

**THEN AND NOW**

Income per capita as a percentage of U.S. (U.S. = 100)

Country	1955	2015
Chile	23	42
Cuba	27	19
South Korea	6	65
Sweden	67	85
Switzerland	61	105
Venezuela	28	28

Sources: Data - World Bank, Calculations - Richard W. Rahn  
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**The Fatal Sickness of Free Stuff**

*By Richard W. Rahn*

SOCIALISM ALWAYS TRIGGERS A DOWNWARD SPIRAL

The U.S. economy has been going nowhere for seven years, and there are increasing fears that it is going into a recession with only 38,000 jobs being created last month. At the same time, Venezuela, the country with the largest oil reserves on the planet, is sinking into economic chaos. None of this need happen. The disease is the same — only the fever is higher in Venezuela.

Politicians, at least going back to ancient Rome (with its bread and circuses), quickly understood that they could buy temporary support from the people if they were promised “free stuff.” As Margaret Thatcher famously said: “The problem with socialism is that eventually you run out of other people’s money.” The Obama administration, realizing it could not get major tax and spending proposals through Congress, resorted to sleight of hand by lying about the true costs of many of their programs, notably Obamacare. They also used various regulations to enhance their control over the economy without doing serious cost-benefit analysis, which has resulted in a massive misallocation of resources. Some estimates now show the costs of regulations have exceeded the cost of the tax system. And perhaps most destructive of all, they followed near-zero interest rate policies

(in part to disguise the true cost of the government debt) that hit savers with what is, in effect, a huge tax increase to finance this scheme. A saver who used to expect perhaps 3 percent on savings, above the rate of inflation, now receives less than the rate of inflation (which is the same as a tax increase). This again has resulted in a massive misallocation of resources from productive to less- or non-productive activities that destroy economic growth and job creation.

The amazing and disappointing fact is that every student or even casual observer of socialism knows that it always fails because it destroys the incentives for hard work, creativity and initiative. Most countries that have tried it end up as thuggish places because more and more coercion is required to control the people. Sixty years ago, Cuba and Venezuela were the richest counties on the Caribbean and were only exceeded by Argentina in per capita income in Latin America.

During the past 60 years, the United States has had real growth of about 3 percent per year — respectable but not spectacular. Poorer developing countries normally grow at a faster rate until their per capita incomes begin to reach the levels of the rich countries, at which point growth tends to slow. The accompanying table contains data of several countries that undertook very different economic policies. The numbers show their per capita income change relative to that of the United States over the 60-year period. Chile, for example, had a per-capita income of only about 23 percent of the U.S. back in 1955, but now has a per-capita income of about 42 percent. For the first half of the period, Chile did not have a coherent set of economic policies, including several years of Marxist economics, and actually became poorer relative to the U.S. But for the last 30 years, Chile has embraced free-market policies within the rule of law, protection of private property and free trade, causing it to grow much faster than the U.S.

Cuba, the darling of the left, has become relatively poorer compared to the United States and almost all of Latin America, with a total loss of civil liberties. And the many

naive swallow the Kool-Aid and overlook the continuing disaster. Sixty years ago, South Korea by contrast was desperately poor, much poorer than Cuba or Venezuela, but now is a rich country with a per-capita income 65 percent of the U.S. This miracle was achieved by embracing free-market economics.

Sweden and Switzerland were both high-income developed countries 60 years ago, but while Sweden built a comprehensive welfare state, Switzerland maintained a smaller government approach. The Swedish model ran into difficulty in the 1980s and 1990s, so the level-headed Swedes partially reversed course by reducing tax rates and the relative size of government, including instituting a voucher system for education and Chilean-like largely private social security system, which enabled them to grow again. The smaller government Swiss model worked even better, allowing them to overtake the U.S. in per capita income.

And finally back to Venezuela, which grew rapidly on the basis of oil revenues, and by 1978 per capita incomes were almost 70 percent of those in the United States. But as a result of welfare statism and socialism, its relative incomes are back where they were 60 years ago, the stores are empty and people are hungry.

Socialism has at least a two-century unblemished record of untold human misery. Yet in the eyes of all too many, including much of the press, the romance of the idea dwarfs the reality. Prosperity and freedom can only flourish when the majority stands up to those who advocate the childlike fantasy of socialism.

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<http://www.washingtontimes.com/news/2016/jun/6/richard-rahn-socialism-triggers-downward-spiral/>

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