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Socialism's Fundamental Flaws

By [Andy Logar](#)

The official, ultimate demise of the greatest socialist experiment in history, that of the Union of Soviet Socialist Republics, occurred, ironically, on Christmas Day 1991, but only after it had dispossessed, imprisoned, tortured and murdered untold millions of its own citizen in the quest for the workers' chimerical paradise of equality and fairness, where each was projected to produce according to his ability and receive according to his needs. After 69 years of unremitting misery for the overwhelming majority of its people -- the socialist Nirvana never coming even remotely within sight -- the inevitable economic collapse took place, leaving hapless millions in grinding poverty. However, Westernized socialism, as practiced in European social democracies and to a lesser extent in the U.S., is still alive, no matter how unwell. What salient faults brought down Soviet socialism and what lessons can be drawn? Are fault lines emerging in socialism's Western iterations which, if addressed, may prevent disaster?

In the Soviet model the state owned the means of production thus all workers were employed by the state -- essentially each working for everyone else, the collective, but not directly for themselves. This was effectively a compulsory altruism which, because not being a primary human drive, introduced a fatal systemic flaw to an economy so bereft of incentives as to engender the famous Russian quip: "We pretend to work and they pretend to pay us."

As if one were not enough, the second fatal flaw was the elimination of the free market and its replacement by the planned economy -- where supply and

demand were in the hands of technocrats and not the invisible hand of free-market capitalism. The resultant low productivity was easily outpaced by free-market capitalism which produced guns and butter as well as social programs. Economic non-competitiveness, accompanied by suppression of human rights and political freedoms assured Soviet socialism's ultimate dispatch to the dustbin of history, to join its other socialist iterations, Nazism and Fascism.

Today's Westernized socialism casts out doctrines of centralized planning and nationalization of enterprises, and incorporates democratic governance, rule of law, varying degrees of public services, safety nets and entitlements, all existing *pari passu* with free-market capitalism. Yes capitalism, the most effective economic system extant because it harnesses instinctive self-interest, close cousin to man's primordial drive of self-preservation, of millions of people bustling about in pursuit of economic advantage to ultimately produce, on average, the greatest amount of wealth, for the greatest number with the least amount of pain overall. So socialists have learned that not only can they live side-by-side with capitalism, but they are dependent on it as the wealth generator to fund...well, socialism!

However, the Western economies have recently slowed to a crawl, causing soaring national deficits which some governments have attempted to mitigate with reduced spending. In several nations this has impacted public services and threatened entitlements causing widespread public protests ranging from peaceful to violent, while world stock markets have dropped precipitously and turned volatile. We're facing an economic crisis of potentially global proportions which, though it may have had its genesis in the 2008 subprime mortgage bubble, is now attributable to the underlying and [growing sovereign debt crisis](#), which threatens [entire economies](#) with collapse. The common denominator: The involved nations are democracies, increasingly encumbered with the unsustainable social spending of the welfare state. Unsustainability is the fundamental flaw of Westernized socialism.

The origin of this flaw resides in the all-too-common human failing -- the desire to get something for nothing -- or at least not at one's own expense. This proclivity is one to which politicians shamelessly pander. Having government offer "free" entitlements lures people into repeatedly voting for politicians who promise to deliver ever more of such. This mutually reinforcing voter-politician cycle is an example of the phenomenon of *positive feedback*.

Positive feedback, occurring in nature and technology, bears defining: it is a process whereby a small input to a system is amplified, then fed back to the

input to again be *increased*, tending to system instability and possible self-destruction. Examples: Warming atmosphere melts polar ice releasing trapped methane, a greenhouse gas, warming the atmosphere further; an open microphone picks up audio from a loudspeaker, re-amplifies it repeatedly producing a loud squeal.

Unfortunately, within today's governance, such positive feedback abounds, spurring unfunded liabilities, accelerating deficits and rapidly growing national debts. For example, in the U.S., the positive feedback between public sector unions and politicians they help elect has spawned an ongoing, incestuous, symbiotic relationship largely responsible for unfunded state level public sector pension liabilities which are now estimated at over [\\$4 trillion dollars](#). At the national level, the numbers are even more appalling: According to USA Today, federal unfunded liabilities are over [\\$61 trillion dollars](#). Clearly welfare state programs are overwhelming the wealth-generating ability of our capitalist economy. Of course, similar problems, but worse, are afflicting Europe.

The converse to positive feedback, predictably, is *negative feedback*, a control mechanism which taps part of a process' increased output to *reduce* the input so as to maintain overall control over system dynamics. This phenomenon is also found throughout nature and technology. Examples: A predator population grows rapidly until lack of sufficient pray halts or reverses the trend, re-establishing equilibrium; a home's interior temperature is thermostatically sensed as too high, shutting off the heater, the process reversing when temperature drops below set limits.

The Founders, who delivered us the greatest system of governance in the world by any reasonable measure, failed to introduce a negative feedback mechanism to dampen the reinforcing cycle between the electorate and the elected -- but then that was well before Progressives found a bottomless pit of societal needs addressable, it would seem, only by government. Ironically, the power of the ballot renders us not only insufficient control but is actually enabling of the vicious cycle between the voter and politician.

In the broadest sense socialism is essential to modern society -- from public schooling, police, fire, highways, safety nets, defense -- and rules and regulations make for clean water and air, safe drugs and food, etc. The real question is how much socialism constitutes the Goldilocks amount. To wit, empirical studies show that as government spending increases as percentage of GDP, economic growth increases to a point of diminishing returns, then begins an inexorable decline, as depicted in the [Rahn Curve](#), eponymously named for CATO Institute's Richard Rahn.

Proponents of the Rahn curve maintain that total government spending at 15-25% of GDP maximizes economic growth. Total United States government spending rose from 33% of GDP in 2001 to 37% in 2008 and 40% in 2010 -- overspending is a bipartisan effort -- approaching the [EU-27 2010 spending](#) of over 50% GDP. Consequently, as the Rahn curve predicts, economic growth in the West is nearly non-existent: The [IMF has recently reduced](#) 2011 growth projection for Europe to 0.6% and that of the US to 1.5%. Increasing government share of GDP means the private sector is being starved of capital and overburdened with expanding rule and regulation making bureaucracies. Clearly government must downsize as a percentage of GDP, or economic stagnation, with all its deleterious long-range consequences, will continue. Paradoxically, instead of placing government spending on a diet long overdue, we're starving the goose that lays the golden eggs.

There was one more fault line developing in Soviet socialism before its downfall worth recalling. In the mid-1950s the Yugoslav dissident [Milovan Djilas](#) wrote of it in the *New Class*, a major best seller in the West, in which he deplored the New Class of growing socialist bureaucracies, entrenched, well paid, obtuse and politically untouchable. Unfortunately, Djilas might as well have been writing about our growing unelected federal and state bureaucracies, staffing seemingly countless often duplicative agencies and public sector unions, all of whom have steadily and quietly carved out for themselves relatively unassailable positions of increasing power, pay and benefits. And worst of all, it is almost impossible to fire any one of them.

There are glimmers of hope: The spontaneous Tea Party movement is perhaps the very first manifestation of public's own awareness and intense concern over growing government, regulations, deficits and national debt - negative feedback arriving none too soon to produce strong GOP showing in 2010 election results. Contrast this with the Occupy Wall Street movement which appears to be calling for more government handouts -- which are the root of our problems. Current calls for a [Balanced Budget Amendment](#) may bear fruit - offering automatic negative feedback to government spending. In his book *No Apology*, Mitt Romney criticizes the CBO practice of 10 year scoring of a bill's cost, because this invites cynical back-end loading of new program costs into outlying years. The Wall Street Journal reports that actuarial analysis of the 75 year cost of the Class program revealed it to be insolvent, resulting in its being dropped by HHS; all long-term spending bills should undergo actuarially sound cost analysis. Finally, although the line item veto failed Constitutional muster years ago -- it should be re-considered in amendment form. We can only hope that after 2012 election smoke clears, at least some of foregoing measures

and/or others will be undertaken without delay, to provide the essential long missing negative feedback mechanisms necessary to rein in government, pay off debt, grow the economy and ultimately save the Republic.

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