

A Theory of Socialism and Capitalism

Mark Thornton

In the wake of the downfall of the Berlin Wall, the breakup of the Soviet Union, and the emergence of capitalism in China, I was asked to teach the comparative economic systems class at Auburn University for the summer term in 1989. My only exposure to the topic had been as an undergraduate student, where my teacher was a Cold-War-era professor who concentrated almost exclusively on the Soviet Union. His implicit message was to fear the Soviet Union, which would soon come to smother the American dream.

My assignment came at the last minute, so there would be no reviewing of textbooks and preparations of lectures in advance. I spent the summer term preparing lectures on the fly and staying one chapter ahead of the students. Also, I had to choose a textbook somehow, even though I wasn't familiar with my options, which meant I didn't know what political punch-line the author would deliver at the end. My unorthodox choice was the recently published *A Theory of Socialism and Capitalism* by Hans-Hermann Hoppe.¹

Mark Thornton (mthornton@mises.org) is a Senior Fellow at the Ludwig von Mises Institute and Book Review Editor of the *Quarterly Journal of Austrian Economics*.

¹Hans-Hermann Hoppe, *A Theory of Socialism and Capitalism: Economics, Politics, and Ethics* (Boston: Kluwer Academic Publishers, 1989).

My first exposure to Hans was at a public lecture he delivered to the economics faculty at Auburn University. As I remember, his topic was the theory of public goods.² His German accent was particularly thick at this time and he read his manuscript as only Hans can – with precision and authority.

Public goods theory was, and largely still is, sacred ground for most economists, and at the time it had not been subjected to many Austrian criticisms. I remember being impressed by Hans's detailed critique, but even more than that, the utter shock and surprise on the faces of the members of the economics departments. When the lecture was completed you could have heard a pin drop. The economics department was largely "free market" and "Austrian friendly," but questioning the validity of public goods theory was apparently a sort of desecration of Holy Scripture. Afterwards, and for several days, I defended Hans and debated his position. I would win over concession after concession in these debates with my professors, but failed to win a single convert.

The book arrived in the bookstore in time for my class, but it looked nothing like a textbook. In fact, the production values of the book were the worst I had ever seen. Neither of these factors mattered to me, but I do note them here to indicate that the deck was stacked against me the first day I walked into class. Plus the class was completely full of students who had little or no interest in comparative economic systems, but simply needed an elective of some type.

To my great surprise, the class went much better than I had hoped and was one of the most gratifying teaching experiences in my career. Free-market-oriented economics students seemed to revel in the complete and utter devastation of socialism that would follow, but even outright socialist students and more unbiased minds appeared to have a certain respect for the material presented in class. Much of the credit for this success I attribute to A

²See Hans-Hermann Hoppe, "Capitalist Production and the Problem of Public Goods," in idem, *A Theory of Socialism and Capitalism*; idem, "Fallacies of the Public Goods Theory and the Production of Security," in idem, *The Economics and Ethics of Private Property: Studies in Political Economy and Philosophy*, 2nd ed. (Auburn, Ala.: Ludwig von Mises Institute, 2006 [1993]).

Theory of Socialism and Capitalism, because more than three-quarters of class time relied specifically on the book.

The success of the book in reaching the students rests first on that fact that it is a theoretical rather than empirical treatise which provides a clear, unambiguous analytical framework to understand any particular economy that a student might face. Second, the book analyzes and debunks, or rather reconstructs, the two major “exceptions” of mainstream economics, monopoly and public goods theory, and therefore presents economic theory as a unified whole. Third, the moral and ethical aspects of economics and economic policy are introduced in an integrated and scientific fashion, and fourth, the book provides an understanding of economic and social change. Although this latter point may not have been a primary aim of the author, it sure was handy to answer questions regarding why socialism was imploding—especially given that most other professors on campus were teaching that socialism and redistributionism of all kinds were the panacea for social ills.

In addition to all these positive traits of the book, long time readers of Professor Hoppe will clearly recognize the consistency of his writings over time. Beginning in the Garden of Eden (so as to highlight the role of scarcity), he proceeds deductively to establish the concepts of property, contract, and aggression, and then to establish the meaning of pure capitalism as a social system based on property and the absence of coercion, while pure socialism is a system based on systemic violence and the absence of property rights. In addition, he shows how each system impacts the personality and prosperity of individuals living in those systems. From beginning to end, his argument is logically deduced and intuitively obvious. Throughout, Hans is always alerting the reader to possible misconceptions and weaknesses that he will address later in the text.

Beginning with the familiar case of Russian-style socialism, capitalism is shown to be superior to an economy run by caretaker-central planners. The absence of opportunity costs for the caretaker inevitably leads to reduced investment, misallocation, and overutilization of capital and labor. Added to this critique is the impact on the personal character and personality of individuals in a socialist society because efficient use of resources and

catering to the consumer are no longer rewarded, and so people gravitate toward “political” action. Hoppe illustrates all this with a brief look at Russian-style economies and the natural experiment of East and West Germany, but modern westerners need only to take a close look at their own governments’ bureaucracies to understand the impact of socialism on character and personality.

Russian-style socialism is the most obvious and recognizable form of socialism, but social-democracy is the most common and dominant form of socialism. Here, the democratic process substitutes for the central authority. Social-democratic socialism allows for some property rights to remain intact, although not immune from attack. It initiates a system of taxation that takes the property of producers and a system of redistribution to enrich non-producers. The system does solve some problems of soviet-style socialism and reduces others, but, in the end, it produces essentially the same type of results.

Conservative socialism is at the opposite end of social-democratic socialism, but both also have many similarities. Social democrats want “change,” while conservatives oppose it. Social democrats want to redistribute property while conservatives want to enforce the status quo and “stay the course.” Conservatives support price controls, regulations including antitrust policies, and behavioral controls like prohibitions. Hoppe shows how the reality of mixed economies and ideologies make empirical examinations complex but that his theoretical framework provides clarity to all conservative socialist systems such as feudalism, monarchies, Nazism, and the Republican Party. All lead to impoverishment just like social-democratic socialism.

Although most economists would not understand all the implications of these various types of socialism, many would now agree with Hoppe that Russian-style socialism is bad and that anything beyond moderate conservative or social democratic socialism is also bad for the economy.

After analyzing these forms of socialism, the book turns to more controversial matters and the case for social engineering, where economists and other academics would prefer to implement only policies that “work” rather than blindly following some ideology. Here, Hans embarks on an all-out onslaught on social engineering and its foundation in positivism. This section

and the following digression on epistemology required extensive class coverage supplemented with examples and illustrations, but it was well worth the investment to undermine the so-called pragmatic notion that we should only implement “what works.” Social engineering, with its scientific veneer, is in reality not scientific at all; in practice it is completely normative, and in the end is extremely dangerous.

The most controversial matter occurs in chapter seven: “The Ethical Justification of Capitalism and Why Socialism is Morally Indefensible,” Hoppe’s intriguing “argumentation ethics” defense of libertarian ethics.³ The students found this interesting for many reasons, but the fact that it was an explicitly argued ethical position was something rather novel for them. I drove home Hans’s core point where he demonstrates the moral superiority of capitalism over socialism in that “one cannot communicate and argue that one cannot communicate and argue” (which, by the way, is contained in a parenthetical statement). Some thought that this was some kind of trick, but most were willing to play along.

With the argument made, I told the students—for effect—that Hoppe’s argument against socialism is completely undermined when you examine collective action that is completely voluntary. For example, Major League Baseball establishes and enforces all sorts of rules on its member teams; family units can adopt Russian-style socialism if they wish; homeowner associations can establish, change and enforce rules on how and when lawns will be mowed and garbage will be collected; fraternities can require that new members be spanked with wooden planks; and entrepreneurs can require that patrons wear shoes or not smoke on their premises. Anything that socialism claims to accomplish can be accomplished with voluntary agreements and much more. One bright, future economist in the class corrected me by pointing out that this really did not undermine Hans’s argument, because it was actually an argument for capitalism. I think the fact that the “American way” is perceived to be more voluntary compared to other societies and

³See also Hoppe, *A Theory of Socialism and Capitalism*, ch. 2, and idem, *The Economics and Ethics of Private Property*, chaps. 11–13, 15, and “Appendix: Four Critical Replies.”

that Hans was just taking volunteerism to its logical extreme helped win over many of the students to our position.⁴

Without efficiency or morality to back it, socialism is then revealed as merely a parasitic state using the carrot of political favors and the stick of violence to live off its host. Ultimately, the state uses propaganda of many forms to sustain an ideology that prevents the host from relieving itself of the parasite, and in class we had a wide-ranging discussion as to propaganda of the U.S. government.⁵ Hoppe notes that the best system for achieving and sustaining the goals of the parasite is democratic-majority rule, which of course would be a major theme of his book *Democracy – The God that Failed*.⁶ Ultimately, the state finds its strength in the immortal words of Franklin Roosevelt – “the only thing we have to fear is fear itself” – meaning everything will be fine as long as we have the state to take care of us.

The last two chapters of the book deal with the problems of monopoly and public goods.⁷ Here, Hans aptly shows that monopoly is not a problem of the free market but is solely a problem of the government’s own creation. He then demolishes the theory of public goods and explains how the market addresses the issues of public goods and externalities. This was all new information to the students, including the economics majors, and I employed several digressions using mainstream literature to back up Hans’s points.

⁴At least none of the students complained to my department chairman or reported me to the dean’s office.

⁵On the state’s use of ideological propaganda, see Hans-Hermann Hoppe, “Banking, Nation States and International Politics: A Sociological Reconstruction of the Present Economic Order,” *Review of Austrian Economics* 4 (1990): 62 *et seq.*; idem, “The Economics and Sociology of Taxation,” in idem, *The Economics and Ethics of Private Property*, pp. 64–65; and idem, “Banking, Nation States, and International Politics: A Sociological Reconstruction of the Present Economic Order,” in idem, *The Economics and Ethics of Private Property*, pp. 86–87.

⁶Hans-Hermann Hoppe, *Democracy – The God that Failed: The Economics and Politics of Monarchy, Democracy, and Natural Order* (New Brunswick, N.J.: Transaction Publishers, 2001).

⁷Hans-Hermann Hoppe, “Capitalist Production and the Problem of Monopoly,” in idem, *A Theory of Socialism and Capitalism*; idem, “Capitalist Production and the Problem of Public Goods.” See also note 2, above.

As I tightened the noose around the neck of the mainstream theories of monopoly and public goods using both deduction and illustrations, the students paid close attention and asked many questions. In the end, I think the students appreciated this new version of economics, where there were no exceptions to the rules of economics and where there was a way in which the moral and ethical implications of economic systems could be analyzed.

The success of the book in reaching my students was based on the fact that it helped explain the turbulent changes that were occurring in the world, such as the fall of the Berlin Wall, the breakup of the Soviet Union, and the acceptance of capitalism in China. In addition, the book presents economic analysis as a unified whole without the exceptions of monopoly and public goods. Furthermore, the book brings a moral and ethical analysis to comparative economic systems that is integrated into the economic analysis itself. In short, *A Theory of Socialism and Capitalism* is a treatise that is a “breath of fresh air” for student and teacher alike.

I believe that my experience supports an important point regarding strategy and the future of Austrian economics. Recall the reaction of my professors to the public lecture given by Hans Hoppe on public-goods theory. They were shocked into denial and beyond any attempt to logically debate the issues raised. Yes, public-goods theory could be criticized on any number of levels, but professional economists could not conceive of abandoning the concept in its entirety. On the other hand, undergraduate students who were probably leery of the concepts of natural monopoly and public-goods theory to begin with were open to Hoppe’s criticisms, and many even accepted them. Indeed, I think that most of the students welcomed the opportunity to be exposed to this radical alternative, with several of them embracing it in its entirety.

The lesson here, I believe, is that Austrian economics should not proceed in a manner solely to gain acceptance among mainstream economists. That is not to say that Austrians should withdraw from debates and not engage with other economists—far from it. Lines of communication and debate should be maintained and discussions about commonalities and disagreements with other schools of economic thought should go forward, as is the great tradition of the Austrian School. However, my experience with students suggests that the most fruitful strategy is to spread

the knowledge of the Austrian School to as wide an audience as possible, particularly amongst those with an open mind. The great practical advantage of the Austrian School is that it is a form of economic analysis that is founded in realism and helps us understand both progress and problems in the real world. Therefore, it is a useful tool for people in the real world, but is of little use, and indeed is a threat, to mainstream academic economists.

One final point I would like to make is that, in 1989 when Hans published *A Theory of Socialism and Capitalism*, every textbook in comparative economic systems was obsolete because of events surrounding the downfall of communism. In contrast, not only was Hans's book timely, but it has proven itself timeless in that it continues, twenty years later, to be as relevant as ever and a classic treatise on the subject. ♪