

SOCIALISM IN AMERICA TODAY

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In spite of its destructive history, socialism is quickly becoming trendy in America today, especially in political and educational circles. History has much to say about socialism, and hopefully, this paper will provide a refresher course reviewing and updating the dangers of socialism.

THE LURE OF SOCIALISM

Thomas Sowell, a senior fellow at Hoover Institute Stanford, was born into poverty during the Great Depression when socialism appeared to offer hope to many in the struggling labor class of America. As a young man, Sowell purchased and read an old second-hand set of encyclopedias which led him to a fascination with the ideas of Karl Marx, "which seemed to explain so much, and they explained it in a way to which my grim experience made me very receptive" (1) . As an undergraduate at Harvard, Sowell identified as a Marxist (he wrote his thesis on Marx's *Das Kapital*) and would continue to do so even while earning his doctorate in economics from the University of Chicago. Sowell's disillusionment with Marxism was gradual, but he eventually lost faith in the ability of socialist policies to solve the economic and political problems of society (1).

As generations come of age, the landscape of socialism is changing. The lure of socialism similar to that experienced by Sowell is no longer that clear-cut. Many people of mature years are amazed at how many young people are enthusiastic about socialism. Many of those older people have lived long enough to have seen socialism fail, time and again, in countries around the world. Venezuela with all its rich oil

resources, is currently on the verge of economic collapse, after its heady fling with socialism. But, most of the young have missed all that, and their dumbed-down education is far more likely to present the inspiring rhetoric of socialism than to present its dismal track record (1). So, what is it that the younger people are yearning for? Dennis Prager notes, "Socialism is like that beautiful song, it appeals to human nature. And the reason is this, and this is critical, liberty is not what people most yearn for. *People most yearn to be taken care of.* The problem is, it doesn't work" (2).

KARL MARX AND THE BIRTH OF SOCIALISM

British historian Paul Johnson notes, Marx has had more impact on actual events, as well as on the minds of men and women, than any other intellectual in modern times. The reason for this is not because his concepts and methodology have been good for mankind, but due to the fact his philosophy has been institutionalized in two of the world's largest countries, Russia and China, and their many satellites. The influence of Marx was carried out by three important followers who became dictators, Lenin, Stalin and Mao Tse-Tung, all of whom were faithful Marxists (3).

Much of Marx's early life was spent in revolutionary politics, with a dream to become a dictator, which led to the writing of the famous *Communist Manifesto*. At age 31, he moved to London where he would remain the rest of his life. In London, he found a country in the high tide of the industrial revolution. Rapid changes were based on coal and steel, on steam-driven machinery, and on the railroads. Never had so much coal been dug out of the earth. In one year alone, England produced 36,000,000 tons. Factories were springing up and

smoke was belching from their chimneys. The Mines Commission in 1843 reported that women and very young children, crawling upon their hands and feet, were dragging heavy loads behind them. Men sometimes worked 16 hours a day under squalor conditions. The industrial revolution was responsible for transforming large areas of London into slums. Government Commissioners were aware of the abuses of human rights, and sought to document the horrors they had seen in Blue Books. Even under these deplorable conditions, England was far ahead of the continent in factory legislation with the enactment of the Ten-Hour Act (4).

Much of Marx's 34 years in London were spent in the British Museum (library) finding material for a gigantic study of capital trying to unravel how capitalism functions in the exploitation of labor (5). Marx was obsessed with facts. But he was unwilling either to travel to the work site to investigate working conditions or to learn from intelligent working men who had experienced them. He was totally desk bound. Nothing on earth could get him out of the library. All that remained was to find facts to substantiate the poor working conditions of the common class people, the proletariats, and these could be found in newspaper reports, or on book shelves collected by earlier writers, and all this material could be found in the library. Marx's method has been well summarized by philosopher Karl Jaspers, "The style of Marx's writing is not that of the investigator...he does not quote examples or adduce facts which run counter to his own theory, but only those which clearly support or confirm that which he considers the ultimate truth. The whole approach is one of vindication, not investigation, but it is a vindication of something proclaimed as the perfect truth with the conviction not of the scientist but of the believer (6).

Capital (or Das Kapital) represented the monument around which

Marx's life as a scholar revolved. So, after 18 years of being sequestered in the London library, Marx published his new book in 1867. At the core of Marx's case against capitalism is that it involves the exploitation of the workers. To justify this, Marx had to prove that, as bad as conditions were in pre-capitalist workshops, they became far worse under industrial capitalism. Marx failed to do this. What Marx could not or would not grasp, because he made no effort to understand how industry worked, was that from the very dawn of the Industrial Revolution, 1760-90, the most efficient manufacturers, who had ample access to capital, habitually favored better conditions for their workforce; they therefore tended to support factory legislation and what was equally important, its effective enforcement. The end result was that the conditions improved and the workers failed to revolt, as Marx predicted they would (7).

DIFFERENCE BETWEEN SOCIALISM AND CAPITALISM

Fundamentally, there are only two ways to coordinate the economic activity for millions of people. One is the voluntary cooperation of individuals in the market place---capitalism. The other is government control of millions involving coercion, the technique of the modern totalitarian state---socialism.

Socialism: In socialism, government controls the wealth and distributes it in the form of welfare, to individuals on the basis of need. Once wealth is doled out, it's gone forever. Whereas, capitalism is capable of generating new wealth, socialism is not. *Therefore, one fundamental weakness of socialism stems from the notion by Marx that labor, the physical handling of the materials and instruments of production, is the real source of wealth* (8). Obviously, if this were true, countries with much labor and little technology or entrepreneurship would

be more prosperous than countries with the reverse, when in fact the opposite is the case. *Another fundamental weakness of socialism is that an economic system serving millions is far too complex for any single individual or elite to create* (9). For example, the development of law was created, not by the logic of a single elite or intellectual, but by the experiences of the masses over time. Likewise, no elite or intellectual sat down and planned the languages of the world. These languages evolved from the interactions of millions of human beings over many generations. The problem with socialism can be summed up in a simple quote, "Reality is far too complex to be comprehended by any given mind" (1). In other words, the experiences of the millions within the marketplace trump the brilliance of a single elite or intellectual.

Capitalism: In capitalism, the entire process begins with the entrepreneur. Here we turn to Joseph Schumpeter, one of 20th century's great economic and political thinkers. Schumpeter was in a way that is not widely recognized, a student of what entrepreneurs actually do. He published his insights in a remarkable but obscure book, *The Entrepreneur* (10). It is evident from this book that Schumpeter spent time with entrepreneurs in a way Marx never did. While Marx theorized about capitalists, Schumpeter described the actual lives of capitalists. The first thing that entrepreneurs provide is the idea for the business. Without the entrepreneur, there would be no business. Along the way, CEOs can rise up within a business, or be recruited from another company, but originally there must have been an entrepreneur who was also the founder. Entrepreneurs are not primarily suppliers of capital. In fact, very few people who start a business use their own funds. Typically, they borrow the funds or they seek investors who provide them with the necessary capital. And this is not easy because the value of the product is not apparent prior to its making. In other words, begging for money is not easy because the entrepreneur must sell a future product sight unseen.

The most successful businesses are not merely a more efficient way to supply existing goods to existing markets. They are based on new ideas that generate new products, and the most successful products are not merely responses to consumer demands, but things that were supplied before there was a demand for them. Think about the iPhone, no one wrote Apple demanding such a product. Steve Jobs said, "our job is to figure out what they're going to want before they do. People don't know what they want until you show them. That's why I never rely on market research. Our task is to read things that are not yet on the page" (11). More recently, Apple provided an excellent example of how capitalism actually works. In 2017, Apple introduced the iPhone 10 with technology well beyond any competitor at a surprisingly high price of \$1,000. The media and others screamed: Apple's lost touch, too expensive, as iPhone 10 flew off the shelves. Two years later in 2019, Apple used the profit generated from the hot selling iPhone 10 to finance a much more technologically advanced iPhone 11 at a much lower selling price of \$699.

An important distinction between capitalism and socialism is that, in capitalism, people are rewarded according to the value of their goods and services to those individuals who receive those goods and services, and who have every incentive to seek alternative sources, so as to minimize their costs, just as sellers of goods and services have every incentive to seek the highest price for what they have to offer. But in socialism, decision-making by government bureaucrats allows them to superimpose their preferences on others at no cost to themselves, and to become the judge of other people's economic fate without accountability for the consequences.

Nothing illustrates the differences between capitalism and socialism than the use of greed as an explanation of high incomes. Greed may well

explain an individual's *desire* for more money, but income is determined by what *other people* pay, whether those other people are employers or consumers. Most people in a marketplace economy receive income as a result of voluntary transactions. How much income someone receives voluntarily depends on other people's willingness to part with their money in exchange for what the recipient offers. In other words, market competition, not greed, determines prices. A seller's feelings --- whether 'greedy' or not --- tells us nothing about what the buyer will be willing to pay. Bill Gates didn't become rich because he wanted money; he became rich simply because people wanted his computer operating system rather than other available operating systems.

Tim Keller, a retired Manhattan pastor, worked closely with many entrepreneurs while at Redeemer Church. Keller says, "Marxism assumes that our problems come from greedy capitalists who won't share the means of economic production with the people. The solution is a totalitarian state" (12). It doesn't have to be that way says Keller, "Corporate profits and influence, stewarded wisely, are a healthy means to a good end: they are vital to creating new products to service customers, giving an adequate return to investors for the use of their money, and paying employees well for their work. Similarly, individual compensation is an appropriate reward for one's contributions and is necessary to provide for oneself and one's family" (13).

MAKING SENSE OF INCOME INEQUALITY

A considerable amount of statistical data on income is available from the Census Bureau, the Internal Revenue Service and the numerous research institutes. From these data, many statements have

been made in the media and in academia, claiming that the rich are gaining not only larger incomes but a growing share of all incomes, widening the gap between the rich and the poor.

Statistical categories vs individual headcount: The New York Times (14), Newsweek (15), Washington Post (16), Los Angeles Times (17) and Investor's Business Daily (18) have all reported that the gap between rich and poor has widened in America. In academia, Peter Corning of Stanford University states, "the income gap between the richest and the poorest members of our society has been growing rapidly" (19). Although the above citations (14-19) have been phrased in terms of people (i.e., **individual headcount**), the actual evidence in the citations refer to what has been happening over time in **statistical categories** and that turns out to be the direct opposite of what has happened over time to individual headcount, most of whom move from one income category to another over time (20).

In terms of statistical categories, it is true that both the amount of income and the proportion of all income received by those in the top 20% bracket have risen over the years, widening the gap between the top and bottom quintiles (21) But U.S. Treasury Department data, following specific individuals over time from their tax returns to the Internal Revenue Service, show that in terms of individual headcount the incomes of those particular taxpayers who were in the bottom 20% in income in 1966 rose 91% by 2005, while the incomes of those particular taxpayers who were in the top 20% in 1966 rose by only 10% by 2005--and the incomes of those in the top 5% and top 1% actually declined (20). At first glance it might seem that these two radically different sets of statistics can't be true at the same time. What makes them mutually compatible is that the individual headcount group move from one statistical category to another

over time. When those taxpayers who were initially in the lowest income bracket had their incomes nearly double in a decade, that moved many of them up and out of the bottom quintile---and when those in the top 1% had their incomes cut by about one fourth, that may well have dropped many, if not most, of them out of the top 1% (20)

Gap between rich and super-rich: Many of the same kinds of data used to claim a widening income gap between the rich' and 'the poor' have led many in the media to likewise claim a growing income gap between the 'super-rich' and the 'merely-rich'. The New York Times (22) has dubbed the top 0.1% of income earners as 'hyper-rich' and declared that they have even left behind the 'merely rich'. Once again, the confusion is between what is happening to statistical categories over time and what is happening to individual headcount over time as people move from one statistical category to another. Despite the rise in income of the top 0.1% of taxpayers as a statistical category, when their incomes were expressed in terms of individual headcount, they had a whopping 50% decrease over time. It is hardly surprising when people whose incomes are cut in half, they drop out of the top 0.1% (20). Again, this happens because the individual headcount group move from one statistical group to another over time.

Root cause of income inequality: Sowell, says, "One of the problems is the statistics. The statistics really---how should I put it?---they talk as if the statistics refer to a given set of people, sometimes called the rich and the poor. But in point of fact, they do not. They refer to whoever happens to be in a particular income bracket at a particular time. And Americans who, for example, start out in the bottom 20%, over 95% of the people who start out there are no longer there 15 years later. In fact, more of them reach the top 20% after that period of time than remain in the bottom 20%. So, the stats

that are normally quoted are usually very misleading" (23).

People talk about the top 10% being a group apart and playing a disproportionate role in the society. But 56% of all households in America are going to be in the top 10% in some point in their lives, usually when they're older.

When we talk about the top 10% in any given moment, that's a moving group. And you talk about the famous top 1%, and they're even more transient. In the course of a decade, most of the people in the top 1% will be there one year only. In other words, you have a spike in income, and that year you're in the top. You might have inherited something, you might have sold off assets accumulated over the years, and that one year you're in the top 1%---and the next year you're not! Finally, some politicians would have us believe that there's a finite amount of wealth and that the poor are poor because the rich are rich, and that idea is insane (23)

SOCIALISM IGNORES INCENTIVES

The major difference between capitalism and socialism is this: Capitalism works. Mark Perry notes that the reason capitalism works is because it is a system based on incentives --- in socialism, incentives are ignored (24). The strength of capitalism can be attributed to an incentive structure based on three economic activities: (a) prices determined by market forces, (b) a profit-and-loss system of accounting and (c) private property rights.

Market prices: The price system in a market economy guides activity so flawlessly that most people fail recognize its importance. The significance of prices is that they provide incentives that promote economic efficiency. For example, in the 1970s, when the United States was

dependent on foreign oil, gasoline supplies were restricted and prices rose dramatically. The higher gas prices transmitted valuable information to both the buyers and sellers. Consumers received a strong, clear message about the scarcity from the higher prices at the pump and were forced to change their behavior dramatically. People reacted by driving less, carpooling more, taking public transportation, and buying smaller cars. Producers reacted to the higher prices by exploring for more oil and by attempting to produce alternative fuel sources such as corn. The information transmitted by higher gas prices provided the appropriate incentive structure to both buyers and sellers.

Look what happened during the 1970s when gas prices were artificially fixed by the Carter administration. Long lines developed at service stations all over the country because gas prices were kept artificially low by government fiat. The full impact of scarcity was not accurately conveyed. Milton Friedman (University of Chicago) pointed out at the time, we could have eliminated the lines at the pump in one day by allowing the price to rise to clear the market.

Profit-and-loss system: Companies are rewarded with profits for the efficient production of goods that are of interest to the public. In contrast, companies are penalized with loss of money for inefficiency and failure to serve public interest. By rewarding success and penalizing failure, the profit system provides a strong disciplinary mechanism which continually redirects resources away from weak, failing, and inefficient firms toward those firms that are most efficient at serving the public. Competition forces companies to serve the public interest or suffer the consequences. Under socialism's central planning, there is no profit-and-loss system of accounting to accurately measure the success or failure of various programs. Without profits, there is no way to reward firms that serve the public interest and no way to discipline firms that fail. There is no

efficient way to determine which programs should be expanded and which ones should be contracted or terminated. Without competition, centrally planned economies do not have an effective incentive structure to coordinate economic activity. Without incentives, the results are a spiraling cycle of poverty and misery. Instead of continually reallocating resources toward greater efficiency, socialism falls into a vortex of inefficiency and failure.

Property rights: The 'tragedy of the commons' refers to the British experience of the 16th century when grazing lands were communally owned by villages and were made available for public use. The land was quickly overgrazed and became worthless as villagers exploited the communally owned resource. When assets are publicly owned, there are no incentives in place to encourage wise stewardship. While private property creates incentives for conservation and the responsible use of property, public property encourages irresponsibility and waste. If everyone owns an asset, people act as if no one owns it. And when no one owns it, no one really takes care of it. Since socialism, by definition, is a system marked by the common ownership of the means of production, the failure of socialism is a 'tragedy of the commons' on a national scale. Much of the economic stagnation of socialism can be traced to the failure to establish and promote private property rights.

CAPITALISM SAVED
SWEDEN---TWICE

Socialist leaning politicians in American, say we can have all those free things and more, just look at Sweden. But, Sowell counters this notion with his famous quote, "The first lesson of economics is scarcity: there is never enough of anything to satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics" (25). Never has this been truer than during two

historical periods when Sweden ignored the costs of excessive welfare and the trade-offs that go with it.

Sweden 1850-1970s: In 1850, Sweden was one of the poorest and most underdeveloped countries in Europe. Then Swedish Finance Minister, J. Gripenstedt, a proponent of de Tocqueville and Bastiat, launched far-reaching economic reforms that forged Sweden's transition to capitalism (26). Sweden opened up to the world, to free trade, and to migration. Free enterprise and free competition were introduced. In particular, the financial sector was deregulated. By 1890, Sweden's economic growth was the fastest in the world, and remained so through 1950.

Sweden 1970s-2019: Socialism was fashionable in post-war Europe and Sweden was not immune. In the 1970s, the country experienced a decade of radical government intervention in society and in markets, during which Sweden doubled its overall tax burden, socialized a slew of industries, re-regulated its markets, expanded its public systems, and shuttered its borders. By late 1980s, Sweden came to the realization that the big government policies were destroying the country's enviable prosperity. In 1994, Sweden began implementing measures to reverse this trend by downsizing government, reducing regulations and reforming welfare programs.

Today, it may come as a surprise to learn that the American economy is far more regulated in two key areas compared to those in Sweden, Denmark and Norway, even after President Trump supposedly 'gutted' the U.S. regulatory structure. Recent Index of Economic Freedom Scores clearly show that the Scandinavian countries have freer markets in the Regulatory and Property Rights areas compared to those of the United States (27). This

means the Scandinavian countries can produce more stuff per capita and spend less money complying with regulations. This helps to explain why Sweden can support a very generous welfare agenda in their free market economy.

THE DRUM BEAT GETS LOUDER FOR SOCIALISM IN AMERICA

Victor Davis Hanson, Hoover Institute Stanford notes, "Multiple forms of socialism, from hard Stalinism to European redistribution, continue to fail. Russia and China are still struggling with the legacy of genocidal communism. Eastern Europe still suffers after decades of Soviet-imposed socialist chaos. Cuba, Nicaragua, North Korea and Venezuela are unfree, poor and failed states. Baathism --- a synonym for pan-Arabic socialism --- ruined the postwar Middle East. The soft-socialist European Union countries are stagnant and mostly dependent on the U.S. military for their protection. In contrast, current American deregulation, tax cuts and incentives, and record energy production have given the United States the strongest economy in the world" (28).

Massive immigration: Socialism guarantees failure and suffering --- so why do so many Americans support it? One culprit according to Hanson (28) is that massive immigration is changing the demography of the United States. The number of foreign-born U.S. residents and their children has been estimated at almost 60 million, or about 1 in 5 U.S. residents. Some 27 percent of California residents were born outside of America. Many of these immigrants flee from poor areas of Latin America, Mexico, Africa and Asia that were wrecked by statism and socialism. Often, they arrive in the U.S. unaware of economic and political alternatives to state socialism. When they reach the U.S. --- often without marketable skills and unable to speak English --- many assume that America will simply offer a far better version of the statism from which they fled. Consequently, many take for granted that government will

provide them an array of social services, and they become supportive of progressive socialism.

Academia: Another culprit --- universities bear much of the blame. Their manipulation of the federal government to guarantee student loans empowered them to jack up college costs without any accountability. Liberal college administrations and faculty did not care much when graduates left campus poorly educated and unable to market their expensive degrees. More than 45 million borrowers now struggle with nearly \$ 1.6 trillion in collective student debt, with climbing interest. That indebtedness has delayed --- or ended --- the traditional

forces that encourage conservatism and traditionalism, such as getting married, having children and buying a home. Instead, a generation of single, childless and mostly urban youth feels cheated that their high-priced degrees did not earn them competitive salaries. Millions of embittered college graduates will never be able to pay off what they owe --- and want some entity to pay off their debt.

Add up a lost generation of woke and broke college graduates, waves of impoverished immigrants without much knowledge of American economic traditions and it becomes clear why historically destructive socialism is suddenly seen as cool (28).

CONCLU SION

The remodeling of America is the goal of many today, with freedom and religion in the crosshairs (29). Ben Shapiro writes, "American is struggling right now in a lot of ways. But its largest struggle is a struggle for our national soul. We are so angry at each other right now. That anger is palpable. Where

did it come from? It came from the destruction of a common vision. We used to believe in the Founding vision, supported by a framework of personal virtue culled from Judeo-Christian morality. We used to see each other as brothers and sisters, not 'the 1 percent vs. the 99 percent' or 'the privileged vs. the victims. We weren't enemies. We were community, forged in fire and tethered together by a set of values stretching back to the Garden of Eden --- a community of individuals working to understand the value of each other as images of God, a community of individuals who believed in our own capacity to change ourselves and the world around us. We can regain that. We must regain that. Our individual and communal happiness depends on us regaining the values we're losing all too quickly" (30).

*Abraham Lincoln -- You work and toil and earn bread, and I'll eat it.
(Fundamental concept in slavery and socialism)*

Margaret Thatcher -- The problem with socialism is that you eventually run out of other people's money.

Winston Churchill - Socialism is a philosophy of failure, the creed of ignorance, and the gospel of envy, its inherent virtue is the equal sharing of misery.

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