



The Resurrection of Discredited Ideas

BY RICHARD W. RAHN

DEMOCRATS WHO CRAVE SOCIALISM WOULD REPEAT THE MISTAKES OF HISTORY

Would you call yourself a "socialist"? Webster's dictionary defines socialism as "a theory or system of social organization which advocates the vesting of ownership and control of the means of production, capital, land, etc. in the community as a whole."

Modern-style socialism was born during the French Revolution — with the Conspiracy of Equals. In his classic work "Heaven on Earth" about the rise and fall of socialism, Joshua Muravchik, wrote: "Once empowered, socialism refused to yield its promised rewards. The more dogged the effort to achieve it, the more the outcome mocked the humane ideals it proclaimed. Yet for a century and a half, no amount of failure dampened socialism's appeal. Then suddenly like a rocket crashing to earth, it all collapsed. Within a couple of decades, socialism was officially repealed in half the places where it had triumphed. In the other half, it continued in name only."

It was an ideology that claimed well over 100 million innocent lives in the 20th century. It denied people basic economic and personal freedoms, including the right to own property, and the ability to respond to incentives to better their own lives. Even in

theory it could not work, as Ludwig von Mises and F.A. Hayek so clearly explained — that without market-determined prices, there was no way to know the relative value of anything, so productive resources would be misallocated. There was also no room for innovation. The best that could be hoped for was increasing economic stagnation, a loss of individual liberty, and political repression — which is exactly what happened in practice.

Yet, Sen. Bernie Sanders proudly calls himself a socialist and is welcomed in the Democratic Party presidential primary. He appears to have perhaps more than a million supporters. It is hard to conclude anything other than these people are ignorant of (even recent) history and are incapable of clear thinking. North Korea and Cuba are the best-known remnants of classic socialism. Only the willfully blind think these places are anything other than economic and moral disasters. Members of the press have no problem attacking far more minor policy idiocies from other candidates — so why is Mr. Sanders given a free pass on the core of his beliefs?

For more than two centuries, people who are economically literate have understood the benefits of free trade, which is based on two indisputable propositions. The first is the greater the extent of the market, the less expensive goods and services tend to be — because of economies of scale. The second is each country or state has comparative advantages. Florida sells oranges to Vermont, Vermont sells maple syrup to Florida, and both states benefit from the lower costs of trading rather than trying to produce both goods on their own. In the same way, Malaysia sells rubber to the United States and buys U.S. airplanes. As a result, the people in both countries benefit.

Donald Trump has advocated putting tariffs (a consumption tax) on Chinese imports, which would raise the cost of all of those goods to American consumers, particularly hurting low-income people. Many foreign nationals buy units in Mr. Trump's buildings. I expect he would be less keen about the Chinese and other governments making their citizens pay a tax on the units they buy from Mr. Trump.

The Apple iPad is assembled in China, and when it is exported to the United States, its cost is listed as a Chinese sale to the U.S. But, according to the National Science Board, China only earns about 3 percent of the money from the iPad because the parts are sourced in many countries (12.6 percent in South Korea, 3 percent in Taiwan, 2.6 percent in Japan, etc.). Most of the value (60 percent) accrues to the United States, where the bulk of the design and marketing is done. Trade theory and practice is taught at the Wharton School, where Mr. Trump got his degree, but it appears he might have missed that class.

Mr. Sanders, Mrs. Clinton and others seem to have difficulty understanding the difference between tax rates and tax revenue. Mr. Sanders has mentioned putting tax rates in excess of 90 percent on the rich. The experiment of very high tax rates has been tried in many places over the decades, and it always results in the same outcome — the promised tax revenues fail to appear, and economic growth is undermined, thus reducing incomes and employment — and the governments end up reducing the rates. Mrs. Clinton wants to increase some capital gains tax rates, failing to understand that even U.S. Treasury studies show that the long-run revenue-maximizing rate for the capital gains tax is less than 15 percent. When Mrs. Clinton's husband was president, the capital gains tax rate was cut — in part enabling the high growth and budget surpluses at the end of his administration. It is a mystery why Mrs. Clinton thinks doing the opposite of what her husband did about capital gains taxes should not make things worse rather than better. The tax rate increasers running for president seem to have forgotten that people do not work, save and invest to pay taxes.

Then again, despite all of the evidence, some people still believe the earth is flat.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.

<http://www.washingtontimes.com/news/2015/aug/31/richard-rahn-dont-resurrect-discredited-socialism/>