

Observations About Socialism and the Venezuela Economy

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Greater socialism always leads to increasing national debts, but a greater threat is the entitlement mentality that is instilled. A USA survey shows that since 2016, those positive about capitalism dropped from 60% to 56% while those positive about socialism increased from 35% to 37%. For people between the ages of 18 and 29, those positive about capitalism dropped 23% from 68% to 45%. Will the USA become another Venezuela with a GDP that went from \$530 billion in 2015 to \$276 billion in 2018? Giving more benefits to the populace than is sustainable always leads to long-term disaster.

INTRODUCTION

It is difficult to use labels to describe the various political/economic systems that have existed over the centuries. Not only are the government systems themselves complex, but the understanding and perceptions of people are so varied that communications are often confusing and/or fruitless as descriptions are conveyed. Such words as capitalism, fascism, social capitalism, collectivism, socialism, and communism mean different things to different people.

To reduce the confusion, it appears that the words capitalism and socialism are now used more frequently to describe two ends of a simplified spectrum with the capitalistic side referring to a system of lower taxes and people being more responsible for taking care of their own needs. At the other end of the spectrum, socialism describes a system of higher taxes and the government being more involved in caring for the needs of the people.

Considering some of the communication challenges, perhaps a better term for a capitalistic system is a “free market” economy where there is more freedom of choice for participants and a minimum of taxation and government meddling. Such an approach is closer to what the founders of the United States envisioned as the nation evolved and as the Constitution was instituted. Before establishing this approach, the founders spent many years, even decades, studying the lessons of history and evaluating various government options. The two things they seemed to be most fearful of were government tyranny and financial irresponsibility because either or both could become sufficiently entrenched to threaten the freedoms of the people.

Federalist Paper #45 that was written by James Madison (sometimes referred to as the “Father of the Constitution”) indicated that the Federal Government was given only those powers that were “few and defined” while the states (and the people) were given the remaining powers that were “numerous and indefinite.” The Federal powers that were few and defined did not include “acts of benevolence” because

the founders believed such powers could and would lead to both tyranny and financial irresponsibility. Where would it end if politicians had the right to grant financial privileges to special interest groups?

During the years that followed, the Federal Government held closely to the principle and standard of not being involved in charitable causes. In 1794, Congress voted to provide \$15,000 for the relief of French refugees, but James Madison disapproved of the measure and stated, "I cannot undertake to lay my finger on that article of the Constitution which granted a right to Congress of expending, on objects of benevolence, the money of their constituents."

In 1827, the famous Davy Crockett was elected to Congress, and when it was proposed that \$10,000 in relief be given to a widow of a naval officer, Davy Crockett opposed the measure. He stated that "... we must not permit our respect for the dead or our sympathy for part of the living to lead us into an act of injustice to the balance of the living. I will not go into an argument to prove that Congress has not the power to appropriate this money as an act of charity. Every member on this floor knows it. We have the right as individuals to give away as much of our own money as we please in charity; but as members of Congress we have no right to appropriate a dollar of the public money."

About sixty years later, President Grover Cleveland vetoed many bills that were passed for the purpose of appropriating funds for charitable causes. On one such occasion, he said, "I can find no warrant for such an appropriation in the constitution, and I do not believe that the power and duty of the general Government ought to be extended to the relief of individual suffering which is in no manner properly related to the public service or benefit." And so it was for over 140 years as the government remained true to the Constitution established by the nation's founders and meticulously held to the principles of a free market economy.

Inherent in the general economic philosophy of those earlier decades was the notion of the "three-legged stool." If the country had (1) solid moral values, (2) good education, and (3) freedom of choice, the nation (the stool) would remain strong and upright. And so it was for many decades when the Gross Domestic Product grew solidly at a real rate (not including any inflation) of about two percent per year (about 22 percent per decade).

These free market principles led to unprecedented prosperity that was arguably the greatest in the history of the world up to that point. In the eight years prior to the Great Depression, for example, the gross domestic product increased by 7% annually and industrial production increased by 70%. Unemployment averaged 3.3%, per-capita income grew by 30%, real earnings increased by 22%, the tax rate was reduced four times, and the national debt of \$22.3 billion (caused largely by World War I) was lowered to \$16.9 billion. The average workweek was lowered by 4% and the number of automobiles increased by three fold.

Then in October 1929, the stock market crashed and the economy quickly deteriorated into the Great Depression of the 1930s. The crash was not the fault of capitalism or free markets but the mismanagement of the nation's money supply. The country's monetary base that had been at \$46.6 billion was dropped by about 30 percent over four years (to \$32.2 billion), and that severely damaged the economy of the United States and the world.

The drastically declining economy, widespread collapse of banks, decrease in property values, loss of savings, and severe increase in unemployment all combined to create a desperate economic environment. From that seedbed of financial chaos, politicians and other prominent people began promoting the idea that the "general welfare" clause of the Constitution should be changed to the idea of giving "specific welfare" to those in need. The floodgates were opened and the phenomenon feared by the founding fathers became a living nightmare.

A SHIFT TO SOCIAL PROGRAMS IN THE UNITED STATES

Among the first of the social programs introduced in the 1930s was Social Security "Insurance," but it was anything but insurance because it was not actuarially sound. Private insurance, by nature, is designed so that those who pay into the fund contribute enough money over time to cover expected future payouts.

But the U.S. Social Security program was designed by the advocates to pay benefits to recipients that would need to be subsidized from other sources (taxing and borrowing).

Even with OASDI payroll deductions increasing dramatically from a maximum of \$30 per year in 1940 to \$20,334 per year in 2019 (not including Medicare or Prescription Drugs), the promised benefits to recipients have been among the main factors driving the country towards insolvency. The actuarial Social Security liability is currently at \$20.1 trillion but only \$2.9 trillion is in the Trust Fund. More frightening is the fact that there is almost no real money in the Trust Fund because the government has borrowed and spent most of the \$2.9 trillion. What primarily remains in the fund are U.S. Government securities, which means IOUs from the government.

Besides the biggest programs of Medicare (\$31 trillion unfunded liabilities), Social Security (\$20.1 trillion unfunded liabilities), and Prescription Drugs, there are now thousands of government programs for “benevolence” including the following (with annual government expenditures shown at the right of each item):

Old Age Assistance (\$56 billion)	Section 8 HUD Housing (\$28 billion)
Refundable Child Credits (\$23 billion)	Public HUD Housing (\$9 billion)
TANF Assistance (\$7 billion)	Low Income Housing (\$6 billion)
TANF Block Grant Services (\$5 billion)	Pell Grants (\$41 billion)
Medicaid (\$275 billion)	Title One Grants for Edu. (\$14 billion)
Food Stamps (\$77 billion)	Headstart (\$8 billion)
WIC Food Program (\$7 billion)	Child Care Entitlements (\$3 billion)
State Supp. Health Insurance (\$9 billion)	Community Devel. Grants (\$7 billion)

In other words, since opening the door of Socialism in the 1930s, there have been thousands of ways established for people to “eat at the government trough,” and the result is an out-of-control system that is bankrupting the United States. Over two thirds of the Federal budget now goes for “acts of benevolence” and leaves the nation with more than another \$1 trillion in debt each year. Besides the \$23 trillion in “explicit” debt, unfunded liabilities are now at \$126.6 trillion. With annual Federal tax revenue at only \$3.6 trillion (and spending at \$4.7 trillion), it is highly unlikely that the explicit debt and unfunded liabilities will ever be fully paid. It would be desirable to reverse or eliminate many programs, but the powerful forces at work continue unabated. It is always easier for politicians to promise and give more benefits than reduce them. Attempting to do so frequently results in anger, riots, and bloodshed.

CHANGING SENTIMENTS

Through this political and economic environment, the population of the United States has been slowly indoctrinated into the idea of socialism, and that change of thinking has been especially fast in the last three years. As observed in a recent Gallup Poll, in 2010 61% of Americans had a positive opinion about capitalism and 36% had a positive opinion about socialism; those numbers remained quite stable for the next six years. In 2016, those positive about capitalism had dropped only 1% to 60% and those positive about socialism had also dropped 1% to 35%. But since 2016, those positive about capitalism has dropped to 56% while those positive about socialism has increased to 37%.

When the age of the survey respondents is considered, the results are far more interesting. For those above the age of 50, the numbers have remained quite stable over the last eight years with about 60% of respondents positive about capitalism and about 30% positive about socialism. But for those between the ages of 18 and 29, the percentage of respondents positive about capitalism has dropped a whopping 23% from 68% in 2010 to 45% in 2018. This is even more interesting considering that the number of people who are positive about socialism has remained the same over the same eight-year period (from 51% to 51%).

THE TRACK RECORD OF VARIOUS ECONOMIC SYSTEMS

It is interesting that positive feelings about socialism continue to endure (and even increase) when the track record of such “collectivist systems” as communism and socialism have not been good. For example, the United States under capitalism consistently produced about 4½ times more per capita than communist U.S.S.R. during its 74-year history (from 1917 to 1991). West Germany under a form of free enterprise produced about 2½ times more than East Germany under communism.

Taiwan, as an island nation of free enterprise, has consistently out-produced Cuba as an island nation under communism by about 3 to 1. And South Korea, with a free market system, consistently produced about 20 times more per capita than North Korea under an oppressive communist regime (based on data from 2012). Three years later (2015 data) that comparison widened as South Korea had a per capita GDP of \$39,600 and North Korea a per capita GDP of \$1,700. In other words, the per capita GDP in South Korea under capitalism had increased to more than 23 times the GDP of North Korea under communism.

It is frequently true that the destructive shifts towards socialism are not immediately observed. In the short term, such economic “experiments” may seem to be successful as the assets and benefits of society are re-distributed. But over time, the shifts in motivation take their toll, and economic outputs of society decline significantly. The examples from history are many where free people participating in free markets inevitably out-produce their counterparts in such controlled markets as socialism and communism.

As a counter to these observations, socialism enthusiasts sometimes admit that capitalism frequently produces more but try to make the point that the additional production is enjoyed by the wealthy people while the poor remain in poverty. Of course there is an element of truth to that. After all, that is the story of capitalism. Those who hustle are often able to increase their economic well-being. It is a motivating force that lifts the economy of a country.

But a point can be made that even the poor are better off under capitalism. In the United States, for example, almost 100% of the bottom one fifth of Americans have more spending power than the bottom one fifth of many other countries (including India). That doesn't mean we should be unconcerned or unfeeling about the struggles of poor people, but it should be pointed out that of those who are officially poor in America, 43% own a home, 73% own a car, 97% own a color television, 36% own a computer, 91% own a telephone, 99% own a refrigerator, and 80% have air conditioning. The so-called poor in America are defined as those making less than \$12,140 per year (or \$20,780 for a family of three). Those amounts are better than the average earnings of people in at least 65 countries and better than most of the upper class in many countries.

THE EXAMPLE OF CHINA

In considerations of capitalism versus socialism, there are some who point towards communist China to substantiate the idea that socialism/communism can work in amazing ways. Certainly China's record of growth of the past few decades has been amazing. But the success of China is not evidence of the economic capabilities of communism or socialism but an evidence of the power of capitalism because it was an intentional shift towards capitalism by Deng Xiaoping in 1978 that began the dramatic shift in economic growth.

When China was functioning under the communistic system, food was frequently scarce and millions of people died because of it. But so entrenched is capitalism now, that most economic experts currently describe China as a country of “One Party Capitalism.” But always lurking below the surface is the concern about communism at the top levels which is evidenced by the recent rioting in Hong Kong. Nevertheless, as China maintains its capitalistic approach, it will continue to prosper and will likely become the biggest economy in the world within three or four decades.

SOCIAL CAPITALISM IN EUROPE

Considering the positive numbers with “capitalism” in America, some quickly point to similar successes in Europe under what is frequently described as social capitalism. It is true that many European countries have done a good job providing for the needs of the populace under social capitalism, but evolving beneath the surface are the same seeds of destruction that socialism tends to foster. The apparent short-term successes are leading to catastrophic failures in the long term.

The main problem with socialism is its basis in a “pay-as-you-go approach” (as opposed to a “fully-funded approach”) meaning that payments to retirees (and others) come from the current contributions of those still working. It is no different than a “Ponzi scheme” where payments to previous participants are from funds coming from new participants. Like musical chairs, when the music stops, some are left out. Under a fully funded approach, there is no need to take money from current contributors because (like a whole life insurance policy) a pool of resources is established over time to cover the needs regardless of economic conditions, population trends, etc.

The dependence on a future workforce to cover the ongoing needs of retirees and others is especially a problem in Europe because of declining populations. To sustain an ongoing population, the birthrate needs to be at least 2.1 births per woman, and the fertility rate in Europe (and surrounding countries) is currently about 1.5. But whether inadequate population growth or simply a lack of financial discipline, most countries among the Western industrialized nations are headed towards significant financial distress. Great Britain, for example, now has a \$4 trillion retirement savings shortfall, which is projected to rise 4% a year and reach \$33 trillion by 2050. The GDP of Great Britain is about \$2.8 trillion which means the shortfall is already significantly bigger than the entire economy; and even if inflation remains modest, the situation is going to get worse.”

As to the largest countries in the Organization for Economic Cooperation and Development (OECD) that consists of 25 European countries and nine other countries, the current shortfall in the funding for the pay-as-you-go pension systems is a staggering \$78 trillion which is approximately equal to the annual Gross Domestic Product of the entire world.

The ominous economic indicators in many European countries has not gone unnoticed and some countries are trying to reverse the trend or at least put countermeasures in place to reduce the anticipated consequences. Germany, for example, has established mechanisms that automatically adjust payments going into the system and benefits being paid out to at least reduce the challenging financial situation that lies ahead. Sweden has also established a self-correcting pay-as-you-go pension system that will mitigate somewhat the ominous financial challenges that lie ahead with heavy debt, an insufficient birth rate, and an aging population.

THE CHALLENGES WITH SOCIALISM IN VENEZUELA

Although the historical instances of socialism and communism have almost universally been catastrophic failures, politicians and others continue to advocate the concept, and many of the populace continue to embrace it as evidenced by the Gallup polls described above. As to the destruction that such an ideology causes over time, all one needs to do is look to the current situation in Venezuela. About 20 years ago (under capitalism) Venezuela was the third most prosperous country in the Western Hemisphere, but then the promises of “free stuff” by politicians enticed yet another nation down the path of destruction.

Venezuela socialism was established by vote in 1998 when Hugo Chavez was elected President as a self-described “Marxist communist.” The following year a new constitution was established which moved the country more aggressively toward socialism, and many key companies and industries were nationalized including the prosperous oil industry. With wealth re-distribution, Chavez was very popular and re-elected twice. But over time, excessive social benefits, price controls, debt, and other weaknesses took their toll, and by 2012, the economic destruction was well-entrenched. Although Hugo Chavez died

of cancer in 2013, his successors have continued the socialist model that has become a complete disaster for the country.

According to the World Factbook, the gross domestic product of Venezuela went from \$529.6 billion in 2015, to \$442.5 billion in 2016, to \$389.4 billion in 2017, to \$276.0 billion in 2018. On a per-capita basis, GDP over the same four years went from \$17,300 to \$14,300 to \$12,400 to \$10,160. Likewise, the unemployment rate from 2015 to 2018 increased from 6.8% to 20.6% to 26.4% to 40.0% and the inflation rate for the same period went from 181% to 302.6% to 2,616.5% to 130,060%. By the end of 2019, the International Monetary Fund estimates that Venezuela's inflation rate will be at 1,000,000%.

The impact of this collectivist system has been destructive in an economic sense, but also in other ways as well. "According to the International Organization for Migration, the number of Venezuelans leaving the nation between 2015 and 2017 increased 900%, from 89,000 to 900,000 people." In 2018 and 2019, the country lost more than one million people each year.

The UN describes the outflow as the 'largest ever' migration from the Americas. But it is not just the fact that people are leaving Venezuela but who, in particular, is what matters the most. The nation has lost over one-third of its 66,000 doctors and over half of those who have worked in public hospitals. That particular disaster has precipitated a collapse of the health care system to the point where there are shortages of more than 85% of basic medicines, and some patients even need to bring their own scalpels to surgery. Moreover, the almost unimaginable 600% increase in prices has condemned medical personnel to a miserable salary that is erased by inflation. According to President Douglas Leon Natera of the Venezuelan Medical Federation, "for doctors in public hospitals, the salaries stand at about \$4 or \$5 per month, and that's for specialists."

VENEZUELA'S NUMBERS APPLIED TO THE UNITED STATES

To emphasize how serious it would likely be for the United States to adopt a more collectivist economic system (which some political candidates are proposing), it would be helpful to apply the Venezuela numbers to the United States. For example, if Venezuela's GDP numbers that declined from \$530 billion to \$276 billion over four years (a decline of about 48%) were applied to the economy of the United States, the \$21.6 trillion Gross Domestic Product of the United States would decline by about \$9.7 trillion per year. If the unemployment rate of 3.9% in the United States in 2018 had been increased to the Venezuela rate of about 40% at the close of 2018, there would be approximately 62 million unemployed workers in the United States out of a workforce of about 158,500,000. This would mean that about 56 million more workers would be unemployed. The 40% unemployment rate would be by far the worst in the nation's history surpassing the 24.5% rate that existed during the Great Depression of the early 1930s.

As to the impact that Venezuela socialism might have on the medical profession, the United States currently has about one million medical doctors (slightly more if inactive and unclassified doctors are included). Noting that more than one third of the doctors have left Venezuela because of the socialistic environment, if that was applied to the United States, it would mean that about 360,000 doctors would exit the country, a disastrous situation. And if the current pay for medical personnel equaled the current Venezuela pay of \$4 to \$5 per month, most of the rest of the personnel staff would also quit.

As to population, the stated number of people in Venezuela at the close of 2016 was 31.57 million. With about 900,000 people leaving in 2017, another 1.6 million in 2018, and at least another 1.8 million that will have gone by the end of 2019, Venezuela's population is now estimated at about 27 million--a decline of about 14 percent in the last three years. If that percentage was applied to the United State with a population of about 330 million, about 46 million people would have left the country, and that would be catastrophic in every conceivable way. Where would 46 million people go? Would that even be possible? Even numbers substantially lower than that would be catastrophic to the United States and to the world.

CONCLUDING COMMENTS

When the economic deficiencies of socialism are brought to the attention of those advocating socialism, they frequently say that the failures were because “the wrong people were in charge,” “the wrong methods were used,” or “next time it will be different.” Of the 193 countries that are members of the United Nations, all but five small countries are deeply in debt, and most of the world’s debt has come from socialistic efforts to solve society’s problems. It is true in the United States where two thirds of Federal government spending is for “acts of benevolence.” Perhaps a better approach would be to apply the principles and practices of free markets that worked so well for over 140 years, and to work at solving the social problems at state and local levels as envisioned by the country’s founders.

As Adrian Rogers stated in the 1950s: “When half of the people get the idea that they do not need to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work, because somebody else is going to get what they work for, that my dear friend, is the beginning of the end of any nation.”

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