

The Leiter-Caplan Socialism Debate

Last night, I debated the University of Chicago's Brian Leiter on "Capitalism, Social Democracy, and Socialism" at the University of Wisconsin. Leiter wrote the precise resolution:

"Social democracy is preferable to market capitalism, but ultimately America will need to move towards a socialist system."

Here's my opening statement; I've debated Elizabeth Bruenig and John Marsh this general topic before.

All First World countries are already social democracies. Their governments continue to allow markets to provide most goods and services, but they heavily regulate these markets, heavily subsidize favored sectors like education and health, and heavily redistribute income. The U.S. is moderately less social democratic than France or Sweden, but the idea that we have "market capitalism" while *they* have "social democracy" is hyperbole. If you favor social democracy, you should be happy because your side won long ago: free-market rhetoric notwithstanding, the U.S. has Social Security, Medicare, Medicaid, and public education, and strict regulation of labor markets, construction, and other major industry. My view, however, is that social democracy is a awful mistake. Despite its bad press, market capitalism would be much better than what we have now.

Advocates of social democracy typically claim credit for three major improvements over market capitalism. First, they've used redistribution to greatly reduce poverty. Second, they've used regulation to make markets work better. Third, they've used government funding to provide wonderful services that markets neglect. I say they've greatly overstated their success on all three counts - while conveniently neglecting heavy collateral damage.

Let's start with redistribution. The rhetoric of redistribution revolves around "helping the poor." When you look at redistribution in the real world, however, this is grossly misleading. The U.S. government spends far more on the elderly - most of whom aren't poor - than it spends on actual poverty programs. Programs like Social Security and Medicare are popular because they "help everyone." But "helping everyone" is extremely wasteful because most of the people government helps would have been quite able to take care of themselves. Instead, we absurdly tax everyone to help everyone.

This humanitarian rhetoric rings even more hollow when you examine the most important forms of government regulation. Domestically, nothing does more harm than our

draconian regulation of the construction industry. This regulation, primarily state and local, makes it very hard to build new housing, especially in high-wage places like New York City and the Bay Area. It's hard to build tall buildings. It's hard to build multi-family housing. You have to waste a lot of valuable land; builders put houses on an acre of land because zoning laws force them to do so. The connection between this regulation and exorbitant housing prices is almost undeniable. In lightly-regulated areas of the country like Texas, business supplies ample cheap housing. Anytime someone tells you regulation makes markets work better, just look at San Francisco's housing market for a reality check. And this hardly one tiny failure of regulation; housing absorbs about 40% of the average Americans' budget.

Immigration regulation is an even more egregious failure. The single best way for people around the world to escape poverty is to move to high-productivity countries like the U.S. and get a job. This benefits not only immigrants, but us, because *we're their customers*; the more they sell us, the better-off we are. A hundred years ago, immigration to the U.S. was almost unregulated, giving people all over the world a viable way to work their way out of poverty. Now, in contrast, immigration is very tightly regulated – especially for those most in need. Economists' estimates of the global harm of these regulations sum to tens of trillions of dollars a year, because each immigrant worker vastly enriches the world, and hundreds of millions of workers wish to come. Again, this is the opposite of one tiny failure of regulation.

Finally, what about education, health care, and other sectors that government subsidizes? I say these policies are crowd-pleasing but terribly wasteful. Yes, more educated workers make more money, but the main reason is not that you're learning useful skills. Most of what you study in school is irrelevant in the real world. Degrees mostly pay by convincing employers that you're smarter, harder-working, and more conformist than the competition. That's why there's been severe credential inflation since World War II: the more degrees workers have, the more degrees you need to convince employers not to throw your application in the trash. Pouring money on education is an exercise in futility.

The same goes for health care. Almost every researcher who measures the effect of health care on health agrees that this effect is *much* smaller than the public imagines. Diet, exercise, substance abuse, and other lifestyle choices are much more important for health than access to medicine. But these facts notwithstanding, the government lavishes funding on health care that barely improves our health. If this seems implausible, just compare American life expectancy to Mexico's. Medicare plus Medicaid cost well over a trillion dollars a year, let we only live a year-and-a-half longer.

A reasonable social democrat could object: Fine, actual social democracies cause great harm and waste insane amounts of money. But we can *imagine* a social democracy that limits itself to helping hungry kids and refugees, fighting infectious disease, and other well-

targeted programs for the betterment of humanity. Frankly, abolishing everything except these few programs sounds really close to market capitalism to me... and it also sounds like wishful thinking. In the real world, governments with lots of power and a vague mandate to “help people” reliably do great harm. This is true in the U.S., and it’s true in Sweden. Yes, the Swedes strangle their housing industry too.

Given all this, I predictably deny that “ultimately America will need to move towards a socialist system.” Full-blown socialist systems make social democracy look great by comparison. Indeed, once you draw the distinction between social democracy and socialism, it’s very hard to find any socialist regime that isn’t a tragic, despotic disaster. If Sweden is the jewel of social democracy, what’s the jewel of socialism? Cuba? Nor is there any sign that socialism somehow becomes “more necessary” as countries progress. The main reason governments have gotten bigger over the last thirty years is just the aging of the population.

Finally, let me underscore what I’m not saying. I’m not saying that life in the U.S. or Sweden is terrible. In fact, human beings in both countries enjoy close to the highest quality of life than human beings have ever achieved. My claim, rather, is that even the most successful countries in history could do far better. I know that social democratic policies are emotionally appealing. That’s why they’ve won. Yet objectively speaking, market capitalism should have won because market capitalism offers much better results.