare in the Federal Budget," Cato Institute Policy Analysis No. 703, July 25, 2012, <http://object.cato.org/sites/cato.org/files/pubs/pdf/PA703.pdf> (accessed February 26, 2019). See also David R. Burton, "Eliminate Five Corporate Welfare Programs in Commerce Department," in *The Budget Book* (Washington, DC: The Heritage Foundation, 2015), <https://budgetbook.heritage.org/commerce-housing-credit/eliminate-five-corporate-welfare-programs-in-commerce-department/>.

33. Total loan guarantees amounted to \$2.5 trillion, about four-fifths of which are education loans. U.S. Department of the Treasury, Fiscal Year 2017 Financial Report of the United States Government, "Note 4: Loans Receivable and Loan Guarantee Liabilities; Net," February 15, 2018, pp. 78-79, <https://www.fiscal.treasury.gov/files/reports-statements/financial-report/notes-to-the-financial-statements4.pdf> (accessed February 26, 2019).
34. Examples include flood insurance; terrorist insurance; the Federal Crop Insurance Corporation; the Overseas Private Investment Corporation (OPIC) which will soon be part of the U.S. International Development Finance Corporation (USDFC); the Pension Benefits Guaranty Corporation (PBGC); the Farm Credit System Insurance Corporation and deposit insurance provided by the Federal Deposit Insurance Corporation (FDIC); and the National Credit Union Administration (NCUA).
35. Examples include American International Group (AIG); Federal National Mortgage Association (FNMA or Fannie Mae); the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac); and the \$431 billion (initially \$700 billion) Troubled Asset Relief Program (TARP), which bailed out General Motors, Chrysler, Citigroup, and many others. See Congressional Budget Office, "Report on the Troubled Asset Relief Program," October 11, 2012, <https://www.cbo.gov/sites/default/files/112th-congress-2011-2012/reports/tarp10-20120.pdf> (accessed February 26, 2019).
36. Examples include the United States Postal Service, the National Railroad Passenger Corporation (Amtrak), the Tennessee Valley Authority, the Bonneville Power Administration, the Southeastern Power Administration, the Southwestern Power Administration, the Western Area Power Administration, the Federal Home Loan Mortgage Corporation (Freddie Mac), the Federal National Mortgage Association (Fannie Mae), and the Government National Mortgage Association (GNMA or Ginnie Mae).
37. U.S. Department of the Treasury Office of Economic Policy, the Council of Economic Advisers, and the U.S. Department of Labor, Occupational Licensing: A Framework for Policymakers, July 2015, [https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing\\_report\\_final\\_nonembargo.pdf](https://obamawhitehouse.archives.gov/sites/default/files/docs/licensing_report_final_nonembargo.pdf) (accessed February 26, 2019); Paul J. Larkin Jr., "A Brief History of Occupational Licensing," Heritage Foundation Legal Memorandum No. 204, May 23, 2017, <https://www.heritage.org/sites/default/files/2017-05/LM-204.pdf>; Morris M. Kleiner, "Occupational Licensing," *Journal of Economic Perspectives*, Vol. 14, No. 4 (Fall 2000), pp. 189-202; Morris M. Kleiner, "Reforming Occupational Licensing Policies," Brookings Institution Discussion Paper 2015-01, March 2015, [https://www.brookings.edu/wp-content/uploads/2016/06/THP\\_KleinerDiscPaper\\_final.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/THP_KleinerDiscPaper_final.pdf) (accessed February 26, 2019); Dick M. Carpenter II, Lisa Knepper, Angela C. Erickson, and John K. Ross, License to Work: A National Study of Burdens from Occupational Licensing, Institute for Justice, May 2012, <https://ij.org/wp-content/uploads/2015/04/licensetowork1.pdf> (accessed February 26, 2019); and Salim Furth, "Understanding the Data on Occupational Licensing," Heritage Foundation Backgrounder No. 3159, September 28, 2016, <http://thf-reports.s3.amazonaws.com/2016/BG3159.pdf>.
38. See, for example, Anthony Kim and Terry Miller, "New Trade Agenda for Advancing Economic Freedom in the World," Heritage Foundation Backgrounder No. 3369, November 26, 2018, [https://www.heritage.org/sites/default/files/2018-11/BG3369\\_0.pdf](https://www.heritage.org/sites/default/files/2018-11/BG3369_0.pdf), and Tori K. Whiting, "Four Guidelines for the President When Considering Tariffs," Heritage Foundation Issue Brief No. 4811, January 22, 2018, <https://www.heritage.org/sites/default/files/2018-01/IB4811.pdf>.
39. See 2018 data at The Center for Responsive Politics, "Who's Up? Who's Down?" <https://www.opensecrets.org/lobby/incdec.php> (accessed February 26, 2019). Lobbying expenditures have been at this general level for at least a decade.
40. Bernie Sanders, "Democratic Socialism in the United States," November 19, 2015, <https://www.vox.com/2015/11/19/9762028/bernie-sanders-democratic-socialism> (accessed February 26, 2019).
41. Danny Katch, *Socialism ... Seriously: A Brief Guide to Human Liberation* (Chicago: Haymarket Books, 2015), p. x. In the first page of his first chapter, he writes approvingly of Karl Marx and Friedrich Engels and the Communist Manifesto ("we're all comrades"), breezily recounting in his light-hearted way various communist revolutions—seemingly oblivious to the mass murder and oppression that actual communist government entailed again and again.
42. Kim Kelly, "What 'Capitalism' Is and How It Affects People: What It Is, How It Works, and Who Is for and Against It," *Teen Vogue*, April 11, 2018, <https://www.teenvogue.com/story/what-capitalism-is> (accessed February 26, 2019).
43. John Nichols, "Alexandria Ocasio-Cortez Wins as a Democratic Socialist with a 21st-Century Vision," *The Nation*, June 27, 2018, <https://www.thenation.com/article/alexandria-ocasio-cortez-wins-democratic-socialist-21st-century-vision/> (accessed February 26, 2019).
44. For a popular portrayal of socialism as a camping trip by an Oxford University academic, see G. A. Cohen, *Why Not Socialism?* (Princeton University Press, 2009).
45. "Socialism in America," *The Economist*, August 30, 2018, and "Marx After Communism," *The Economist*, December 19, 2002 ("It is striking that today's militant critics of globalisation, whether declared Marxists or otherwise, proceed in much the same way. They present no worked-out alternative to the present economic order. Instead, they invoke a Utopia free of environmental stress, social injustice, and branded sportswear, harking back to a pre-industrial golden age that did not actually exist. Never is this alternative future given clear shape or offered up for examination. And anti-globalists have inherited more from Marx besides this. Note the self-righteous anger, the violent rhetoric, the willing resort to actual violence [in response to the "violence" of the other side], the demonisation of big business, the division of the world into exploiters and victims, the contempt for piecemeal reform, the zeal for activism, the impatience with democracy, the disdain for liberal "rights" and "freedoms," the suspicion of compromise, the presumption of hypocrisy [or childish naivety] in arguments that defend the market order.").

## COMPARING FREE ENTERPRISE AND SOCIALISM

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46. Richard A. Epstein, "The Intellectual Poverty of the New Socialists," September 4, 2018, <https://www.hoover.org/research/intellectual-poverty-new-socialists> (accessed February 26, 2019). The utopian nature of socialism is inadvertently confirmed by the Democratic Socialists of America (DSA) website. In their questions and answers, they ask: "Why are there no models of democratic socialism?" Their response is that democratic socialism has never been tried. ("Although no country has fully instituted democratic socialism, the socialist parties and labor movements of other countries have won many victories for their people." Democratic Socialists of America, "What Is Democratic Socialism?" <https://www.dsusa.org/about-us/what-is-democratic-socialism/#govt> (accessed February 26, 2019)). As demonstrated below, this is false. Socialism has been tried and failed many dozens of times. The next time would be no different. Democratic socialism has been tried and failed as well. For a discussion of the Nirvana fallacy (comparing idealized government-directed institutions to real-world market institutions), see Harold Demsetz, "Information and Efficiency: Another Viewpoint," *The Journal of Law and Economics*, Vol. 12, No. 1 (April 1969), pp. 1-22.
47. Richard A. Epstein, "The Problem with Soft Socialism," Hoover Institution, October 29, 2018, <https://www.hoover.org/research/problem-soft-socialism> (accessed February 26, 2019).
48. Edmund Burke, *Reflections on the Revolution in France* (1790), <http://www.gutenberg.org/files/15679/15679-h/15679-h.htm#REFLECTIONS> (accessed February 26, 2019); Russell Kirk, *The Conservative Mind: From Burke to Eliot*, 7th Rev. Ed. (Washington, DC: Regnery Books, 1985); George H. Nash, *The Conservative Intellectual Movement in America Since 1945* (New York: Basic Books, 1976); Roger Scruton, *Conservatism: An Invitation to the Great Tradition* (New York: St. Martin's Press, 2018); Rod Preece, "The Anglo-Saxon Conservative Tradition," *Canadian Journal of Political Science*, Vol. 13, No. 1 (March 1980), pp. 3-32; *American Conservatism: An Encyclopedia* (ISI Books, 2006); and "Conservatism," *Stanford Encyclopedia of Philosophy* (Fall 2016 Edition), <https://plato.stanford.edu/entries/conservatism/> (accessed February 26, 2019).
49. John Locke, *Second Treatise*; Adam Smith, *The Theory of Moral Sentiments* (1759) <https://www.econlib.org/library/Smith/smMS.html> (accessed February 26, 2019); Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*; John Stuart Mill, *On Liberty* (1859), <https://www.econlib.org/library/Mill/mllbty.html> (accessed February 26, 2019); and Friedrich A. Hayek, "Why I Am Not A Conservative," Appendix to *The Constitution of Liberty* (Chicago: University of Chicago Press, 1960). Hayek's critique was emphatically not directed at Burkean conservatives or Old Whigs ("I am simply an unrepentant Old Whig."). See also Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962); Richard A. Epstein, *Skepticism and Freedom: A Modern Case for Classical Liberalism* (Chicago: University of Chicago Press, 2003); Richard A. Epstein, *The Classical Liberal Constitution: The Uncertain Quest for Limited Government* (Cambridge, MA: Harvard University Press: 2014); Pierre Manent, *An Intellectual History of Liberalism* (Princeton, NJ: Princeton University Press, 1995), translated from Pierre Manent, *Histoire Intellectuelle du Libéralisme: Dix Leçons* (Paris: Calmann-Lévy, 1987); James M. Buchanan, *Why I, Too, Am Not a Conservative: The Normative Vision of Classical Liberalism* (Cheltenham, U.K.: Edward Elgar Publishing, 2005); James M. Buchanan, "The Soul of Classical Liberalism," *The Independent Review*, Vol. 5, No.1 (Summer 2000), [http://www.independent.org/pdf/tir/tir\\_05\\_1\\_buchanan.pdf](http://www.independent.org/pdf/tir/tir_05_1_buchanan.pdf) (accessed February 26, 2019); Jason Brennan and John Tomasi, "Classical Liberalism," in *The Oxford Handbook of Political Philosophy*, David Estlund, ed. (Oxford: Oxford University Press, 2012); John Tomasi, *Free Market Fairness* (Princeton, NJ: Princeton University Press, 2012); Eamonn Butler, *Classical Liberalism: A Primer* (London: The Institute of Economic Affairs, 2015), <https://iea.org.uk/wp-content/uploads/2016/07/Butler-interactive.pdf> (accessed February 26, 2019); and "Liberalism," Section 2.1, *Stanford Encyclopedia of Philosophy* (Spring 2018 Edition), <https://plato.stanford.edu/entries/liberalism/> (accessed February 26, 2019).
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51. Leonard Read, "I, Pencil," *The Freeman*, December 1958, [https://www.econlib.org/library/Essays/rdPncl.html?chapter\\_num=1#book-reader](https://www.econlib.org/library/Essays/rdPncl.html?chapter_num=1#book-reader) (accessed February 26, 2019); Friedrich A. Hayek, *The Fatal Conceit: The Errors of Socialism* (Chicago: The University of Chicago Press, 1991); and Norman Barry, "The Tradition of Spontaneous Order: A Bibliographical Essay," *Literature of Liberty: A Review of Contemporary Liberal Thought*, Vol. 5, No. 2 (Summer 1982), pp. 7-58, <https://oll.libertyfund.org/pages/the-tradition-of-spontaneous-order-a-bibliographical-essay-by-norman-barry> (accessed February 26, 2019).
52. See, for example, Friedrich A. von Hayek, "The Atavism of Social Justice," in Friedrich A. von Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas*, Chapter 5 (Abingdon-on-Thames, U.K: Routledge, 1978) ([The market] "improves the prospect of all beyond those we know how to provide by any other arrangements, the results of which must be accepted as fair, so long as they all obey the same rules and no one cheats.").
53. A full exposition of various views of economic justice is beyond the scope of this paper. See Russell Kirk, "Ten Conservative Principles," 1993, <https://kirkcenter.org/conservatism/ten-conservative-principles/> (accessed February 27, 2019) ("Upon the foundation of private property, great civilizations are built. The more widespread is the possession of private property, the more stable and productive is a commonwealth. Economic leveling, conservatives maintain, is not economic progress. Getting and spending are not the chief aims of human existence; but a sound economic basis for the person, the family, and the commonwealth is much to be desired."); Randy Barnett, *The Structure of Liberty: Justice and the Rule of Law*, 2nd ed. (Oxford: Oxford University Press, 2014), Chapter 4 ("The [classical] liberal conception of justice is the respect of rights."); and Nozick, *Anarchy, State and Utopia* (New York: Basic Books, 1974).
54. Admission to an elite university has a clear positive impact on the economic and other prospects of those admitted.

55. This understanding of distributive justice was virtually undisputed until the 18th century. See Samuel Fleischacker, *A Short History of Distributive Justice* (Cambridge: Harvard University Press, 2004), pp. 6–7. See also Aristotle, *Nicomachean Ethics*, especially Book IV, <http://classics.mit.edu/Aristotle/nicomachaen.html> (accessed February 27, 2019). Empirical research confirms that this understanding of economic justice is commonplace. See Christina Starmans, Mark Sheskin, and Paul Bloom, "Why People Prefer Unequal Societies," *Nature Human Behaviour*, Vol. 1 (April 2017), [https://www.researchgate.net/publication/315944588\\_Why\\_people\\_prefer\\_unequal\\_societies](https://www.researchgate.net/publication/315944588_Why_people_prefer_unequal_societies) (accessed February 27, 2019) ("Here we have explored the notion that, contrary to appearances, people are not troubled by inequality for its own sake; indeed, they often prefer unequal distributions, both in laboratory conditions and in the real world.... Indeed, we believe that there is no evidence so far that children or adults possess any general aversion to inequality.... In this paper we have outlined a wealth of empirical evidence suggesting that people don't care about reducing inequality per se. Rather, people have an aversion toward unfairness.").
56. John Rawls, *A Theory of Justice*, Revised ed. (Cambridge: Harvard University Press, 1971), Section 48 ("There is a tendency for common sense to suppose that income and wealth, and the good things in life generally, should be distributed according to moral desert. Justice is happiness according to virtue. While it is recognized that this ideal can never be fully carried out, it is the appropriate conception of distributive justice, at least as a *prima facie* principle, and society should try to realize it as circumstances permit. *Now justice as fairness rejects this conception.*" [emphasis added]). Of course, conservatives, classical liberals and libertarians would define "fairness" quite differently than does Rawls, social justice progressives, or socialists.
57. See, for example, Rawls, *A Theory of Justice*, Section 17 ("[T]he difference principle represents, in effect, an agreement to regard the distribution of natural talents as a common asset and to share the benefits of this distribution whatever it turns out to be." And "no one deserves his place in the distribution of native endowments, any more than one deserves one's initial starting place in society. The assertion that a man deserves the superior character that enables him to make the effort to cultivate his abilities is equally problematic; for his character depends in large part upon fortunate family and social circumstances for which he can claim no credit."); Brian Barry, *Theories of Justice: A Treatise on Social Justice* (Oakland, CA: University of California Press, 1989); Christopher Jencks, *Inequality: A Reassessment of the Effect of Family and Schooling in America* (New York: Basic Books, 1972), p. 73 ("For a thorough going egalitarian, however, inequality that derives from biology ought to be as repulsive as inequality that derives from early socialization."); Daniel Barth, Nicholas W. Papageorge, and Kevin Thom, "Genetic Endowments and Wealth Inequality," NBER Working Paper No. 24642, May 2018, <http://www.nber.org/papers/w24642.pdf> ("[W]e identify a biological basis for heterogeneity in wealth: genetic endowments related to human capital accumulation.... [T]he estimated association between these markers and wealth is economically large and statistically significant after controlling for education and labor market income."); and Alberto Alesina and George-Marios Angeletos, "Fairness and Redistribution," *American Economic Review*, Vol. 95, No. 4 (2005), pp. 960–980 <https://economics.mit.edu/files/335> (accessed February 27, 2019).
58. Our family, for example.
59. Amartya Sen, *Inequality Reexamined* (Cambridge: Harvard University Press, 1992) ("Every normative theory of social justice that has received support and advocacy in recent times seems to demand equality of something—something that is regarded as particularly important in that theory.").
60. Russell Kirk, "The Injustice of Equality," Heritage Lecture No. 478, January 18, 1994, <https://www.heritage.org/civil-society/report/the-injustice-equality>; Tyler Cowen, *Stubborn Attachments: A Vision for a Society of Free, Prosperous, and Responsible Individuals* (Stripe Press, 2018); and David R. Burton, "Economic Equality is Unjust," Remarks, January 22, 2019 <https://www.heritage.org/markets-and-finance/event/economic-equality-unjust>.
61. Nozick, *Anarchy, State and Utopia*, Chapter 7.
62. Friedrich A. von Hayek, "The Moral Element in Free Enterprise," December 6, 1961, republished in Mark W. Hendrickson, *The Morality of Capitalism* (Atlanta: Foundation for Economic Education, 1996), <https://fee.org/articles/the-moral-element-in-free-enterprise/> (accessed February 27, 2019) ("It seems to me one of the great merits of a free society is that material reward is not dependent on whether the majority of our fellows like or esteem us personally. This means that, so long as we keep within accepted rules, moral pressure can be brought on us only through the esteem of those whom we ourselves respect and not through the allocation of material reward by social authority. It is of the essence of a free society that we should be materially rewarded not for doing what others order us to do, but for giving them what they want."), and Roger Scruton, *Modern Philosophy: An Introduction and Survey* (London: Penguin, 1994), Chapter 29.
63. Margaret Thatcher "The Moral Basis of a Free Society," *Daily Telegraph*, May 16, 1978, <https://www.margaretthatcher.org/document/103687> (accessed February 27, 2019) ("What, then, are the functions of coercive Government? As I see it, they are primarily to establish a clear, simple and rigorously enforced system of rules to be both imposed and obeyed by the State, within which individuals can pursue their own legitimate private ends; and, within that framework, to secure, by generous but discriminating public aid, that no one is allowed to fall below a tolerable limit of welfare or is deprived of the chance of developing his or her talents to the full."), and Milton Friedman and Rose D. Friedman, *Free to Choose: A Personal Statement* (San Diego: Harcourt Brace Jovanovich, 1979) ("A society that puts equality—in the sense of equality of outcome—ahead of freedom will end up with neither equality nor freedom. The use of force to achieve equality will destroy freedom, and the force, introduced for good purposes, will end up in the hands of people who use it to promote their own interests.").
64. What constitutes "poverty" is, of course, a subject that engenders differences of opinion. The conception of poverty differs considerably over time and place. The richest families in the United States at the time of the revolution lived in homes that would be condemned today as uninhabitable; their homes did not have indoor plumbing, electricity, or heating other than wood-burning fireplaces. See, for example, Robert Rector, "Poverty and the Social Welfare State in the United States and Other Nations," Heritage Foundation Backgrounder No. 3057, September 16, 2015, <https://www.heritage.org/welfare/report/poverty-and-the-social-welfare-state-the-united-states-and-other-nations>, and Robert Rector and Rachel Sheffield, "Air Conditioning, Cable TV, and an Xbox: What Is Poverty in the United States Today?," Heritage Foundation Backgrounder No. 2575, July 18, 2011, <https://www.heritage.org/poverty-and-inequality/report/air-conditioning-cable-tv-and-xbox-what-poverty-the-united-states> ("The typical poor American has considerably more living space than does the average European.").

## COMPARING FREE ENTERPRISE AND SOCIALISM

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65. Adam Smith, *Wealth of Nations* (1776), Book I, Chapter VIII, <http://www.econlib.org/library/Smith/smWN3.html#I.8.35> (accessed February 27, 2019) ("No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable."), and Jack Kemp, "An Inquiry Into the Nature and Causes of Poverty in America and How to Combat It," June 10, 1990, <https://www.heritage.org/poverty-and-inequality/report/inquiry-the-nature-and-causes-poverty-america-and-how-combat-it> (accessed February 27, 2019).
66. Robert Rector and Rachel Sheffield, "Setting Priorities for Welfare Reform," Heritage Foundation Issue Brief No. 4520, February 24, 2016, <http://thf-reports.s3.amazonaws.com/2016/IB4520.pdf>; Robert Rector and Vijay Menon, "Understanding the Hidden \$1.1 Trillion Welfare System and How to Reform It," Heritage Foundation Backgrounder No. 3294, April 5, 2018, <https://www.heritage.org/sites/default/files/2018-04/BG3294.pdf>; Michael D. Tanner, *The Inclusive Economy: How to Bring Wealth to America's Poor* (Washington, DC: Cato Institute, 2018); Marvin Olasky, *Tragedy of American Compassion* (Washington, DC: Regnery, 1994); Charles Murray, *Losing Ground: American Social Policy, 1950-1980* (New York: Basic Books, 1984); and Nicholas Eberstadt, "American Exceptionalism and the Entitlement State," *National Affairs*, No. 38 (Winter 2015), <https://www.nationalaffairs.com/publications/detail/american-exceptionalism-and-the-entitlement-state> (accessed February 27, 2019).
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83. The author knows that some would argue that this is, in principle, a consequentialist rather than an ethical or moral argument. But given the utterly overwhelming evidence of the adverse consequences of adopting socialist policies, it is, in reality, a moral argument: To knowingly take actions that will substantially harm large numbers of people is immoral.
84. When something is owned by "everybody," it is really owned by nobody. Accordingly, no one has an incentive to steward or protect the resource. Garrett Hardin, "Tragedy of the Commons," *Concise Encyclopedia of Economics*, 2nd Ed. (Carmel, IN: Liberty Fund, 2010), <https://www.econlib.org/library/Enc/TragedyoftheCommons.html> (accessed February 27, 2019); Philip Booth, "Property Rights and Conservation: The Missing Theme of Laudato Si,'" *The Independent Review*, Vol. 21 No. 3 (Winter 2017), [http://www.independent.org/pdf/tir/tir\\_21\\_03\\_05\\_booth.pdf](http://www.independent.org/pdf/tir/tir_21_03_05_booth.pdf) (accessed February 27, 2019); and Walter Block, ed., *Economics and the Environment: A Reconciliation* (Vancouver, BC: Fraser Institute, 1990), <https://www.fraserinstitute.org/sites/default/files/EconomicsandtheEnvironment.pdf> (accessed February 27, 2019).
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86. See, for example, Aristotle, *Nicomachean Ethics*; Thomas Aquinas, *Summa Theologica*, Part II, Questions 23-27, [http://www.documentacatholicaomnia.eu/03d/1225-1274,\\_Thomas\\_Aquinas,\\_Summa\\_Theologiae\\_%5B1%5D,\\_EN.pdf](http://www.documentacatholicaomnia.eu/03d/1225-1274,_Thomas_Aquinas,_Summa_Theologiae_%5B1%5D,_EN.pdf) (accessed February 27, 2019), and Smith, *The Theory of Moral Sentiments*.

## COMPARING FREE ENTERPRISE AND SOCIALISM

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88. Friedrich A. Hayek, *Individualism and Economic Order* (Chicago: University of Chicago Press, 1948), Chapter VI, Section 6, [https://mises-media.s3.amazonaws.com/Individualism%20and%20Economic%20Order\\_4.pdf?file=1&type=document](https://mises-media.s3.amazonaws.com/Individualism%20and%20Economic%20Order_4.pdf?file=1&type=document) (accessed February 27, 2019) ("The two consequences of this [highly progressive income taxation] which seem to me the most serious are, on the one hand, that it makes for social immobility by making it practically impossible for the successful man to rise by accumulating a fortune and that, on the other, it has come near eliminating that most important element in any free society—the man of independent means, a figure whose essential role in maintaining a free opinion and generally the atmosphere of independence from government control we only begin to realize as he is disappearing from the stage.").
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94. Eamonn Butler, *Public Choice: A Primer* (London: Institute of Economic Affairs, 2012), <https://iea.org.uk/wp-content/uploads/2016/07/IEA%20Public%20Choice%20web%20complete%202016.07.12.pdf> (accessed February 27, 2019), and William F. Shughart II, "Public Choice," *Concise Encyclopedia of Economics*, David R. Henderson, ed. (Carmel, IN: Liberty Fund, 2007) <http://www.econlib.org/library/Enc/PublicChoice.html> (accessed February 27, 2019).
95. James M. Buchanan, *The Collected Works of James M. Buchanan*, *The Logical Foundations of Constitutional Liberty*, Vol. 1 (Carmel, IN: Liberty Fund, 1999), p. 46. From a lecture originally given at the Institute for Advanced Studies in Vienna, Austria, in 1979: "My primary title for this lecture, 'Politics without Romance,' was chosen for its descriptive accuracy. Public choice theory has been the avenue through which a romantic and illusory set of notions about the workings of governments and the behavior of persons who govern has been replaced by a set of notions that embody more skepticism about what governments can do and what governors will do, notions that are surely more consistent with the political reality that we may all observe about us. I have often said that public choice offers a 'theory of governmental failure' that is fully comparable to the 'theory of market failure' that emerged from the theoretical welfare economics of the 1930's and 1940's [sic]."

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103. Robert Heilbroner, "The Triumph Of Capitalism," *The New Yorker*, January 23, 1989; Robert Heilbroner, "After Communism," *The New Yorker*, September 10, 1990; and David Boaz, "The Man Who Told the Truth: Robert Heilbroner Fessed Up to the Failure of Socialism," *Reason*, January 21, 2005, <http://reason.com/archives/2005/01/21/the-man-who-told-the-truth> (accessed February 27, 2019).
104. See Joshua Muravchik, *Heaven on Earth: The Rise and Fall of Socialism*, Appendices I & II (New York: Encounter Books, 2002) (listing over 80 examples of socialist regimes, excluding social democratic mixed economies), and P. T. Bauer, *Equality, the Third World, and Economic Delusion* (Cambridge, MA: Harvard University Press, 1981).
105. The People's Republic of China (approximately 35 million to 65 million deaths), The Union of Soviet Socialist Republics (20 million to 62 million deaths) and the other Council for Mutual Economic Assistance (COMECON) countries (including the People's Republic of Bulgaria [0.1 million deaths]; the Republic of Cuba; the Czechoslovak Socialist Republic [0.2 million deaths]; the German Democratic Republic [East Germany] [0.1 million deaths]; the Hungarian People's Republic; the Mongolian People's Republic [0.1 million deaths]; the Polish People's Republic [0.6 million deaths]; the Socialist Republic of Romania [0.1 million to 0.3 million deaths]; the Socialist Republic of Vietnam [1 million to 1.7 million deaths]; the People's Socialist Republic of Albania; Khmer Rouge Cambodia [2 million deaths]; the Democratic People's Republic of Korea [North Korea] [1.7 million to 2 million deaths]; and Yugoslavia [1 million deaths]) have the most horrendous records. In addition, National Socialist Germany murdered approximately 21 million people (excluding war dead). See R. J. Rummel, *Death by Government* (Piscataway, NJ: Transaction Publishers, 1994); Stéphane Courtois, "The Crimes of Communism," in Stéphane Courtois, Nicolas Werth, Jean-Louis Panné, Andrzej Paczkowski, Karel Bartošek, and Jean-Louis Margolin, eds., *The Black Book of Communism: Crimes, Terror, Repression* (Cambridge, MA: Harvard University Press, 1999); Benjamin A. Valentino, *Final Solutions: Mass Killing and Genocide in the 20th Century* (Ithaca, NY: Cornell University Press, 2004); Frank Dikötter, *Mao's Great Famine* (London: Walker, 2010); Robert Conquest, *The Harvest of Sorrow: Soviet Collectivization and the Terror-Famine* (Oxford: Oxford University Press, 1986); and Daniel Goodkind, Loraine West, and Peter Johnson, "A Reassessment of Mortality in North Korea, 1993-2008," paper presented at Annual Meeting of the Population Association of America, <https://paa2011.princeton.edu/papers/111030> (accessed February 27, 2019).

## COMPARING FREE ENTERPRISE AND SOCIALISM

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106. See, Terry Miller, Anthony B. Kim, and James M. Roberts, *2018 Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2018); Martin S. Feldstein, "Why Is Growth Better in the United States Than in Other Industrial Countries," NBER Working Paper No. 23221, March 2017, <http://www.nber.org/papers/w23221> (accessed February 27, 2019); and Chris Edwards, "Why the Federal Government Fails," Cato Institute Policy Analysis No. 777, July 27, 2015, <https://object.cato.org/sites/cato.org/files/pubs/pdf/pa777.pdf> (accessed February 27, 2019); and Arthur M. Okun, *Equality and Efficiency: The Big Tradeoff* (Washington, DC: Brookings Institution, 1975).
107. This reality was aptly captured by Winston Churchill when he said, "The inherent vice of capitalism is the unequal sharing of blessings. The inherent virtue of socialism is the equal sharing of miseries." Winston Churchill, Speech in the House of Commons, October 22, 1945, in House of Commons Hansard, Vol. 414, pp. 1703-1704, [http://hansard.millbanksystems.com/commons/1945/oct/22/demobilisation#S5CV0414PO\\_19451022\\_HOC\\_300](http://hansard.millbanksystems.com/commons/1945/oct/22/demobilisation#S5CV0414PO_19451022_HOC_300) (accessed February 27, 2019).
108. News release, "Senator Warren Unveils Proposal to Tax Wealth of Ultra-Rich Americans," Elizabeth Warren, January 24, 2019, [https://www.warren.senate.gov/newsroom/press-releases/senator-warren-unveils-proposal-to-tax-wealth-of-ultra-rich-americans?mod=article\\_inline](https://www.warren.senate.gov/newsroom/press-releases/senator-warren-unveils-proposal-to-tax-wealth-of-ultra-rich-americans?mod=article_inline) (accessed February 27, 2019). For an asset earning a return of 6 percent, a 3 percent "wealth tax" is analogous to a 50 percent income tax. The Warren wealth tax would be in addition to existing income taxes.
109. Matthew Choi, "Ocasio-Cortez Floats 70 Percent Tax on the Super Wealthy to Fund Green New Deal," January 4, 2019, <https://www.politico.com/story/2019/01/04/ocasio-cortez-70-percent-tax-1080874> (accessed February 27, 2019). Thus, in California, for example, the top income tax bracket would be 83.3 percent. For state income tax rates, see Morgan Scarboro, "State Individual Income Tax Rates and Brackets for 2018," Tax Foundation Fiscal Fact No. 576, March 2018, <https://files.taxfoundation.org/20180315173118/Tax-Foundation-FF576-1.pdf> (accessed February 27, 2019).
110. Regarding the user cost of capital and investment, see Robert E. Hall and Dale W. Jorgenson, "Tax Policy and Investment Behavior," *American Economic Review*, Vol. 57, No. 3 (June 1967), pp. 391-414, <https://web.stanford.edu/~rehall/Tax-Policy-AER-June-1967.pdf> (accessed February 27, 2019). See also Kevin A. Hassett and Kathryn Newmark, "Taxation and Business Behavior: A Review of the Recent Literature," in John W. Diamond and George R. Zodrow, eds., *Fundamental Tax Reform: Issues, Choices, and Implications* (Cambridge: MIT Press, 2008), and Alan J. Auerbach, "Taxation and Capital Spending," University of California, Berkeley, September 2005, <http://eml.berkeley.edu/~auerbach/capitalspending.pdf> (accessed February 27, 2019).
111. What economists call the "deadweight loss" or "excess burden" of a marginal tax rate rise increases with the square of the tax rate increase. The converse is also true. The excess burden of a marginal tax rate decrease declines with the square of the tax rate decrease. See John Creedy, "The Excess Burden of Taxation and Why it (Approximately) Quadruples When the Tax Rate Doubles," New Zealand Treasury Working Paper No. 03/29, December 2003, <https://treasury.govt.nz/publications/wp/excess-burden-taxation-and-why-it-approximately-quadruples-when-tax-rate-doubles-wp-03-29-html> (accessed February 27, 2019), and Alan Auerbach, "The Theory of Excess Burden and Optimal Taxation," in Alan Auerbach and Martin Feldstein, eds., *Handbook of Public Economics* (Amsterdam: Elsevier, 1985). Also see, for example, N. Gregory Mankiw, *Principles of Economics*, 4th ed. (Boston: Cengage Learning, 2007), Chapter 8 (or many other textbooks on price theory, microeconomics, or principles of economics).
112. See discussion under the heading "Nordic Countries." For China, see Barry J. Naughton, *The Chinese Economy: Adaptation and Growth*, Second Ed. (Cambridge, MA: MIT Press, 2018), and Arthur R. Kroeber, *China's Economy: What Everyone Needs to Know* (Oxford: Oxford University Press, 2016). For the United Kingdom, see Claire Berlinski, *There Is No Alternative: Why Margaret Thatcher Matters* (New York: Basic Books, 2008); Clint Bolick, "Thatcher's Revolution: Deregulation and Political Transformation," *Yale Journal on Regulation*, Vol. 12, No. 2 (1995), <https://digitalcommons.law.yale.edu/cgi/viewcontent.cgi?article=1425&context=yjreg> (accessed February 28, 2019), and David Card and Richard B. Freeman, "What Have Two Decades of British Economic Reform Delivered?" in David Card, Richard Blundell, and Richard B. Freeman, eds., *Seeking a Premier Economy: The Economic Effects of British Economic Reforms, 1980-2000* (Chicago: University of Chicago Press, 2004). Reversing socialism promotes economic growth and higher incomes. Other examples include the Central European and Baltic countries and India.
113. "Berlin Wall," *Encyclopedia Britannica*, <https://www.britannica.com/topic/Berlin-Wall> (accessed February 27, 2019); Judy Dempsey, "East German Shoot-to-Kill Order Is Found," *New York Times*, August 13, 2007, <https://www.nytimes.com/2007/08/13/world/europe/13germany.html> (accessed February 27, 2019); "East German Border Claimed 327 Lives, Says Berlin Study," BBC News, June 8, 2017, <https://www.bbc.com/news/world-europe-40200305> (accessed February 27, 2019) (plus 200 who perished fleeing by means of the Baltic Sea); and Joe Parkin Daniels, "Venezuela: About 3 Million Have Fled Political and Economic Crisis Since 2015, U.N. Says," *The Guardian*, November 8, 2018, <https://www.theguardian.com/world/2018/nov/08/venezuela-migrants-fleeing-exodus-increase-united-nations> (accessed February 27, 2019). There are many dozens of examples. "Brain drains" or human capital flight, even from "socialist lite" countries, is also significant.
114. Relatively free countries typically have relatively robust border enforcement to limit in-migration. Examples would include the United States, the European Union, Switzerland, Australia, New Zealand, Canada, Israel, and various East Asia countries.
115. Deirdre Nansen McCloskey, "The Great Enrichment: A Humanistic and Social Scientific Account," *Social Science History*, Vol. 40, No. 4 (Winter 2016), pp. 583-598, [http://deirdremccloskey.org/docs/pdf/McCloskey\\_ASSA2016.pdf](http://deirdremccloskey.org/docs/pdf/McCloskey_ASSA2016.pdf) (accessed February 27, 2019), and Edmund S. Phelps, *Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge and Change* (Princeton, NJ: Princeton University Press, 2013).

116. Joshua C. Hall and Robert A. Lawson, "Economic Freedom of the World: An Accounting of the Literature," *Contemporary Economic Policy*, Vol. 32, No. 1 (January 2014), pp. 1-19; Terry Miller, Anthony B. Kim, and James M. Roberts, "Societies Thrive as Economic Freedom Grows," in Miller, Kim, and Roberts, 2018 *Index of Economic Freedom*; Terry Miller and Anthony B. Kim, "The Growth and Impact of Economic Freedom," in 2017 *Index of Economic Freedom*, Chapter 1 (Washington, DC: The Heritage Foundation, 2017), <https://www.heritage.org/index/pdf/2017/book/chapter1.pdf>; Claudia R. Williamson and Rachel L. Mathers, "Economic Freedom, Culture, and Growth," Mercatus Working Paper No. 09-40, October 2009, [https://www.mercatus.org/system/files/Economic\\_Freedom\\_Culture\\_and\\_Growth.pdf](https://www.mercatus.org/system/files/Economic_Freedom_Culture_and_Growth.pdf) (accessed February 27, 2019); World Bank, *Doing Business 2019: Training for Reform* (Washington, DC: World Bank, 2019), [http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report\\_web-version.pdf](http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf) (accessed February 27, 2019); and James Gwartney, Robert Lawson, Joshua Hall, and Ryan Murphy, *Economic Freedom of the World: 2018 Annual Report* (Vancouver, BC: Fraser Institute, 2018), <https://www.fraserinstitute.org/sites/default/files/economic-freedom-of-the-world-2018.pdf> (accessed February 27, 2019).
117. See, for example, James A. Dorn, "China's March Toward the Market," and Parth J. Shah and Renuka Sane, "India: The Elephant in the Age of Liberation," both found in Benjamin Powell, ed., *Making Poor Nations Rich: Entrepreneurship and the Process of Economic Development* (Stanford, CA: Stanford University Press, 2008); Jagdish Bhagwati and Arvind Panagariya, *Why Growth Matters: How Economic Growth in India Reduced Poverty and the Lessons for Other Developing Countries* (Washington, DC: Public Affairs, 2014); and Ronald Coase and Ning Wang, *How China Became Capitalist* (Basingstoke, U.K.: Palgrave Macmillan, 2012).
118. See, for example, Powell, *Making Poor Nations Rich*, and Edgardo Buscaglia and William Ratliff, *Law and Economics in Developing Countries* (Stanford, CA: Hoover Institution Press, 2000). East Asian poverty rates dropped as these countries adopted pro-market reforms. For data, see Maxim Pinkovskiy and Xavier Sala-i-Martin, "Parametric Estimations of the World Distribution of Income," National Bureau of Economic Research Working Paper No. 15433, October 2009, Table 1, <https://www.nber.org/papers/w15433.pdf> (accessed February 28, 2019).
119. For good introductions to these ideas, see Robert P. Murphy, Jason Clemens, Milagros Palacios, and Niels Veldhuis, *Economic Principles for Prosperity* (Vancouver, BC: Fraser Institute, 2014), <https://www.fraserinstitute.org/sites/default/files/economic-principles-for-prosperity.pdf> (accessed February 28, 2019); Eamonn Butler, *The Best Book on the Market* (Mankato, MN: Capstone, 2008); Thomas Sowell, *Basic Economics*, 5th ed. (New York: Basic Books, 2014); and Henry Hazlitt, *Economics in One Lesson*, 50th anniversary edition (New York: Laissez Faire Books, 1996).
120. See, for example, Sowell, *Basic Economics*, Chapter 6, and Hazlitt, *Economics in One Lesson*, Chapter XXII.
121. See, for example, Alden F. Abbott and Shanker Singham, "Anticompetitive Policies Reduce Economic Freedom and Hurt Prosperity," in Terry Miller and Anthony B. Kim, 2016 *Index of Economic Freedom* (Washington, DC: The Heritage Foundation, 2016), <https://www.heritage.org/index/pdf/2016/book/chapter5.pdf>.
122. In practice, the income effect has minimal impact on labor supply. The substitution (incentive or relative price) effect is more important. In other words, higher after-tax wages induce people to work more rather than increase their leisure time. Michael P. Keane, "Labor Supply and Taxes: A Survey," *Journal of Economic Literature*, Vol. 49, No. 4 (December 2011), pp. 961-1075. See a price theory or microeconomics text for an explanation of the income and substitution effects. See references in note 124.
123. Arnold C. Harberger, "Microeconomics," *Concise Encyclopedia of Economics*, 2nd ed. (Carmel, IN: Liberty Fund, 2010), <https://www.econlib.org/library/Enc/Microeconomics.html> (accessed February 28, 2019). See also references in note 122.
124. Jack Hirshleifer, *Price Theory and Applications* (Upper Saddle River, NJ: Prentice-Hall, 1976) and later editions; Milton Friedman, *Price Theory* (London: Aldine Publishing, 1962) and later editions; George J. Stigler, *The Theory of Price* (London: Macmillan, 1950) and later editions; N. Gregory Mankiw, *Principles of Microeconomics*, 8th Ed. (Boston: Cengage Learning, 2017) and earlier editions; Glen Hubbard and Anthony Patrick O'Brien, *Microeconomics*, 3rd Ed. (London: Pearson, 2017); and Deirdre McCloskey, *The Applied Theory of Price* (London: Macmillan, 1982) <http://www.deirdremccloskey.com/docs/price.pdf> (accessed February 28, 2019).
125. Sowell, *Basic Economics*, Chapter 3; Hardin, "Tragedy of the Commons"; and Andrei Shleifer and Robert Vishny, "Pervasive Shortages Under Socialism," NBER Working Paper No. 3791, July 1991, <https://www.nber.org/papers/w3791> (accessed February 28, 2019).
126. Friedrich A. Hayek, "The Use of Knowledge in Society," *The American Economic Review*, Vol. 35, No. 4 (September 1945), pp. 519-530, <https://www.econlib.org/library/Essays/hykKnw.html> (accessed February 28, 2019); F. A. Hayek, *The Fatal Conceit: The Errors of Socialism* (Chicago: University of Chicago Press, 1988); and Ludwig von Mises, *Socialism: An Economic and Sociological Analysis* (Princeton, NJ: Yale University Press, 1951), [https://mises.org/sites/default/files/Socialism%20An%20Economic%20and%20Sociological%20Analysis\\_3.pdf](https://mises.org/sites/default/files/Socialism%20An%20Economic%20and%20Sociological%20Analysis_3.pdf) (accessed February 28, 2019).
127. Adam Thierer, *Permissionless Innovation: The Continuing Case for Comprehensive Technological Freedom* (Mercatus Center, 2016); George Gilder, "Capitalism Is an Information and Learning System," November 15, 2018, <https://www.heritage.org/markets-and-finance/event/capitalism-information-and-learning-system>; David R. Burton, "Building an Opportunity Economy: The State of Small Business and Entrepreneurship," testimony before the Committee on Small Business, U.S. House of Representatives, March 4, 2015, <https://www.heritage.org/testimony/building-opportunity-economy-the-state-small-business-and-entrepreneurship>; and David R. Burton, "Improving Entrepreneurs' Access to Capital: Vital for Economic Growth," Heritage Foundation Backgrounder No. 3182, February 14, 2017, <https://www.heritage.org/sites/default/files/2017-02/BG3182.pdf>.
128. Read, "I, Pencil"; Brent Butgereit and Art Carden, "Capitalism, Socialism and Calculation," *Economic Affairs* (October 2011), pp. 41-45, <https://iea.org.uk/wp-content/uploads/2016/07/EA%2031.3%20Butgereit-Carden.pdf> (accessed February 28, 2019); Donald J. Boudreaux, *The Essential Hayek* (Vancouver, BC: Fraser Institute, 2014), <https://www.fraserinstitute.org/sites/default/files/essential-hayek.pdf> (accessed February 28, 2019); and Peter H. Schuck, *Why Government Fails So Often: And How It Can Do Better* (Princeton, NJ: Princeton University Press, 2014).

## COMPARING FREE ENTERPRISE AND SOCIALISM

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129. See, for example, Bernie Sanders, "Bernie Sanders Explains Democratic Socialism," October 13, 2015, at 1:03-1:10, <https://www.youtube.com/watch?v=K7jIAZSGXf4&feature=youtu.be> (accessed February 28, 2019) explaining why he regards himself as a Democratic Socialist. "I think we should look to countries like Denmark, like Sweden, and Norway and learn from what they have accomplished for their working people."
130. The term Nordic Countries includes Denmark (including the Danish territory, Greenland), Finland, Iceland, Norway, and Sweden. Scandinavia includes only Denmark, Norway, and Sweden.
131. Adrian Wooldridge, "The Nordic Countries: Northern Lights," *The Economist* Special Report, February 2, 2013, [https://www.economist.com/sites/default/files/20130202\\_nordic\\_countries.pdf](https://www.economist.com/sites/default/files/20130202_nordic_countries.pdf) (accessed February 28, 2019).
132. Nordic corporate tax rates are as follows: Sweden (22 percent), Norway (23 percent), Denmark (22 percent), Finland (20 percent), and Iceland (20 percent). See also Deloitte, "Corporate Tax Rates 2018," <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-corporate-tax-rates.pdf> (accessed February 28, 2019). This compares to the average U.S. corporate rate of 25.7 percent (combined state and federal). Kyle Pomerleau, "The United States' Corporate Income Tax Rate Is Now More in Line with Those Levied by Other Major Nations," Tax Foundation, February 12, 2018, <https://taxfoundation.org/us-corporate-income-tax-more-competitive/> (accessed February 28, 2019).
133. Top marginal tax rates (including income and payroll taxes) are as follows: Sweden (60.1 percent), Finland (58.3 percent), Denmark (55.8 percent), the United States (48.6 percent), Norway (46.6 percent), and Iceland (44.4 percent). Organisation for Economic Co-operation and Development, "Table I.7: Top Personal Income Tax Rate and Top Marginal Tax Rate for Employees," 2017, [https://stats.oecd.org/index.aspx?DataSetCode=TABLE\\_I7](https://stats.oecd.org/index.aspx?DataSetCode=TABLE_I7) (accessed February 28, 2019). For the relative tax burden on average wages, see Daniel Bunn and Alec Fornwal, "A Comparison of the Tax Burden on Labor in the OECD: 2018," Tax Foundation Fiscal Fact No. 613, September 2018, <https://files.taxfoundation.org/20180917120122/A-Comparision-of-the-Tax-Burden-on-Labor-in-the-OECD-2018.pdf> (accessed February 28, 2019).
134. Deloitte, "Global Indirect Tax Rates," September 2018, <https://www2.deloitte.com/global/en/pages/tax/solutions/global-indirect-tax-rates.html> (accessed February 28, 2019).
135. Miller, Kim, and Roberts, 2019 *Index of Economic Freedom*.
136. This represents a significant improvement over 2018 for the U.S. The Heritage Foundation 2018 *Index of Economic Freedom* rankings were as follows: Iceland (11th), Denmark (12th), Sweden (15th), the United States (18th), Norway (23rd), and Finland (26th)—out of 180 countries ranked. Miller, Kim, and Roberts, 2018 *Index of Economic Freedom*.
137. Lars Løkke Rasmussen, "Nordic Solutions and Challenges A Danish Perspective," October 30, 2015, at 8:06–8:24, [https://www.youtube.com/watch?v=MgrJnXZ\\_WGo&feature=youtu.be](https://www.youtube.com/watch?v=MgrJnXZ_WGo&feature=youtu.be) (accessed February 28, 2019).
138. Mikael Stenkula, Dan Johansson, and Gunnar Du Rietz, "Marginal Taxation on Labour Income in Sweden from 1862 to 2010," *Scandinavian Economic History Review*, Vol. 62, No. 2 (2014), <https://www.tandfonline.com/doi/full/10.1080/03585522.2013.836985> (accessed February 28, 2019), and Dan Johansson, Mikael Stenkula, and Gunnar Du Rietz, "Capital Income Taxation of Swedish Households, 1862–2010," *Scandinavian Economic History Review*, Vol. 63, No. 2 (2015), <https://www.tandfonline.com/doi/full/10.1080/03585522.2014.980314> (accessed February 28, 2019).
139. Johnny Munkhammar, "The Swedish Model: It's the Free-Market Reforms, Stupid," *Wall Street Journal*, January 26, 2011 ("These decisive economic liberalizations, and not socialism, are what laid the foundations for Sweden's success over the last 15 years. After the reforms of the early 1990s, Swedes' real wages increased by roughly 35 [percent] in a decade.").
140. Nima Sanandaji, *Debunking Utopia: Exposing the Myth of Nordic Socialism* (WND Books, 2016); James Tusty and Maureen Castle Tusty, Sweden: Lessons for America? A Personal Exploration by Johan Norberg, 2018 film, <http://www.freetochoose.tv/program.php?id=sweden> (accessed February 28, 2019) (Note: This documentary is also available via Amazon Prime.); Andreas Bergh, *Sweden and the Revival of the Capitalist Welfare State* (Cheltenham, U.K.: Elgar, 2014); and Fraser Institute, "Economic Freedom Score by Year(s): World Ranking," <https://www.fraserinstitute.org/economic-freedom/graph?geozone=world&countries=DNK,FIN,NOR,SWE,USA&page=graph&area1=1&area2=1&area3=1&area4=1&area5=1&type=line&min-year=1970&max-year=2016> (accessed February 28, 2019) (Chart shows economic freedom of the U.S. and Nordic countries over time.).
141. In 2017, only oil-rich Norway had a higher GDP per capita than the United States: Norway (\$60,455), United States (\$53,219), Iceland (\$46,940), Denmark (\$46,225), Sweden (\$45,252), and Finland (\$39,710). Organisation for Economic Co-operation and Development, "Level of GDP Per Capita and Productivity," [https://stats.oecd.org/index.aspx?DataSetCode=PDB\\_LV](https://stats.oecd.org/index.aspx?DataSetCode=PDB_LV) (accessed February 28, 2019). GDP per capita is 12 percent higher in the U.S. than in the Nordic countries. Only Iceland had average wages as high as the U.S. in 2017: Iceland (\$61,786), United States (\$60,558), Denmark (\$51,466), Norway (\$51,212), Finland (\$42,963), and Sweden (\$42,392). Organisation for Economic Co-operation and Development, "Average Wages," <https://data.oecd.org/earnwage/average-wages.htm> (accessed February 28, 2019). See also Daniel J. Mitchel, "What Can the United States Learn from the Nordic Model?" Cato Institute Policy Analysis No. 603, November 5, 2007, <https://object.cato.org/sites/cato.org/files/pubs/pdf/pa-603.pdf> (accessed February 28, 2019).
142. Ibid.
143. For an introduction to the literature, see Paul Westhead and Mike Wright, *Entrepreneurship: A Very Short Introduction* (Oxford: Oxford University Press, 2013), and Russell S. Sobel, "Entrepreneurship," *Concise Encyclopedia of Economics*, 2nd ed. (Carmel, IN: Liberty Fund, 2010), <https://www.econlib.org/library/Enc/Entrepreneurship.html> (accessed February 28, 2019).

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145. See, e.g., Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (Abingdon-on-Thames, U.K.: Routledge, 1976), pp. 81-86, <http://digamo.free.fr/capisoc.pdf> (accessed February 28, 2019); W. Michael Cox and Richard Alm, "Creative Destruction," *Concise Encyclopedia of Economics* (Carmel, IN: Liberty Fund, 2010), <http://www.econlib.org/library/Enc/CreativeDestruction.html> (accessed February 28, 2019); and Henry G. Manne, "The Entrepreneur in the Large Corporation," in *The Collected Works of Henry G. Manne*, Vol. 2 (Carmel, IN: Liberty Fund, 1996).
146. Frank H. Knight, *Risk, Uncertainty, and Profit* (Boston: Houghton Mifflin, 1921), <http://www.econlib.org/library/Knight/knRUP.html> (accessed February 28, 2019), and Richard J. Cebula, Joshua C. Hall, Franklin G. Mixon Jr., and James E. Payne, *Economic Behavior, Economic Freedom, and Entrepreneurship* (Cheltenham, U.K.: Edward Elgar, 2015).
147. Magnus Henrekson and Dan Johansson, "Gazelles as Job Creators: A Survey and Interpretation of the Evidence," *Small Business Economics*, Vol. 35 (2010), pp. 227-244, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1092938](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1092938) (accessed February 28, 2019); Ryan Decker, John Haltiwanger, Ron Jarmin, and Javier Miranda, "The Role of Entrepreneurship in U.S. Job Creation and Economic Dynamism," *Journal of Economic Perspectives*, Vol. 28, No. 3 (Summer 2014), pp. 3-24, <http://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.28.3.3> (accessed February 28, 2019); and Salim Furth, "Research Review: Who Creates Jobs? Start-up Firms and New Businesses," *Heritage Foundation Issue Brief* No. 3891, April 4, 2013, <http://www.heritage.org/research/reports/2013/04/who-creates-jobs-startup-firms-and-new-businesses>. In terms of the neoclassical growth model, entrepreneurship is an important factor affecting the rate of technological change and the marginal productivity of capital. See, e.g., Robert M. Solow, *Growth Theory: An Exposition* (Oxford: Oxford University Press, 2000). Legal institutions, human capital, and other factors are also important determinants of economic growth. See N. Gregory Mankiw, David Romer, and David N. Weil, "A Contribution to the Empirics of Economic Growth," *The Quarterly Journal of Economics*, Vol. 107, No. 2 (May 1992), pp. 407-437, [https://eml.berkeley.edu/~dromer/papers/MRW\\_QJE1992.pdf](https://eml.berkeley.edu/~dromer/papers/MRW_QJE1992.pdf) (accessed February 28, 2019); and Robert J. Barro, *Economic Growth*, 2nd ed. (Cambridge, MA: MIT Press, 2003).
148. Ralph Landau, "Technology and Capital Formation," in Dale W. Jorgenson and Ralph Landau, eds., *Technology and Capital Formation* (Cambridge, MA: MIT Press, 1989).
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150. See Decker et al., supra at 150; C. Mirjam van Praag and Peter H. Versloot, "What Is the Value of Entrepreneurship? A Review of Recent Research," *Small Business Economics*, Vol. 29, No. 4 (December 2007), pp. 351-382, <http://link.springer.com/article/10.1007%2Fs11187-007-9074-x> (accessed February 28, 2019); and G. R. Steele, "Laissez-Faire and the Institutions of the Free Market," *Economic Affairs* (September 1999), <http://www.lancaster.ac.uk/staff/ecagsr/Laissez%20faire.pdf> (accessed February 28, 2019).
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152. See, for example, James Madison, *The Federalist* No. 10, <http://constitution.org/fed/federa10.htm> (accessed February 27, 2019) ("The diversity in the faculties of men, from which the rights of property originate, is not less an insuperable obstacle to a uniformity of interests. The protection of these faculties is the first object of government. From the protection of different and unequal faculties of acquiring property, the possession of different degrees and kinds of property immediately results; and from the influence of these on the sentiments and views of the respective proprietors, ensues a division of the society into different interests and parties.... Theoretic politicians, who have patronized this species of government, have erroneously supposed that by reducing mankind to a perfect equality in their political rights, they would, at the same time, be perfectly equalized and assimilated in their possessions, their opinions, and their passion."), and Randy Barnett, "The Constitution and Economic Freedom," January 15, 2019, <https://www.heritage.org/markets-and-finance/event/the-constitution-and-economic-freedom>.
153. "Pericles Funeral Oration," in Thucydides, *The Peloponnesian War*, Section 2.37, <http://perseus.uchicago.edu/perseus-cgi/citequery3.pl?dbn=ame=GreekFeb2011&getid=1&query=Thuc.%202.37> (accessed February 28, 2019) ("If we look to the laws, they afford equal justice to all in their private differences; if no social standing, advancement in public life falls to reputation for capacity, class considerations not being allowed to interfere with merit; nor again does poverty bar the way, if a man is able to serve the state, he is not hindered by the obscurity of his condition.").
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## COMPARING FREE ENTERPRISE AND SOCIALISM

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