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Cato's Letter

The Case Against Socialism

RAND PAUL

I love Cato. They're one of my favorite think tanks, and I think Cato is particularly necessary in Washington because most everybody in that town wants something. Most of the people show up at my office, I call them the beseechers. They have both hands out and they want something from government, and they think it's government's job to help them. So, I like it when people come to my office and say, "Can you get government off my back?"

About a year or so ago, maybe a little longer, my wife and I started talking about what would become this book, *The Case Against Socialism*. I'd been teaching a course at George Washington University about the dystopian novel.



RAND PAUL is a U.S. senator from Kentucky. He spoke about his new book, *The Case Against Socialism*, at a Cato Policy Perspectives event in Chicago in November.

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As I taught that course, we'd go through the history from Dostoyevsky in the middle of the 19th century all the way through to contemporary dystopian novels like *The Minority Report*. The kids were pretty astute, and as we went through all the history that went into those novels, they'd ask why it always seems like socialism winds up in violence or authoritarianism. And so that's the theme of this book.

Because the other side will argue that they are now for a kinder, gentler form of socialism. And when you say, well, what about *this* socialism—the Soviet Union, China, Cambodia, Venezuela? They'll insist no, no, no—that's not it at all. But initially when each of these socialist paradises first came about, those on the left in Europe and the United States looked favorably on them, at least until it became untenable. Many intellectuals in our country were gaga over Joseph Stalin, and they traveled over there to see this glorious new future. Walter Duranty of the *New York Times* won a Pulitzer for writing about how great Stalin was and how great the Soviet economy was. Now, I

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think they were only showing him the elite villages where the government officials were, but this was a disastrous untruth that the *New York Times* eventually retracted—70 years later.

But still you might ask yourself, how could a book like this be necessary? Particularly for those who've read Ludwig von Mises's *Socialism* or F. A. Hayek's *The Road to Serfdom*. Why do we have to have another book? Well, look at the data from surveys of young people. I was at Columbia University recently, and I asked the audience, “How many of you have a good perception of socialism?” About a third of them raised their hand. The polling data is even worse; polls show around half of young people think socialism is a good idea. So, I think there is a need to go back over some of this . . . to remind people. The good news is that half or more will say they are favorable to socialism but then only about 20 percent of them can give a definition that is anywhere close to what socialism actually is. So

they are for it, but they have no idea what it is. That could be good because we can inform them about socialism and maybe they'll change their mind. Or it could be bad that they're so vague in their notions of what they want that they're willing to accept something really terrible before they understand what it is.

People might say we debunked all this so long ago; you can even go back to the latter part of the 19th century for some of it. The first thing that they had to correct Karl Marx on was the labor theory of value. His theory was that if I build this table and I put in \$100 worth of labor, that's

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what the table must be worth. And then if the capitalist takes 10 percent in profit, the capitalist is stealing that from the workers. That was his whole economic argument from which the rest of communism flowed. The Austrian School economists then came along and explained, no, that item is worth what somebody's willing to pay for it—what economists call its “subjective value.”

We won that intellectual argument completely. We also won the argument over incentives. You don't have the proper incentives for society if you don't get to keep most of what you've earned, and that incentive diminishes the more the government takes. And yet we come back to denial of this basic truth time and time again, with apologists for Hitler and apologists for Stalin. Perhaps even worse, I found, is with Mao Zedong, who arguably was worse than either Hitler or Stalin—at least by body count. Incredibly, many kids have no idea who he even is anymore—even though the *Little Red Book* sold millions of copies, and a lot of that was to Americans in the '60s and '70s. But it's not something younger people today seem to know about.

We tell the story of China's Great Famine in *The Case Against Socialism*, from about 1958 to 1960. During the Great Famine, it's estimated something like 30 or 40 million people died. We write about an official in Beijing: He's told to go out to the provinces because there's a story that the dead are lying in the street and that the dogs are eating the dead. And this official, like

so many government officials, took his notepad and he went out there and he studied the problem, wrote up his report, and came back to Beijing. He said it's absolutely not true. The dogs are not eating the dead in the streets because they ate the dogs long ago. That was Mao's China.



You might think, oh, well, you're just talking about Mao and Chinese communism. That can never happen again. Except the socialists and the leftists in our country and around the world have been praising Hugo Chavez and what he did for Venezuela for the last decade or more. You've got people like Oliver Stone who has written not one but two biopics glorifying the life of Chavez. I'm wondering if the trilogy will have the people eating their pets. It seemed like everybody was praising Chavez in the early 2000s. Socialism in Venezuela was so great, and poverty was going down—until it wasn't anymore. The average person in Venezuela has now lost 20 pounds. People are literally eating their pets. This is what's happened in what had previously been the richest and most prosperous country in South America.

Many on the left used to love Venezuela, but now they insist that, no, that's not the socialism they're for anymore. Then they go one step further and say Scandinavia is their real model. We're for Scandinavian socialism, they say. The only problem is that Scandinavia is not really socialist. And most of the policies that have made them rich are the opposite of what Bernie's for.

This is important, to look at other countries and their experiences. Because you can make the philosophical argument for individual liberty and against collectivism, and we do make those arguments. But practical arguments from history are important too.

Murray Rothbard once asked Ludwig von Mises if he had a short, simple definition of whether you have capitalism in a country. Mises's response was to look at whether you have a private stock exchange where you can buy and sell shares freely. Well, all the Scandinavian countries have had private stock exchanges for the last 150 years. They have private property. Their corporations are by and large privately owned. They have really thrived in many ways and for many different reasons, but it isn't because of high taxes on business. In the 2017 tax cut, we went from a 35 percent corporate rate in our country to 21 percent, and that just got down to where Scandinavia has been for the last 20 or 30 years!

Scandinavia's actually had low business taxes for a while. Now, they do have high taxes on other things, but this is another sort of big lie that you get from Bernie Sanders and Elizabeth Warren and Alexandria Ocasio-Cortez. They tell you they're going to give you all this free stuff, but we're only going to tax the top 1 percent just like they do in Scandinavia. Well, that's the complete opposite of what they do in Scandinavia. They have a

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less progressive tax code than we do. They have a 25 percent value-added tax (VAT), a type of a sales tax. That is on the working class as well as everyone else, but the working class pays a lot of taxes by paying that 25 percent VAT. They also have a 60 percent income tax that starts around \$60,000. If you look at the upper crust, it's actually lower taxes in Scandinavia for the rich than we have in our country.

It's important that we get the facts straight and respond to these sorts of arguments from the left. The record of socialism is one of death and destruction, and that's the path we could go down if these lessons aren't taught anew to each new generation. So that's what I've set out to do with this book. ■



SCHOLAR PROFILE

Ryan Bourne

Ryan Bourne is the R. Evan Scharf Chair for the Public Understanding of Economics at Cato, where he writes on a wide range of economic issues. He holds a BA and an MPhil in economics from the University of Cambridge.

Economics is often perceived to be highly technical or a matter only for experts—why does public understanding matter?

Economics might not be the most important thing in life, or even policy, but it is the area where faulty analysis and bad political decisions usually have the most damaging effects on our living standards. A lot of economic principles are counter-intuitive. So it's crucial to try to inform the public of what we know and what we don't know, such they can hopefully pass better judgment on what's often wishful thinking and denial of trade-offs seen in Washington.

What attracted you to the study of economics and to free-market economics in particular?

I'd always been fascinated by the power of incentives and so was intrigued by a subject that provided frameworks for explaining the decisions we make. I graduated on the eve of the financial crisis. Jobs dried up. So I stayed on for a master's, finding time to read up on the history of economic thought. F. A. Hayek, Milton Friedman, and Joseph Schumpeter's work felt as if an author was penning many of my deeply ingrained thoughts. After university, I worked in a consultancy but broke my leg badly playing soccer. Laid up at home during a UK election period, I became so frustrated at the bad economic thinking that I started applying for free-market think-tank jobs there. And here we are—a lucky break some might say!

What are some of the differences you've found between policy work in the United States as opposed to the United Kingdom?

Despite the current hostile environment for our ideas, in the United States you can still express free-market opinions on TV without being treated as if you're from another planet. Perhaps the biggest difference, though, relates to how centralized political power is in the United Kingdom. When you're discussing any policy issue there, you know that it is ultimately within the purview of Parliament. Here, the Constitution and the states add another dimension.

You continue to write about British politics as a columnist. What are some ways in which recent UK trends have mirrored American politics, or do you think such comparisons are overstated?

Certainly I think conflation of President Trump with Brexit is overblown. There might be some cultural similarities, and migration was clearly a driving issue for both campaigns. But Brexiteers pushed a very free trade-loving narrative, and the United Kingdom did have long-standing grievances about democratic accountability within the EU. Boris Johnson is also far more liberal than the media here suggests (he once proposed an amnesty for illegal immigrants during the referendum campaign). One similarity, though, is how both those electoral shocks are completely realigning politics along a different axis than the traditional left-right economic divide. It's a trickier terrain for free-marketeers to navigate. ■

Evan's Civic Vision

Journalists, policymakers, and civic leaders are frequently confronted with the true power of free markets to transform lives, all thanks to the support and dedication of one man—Evan Scharf.

Sadly, Evan passed away in 2016. He and his wife, Sue, had supported Cato at the Club 200 level for many years, and he had given serious thought to his charitable legacy.

Evan established a Chair for the Public Understanding of Economics because he believed that a persuasive economist could use timely research and commentary to inform the public about the social benefits of freedom. He wanted to create a position at Cato for an outstanding libertarian economist to prominently demonstrate how free people create and sustain prosperity.

“Evan understood that capitalism must be defended against socialism, and this is turning out to be one of the major themes of the 2020 presidential election,” Sue Scharf said.

Ryan Bourne accepted the R. Evan Scharf Chair for the Public Understanding of Economics in March 2017. “These tumultuous political times are throwing up a tidal wave of economic policy ideas. Some are beneficial, but most would impair freedom while making us poorer,” Bourne said. “I see a large part of my job as shooting down bad ideas early, highlighting the real causes of economic problems we see, and the ways existing government policy often contribute to them.”

Bourne brought to the position his valuable insight and expertise as a leading economist, advocating for Brexit in London. His unique ability to simplify issues for a wide public audience has proven to be a great match for Evan’s plan to promote the promise of prosperity. “Ryan Bourne is



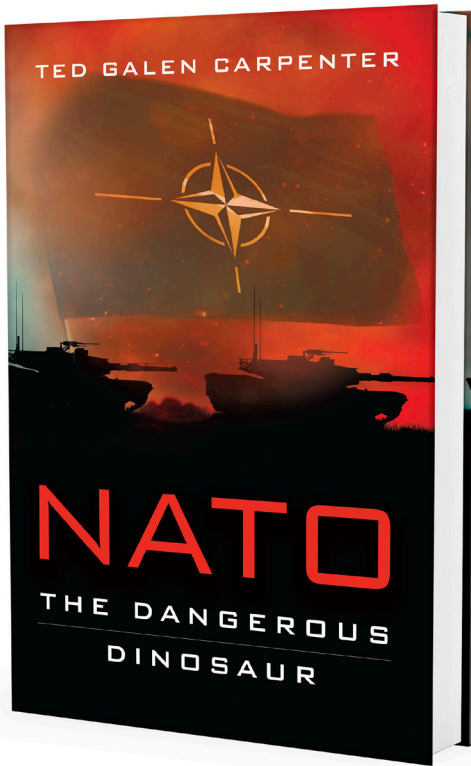
a superstar himself,” Sue said. “I check the Cato website daily to keep up with the work Ryan is doing, and I’m so impressed with him and the Cato scholars.”

For instance, Bourne’s latest work directly addresses the growing number of people who consider inequality as a major problem to be solved by more taxes, spending, and regulation. In November 2019, Bourne and Cato’s director of tax policy studies and editor of *DownsizingGovernment.org*, Chris Edwards, published “Exploring Wealth Inequality.” Bourne and Edwards reviewed the evidence for six prominent claims by proponents for bigger government to redistribute larger amounts of wealth. Their research shows inequality is no crisis and explains how government can, instead, truly help those living in poverty.

With free-market economic policies under increasing attack from politicians and journalists on both the left and right, the Cato Institute’s work in making the moral and economic case for a free economy is arguably more important today than ever before. Evan Scharf recognized Cato’s ability to move people toward a free society, and his vision to advance liberty foresaw today’s opportunities to show the public how to use the power of economic thinking to build a better life. ■

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New in Foreign Policy



Donald Trump's presidency has triggered a growing debate on both sides of the Atlantic about the future of the North Atlantic Treaty Organization (NATO).

In *NATO: The Dangerous Dinosaur*, Ted Galen Carpenter outlines how NATO has outlived its purpose, explains why burden sharing is only part of the problem, and proposes a new approach that will be not only less costly and risky to Americans, but will better serve European security interests as well.

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