

Can Marxism and Capitalism be reconciled?

by Giuseppe Gori

Marxism and capitalism are philosophies at opposite sides of the political spectrum.

The first calls for nationalization of industry and centralization of services. The second seeks to limit government and de-centralize decision-making and rely on individual responsibility and the free market.

The two philosophies seem to be at odds and irreconcilable, but there is hope to find a common objective.

More precisely, we may not be able to reconcile **all** of the perspectives of these two broad philosophies, but we can reconcile their most contentious and contrasting viewpoint: their economic worldview. That is, the policies of **more socialization** (nationalization, increased taxation and increased public programs) and the policies of **less socialization** (free markets, decreased taxation and decreased public programs).

Such reconciliation would allow the economy to operate at, or close to its maximum potential, thus allowing for “a second renaissance”: an extended period of economic stability and high standard of living and social responsibility.

HOW MUCH INVESTMENT IN GOVERNMENT DO WE NEED?

We all agree that a certain amount of investment in government is necessary, for public defence, policing, required public works and basic social services. How much delegation to government (investment in government) do we need, and how much taxation can society afford?

We can observe that a Society's investment in government does not produce linear results (See the STING curve below). That is, the more a society invests in government, the lower the return on investment, until an optimum point is reached.

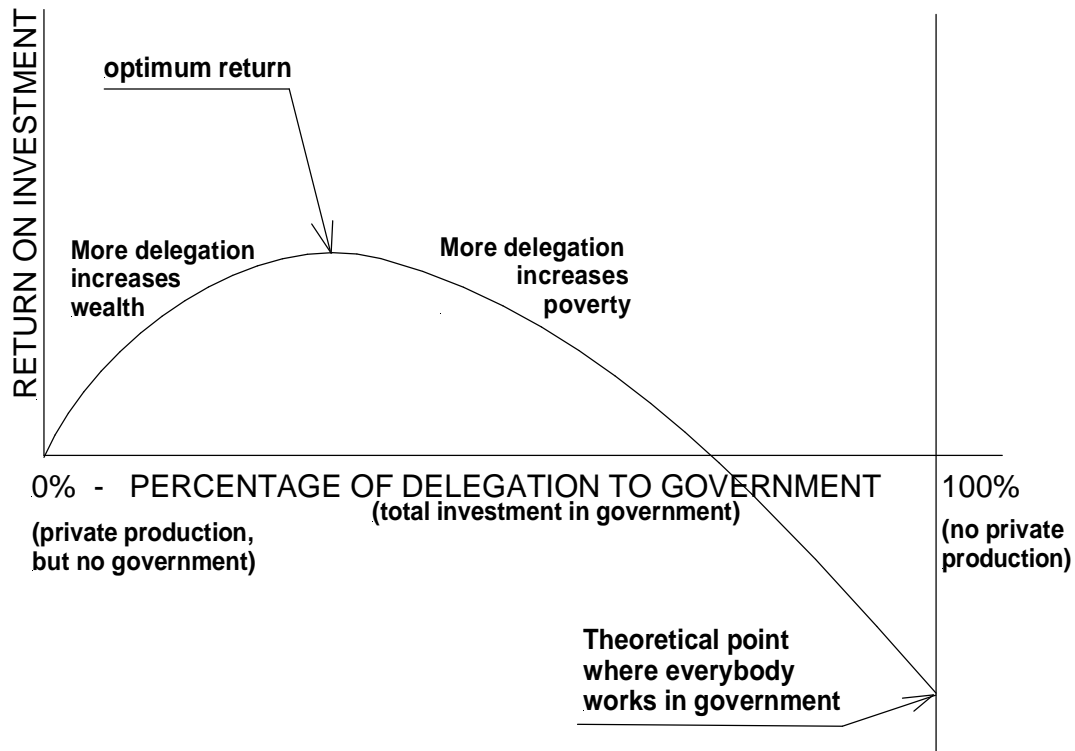


Figure 1. - The STING curve

After the optimum point is reached, when more and more people are employed in “service” and non-productive jobs, the Gross National Product decreases so much that further investment in government produces the opposite of the desired effects: a lowering of government revenues and a reduction of its ability to provide essential services. In the worst scenario, when everybody works in a government job paid by taxes, there is nobody to produce and pay taxes, thus everybody would starve.

Thus, more government is beneficial and increases the standard of living of a society, when (and only when) the total investment in government is below the optimum. The opposite effects are produced when the total investment in government is above the optimum.

This realization is very good news, as we now know that **there is** an optimum amount of investment in government and that we can try to determine the exact percentage of delegation we want to achieve for our society.

When the investment in government is too low, the government cannot afford essential services, businesses have a hard time to operate and society is on the brink of social (and economic) collapse.

In the same way, when the investment in government is too high, the government cannot afford essential services and society is on the brink of economic (and social) collapse.

By maintaining the total investment in government close to the optimum, society can thrive, prevent periods of recession, maintain the best possible social services and maintain economic stability. This economic philosophy is called “Economic Optimism”.

AVOIDING POLARIZATION

We can understand now why the political “left” and “right” have found it difficult to trust each other: They are both right (in certain conditions) and they are both wrong (in other conditions); they are constantly pulling in different directions. This does not need to be so: Once the concepts of economic optimism are understood, the political left and right can pull towards a common point, the optimum point of delegation to government, at least as far as economic matters are understood.

We all have a tendency towards compassion and towards individual freedom, but we seldom agree on the means to obtain the best results. In the past, the justification for socialism has been provided by “left wing” economists, while the justification for capitalism has been provided by “right wing” economists. These economists’ views, often related only to a particular time and place, have been used to justify general and biased political views.

Elected politicians become more and more entrenched in party politics. Very seldom they can find time to read and think, far less to study philosophy or economics. Their world view is influenced by whom they believe and their political views are consolidated by loyalty to their circle of friends and political colleagues.

Now, Economic Optimism gives us the means to judge the best approach for the economy of a government, depending on the CURRENT circumstances of a nation.

THE KEY QUESTIONS

The key questions are: What is the optimum investment in government, in a society like ours, with respect to the Gross National Product? Where are we now (how much government do we have) with respect to the optimum point?

Even an approximate answer to these questions will allow more cooperation between opposing political views. Moving towards the point of optimum investment in government would, at the same time, stimulate the economy and increase government revenues.

The book “Economic Optimism” gives some tentative answers to the above questions and simple examples showing the consequences of more or less government are easily developed. However, more precise answers related to the real economy of a nation need to be worked out by economists working in the field of econometrics.

LESSONS FROM THE PAST

The political “right” criticized the socialist and classical liberal ideas introduced in the second part of the nineteenth century and opposed the increases in government that followed in the first part of the twentieth century. However, we have to recognize that our western societies achieved an improvement in standard of living, work safety and human rights.

In the beginning of the twentieth century taxation was at very low levels in most western societies. That is, investment in government was very low. This placed us to the left side of the STING curve (before the optimum point) and judicious **increases** of government programs generally improved society and the people's standard of living. As a consequence, government revenues **increased**, and governments were able to deliver necessary social programs.

Conversely, the political "left" criticized the Reagan/Thatcher policies of reduction of government when, at the time, there were indications of possible economic collapse (high inflation and low economic activity). We now acknowledge that the Reagan/Thatcher policies stimulated the economy, increased government revenues and fostered the creation of millions of new jobs.

If we look at the STING curve, positive consequences of government reduction could only be possible because **at that time** (at the end of the Carter administration) we were "over-invested" in government, that is we were on the right side of the STING curve (beyond the optimum point) and a **reduction** of government generated an **increase** in government revenue.

From these lessons we can derive a common goal for differing political factions: instead of pulling towards opposite extremes, it is more rewarding for all interests to seek the optimum amount of investment in government towards the middle of the curve.

Now, in 2010, we are observing a push by the US administration towards extreme delegation to government, through partial and full nationalization of entire industry sectors. If the principles of economic optimalism are not recognized and acted upon, the US will again find itself operating on the brink of economic collapse. As a result the US government revenue will decrease and the government will not be able to afford many of the social programs supporting the poor and the needy within its own borders and around the world.

If instead the US can pull towards the optimum amount of investment in government, people and businesses will be motivated to reach their full potential in the free market, creating the conditions for a thriving economy, a low unemployment rate and a large tax base; conditions that will allow higher government revenues and better social programs.

CONCLUSION

In this article we have presented one important idea promoted by economic optimalism. This by itself can foster a common objective between those people who favour more socialization and those who favour less socialization.

However, economic optimalism also includes several other ideas to maintain an efficient government in a prosperous society. It is an approach to government that reduces friction between political parties and simplifies the relation between the people and their government. It may profoundly influence the way governments are conducted and improve the standard of living for all.

Economic optimalism does not suggest replacing political parties. Politicians will probably continue to disagree on the way government revenues are allocated and spent. As we mentioned at the beginning, economic optimalism itself may not solve **all** points of policy

disagreement. Political discourse will continue to be necessary, but it will happen only in terms of percentages of a given (optimum) budget for the various government programs.

Economic optimalism will allow for society to reach its full potential economically, environmentally and socially. These are not just vague, but real, achievable objectives, because the goal of optimalism is to achieve a way of governing that is based on facts, science, technology and truth for the benefit of all citizen.