



Nations in the top quartile for economic freedom have an average GDP per capita of \$US36,770 (\$53,695). For those in the bottom quartile, it's \$US6140. People in the free economies have a life expectancy of 79.4 years. Those in the planned economies have a life expectancy of 65.2 years.

Over the past century, planned economies have produced an enormous amount of poverty and scarcity. What's worse is what happens when the political elites learn what you can do with that scarcity. They turn scarcity into corruption. When things are scarce, you have to bribe government officials to get them. Soon, everybody is bribing. Citizens soon realise the whole system is a fraud. Socialism produces economic and political inequality as the rulers turn into gangsters. A system that begins in high idealism ends in corruption, dishonesty, oppression and distrust.

I learned the ills of socialism quickly ... and became a Whig slowly.

The only reason Scandinavian nations can afford to have generous welfare states is they also have very free markets.

My first economic hero is Alexander Hamilton. He came to America with almost nothing and found an economy dominated by land-rich oligarchs like Thomas Jefferson. He realised that the solution was to make everyone a capitalist. He created credit markets so that capital would be fluid and more people would have access to investments.

My next hero is Abraham Lincoln. He grew up poor and launched his career as a Whig. He gave more speeches on banking and infrastructure projects than on slavery. That's because he wanted to spread capital and grease the wheels of commerce so poor boys and girls like him could rise. He helped create the land grant colleges so that more people would have the training to compete as capitalists.

Another major American figure in the Whig tradition is Theodore Roosevelt. He loved the dynamism that capitalism arouses and knew that sometimes you have to limit giant corporations so millions of less established capitalists can compete.

All of these leaders understood that the answer to the problems of capitalism is wider and fairer capitalism.

Today, parts of our capitalist system in the US are in good shape. Growth is remarkably steady, inflation is low, employment is high, wages for the poorest Americans are rising twice as fast as for high-wage workers.

But capitalism, like all human systems, is always unbalanced one way or another. Over the past generation, capitalism has produced the greatest reduction in global income inequality in history. The downside is that low-skill workers in the US are now competing with workers in Vietnam, India and Malaysia. The reduction of inequality among nations has led to the increase of inequality within rich nations.

Also, education levels have not kept pace with technology. More people grow up with inadequate schools, disrupted families and fragmented neighbourhoods. They find it harder to acquire the skills to become good capitalists. The market is effectively closed off to them.

These problems are not signs that capitalism is broken. They are signs that we need more and better capitalism. We need a massive infusion of money and reform into our education systems, from infancy through life. Human capital-building is like nutrition: it's something you have to attend to every day. We need welfare programs that not only subsidise poor people's consumption but also subsidise their capacity to produce.

We need worker co-ops, which build skills and represent labour at the negotiating table. We need wage subsidies and mobility subsidies, so people can afford to move to opportunity. We need tax subsidies for healthcare, to make it easier for people to switch jobs. We need a higher earned-income tax credit, to give the working poor

ONCE A SOCIALIST, UNTIL REALITY BIT

Ideology The world is too complicated to be planned by socialists. But we still need a fairer capitalism in order to help millions more to be lifted from poverty, writes David Brooks.

I was a socialist in college. I read magazines like *The Nation* and old issues of *The New Masses*. I dreamed of being the next Clifford Odets, a leftist playwright who was always trying to raise proletarian class consciousness. If you go on YouTube and search "David Brooks Milton Friedman", you can see a 22-year-old socialist me debating the great economist. I'm the one with the bushy hair and the giant 1980s glasses that were apparently on loan from the Palomar lunar observatory.

The best version of socialism is defined by Michael Walzer's phrase, "what touches all should be decided by all". The great economic enterprises should be owned by all of us in common. Decisions should be based on what benefits all, not the maximisation of profit.

That's not what "democratic socialists" like Bernie Sanders are talking about, but I get why some of their socialist concerns are popular. Why do we have to live with such poverty and inequality? Why can't we put people over profits? What is the best life in the most just society? Socialism is the most compelling secular religion of all time. It gives you an egalitarian ideal to sacrifice and live for.

My socialist sympathies didn't survive long once I became a journalist. I quickly noticed that the government officials I was covering were not capable of planning the society they hoped to create. It wasn't because they were bad or stupid. The world is just too complicated.

I came to realise that capitalism is really good at doing the one thing socialism is really bad at: creating a learning process to help people figure stuff out. If you want to run a rental car company, capitalism has a whole bevy of market and price signals and feedback loops that tell you what kind of cars people want to rent, where to put your locations, how many cars to order. It has a competitive profit-driven process to moti-



ate you to learn and innovate, every single day.

Socialist planned economies — the common ownership of the means of production — interfere with price and other market signals in a million ways. They suppress or eliminate profit motives that drive people to learn and improve.

It doesn't matter how big your computers are, the socialist can never gather all relevant data, can never construct the right feedback loops. The state cannot even see the local, irregular, context-driven factors that can have exponential effects. But the state cannot predict people's desires, which sometimes change on a whim. Capitalism creates a relentless learning system. Socialism doesn't.

The sorts of knowledge that capitalism produces are often not profound, like how to design the best headphone. But that kind of knowledge does produce enormous wealth. Human living standards were pretty much flat for all of human history until capitalism kicked in. Since then, the number of goods and services available to average people has risen by up to 10,000 per cent.

If you've been around a little while, you've noticed that capitalism has brought about



Top: prosperous Copenhagen relies on the prosperity of the market economy, as do all the Scandinavian countries.

Above from left: capitalist heroes Theodore Roosevelt, and Alexander Hamilton. PHOTOS: GETTY

the greatest reduction of poverty in human history. In 1981, 42 per cent of the world lived in extreme poverty. Now, it's around 10 per cent. More than 1 billion people have been lifted out of poverty.

You've noticed that places that instituted market reforms, like South Korea and Deng Xiaoping's China, tended to get richer and prouder. Places that moved towards socialism — Britain in the 1970s, Venezuela more recently — tended to get poorer and more miserable.

You've noticed that the environment is much better in capitalist nations than in planned economies. The United States' GDP has more than doubled since 1970, but energy consumption has risen only modestly. America's per capita carbon emissions hit a 67-year low in 2017. The greatest environmental degradations are committed by planned systems like the old Soviet Union and communist China.

The Fraser Institute is a free market think tank that ranks nations according to things free market think tanks like: less regulation, free trade, secure property rights. The freest economies in the world are places like Hong Kong, the US, Canada, Ireland, Latvia, Denmark, Mauritius, Malta and Finland.



Poor and miserable: A corrupt form of socialism has all but ruined Venezuela.

financial security so they don't get swept away amid the creative destruction. We need a carbon tax, to give everyone an incentive to reduce carbon emissions without pretending we know the best way to do it.

Every single idea I just mentioned comes from the American Enterprise Institute or Brookings or some other institution derided as being part of the neoliberal elite. All these ideas would make capitalism work better.

A big mistake those of us on the conservative side made was to think that anything that made the government bigger also made the market less dynamic. We failed to distinguish between the supportive state and the regulatory state. The supportive state makes better and more secure capitalists. The Scandinavian nations have very supportive welfare states. They also have very free markets. The only reason they can afford to have generous welfare states is they also have very free markets.

I don't know if the Scandinavian welfare model would work in nations as big and diverse as the US. But its success points to a few truths: The state nurtures prosperity when it helps people become capitalists. The state causes incredible levels of misery when it gets too far inside the decision-making processes of capitalists. It creates enormous misery when it cripples the motivational system that drives capitalism. It causes enormous misery when it meddles with the relentless learning system that market mechanisms make possible.

Capitalism is not a religion. It won't save your soul or fulfil the yearnings of your heart. But somehow it will arouse your energies, it will lift your sights, it will put you on a lifelong learning journey to know, to improve, to dare and to dare again.

Last Sunday I attended a service with a young friend at a church that has quickly become a home for her. There were several hundred congregants — 90 per cent were under 30 years of age; 90 per cent were Latino. The service was two hours of joy and exultation — glow sticks and song and balloons.

They weren't worshipping capitalism, but something higher. But still their work lives came into view. "Look how far we've come! Look how far we've come!" different people kept saying. I saw my own family's Jewish immigration history being re-enacted right in front of me.

We, like they, started out as butchers and seamstresses and tailors, self-employed capitalists because it can be hard for immigrants to get corporate jobs. The opportunity explosion my family experienced and your family probably experienced is happening still, made possible by the ever-expanding pie that capitalism provides.

The theme that day was hope, transcendent hope and more immediate hope. "Move and miracles happen!" a young Latina woman sang. Every year, hundreds of millions of people march with their feet to capitalism.

Today, the real argument is not between capitalism and socialism. We ran that social experiment for 100 years and capitalism won. It's between a version of democratic capitalism, found in the US, Canada and Denmark, and forms of authoritarian capitalism, found in China and Russia. Our job is to make it the widest and fairest version of capitalism it can possibly be. **AFR**

THE NEW YORK TIMES

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