



RUMINATIONS AND OBSERVATIONS

A Periodic Overview

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The inherent vice of capitalism is the unequal sharing of blessings; the inherent virtue of socialism is the equal sharing of miseries.—Sir Winston Churchill

There has been much discussion in recent months as to whether or not the United States is moving toward becoming a socialist state. News flash: The U.S. is a socialist state, and it has been since at least the Great Depression. No, we do not have the type of central economic planning based on government ownership of the means of production and allocation of resources, but there are many other institutions and programs in the U.S. that comprise public ownership and social and economic intervention by the state far beyond that which existed before the New Deal.

Socialism of a broad, encompassing nature would entail complete nationalization of the means of production, distribution, and commercial exchange, the avowed purpose of which is to benefit the citizenry through the allocation of resources. A lesser form of socialism would call for the control of capital within the framework of a “market economy.” Modern, democratic socialism calls for selective nationalization of key industries, with private ownership and regulated, “free” markets, buttressed with tax-funded welfare programs and transfer payments.

Socialism which emerged as communism in the Soviet Union and China in the twentieth century called for state ownership of the means of production combined with central planning for the production of goods, providing services, and the establishment of prices. The human and economic results of both nations were abysmal, and operated only under an umbrella of totalitarianism.

A more benign history of socialism evolved in Western Europe following World War II. Post-war social democratic governments introduced broad measures of social reform and wealth redistribution through state welfare and taxation. Many key industries became state owned. Toward the end of the century, Europe embraced more market-oriented policies that included privatization, deregulation, and the lessening of class warfare. Yet the funding of state controlled services and taxation aimed at redistributing wealth not only remained, but also continued to grow.

At the root of all socialism is the objective of equal results as opposed to equal opportunity. British author, Cecil Palmer, pinpointed a truism of socialism in its most utopian form, “Socialism is workable only in heaven where it isn’t needed, and in hell where they’ve got it.” The end result of socialism is a culture of dependence that has both economic and moral costs. Alexis de Tocqueville opined that, “Democracy and socialism have nothing in common but one word, *equality*. But notice the difference;

while democracy seeks equality in liberty, socialism seeks equality in restraint and servitude." The gradual erosion of economic liberty by the granting to or usurpation by the state of individual liberty and property for the "greater good" will lead to a condition of state subjugation.

No rational person would argue that the state should not perform vital functions and services that individuals cannot. Aside from the most basic need of providing for the general defense of the country via the military, examples abound of the need for government services. The need for government is manifest in the State Department, the Treasury Department, the Justice Department, and other arms of the government at the federal level without which this country cannot function effectively. At the state and local level, common and essential needs can only be effectively met through government institutions. A state transportation department serves a vital role in a nation of endless highways. Whereas volunteer firemen are feasible in the most rural areas of Idaho and Montana, the concept of a voluntary fire service operating effectively in New York City is laughable.

Today the services of government have moved beyond the essential needs of the citizenry. Government services are administered by rapidly growing agencies staffed by legions of bureaucrats. The growth has become a global phenomenon. But, as evidenced by recent developments in California and Greece, the piggy banks to fund this munificence are empty. Promises made can no longer be kept within any structure of economic rationality. Increased taxation undermines the ability of businesses and individuals to create wealth and to produce and provide goods and services. The ability of governments at the local, state or provincial, and national level to fund their obligations through the issuance of debt is coming under increasing pressure. At what point does the ability of a national government to fund its obligations through the issuance of debt and the raising of taxes cease to exist?

The history of the modern welfare state in the U.S. in the wake of the Great Society is one of increased government promises and benefits, and thus greater government spending and ever higher taxes, interrupted only in brief periods by tax reductions and temporary "reform." As government has grown, interest groups dependent on government largesse have become increasingly powerful, and in turn have loaned their support to politicians who cater to their interests. The process has led to a culture of corruption as well as dependence. It is exceedingly difficult for a career politician to say no. With each new "crisis," demand for more services and powers leads to an expansion of the state at the expense of the liberty and resources of the individual, especially through taxation.

As admirable as many of the objectives of liberalism and socialism may be, they have met with the realities of economics. Most economists would acknowledge that businesses do not in the final analysis pay the true cost of taxes. Businesses serve as conduits to collect taxes from the end consumer who ultimately pays the cost of taxes embedded in the cost of a service or good. If businesses did not pass on their cost of taxes, they would cease to earn a rate of return that would be considered acceptable to profitably survive. To believe otherwise is naïve.

Thus, the true cost of government is borne by the individual. As long as individuals are able and willing to pay the cost, the economy can continue to function, and the government can continue meeting the obligations that it has promised. But governments are hurtling toward an economic brick wall. The culture of dependence and government extravagance has reached dangerous levels.

The number of people dependent on the state in most of Europe exceeded 50% long ago. In the "land of the free, and the home of the brave," 47% of wage earners will pay no federal income tax for 2009. Today, 20% of Americans receive 75% of their income from the federal government, and another 20% get 45% from Uncle Sam. More frightening is the fact that 60% receive more benefits in dollar value from the federal government than they pay in taxes. Projected increases in the current federal budget may move that figure to 70%. U.S. Representative, Paul Ryan, points out the risks to the United States: "Once that budget is fully put in place, three out of ten families in America are either supplying or supplementing the incomes of seven other families in this country. That is economically destructive. It's politically inequitable, and unsustainable." Ryan maintains that the President's budget calls for \$2 trillion in higher taxes, doubles the debt in five years, triples the debt in ten years."

One can argue about the nuts and bolts of a budget and the intricacies of government accounting, but there is no refuting the fact that the U.S. government for years has been spending far more than it collects in the form of tax revenues. According to Fiscal 2011 federal budget documents, taxes paid to federal, state, and local governments totaled 25% of GDP in 2009. Total government spending equaled 36% of GDP. The political class would just say tax the rich, they can afford it. Yet the top 10% of taxpayers already pay 73% of federal taxes. And the tax burden of the top 1% of taxpayers exceeds that paid by the bottom 95%! As former British Prime Minister Margaret Thatcher observed, "Socialist governments traditionally do make a financial mess. They always run out of other people's money."

No doubt, taxes will be going higher, and not just exclusively for the "rich." All wage earners will be hit with higher taxes for Social Security and Medicare. Projected taxes on "unearned" income from dividends, interest, and rents will be headed higher as well. (As an aside, the term "unearned income" is a government canard. A retiree receiving pitifully low interest on a CD or someone collecting rent on a small home would not consider the income as "unearned.") More deductions and exemptions will be phased out as well. In states like California, New York, New Jersey, and others, when taking into account property taxes, sales taxes, state income taxes, and federal income taxes, the marginal tax rate will reach or exceed 70%.

Most Americans believe in the necessity of paying taxes. And most taxpayers recognize the importance of helping the truly needy. We should be grateful for the religious orders and charitable organizations that make great contributions to society in providing assistance and sustenance to those who are at the lower end of the economic ladder. Americans are generally significant supporters of the underprivileged through the contributions of their time and money, not only domestically, but in the international arena as well. Yet, human nature is such that while altruism and religious beliefs are a source of common good from many organizations and individuals, all of the citizens at an individual level will not function as a collective

Good Samaritan—for human nature leads most individuals to pursue their own economic self-interest.

Society can benefit from some level of government assistance to the truly needy. However, one could argue that many government programs aimed at achieving what is “fair and just” have actually resulted in perpetuating a cycle of dependence on government and a loss of self-reliance and individual esteem, with related, debilitating economic and moral costs to society as a whole. Yet, liberal socialists view society as one in which citizens cannot effectively fend for themselves and are entitled to have their incomes supplemented, and where reams of regulations enforced by armies of bureaucrats are necessary to protect the public from the evils of capitalism. In a socialist society, highly educated politicians, technicians, and overseers know what is best for the people.

At the heart of socialist ideology is the underlying premise that socialism is morally superior to capitalism; all men are equal and thus should fare equally as well. In reality, the pure socialist solution for the state to own the means of production and to decide the rewards and distribution of labor is a utopian illusion. Most individuals engage in economic activity in order to obtain benefit from the fruits of their labor and property. Individuals are not equal in terms of ability, skills, or intellect. The fruits of their labor will be uneven. If individuals are compelled to devote their economic gain to the state there is a point beyond which they will produce less in inverse proportion to the demands made on their production and income.

Since modern day, liberal socialists in Europe and the U.S. cannot yet install their vision of moral superiority through nationalization and the state ownership of property, they have appropriated property through taxation. The stepchild of socialism, the liberal welfare state, has extended its tentacles through other means, namely regulation and taxation. The state thus takes the fruits of capitalism from the producing, tax-paying class and distributes them legislatively through entitlements. The citizenry becomes ever more dependent on being entitled to many economic “rights” and obligated for very few. Unfortunately, the goals of state welfarism are incompatible with the preservation of a free society. When there are more people who have no “skin in the game” except to take from the producers, the result is a state that will descend into an organ for the punitive enforcement of the collection of wealth by any means considered “just.” In the extreme, it will give rise to totalitarianism.

There are no lines of would-be immigrants rushing to enter Venezuela or Cuba. Both countries are abject, socialist states. The U.S. is at the other end of the spectrum in terms of the existence of economic and political liberty, but it is far from the bastion of economic liberty it was in previous decades. The damage inflicted upon individual liberty and the private economy by attacks on capitalism and the growth of socialism become evident only in degrees and over time.

Chief Justice John Marshall, in *McCulloch v. Maryland*, 1819, warned, “An unlimited power to tax involves, necessarily, a power to destroy; because there is a limit beyond which no institution and no property can bear taxation.” The U.S. tax code is a mind-boggling 17,000 pages. It is, without question, an encyclopedia replete with methods of legal confiscation and the awarding of entitlements to special interests. It seems that

every two or three generations, the benefits of a market economy (as opposed to a completely laissez-faire one) have to be relearned. The past several quarters, and indeed the past several years, have brought the U.S. and other sovereign states closer to a day of reckoning with the folly of tax and spend, spend and tax.

In the land beyond the Beltway, Americans are awakening to the dangers of the seemingly well intentioned, but ultimately enslaving nature of the tax and spend welfare state. In New Jersey, a state long known for a culture of government corruption, voters elected Chris Christie as their Governor last fall. In his budget address, he voiced a call for action that resonates far beyond the state capital of Trenton:

The day of reckoning has arrived. The attitude has always been the same—continue to spend, continue to borrow, and drop the catastrophic sum of all these poor choices into the lap of the next guy. Well, time has run out. The bill has come due I was not sent here to approve tax increases. I was sent here to veto them It is time for the tax madness to end.

Christie called raising taxes, “insane.” “If you are unemployed and support tax increases, be ready to stay unemployed We have the worst unemployment in the region and the highest taxes in America, and that’s no coincidence.”

In Virgil’s *Aeneid*, Laocoön warns his fellow citizens of Troy, “Do not trust the horse, Trojans. Whatever it is, I fear the Greeks even bearing gifts.” Today, we should be grateful to Greece for the message she is sending to the U.S. and the world. Greece is the quintessential socialist state. In 2009, its budget deficit was 13.6 % of its GDP, and its debt, the accumulation of past deficits, was 115% of GDP. The riots in Greece have unmasked the riddled structure of socialism and the modern welfare state. The ideological bankruptcy of socialism and its concrete failure is becoming increasingly apparent as its standard bearers in Europe flag under the weight of sovereign debt and government insolvency. Over 150 years ago, French economist, Frederic Bastiat, captured the essence of the socialist state, “The State is that great fiction by which everyone tries to live at the expense of everyone else.”

In the U.S., tensions are rising. Washington and state capitals across the nation cannot help but note the travails of Greece and much of Europe. Too, a growing number of Americans are taking heed of the threat posed by the growth of socialism with its accompanying demands on the economy and property and its threats to individual liberty. The seeds of resistance are taking root. There is growing evidence that the country appears ready to order a shift in the direction of national and state government.

If the U.S. is to regain its economic vitality and resurrect an environment of greater economic opportunity and individual liberty, the growth of government spending and taxation must be restrained and eventually reduced. The pendulum must swing away from the march toward socialism. Fiscal discipline is being imposed on governments through the markets. A citizenry that is girding for the battle of the nation’s economic future will fortify it. We believe there are signs that, while the struggle will be difficult, the road ahead will lead to a shift away from the culture of dependence. In recent

months, there has been a growing groundswell of support for a market economy and a rising level of concern about the growth of taxes and national debt. A recent Rasmussen poll found that 60% of U.S. adults say that capitalism is better than socialism. A Pew Research Center survey finds that Americans' distrust of government has grown significantly.

The conflict over the socialist inroads made through the arms of government over the last several decades are not properly framed as a case of Republicans versus Democrats. This is a struggle between those who hold individual liberty, economic freedom, and property rights as paramount in a free society, versus socialist statists who seek to impose their idealized but flawed vision of equal results upon the citizenry they feel they must oversee.

We have confidence in the unique nature of American constitutional government to right itself and avoid a robotic march down *The Road to Serfdom*, as Friedrich A. Hayek's classic called the inevitable path of collectivism and especially socialism. Prophetically, he warned of the dangers of the collectivists' vilifying attacks on the negative aspects of capitalism. "It is essential that we should re-learn frankly to face the fact that freedom can be had only at a price and that as individuals we must be prepared to make severe material sacrifices to preserve our liberty." As the issue of taxes and individual liberty rise in the hearts of Americans, the flame of revolutionary fervor is growing brighter. It is a healthy sign indeed for the Republic.

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