

HOW (SOME) SOCIALISTS  
BECOME CAPITALISTS: THE CASES OF  
THREE PROMINENT INTELLECTUALS

*ABSTRACT: Three prominent economists born early in the twentieth century—James Buchanan, Jack Hirshleifer, and Simon Rottenberg—switched from a belief in socialism in their twenties or thirties to strong support for free markets. Interviews show that for all three, and especially for Buchanan and Rottenberg, what changed them is what they learned in their economics classes. For Hirshleifer, another major influence was the pact between Hitler and Stalin, which caused him to be more skeptical about leftist ideas and made him more open to intellectual criticisms of socialism.*

Before they became free-marketeers, many of today's most prominent economists would have been horrified at the idea of such a "conversion." They believed, essentially, that capitalism was evil: a system that, fueled by greed, brought poverty and suffering to the many. Detailed interviews with free-market economists discloses not only that they were often far to the left originally, but that they have in common similar reasons for abandoning their original worldviews.

---

*Critical Review* 13 (1999), nos. 3–4 . ISSN 0891–3811. © 2000 Critical Review Foundation.

David R. Henderson, associate professor of economics at the Naval Postgraduate School in Monterey, California and research fellow with the Hoover Institution, Stanford University, the editor of *The Fortune Encyclopedia of Economics* (Warner, 1993), 484 Washington St., Suite B-346, Monterey, CA 93940, telephone (831) 648-1776, telefax (413) 521-5719, e-mail <drhend@mbay.net>, web site: [www.davidrhenderson.com](http://www.davidrhenderson.com), acknowledges James Buchanan, Simon Rottenberg, and Jack Hirshleifer for their willingness to be interviewed.

*Good-Hearted Socialists*

In the 1930s, during and after the Great Depression, the vast majority of U.S. intellectuals were or became socialists. This was especially true of Jewish intellectuals, many of whom formed the intellectual core of the U.S. Communist Party, and was even more true of Jewish intellectuals in and around New York. In a recent interview, UCLA economist Jack Hirshleifer, who, in 1925, was born into a Jewish family in Brooklyn, put it as follows:

In this particular period [the late 1930s and early 1940s], New York Jewish intellectuals were all socialists. If you were a good-hearted person and you were an intellectual, you were a socialist. There were many people who were not socialist because [pause] they were just not interested in intellectual matters, or they were cynical, didn't have good hearts [laughs], and the like. But the idea that there might be some *intellectual* objection to socialism [shakes his head]—I don't think I ever encountered that. It just never crossed my path, intellectually speaking, in spite of very broad and miscellaneous reading on my part. . . . I genuinely never, ever encountered anything that would run opposite to the trend of the time. (Henderson 1998c, 8:00)

Hirshleifer, who became an intellectual very early in his life, became at the same time a committed socialist. He read widely on socialism as well as other topics, and was quite familiar with socialist literature by age 14.

A second prominent free-market economist, Simon Rottenberg, had a somewhat similar experience. His father was, in Rottenberg's words, a "right-wing socialist," that is, a socialist who rejected Soviet totalitarianism because the USSR's government was antidemocratic and suppressed freedom of speech and other traditional civil liberties. Rottenberg, who was born in 1916, joined the Young People's Socialist League while working as a messenger in the U.S. Department of Agriculture between 1934 and 1937.

I was a member of the Young People's Socialist League in Washington. . . . [My father] was critical of me because I was a member of the Young People's Socialist League at a time when the Socialist Party, with which the Young People's Socialist League was affiliated, was, in fact, engaging in alliances with the Communist Party. (Henderson 1999b, 2:00)

The winner of the 1986 Nobel prize in economic science, James M. Buchanan, came to his socialism from a very different background.

Born in 1919, Buchanan grew up on a farm in rural Tennessee. His grandfather, James Buchanan, had been a populist Tennessee politician in the nineteenth century. Says Buchanan:

My grandfather was governor of Tennessee on this populist ticket. At that time, that was anti—the Wall Street barons, anti—the rich. And I read all these pamphlets in the old house I grew up in. That was my main reading as a kid—all these propaganda pamphlets. You can't say they don't have influence on you. They do. (Henderson 1998a, 30:00)

In 1940, Buchanan earned an undergraduate degree from Middle Tennessee State Teachers College; by 1941, he also had a master's degree in economics from the University of Tennessee (Buchanan 1997, 181). Although he considered himself an economist, by his own admission he had not really learned much economics. He writes:

By the academic counters, I took courses labeled “economics,” and I made good grades. But as I have noted, however, I learned little or no economics in my preferred definition during that Knoxville year. I surveyed the workings and structures of the institutions of Roosevelt's New Deal; I came to understand central banking theory and policy; I learned something about taxation and budgeting processes; I learned a bit of elementary statistics, especially in practice. But neither in these courses nor in my prior undergraduate experience did I have proper exposure to the central principle of market organization. I remained blissfully ignorant of the coordinating properties of a decentralized market process. (Buchanan 1992, 167)

In August 1941, four months before Pearl Harbor, Buchanan was drafted into the U.S. Navy (Buchanan 1992, 3). He recounts that he

came into the Navy from this Tennessee background, with, I think, a lot of my generation, with sort of a mild socialistic view of the world, I guess a social democrat view of the world, populist background. (Henderson 1998a, 4:00)

Buchanan explains that this worldview was “not so much pro-government as it was anti-big business, anti-Wall Street, anti—the tycoons, anti—the Rockefellers, anti—the rich” (ibid.).

Direct experience with one of the Rockefellers strongly buttressed Buchanan's anti-rich tendencies. As Buchanan put it:

I had those prejudices strongly reinforced in naval training school, officer training school in New York. . . . After we had been there a few weeks and done boot-camp kind of stuff, they selected cadet officers—midshipman officers, they called them. And despite the fact that most of us were from the South and West, and only a few of us from the Eastern establishment schools, they picked 11 out of 12 of the midshipman officers from Yale, Princeton, or Harvard. That was clear overt prejudice against the rest of us. . . . They divided us by alphabet and I was in the company where they had the As and Bs and Cs. There happened to be no Eastern establishment boys in that particular alphabet and there were lots of them down in the Rs and Ts and Ss. And so they actually imported Bill Rockefeller to be the head of our company because we didn't have one from the right background. . . . I think it was Nelson's first cousin. . . . He turned out to be a fine fellow. But it was just the prejudice of putting them in. I didn't know anything about statistical discrimination, and it made some sense, from their point of view, to pick someone from Yale would on average be better than someone from Middle Tennessee. But on the other hand that came home to us as control by the Eastern establishment, and that reinforced my prejudices. (Henderson 1998a, 4:30)

All three of these future free-marketeters started out as anticapitalists of various types. What changed their minds?

### *Shifting from the Left*

The experiences of the three economists differed. First, consider Hirshleifer. When he was about 16 years old, he

did have the good luck of encountering something not anti-socialist but anti-communist. There's been really such a cover-up on the influence of Communism on the intellectuals. The question of the Soviet Union—was the Soviet Union paradise on earth?—that was the big dividing line. Everybody was a socialist but some people were for the Soviet Union, and, really, they were the only organized ones. So those of a skeptical turn of mind didn't question socialism but they questioned whether the Soviet Union was really as wonderful a place as was advertised. There were various influences upon me that I encountered that, after a while, at least made me immune to the attraction of Communism. I learned that it was all a lie, and I think this probably led to me questioning even the socialist idea. . . . By that time, I'd been debating politics for years in high school—that's what we did. (Henderson 1998c, 11:00)

One of the big events that affected Hirschleifer's views was the Nazi-Soviet pact:

I still remember, for example, the *shock* of the Nazi-Soviet pact. . . . I would have been 14, and, of course, at that time I was still somewhat open-minded, at least open to the idea that the Soviet Union was a wonderful place and all that, and then that they would sign this treaty with the Nazis was just a tremendous shock. By that time, I was already "sophisticated," that is to say, I was very, very aware of the political significance of what was going on. . . . And, of course, then the Communists said, "Yeah, but Stalin's only playing a trick on Hitler, you know, and when the time comes he will oppose Hitler." Which, of course, did happen, but only on Hitler's initiative, not on Stalin's. (Ibid.)

During World War II, Hirschleifer joined the Navy in a special program that allowed him to get an undergraduate degree from Harvard. At Harvard, he took courses from Joseph Schumpeter, Wassily Leontieff, Gottfried Haberler, and Alvin Hansen.

Gottfried Haberler [was] perhaps the first classical liberal economist that I encountered in person. . . . I think that was the first time I realized that there were theoretical reasons to object to socialism. (Ibid.)

What were the specific sources of Hirschleifer's theoretical objections to socialism? Questioned about this, he responds:

I would say the dominating thing was simply the reading lists in the courses. Hayek and Friedman would appear on the reading list . . . and as I read, I realized that the whole thing was a lie, well, at least a stupid mistake. (Henderson 1998c, 16:00)

Asked if 1942 wasn't too early for Milton Friedman's work to be on reading lists, he allows that he must have been projecting Friedman's later influence on his thinking back to the early 40s. But one book Hirschleifer believes influenced him early on was Schumpeter's *Capitalism, Socialism, and Democracy*.

"By the time I got to graduate school," says Hirschleifer, "I wasn't a socialist any more. But I didn't know what I was" (Henderson 1998b, 20:00). From then on, the process was gradual. After earning his Ph.D. from Harvard in 1949, Hirschleifer went to work at the RAND Corporation in Santa Monica. "Being at RAND and being around Reuben

Kessel and Andy Marshall completed [my] transition to classical liberalism," Hirshleifer recalls (Henderson 1998c, 21:00).

So if one is looking for the turning point in Hirshleifer's transformation, it would have to be one or both of two things. The first was the Hitler-Stalin pact, which clearly upset him: in retrospect he refers to Communism and, to some extent, socialism, as a "lie." The second was his exposure to free-market views from such teachers as Schumpeter and Haberler and from the reading lists of some of his other professors. After that, his transition to classical liberalism was gradual through the early 1950s and was essentially complete by the time he had reached his late 20s.

For Rottenberg even more than for Hirshleifer, purely intellectual influences were important. After being a socialist before and during World War II, Rottenberg took a course in labor economics at Harvard from Sumner Slichter in the late 1940s, when Rottenberg was in his early 30s. During the course, Slichter challenged Rottenberg's view that a labor union's power depends solely on the percentage of workers in a particular industry who are unionized. This seemingly un-earth-shattering challenge actually demolished Rottenberg's worldview.

Slichter said that it [the power of a labor union] depends on the price elasticity of the demand for labor; that is to say, a labor union of a particular class of workers is powerful if employers simply cannot do without those workers. But if, in fact, there are substitutes for those workers, then that labor union has less power. So the less adequate the substitutes for the workers, the more powerful is the union. . . . I thought, "he's right" and all these things I had been believing about [how] the power of a union depends upon the proportion of workers of that class who are organized is wrong. What really favorably affects the power of a union is that there are no good substitutes for the services of its members. And that was the revelation I came to in that class. . . . As a consequence, what's the fraction of workers who are organized, that the power of a union depends upon that, had come out of my socialist experience. That's what socialists believed. . . . What really is important is the other thing: are there good substitutes for the services of the workers or not? And when I came to that realization, then I resigned from the Socialist Party because all these things they were teaching me in the Socialist Party—well, that was exemplary of things I had been taught in the Socialist Party—and so I resigned. (Henderson 1998b, 13:00)

Like Rottenberg, Buchanan was profoundly influenced by a teacher. In his autobiographical book, *Better Than Plowing*, Buchanan tells how he came to believe so strongly in free markets, and, tellingly, titles the chapter “Born-Again Economist.” Buchanan (1992, 68) writes:

I am not a “natural economist” as some of my colleagues are, and I did not “evolve” into an economist. Instead I sprang full-blown, upon intellectual conversion, after I “saw the light.”

What led to this conversion was his first course in graduate economics from the legendary Frank Knight at the University of Chicago.

I was not the only one. Out of a class of 40 or 30, I would say that 99 percent of us were socialists one way or the other and we were exposed to Frank Knight. After six weeks, half of us had been converted and half of them hadn’t changed their mind, didn’t change their mind. Why? What happened? It was not unique with me. I think, first of all, somehow or another Knight was able to convey the way an economy works, the integrating aspects of an economy. Now you say, “Well, economists ought to have known that, you know.” Sure, but a lot of economists never learned it, they never get the light, so to speak. And the big picture sort of fit together. . . . I came into that class a libertarian socialist, [with] a feeling that the market was manipulated by the Wall Street barons or something like that—maybe to control the market you needed some democratic controls, you were a socialist in that sense—but you were never pro-state, at least certainly I was not—you were never pro-government, you were kind of libertarian, you were a strong believer in individual liberty. Yet if you didn’t understand how the market works, you sort of necessarily [thought] politics might be better than Wall Street, you see. Then you’re—at least I was—totally vulnerable. Once you learn the coordinating properties of the market in the larger sense, the economic organization, so to speak, Frank Knight’s term, then it was there. (Henderson 1998a)

Two key ideas Buchanan learned from Knight were Adam Smith’s concept of the invisible hand—the idea that when self-interest is pursued through free markets, the economy is coordinated without the need for any central government control—and the idea that both parties to an exchange gain from it, or they wouldn’t make the exchange.

Buchanan, along with his colleague Gordon Tullock, essentially co-founded the school of thought known as public choice. Their central idea is that a great deal of political behavior can be explained by assum-

ing that people acting in the political system, whether as voters, politicians, or bureaucrats, pursue their own self-interest, just as they do in the economy. This public-choice view has led the vast majority of its devotees toward strong skepticism about government.

What's striking, though, is how little Buchanan's views were formed by his experience of government during World War II, when government spending reached about 50 percent of GNP.

Henderson: One of the things I hadn't known before reading your book is that you had been in the Navy, and at such a high level, not in the sense of rank but in the sense of responsibility and where you worked [he was on Admiral Nimitz's staff at Pearl Harbor]. How did that affect your view of the federal government, because, after all, that was a federal government activity?

Buchanan: I don't think I made that translation.

Henderson: One thing that surprised me was that when I read [the chapter of your book on your Navy experience], I was expecting to see more of a public-choice perspective taking form, but it didn't really.

Buchanan: None at all, none at all. (Henderson 1998a, 7:00)

Contrast this with, for example, economist Thomas Sargent, who became much more skeptical of government because of his experiences working in the Pentagon during the Vietnam war:

I went through ROTC, was commissioned, and then worked in the systems analysis office of the Pentagon. It changed me in some ways, made me more conservative. I came to understand more clearly the limitations of government actions. It was a learning experience. My conclusions came from seeing the whole decision-making process by which the U.S. got into the war: how we evaluated the situation, how we processed the data from the war, how we understood our options, what we saw as the resources and costs in Southeast Asia, and what we thought was the likely outcome. We didn't do a very good job. There was an incredible volume of inefficient and bad decisions, which one must take into account when devising institutions for making policy. (Klamer 1984, 62)

For Buchanan, by contrast, his belief in public choice came about, as he has documented elsewhere (Buchanan 1992) and confirmed in my interview with him, not from experience but from reading Knut Wicksell's untranslated doctoral dissertation. His skepticism about govern-



ment was reinforced during a year that he spent studying the work of Italian public-finance economists:

The Italians had “extreme cynicism and extreme skepticism” [about the state]. Even though they went through the Mussolini period, they never trusted the state. Even now, the difference in attitudes to the state between the Italians and the Americans is extreme. We still have this kind of romantic vision. It was very difficult to cut through that. In a sense, public choice is “politics without romance.” It’s hard to cut through that romance . . . because we want to believe that somehow government is doing good things for us. That’s a natural proclivity. The Italians have never believed that. They think it’s out to screw us, which is a much more realistic view. (Henderson 1998a, 36:00)

\* \* \*

It is striking that ideas played a major role in all three of these conversations. Empirical observation mattered, especially to Hirshleifer, but what mattered much more to the other two, and even to Hirshleifer when he needed to fill the void left by his disillusionment with socialism, were the ideas that they were taught and that they learned in the readings assigned in their economics courses.

Simply put, what made these leftists into capitalists was learning the teachings of free-market economics.

#### REFERENCES

- Buchanan, James M. 1992. *Better than Plowing*. Chicago: University of Chicago Press.
- Buchanan, James M. 1997. “Born-Again Economist.” In *Lives of the Laureates*, 3rd ed., ed. William Breit and Roger W. Spencer. Cambridge, Mass.: MIT Press.
- Henderson, David R. 1998a. Interview with James M. Buchanan. Fairfax, Virginia: November 13.
- Henderson, David R. 1998b. Interview with Simon Rottenberg. Natick, Massachusetts: November 14.
- Henderson, David R. 1998c. Interview with Jack Hirshleifer. Los Angeles: December 21.
- Klamer, Arjo. 1984. *Conversations with Economists*. Totowa, N.J.: Rowman and Allanheld.
- McCloskey, Donald. 1983. “The Rhetoric of Economics.” *Journal of Economic Literature* 21 (3): 481–517.

