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Capitalism Challenged by Socialism
-Preserving and Advancing Capitalism Through Reform-

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■Capitalism or Socialism? The Return of an Old Debate

A topic that has recently resurfaced in economic and policy circles is whether capitalism itself should be reconsidered. In Japan, for example, the Kishida administration advocated a policy agenda of "New Capitalism," while the Ishiba administration has placed greater emphasis on happiness and well-being, reflecting efforts within government to revise the neoliberal model of capitalism. Some commentators have gone further, arguing that reforming capitalism is insufficient and that capitalism itself should be abandoned altogether—a view that has attracted a certain degree of public support.

Developments in the United States are equally noteworthy. Zohran Mamdani, the Mayor of New York City, openly identifies himself as a democratic socialist, while in Washington, D.C., the prospects for a mayoral candidate advocating democratic socialism have also increased. Ahead of the congressional midterm elections, democratic socialist candidates have achieved landslide victories in certain Democratic primaries in New York State. Similar gains have been recorded in Democratic primaries in other states, including Colorado. Among some of these candidates are individuals who espouse more radical positions, including the abolition of private property.
In the United Kingdom, Andy Burnham—widely viewed as a strong contender for future national leadership—has advocated greater public involvement in sectors such as water and energy that were previously privatized. Meanwhile, Reform UK, a rising right-wing political party, initially advocated the nationalization of infrastructure-related companies, although it has since revised parts of its platform. More broadly, industrial policies involving active government intervention have re-emerged across many countries. While these policies do not necessarily amount to socialism, they do reflect a reassessment of economic liberalism and a shift toward a more state-centered approach.

Following the collapse of the Soviet Union, the dominant narrative for roughly three decades—reflected in Francis Fukuyama's *The End of History and the Last Man*—was that liberal democracy and market capitalism had triumphed over socialism. Today, however, growing developments around the world suggest that this narrative is increasingly being challenged.

One important factor behind this trend is the widening economic inequality observed across many societies. Survey data from various countries also indicates that interest in socialism, particularly among younger generations, is higher than in the past. While vigorous debate about economic systems is undoubtedly healthy, there also appear to be widespread misunderstandings regarding both capitalism and socialism. The following sections present the author's perspective on how this debate should be understood.

■Japan as a Hybrid of Capitalism and Socialism

To begin, consider the situation in Japan. Japan is unquestionably a capitalist country. At the same time, however, it is not a purely capitalist one. Various forms of mutual assistance exist, ranging from neighborhood associations to insurance systems, and there is, of course, public support provided by government institutions. While such arrangements are conceptually closer to socialist thinking, they also exist in the United States, often regarded as the leading example of a free market economy. In this sense, capitalist societies invariably incorporate a certain degree of socialist elements.

Moreover, there are areas characterized by what economists describe as "market failures," where leaving outcomes entirely to market forces can generate imbalances or negative externalities. Issues such as income inequality and environmental degradation fall into this category. In such cases, the role of the public sector becomes indispensable. Progressive taxation provides another example. By seeking to reduce effective disparities in income and wealth, it represents a policy mechanism with distinctly redistributive—and thus partially socialist—characteristics.

Taxes and social insurance contributions collected in Japan are returned to society through public infrastructure, social welfare programs, and other public services. The share of taxes and social security contributions relative to national income has steadily increased over time and now accounts for nearly half of total national income. In this sense, Japan has gradually become more "socialized." While it would be inaccurate to describe Japan as anti-capitalist, one might reasonably characterize it as a form of "semi-capitalist" state.

At the same time, it is difficult to conclude from historical experience that socialism is inherently superior. Economically speaking, the Soviet Union ultimately collapsed, and its grand experiment failed. Liberal South Korea achieved remarkable economic development, whereas socialist North Korea has lagged significantly behind.

Certainly, as demonstrated by the Nobel Prize-winning work of Elinor Ostrom, efficient resource allocation is possible even without relying on market mechanisms when resources are jointly managed by communities. Yet, as Ostrom's research itself suggests, such arrangements tend to function effectively only under conditions involving strong mutual monitoring and meaningful sanctions for non-compliance. Historically, former communist states often evolved into authoritarian regimes or surveillance societies. It is difficult to regard such systems as genuine success stories when sustained political repression is a prerequisite for their survival.

Under these conditions, criticism of the governing system tends to be discouraged, and intellectuals advocating social reform may become targets of political persecution—as occurred during China's Cultural Revolution and under the Khmer Rouge regime in Cambodia. History therefore suggests that socialism does not necessarily culminate in a utopian society.

The contemporary resurgence of support for socialism can plausibly be attributed to two factors. First, more than three decades have passed since the collapse of the Soviet Union, and memories of socialism's failures have faded. Second, after decades of capitalist predominance, many of capitalism's shortcomings have become increasingly visible, leading some individuals to seek an escape from the system.

In *Escape from Freedom*, Erich Fromm argued that capitalism liberated individuals from traditional economic and political constraints but simultaneously produced loneliness and social isolation, thereby encouraging people to surrender their freedom voluntarily in search of security. In some respects, contemporary society may represent a partial realization of Fromm's warning. Many economists and political thinkers, including Nobel laureate Friedrich Hayek, argued that centrally planned economies tend to foster dictatorship and totalitarianism. Consequently, efforts to expand socialist policies or pursue socialist systems should be approached with an awareness that such endeavors may ultimately undermine individual freedom.

■Capitalism can continue to evolve and flourish: How to Reform Capitalism

From this perspective, the existence of problems within capitalism does not justify an immediate turn toward socialism. A more prudent approach is to reform capitalism appropriately rather than abandon it.

One reason capitalism has survived and prospered since the Second World War is that capitalist societies developed and embraced the concept of the welfare state while continuing to pursue the benefits of market economies. As communist influence expanded during the postwar period, many capitalist countries recognized that failure to address social shortcomings could ultimately lead to systemic transformation. The welfare state emerged precisely because capitalist societies acknowledged and sought to correct their own deficiencies.

The current resurgence of support for socialism should therefore be interpreted as a signal that the nature and functioning of capitalism deserve renewed scrutiny.

Indeed, it can be argued that, following the collapse of the Soviet Union, market-oriented and liberal economic ideas were adopted in many countries with insufficient critical examination. Likewise, although economics has made great advances in developing sophisticated analytical tools and objective methodologies, broader normative discussions concerning what kind of economy society ought to pursue have often been neglected. As a result, many countries have experienced rising and increasingly entrenched inequality. This is a development that warrants serious reflection.

Such problems should, of course, be corrected. Political leaders must listen not only to overt public discontent but also, at times, to the voices that remain unheard. Striking an appropriate balance between capitalist and socialist elements—or, put differently, between efficiency and equity—is essential for sustaining and advancing capitalism. It is precisely through such reform, rather than through wholesale replacement, that capitalism can continue to evolve and flourish.

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