

Irving Kristol

A Capitalist Conception of Justice

Irving Kristol was, for many years, the editor of the conservative journal *The Public Interest*.

It is fashionable these days for social commentators to ask, "Is capitalism compatible with social justice?" I submit that the only appropriate answer is "No." Indeed, this is the only possible answer. The term "social justice" was invented in order *not* to be compatible with capitalism.

What is the difference between "social justice" and plain, unqualified "justice?" Why can't we ask, "Is capitalism compatible with justice?" We can, and were we to do so, we would then have to explore the idea of justice that is peculiar to the capitalist system, because capitalism certainly does have an idea of justice.

"Social justice," however, was invented and propagated by people who were not much interested in understanding capitalism. These were nineteenth-century critics of capitalism—liberals, radicals, socialists—who invented the term in order to insinuate into the argument a quite different conception of the good society from the one proposed by liberal capitalism. As it is used today, the term has an irredeemably egalitarian and authoritarian thrust. Since capitalism as a socioeconomic or political system is neither egalitarian nor authoritarian, it is in truth incompatible with "social justice."

Let us first address the issue of egalitarianism. In a liberal or democratic capitalist society there is, indeed, a connection between justice and equality. Equality before the law and equality of political rights are fundamental to a liberal capitalist system and, in historical fact, the ideological Founding Fathers of liberal capitalism all did believe in equality before the law and in some form of equality of political rights. The introduction of the term "social

justice" represents an effort to stretch the idea of justice that is compatible with capitalism to cover *economic* equality as well. Proponents of something called "social justice" would persuade us that economic equality is as much a right as are equality before the law and equality of political rights. As a matter of fact, these proponents move in an egalitarian direction so formidably that inevitably *all* differences are seen sooner or later to be unjust. Differences between men and women, differences between parents and children, differences between human beings and animals—all of these, as we have seen in the last ten or fifteen years, become questionable and controversial.

A person who believes in "social justice" is an egalitarian. I do not say that he or she necessarily believes in perfect equality; I do not think anyone believes in perfect equality. But "social justice" advocates are terribly interested in far more equality than a capitalist system is likely to deliver. Capitalism delivers many good things but, on the whole, economic equality is not one of them. It has never pretended to deliver economic equality. Rather, capitalism has always stood for equality of economic opportunity, reasonably understood to mean the absence of official barriers to economic opportunity.

We are now in an egalitarian age when Harvard professors write books wondering whether there is a problem of "social justice" if some people are born of handsome parents and are therefore more attractive than others. This is seriously discussed in Cambridge and in other learned circles. Capitalism is not interested in that. Capitalism says there ought to be no *official* barriers to economic opportunity. If one is born of handsome or talented parents, if one inherits a musical skill, or mathematical skill, or whatever, that is simply good luck. No one can

question the person's right to the fruits of such skills. Capitalism believes that, through equal opportunity, each individual will pursue his happiness as he defines it, and as far as his natural assets (plus luck, good or bad) will permit. In pursuit of that happiness everyone will, to use that familiar phrase of Adam Smith, "better his condition."

Thus, capitalism says that equal opportunity will result in everyone's bettering his or her condition. And it does. The history of the world over the past 200 years shows that capitalism did indeed permit and encourage ordinary men and women in the pursuit of their happiness to improve their condition. Even Marx did not deny this. We are not as poor as our grandparents. We are all better off because individuals in pursuit of happiness, and without barriers being put in their way, are very creative, innovative, and adept at finding ways for societies to be more productive, thereby creating more wealth in which everyone shares.

Now, although individuals do better their condition under capitalism, they do not better their conditions equally. In the pursuit of happiness, some will be more successful than others. Some will end up with more than others. Everyone will end up with *somewhat* more than he had—everyone. But some people will end up with a lot more than they had and some with a little more than they had. Capitalism does not perceive this as a problem. It is assumed that since everyone gets more, everyone ought to be content. If some people get more than others, the reason is to be found in their differential contributions to the economy. In a capitalist system, where the market predominates in economic decision making, people who—in whatever way—make different productive inputs into the economy receive different rewards. If one's input into the economy is great, one receives a large reward; if one's input is small, one receives a modest reward. The determination of these rewards is by public preferences and public tastes as expressed in the market. If the public wants basketball players to make \$400,000 a year, then those who are good at basketball can become very, very rich. If the public wants to purchase certain paintings for \$1 million or \$2 million, then certain artists can

become very, very rich. On the other hand, croquet players, even brilliant croquet players, won't better their condition to the same degree. And those who have no particular skill had better be lucky.

This is the way the system works. It rewards people in terms of their contribution to the economy as measured and defined by the marketplace—namely, in terms of the free preferences of individual men and women who have money in their pockets and are free to spend it or not on this, that, or the other as they please. Economic justice under capitalism means the differential reward to individuals is based on their productive input *to the economy*. I emphasize "to the economy" because input is measured by the marketplace.

Is it "just" that Mr. Ray Kroc, chairman of the board of McDonald's, should have made so much money by merely figuring out a new way of selling hamburgers? They are the same old hamburgers, just better made, better marketed. Is it fair? Capitalism says it is fair. He is selling a good product; people want it; it is fair. It is "just" that he has made so much money.

However, capitalism doesn't say only that. It also understands that it is an exaggeration to say that literally *everyone* betters his condition when rewards are based on productive input. There are some people who are really not capable of taking part in the race at all because of mental illness, physical illness, bad luck, and so on. Such persons are simply not able to take advantage of the opportunity that does exist.

Capitalism as originally conceived by Adam Smith was not nearly so heartless a system as it presented itself during the nineteenth century. Adam Smith didn't say that people who could make no productive input into the economy through no fault of their own should be permitted to starve to death. Though not a believer, he was enough of a Christian to know that such a conclusion was not consistent with the virtue of charity. He understood that such people had to be provided for. There has never been any question of that. Adam Smith wrote two books. The book that first made him famous was not *The Wealth of Nations* but *The Theory of Moral Sentiments*, in which he said that the highest human sentiment is sympathy—the

sympathy that men and women have for one another as human beings. Although *The Wealth of Nations* is an analysis of an economic system based on self-interest, Adam Smith never believed for a moment that human beings were strictly economic men or women. It took some later generations of economists to come up with that idea. Adam Smith understood that people live in a society, not just in an economy, and that they feel a sense of social obligation to one another, as well as a sense of engaging in mutually satisfactory economic transactions.

In both these books, but especially in *The Theory of Moral Sentiments*, Adam Smith addressed himself to the question, "What do the rich do with their money once they get it?" His answer was that they reinvest some of it so that society as a whole will become wealthier and everyone will continue to be able to improve his or her condition to some degree. Also, however, the rich will engage in one of the great pleasures that wealth affords: the expression of sympathy for one's fellow human beings. Smith said that the people who have money can only consume so much. What are they going to do with the money aside from what they consume and reinvest? They will use it in such a way as to gain a good reputation among their fellow citizens. He said this will be the natural way for wealthy people to behave under capitalism. Perhaps he was thinking primarily of Scotsmen. Still, his perceptiveness is interesting. Although capitalism has long been accused of being an inhumane system, we forget that capitalism and humanitarianism entered the modern world together. Name a modern, humane movement—criminal reform, decent treatment of women, kindness to animals, etc. Where does it originate? They all came from the rising bourgeoisie at the end of the eighteenth century. They were all middle-class movements. The movements didn't begin with peasants or aristocrats. Peasants were always cruel to animals and aristocrats could not care less about animals, or about wives, for that matter. It was the bourgeoisie, the capitalist middle class, that said animals should be treated with consideration, that criminals should not be tortured, that prisons should be places of punishment, yes, but humane places of punishment. It was the generation that helped establish the capitalist

idea and the capitalist way of thinking in the world that brought these movements to life. Incidentally, the anti-slavery movement was also founded by middle-class men and women who had a sense of social responsibility toward their fellow citizens.

So it is simply and wholly untrue that capitalism is a harsh, vindictive, soulless system. A man like Adam Smith would never have dreamed of recommending such a system. No, he recommended the economic relations which constitute the market system, the capitalist system, on the assumption that human beings would continue to recognize their social obligations to one another and act upon this recognition with some degree of consistency. Incidentally, he even seems to have believed in a progressive income tax.

However, something very peculiar happened after Adam Smith. Something very odd and very bad happened to the idea of capitalism and its reputation after the first generation of capitalism's intellectual Founding Fathers. The economics of capitalism became a "dismal science." One cannot read *The Wealth of Nations* and have any sense that economics is a dismal science. It is an inquiry into the causes of the wealth of nations that tells people how to get rich. It says, "If you organize your economic activities this way, everyone will get richer." There is nothing pessimistic about that, nothing dismal about that. It was an exhilarating message to the world.

Unfortunately, what gave capitalism a bad name in the early part of the nineteenth century was not the socialist's criticism of capitalism but, I fear, the work of the later capitalist economists. We do not even have a really good intellectual history of this episode because people who write histories of economic thought tend not to be interested in intellectual history, but in economics. For some reason, Malthus and then Ricardo decided that capitalist economics should not deal with the production of wealth but rather with its distribution. Adam Smith had said everyone could improve his condition. Malthus said the situation was hopeless, at least for the lower classes. If the lower classes improved their condition, he argued, they would start breeding like rabbits and shortly they would be right back where they started. Ricardo came along and said that the

expanding population could not all be fed because there is a shortage of fertile land in the world. In his view, the condition of the working class over the long term was unimprovable.

This was the condition of capitalist economics for most of the nineteenth century. It is a most extraordinary and paradoxical episode in modern intellectual history. Throughout the nineteenth century, ordinary men and women, the masses, the working class, were clearly improving their condition. There is just no question that the working classes in England were better off in 1860 than they had been in 1810. In the United States there was never any such question and in France, too, it was quite clear that the system was working as Adam Smith had said it would. Yet all the economists of the School of Malthus and Ricardo kept saying, "It cannot happen. Sorry, people, but you're doomed to live in misery. There is nothing we can do about it. Just have fewer children and exercise continence." To which the people said, "Thank you very much. We do not much like this system you are recommending to us," as well they might not.

When the possibility of helping the average man and woman through economic growth is rejected loudly and dogmatically by the leading economists of the day, many will believe it. When they conclude that their condition cannot be improved by economic growth, they will seek to improve it by redistribution, by taking it away from others who have more. It is nineteenth-century capitalist economic thought, with its incredible emphasis on the impossibility of improving the condition of the working class—even as the improvement was obviously taking place—that gave great popularity and plausibility to the socialist critique of capitalism and to the redistributionist impulse that began to emerge. This impulse, which is still so appealing, makes no sense. A nation can redistribute to its heart's content and it will not affect the average person one bit. There just isn't ever enough to redistribute. Nevertheless, once it became "clear" in the nineteenth century that there was no other way, redistribution became a very popular subject.

Because capitalism after Adam Smith seemed to be associated with a hopeless view of the world, it provoked egalitarian impulses. Is it not a natural

human sentiment to argue that, if we're all in a hopeless condition, we should be hopeless equally? Let us go down together. If that indeed is our condition, equality becomes a genuine virtue. Egalitarianism became such a plausible view of the world because capitalist apologists, for reasons which I do not understand, kept insisting that this is the nature of capitalism. Those who talk about "social justice" these days do not say that the income tax should be revised so that the rich people will get more, although there may be an economic case for it. (I am not saying there is, even though there might be.) "Social justice," the term, the idea, is intimately wedded to the notion of egalitarianism as a proper aim of social and economic policy, and capitalism is criticized as lacking in "social justice" because it does not achieve this equality. In fact, it does not, cannot, and never promised to achieve this result.

However, I think the more important thrust of the term "social justice" has to do with its authoritarian meaning rather than its egalitarian meaning. The term "social" prefixed before the word "justice" has a purpose and an effect which is to abolish the distinction between the public and the private sectors, a distinction which is absolutely crucial for a liberal society. It is the very definition of a liberal society that there be a public sector and a large, private sector where people can do what they want without government bothering them. What is a "social problem?" Is a social problem something that government can ignore? Would anyone say we have a social problem but it is not the business of government? Of course not.

The term "social justice" exists in order to identify those issues about which government should get active. A social problem is a problem that gives rise to a governmental policy, which is why people who believe in the expansion of the public sector are always inventing, discovering, or defining more and more social problems in our world. The world has not become any more problematic than it ever was. The proliferation of things called "social problems" arises out of an effort to get government more and more deeply involved in the lives of private citizens in an attempt to "cope with" or "solve" these "problems." Sometimes real problems are posed. Rarely are they followed by real solutions.

Occupy Wall Street

Annie Lowrey

The protesters say the top 1 percent of Americans have gotten too rich. Are they right?

It is not easy to say just what Occupy Wall Street wants; there is no concise list of specific demands. But the gist of the quickly snowballing movement is clear. Wall Street has not accepted responsibility for its role in the financial crisis and ensuing recession. It has done more harm than good for average citizens and businesses. On top of all that, average Americans are “getting nothing while the other 1 percent is getting everything. We are the 99 percent.”

One thing is inarguably true: The 99 percent don't have 99 percent of anything, money-wise, in the United States. But just how bad is the skew toward the top 1 percent?

Let's start with income—the money you make from things like wages, salary, interest payments, and collected rent. According to an analysis (XLS) of Internal Revenue Service data by the economists Thomas Piketty and Emmanuel Saez, the 99 percent account for 79 percent of income in 2008, with the top 1 percent taking the other 21 percent.

“That's not that bad,” you might say. “Of course, some people are going to be richer than others.” Perhaps. But the 1 percent has been eating a bigger and bigger share of the pie over time. Back in the 1970s, the 99 percent were earning about 90 percent of income, for instance. The top 1 percent of households took a bigger share of overall income in 2007 than they did at any time since 1928.

The 1 percent's income did take a knock during the Great Recession: It dropped 20 percent, whereas the 99 percent took a 7 percent hit. But that mostly was caused by the stock market crash and falling capital-gains earnings among the rich, not by salary cuts.

The 99 percent's fortunes look even worse if you focus on wealth, rather than income—the total value of a household or individual's assets, such their house and their investment funds. According to data compiled by economist Edward Wolff (PDF), in 2007, the 99 percent held about two-thirds of American wealth, meaning the top 1 percent has nearly one-third.

The sustained woes of the housing market may skew those numbers even further in the coming years, because the 99 percent rely on homes for a bigger proportion of their wealth than the 1 percent do. Before the crash, the middle of the income distribution had about 90 percent of their assets in their homes. Housing prices have cratered across the country. That means trillions in lost housing value and a hefty debt burden for underwater homeowners to boot.

The 1 percent has about 43 percent of all the non housing wealth, which has held up comparatively better. Sociologist William Domhoff reports that the 99 percent hold just 38 percent of equity in businesses, 40 percent of financial securities, and 62 percent of stocks and mutual funds. Among the 99 percent, about one in three households has more than \$10,000 in stock. Among the 1 percent, nearly nine in 10 households do.

In short, inequality has increased in the past decade, leaving the 99 percent with smaller and smaller proportions of income and wealth. And it has many economists, public policy wonks, and, well, protesters very, very worried. As put by Nobel laureate Joseph Stiglitz,

“growing inequality is the flip side of something else: shrinking opportunity. Whenever we diminish equality of opportunity, it means that we are not using some of our most valuable assets—our people—in the most productive way possible.”

Whether Occupy Wall Street can help to rectify that imbalance—who knows. But there is certainly value in at least making sure Americans know just how unequal the country is.

From Slate.com.

The idea of “social justice,” however, assumes not only that government will intervene but that government will have, should have, and can have an authoritative knowledge as to what everyone merits or deserves in terms of the distribution of income and wealth. After all, if we do not like the inequality that results from the operation of the market, then who is going to make the decision as to the distribution of services and wealth? Some authority must be found to say so-and-so deserves more than so-and-so. Of course, the only possible such authority in the modern world is not the Church but the State. To the degree that one defines “social justice” as a kind of protest against the capitalist distribution of income, one proposes some other mechanism for the distribution of income. Government is the only other mechanism that can make the decisions as to who gets what, as to what he or she “deserves,” for whatever reason.

The assumption that the government is able to make such decisions wisely, and therefore that government should make such decisions, violates the very premises of a liberal community. A liberal community exists on the premise that there is no such authority. If there were an authority which knew what everyone merited and could allocate it fairly, why would we need freedom? There would be no point in freedom. Let the authority do its work. Now, we have seen the experience of non-liberal societies, and not all of it is bad. I would not pretend that a liberal society is the only possible good society. If one likes the values of a particular non-liberal society, it may not be bad at all. There are

many non-liberal societies I admire: monas are non-liberal societies, and I do not say the bad societies. They are pretty good societies they are not liberal societies. The monk has no for liberty if he believes there is someone else superior, who knows what is good for him and reward he merits.

Once we assume that there is a superior authority who has authoritative knowledge of the common good and of the merits and demerits of individual, the ground of a liberal society is away, because the very freedoms that subsist thrive in a liberal society all assume that there is no such authoritative knowledge. Now, that assumption is not *necessarily* true. Maybe there is someone who really does have an authoritative knowledge of what is good for all of us and how much we all merit. We who choose a liberal society are skeptical as to the possibility. In any case, I think it is more likely that there will be ten people all claiming to have different versions of what is good for all of us and what we should all get. Therefore we choose to let the market settle it in an amicable way of not getting involved in endless philosophical or religious arguments about the nature of the true, the good, and the beautiful.

The notion of a “just society” existing on earth is a fantasy, a utopian fantasy. That is not what on earth is like. The reason is that the world is full of other people who are different from you and me, alas, and we have to live with them. If they all like us, we would live fine; but they are not like us, and the point of a liberal society and

market economy is to accept this difference and say, "Okay, you be you and I'll be I. We'll disagree, but we'll do business together. We'll mutually profit from doing business together, and we'll live not necessarily in friendship but at least in civility with one another."

I am not saying that capitalism is a just society. I am saying that there is a capitalist conception of justice which is a workable conception of justice. Anyone who promises you a just society on this earth is a fraud and a charlatan. I believe that this is not the nature of human destiny. It would mean that we all would be happy. Life is not like that. Life is doomed not to be like that. But if you do not accept this view, and if you really think that life can indeed be radically different from what it is, if you really believe that justice can prevail on earth, then you are likely to start taking phrases like "social justice" very seriously and to think that the function of politics is to rid the world of its evils: to abolish war, to abolish poverty, to abolish discrimination, to abolish envy, to abolish, abolish, abolish. We are not going to abolish any of those things. If we push them out one window, they will come in through another window in some unforeseen form. The reforms of

today give rise to the evils of tomorrow. That is the history of the human race.

If one can be somewhat stoical about this circumstance, the basic precondition of social life, capitalism becomes much more tolerable. However, if one is not stoical about it, if one demands more of life than life can give, then capitalism is certainly the wrong system because capitalism does not promise that much and does not give you that much. All it gives is a greater abundance of material goods and a great deal of freedom to cope with the problems of the human condition on your own.

QUESTIONS

1. What is the difference between social justice and plain, unqualified justice?
2. Is Adam Smith's understanding of capitalism harsh and "soulless"? What makes Smith's understanding of capitalism more humane than some other versions of capitalism?
3. Plato said that "No one should make more than five times the income of an average worker." Recent business leaders have made similar recommendations. What would Adam Smith have said?

Friedrich von Hayek

Justice Ruins the Market

Friedrich von Hayek was a classic neoconservative and a staunch defender of the unfettered, unregulated market. This is from his book, *The Road to Serfdom*.

THE IMMORAL CONSEQUENCES OF MORALLY INSPIRED EFFORTS

Though in the long perspective of Western civilization the history of law is a history of a gradual

emergence of rules of just conduct capable of universal application, its development during the last hundred years has become increasingly one of the destruction of justice by "social justice," until even some students of jurisprudence have lost sight of the original meaning of "justice." We have seen how the process has mainly taken the form of a replacement of the rules of just conduct by those rules of organization which we call public law (a "subordinating law"), a distinction which some socialist lawyers are

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