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Venezuela's Not Suffering From Socialism But From Anti-Marketism

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It's rare that I disagree with David Boaz over at Cato, my more usual attitude is the doffed cap and tugged forelock of the peasantry meeting the gentry. However, I'm afraid that Boaz is actually wrong here about Venezuela and what is causing the laughable (for us outside the country, not so laughable for those inside it) shortage of toilet paper. This isn't the result of socialism, this is the result of anti-marketism. This is an important distinction that we have to make: however much those to the left of us (and given where Boaz and I are on the spectrum, that's most of humanity) confuse these two things capitalism is not the same thing as a market based economy nor is socialism the opposite of one. They're descriptions of things that are operating on different axes.

Here's what Boaz actually says:

“Venezuela Reaches the Final Stage of Socialism: No Toilet Paper

Shortages, queues, black markets, and official theft. And blaming the CIA. Yes, Venezuela has truly achieved socialism.

But what I never understood is this: Why toilet paper? How hard is it to make toilet paper? I can understand a socialist economy having trouble producing decent cars or computers. But toilet paper?”

Well, yes, I was in the Soviet Union at the same time of Boaz's first visit and yes, it was something difficult to find. As it happens I was at an exhibition of Czech 1980s living standards a few weeks ago where a friend took this picture:



That block on the right hand side, about the size of a bar of soap, is in fact 200 sheets of the standard toilet paper of the time and place. So, maybe we can claim it is socialism that causes this?

Except, in the case of Venezuela at least, this isn't what has gone wrong. Sure, some of the bits of socialism that have been imposed have had the usual predictable effects but the toilet paper thing isn't one of them.

Just to clarify our terms here, socialism and capitalism are two competing descriptions of who owns the productive assets. In capitalism it's the capitalists, in socialism some social grouping. It can be the state, most certainly, in state socialism as the Soviets had it. It could be the workers themselves in an organisation, as in a workers' co op (say, Mondragon in Spain). It might be the customers (say, Building and Friendly Societies in my native UK) and it could even be the management (just about every law firm ever). But our differentiation here is of who owns the capital.

There's no particular reason to think that capitalism is the best answer for all areas of the economy and there are good reasons to think that socialism isn't a good answer to all areas of the economy (most especially large, capital hungry, enterprises). We can usually just leave this to experimentation to find out. You'd be surprised how much of the economy is actually socialist in this sense: Goldman Sachs, until it listed on the stock market a few years ago, would have fit into this definition of socialism. It was a partnership, owned by the management.

The other axis we need to consider is a market as opposed to a planned economy. We can have this under whatever version of asset ownership the society has. Capitalist and planned usually falls into the definition of fascism (please note, fascism, not Nazism) and socialist and planned might better be called a nightmare. But there's no reason why there cannot be socialist market economies: this is very much what Tito was trying to achieve in Yugoslavia. For we can differentiate between who owns what and whether we're going to use the price system as our information source about who wants what, where and in what quantity. This is the general mistake that I tend to think leftists make, that they underestimate the power of said market (and at

least one serious economist, Brad DeLong, can be found musing that this is Marx's basic error). Here Hayek really was correct, we cannot plan something as sprawling as an economy in anything close to real time. We just cannot collect enough information and we cannot process it quickly enough. Just can't, even in theory, be done.

Which leads us to what Venezuela under Chavez and Maduro has been doing wrong. As my sometimes colleague here at Forbes points out at the Coyote Blog there's no such thing as the "correct" price.

"I see this all the time, the notion there is somehow a "correct" price that no one is willing to charge. There is nothing real about the 17 bolivares price. It is a fiction. There are only two real prices in the market — 110 bolivares PLUS any risk/penalty from breaking the law or 17 bolivares PLUS 4 hours of your personal time."

This idea of the correct price is akin to St Thomas Aquinas and his idea of a "just" price. And the thing is, Aquinas was wrong. There is a market clearing price and a number of prices at which the market does not clear. And that's really all we want to know about prices here.

If we decide that that market price is too high then sure, we can decide to set it lower. Which will mean, in the absence of a black market, that not enough people will supply at that price for the number of people who wish to purchase at that price. Thus we get shortages. Or, that black market where prices are as they always are, those that will clear the market.

Which brings us to Venezuela. The original stated aim, of making the poor of that country richer, or reducing the inequality, well, maybe you and I might think that a great goal and maybe we won't but none of us is going to say that it's a bad goal, something ignoble in and of itself. We're just going to say, well, depends upon how you go about it really. If you're going to try the Soviet solution (kill all the rich people and everyone who complains) then perhaps that's not a good idea. If you're going to try the Nordic social democracy well, OK, maybe, it works but you'll need to understand how it works.

But that isn't what Venezuela did: they decided that the poor couldn't buy toilet paper so let's change the price of toilet paper. To below that market clearing price: thus the shortages that appear as sure as eggs is eggs in these situations. This is the wrong way to do it.

So, the error made is not socialism per se: it's anti-marketism.

As to the larger lesson for this and our own public policy here it is that we too should not mess with the markets. It's just fine and dandy to say that we want the poor to be better off. But the way that you do this is that you go and collect some tax money from somewhere and then you go give that money to the poor people. Then they can go and buy that good and you still haven't entirely screwed up the market by fixing the prices. So, for example, say that in the US we said that the poor can't afford housing. OK, so, should we fix the price of housing? Well, that's rent

control and the standard economic line is that that's the best way to destroy urban housing stock short of aerial bombing. Instead, we should just go give money to poor people to rent housing. We do in fact do both and Section 8 housing vouchers work a great deal better than rent control does. Similarly, if the poor can't afford food, don't lower the price of food and screw it all up, just give the poor some more money. As we do with SNAP (food stamps).

Please note that this is all entirely different from the discussions about whether we ought to be making the poor better off. This is about, well, if we've decided to do that then which methods should we be using? And as Venezuela shows us the one thing we shouldn't be doing is messing with the markets and prices. Mess with the market for rentals and there will be a shortage of rentals, mess with the market for toilet paper and there will be a shortage of toilet paper.

And very importantly this outcome will be exactly the same whether the society is capitalist or socialist. This is about markets and prices, not who owns the productive assets.