

A Marxist Response to the CEA's Report "The Opportunity Cost of Socialism"

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Summary

The Council of Economic Advisers to the President (CEA) in October 2018 issued a report called "The Opportunity Cost of Socialism". It covers a diverse range of "socialisms". In this reply I will only be defending socialism in the Marxist sense - a period of revolutionary transition during which capitalism is transformed into communism. I will not be defending "socialism" when it simply means government intervention under the present capitalist system.

The report starts with the "communist" regimes in the Soviet Union and Mao's China, and zooms in on the famines during the collectivization of agriculture as prime examples of their failings. I suggest that when putting their inadequacies and disasters in perspective, one needs to keep in mind a bit of background. Two things strike me as being particularly important.

First thing, the transition from backwardness to modernity has been, and still is, generally a nasty business. The prime example is western Europe. When it emerged from the Middle Ages and started on the road to capitalism, it managed with the aid of ocean-going sailing ships to devastate every other society on the planet. While this was necessary in order to bring the rest of the world into modern history it was accompanied by a lot of awful behavior such as the slave trade, and the trashing of India and China in ways that brought death and misery to millions. At the same time, on the home front, we saw the expulsion of peasants from the land, and stage one of the Industrial Revolution with its expendable workforce.

Second thing, a successful socialist revolution requires advanced capitalism to prepare the ground. Both the Soviet Union and Mao's China had to deal with essentially pre-capitalist societies. They were ready for capitalism not for a transition to communism, and once the regimes were taken over by people who had lost interest in revolution, "socialism" had little trouble in becoming nothing more than a hollow shell.

At the end of the day, these countries did quite well compared with similarly backward countries in the capitalist sphere. Furthermore, the Soviet Union's feverish industrialization during the 1930s gave it the means to defeat fascism in the 1940s, something from which we have all benefited.

Through its development of industry, capitalism prepares the ground for communism by eliminating the necessity of want and toil. Once we no longer need to compete for decent material conditions, our good side can start to shine through. We can begin to think about doing without "market incentives" and doing work for its own sake and the desire to contribute while being happy with a shared prosperity. Economists argue that this would be all in vain because of the

"calculation problem" while greens claim we are stuck with want and toil because of "limits to growth". In this paper I respond to both of these views.

The report endorses the claim of the Venezuelan regime that it is socialist when it is clearly just a very corrupt kleptocracy. The involvement of the zombie regime in Cuba is fully in keeping with this assessment. The people are starving, and are inheriting rundown industrial capacity and lots of foreign debt.

Like all "free marketeers", the CEA attempts to dissociate capitalism from the behavior of its own state. They fail to recognize that "government failure" is endogenous to the system and not some exogenous imposition on an otherwise pristine capitalism.

The report ends with a rather stern assessment of "Medicare for All". It points to the problems of free government provision and the negative impact of having to raise so much more tax revenue to pay for it.

I make the point that a proletarian government could well make extensive use of user pays and that as health provision increasingly takes on a communist character, care that is both high quality and economical will require less and less material inducement.

As for the increasing need for revenue, a proletarian government would have a range of options that would eliminate or greatly reduce distortions, and would have low collection and compliance costs. With income secure and distribution far more equal, there would not be the present political problems in having a regressive income tax or in employing a poll tax. Then there is Henry George's land value tax that capitalist countries have failed to make significant use of.

Introduction

The Council of Economic Advisers to the President (CEA) in October 2018 issued a report called "The Opportunity Cost of Socialism". (CEA 2018.) The term "opportunity cost" is used by economists and simply means the benefit you forgo by doing one thing rather than the best alternative. If what you choose to do has greater benefit you are ahead. If not then you have made a mistake. It is an odd title but does sound more profound and eye-catching than "The Failure of Socialism."

The report starts with the "communist" regimes in the Soviet Union and Mao's China, and zooms in on their collectivization of agriculture as prime examples of their failing. We are then brought right up to the here and now and reminded of the disaster that is Venezuela's "Socialism of the 21st Century". This is followed by a discussion of the Economic Freedom of the World (EFW) Index which measures an economy's freedom from government intervention (i.e. "socialist policies") and its positive correlation with economic performance. Next, we are shown how the U.S. has fared better than the "socialist" Nordic Countries. Last but not least we come to the U.S. itself where there is a looming threat of socialism in the form of free health care. Here the concern is

the excess burden of taxation and the perverse effects of having a third-party payer.

In the CEA report, and in popular discourse generally, the term socialism is used for a grab bag of things. For Marxists it can only mean the period of revolutionary transition that begins with the old capitalist ruling class losing its property, power and influence and then proceeds with the proletariat transforming itself and society. At the core is joint or shared ownership of the means of production which enables the typical individual to thrive for the first time. As a Marxist, it is only in this sense of the word that I am interested in defending socialism. I will not be defending "socialism" that is simply government intervention under capitalism.

Karl Marx's referred to this transition period on various occasions. The most well-known comes from *Critique of the Gotha Program* (1875):

Between capitalist and communist society there lies the period of the revolutionary transformation of the one into the other.

And as a young man, he had this to say in *The German Ideology* (1846):

Both for the production on a mass scale of this communist consciousness, and for the success of the cause itself, the alteration of men on a mass scale is, necessary, an alteration which can only take place in a practical movement, a revolution; this revolution is necessary, therefore, not only because the ruling class cannot be overthrown in any other way, but also because the class overthrowing it can only in a revolution succeed in ridding itself of all the muck of ages and become fitted to found society anew. (Part I, section D)

Socialism in this sense should not be seen as a social system in its own right. It is an unstable transition phase during which both regression and progression are possible. It is a period of struggle between conflicting forces. The more unfavorable the underlying conditions, the more chance of regression, and hence the rocky road travelled in the 20th century. The matters raised in the CEA report will be examined from this perspective.

Communist Famines

First in the line-up we have the "communist" regimes in the Soviet Union and Mao's China. Famines during their early years come in for special scrutiny. The events are used to highlight the question of property rights and economic incentives given that they occurred at the times when the regimes were trying to collectivize peasant agriculture while increasing the food supplies available either for the increasing non-farm population or for exports in return for investment goods such as machinery.

I am unqualified to comment on the contributing factors or the extent of these famines. So, I will confine myself to two key points that should be kept in mind before anything else when looking at these events. Firstly, the transition from a backward agricultural society to a modern industrial one has been and still is a nasty business no matter where you look. Secondly, any attempt to go from feudal backwardness to socialism while circumventing capitalism is bound to have its own serious problems. So let us look at these in turn.

Universal Awfulness

Historically, we should look to Western Europe for the worst case of this universally nasty business. Its emergence from the Middle Ages into the bright shiny day of capitalism was a thoroughly messy affair. Peasants were thrown off the land and made to work in factories where they did not need to survive for long because there was no shortage of fresh "hands" to replace them. The power loom that launched the industrial revolution saw the starvation of handloom weavers. This was just the home front. Elsewhere, it was even worse. While ocean going sailing ships and the creation of a world market were just what were needed to get the west on the road to capitalism, the effect on the rest of the world was total devastation. Of course, things had to be that way unless you think that Europe should have stayed in the Middle Ages. Marx saw the whole business as nasty but necessary. It brought the rest of the world into modern history. This meant that capitalism would eventually catch on there and create an international proletariat that would march together towards world communism.

Marx expresses this globalist point of view in *The Communist Manifesto* (1848) as follows:

The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilisation. The cheap prices of commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilisation into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image.

Then in a letter to Frederick Engels of October 8 1858 he expresses the same sentiment:

The proper task of bourgeois society is the creation of the world market, at least in outline, and of the production based on that market. Since the world is round, the colonisation of California and Australia and the opening up of China and Japan would seem to have completed this process.

Here I will just look at some of the more prominent cases of European beastliness.

We have the African slave trade of course. Millions became slaves and millions died during capture and transportation. With that there was also the economic destruction. The young and fit were the target; and kidnapping or the avoidance of kidnapping was the primary activity of virtually an entire continent. The subsequent colonial period was also somewhat less than benevolent. Forced labor, mutilation and murder in the Belgian Congo comes readily to mind. At the moment, Africans are still waiting for the benefits of being dragged into the modern world.

Then there was British rule in India where the most notable horrors were the famines.

British policy did much to contribute to the great famines during the dry years of 1876-79 and 1896-1902. Estimates range from 12 to 30 million deaths. (Davis 2007: 7) Most appalling was the fact that grain was exported to Britain while

Indians starved. (Davis 2007: 299) Also, the British created a range of realities that made the country vulnerable to famine. Land was converted from subsistence crops to export crops such as cotton and opium. There was the neglect of rural improvement such as irrigation both by the government and the local elites who were encouraged to be usurers rather than capitalists. (Davis 323ff.)

According to Davis (2007 p.346): "As far back as 1785, Edmund Burke had indicted the East India Company for allowing native irrigation to fall into decay, thereby ensuring higher famine mortality during droughts." This was still the case a century later.

At the same time the appalling tax and debt burdens on the peasants meant the need for short-term income at the expense of longer-term fertility. And their usurious landlords opposed any improvement work that would reduce peasants' dependence on them. (Davis 2007: 333)

As for famine relief, the railroad system ensured that grain moved speedily to where it would get the best price, which made things worse for the starving penniless. (Polanyi 2001 [1944]: 160.)

While still on India, we should not pass up the opportunity to mention the handloom weavers crushed by competition from the English power loom. In *Capital*, Marx quotes the Governor General reporting in the 1830s: "The misery hardly finds a parallel in the history of commerce. The bones of the cotton-weavers are bleaching the plains of India". (Marx 1976 [1867]: 557)

Writing for the *New York Daily News*, Marx explained Britain's dual role. In "The British Rule in India" (June 25, 1853) he wrote:

England, it is true, in causing a social revolution in Hindostan, was actuated only by the vilest interests, and was stupid in her manner of enforcing them. But that is not the question. The question is, can mankind fulfil its destiny without a fundamental revolution in the social state of Asia? If not, whatever may have been the crimes of England she was the unconscious tool of history in bringing about that revolution.

And in "The Future Results of British Rule in India" (July 22, 1853) he made much the same the same point:

England has to fulfill a double mission in India: one destructive, the other regenerating - the annihilation of old Asiatic society, and the laying of the material foundation of Western society in Asia.

Looking back from the present point in time we can say that the British performed their dual role in a rather lopsided fashion. They were far more efficient at undermining the existing socio-economic system in ways that deepened the misery of the vast mass of people than they were in creating the conditions that would encourage the development of capitalism. As well as discouraging capitalism in agriculture they also discouraged any local industry that would compete with British imports. Capitalist development eventually caught on but even now there is still considerable backwardness with 50 percent of the population employed in agriculture.

When we come to China, we can blame the British once again for death and misery. It all started with the importation

of Indian opium that destroyed the lives of multitudes and drained the country of silver. The Qing Dynasty was further weakened economically and politically by its defeat at the hands of the British in the First Opium War of 1841. This laid the ground for the Taiping Rebellion, a civil war from 1850 to 1864 that led to many millions of deaths through plague, famine and the sword, together with long-term economic damage. The rebellion may have contributed to the necessary unravelling of Old China but was still a very nasty business.

The El Nino weather conditions that struck India in the late 19th century also struck China and caused deadly famines there as well. Prior to its degeneration, the Qing Dynasty had been quite adept at reducing famine and food insecurity. (Davis p. 367) In the 18th century they had budget surpluses, well stocked granaries and the ability to move large stocks of food across long distances. They also had flood control, extensive irrigation, and canal navigation.

When writing about Britain's role in China, Marx took the same dual nature approach that he did with India. So that in *The New York Daily News* of June 14 1853 he wrote:

It is almost needless to observe that, in the same measure in which opium has obtained the sovereignty over the Chinese, the Emperor and his staff of pedantic mandarins have become dispossessed of their own sovereignty. It would seem as though history had first to make this whole people drunk before it could rouse them out of their hereditary stupidity.

All these dissolving agencies acting together on the finances, the morals, the industry, and political structure of China, received their full development under the English cannon in 1840, which broke down the authority of the Emperor, and forced the Celestial Empire into contact with the terrestrial world. Complete isolation was the prime condition of the preservation of Old China. That isolation having come to a violent end by the medium of England, dissolution must follow as surely as that of any mummy carefully preserved in a hermetically sealed coffin, whenever it is brought into contact with the open air.

In the 20th century, China got a second going-over. This time it was at the hands of the Japanese. Their emergence from feudal seclusion brought a toxic mix of industrial development and militarists who thought stealing resources would be better than buying them. In this case one cannot talk of a dual role. China was already well and truly "opened up". This was better described as a disemboweling. Total Chinese deaths during the China-Japan War from 1937-1945 have been estimated at between 15 and 20 million. (Ho Ping-ti, 1959, p. 252)

After making a mess everywhere else, the European powers turned in on themselves and committed another major act of depravity, to wit, World War I from 1914 to 1918. This was a war of imperialist rivalries in which 15-19 million died and which some naively believed had been ruled out by the international nature of capitalism. Capitalists instead rallied to the flag, produced lots of guns and made lots of profits. Added to the war toll was the 1918 influenza pandemic made particularly deadly by war conditions. (Gladwell 1997: 55) This saw the death of 50-100 million people worldwide.

One upshot of this awful affair was the 1917 Bolshevik Revolution in Russia. Increasing military defeats and the economic strains of the war were the final straw for the Czarist regime. And the Czar did not help matters by taking command of the armed forces and leaving his wife and Rasputin to run the government. The collapse of the regime was followed by a four-year civil war in which the Reds defeated the Whites. The Whites were Russian nationalists with a penchant for massacring Jews. So, the alternative to the Reds were not nice democrats; indeed, many exiled Whites subsequently joined fascist organizations.

The Need for Markets

The CEA report uses the failings in Soviet and Chinese agriculture to argue the case for incentives and the need for private property and markets to prompt us to work and to produce the things we want. The Marxist view is that once we achieve an advanced level of economic development this is no longer the case because the possibility of eliminating want and toil changes the rules of the game. It is now possible to contemplate social ownership where the prime motivation is mutual regard and the satisfaction obtained from labor, with material reward being of diminishing importance.

The problem with Russia and China is that communists took over in countries that were still extremely backward. Their revolutions were very much historical accidents occurring before their due time. Under these conditions any movement down the communist road was bound to be very limited; and indeed, in these cases the obstacles made it unsustainable. The same could be said about the rest of the "socialist camp" that emerged after World War II.¹

After dragging their countries out of extreme backwardness, the regimes in these countries lost interest in radical change and became quite reactionary. Socialism became equated with economic development plus the "communist" party in charge. The workers became ciphers rather than actors in their own right.

Notwithstanding this dead-end for the revolution, the efforts to overcome backwardness are nothing to be sneezed at. They fared better than comparable regions that remained under capitalist suzerainty. And in the case of the Soviet Union, feverish efforts in the 1930s meant that it was industrially prepared for the task of defeating fascism, an event best described as the greatest achievement of the 20th century. They are now relatively advanced capitalist societies in the "upper middle income" category, and comparable in terms of GNI per capita to countries such as Turkey, Mexico and Brazil that did not suffer "the scourge of communism".

The modernizing efforts of the Mao years in China created the conditions the bourgeoisie needed once they took over after his death. Previously they had been confined to sabotaging socialism. Now they were in charge and had free rein to do it their way. They have really gone to town; and we also have India following up the rear. Both these mega-regions are undergoing considerable industrialization and have a shrinking peasantry and growing proletariat. From a Marxist perspective this augurs well for the future.

At the moment, only part of the world has achieved a level of development where the elimination of the necessity

of want and toil is within reach. It comprises about 20 percent of the world's population and primarily includes the United States, Europe and Japan. While some regions are not far out of reach, others still have quite a way to go. So, unfortunately a large section of the world's population, mainly in Sub-Saharan Africa and South Asia, will take a few generations to get on top of their backwardness.

With increasing productivity under capitalism, a stage is reached where an equal share of the social product ceases to be shared poverty. Under less developed conditions, the prospect of shared hunger and distress impels those who are in a position to do so to exploit others through plunder, slavery, serfdom or the ownership of the means of production. However, as the average share begins to promise an increasing degree of prosperity, the imperative to fare better than others diminishes.

Mechanization and automation, under developed capitalism have done much to reduce the odious or toilsome nature of work. Pick and shovel work and carrying heavy loads are things of the past and much of the remaining menial and routine work in the manufacturing and service sectors will be automated in the next generation. The work we are left with will be primarily intellectual in nature and potentially interesting and challenging. It begins to be something one could imagine doing for its own sake.

We can expect improved ability to perform complex work in a future communist society as many of the conditions that cause stunted development are eliminated. These include lack of family support, peer pressure to underperform and an inadequate education system. Social ownership will end the isolation of education from production and other activities, so uniting learning and doing. Workers will help each other to learn. We will also benefit from an increasing understanding of human development and what causes learning difficulties.

Under these new conditions where we no longer need to compete for a decent material existence, it now becomes possible to base a society on mutual regard and social ownership of the means of production. We can discard the dog-eat-dog world of capitalism where sociopaths are often the biggest winners.

Mutual regard is enlightened self-interest. You only thrive when others thrive. You do the right thing by others because you know that an increasing majority are doing the same. You know you are contributing to a "pool" of well-being that everybody shares.

This will transform work. It will end what Marxists call alienation. We will do what we can to make the work of others productive and rewarding. These relations with our fellows are what make it possible for work to become something performed for its own sake rather than simply a necessary means to an income. At the same time, we are happy with your equal share knowing that others on the whole are doing their best.

The thriving of others is critical in all areas of life. You cannot thrive if those who impact on your life are disturbed, frustrated and poorly functioning.

Mutual regard will not just be a case of caring more. It will have to also mean being willing and able to confront bad

behavior directed against ourselves or others. This will require us to cast off passive, submissive and weak-spirited habits engendered by our subordination under capitalism, and acquire a strength of character that gives us the confidence and moral courage to deal with bullies, schemers and people with a whole gamut of behavioral issues. We will not let the worst people set the tone. Top of the list are those who want to lord it over us and become a new ruling class.

Critical to the process is the emergence of a large and increasing number of people who see the revolutionary transformation of the conditions around them as an important mission in life.²

Economic Calculation

Most economists would argue that this is all in vain. They tell us that an economy based on social ownership has an inherent economic calculation problem: in the absence of market transactions between enterprises it could not have a properly functioning price system.³

While we do not know how economic decisions will be made in the future under communism, we can say that there is nothing about the non-market transfers of custody between economic units that would prevent decentralized decision-making based on prices.

We can also counter the claim that any price system under social ownership would be inferior to a market based one because it would not reflect the discovery process that emerges from competition between market participants. It is true that in the presence of uncertainty, there needs to be multiple participants trying out their own approaches to problems on the basis of their own opinions, guesses and hunches. Those that come up with the best and most highly valued products using the cheapest methods win out in this competitive contest. However, social ownership does not throw up any inherent obstacles to a diversity of approaches.

It would still be very common for an individual enterprise or facility to be just one of many producing the same good or close substitutes and each of them could be free to try out different production methods and product designs. Some will be new entrants who are either existing enterprises moving into a new area with synergies or starts ups established by enthusiasts with ideas the incumbents are not open to or capable of developing. This diversity could be greatly assisted by having a number of independent agencies ("banks") disbursing funds in any given industry on the basis of their own assessment of what are good investments. Indeed, diversity could be planned if there is not enough of it emerging of its own accord.

At the same time, it is possible to imagine enterprises being free to choose their suppliers on the basis of cost and quality and having to outbid other users of a resource or intermediate good.

Economists have also spilt much ink on the impossibility of effective central economic planning. However, their view now seem out of date. Quantities for highly disaggregated product codes can be fed into an input-output table in real time with modern computer networks, and numbers crunched using modern computers and appropriate algorithms.⁴

Collective ownership could do a great job of producing what people want. This is despite the widely held view that it would require some central body to arbitrarily decide on final output. Individuals could receive vouchers that they could spend on what they choose, with prices responding to changes in supply and demand. Consumer surveys could play a role. There could be democratic decisions on what collective goods to produce and the rate of investment, and these could be funded through taxation. And there would be nothing to stop the use of interest rates to guide investment decisions.

Initially people's income will mainly be a wage that is a market price for their labor power but even when we get a fair way down the communist path, and income becomes pretty much separated from work performed, you could still have shadow prices for labor power where enterprises put in bids for the various kinds of workers they require.

Not only will an economy based on social ownership work fine. It will do a better job than capitalism. Capitalism may be streets ahead of stagnant pre-capitalist societies, however, the gap between what is possible and what capitalism delivers is wide and getting wider. It is an increasing fetter on the economy's productive forces that social ownership can remove. The revolutionary transformation of the economy and society will take off the brakes by eliminating economic crises, by vastly increasing the science and innovation effort, and by unleashing the initiative and enthusiasm of workers that capitalism cannot tap.

The Green Problem

While the economists are telling us that eliminating the necessity of want and toil cannot be the basis for communism, the green movement is telling us that want and toil are unavoidable. They say there are limits to growth and we are already exceeding the planet's carrying capacity. However, I would suggest that prosperity for all is not difficult to imagine with scientific and technological advances. Where land is a constraint, we can build higher into the sky and tunnel deeper into the ground. Precision farming, biotechnology and other innovations will provide far more food while using less land and water, an already established trend that is gathering pace in spite of opposition from greens. There will be limitless supplies of clean energy from a range of resources. We can already be sure that future generations of nuclear power technology would be able to rely on virtually inexhaustible fuel resources. Then there are future technologies we can presently only guess at. For example, biotechnology may open up new ways of harnessing the sun. The mineral resources we rely on are more than sufficient, even without considering future access to extraterrestrial resources and our ability to devise ways to substitute one resource for another. We will protect the biosphere with more advanced and better funded waste and conservation management. Indeed, in many respects we have seen capitalist countries get cleaner as they get richer.

Venezuela

The report provides Venezuela as a present-day example of a country with highly socialist policies. The regime calls itself 'socialist' and so do its supporters and opponents. However, it is, of course, just an oppressive kleptocracy and hated by the vast majority. Like all kleptocracies it places as much of the economy as possible under state control in order to suck it dry. It is a country with 4,000 generals all on the take. Anyone who calls this 'socialism' is just being disingenuous, whether they are supporters or opponents of the regime.

Of course, the fact that the regime describes itself as socialist is no great surprise. You could not really have expected Chavez to call his regime "Kleptocracy of the 21st Century". His socialist rhetoric fitted well with his anti-American demagoguery. Everyone who opposes the regime is an imperialist agent and any problem the regime was having was due to imperialist sabotage.

Kleptocracy was accompanied by the buying of votes from the poorest section of society. However, these bribes did not represent a redistribution away from the rich. Just like the billions stolen by the "boliburguesia", these benefits were at the expense of future consumption. They were funded by oil revenue that should have gone into maintaining and increasing production capacity and by foreign loans. They have been eating their seed corn.

All Chavez did was create hopes that he then shattered. His education and healthcare schemes are now a burnt-out wreck. There was never any "from below". Chavez dispensed the cash, and policies were his thought bubbles pronounced from on high.

There are Chavez fans who try to retrieve something by claiming that the present Maduro regime has strayed from Chavismo. In fact, it has simply taken it to the next level.

Then there is the regime's sinister relationship with Cuba where it receives police state support in return for oil. Cuba has a zombie regime on which Marxism long ago past judgement. It is very much a Soviet clone on the lines of the old eastern Europe. Its socialism is state ownership with their "communist" party in charge. Society is not undergoing a socialist transformation and the best thing the government can do is assist the transition to a more normal bourgeois society by holding free elections, a bit like those that occurred in eastern Europe 30 years ago.

The fact that much of the "left" has some sympathy for the regimes in Caracas and Havana is one of a number of signs that it is part of the problem rather than the solution.

Economic Freedom

The report refers to studies that show a strong positive association between "economic freedom" and economic performance. The former is measured using the Economic Freedom of the World (EFW) Index which measures an economy's freedom from government intervention (ie socialist policies). (Fraser Institute 2018)

The indicators are aggregated to five main categories, which are then given equal weight in the overall index. The

first category is the size of the government in terms of spending, taxation, and the size of government-controlled enterprises. The second is the legal system and property rights in terms of the protection of persons having such rights. The third category is referred to as "sound money," and measures policies related to inflation. The fourth is free international trade, which means that citizens are free to trade with other countries. The fifth is limited regulation, which addresses the freedom to exchange and trade domestically. (CEA 2018: 24)

They are talking here about government intervention in a capitalist economy. Of course, Marxists do not have a dog in this fight because they are not interested in tinkering with capitalism only eliminating it. But that being said, free market or "neoliberal" economics has an extensive literature critiquing such tinkering that is fairly sound and represents a real contribution to economic thought. However, it falls short by ignoring the fact that this government failure is a form of market failure. These problems are seen as some sort of exogenous imposition on what would otherwise be a pure pristine capitalism. In fact, they are very much endogenous to the system.

A lot of government interference in the free market serves the vested interests of the capitalists and workers in the favored industries, and the bureaucrats and politicians who make a career out of it. It enhances the value of their property rights - their capital or their job and career prospects - at the expense of society as whole. Vested interest is just another name for bourgeois private property which in turn is just another name for capitalism.

Welfare programs have become great opportunities for bureaucratic empire building, but historically the primary motivator was a desire to save capitalism from itself. There was a concern that if they did not introduce a range of social welfare reforms workers would be seduced by communism. It was an attempt by the system to inoculate itself from that dreaded infection.

The Nordic Countries

The report wants to disabuse American socialists and left liberals of their love affair with the Nordic countries.

They point out that the Nordic countries have abandoned many of their much admired "socialist policies" as measured by their much improved EPW Index. Besides, their higher levels of government spending do not look quite so socialist when you take into account that it is middle income earners rather than the rich who bare the tax burden.

We are also reminded that these countries are poorer economic performers with lower GDP per capita than the US. While not wanting to spend any time defending an "alternative" form of capitalism, it is difficult not to at least suggest that any comparison should also look at how people at the bottom of the heap fare.

The report also claims that the value of their free education is less than the US when measured by earning differential between graduates and non-graduates. They see this as an example of how free provision leads to lower quality. The

logic is that there would be a tendency to underfund the institutions and students would be less concerned about the standard of their degree. Determining whether this is the case would require knowing a lot more about tertiary education in Nordic countries and other tuition-free countries. This is a task I am quite unwilling to take on. Furthermore, nothing hinges on it. Any problems of free provision in the Nordic or other capitalist countries tells you nothing about free provision in a society undergoing a proletarian revolutionary transition. And I must add there is nothing preventing such a society from having tuition fees.

Medicare for All

The CEA report criticizes proposals for a universal single payer health system supported by the likes of Bernie Sanders and usually dubbed "Medicare for All" (Sanders 2017). Such a system would replace all existing private health insurance and would leave the patient with no out of pocket expenses, no copayments or deductibles. The report points to a range of problems with free government provision and to the negative impact of having to raise so much more tax revenue to pay for it.

They describe this as patients and bureaucrats spending other people's money. Patients would have an incentive to overuse services such as doctor's visits much like a prepaid all you can eat buffet. The healthier would crowd out the less healthy and there would be no incentive to seek out the cheapest options. At the same time bureaucrats will not have the incentive to economize or make the best purchases.

A government medical insurance monopoly as proposed would be less efficient than having many competing companies. In particular, the government healthcare bureaucracy has shown itself to be very poor at detecting fraud. Efforts to rein in government spending are bound to affect the health budget leading to waiting lists and quotas for particular treatments.

Then there is the fiscal burden of such a program. A free universal healthcare system would require a huge increase in income tax collection unless other government spending was cut drastically.⁵ This is not just the same as taking in tax what people would otherwise have spent on their own healthcare because of the so-called excess burden or deadweight loss of taxes in excess of the revenues.

Earning additional income requires sacrifices (a loss of free time, relocating to an area with better-paying jobs, training, taking an inconvenient schedule, etc.), and people evaluate whether the net income earned is enough to justify the sacrifices. Socialism's high tax rates fundamentally tilt that trade-off in favor of less income. (CEA page 12)

What could a socialist state do?

I will leave it to "socialists" of the Bernie Sanders variety to put the case for public provision of healthcare under the present capitalist system. My only concern is whether the CEA's critique has any relevance for a society undergoing a proletarian revolution.

Not necessarily all free

While a proletarian state could have free provision of healthcare, there would be nothing to rule out significant levels of user pays.

You could have individuals paying for insurance that covers unlikely and unpredictable but high cost health events. There could be a single insurer or mutual insurance schemes owned by their members (friendly societies). At the same time, more routine or predictable health spending could be out of pocket, assisted by health saving and loan schemes. In the case of drugs, you may have patients paying the production cost while research costs are paid for out of taxation.

To the extent that people are financially secure and receiving an adequate wage, training allowance or pension we can move away from healthcare being part of the welfare system. Of course, special provisions will have to be made for people with unusually serious medical needs.

Government Revenue

What about government revenue under socialism? A proletarian state could, for the following reasons, have high levels of taxation without the present distortions.

To begin with income tax would not have to be progressive. Tax could be a constant percentage of income or you could even have marginal rates that decline or even go to zero. To the extent that wage differences continue, they will be for good economic reasons that should not be undone by progressive income taxation.

Scope for reducing marginal rates is limited at the moment where the tax system is seen as a means of redistribution in a world where there are some people on extremely low and insecure income and others on extremely high income such as capitalists with the dividends and senior executives pulling in economic rents.⁶

As communism takes root and work is primarily undertaken for its own sake and from a desire to contribute, the incentive effect of income tax would be reduced even further. Also, a proletarian state could make greater use of taxes that do not distort wages or prices and have far lower collection costs.

Firstly, there are poll or head taxes. These are an equal amount paid by everyone on a regular basis regardless of their income. These are unacceptable under capitalism where income for some people is low and insecure. Indeed, it caused riots when Margaret Thatcher tried to introduce one to cover the cost of local government. In the context of medical insurance, it is worth noting that premiums in a compulsory scheme would effectively be an hypothecated poll tax. Collection and compliance costs would be low because the individual simply has to provide their bank account details and authorize regular payments just like a utility bill.

The other non-distorting tax is one imposed on land values. People would pay a tax for the natural and built amenities around where they live. If all land is deemed to be publicly owned one could describe this as a land rent. (Whether people own their residence is a separate matter.) This tax is famously associated with the 19th century economist Henry George.

The tax would be set so as to "ration" a location to those who place the highest value on living there. At the same time, improving the amenity of an area would ensure a tax revenue stream to pay for it. This would include building hospitals and other health facilities.

Collection costs would be low because you cannot conceal or move land and there are well established methods for calculating the tax. The amount that can be collected from this tax will, however, be reduced by other taxes that people have to pay. Anything that reduces their effective income will reduce what they are willing to pay in land rent. Unsurprisingly land value taxes under capitalism are opposed by wealthy landowners.

Healthcare under socialism

Under a proletarian regime, healthcare, like all sectors of the economy, will undergo a stage by stage transformation. Larger capitalist enterprises would have to come fairly quickly under state control. Smaller businesses in many cases would remain under individual or "cooperative" ownership for somewhat longer.

As with all the other sectors of the revolutionary transitional economy, healthcare will display its greater efficiency and effectiveness as it takes on more communist characteristics. Contributing to the best outcomes will become the overriding motivation of medical workers. This will include overcoming all of the authoritarian nastiness found here as everywhere else. There will be no deferring to incompetent or corrupt superiors nor a passive "I just work here" attitude. Everyone will be a "whistle blower" if necessary, except they will be fixing the problems themselves.

Summing Up

By setting out the full range of confusion on the subject of socialism, the CEA report has provided a good opportunity to both explain and defend the Marxist view on the matter.

When Marxists use the term socialism, they mean the revolutionary transition period when capitalism is transformed into communism. Attempts at this transition to date have been defeated by unfavorable conditions and balance of forces, particularly those arising from economic and social backwardness. These defeats have been achieved by means of socialist regimes losing their revolutionary nature and being "socialist" only because the people running the show continued to call themselves communists.

Key to the success of proletarian revolution is full capitalist development. This will eliminate the necessity of want and toil that historically has set all against all. When it comes to "economic calculation" there is nothing that capitalism can do that socialism cannot do better.

A proletarian government would be in a better position to freely provide healthcare and other goods and services particularly as conditions become more communist. However, there is nothing about socialism that rules out extensive user pays.

Most of the CEA report is taken up with government intervention under capitalism. The report calls this socialism,

as do a lot of people. However, this is not socialism by the reckoning of Marxists and its success or failure is not their concern.

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¹ The only industrialized exceptions were East Germany and the Czech part of Czechoslovakia. The regimes were the product of the Soviet Red Army rather than any home-grown proletarian revolution and had no independent existence.

² For more on the problem of proletarian revolution see the pages 11 - 14 of the booklet *Some Forgotten Marxism* which is available to download at www.simplymarxism.com

³ Lavoie (1985) best sums up this argument. There is also plenty of material at mises.org.

⁴ See Cottrell and Cockshott (1993).

⁵ The CEA report, does not discuss the possibility of reducing the work incentive problem by the federal government introducing a value added tax (VAT) on goods and services. This is very common in other countries. On the other side of the ledger, they do not mention the incentive to free ride by working less when the government pays for what you would otherwise have to pay for. You have a reduced need for income.

⁶ They are paid more than their "opportunity cost" which is what they would be paid if they did an ordinary paying job. Stockholders feel they have to bid for the "best" and also reward them in ways that encourage them to act in their interest.