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CAPITAL ACCOUNT

Venezuela's Collapse Exposes the Fake Socialism Debated in U.S.

Would American politicians even recognize true socialism as they laud or lambaste it?



Supporters of President Nicolás Maduro attending Monday's celebration of the 27th anniversary of the late Hugo Chávez's failed coup in Caracas, Venezuela. PHOTO: IGNACIO MARIN/BLOOMBERG NEWS



By Greg Ip

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Hugo Chávez must be spinning in his mausoleum.

It's bad enough that the socialist regime Mr. Chávez handed down to Venezuela could soon crumble under intensifying international and domestic pressure.

Now, to add to the indignity, the very word “socialism” has been debased into a millennial hashtag on the left and a schoolyard taunt on the right—drained of any ideological substance that Mr. Chávez would have recognized.

Some polls find young American adults prefer socialism to capitalism, and self-described democratic socialists Alexandria Ocasio-Cortez, a New York congresswoman, and Bernie Sanders, a Vermont senator, have captured the hearts and minds of many Democrats. Right on cue, critics say they’d turn the U.S. into Venezuela. In his State of the Union address Tuesday night, President Trump condemned Venezuela’s “socialist policies,” then vowed: “America will never be a socialist country.” Republican legislators cheered lustily. Asked why he didn’t donate to presidential contender and Massachusetts Democratic Sen. Elizabeth Warren, former Starbucks chief executive Howard Schultz, now contemplating his own run for president, recently said: “I don’t believe the country should be heading to socialism.”

Would these people actually know socialism if they saw it? Taxing the rich, Medicare-for-all, and a Green New Deal that replaces fossil fuels with renewables are certainly liberal, probably radical, possibly unwise.

But socialist? Hardly.

They redistribute the outcomes of the market; they don’t replace the market with the state as the means of allocating production. That’s the hallmark of true socialism, and Venezuela’s catastrophic experience is a useful lesson in why it is has fallen out of favor around the world.

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“Socialism” is, of course, a big tent, having at one point included Soviet communists and Scandinavian social democrats. Every country is a little bit socialist insofar as every government owns some productive assets. Until the 1980s,

government ownership in strategic industries such as telecommunications, energy, and transportation was commonplace.

Venezuela was no exception: In 1976, like many developing countries, it nationalized the oil industry with the creation of state-owned PdVSA. It was, until the 1990s, relatively well run.

Though Mr. Chávez denied he was a socialist when first elected president in 1998, he soon radicalized, says Ricardo Hausmann, a former Venezuelan government official and now an economist at Harvard University who supports regime change. Soaring oil revenue in the 2000s enabled Mr. Chávez to embark on a sweeping nationalization of the economy. The government

“expropriated six million hectares of land, the steel sector, cement sector, supermarkets, telecoms, banks, dairy factories, coffee processing factories, hotels, and essentially ran all of them into the ground,” says Mr. Hausmann. It imposed controls on prices, imports and foreign exchange, which in effect expropriated the cash flow of private companies.

When oil revenue fell because of mismanagement and falling prices, the government forced the central bank to print money to finance its spending, resulting in hyperinflation and the current economic collapse.

Venezuela’s socialism, which was heavily influenced by Cuban communism, isn’t just a disaster; it’s unique. Despite the region’s long history of left-wing populism, no Latin American country has since followed Venezuela’s path. Nicaragua, Bolivia and Ecuador have left-wing governments allied with Venezuela, but “all have free trade, private ownership and a market mechanism,” says Mr. Hausmann.

Under former President Rafael Correa, Ecuador did force foreign oil companies to renegotiate contracts under threat of nationalization. But unlike Mr. Chávez, Mr. Correa couldn’t finance a massive expansion of the state by printing money: Ecuador gave up its own currency for the dollar in 2000. Inflation averaged just 3.8% during Mr. Correa’s 10 years in office, noted Sebastian Edwards, an economist at the University of California at Los Angeles.

This puts the American left’s ideas in perspective. Ms. Ocasio-Cortez has proposed a top income-tax rate of up to 70%, where it stood as recently 1981. Moreover, thousands of corporate executives already face an effective tax rate of up to 70%, noted Adam Looney of the Brookings Institution. That’s because under Republicans’ 2017 tax bill, corporations may no longer deduct executive compensation over \$1 million, which in effect exposes executives to the 21% corporate tax rate, on top of their individual taxes. Similarly, Ms. Warren’s proposed wealth tax is simply a broader (and probably less efficient) way to tax rich people’s wealth than estate and property taxes.

Medicare-for-all wouldn’t nationalize doctors and hospitals, though it might drive private insurers out of business, putting the U.S. where many industrialized countries already are. If the federal government ends up financing significant expansion of renewable energy under a Green New Deal, it wouldn’t be unprecedented: it created the Tennessee Valley Authority in the 1930s and the Interstate highway system in the 1950s because their social benefits didn’t lend themselves to private investment. Ms. Ocasio-Cortez goes further, proposing the Federal Reserve finance those investments, which would either compromise its control of inflation—or fail to save the federal government any money and thus be pointless.

Where Democrats actually may remake capitalism is in corporate governance. Ms. Warren would have workers select at least 40% of directors and demote shareholders to just one of many stakeholders to which corporations are responsible. Mr. Sanders and Sen. Chuck Schumer

(D., N.Y.) would prohibit companies from buying back stock unless they also pay workers at least \$15 an hour and provide various other benefits. Mr. Edwards of UCLA doubts these would have much practical effect: “If you send the big four auditing companies out to see how many of the S&P 500 ignore stakeholder goals, you’ll see none do.”

These Democratic proposals conscript private capital in the pursuit of social priorities much as President Trump already has by threatening companies who shift production out of the U.S., raise the prices of drugs or publish critical news.

In the long run, they could threaten growth by diverting capital from where it garners its best returns. But that’s nothing compared to the damage true socialism can do.

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Corrections & Amplifications

Howard Schultz is the former CEO of Starbucks. An earlier version of this article incorrectly called him chief executive. (*Feb. 6, 2019*)

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