

It's Important To Understand The "ism"s

By Roy Minet (Rev. 09/17/19)

The terms "socialism" and "capitalism" are being batted around with increasing frequency. This is bound to get much worse; hopefully it eventually gets better. It is wise to have a good understanding of these labels in order to better judge the veracity of politicians' many claims.

The term "capitalism" originated during the 1860's as an alternative name for the free market economic system. Karl Marx and Friedrich Engels used the term "capitalist" (Kapitalist) in *The Communist Manifesto*. But "capitalism" was primarily popularized by Karl Marx in his writings *Das Kapital* and *Theories of Surplus Value*. That the term came into widespread use has enabled an avowed enemy of free market economics to stick it with a less descriptive and less appealing label.

A free market economy is the only economic system that works without any use of force. Everything is voluntary. Freedom is maximized. Many other economic systems have been tried, but none has been very successful and, certainly, none has come anywhere close to matching the rapid creation of wealth that free markets can achieve.

Expanding use of (mostly) free markets is the main reason billions of people have been lifted out of extreme poverty. In 1820, approximately 84% of the world's population survived on \$1.90 per day per person. According to the World Bank, that was still true for 42% of world population in 1981. Today, only 8% still suffer such extreme poverty.

Strident voices argue that our lot can be improved by socialism. They angrily claim that our "economy is not working for everyone." They bitterly complain that the top few percent possess far too much wealth and the lower echelons not enough. The middle class is taking a beating, they claim; presumably falling into poverty. There is a lot of hand waving and innuendo, but one wonders if they've bothered to check reality.

In 1967, 53.2% of U.S. households had incomes between \$35,000 and \$100,000 per year; call them the middle class. By 2016, the middle class had declined to 42.1% of U.S. households. (All data are in terms of 2016 dollars to remove the effects of inflation.) Gee, maybe they're right. The middle class is shrinking. We should look at the households with less than \$35,000 income to see if they are ending up there.

In 1967, 38.7% of households had incomes below \$35,000. However, by 2016, only 30.2% fell into this category. It's shrinking too! Nope, the middle class surely can't be crumbling into low income. What could be going on? Guess we'll need to look at the households earning more than \$100,000.

In 1967, 8.1% of households had \$100,000 or more income. By 2016, 27.7% of households were in the high income category. These have been steady trends over the past half century and it would be a good bet that those trends have accelerated with the exceptionally good economy of the last two years. It looks like the economy actually is working very well for substantially everyone.

For anyone interested in a deeper dive, the statistics are from the upcoming book, *Ten Global Trends Every Smart Person Should Know* by Ronald Bailey and Marian L. Tupy.

Socialism is defined as an economic system for which government owns the means of production. Those advocating socialism definitely do intend increased government control, in the health care sector for openers. But their main siren song is simply, “more free stuff.” They want to use government force to confiscate more wealth from people who have earned it and give it to people who have not earned it (minus inevitable government waste, fraud and abuse). TANSTAAFL (There Ain’t No Such Thing As A Free Lunch)!

Socialism, communism, fascism and plain old despotic dictatorships all have “government” control of the economy in common. Economic textbooks usually lump these together as “command economies.” Most people do not fare well in a command economy. Only the very small “elite” group that directly wields the power does well – extremely well. There are so many examples: Venezuela, the (collapsed) U.S.S.R., North Korea, Cuba, etc. Using force on a free market makes it not a free market and poisons the goose that lays the golden eggs.

Our health care sector is not functioning well today precisely because of serial government manipulations spanning the past eighty years. Most so-called liberals say the “fix” is even more damaging government force. Not.

“Evil corporations” get blamed for “crony capitalism.” This is the hijacking of government power for the benefit of private individuals or organizations through mechanisms like tax breaks, loopholes, subsidies, loan guarantees, preferential regulations, etc. To whatever extent this occurs, it is not capitalism; it’s the antithesis of a free market. The correct term would be “crony statism,” and the correct solution is to eliminate government’s power to force such preferential treatment.

Worry not about some being able to accumulate more wealth than others. In a truly voluntary and free market, wealth can be earned only by helping others – by offering them goods and services they want at the lowest price. Worry instead about preserving an economic system that most rapidly grows everyone’s wealth, including those in the lower income categories.

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