

# Are Democrats Socialists?

James A. Kyprios / Originally published by [LA Progressive August 26, 2020](#)

Some of my conservative relatives and friends delight in calling Democrats socialists. One of them wrote me that he might vote for Trump because: “at least he is not a socialist.” Socialists, he says, just want to “give things away.”

Here is my answer to the use of the misguided label “socialist.”

Stating that Trump is not a socialist implies that the Democrats (or some of them) are. But I think what he is really driving at is that he and other conservatives do not approve of spending on certain types of programs designed to help poor people.

They say that it is the left which wants to give away all sorts of free stuff. Well so do conservatives—they have no problem giving massive tax breaks to real estate entities for example, or to have asset managers taxed at capital gains taxes even though these asset managers are not making investments for their own account but are collecting fees. Warren Buffett points out that his secretary pays taxes at a higher tax rate than he does. What these conservative Republicans are complaining about is programs to people in distress. That is what it is all about.

They are not against handouts to themselves. There is such a thing as corporate welfare which includes spending programs to help corporations. The government pays huge amounts of money to large agricultural companies as an incentive to have them restrict the supply of agricultural goods. This is how these companies make much of their money. There are all sorts of other examples of corporate welfare to which they do not object and which are familiar to many people.

## Socialism and Capitalism

Before we can state that President Trump is not a socialist, it would be helpful to define socialism. Very simply speaking, it is the ownership by the government or a community of the means of production except for labor. In 1987, I took a trip to the Soviet Union just about the time it was starting to open up. We were in Leningrad (now St. Petersburg), a beautiful city with many magnificent buildings. Our tourist guide was describing some of these buildings when I noticed that she did not mention the most striking building in the area. I naively asked her what it was. She looked down, looked up and eventually with a sheepish grin said, without much enthusiasm and a barely audible voice: “That was the stock exchange until 1929.”

All of a sudden it all became clear to me. That is right, I said to myself—in socialism or communism everything is common property. There are no private owners. There is no private property. Therefore, there are no shareholders. There are no banks lending money to companies. In some cases, maybe there is no money. That is pure socialism.

What about capitalism? In its purest form as described by Adam Smith, it is a market-driven economy. By market, the economists mean where buyers and sellers meet. A market does not necessarily have to be a specific physical location.

What does this all mean? The three major questions that an economic system must answer as we learn in Economics 101 are What, How and For Whom.<sup>[L][SEP]</sup>

What is to be produced, how is it to be produced and for whom is it to be produced. In a socialist system, these questions are answered by the government. The Soviet Command Economy was an example. In a capitalistic system, these questions are answered by the market.

In fact, there is no such thing as an absolute socialist state or a purely capitalist state. The argument is therefore as follows—how much involvement should there be by the government in the economy, who is taxed and at what tax rates and where does the money go?

When conservatives have spoken of creeping socialism they have meant things like Social Security and Medicare. I don't think in today's world, too many Republicans would be against these programs.

### **We Need a Better Term Than Socialism to Describe Our Mixed Economy**

There are certain things (defense, fighting crime, a legal system, etc.) that are best provided by government. In addition, certain problems (alleviation of extreme poverty, combatting economic depressions, curbing pollution, abusive monopolies, etc.) require remediation by government. As a result, some government intervention in the economy is necessary.

Perhaps a better term in discussing the mixed economy (a combination of free enterprise and government) is a Modified Capitalistic System. We can say, for example, that Sweden and Denmark are heavily modified capitalistic systems because the government constitutes a significant part of the economy.

I told one of my conservative friends that the Trump administration has turned out to be more socialistic in its approach to the economy than administrations in the past especially during peace time. Indications of this can be seen from the following statistics:

- Federal Government spending as a percentage of GDP is a basic metric to determine how "socialistic" a country is. Traditionally, this has been low in the US compared to other countries. When government was significantly increased under Franklin Roosevelt before World War II to combat the Depression, there were cries of socialism. The same was the case with the Great Society. Beginning this year (January 2020) the Federal Government expenditures to GDP ratio was about 5% and is now probably over 20% and rising. This figure is the highest ever in the peacetime history of the US—much higher than during the Depression and much higher than during the

Great Society. It may have been a bit higher during the last two or three years of WWII.

- Another metric is the deficit in the Federal budget as a percentage of GDP. The highest number ever recorded in our history was 27% during World War II. There is a real possibility that we will exceed this number this year (during peace time).
- An important metric is the ratio of federal government debt to GDP. Experts and international organizations such as the International Monetary Fund consider a ratio of above 60% to be “problematic”. We are on course to have a federal debt to GDP ratio of over 100%.

The United States has a Republican President, a Republican Senate and a Federal Reserve Chairman selected by Donald Trump. This year with the passage of the Cares Act (which Trump signed), the government has authorized the Fed to do things that it has never done before including making loans to companies and also buying corporate bonds. If all these programs are fully funded and put into place, the Fed would create huge amounts of money by a stroke of the pen and magically we would have the following:

- The Fed would be one of the biggest lenders in the US and most likely in the world. Just one program, the Main Street Lending Program (making loans to small and medium-sized businesses), would account for \$600 billion in loans. This is the first time that the Fed has directly lent to US companies. JP Morgan Chase, the largest bank in the US has a loan portfolio of about \$1 trillion. Under the Cares Act, banks are authorized to lend to small businesses (Payment Protection Program or “PPP”) with the full guarantee of the Small Business Administration (“SBA,” a government agency). The amounts authorized are over \$600 billion. With these two programs, the Federal government has an exposure to business of close to \$1.3 trillion, which is larger than the whole loan portfolio of the largest bank in the country.
- The Fed would be the biggest dealer in debt securities in the world. It has unlimited authority to buy and sell US government bonds in the open market. It can “finance” Federal government budget deficits by purchasing debt directly from the government. There is now a program in place whereby the Fed can buy various types of city, county and state bonds to support the Municipal Bond market. It even has authority to enter into arrangements with foreign central banks to give them dollar financing. Perhaps most importantly, it now has the authority to purchase up to \$750 billion dollars in corporate debt including in some limited cases junk bonds. Most of these programs are new this year and amount to a massive increase in the power of the Federal Reserve to transact with the private capital and money markets.

To summarize: we now have a situation where the government is basically more important in some areas of the financial markets than the private commercial banking and investment banking system.

Furthermore, the Fed now has the ability to completely controls interest rates. It has traditionally controlled short-term rates but as of this year it can now control rates at the

medium- and long-term maturity levels by basically buying and selling huge amounts of government securities. Markets are supposed to control interest rates. That is no longer the case. The government now calls the shots to a very great extent.

Under the programs enacted this year, the money supply has ballooned, which may or may not cause inflation. We do not know.

So, just to get this straight—the financial markets in this so-called free enterprise system are now very much under the control of the government. This is not a criticism. This is a fact.

I firmly believe that these programs were necessary to save us from catastrophe. But if a Democratic Administration had done this with the Head of the Fed also being a Democrat, I do not believe (to be diplomatic about it) that such actions would have been met with understanding or kindness. The Republicans would have called the President a Marxist if not worse.

Bernie Sanders said earlier this year that he wanted Medicare for all. He was evasive as to what it would cost by stating that these costs would be offset by the fact that people and companies would have much lower health care expenses. I believe someone estimated that the costs could be \$1.5 trillion. This was impossible, too much money—we could not afford \$1.5 trillion. Well, miraculously we are now able to afford another \$3 trillion. And now it looks like healthcare for all may not be a bad idea since the Virus is not selective.

As to President Trump, he is capable of moving to the left of Elizabeth Warren and Bernie Sanders if it suits him. Until he started to get the idea of running for President, he seemed to support liberal causes. It has come out that he has made contributions in the past to what's her name—oh yes, Kamala Harris.

In a funny sort of way, it is good he has no ideological predisposition. If he did, he would have balked at these "socialistic" programs the government has embarked on and we would have one major Depression right now the likes of which we have never seen before.

One final note—any fair observer would have to admit that capitalism in its history has been an unstable system with frequent depressions. But according to received wisdom at the time, the markets knew best, and government intervention was a no no. FDR changed that and like it or not, Trump has a lot more in common with FDR than with Herbert Hoover. So, we hear that that Trump is not a socialist? Well, I guess we would have to admit that FDR wasn't either. Historian Arthur Schlesinger wrote that Roosevelt saved capitalism. Let's give credit where credit is due— in 2020 Trump has wisely followed Roosevelt's lead.

I have told the [following story](#) (about the Lehman brothers collapse) before.

After Lehman Brothers was allowed to collapse by the Bush Administration in 2008, the stock market went into free fall. On a Thursday afternoon, President Bush called at meeting with his

top people, including Ben Bernanke, the Head of the Fed and also a Republican. The only people in the room that really understood what was at stake were Secretary of the Treasury Hank Paulson and Bernanke. Bernanke told the group if we do not act now, we will not have an economy by Monday. Every one of Bush's appointees was against any further action. Bush got up and started to walk out signaling the end of the meeting. He would discount the advice of his appointees and decided on action stating: "I am not going to be the next Herbert Hoover." That was his finest hour. Thankfully, Trump has gotten the message. FDR understood all these things. He has been called a socialist and worse by too many Republicans in the past. It is time to get the record straight.

### **It's Not Economics, It's Values**

These days, economists left and right pretty much agree on the economics involved. Where they diverge is on values. For liberals, it is important that the poor be taken care of. For conservatives, the value seems to be on individual initiative as opposed to government help. The discussion needs to be on values not economics. We got action this year because everyone was in agreement on the basic premise that the country's economy must be saved at all costs. I give President Trump credit for that. I also think the head of the Fed, Jerome Powell deserves a good deal of credit. Just a few months before Trump was constantly berating him. Now he knows that this gentleman has done a great job.

It is time to throw away these tired labels like "socialist." They do not intelligently add to the discussion we need to have in our country to attain a better future for all.