

# *the Atlantic*

## **Bernie Is Not a Socialist and America Is Not Capitalist**

Marian Tupy

March 1, 2016

Whether you like it or not, socialism is back in fashion and it is gaining support among America's youth. A recent YouGov [survey](#) found that 43 percent of respondents under the age of 30 had a favorable view of socialism. Only 32 percent had a favorable view of capitalism.

Another recent survey, this one by Republican pollster Frank Luntz, [found](#) in the words of *U.S. News*'s Ken Walsh that “[58] percent of young people choose socialism over capitalism [which was chosen by 33 percent of young people] ... as the most compassionate system. Sixty-six percent say corporate America ‘embodies everything that is wrong with America,’ compared with 34 percent who say corporate America embodies what's right with America. A plurality of 28 percent say the most pressing issue facing the country is income inequality—one of [Senator Bernie] Sanders’ top themes.”

In the meantime, Sanders beat Hillary Clinton by [70 percent](#) among young people in Iowa, and leads Clinton among [young people nationwide](#).

As someone who grew up under socialism and is still, barely, in his 30s, I hope to relate a few ideas to the young people who are “feeling the Bern.” First, Sanders is not a socialist, but a social democrat. Second, the United States does not have a strictly capitalist economy, but a mixed one. As such, it combines a high level of private ownership of capital and the means of production with relatively onerous regulation and taxation. Third, to the extent that what anti-capitalist Sanders 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.

*Bernie Sanders is not a socialist, but a social democrat.*

Let us start at the well of the socialist renewal, the Vermont senator. Sanders, as everyone knows, calls himself a “democratic socialist.” 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. Sanders, therefore, is wise to distance himself from the socialists of yesteryear and insist that socialism in America should be chosen, freely and fairly, by the electorate.

As many of Sanders's supporters have repeatedly and rightly pointed out, socialism is not communism. In fact, for most of the 20th century, socialism was understood to be a halfway house between capitalism and communism. The latter was a utopian 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., the Union of Soviet Socialist Republics).

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. 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 relatively high degree of income equality.

Two important caveats 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 party bosses and their cronies 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 populace. 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 and the governed masses in socialist countries was as great, if not greater, as it was under feudalism.

Sanders is not a typical socialist. Sure, he believes in a highly regulated and heavily taxed private enterprise, but he does not seem to want the state to own banks and make cars. Considering the negative connotations of "socialism" in America, it is a bit of a puzzle why Sanders insists on using that word. It would be much less contentious and more correct if he gave his worldview its 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 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, unfettered capitalism implies individual greed, vast income inequality, and lack of government protections for the poor. Capitalism is often confused with "crony" capitalism—an odious nexus of corporate

and political power that crushes the worker and cheats the consumer. 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.”

It would be much less contentious and more correct if Sanders gave his worldview its proper name: social democracy.

Many people on the right eschew using the word “capitalism.” According to the economic historian Robert Hessen, capitalism is “a term of disparagement coined by socialists in the mid-nineteenth century, [and it] is a misnomer for ‘economic individualism,’ which [the founder of economics] Adam Smith earlier called ‘the obvious and simple system of natural liberty.’”

Thus, people who favor Smith’s system of natural liberty tend to refer to it as “economic freedom,” “laissez-faire” economics, “private enterprise,” a “free market,” or “competitive enterprise.” Competition is fundamental to the system: Productive firms should be allowed to grow, while unproductive firms should be allowed to go under, giving rise to an aphorism, “Capitalism without failure is like religion without sin. It doesn’t work.”

To make matters more complicated, when supporters do refer to “capitalism,” they mean the exact opposite of what people on the left sometimes mean by 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. 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 unfettered by subsidies, bailouts, and protectionism; 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 efficacious judiciary that protects life, liberty, and property, and punishes fraud and theft.

To be sure, there has never been a fully free economy. By that measure, both communism and capitalism refer to ideals that have never existed in practice. All governments play some economic role. It is, however, possible to ascertain relative levels of economic freedom, which is to say that we can measure how different countries stack up against each other. 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).

The EFW has ranked Hong Kong as the world’s freest economy since 1970. In 2013, in contrast, the United States came in the 16th place out of 157 countries surveyed—behind such countries as New Zealand, Switzerland, Ireland, Canada, Great Britain, and Australia.

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

First, aside from a small number of government-owned enterprises (e.g., Amtrak) and government-sponsored enterprises (e.g., Fannie Mae), the vast majority of enterprises in America are privately run and owned. As a consequence, almost all of the wealth that is created in the United States each year (i.e., gross domestic product) is privately produced. That part's capitalism.

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

Contrary to what the advocates of economic freedom might wish, taxation in America is neither particularly low nor easy.

Thus, while production in America is dominated by the private sector, spending is dominated by the government. Or, to put it differently, the government is by far the single most important spender and, consequently, the single most important economic actor. In fact, many of the most important financial decisions made by ordinary Americans during the course of their lives, such as the purchase of healthcare, social security, education, and housing, are heavily influenced by the government.

Second, to obtain and redistribute outlays amounting to 39 percent of GDP, the government relies on borrowing as well as a myriad of taxes, including: individual and corporate income taxes, Social Security and Medicare taxes, sales and excise taxes, property and estate taxes, etc. Here I am deliberately avoiding the question of an *appropriate* level of redistribution. Total government spending in Switzerland is about 34 percent of the GDP. In Denmark, it is about 57 percent. Both countries are good places to live in.

Rather, my point is that 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 totality of 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 onerous than in many other countries. That includes the relatively economically free Hong Kong and the socially democratic Denmark.

Third, consider the government regulation of the private sector. Again, capitalism is supposed to be characterized by a low level of regulation. The total number and economic effects of regulations in America are subject to a vigorous debate, though some economists have tried to estimate both. That said, the World Economic Forum in Davos 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 the maximum possible separation of the private sector and the government, 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 precipitously that, to quote Hessen again, "the United States, [which was] once

the citadel of capitalism, is [now] a ‘mixed economy’ in which government bestows favors and imposes restrictions with no clear or consistent principles in mind.”

*The Scandinavian social democracies are, in one important way, more capitalist than the United States.*

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. (Note that this discussion excludes Norway, which has a small population and lots of oil. Oil revenues allow the government to spend more than other countries in the region.)

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.

But, consider free trade. A vast majority of economists agree that free trade is a crucial driver of economic growth. In fact, there has never been a country that has become prosperous in economic isolation. And, as noted, unimpeded global flow of goods, services, and capital is an essential component of capitalism.

Free trade is also one of the most important elements of agreement between Sanders and Donald Trump—both *oppose* it. Both are also critical of previous free-trade agreements, including the North American Free Trade Agreement, which was concluded by President Bill Clinton, and the Trans-Pacific Partnership, which was negotiated by President Barack Obama’s administration.

It is, therefore, paradoxical that both Sweden and Denmark have freer trade with the rest of the world than the United States. So, in that sense, some Scandinavian countries can be said to be more capitalistic than the United States.

The debate over Senator Sanders’ socialism is rich with paradoxes. Senator Sanders is not a proponent of socialism, and that is a good thing, for true socialism, whenever and wherever it has been tried, ended in disaster. Nor is America the bastion 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.

*Marian L. Tupy is a senior policy analyst at the Cato Institute’s Center for Liberty and Prosperity.*