

★ *Teaching Freedom* ★



THE RISE OF DEMOCRATIC SOCIALISM

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The **FUND** *for* **AMERICAN STUDIES**



THE RISE OF DEMOCRATIC SOCIALISM

My name is Anne Bradley, and I'm the George and Sally Mayer Fellow for Economic Education and the Academic Director at The Fund for American Studies. I'm an economist, so what I want to address today is this question of democratic socialism and whether it's a good alternative to capitalism.

Capitalism has had a lot of critiques and criticisms and critics that levy different accusations against it. Of course, the quest of political economy, my particular field in economics, is to figure out what type of economic system is best going to maximize productivity, prosperity and human wellbeing for the most amount of people possible. Some people are asking the question today whether democratic socialism is a better idea than true Marxism or socialism. Economics gives us a non-ideological way to answer this question.

We have to start with remembering the past and thinking about that very famous speech that President Ronald Reagan gave to Mr. Gorbachev. He said in that speech, "Mr. Gorbachev, tear down this wall," and Mikhail Gorbachev, the leader of the Soviet Union at that time before it became modern Russia, did not intervene in the tearing down of the Berlin Wall, and I think history is different because of this.

Think about what it was like to live in a place like East Germany where it was so bad, the conditions were so depraved, that leaders used walls to keep people in, to keep them from escaping, because people wanted to do anything to get out of there. And of course, this was the Soviet experience, this was the experience under communist China and communist Cuba. The Soviet Union and East Germany are not the only countries that have experienced raw socialism, if you will.

Today, at least in the United States, there seems to be momentum around this idea of democratic socialism. Maybe it's a kinder, gentler version of socialism, maybe it gives us the things that we want, which is more justice, more equality, and higher standards of living. As economists, we really want to investigate if that's true: whether or not democratic socialism can do that. Since we don't know the answer, we have to use economics as our guide here.

A number of different surveys have been done, but here is a survey of American participants that asks if you are favorable or unfavorable towards socialism as an economic system. It seems that millennials in particular, at 18 to 24 and then some in the 25 to 34 range, believe that socialism is favorable.



THE RISE OF DEMOCRATIC SOCIALISM

More Americans Now See Socialism as a Good Thing for the Country

Would some form of socialism be a good thing or a bad thing for the country as a whole?

	1942	2019	Change
	%	%	pct. pts.
Good thing	25	43	+18
Bad thing	40	51	+11
No opinion	34	6	-28
Net "good thing"	-15	-8	+7

Note: 1942 data gathered by Roper Center for Public Opinion Research

GALLUP

Figure 1: <https://news.gallup.com/poll/257639/four-americans-embrace-form-socialism.aspx>

One reason for this resurgence is that there's been a lot of talk about income inequality, not only in the United States but in other industrialized economies, and there's some charisma from certain political leaders that's given rise to the idea of democratic socialism. There is a "cool" factor adding to the appeal of democratic socialism.

Adding to that, you have candidates like Bernie Sanders, a former presidential candidate, and you have Alexandria Ocasio-Cortez, and they're advocating for this version of socialism. A socialism that they suggest is not going to put people in the gas chambers, a socialism that is not going to lead to injustice or bread lines, but rather more egalitarian consumption and more fairness all around.

Leading to that and these ideas, you have a couple other ideas. For example, people put pictures of Che Guevara, a brutal dictator, on t-shirts. Part of that is just not understanding who he was but still using him as an icon because of that "cool factor." Yet if we don't understand the history of people like Guevara, we are led to think that they were someone different than who they actually were. Adding to the cool factor is the fact that many people really don't understand the history of socialism. People put pictures of Che Guevara on t-shirts, and proudly wear them, because they think being a revolutionary is cool; it shows they are non-conformist. They don't realize that he was a brutal dictator who slaughtered people who opposed him. If you don't know the history of Che Guevara, you can buy into the cool factor.

The other aspect of the cool factor is that Bernie Sanders in particular has suggested that the Nordic countries reflect productive examples of democratic socialism. These are countries where people can open businesses freely, they have very high standards of living, they live long lives, they have high reported levels of happiness - everything we are looking for.



THE RISE OF DEMOCRATIC SOCIALISM

If democratic socialism is really working there, as economists we would want to know that. So, we're going to investigate that idea using economics. But first, before we investigate any economic or political system, I think it's essential for us to understand the economic realities of who we are and of the world we live in.

So, what are some of those realities?

First, let me talk about the realities of human nature: We are self-interested people. That doesn't mean we're always greedy, but we're corruptible and sometimes greedy, and we care about ourselves first. We want to get the highest benefit for ourselves that we can. We're also very limited. We cannot flourish alone, so we need each other. We are social creatures, and we have different gifts and talents, different skills and abilities, so we're finite in our nature.

We can't do everything we need to do on our own, so we're going to have to find a way to cooperate. And of course, the big quest of the 20th century, but also really all of human history, is to figure out how to go from environments where people steal and plunder from each other to environments where people cooperate in peaceful ways. We cannot generate those types of economic systems without understanding the realities of the human person, but there are also economic realities that need to be discussed.

The first is that we live in a world of scarcity. This is not rocket science. Most of us understand this and act as if it's true all the time in our personal lives, but scarcity is our constraint. It's one of our many constraints, and probably the most important one. There are scarce resources, and those scarce resources have multiple and competing ends. For example, think about the loggers that go to the forest every day and chop down trees to make different consumer products. A tree can become up to 5,000 different consumer products. We're going to have to choose whether the tree is going to be making paper or furniture or toilet paper or any of the thousands of other consumer products. So, we have to choose, and we have to have a way of choosing, a way of understanding this, and so we're going to need to find a way to ration, because each tree cannot be used for thousands of products.

When you live in a world of scarcity, you face the need to compete for scarce resources. Anytime we face scarcity, it means that we're going to have competition. The goal is to get that competition to be peaceful and cooperative, rather than plunderous and exploitative, so we need an economic system that recognizes this reality of scarcity. And of course, scarcity is true in economic markets, but it's also true in political markets. Just because we enter into the policy space doesn't mean that the conditions of scarcity don't exist.

The second important economic reality is that incentives matter for human decision-making. We respond to incentives, both positive and negative. Human beings do things for reasons; we're not robots or automatons. We use our subjective preferences and values to try to



THE RISE OF DEMOCRATIC SOCIALISM

maximize our own happiness, so we're going to respond to the incentives that we face in our environment. Those incentives are going to be changed by the different legal, economic and political systems that we find ourselves in.

This idea that I alluded to earlier is comparative advantage, and it is arguably one of the most important ideas in all of economics. It suggests that there are gains to be made by trading. Comparative advantage is the idea that if you can produce a product at a relatively lower opportunity cost than other people, you should specialize in that. You should specialize in the things that you can do relatively better than other people. As the world changes and as we increase our trading partners, our global comparative advantages and our individual comparative advantages are changing as well. They will always change. Who our trading partners are for different aspects of agriculture and industry and goods and services is going to change as the world changes, both through increasing the number of people with whom we trade and through increasing technological innovations. So as F.A. Hayek, the famous economist, said, "The only thing we can really count on is change. Change is always going to happen." We need a system that's going to allow us a lot of adaptability.

Adam Smith is also a very famous economist, but interestingly, he was a moral philosopher. He wrote the book, "An Inquiry into the Nature and Causes of the Wealth of Nations," published in 1776. As a moral philosopher, he was thinking a lot about wealth, specifically about wealth accumulation. Can you imagine writing in 1776, "Why do some nations seem to be able to rise out of poverty and some nations don't?" Imagine what Adam Smith would think if he was walking around in the developed world today and seeing what amazing wealth accumulation has been possible. I think he would have said, "I knew it. I knew it was possible."

Adam Smith was a true student of human nature and he knew that we have this individual ambition. He identified that we're going to want to try to do what we think is best for ourselves first. So how can you take all these people in a market economy, who are operating primarily in their own self-interest, and instead get them to think about the problems that other people have and about the process of problem-solving, which is what entrepreneurship is about? How do we get people to think about the problems that other people have and try to solve those problems?

Well, Adam Smith said that it's the incentives of the market economy that allow us to think about doing that. Adam Smith was not advocating for trying to find perfect people to run churches and legal institutions and political institutions and things like that, but rather to take people as they are. People have potential for great creativity, but they also have the potential for corruption and in some ways, they can be evil. So, we have to create a system based on the truths of human nature, which is that we're often good and sometimes bad. How can we induce ordinary people on an ordinary day to serve other people and to find new ways to serve other



THE RISE OF DEMOCRATIC SOCIALISM

people? Smith thought it was the institutions of prices, property rights, and profits/losses that helped us do that.

One of the major insights that comes from the “economic way of thinking” is that we don't know what to do. We don't know how to get the information to know what to do. So, the optimal allocation of resources at any given moment cannot be known prior to exchange. It's only the act of market exchange that allows us to discover the best use of scarce resources at the moment. And so, you need a system that is nimble and allows people to adjust to those changing circumstances of time and place.

Think about living in a pandemic. Our needs changed almost overnight. We need PPE, we need vaccines, we need medical care, we need ventilators, we need masks, we need things that we didn't need just six months prior because the circumstances changed. Thus, we need a system that can fill those needs as quickly as possible because that's how ordinary people are going to be able to thrive. We can't all be expected to discover those things. Those things take cooperative discovery through entrepreneurship.

That's a really important point to emphasize: how to best use resources in any given moment at any given time in human history can only be discovered through market exchange and the system of prices, property rights, and profits and losses.

That leads us back to our starting point. How do we distinguish between capitalism and socialism? This can be really difficult because when people use those words, they mean a lot of different things. If you were to interview a hundred people and ask them what capitalism means, you would get a hundred different answers, and the same is true for socialism. People have ideas in their heads about what those words mean, but economists have very specific definitions that they're using and it's incredibly important to understand and use those terms properly.

Capitalism is the private ownership of the means of production. Capitalism operates on profit and loss through property rights. Socialism is the collective or public ownership of the means of production, which means we're going to have to use something other than profit and loss because we don't have well-secured property rights.

So in capitalism, private individuals, often through firms, own resources. Whether it's labor, whether it's land, or it's some combination of those things, private individuals own them. Plus, they own the creativity that's in their head, known in economics as human capital. We combine those inputs and we try to produce things. What's the point of that production? To give people things they want. Adam Smith said the sole purpose of production is consumption. We only produce things because we think other people want them. In a market economy, that's how the



THE RISE OF DEMOCRATIC SOCIALISM

entrepreneur and the consumer prosper and maximize their resources. In this way the entrepreneur provides things from other people the consumer can't create on their own.

In socialism, the public ownership of the means of production means someone is still going to have to decide who gets what and what resources get turned into what products. The reality of scarcity doesn't change; it's the ownership of resources that is different from capitalism. When economists use these words, they are being very particular about the definitions. That gets us away from what people think they mean when they use those words.

In capitalism, ownership of property and material exchange is decentralized. Private individuals own things and they go into the process of exchanging those things for other people's money. That's how this exchange works, but the key factor here is that it's decentralized. What that means is that markets are emergent orders. They're emergent phenomena. This means that prices emerge from exchange rather than being designed or known beforehand. Prior to engaging in trade, we don't know what the optimal allocation of resources should be at any given moment; this is learned. Thus, markets are emergent rather than designed or constructed. Entrepreneurs can't know what people want until they engage in the act of exchange, and through that we get prices.

In socialism, the market is centralized. Someone is put in charge and they decide on prices and permissible exchange. Then they're going to have to enforce those decisions.

The way that this is mechanized, firms in a market economy are going to be how we transform these inputs into different outputs. In capitalism, prices are our guide. Prices tell us what to do. They give us a lot of information.

But in a centralized system, it's going to be government bureaus who are going to establish state-owned enterprises, and the leaders of those enterprises are going to decide what the output quotas should be and what the prices should be. When we need to change a price based on changing levels of scarcity, then those managers and those technocrats are going to be the ones deciding. In a socialist system, private property rights have largely been collectivized. Therefore you can't get the emergence of prices, because prices are mandated from the top down, which necessitates the use of force to ensure those dictates are followed.

Which leads to the big question: How do they know what to do? How does anybody at any moment know what to do?

Again, in capitalism prices are our guide. They tell us what to do. They give us a lot of information. You don't have that in a socialist system because private property rights have largely been collectivized. Therefore, you can't get the emergence of prices because prices are mandated from the top down, leaving managers as the enforcers.

That's the economic question.

THE RISE OF DEMOCRATIC SOCIALISM

The way a socialist economy is going to deal with scarcity is very different from the way a capitalist economy is going to deal with scarcity. The key reality is that both systems have to deal with scarcity because scarcity is our reality. When we have scarcity, we have to ration and we have to compete. So, the question is, can we peacefully ration in a way that generates abundance rather than competition and exploitation and violence? As we know, if you look at the whole scope of human history, there has been lots of plunder, lots of exploitation, lots of violence. We want to move out of that zero-sum game into a positive-sum game.

Is democratic socialism a third way? That question is being raised more often today, but it's been an ongoing question for many years. Bernie Sanders and others look to the Nordic model and suggest that countries like Sweden and Denmark and Finland give us an example of collective ownership of the means of production, but within the context of a democracy. The other question is whether that system allows us to generate sustained economic prosperity. What's important here is that they're offering the collective means of production, promising that it will be more equitable and just, and that you won't have to worry about tyranny because the democratic institutions in place will be able to reconcile it by providing an out through elections. Bernie et al. are suggesting that the Nordic models are good and productive examples of democratic socialism.

The first question to ask is: Are Nordic countries true examples of democratic socialism? And to answer that question you need to look at economic freedom in those countries. Look at this color-coded map of global economic freedom published by the Fraser Institute. It is a powerful empirical data set that allows us to understand the type of institutional environment in which people live.



Figure 2: Map of global economic freedom published by the Fraser Institute



THE RISE OF DEMOCRATIC SOCIALISM

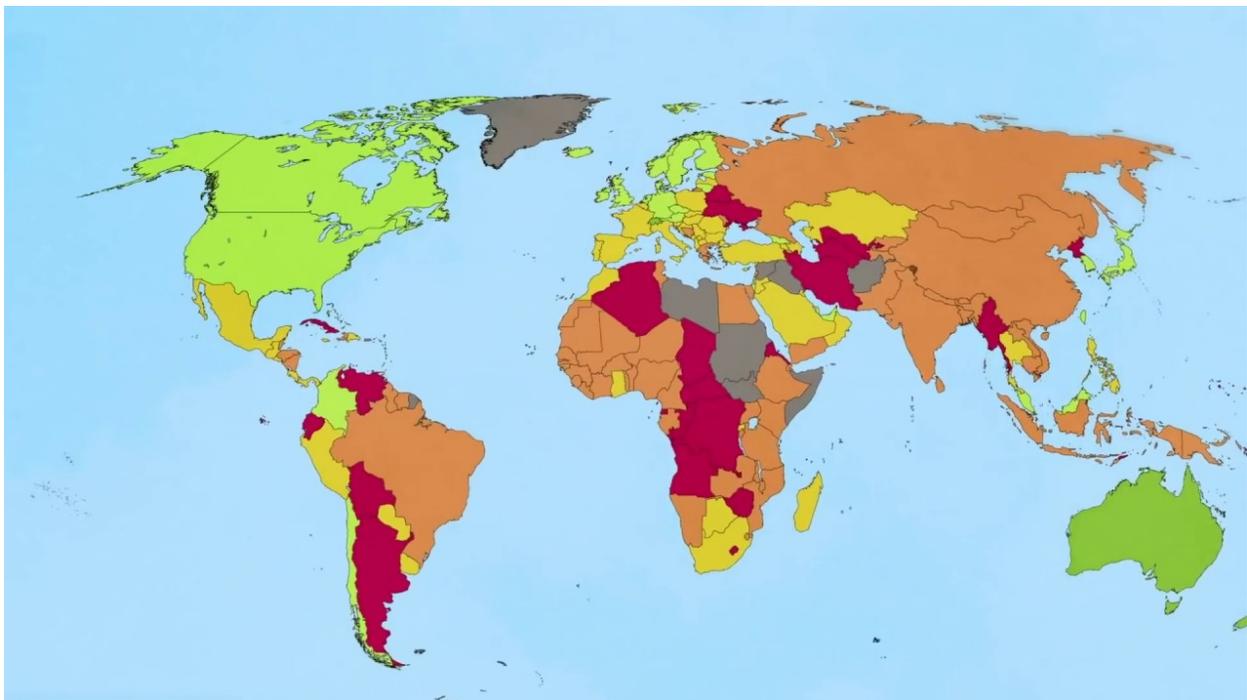
There are five different things we measure when we look at economic freedom.

1. The soundness of the money: What does the monetary policy look like in a country? We know that rabid hyperinflation destroys economic growth because people can't plan for the future. Entrepreneurs don't know what next month or even next week will look like so there's no way they're going to make big investments because that comes at a cost and a risk to them.
2. The freedom to trade internationally: The more open a country's borders are to the world, the more you increase your trading partners. That means we're going to be able to get more for less over time because we're going to benefit from increasing advances in innovation, but we're also going to be reducing our opportunity costs all the way down because we're increasing global specialization and increasing access to that specialization.
3. The regulatory burden: How hard is it to open a business, to run your business, to keep up with the compliance of regulation? Do you have to bribe others? Do you have to cheat? Do you have to cut corners? Do you have to know people? How easy is it to get a business loan, etc.? All these types of indicators help us understand the ease with which you can open and maintain a business. Entrepreneurship is the seed of economic growth. You can't get sustainable large-scale entrepreneurship in a society if you don't have the possibility of lots of local entrepreneurship that grows into bigger entrepreneurship.
4. Property rights and the rule of law: The whole point of the rule of law, which requires an independent judiciary, is the idea that everyone is equal under the law. It doesn't matter if you're a member of the political class. It doesn't matter if you're a judge; it doesn't matter if you're the CEO of a major company. The law applies to everyone equally. Economists call this the generality principle. This leads to justice because everybody comes to the law from the same starting place. The more refined property rights and rules of law systems are in the economy, the more sustainable economic growth that economy is going to have. This is the greatest determinant of the possibility of socialism. The more individual protection there is over private property rights, the less possibility you have for a socialist economic system, which requires the collective ownership of resources by definition.
5. The size of government relative to the size of the economy: In a country with lots of economic growth, you're going to see a more limited version of government. That doesn't mean the government is small, per se, it could have big expenditures, but it's small relative to the size of the economy because the government can only operate by transferring resources out of the private sector, through taxes and other means into the public sector for revenue.

THE RISE OF DEMOCRATIC SOCIALISM

These are the five pillars of economic freedom. This is going to be a roadmap to explain which countries are truly socialist, which countries are democratically socialist, and which countries are free-market economies. These principles will help us answer the question of whether or not Nordic countries have democratic socialist governments.

Let's look at the outcomes. This is another economic freedom index from the Heritage Foundation's Index of Economic Freedom, which measures the economic freedom in countries around the world. The countries that are green are the freest and the countries that are red are the countries that are the least free and most repressed. Look at the Nordic countries. Finland, Sweden, and Norway in particular, they're all in green, which means they have significant economic freedom. There's freedom to trade internationally, there's not a lot of burdensome regulations and there's private ownership of the means of production. This means the Nordic model isn't an example of democratic socialism, but one of mostly free markets and economic opportunity.



Here's just a list of some of the top performers of economic freedom, from the Economic Freedom of the World Report. They score from zero to 100, 100 being a perfect score in economic freedom. Singapore and Hong Kong have been battling out the number one position for decades, and they score very well in economic freedom. But look who else tops the list: Denmark, the Netherlands, Finland and Sweden. They all score very well in economic freedom.

THE RISE OF DEMOCRATIC SOCIALISM

2019 INDEX OF ECONOMIC FREEDOM WORLD RANKINGS

World Rank	Regional Rank	Country	Overall Score	Change from 2018	Property Rights	Judicial Effectiveness	Government Integrity	Tax Burden	Government Spending	Fiscal Health	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
1	1	Hong Kong	90.2	0.0	93.3	75.3	83.8	93.1	90.3	100.0	96.4	89.2	86.4	95.0	90.0	90.0
2	2	Singapore	89.4	0.6	97.4	92.4	95.1	90.4	90.7	80.0	90.8	91.0	85.3	94.8	85.0	80.0
3	3	New Zealand	84.4	0.2	95.0	83.5	96.7	71.0	50.4	98.6	91.0	86.7	87.5	92.4	80.0	80.0
4	1	Switzerland	81.9	0.2	85.3	82.0	88.0	70.5	64.8	96.3	75.4	72.5	85.2	87.4	85.0	90.0
5	4	Australia	80.9	0.0	79.1	86.5	79.9	62.8	60.1	86.2	88.3	84.1	86.6	87.6	80.0	90.0
6	2	Ireland	80.5	0.1	85.8	68.4	78.0	76.3	77.4	89.0	83.1	75.3	87.0	86.0	90.0	70.0
7	3	United Kingdom	78.9	0.9	92.3	85.9	83.8	64.7	48.2	68.6	92.9	73.5	81.2	86.0	90.0	80.0
8	1	Canada	77.7	0.0	87.0	69.4	84.6	76.8	51.3	83.1	81.9	73.7	77.2	86.8	80.0	80.0
9	1	United Arab Emirates	77.6	0.0	81.8	87.1	78.8	99.2	68.8	88.9	79.9	81.1	80.9	84.4	40.0	60.0
10	5	Taiwan	77.3	0.7	85.4	70.1	69.2	75.0	90.6	91.6	93.2	60.9	84.4	87.0	60.0	60.0
11	4	Iceland	77.1	0.1	87.4	63.8	83.8	72.7	44.0	96.7	88.4	64.1	81.7	87.0	85.0	70.0
12	2	United States	76.8	1.1	79.3	78.6	77.4	75.1	57.1	53.1	83.8	89.4	76.6	86.6	85.0	80.0
13	5	Netherlands	76.8	0.6	88.0	74.7	89.1	51.6	42.9	93.3	81.4	60.3	84.0	86.0	90.0	80.0
14	6	Denmark	76.7	0.1	86.2	77.8	85.8	42.0	14.4	96.7	90.7	86.4	84.1	86.0	90.0	80.0
15	7	Estonia	76.6	-2.2	81.5	76.0	73.1	79.9	51.1	99.8	75.3	57.2	79.6	86.0	90.0	70.0
16	8	Georgia	75.9	-0.3	65.9	54.6	58.5	87.1	73.6	93.9	85.8	76.6	76.0	88.6	80.0	70.0
17	9	Luxembourg	75.9	-0.5	83.0	72.4	85.8	65.4	46.6	98.9	68.8	45.9	82.6	86.0	95.0	80.0
18	3	Chile	75.4	0.2	68.7	56.3	62.3	77.3	81.0	89.0	76.6	65.0	84.5	88.8	85.0	70.0
19	10	Sweden	75.2	-1.1	89.5	84.0	88.0	43.2	26.7	96.6	88.0	53.9	82.0	86.0	85.0	80.0
20	11	Finland	74.9	0.8	89.6	81.2	92.5	66.8	7.2	86.4	89.4	50.3	84.8	86.0	85.0	80.0
21	12	Lithuania	74.2	-1.1	73.6	61.2	47.8	86.4	65.1	97.3	75.2	63.6	84.6	86.0	80.0	70.0
22	6	Malaysia	74.0	-0.5	84.1	68.2	55.4	85.6	83.2	82.4	83.9	74.4	78.6	82.0	60.0	50.0
23	13	Czech Republic	73.7	-0.5	74.8	47.6	52.1	82.6	52.1	97.6	72.4	78.1	81.5	86.0	80.0	80.0
24	14	Germany	73.5	-0.7	79.9	75.4	81.3	60.8	42.3	91.8	83.3	52.8	77.9	86.0	80.0	70.0
25	1	Mauritius	73.0	-2.1	69.5	62.1	40.3	92.1	80.3	73.6	79.8	60.8	79.4	88.4	80.0	70.0
26	15	Norway	73.0	-1.3	86.1	81.2	92.3	57.4	25.3	97.3	89.4	53.7	75.4	83.2	75.0	60.0
27	2	Israel	72.8	0.6	80.0	73.4	67.9	61.9	52.4	85.3	71.4	65.1	86.2	84.4	75.0	70.0
28	3	Qatar	72.6	0.0	64.5	60.0	77.4	99.7	56.8	94.0	71.2	65.9	78.4	83.2	60.0	60.0
29	7	South Korea	72.3	-1.5	79.3	57.5	50.5	64.2	68.6	96.8	91.3	57.4	82.0	80.4	70.0	70.0
30	8	Japan	72.1	-0.2	84.1	68.5	78.0	68.2	55.0	55.7	80.5	79.0	85.9	80.0	70.0	60.0
31	16	Austria	72.0	0.2	84.2	71.3	77.4	50.5	24.5	85.5	74.9	68.7	81.5	86.0	90.0	70.0
32	2	Rwanda	71.1	2.0	72.2	83.2	67.9	79.8	79.4	86.3	56.2	82.2	76.1	70.4	60.0	40.0
33	17	Macedonia	71.1	-0.2	65.1	60.7	44.7	91.8	70.0	82.9	80.2	71.5	78.7	82.0	65.0	60.0
34	9	Macau	71.0	0.1	60.0	60.0	33.2	77.1	90.4	100.0	60.0	50.0	76.5	90.0	85.0	70.0
35	18	Latvia	70.4	-3.2	67.3	48.4	35.5	77.0	57.1	96.9	77.5	73.3	81.1	86.0	85.0	60.0
36	3	Botswana	69.5	-0.4	58.1	45.7	52.4	82.7	65.9	94.6	68.7	68.2	78.8	83.8	65.0	70.0
37	19	Bulgaria	69.0	0.7	62.5	41.9	35.1	90.2	63.9	98.8	62.7	68.4	88.0	86.0	70.0	60.0
38	4	Saint Lucia	68.7	1.1	65.9	63.8	50.3	76.2	79.3	81.3	76.3	69.2	83.9	73.2	65.0	40.0



THE RISE OF DEMOCRATIC SOCIALISM

These are economies that actually have really robust institutions of private ownership and lots of entrepreneurial dynamism. Government officials are not saying, "You're going to raise cows, you're going to produce and manufacture steel, and you're going to engage in engineering and science." What we've seen when we look at the history of the Soviet and Chinese experiments with total communism is that those plans always go wrong because the planners can't possibly know how to best use scarce resources at any given moment.

When you look at the Nordic model, you also see they are some of the most innovative economies in the world. Innovation is bursting in these economies. It's possible to measure things like R&D spending, patent activity, productivity, high tech density. When you measure those, Sweden, Finland and Denmark are consistently top producers in those areas. They do very well, and some are doing better than they did the year before. Nordic countries are dynamic, innovative economies, and the only way they can be dynamic and innovative is because firms make decisions about what they think people want. In these types of economies with lots of economic freedom, firms are problem solvers. They step in and they help discover ways to lower our opportunity costs and improve our wellbeing.

An economy where people are not overly burdened by regulation is required for this to happen. It also requires people and firms to not be overly burdened by such an extensive tax structure that businesses can't operate and that individual households can't support their own.

What is going on here?

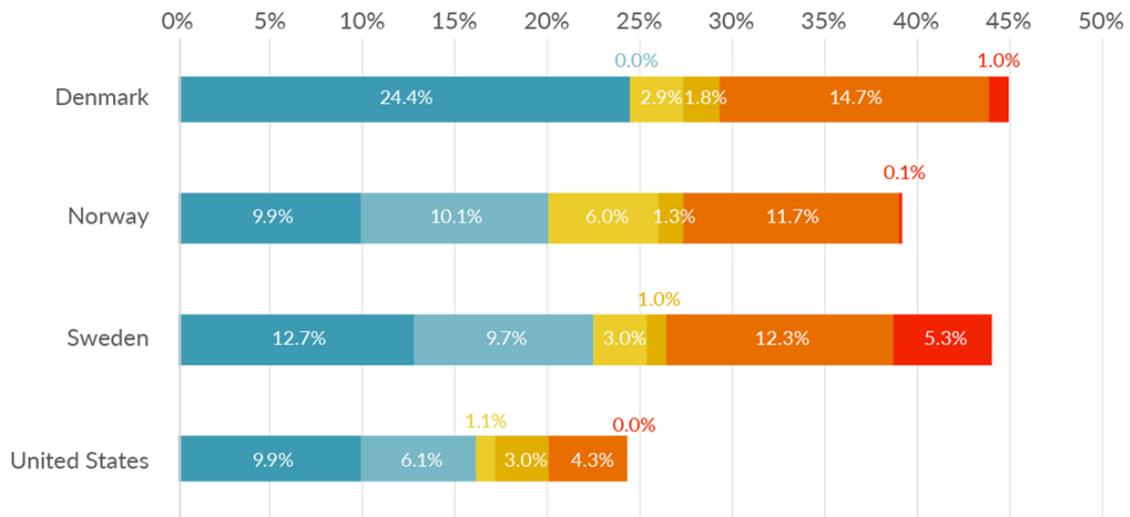
This is where we can switch from thinking of a Nordic model as a country that has democratic socialism as a form of government, which it does not based on all the reasons outlined above. Rather, the Nordic countries are socially democratic economies. That means they have large welfare programs, large public safety net programs, and benefits for their citizens. And that requires the political will to have a tax burden that is much higher than normal.

THE RISE OF DEMOCRATIC SOCIALISM

This chart, published by the Tax Foundation in 2018, shows tax-to-GDP ratio by revenue source.

Tax-to-GDP Ratio by Tax Revenue Source, 2018

Individual Taxes Social Security Contributions Corporate Taxes
Property Taxes Consumption Taxes Other



Note: U.S. payroll taxes are defined as social security contributions in this graph.
Source: OECD, "Global Revenue Statistics Database."

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Specifically, we're looking at individual taxes, corporate taxes, property taxes, etc. The Nordic countries, compared to the United States, have a much higher overall tax burden - about 45% at the peak. Take free medical care, for example, remembering that free just means zero price in this situation. You could also say zero price daycare or paid paternity and maternity leave. If we have those things, we must have a large public safety net that provides the resources for us to pay for them. Just because we declare them to be free doesn't mean they have zero cost. These programs are extremely expensive. That's why these countries have very high levels (rates) for their tax base relative to other countries. Remember, nothing is free because we live in a world of scarcity.

The reality is that Denmark, Sweden and other Nordic countries in general aren't examples of productive, democratic socialist systems of government. They're examples of countries that are socially democratic with high taxes and an expansive government-controlled social safety net.

The question becomes: Can we learn from that? Should we adopt that in other economies? Should we broaden our social safety net in the name of equality and justice? I think some

THE RISE OF DEMOCRATIC SOCIALISM

problems emerged in these types of economies, namely that they just didn't help people. There were lots of shortages and a lot of mismatch between supply and demand. It's not that under different alternative institutional arrangements you can't produce anything. Economists are not saying you can't produce anything under socialism because of course, if we look at the GDP of the Soviet Union, things were produced under socialism. That's not our question. Our question is: What economic system best ensures prosperity for everyone? I think even the Nordic models could take a good look and say, "If we privatized daycare and if we changed the incentives around employer-mandated leave, could we actually get more innovation, more wellbeing?" Those are the relative questions economists ask; those are the questions for which economics allows us to seek the answers.

The other thing we need to consider, especially in a country like the United States, is when you have a large public safety net, you open the door for rent-seeking. Rent-seeking, in economic terms, means that large corporations tend to lobby for things that will benefit them. So, you see in this picture a businessman and a politician toasting the gains from their trade.





THE RISE OF DEMOCRATIC SOCIALISM

But the gains from their trade often come by changing the rules and altering the regulatory system to prefer some businesses over other businesses. This is the problem with a broad and widened public social safety net: It opens the door for cronyism.

Here's a quick example from the United States. In the United States, wealthy households receive a disproportionate share of tax expenditures. Wealthy individuals are using the state to tax themselves to pay out benefits to themselves. This provides an example of rent-seeking in which those who have influence can manipulate the system for their own benefit at the expense of others. This is one area in the United States that needs improvement. It's also an area for improvement in Nordic economies.

No economic system is perfect and no economy is perfectly capitalist or perfectly socialist. The Nordic model is a mixed economy, much like the United States. The big difference is that these Nordic countries have small populations relative to a country like the United States and they've been largely homogenous for some time. The relative homogeneity and size impact the effort needed to change the political will.

There's a stronger political will for large levels of government redistribution in a country like Denmark because of the homogeneity and size of the population. We don't have the political will to do that in the United States. The political will needed to enact a system like that in the United States will be much harder to achieve and may not even be possible because there's a much larger, much more diverse population. Even if we did have the political will, if we move in the direction of the Nordic model in terms of redistribution of wealth, the U.S. economy will see reductions in other areas, if not in the overall GDP. What is true for the Nordic model is also true for the United States, namely, we can always do better. However, the way that we do better is by more economic freedom, not less.

So, if there's something that I would leave with you, it's the first idea: Nobody knows what the best use of scarce resources is at any given time. That's what economics highlights for us. Economics brings us the understanding of this profound scarcity. Every person makes decisions under conditions of radical uncertainty. The Nordic model isn't an example of democratic socialism because democratic socialism is an impossibility. Democratic socialism is the idea that you can collectivize economic resources and yet remain democratic, which means you respect the rights of people and you respect the political process.

Every experiment with mass collectivization of private resources always results in greater levels of authoritarianism. This has been true throughout the history of the world. Sadly, if you look at Venezuela today, it is an example of what the Soviets, China and Cuba have already been through: When you collectivize economic decision-making, you are going to have to use violent force.



THE RISE OF DEMOCRATIC SOCIALISM

Why? What is the key linchpin that causes the breakdown in the socialist system? We don't have prices because we collectivize property rights. Prices, rather than being emergent and spontaneous responses to market exchange, are dictated to us. What happens when a price is dictated? You need force to back up the decree.

Ideas matter. Our ideas about whether or not democratic socialism is a good system matter because the vast experiment with collectivism over the twentieth century made it one of the bloodiest centuries in human history. Deaths by the government were higher than they have ever been in human history. There are tens of millions of victims. Socialism has an incredibly high body count associated with it. That is not an accident, it is a feature of the system. If we don't have a way to ration and we're going to use a government decree to tell people what to do, we must use force. Democratic socialism is an impossibility because if we're going to go more towards collectivism, we're by definition going to be more authoritarian and less democratic. It is a necessity of the economic system.

Thus, the Nordic model is a model to emulate in some ways. There is lots of dynamism, there is lots of innovation, there is lots of economic freedom, and that's a good thing. They could be better, but it's not by becoming more socialist. It's actually by becoming more market-oriented.

Let economic freedom be your guide as we navigate through these tough questions.