Economic Systems

A recent YouGov survey found that 50 percent of millennials say they would rather live in a socialist or communist country rather than a capitalist democracy. Yet, 71 percent failed to identify the actual definition of communism.

As someone who grew up under socialism, I hope to relate a few ideas to the young people who argue against capitalism and for socialism. First, the United States does not have a strictly capitalist economy, but a mixed one. As such, it combines a high level of private (individuals, not government) ownership of capital and the means of production with relatively onerous (burdensome) regulation and taxation. Second, to the extent that what anti-capitalist supporters really want is a Scandinavian-style social democracy, with its high level of wealth redistribution and income equality, they should consider that even some of the most socially democratic countries on earth are, in one crucial way, more capitalist than the United States.

Let us start with a commonly confused belief… “democratic socialism.” The word “democratic” is fundamental here, because historically socialism has not, typically, come about as a result of free and fair elections. In most socialist countries, like the Czechoslovak Socialist Republic where your humble author was born, socialism was imposed at the point of a gun. Socialists, therefore, would be wise to distance themselves from the socialists of yesteryear and insist that socialism in America should be chosen, freely and fairly, by the electorate (voters).

As many of socialism’s supporters have repeatedly and rightly pointed out, socialism is not communism. In fact, for most of the 20th century, socialism as understood to be halfway between capitalism and communism. The latter was a utopian (ideal) vision of the future characterized by classless, stateless, and moneyless communal living. Strictly speaking, therefore, no communist country was ever “communist”—not even the Soviet Union (a.k.a., Union of Soviet Socialist Republics or U.S.S.R.).

What then was socialism? Socialism was an economic system where the means of production (e.g., factories), capital (i.e., banks), and agricultural land (i.e., farms) were owned by the state (government). In some socialist countries, like Poland, small privately owned farms were allowed to operate. In other countries, like Yugoslavia, small mom-and-pop shops also remained in private ownership. Strict limits on private enterprise limited accumulation of wealth and supposedly provided for a comparatively high degree of income equality.

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1 Materials (natural resources and machines) used in the production process.
2 Refers to the extent that income is earned in an even manner among a population.
3 Business that is managed by independent companies or private individuals, rather than by the state.
Two important **caveats** (*distinctions*) need to be kept in mind. First, lack of private enterprise resulted in low economic growth and, consequently, low **standards** of **living**. Thus, while income equality was relatively high (if communist party bosses were excluded from the calculations), people in Soviet-bloc countries were much poorer than their **counterparts** in the West. Nobody has yet figured out a way of combining genuine socialism with high rates of growth over a long period of time.

Second, top members of the communist parties, which ran socialist countries, were generally **exempted** from limits on wealth accumulation. As such, communist leaders from Josip Broz Tito in Yugoslavia to Kim Il Sung in North Korea enjoyed **luxuries** unimaginable to the rest of the population. Most importantly, top members of the government were **above the law**. They could not be accused, arrested, or convicted of ordinary or even extraordinary crimes (e.g., Stalin, Mao, and Pol Pot). As such, inequality of status between the **governing class** (*government workers as a group*) and the **governed masses** (*group controlled by government*) in socialist countries was as great, if not greater, as it was under feudalism.

Sanders is not an absolutist socialist. While he believes in a highly **regulated** and heavily taxed private enterprise, he does not seem to want the state to own banks and make cars. It would be more correct if he identified his ideas by their proper name: not “democratic socialism,” which implies socialism brought about through a vote, but social democracy.

In a social democracy, individuals and corporations continue to own the capital and the means of production. Much of the wealth, in other words, is produced privately. That said, taxation, government spending, and regulation of the **private sector** (*businesses owned by individuals or groups*) are much heavier under social democracy than would be the case under pure capitalism.

Capitalism means different things to different people. To many people on the left, unregulated capitalism implies individual greed, vast income inequality, and lack of government protections for the poor. Capitalism is often confused with “crony” capitalism—a relationship between corporate and political power that limits “the worker”. Close linkages between big business and the government have existed before (e.g., fascist Italy, national-socialist Germany, Peronist Argentina, etc.). However, most academics do not refer to such systems as exhibiting “crony capitalism,” but “corporatism.”

In any case, few would argue that the power of big business in the United States today is comparable to the power of big businesses in, say, fascist Italy, though it might be argued that “crony capitalism,” if left unchecked, could one day lead to “corporatism.”

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4 Status of wealth and material comfort available to a person or community.
Adam Smith wrote many of the ideas that would form the principles of capitalism, which Smith called "the obvious and simple system of natural liberty." Smith's system of natural liberty is also referred to as "economic freedom," "laissez-faire" economics, "private enterprise," or the "free market." Competition is fundamental to the system: productive companies should be allowed to grow, while unproductive firms should be allowed to go under (out of business).

Proponents of "capitalism" mean the exact opposite of crony capitalism. To the advocates of economic freedom—and this needs to be stressed—capitalism means the strictest possible separation of the economy and the state (the government). As such, I will use "economic freedom" and "capitalism" interchangeably below.

A purely capitalist economy ought to have the following characteristics: private ownership of the means of production and capital; low levels of taxation and regulation; competition independent of subsidies, bailouts, and protectionism \(^5\); and the free flow of goods, services, and capital both domestically and internationally. Lastly, and here the government does have a crucial role to play, a capitalist economy ought to have an independent and effective judiciary that protects life, liberty, and property, and punishes fraud and theft.

To be sure, all governments play some role in the economy of their countries. It is, however, possible to determine relative levels of economic freedom. The Economic Freedom of the World index, for example, measures economic freedom in individual countries by looking at, among other things, the size of government (i.e., taxing and spending); the strength of the legal system and private-property rights; freedom to trade internationally; and the burden of government regulation (e.g., on businesses and labor/workers).

In order to understand how capitalist America is, consider some of the most important features of the American economy.

For example, aside from a small number of government-owned enterprises (government controls the business) and government-sponsored enterprises (government funds the business), the vast majority of enterprises in America are privately owned. As a consequence, almost all of the wealth that is created in the United States each year (i.e., gross domestic product or GDP \(^6\)) is privately produced. That part is capitalism.

But, much of the wealth produced by the private sector each year is not spent by the private sector, but by the government (through government collected taxes). Today, local, state, and federal governments spend 39 percent of the gross domestic product. Some government expenditures (expenses paid) enjoy wide public support (e.g., police and courthouses) and some are more controversial (e.g., big-bank bail-outs and subsidies to companies favored by the government).

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\(^5\) Government provided money to a business to promote economic strength.

\(^6\) Total value of all goods and services produced in a country during a year.
Contrary to what the advocates of economic freedom might wish, taxation in America is neither particularly low nor easy. According to the World Bank, the tax burden (i.e., the level of taxation and the difficulty of compliance with the tax code combined) in the United States is more burdensome than in many other countries. That includes the relatively economically free Hong Kong and the socially democratic Denmark.

Also, consider the government regulation of the private sector. Again, capitalism is supposed to be characterized by a low level of regulation. That said, the World Economic Forum ranks 140 countries according to the total burden of government regulation. According to the WEF, the United States ranked in the 51st place in 2016. It ranked below Sweden, but just above Denmark.

Thus, if capitalism is defined as an economic system characterized by government having little control over businesses, and easy taxes and regulation, the United States does not have a strictly capitalist economy. In fact, economic freedom in America has been declining so quickly over the years that, it can be stated that the United States, which was once the citadel (fortress) of capitalism, is now a mixed economy in which government bestows favors and imposes restrictions.

Overall, the United States is still somewhat more economically free than Sweden and Denmark. As noted, out of 157 countries surveyed by the Economic Freedom of the World Index in 2013, the United States came in the 16th place. Denmark came in the 22nd place, and Sweden came in the 42nd place. That ranking is in large part the result of a massive gap between taxation and spending in the United States and some Scandinavian countries. Total government spending in the United States, as I have mentioned, was 39 percent of the GDP in 2013. In Denmark and Sweden, it was 57 percent and 53 percent, respectively (in that order).

The paradox of socialism is that for true socialism, whenever and wherever it has been tried, ended in disaster. Likewise, America is not the bastion (defense) of capitalism that some make it out to be. In fact, U.S. taxes, spending, and regulation are quite high when compared to truly economically free countries. America’s is a mixed economy and so are Scandinavian countries. It is the mixture that differs.

http://www.theatlantic.com/international/archive/2016/03/bernie-sanders-democratic-socialism/471630/