Democratic socialism is the best thing that could ever ...

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I was asked recently to comment on a suggestion made to a friend of mine by a friend of theirs that socialism would always and inevitably destroy any society because it destroyed all incentives for any constructive human behaviour whereas capitalism did the opposite. I agreed to write to their friend explaining why I did not agree with either suggestion. This is what I wrote:

Dear Friend

I am told by a mutual friend of ours that you have a problem with socialism. You think that a system with that name means that everyone in society has to be treated the same, be paid the same, have access to all the same things, and I presume live in the same way.

And I suppose you think that some extreme examples in history (China at the time of the Cultural Revolution, perhaps, or maybe Soviet Russia in its early days) justify this perception on your part.

In that case I have to tell you, if that is what socialism is then I would want no part of it. I am not even sure the few Trotskyists I know (and I do know some) would go near such thinking. And that's not surprising. It's because the vast majority of people on the left are democratic socialists, or even social democrats (although that term feels somewhat discredited these days).

Democratic socialists come in a wide variety of forms. They even pop up pretty prominently in the US right now. *Watch this interview of Stephen Colbert interviewing Senator Bernie Sanders on CBS in the last week or so to get some flavour of what he and his colleagues mean by democratic socialism as your starter in this discussion.*

Note too how popular what he had to say was. Now, I admit, that's a New York audience and not a Mid-West one, but you have to admit he went down well. And he would have been my choice for US President right now.

So let's get clear what he did not say. He didn't call for the overthrow of capitalism. Nor *did he demand equal pay for all. And he did not call for the confiscation of private property. What is more, state prescribed uniforms for all never got a mention. That's because they don't amongst those who debate modern democratic socialism.*

What we do argue for is a mixed economy. You are familiar with what they look like. Pretty much most people on earth are. We live in them.

In mixed economies governments play a fundamental role. They set the rules. That includes the rules that protect private property. Note that this means we wouldn't have modern capitalism as we know it without government. It's an important point.

But let's also be clear that the stereotype of capitalism that so many want to believe in is as simplistic, and as wrong, as that of socialism I have noted above. That stereotype is widely taught by economists as if it is true.

It assumes that all markets are 'perfect'. That means there are masses of firms engaged in the supply of any product and each competes only on price because consumers have all the information they need on all of them to know that the products are indeed identical.

Those same consumers, it is also assumed, could also at any time set up their own business to compete in this market if they wanted to because it us assumed everyone has equal access to all the capital they need, and at the same cost, whoever they are.

But if instead they decide to work for someone else they will join a labour market where everyone i paid exactly the value of what they produce: there are no standard wage rates in this market. Each gets paid their own worth, and what is more everyone can work that out, without cost arising to do so.

Oh, and by the way, there is no advertising to persuade anyone to buy anything in this market. All advertising that there is provided just for information as everyone already knows exactly what they want, even if it has not been invented yet.

Maybe you haven't come across this world? Nor have I. Just like the socialist stereotype, it does not exist. But as my friend Steve Keen showed in his book 'Debunking Economics', unless these conditions exist those supposedly efficient markets that allocate resources to ensure the optimum well being of all do nothing of the sort. In fact they can go horribly wrong.

So we get monopolies that squeeze out competition, and they are aided and abetted by copyrights and patents that make sure that consumers actually can't get a range of real choice of things they want to buy. Just look how few consumer facing tech companies there are now to realise how quickly that situation can develop. And then remember it's more than a century ago that the USA realised just how destructive monopoly power - which we now see all around us - was to markets.

So what we have in the real world is nothing like what many economics professors (who have, almost without exception, never run a business between them) teach that capitalism is. And nor is actual capitalism remotely like the popular stereotype of the brave entrepreneur setting out on their own. Some exceptions do of course feed that myth, but we note them precisely because they are so exceptional.

Instead we have malfunctioning markets where without regulation some pretty unpleasant things can happen. So, cheats would prosper without regulation, which is why we have trading standards and regulators to enforce them. And the cost of what economists call externalities would ensure that businesses that create harm, as many do by polluting or by creating products that we now know are dangerous, would not have to compensate society for the costs that they create. And monopolists and monopsonists (who are sole buyers rather than sole sellers, which is what monopolists are) could force their competition out of business, so crushing the essential competition that underpins fair markets. And tax cheats (and they do exist) would get an unfair and unjustified competitive advantage over those who do not cheat. And that would leave a market made up solely of cheats. Can you imagine how beneficial that would be?

But worst of all, because imperfect markets have an inevitable and massive tendency to concentrate power in the hands of a few businesses those people (the majority of all people) who work for a living could find themselves in poverty, because nothing would require employers with monopsony power to pay anything else but poverty wages: after all, the worker would have nowhere else to go to improve their lot as competition for their labour would not exist. The market would have failed, again.

Right across the political spectrum I would suggest that wise people have realised this. The reality is that unfettered markets only work in theory. They never work in practice. So the question is what do we do about that? That is, presuming you don't want to exploit people, profit from creating and create the most massive inequality where everyone (including the wealthy) live in fear.

My answer is, of course, that we regulate. So how do we do that? And with what aim? Actually, both socialism and capitalism provide an easy answer to that question. Socialism presumes everyone should be equal. And the theory of capitalism that I have, albeit in summary but nonetheless accurately, outlined just now assumes that everyone must have equal access to opportunity. So both are theories of equality, albeit you can say one is of output and one of opportunity.

Unfortunately, neither of these is possible. Let's not pretend otherwise. People will do different things with similar resources and will inevitably produce different outcomes. And there is no way we could regulate that possibility away in its entirety, even if someone tried. Human beings are diverse: outcomes will differ.

But there are two things to note. One is we are empathic. We do care for one another, albeit not always as much as we should. It is no surprise all the world's great wisdom *traditions build on this.*

And there is no doubt that some aspects of private property massively distorts outcomes in the world. Accumulated private wealth does this most especially.

I am not opposing all private wealth when saying this. One of the most annoying tendencies of debate on issues such as this is the tendency for exponents of a cause to massively overstate the case of their own opponents in an attempt to ridicule it. I'll state my position then: I am not opposed to private property. It would be deeply hypocritical for me to be so. But, I am opposed to its excessive concentration in the hands of a few, and to the mechanisms that assist that concentration.

Let me also be clear, capitalists should also oppose this. As already noted, capital concentration can prevent capital getting to the entrepreneurs who need it at a price they can afford.

And excessive concentrations of capital mean that those who work for a living do not have enough to buy what they really need, let alone to buy the products that would result in the innovation and development that society and markets need to prosper. In contrast, the wealthy do not, of course, spend all that they have (which is why they are wealthy in the first place) so that they do not make good this deficiency. The result is that excessive concentrations of wealth actually undermine dynamic markets, reduce profitability, remove the incentives for investment, and result in societies that exist largely in the payment of rents, and not on the basis of earning profits. That is where we are heading, and it is a long way from capitalism.

In addition, wealth concentration makes for sick societies. Everyone lives in fear. Those with wealth fear of losing it. Those without wealth live in fear of the actions of those who have it. Just about every health and social outcome is worse as a result. And the reality is that we know that. So we find compromises.

I am happy to live in a world of compromise. It works. It's a good place to be. I'd suggest that's what modern socialism is. It's the way to make societies work.

So we give people access to intellectual capital. That should be free education for all, to university level.

And we provide for the person. So that should be free health care for all, based on need. And we know that markets cannot deliver this: the US spends twice as much on health care as the UK does per head of population and produces worse health outcomes without delivering for everyone.

It also means we must ensure housing for all. Not necessarily grand housing: but respectable housing where the person can feel of worth.

And it requires a social safety net. No child should live in poverty: what did they do to *deserve it? Child poverty is to deny the equality of opportunity that is inherent in the belief system that market economics appears to embrace.*

Empathy requires that we care for the sick, the elderly, those with disability and those suffering hard times too.

And when markets fail (and they do, and we know that is inevitable and have done since the 1930s) then it is down to there being a state of sufficient size to bail them out. Small states can't do that.

To help achieve this the state has to tax, because it has had to spend. And in taxing the state not only should, but must, charge progressively so that those with more income and wealth pay a greater proportion of each than do those with lesser sums. That's not penal. That's to make sure that harmful concentrations of income and wealth do not happen. Because they do otherwise. That's what markets deliver. And in itself that concentration is a market failure.

So democratic socialism corrects for this.

But to prevent abuse it has to do so accountably. Which is why transparency - which is the very opposite of secrecy - is key to making sure it too cannot abuse. Because it could, of course. All humans can.

But in the process of doing all this then what democratic socialism delivers is the perfect condition in which markets can flourish. There are trained people. Who live without fear. So they can afford to spend. And business can take risk, because people have money to spend, which justifies investment. And precisely because the cheats have been eliminated by transparency, which weeds them out, business can afford to think for the long term which is otherwise impossible. In fact, what democratic socialism delivers is the prosperous foundation for a market economy. And nothing else does.

The two go together then.

But those in the market should never forget the fact. They did not make the foundations of their wealth. The state did that. That's true for every single wealthy person alive today. It's a relationship that makes wealth. And that's a relationship that needs to be nourished. It cannot be by one party pretending it does not exist, which is what far too many modern free-marketeers do.

So is democratic socialism a threat got to go to markets? No: far from it. It's the best thing that could ever happen to them.

I'd be very happy to hear your opinion.

Best regards

Richard