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# THE POLICY CIRCLE

## SOCIALISM



# ➤ WHAT IS SOCIALISM? ◀

SOCIALISM IS “ANY OF VARIOUS ECONOMIC AND POLITICAL THEORIES ADVOCATING COLLECTIVE OR GOVERNMENTAL OWNERSHIP AND ADMINISTRATION OF THE MEANS OF PRODUCTION AND DISTRIBUTION OF GOODS.” THE FACT THAT THERE ARE “VARIOUS” FORMS AUTOMATICALLY MAKES THE ISSUE CONVOLUTED, BUT IN GENERAL THE FOCUS IS ON OWNERSHIP OF ECONOMIC RESOURCES.

SOCIALISM ENVISIONS COLLECTIVE OWNERSHIP, WHICH INVOLVES PUTTING WORKERS IN CONTROL OF THE MEANS OF PRODUCTION AND THE ALLOCATION OF ECONOMIC RESOURCES. YET “IT IS NOT AT ALL OBVIOUS HOW MEANINGFUL CONTROL OVER SOMETHING AS MASSIVE AND COMPLEX AS A MODERN ECONOMY MIGHT BE SHARED ACROSS TENS OR EVEN HUNDREDS OF MILLIONS OF PEOPLE.” THE RESULT IS NATIONALIZATION, OR STATE CONTROL (AS OPPOSED TO PRIVATE OWNERSHIP BY COMPANIES AND CORPORATIONS) UNDER THE DEMOCRATIC PREMISE THAT THROUGH EXERCISING THEIR VOTE “THE PEOPLE ARE THEMSELVES IN CONTROL OF THE STATE.”



# FACTS TO KNOW



IN THE EARLY 1900S, SOCIALIST GOVERNORS IN THE U.S. HELD OFFICES IN OVER 300 CITIES AND SOCIALIST PRESIDENTIAL CANDIDATE EUGENE V. DEBS EARNED 6% OF THE POPULAR VOTE IN THE 1912 ELECTION.

IN THE 18TH CENTURY, THE GAP IN LIVING STANDARDS BETWEEN LONDON AND BEIJING WAS ROUGHLY 2:1; IN THE 20TH CENTURY, WHEN THE U.K. SAW THE BENEFITS OF FREE TRADE WHILE CHINA LIVED UNDER SOCIALISM, THAT GAP EXPANDED TO 6:1. SOCIALIST TAKEOVERS OF AGRICULTURE OVER THE COURSE OF THE 20TH CENTURY RESULTED IN DRASTIC DROPS IN FOOD PRODUCTION AND EVEN FAMINE IN THE U.S.S.R., CHINA, CUBA, AND VENEZUELA.

DURING THE EARLY- TO MID-20TH CENTURY, ONE-THIRD OF THE WORLD'S POPULATION LIVED UNDER SOCIALISM, MOST NOTABLY CHINA UNDER MAO ZEDONG AND THE U.S.S.R. UNDER VLADIMIR LENIN AND JOSEPH STALIN. TODAY, ABOUT ONE-FIFTH OF THE WORLD'S POPULATION LIVES UNDER REGIMES FALLING ON THE SOCIALIST/COMMUNIST SPECTRUM, MAINLY IN CHINA, CUBA, LAOS, NORTH KOREA, VIETNAM, AND VENEZUELA.

DESPITE BEING LABELED AS SOCIALIST, DENMARK, SWEDEN, FINLAND, AND ICELAND ARE ACTUALLY ALL MORE FREE MARKET-ORIENTED THAN THE U.S.. EACH OF THESE COUNTRIES SCORES HIGHER THAN THE U.S. IN TERMS OF SECURITY OF PROPERTY RIGHTS, MONETARY FREEDOM, AND TRADE FREEDOM, AND SCORES PRACTICALLY EQUAL IN TERMS OF BUSINESS FREEDOM, INVESTMENT FREEDOM, AND OVERALL ECONOMIC FREEDOM.



# ➤ SOCIALIST GOVERNMENT ◀



STATE CONTROL, OR CENTRALIZED PLANNING, MEANS THE GOVERNMENT DETERMINES HOW BEST TO USE AND DISTRIBUTE ECONOMIC RESOURCES ACROSS SOCIETY. THE GOVERNMENT IS IN CHARGE OF MAJOR INDUSTRIES – ENERGY, COMMUNICATIONS, HEALTH, AND AGRICULTURE, FOR EXAMPLE – AND PLAYS A SUBSTANTIAL ROLE IN DETERMINING PEOPLE’S INCOME AND EMPLOYMENT, THE GOODS AND SERVICES AVAILABLE TO CONSUMERS, AND HOW MUCH THOSE GOODS AND SERVICES COST.

MARXISTS ORIGINALLY DESCRIBED SOCIALISM AS A KIND OF STEPPING STONE ON THE WAY TO COMMUNISM, DEFINED AS A “CLASSLESS SOCIETY.” SOCIALIST SYSTEMS INVOLVE A HIGH LEVEL OF GOVERNMENT INTERVENTION IN THE MARKET; COMMUNIST SYSTEMS INVOLVE COMPLETE GOVERNMENT CONTROL OF THE ECONOMIC RESOURCES, AND PROVIDES CITIZENS WITH ALL BASIC NECESSITIES, INCLUDING FOOD, HOUSING, MEDICAL CARE, AND EDUCATION.

SOCIALIST/COMMUNIST SYSTEMS ARE USUALLY CONTRASTED WITH CAPITALIST/FREE ENTERPRISE SYSTEMS, IN WHICH THERE IS “PRIVATE OWNERSHIP OF THE MEANS OF PRODUCTION, WHERE INVESTMENT IS GOVERNED BY PRIVATE DECISIONS AND WHERE PRICES, PRODUCTION, AND THE DISTRIBUTION OF GOODS AND SERVICES ARE DETERMINED MAINLY BY COMPETITION IN A FREE MARKET.” THE GOVERNMENT’S ROLE IS TO ALLOW INDIVIDUALS TO MAKE THE MOST OF THEIR ECONOMIC FREEDOM. THIS INVOLVES DEFINING AND ENFORCING THE RULES OF SOCIETY, SUCH AS PROTECTING PEOPLE’S RIGHT TO OWN PROPERTY, AND SETTLING DISPUTES THAT RESULT FROM CONFLICTING INTERPRETATIONS OF THE RULES.

TODAY, THERE ARE NO ECONOMIES THAT ARE PURE, FREE ENTERPRISE SYSTEMS. MOST ARE INSTEAD CONSIDERED MIXED ECONOMIES, WHICH INVOLVE “A COMPLEX MIX OF ‘CAPITALIST’ MARKET INSTITUTIONS AND ‘SOCIALIST’ REGULATORY AND REDISTRIBUTIVE INSTITUTIONS.” THE GOVERNMENT MAY STEP IN TO HANDLE THE “FREE-RIDER PROBLEM,” MEANING IT PROVIDES CERTAIN PUBLIC GOODS AND SERVICES THE MARKET WOULD HAVE TROUBLE PRODUCING OR MAINTAINING ON ITS OWN.



# ➤ UNDERSTANDING SOCIALISM ◀



A RECORD HIGH OF 43% OF AMERICANS SEE SOCIALISM AS A GOOD THING. “THE IMPULSE TO USE PUBLIC POWER TO SMOOTH THE MARKET ECONOMY’S ROUGH EDGES AND TO ENHANCE OPPORTUNITY AND SECURITY FOR ALL AMERICANS IS A POWERFUL CURRENT IN TODAY’S POST-GREAT RECESSION POLITICS” AS MANY CRITICIZE THE STATUS QUO AND “CALL THE FUNDAMENTALS OF OUR ECONOMIC SYSTEM INTO QUESTION.”

MOST RESPONDENTS DO NOT DEFINE SOCIALISM AS GOVERNMENT CONTROL; ABOUT A QUARTER OF RESPONDENTS ASSOCIATE SOCIALISM WITH SOCIAL EQUALITY, AND ONLY 17% ASSOCIATE IT WITH GOVERNMENT CONTROL. ALMOST ONE-THIRD OF RESPONDENTS CHOSE “OTHER DEFINITIONS WITH SINGLE-DIGIT SUPPORT,” ILLUSTRATING A CLEAR LACK OF CONSENSUS OF THE TERM, AND A STARK DIFFERENCE IN UNDERSTANDING SINCE THE FIRST POLL IN 1949.

NOT ALL REFERENCES TO SOCIALISM HAVE BEEN THE SAME THROUGHOUT HISTORY, ADDING TO THE CONFUSION. IN GERMANY DURING THE 1930S AND 1940S, “NAZI” WAS THE NAME GIVEN TO THE NATIONAL SOCIALISM PARTY. MEANWHILE, PRESIDENT FRANKLIN ROOSEVELT’S NEW DEAL POLICIES WERE BOTH LAUDED AND CRITICIZED FOR BEING SOCIALIST.

AFTER WORLD WAR II, “AMERICANS VIEWED SOCIALISM THROUGH THE PRISM OF SOVIET COMMUNISM. TODAY, THEY VIEW IT THROUGH THE PRISM OF THE WELFARE STATE.” UNDER DEMOCRATIC SOCIALISM, INDIVIDUALS, COMPANIES, AND CORPORATIONS OWN THE MEANS OF PRODUCTION, BUT THERE IS A LARGER ROLE FOR GOVERNMENT IN THE FORM OF “TAXATION, GOVERNMENT SPENDING, AND REGULATION OF THE PRIVATE SECTOR.”



# ➤ THE MYTH OF SCANDINAVIAN SOCIALISM ◀

THOSE WHO HAVE EMBRACED SOCIALISM IN THE U.S. USE THE SCANDINAVIAN COUNTRIES AS EXAMPLES OF SUCCESS, BUT THE LEADERS OF THESE COUNTRIES DISPUTE THE MYTH OF SCANDINAVIAN SOCIALISM. ACCORDING TO DENMARK'S PRIME MINISTER, "THE NORDIC MODEL IS AN EXPANDED WELFARE STATE WHICH PROVIDES A HIGH LEVEL OF SECURITY FOR ITS CITIZENS, BUT IT IS ALSO A SUCCESSFUL MARKET ECONOMY WITH AS MUCH FREEDOM TO PURSUE YOUR DREAMS AND LIVE YOUR LIFE AS YOU WISH."

BASED ON GDP PER CAPITA, SWEDEN WAS THE FOURTH-RICHEST MEMBER OF THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD) IN 1970. BY 1998, IT HAD FALLEN TO SIXTEENTH AFTER EXPANDING ITS WELFARE STATE AND RAISING TAXES ON CORPORATIONS AND BUSINESSES. COMPANIES MOVED TO OTHER COUNTRIES TO ESCAPE THE TAX BURDEN. SWEDEN'S DECISION TO LOWER TAXES, DEREGULATE FINANCIAL MARKETS, AND RETURN STATE-OWNED COMPANIES TO PRIVATE OWNERSHIP RESTARTED ITS ECONOMIC GROWTH AND HAS SINCE FUELED ITS SUCCESSFUL PUBLIC SECTOR. TODAY, SWEDEN HAS NO OCCUPATIONAL LICENSING OR MINIMUM WAGE LAWS; LOW CORPORATE TAX RATES AND ALMOST NO PROPERTY TAXES; A SCHOOL VOUCHER SYSTEM; AND A PENSION SYSTEM BASED ON DEFINED CONTRIBUTIONS.

DENMARK, SWEDEN, FINLAND, AND ICELAND ACTUALLY ALL SCORE HIGHER THAN THE U.S. IN TERMS OF SECURITY OF PROPERTY RIGHTS, MONETARY FREEDOM, AND TRADE FREEDOM, AND SCORE PRACTICALLY EQUAL IN TERMS OF BUSINESS FREEDOM, INVESTMENT FREEDOM, AND OVERALL ECONOMIC FREEDOM. THESE COUNTRIES "ARE IN MANY WAYS MORE MARKET-ORIENTED [THAN] THE UNITED STATES." IN FACT, IN THE TAX FOUNDATION'S INTERNATIONAL TAX COMPETITIVENESS INDEX OF 36 OECD COUNTRIES, SWEDEN RANKS 6TH, FINLAND RANKS 7TH, ICELAND RANKS 11TH, DENMARK RANKS 16TH, AND THE U.S. RANKS 21ST IN TERMS OF HOW COMPETITIVE THESE COUNTRIES' CORPORATE TAX RATES ARE, WHICH REFLECTS HOW ATTRACTIVE THESE COUNTRIES ARE TO BUSINESSES AND BUSINESS INVESTMENTS.

# ➤ SOCIALISM IN PRACTICE ◀

IN PRINCIPLE, SOCIALISM'S "STRICT LIMITS ON PRIVATE ENTERPRISE LIMITED ACCUMULATION OF WEALTH AND SUPPOSEDLY PROVIDED FOR A RELATIVELY HIGH DEGREE OF INCOME EQUALITY." IN PRACTICE, SOCIALIST COUNTRIES THAT ACHIEVED INCOME EQUALITY WERE ON THE WHOLE POORER THAN MORE ECONOMICALLY FREE COUNTRIES. WITHOUT PRIVATE ENTERPRISE TO GENERATE REVENUE AND CREATE WEALTH, SOCIALIST COUNTRIES EXPERIENCED MUCH LOWER ECONOMIC GROWTH IN COMPARISON WITH COUNTRIES WITH MORE COMPETITION IN THE PRIVATE SECTOR. INEQUALITY BETWEEN THE GOVERNING CLASS AND THE GOVERNED WAS ALSO PREVALENT.

UNDER SOCIALISM, CENTRAL PLANNING "EXPERTS" DETERMINE HOW TO USE AND DISTRIBUTE ECONOMIC RESOURCES. THEY SET THE FUNDING CONDITIONS, REGULATIONS, AND REQUIREMENTS THAT STEER THE BEHAVIORS OF INDIVIDUALS, BUSINESSES, INSTITUTIONS AND COMMUNITIES. THIS DISREGARDS SUPPLY AND DEMAND, AND FAILS TO ALIGN ECONOMIC INCENTIVES TO INNOVATE, PRODUCE, AND DISTRIBUTE GOODS AND SERVICES. AGRICULTURE IS ONE SECTOR THAT SOCIALIST GOVERNMENTS HAVE REPEATEDLY ATTEMPTED TO CONTROL. DURING THESE SOCIALIST TAKEOVERS, CITIZENS WERE REQUIRED TO WORK THE LAND AND OUTPUT BELONGED TO THE STATE, AND GOVERNMENT EMPLOYEES WITH LITTLE SPECIALIZED KNOWLEDGE WERE LEFT TO MAKE ALL THE PRODUCTION AND DISTRIBUTION DECISIONS.

CENTRAL PLANNING SKEWS PRICES, AS DEPICTED IN FIGURE 8-1 FROM CHAPTER 8 OF THE ECONOMIC REPORT OF THE PRESIDENT. CONSUMERS TEND TO BE CAREFUL WHEN THEY SPEND THEIR OWN MONEY, BUT ARE MORE DISCERNING OF A PRODUCT'S VALUE WHEN SPENDING ON THEMSELVES (UPPER LEFT) THAN WHEN SPENDING ON SOMEONE ELSE (UPPER RIGHT). WHEN A CONSUMER SPENDS SOMEONE ELSE'S MONEY ON THEMSELVES, THEY STILL SEEK THE BEST VALUE BUT ARE LESS CAREFUL WITH HOW MUCH THEY ARE SPENDING (LOWER LEFT). IF THE GOVERNMENT (OR OTHER THIRD PARTY) SPENDS GOVERNMENT REVENUE (TAXPAYER MONEY) ON GOVERNMENT PROGRAM BENEFICIARIES, THERE IS LITTLE INCENTIVE TO FIND THE MOST ECONOMICAL OPTION OR THE OPTION OF HIGHEST VALUE (BOTTOM RIGHT).

**Figure 8-1. Four Ways to Spend Money**

		On whom money is spent	
		The purchaser	Someone else
Whose money is spent	The purchaser's	Economize and seek highest value	Economize, but don't seek highest value
	Someone else's	Don't economize, but seek highest value	Don't economize and don't seek highest value

# ➤ UNDERSTANDING CAPITALISM ◀

“CAPITALISM REFERS TO AN ECONOMIC SYSTEM IN WHICH A SOCIETY’S MEANS OF PRODUCTION ARE HELD BY PRIVATE INDIVIDUALS OR ORGANIZATIONS, NOT THE GOVERNMENT, AND WHERE PRODUCTS, PRICES, AND THE DISTRIBUTION OF GOODS ARE DETERMINED MAINLY BY COMPETITION IN A FREE MARKET.” GLOBALLY, 56% OF RESPONDENTS TO THE JANUARY 2020 EDELMAN TRUST BAROMETER BELIEVE “CAPITALISM AS IT EXISTS TODAY DOES MORE HARM THAN GOOD IN THE WORLD.” AND YET, WHEN ASKED ABOUT FREE MARKET PRINCIPLES, MORE THAN HALF OF RESPONDENTS IN AN APRIL 2019 GALLUP POLL SAID THEY FAVORED THE FREE MARKET OVER GOVERNMENT CONTROL IN AREAS OF HEALTHCARE, HIGHER EDUCATION, WAGES, TECHNOLOGICAL INNOVATION, DISTRIBUTION OF WEALTH, AND THE OVERALL ECONOMY.

MANY YOUNG AMERICANS ASSOCIATE CAPITALISM WITH THE BRUTAL ECONOMIC RECESSION FROM 2007-2009. LINKING CAPITALISM TO GREED AND INEQUALITY IS “THINKING OF A SPECIFIC FORM OF CAPITALISM THAT DEEMS THE SOLE PURPOSE OF COMPANIES IS TO INCREASE STOCK PRICES AND ENRICH INVESTORS,” OFTEN REFERRED AS SHAREHOLDER CAPITALISM. ANOTHER ISSUE AREA IS CRONY CAPITALISM, “WHERE BIG BUSINESS AND GOVERNMENT WORK TOGETHER FOR THEIR OWN INTERESTS THROUGH SYSTEMS OF RECIPROCAL FAVORS.”

THE RULES AND REGULATIONS THAT DEMOCRATIC SOCIALISM EMBRACES AS A SOLUTION TO CRONY CAPITALISM CAN ALSO HURT ENTREPRENEURSHIP BY HAMPERING PRIVATE PROPERTY RIGHTS. IN ONE SURVEY, OVER 40% OF SMALL BUSINESS OWNERS INDICATED “THEY HAD DELAYED OR HALTED BUSINESS INVESTMENTS” BECAUSE OF ALREADY EXISTING REGULATORY COSTS AND COMPLEXITIES. ENTREPRENEURS IN THE EUROPEAN UNION SAY THEY ARE STIFLED BY THE NEED TO “NAVIGATE ONEROUS TAX RATES AND RESTRICTIONS.” AS OF 2018, 49% OF VENTURE CAPITALISTS AND FOUNDERS SAID EUROPEAN REGULATIONS MAKE THEM HESITANT TO INVEST.

CAPITAL INVESTMENTS ARE NECESSARY TO TURN AN IDEA INTO A PRODUCT OR SERVICE, OR EXPAND A BUSINESS PLAN TO MEET GROWING DEMAND. THE MARKET RESPONDS TO THIS KIND OF DEMAND IN A MANNER THAT CENTRAL PLANNING AND EXCESSIVE BUSINESS RESTRICTIONS CANNOT. IN 2010, PORTFOLIO MANAGERS HELD \$2.5 TRILLION IN U.S. ASSETS USING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CRITERIA TO GUIDE THEIR INVESTMENTS. LESS THAN 20% OF COMPANIES ON THE S&P 500 INDEX PUBLISHED SUSTAINABILITY OR CORPORATE RESPONSIBILITY REPORTS. BY 2018, 86% OF S&P 500 COMPANIES PUBLISHED THESE REPORTS, AND PORTFOLIO MANAGERS HELD \$11.6 TRILLION IN ASSETS BASED ON ESG CRITERIA. THESE CHANGES DEMONSTRATE A MARKET SHIFT AS INVESTORS PUT MORE MONEY BEHIND BUSINESSES THAT BEHAVE SUSTAINABLY. INSTEAD OF REGULATIONS, MARKET DEMAND FUELS SUPPORT FOR A SYSTEM “IN WHICH COMPANIES VALUE COMMUNITIES, THE ENVIRONMENT AND WORKERS JUST AS MUCH AS PROFITS.”



# ➤ WHAT YOU CAN DO ◀

## Key HOW and WHAT Questions

## The Policy Circle's Framework for Discussing Policy

### GOALS & VISION

What "lens of care" are each stakeholder wearing when thinking about the vision and goals of the initiative/issue?

What data are we relying on?

How do we evaluate data?

Are all voices directly present?  
(vs only interest groups)

### ROLES FOR COMMUNITY MEMBERS

What values and principles are at play?

What Laws and Regulations need be taken into consideration?

What are the opportunities for individual community members to be directly involved?

Are there contradictions?

### INNOVATION & INFRASTRUCTURE

What is the role of current technology in this issue?

What is the impact and direction of Future technology?

What about infrastructure?

Are we embracing technology?

### KEY MEASURES

How do we define and measure success?

How do we measure failure?

What are unintended consequences based on human behavior?

How will the initiative be remediated or sunset-ed?

### COST / BENEFIT

What is the cost of development?

What is the cost of implementation

What is the cost of ongoing support?

Who will pay?  
Is it viable long term?

- Who are the **stakeholders**? Who is this impacting in the community?
- What are the **primary goals and vision**?
- What **data** should we relying on?
- What **values** are central to this issue?
- What is the role of the **community, individuals, businesses, non-profit, local government**?
- What does **success** look like?
- How is **failure** measured?
- What **technology/innovation** may impact this?
- What are the **cost of development**?
- What are the **cost of implementation**?
- What are the **ongoing cost**?
- What is **already being done** about this?
- Are there **good success models** to build on?