

## What is Socialism?

March 10, 2016

This is a year when, presumably for the first time ever, we have a major-party candidate who has won states in a presidential primary and yet is also a self-declared socialist. Given all the talk of socialism in this election, one would hope the electorate would have a clear idea of what socialism is and why it is so dangerous.

Like capitalism, though, “socialism” is a nuanced word with several definitions in circulation. For many people, as “capitalist” has become synonymous with being Republican, so has “socialist” become synonymous with being Democrat. However, if we go by the definition of Friedrich Hayek, who literally wrote the book, *The Road to Serfdom*, on what makes socialism so evil, there is nothing socialist about the positions of most Democrats, including Hillary Clinton or Barack Obama. Bernie Sanders, as he sells himself, is indeed a socialist, yet only barely so. The Republican field, in contrast, is awash with socialism. Now that they have been whittled down to four candidates, every single one of them is arguably more socialist than Bernie, and the two frontrunners, Donald Trump and Ted Cruz, unquestionably pray and make sacrifices to socialist gods.

The word “socialist” was coined by Henri de Saint-Simon and his followers early in the Nineteenth Century. Saint-Simon was a student of the new economics propounded by Adam Smith in *The Wealth of Nations*. However, he diverged from Smith regarding the policy implications of this new understanding. Having observed that, in an economy of many firms and many laborers, an “invisible hand” would guide everyone to maximize the productive output of the nation, Smith concluded that every man should be at liberty to choose the occupation that

best suits him. Although Smith is often erroneously described as a laissez-faire capitalist, who thought employers should be permitted to do whatever they want, Smith's primary concern was the power that businessmen had to prevent people from exercising their economic liberty.<sup>1</sup> He clamored against laws that allowed firms to combine, or as we would say today collude, so as to keep prices high and wages low. In contrast, Saint-Simon apparently did not believe that firms could be prevented from combining. He, instead, called for the economy to be run by expert managers and scientists effectively as one giant factory to promote the general interest, as opposed to the selfish interests of the idle rich.<sup>2</sup>

When classifying economic systems, modern economists speak of three questions: "What will be produced? How will it be produced? And who gets what is produced?" How a society answers these questions determines its economic system. In a traditional economy, these questions are answered however previous generations answered them. In a market economy, individuals answer these questions independently using prices to coordinate their behavior. In a command economy, the government answers these questions. The U.S. is often characterized as a mixed economy because, while the market is left to settle these questions for most goods, the government does provide some goods and services.

By the time Hayek wrote *The Road to Serfdom* during World War II, economists had developed this nomenclature, so Hayek formulated Saint-Simon's definition of socialism in terms of the three questions. Though many of his followers today are zealous libertarians, Hayek

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<sup>1</sup> Smith, Adam, (2004), *The Wealth of Nations*, ed: C. J. Bullock, (Barnes and Noble Press: New York) pp. 180-181.

<sup>2</sup> Heilbroner, Robert L, (1995), *The Worldly Philosophers: The Lives, Times, and Ideas of the Great Economic Thinkers*, (Touchstone: New York) pp. 120-121.

was not. Nor was he a laissez-faire capitalist.<sup>3</sup> Hayek's ideology differs little from Adam Smith's, and like Smith he believed we should ideally live in a mixed economy where the government enforces property rights, provides public goods and services, and prevents firms from combining. Thus Hayek was careful to define socialism in terms of what Saint-Simon advocated that was different from what Smith advocated. A concise statement of Hayek's definition is that an economic system is socialist if a planner makes decisions—not involving public safety, externalities, or other market frictions—regarding what goods should be produced for private use or how such goods should be produced; or if the planner redistributes these goods, or the ability to acquire them, with the intention of benefitting a subgroup other than a lower quantile of the wealth distribution. This is what I will call the economists' definition of socialism.

This is subtly different from the definition you may have seen in the dictionary: socialism is an economic system in which the means of production are owned by society. I will call this the Marxist definition of socialism. It is important to keep in mind that this definition was composed by Marxists, who dominated English departments for most of the Twentieth Century and had a disproportionate influence in the writing of dictionaries. It is purposefully not a broad definition that subsumes Saint-Simon's notion of socialism, which Marx referred to as "Saint-Simonism".<sup>4</sup> On the contrary, it was designed to promote the perception that there is only one kind of socialism: the kind that Marx and Engels introduced in *Capital* and *The Communist Manifesto*.

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<sup>3</sup> Hayek, Friedrich, (2007), *The Road to Serfdom: Text and Documents—The Definitive Edition*, ed: Bruce Caldwell, (University of Chicago Press) p. 79.

<sup>4</sup> Marx, Karl, (1976), *Capital Volume I*, tr:Ben Fowkes, (Penguin Books: London) p. 743.

In fact, and this was Hayek's main point in writing the *The Road to Serfdom*, Marxist socialism is merely a special case of socialism as Hayek broadly defined it. There is another brand of socialism that Hayek was more concerned about. When people ask why Adolf Hitler called his party the National Socialists, they are often told this was a misnomer; the Nazis were fascists, not socialists. How could Hitler be a socialist when he vehemently attacked socialists? The popular story is that Hitler was voted into power by Germans to prevent socialists from taking over. This version of events is not entirely wrong, but an essential detail has been lost in translation. Hitler did not present himself as an enemy to socialism; he presented himself as an enemy to Marxist socialism. Germans of the time would have understood that he was pushing a kind of socialism, in which the government managed the economy, but without confiscating private property. Thus Marxist socialists rewrote the definition of socialism to excommunicate their political enemies. For a Marxist, the government owns everything. For a fascist, the government just controls everything.

This is a nominal distinction, however, not a real distinction. An economist classifies economic systems based on who makes decisions, not who owns things. Ownership is a legal nicety. I can say that I own my house, but that does not really mean anything in a world where the government can seize my house at any moment. The only difference between fascism and Marxism lies in the path to assuming a position of power. In a fascist society, wealth can still buy power. In a Marxist society, party membership is usually the way to power. In both societies, though, most individuals will have a limited say in determining what kind of life they can enjoy. Both systems would greatly diminish the welfare of humanity.

In recent years, however, an entirely different notion of socialism has come into circulation, one that is only dangerous from a propaganda standpoint. When Bernie Sanders calls himself a “democratic socialist”, what does he mean? Basically, he means that he supports a mixed economy where the government would provide more public goods and services and do more to regulate externalities than it does now. But this is clearly not socialism under Hayek’s economic definition: “Where, for example, it is impracticable to make the enjoyment of certain services dependent on the payment of a price, competition will not produce the services; and the price system becomes similarly ineffective when the damage caused to others by certain uses of property cannot be effectively charged to the owner of that property. In all these instances there is a divergence between the items which enter into private calculation and those which affect social welfare; and, whenever this divergence becomes important, some method other than competition may have to be found to supply the services in question. . . . But the fact that we have to resort to the substitution of direct regulation by authority where the conditions for the proper working of competition cannot be created does not prove that we should suppress competition where it can be made to function.”<sup>5</sup> If we are going to call anyone who believes in a mixed economy a socialist, then we would have to call Smith and Hayek socialists too.

In examining Sanders’ economic platform, I find only one plank that qualifies as socialism under the economists’ definition. Raising the minimum wage to \$15 an hour nationwide would be an example of socialism. The concept of a minimum wage is not intrinsically socialistic. To quote Hayek again, “Let a uniform minimum be secured to everybody by all means.”<sup>6</sup> Here, Hayek really means let us nudge up the minimum so that

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<sup>5</sup> *ibid.* p. 96.

<sup>6</sup> *ibid.*, p. 225.

everyone can achieve some minimum acceptable level of comfort. Where a minimum wage becomes socialist is when it is set so high that it interferes with decisions of how private goods will be produced. In some places like New York City or Seattle, the cost of living may be so high that a \$15 an hour minimum wage would be quite reasonable. But where I live in Utah, \$15 an hour would destroy most low-wage employment. It would force firms to automate the bulk of their operations. Bernie's goal is laudable, but the plan needs fine tuning.

What is happening in the Republican primaries is much more frightening. While this view has failed to make a dent in the mass media, among economists I see little disagreement that Donald Trump is unquestionably a socialist; albeit a fascist socialist and not a Marxist socialist. You really cannot get more socialist than requiring people to have proper papers to obtain any kind of legal employment whatsoever. But Trump's proposal for a mass deportation of illegal immigrants is just the tip of the iceberg. Hardly any proposal by the four remaining Republican candidates is not tinged by some trace of socialism. Using eminent domain to force landowners to let a foreign company build a pipeline on their property is clearly socialism. Demanding that the federal government give land away free to ranchers is socialism. Taking away people's responsibility to pay for their own health insurance, while implicitly promising that they can still get health care if they need it, is socialism. Threatening to void the government's debts, thereby confiscating all the wealth financed by private claims on the government, absolutely is socialism since even the threat, if taken seriously, will diminish the market value of this wealth.

Before closing, I want to emphasize that this is not just a battle over semantics. If people are unclear about the difference between actual socialism and the quasisocialism of today's

Democratic Party, it becomes that much easier to convince people to accept truly socialist policies. “You did not object to socialism when we asked you to accept the provision of college as a public good, so why should you object to socialism when it means the government gets to dictate your profession?” But providing college as a public good is no more dangerous than providing elementary school and high school as public goods. Telling a person what he or she must do for a living would be the end of our free society. Suppose we replace our current President who seeks to passively regulate the economy, mitigating the adverse side effects of its productive processes, with a President who actively negotiates big deals to “improve” the economy. For whose benefit is he going to make these deals? For you or for him?