



STUDY GUIDE

CAPITALISM VS. SOCIALISM

KEY TERMS: capitalism
consumer

socialism
benefits

free market
free

NOTE-TAKING COLUMN: Complete this section <u>during</u> the video. Include definitions and key terms.	CUE COLUMN: Complete this section <u>after</u> the video.
<p>How does the free market encourage people to improve their lives?</p> <p>Who has the ultimate power in a socialist economy?</p> <p>Which country in South America used to be the richest, until socialism ruined it?</p>	<p>In what ways does capitalism differ from socialism?</p> <p>How do free markets help the most people?</p>

DISCUSSION & REVIEW QUESTIONS:

- Towards the beginning of the video, Mr. Puzder points out that, “Each of the thousands of products Amazon offers represents the work of people who believe they have something you want or need. If they’re right, they prosper. If they’re wrong, they don’t. That’s how the free market works. It encourages people to improve their lives by satisfying the needs of others. No one starts a business making a thing or providing a service for themselves. They start a business to make things or provide services for others.” Do you agree that Mr. Puzder’s example here demonstrates his contention that capitalism is based on human need, not on human greed? Why or why not? What might some other benefits of a free market be, both for the people providing the goods and services and for the people receiving the goods and services? Explain.
- After sharing with us how capitalism works, Mr. Puzder contrasts that point by noting, “The consumer – that’s you – has the ultimate power. In effect, you vote with every dollar you spend. [But] In a socialist economy, the government has the ultimate power. It decides what you get from a limited supply it decides should exist. Instead of millions of people making millions of decisions about what they want, a few people - government elites - decide what people should have and how much they should pay for it. Not surprisingly, they always get it wrong. Have you ever noticed that late-stage socialist failures always run out of essential items like toilet paper?” Why do you think that socialist elites always ‘get it wrong’ when deciding what people should have and how much they should have? Considering that the United States is a country founded on valuing freedom and on valuing power being vested in the populace, do you think that socialism is strongly anti-American? Why or why not?
- Mr. Puzder goes on to address the question of, “But what about Western European countries? Don’t they have socialist economies?... Why can’t we have what they have – free health care, free college, stronger unions?” by stating, “There are no socialist countries in Western Europe. Most are just as capitalist as the United States. The only difference – and it’s a big one – is that they offer more government benefits than the US does. We can argue about the costs of these benefits and the point at which they reduce individual initiative, thus doing more harm than good... But only a free market, capitalist economy can produce the wealth necessary to sustain all the supposedly ‘free stuff’ Europeans enjoy. To get the ‘free stuff,’ after all, you have to create enough wealth to generate enough tax revenue to pay for everything the government gives away.” What do you think happens when a government offers ‘free’ health care and college, but impedes people from making enough money to be taxed on to pay for the ‘free’ health care and college? Explain.
- Later in the video, Mr. Puzder explains that, “The more capitalism, the less ‘socialism’ you need. Look at America since 2017. A policy of lower taxes and less government regulation (that’s more capitalism) has led to a robust economic expansion, something thought impossible just a few years earlier. Unemployment, notably among minority groups typically most at risk for poverty, is at a generational low. Economic expansion gets people off welfare and into work (that’s less ‘socialism’). None of this requires a degree in economics. Common sense is all you need.” How, specifically, do you think lower taxes and less government help the economy to expand? Explain. Why do you think that so many people, especially college students, tend to ignore the evidence that capitalism is the superior economic model for helping the most people to achieve a better position of wealth than they were previously in? Explain.

- Towards the end of the video, Mr. Puzder laments that, "...it's so frustrating to see young people praising socialism and criticizing capitalism. It's bad enough that they're working against their own interest – better job prospects, better wages, personal freedom – but they are also working against the interest of the less fortunate." Why do you think that so many young people praise socialism and repudiate capitalism? In what ways might those young people be 'working against their own interest?' Explain. In what ways might those young people be 'working against the interest of the less fortunate?' Explain.

EXTEND THE LEARNING:

CASE STUDY: Nordic Countries

INSTRUCTIONS: Read the article "Sorry Bernie Bros But Nordic Countries Are Not Socialist," then answer the questions that follow.

- Where does the Myth of Nordic Socialism come from? What kind of economics do Nordic countries actually practice? How do those countries pay for their generous entitlement programs? What condition allows for the government to be able to offer such enormously expensive welfare programs? How many of the Nordic countries have minimum wage laws? How are workers valued, in terms of employment compensation, in these countries? How does school choice work in Sweden? What is the economic freedom index, and where do the Nordic countries rank on it? What condition facilitates the high corporate and personal incomes that support the tax collections making the government benefits feasible?
- Why do you think that proponents of socialism are generally ignorant regarding the political and economic structures of the example nations that they point to as successes? Considering that currently and historically there aren't any examples of socialism working well, why do you think anyone would still be a proponent of socialism? Explain.
- If two people are employed in the same position, but one person works twice as hard as the other, a capitalist would be inclined to compensate the harder working person more- reasoning that the harder working person deserved more money. However a socialist would reason that both workers should be treated equally and thus deserve to be paid the same amount. Do you agree with the socialist position? Why or why not?



QUIZ

CAPITALISM VS. SOCIALISM

1. In the free market, who has the ultimate power?
 - a. The government
 - b. The consumer
 - c. The elite
 - d. Politicians

2. In a socialist economy, who has the ultimate power?
 - a. The government
 - b. The consumer
 - c. The elite
 - d. Politicians

3. Capitalism is based on human greed. Socialism is based on human need.
 - a. True
 - b. False

4. How many socialist countries are there in Western Europe?
 - a. 12
 - b. 9
 - c. 1
 - d. 0

5. When you point to Denmark as a paragon of socialism, _____.
 - a. you're really singing the praises of socialism
 - b. you're really singing the praises of capitalism
 - c. you're really singing the praises of communism
 - d. All of the above.



QUIZ - ANSWER KEY

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<https://www.forbes.com/sites/jeffreydorfman/2018/07/08/sorry-bernie-bros-but-nordic-countries-are-not-socialist/#7698934a74ad>

Jul 8, 2018, 12:00pm

Sorry Bernie Bros But Nordic Countries Are Not Socialist



Alexandria Ocasio-Cortez, self-proclaimed democratic socialist and Democratic Nominee for New York's 14th Congressional District, appears on 'Meet the Press,' July 1, 2018. (Photo by: William B. Plowman/NBC/NBC NewsWire via Getty Images)

As the American left embraces a platform that continues to look more and more like a socialist's dream, it is common for those on the right to counter with the example of Venezuela as the nightmare of socialism in reality. A common response from the left is that socialism (or democratic socialism) works just fine in Sweden, Norway, and Denmark. It is certainly true that Sweden, Norway, Finland, and Denmark are notable economic successes. What is false is that these countries are particularly socialist.

The myth of Nordic socialism is partially created by a confusion between socialism, meaning government exerting control or ownership of businesses, and the welfare state in the form of government-provided social safety net programs. However, the left's embrace of socialism is not merely a case of redefining a word. Simply look at the long-running affinity of leftists with socialist dictators in Cuba, Nicaragua, and Venezuela for proof many on the left long for real socialism.

To the extent that the left wants to point to an example of successful socialism, not just generous welfare states, the Nordic countries are actually a poor case to cite. Regardless of the perception, in reality the Nordic countries practice mostly free market economics paired with high taxes exchanged for generous government entitlement programs.

First, it is worth noting that the Nordic countries were economic successes before they built their welfare states. Those productive economies, generating good incomes for their workers, allowed the governments to raise the tax revenue needed to pay for the social benefits. It was not the government benefits that created wealth, but wealth that allowed the luxury of such generous government programs.

Second, as evidence of the lack of government interference in business affairs, there is the fact that none of these countries have minimum wage laws. Unions are reasonably powerful in many industries and negotiate contracts, but the government does nothing to ensure any particular outcome from those negotiations. Workers are paid what they are worth, not based on government's perception of what is fair.

A third example of Nordic commitment to free markets can be found in Sweden which has complete school choice. The government provides families with vouchers for each child. These vouchers can be used to attend regular public schools, government-run charter schools, or private, for-profit schools. Clearly, the use of government funds to pay for private, for-profit schools is the opposite of socialism.

We can also confirm these isolated facts by looking at a comprehensive measure of capitalism relative to socialism. The Fraser Institute, a Vancouver-based, pro-free market, think tank, compiles a worldwide ranking of countries called the economic freedom index. Its website explains that its ranking "is an effort to identify how closely the institutions and policies of a country correspond with a limited government ideal, where the government protects property rights and arranges for the provision of a limited set of "public goods" such as national defense and access to money of sound value, but little beyond these core functions." Clearly, a socialist country should perform poorly in any ranking based on these principles.

What we find, however, is the Nordic countries rank quite high on this index of economic freedom. In fact, while Hong Kong and Singapore top the list and the U.S. ranks 12th, we can find the Nordic countries in quite respectable rankings. Denmark ranks 15, Finland 17, Norway 25, and Sweden 27. In terms of numerical scores, Sweden is only 5% lower than the U.S. For further comparison, South Korea and Japan, both considered fairly pro-free market, rank 32 and 39, respectively.

Socialism can take the form of government controlling or interfering with free markets, nationalizing industries, and subsidizing favored ones (green energy, anyone?). The Nordic countries don't actually do much of those things. Yes, they offer government-paid healthcare, in some cases tuition-free university educations, and rather generous social safety nets, all financed with high taxes. However, it is possible to do these things without interfering in the private sector more than required. It is allowing businesses to be productive that produces the high corporate and personal incomes that support the tax collections making the government benefits feasible. The Nordic countries are smart enough not to kill the goose that lays the golden egg.

If the left insists on naming a system of generous government benefits combined with a free market democratic socialism, I cannot stop them. That seems unnecessarily confusing since the government is actually running no industries other than education (and meddling somewhat in healthcare). It certainly isn't socialism. In fact, the only reason most such countries can afford those benefits is that their market economies are so productive they can cover the expense of the government's generosity. Perhaps a better name for what the Nordic countries practice would be compassionate capitalism.

Jeffrey Dorfman is a professor of economics at The University of Georgia. His last popular press book is an e-book, Ending the Era of the Free Lunch. You can follow him on Twitter @DorfmanJeffrey

I am a professor of economics at The University of Georgia and consultant on economic issues to a variety of corporations and local governments. Taking a generally free market, libertarian perspective, I use economics as the lens to analyze government policies from the local to the international level. I have a particular focus on government policies that strive to redistribute income or wealth either openly or in indirect ways. A lot of those thoughts are collected in my e-book, Ending the Era of the Free Lunch.