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## Obamanomics and Socialism

Sarah Palin has accused Barack Obama of being a socialist. Senator Obama has denied it. In recent decades the failure of socialism throughout the world has become so apparent that calling someone a socialist is viewed as an insult. However, so many of the characteristics of socialism have worked their way into the mainstream of the US economic policy that it's easy to confuse where capitalism ends and socialism begins.

The encyclopedia Britannica defines socialism as the "*social and economic doctrine that calls for public rather than private ownership or control of property and natural resources.*" The definition goes on to say that under socialism all people in society live in cooperation with one another and that "*everything that people produce is in some sense a social product, and everyone who contributes to the production of a good is entitled to a share in it.*"

Hence, socialism has two components. One deals with government control of the means of production and the other with the redistribution of income. The socialist concept of redistributing income is already an accepted fact of life in the United States. In 2005, the top 10% of taxpayers paid 70% of all income taxes. The bottom half paid only 3%. Since those in the bottom half were often eligible for tax credits, it turns out that more than half of the workers pay no income tax. For the US, the issue of income redistribution has already been decided in favor of socialists. The only issue remaining is whether or not to move even further in this direction. Obama says yes. Sarah says no.

Beyond the issue surrounding the redistribution of income is the issue of government control of the means of production. Senator Obama has made it

clear that he wants the government to control the means of production. His most recent comment along these lines came in terms of his criticism of the bailout strategy. While he agrees with the idea of the government bailing out the banks, he wants to go further and force banks to lend the money they get to those who need it. Forcing banks to lend money means government would be *controlling* their decisions. This is a characteristic of socialism.

The desire for government to control companies has been a consistent part of Senator Obama's campaign rhetoric. At various times, the Senator has attacked the behavior of insurance companies, health care providers, pharmaceutical firms and oil companies. He proposes government control over the decisions, prices or profits of these companies as a means of correcting their objectionable behavior. This too is socialism.

Senator Obama also wants the government to allocate resources away from some areas toward others so that the nation can move aggressively toward achieving energy independence. He has proposed (and Congress and the President have recently approved) legislation to provide \$25 billion in loans to auto companies to help them retool to create more energy efficient vehicles. The Senator's proposed windfall profits tax on oil companies would take funds from one set of energy producers and reallocate those funds to areas where politicians believe they can be used more effectively. This again is the essence of socialism.

In any economy there are only two ways to organize the production of goods and services. One is to allow resources to respond to free market pressures. This is a

key characteristic of capitalism. The alternative is to use government and political pressure to allocate resources. This is a characteristic of socialism.

As with the socialist issue surrounding the redistribution of income, there are areas where the US has decided to allocate resources in response to political pressure. One of these is the housing area. Fannie Mae and Freddie Mac were created to shift credit away from where market forces would have sent it and toward the housing market where politicians want it to go. The move to create Fannie and Freddie was a move in the direction of socialism. Shifting policies in this direction tends to produce problems. With the current financial crisis and the extraordinary cost to taxpayers, many now realize that allocating credit to in response to political pressures can be a costly mistake.

Free markets are unwieldy. They're complicated. They don't always produce the outcome that certain people want. However, the movement of prices in response to free markets incorporates the

decisions and judgments of millions, even billions of individuals. The market system involves the collection and assimilation of countless pieces of rapidly changing information. Abandoning this process means substituting the judgments of politicians (who often have little or no business experience) for the judgments of insights of millions, if not billions of individuals around the world.

It should come as no surprise that time and again efforts to substitute the decisions of politicians for those of the market have led to inefficiencies and disappointing outcomes. On occasion, such as with Fannie and Freddie, it produces disastrous consequences.

While he denies being a socialist, Senator Obama promises a government policy that involves not just a greater redistribution of income, but greater government control over various companies, over the allocation of credit and therefore over free markets. In this respect, Sarah's correct. Obamanomics represents a clear move toward socialism.