

# Millennial socialists want to shake up the economy and save the climate

Do they make sense?



## Print edition | Briefing

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WHEN THE Berlin Wall fell in November 1989, many consigned socialism to the rubble. The end of the cold war and the collapse of the Soviet Union were interpreted as the triumph not just of liberal democracy but of the robust market-driven capitalism championed by Ronald Reagan in America and Margaret Thatcher in Britain. The West's left embraced this belief, with leaders like Tony Blair, Bill Clinton and Gerhard Schröder promoting a "third way". They praised the efficiency of markets, pulling them further into the provision of public services, and set about wisely shepherding and redistributing the market's gains. Men such as Jeremy Corbyn, a hard-left north London MP as far from Mr Blair in outlook as it was possible to be, and Bernie Sanders, a left-wing mayor in Vermont who became an independent congressman in 1990, seemed as thoroughly on the wrong side of history as it was possible to be.

Alexandria Ocasio-Cortez was not quite four weeks old when the wall fell. Her childhood was watched over by third-way politics; her teenage years were a time of remarkable global economic growth. She entered adulthood at the beginning of the global financial crisis. She is now the youngest woman ever to serve in Congress, the subject of enthusiasm on the left and fascinated fear on the right. And, like Mr Corbyn and Mr Sanders, she explicitly identifies herself as a socialist. Their democratic socialism goes considerably further than the market-friendly redistributionism of the third way. It envisages a level of state intervention in previously private industry—either directly, or through forced co-operativisation—that has few antecedents in modern democracies.

## Better than the alternative?

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United States, positive views about capitalism and socialism by Democrats and Democratic-leaning independents, %



Source: Gallup

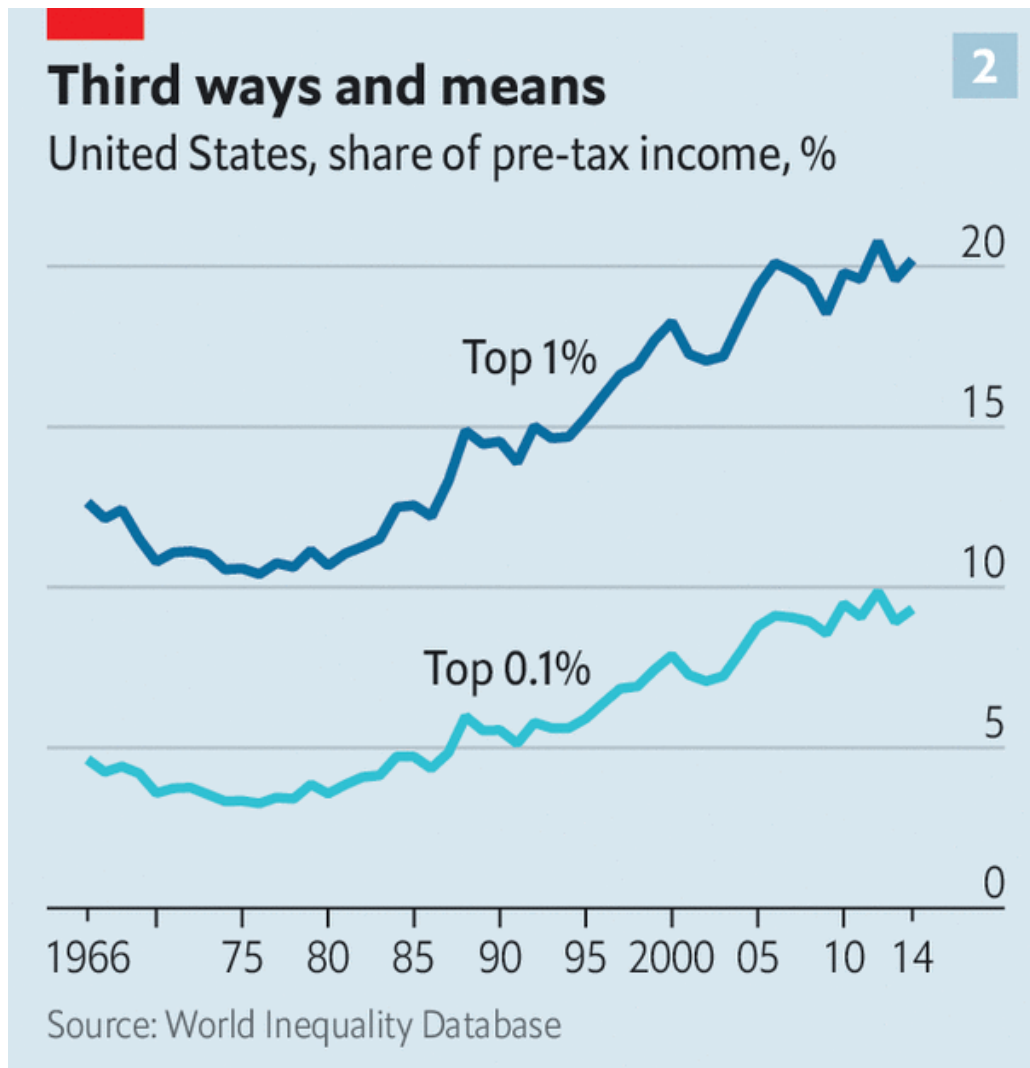
### The Economist

For the American generation which has grown up since the downfall of the USSR, socialism is no longer the boo word it once was. On the left, a lot of Americans are more sceptical than they used to be about capitalism (see chart 1). Indeed, what might be called “millennial socialism” is having something of a cultural moment. Publications like *Jacobin* and *Tribune* bedeck the coffee tables of the hip, young and socially conscious. No film has ever made trade unions look cooler than last year’s “Sorry To Bother You”, written and directed by Boots Riley, a rapper and activist. When Piers Morgan, a British television presenter, found it impossible to believe that a young interviewee might come from a left beyond Barack Obama, her response quickly turned up on T-shirts: “I’m literally a communist, you idiot”.

### The fight you choose

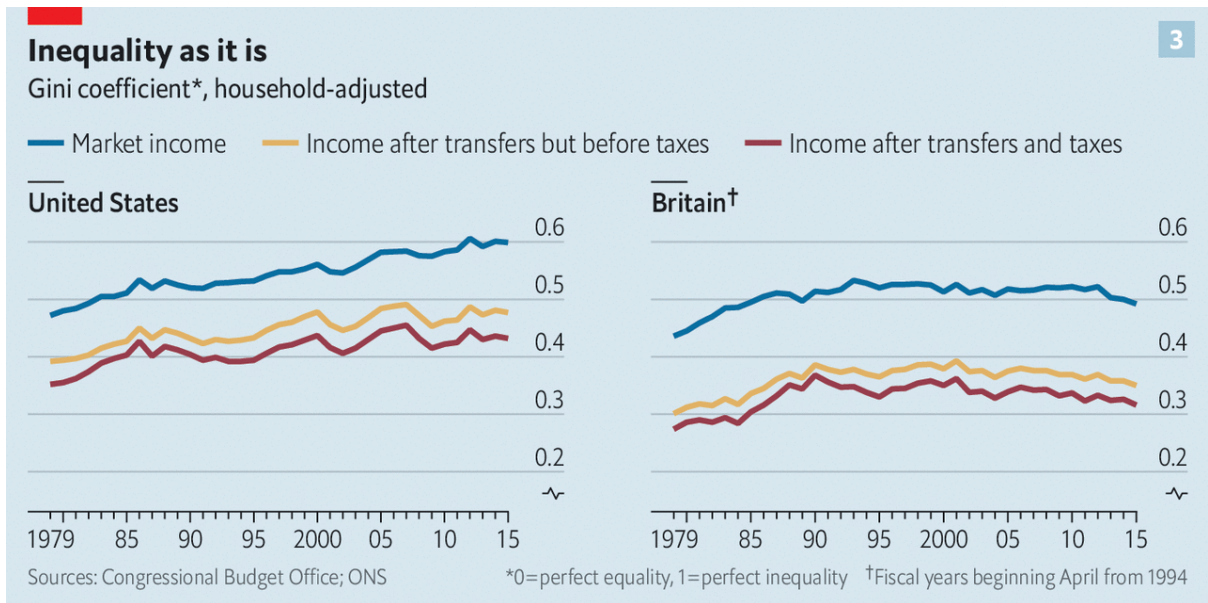
This currency aside, avowed socialists are still a rarity in America’s political class. But when Ms Ocasio-Cortez or Mr Sanders speak of the need for radical change, the disappointments and damage experienced in the past 30 years give their words resonance across a broad swathe of the less-radical but still disenchanted left. These people saw their third-way leaders support misguided foreign wars and their supposedly robust economy end up in a financial crisis. They feel economic growth has mainly benefited the rich (see chart 2) and that

ideologically driven spending cuts have been aimed at the poor. They are angered by a global elite they see flitting from business to politics and back again, unaccountable to anyone, as economic inequality yawns ever wider (though the picture is more complex than that: see chart 3). The presence of Donald Trump in the White House underlines their discontent—as does, indelibly, the unchecked rise of greenhouse-gas emissions alongside global GDP, endangering, in many young eyes, their very future.



## The Economist

In response to this mood on the left, some parties which once embraced the third way have tacked decisively towards policies that seemed inconceivable ten years ago; see, for example, the embrace of Medicare for All by America's Democratic presidential hopefuls. Other parties are dwindling into insignificance, overshadowed by more radical alternatives. Jean-Luc Mélenchon, a far-left candidate who championed a 100% marginal income-tax rate on high earners in the French presidential election of 2017, comfortably outperformed the country's mainstream socialists. Indeed, in the first round he got a vote 80% that of Emmanuel Macron's.



The Economist

This swing within the left is not necessarily a new path to power. Indeed, many caught up in it fear quite the reverse. Having achieved a better result than many expected in the election of 2017, Labour still sits behind Britain’s chaotic Conservatives in opinion polls. Though some far-left parties may do well in the forthcoming elections for the European Parliament, they are unlikely to make up for the loss of support suffered by the centre left. Primary voters may be enthusiastic about the cornucopian environmentalism of Ms Ocasio-Cortez’s “Green New Deal”; but many senior Democrats fear that it will scare away more voters than it entices.

Many on the right agree, with relish. When President Trump asserted in his State of the Union address on February 5th that “America will never be a socialist country” it was not because he fears a socialist ascendancy. It was because he thinks that the majority of Americans, including many Democrats, will look askance at such a prospect. “America was founded on liberty and independence, and not government coercion, domination, and control,” Mr Trump told Congress. “We are born free, and we will stay free.” Socialism versus capitalism is still an easy call for most Americans; socialism versus freedom is about as done as a deal gets.

Millennial socialists, though, have their own ideas about freedom. They are not satisfied with the protection of existing freedoms; instead, they want to expand and fulfil freedoms yet to be obtained. Spreading economic power more widely, they say, will allow more people to make choices about what they want in their lives, and freedom without such capabilities is at best incomplete. Bhaskar Sunkara, founding editor of *Jacobin*, makes an analogy to India: what is the point of an ostensibly free press if a huge share of the population is unable to read?

## Seizing power

Much of what the centrist left believed in the 1990s and 2000s has since been abandoned, not just by vanguardist millennial socialists, but by a broad swathe of left-wing opinion. The median supporter of left-wing parties is increasingly sceptical about free trade, averse to foreign wars and distrustful of public-private partnerships. What they still like is the income redistribution that came with those policies. They want higher minimum wages and a lot more spending on public services. Mr Sanders and Ms Ocasio-Cortez have energised young

Americans by promising free college tuition; Labour promises the same in England and Wales.

Many entirely non-socialist Europeans will see nothing that remarkable about publicly paid-for health care and education: America starts from an unusual position in such matters. But almost any country would be staggered by a government initiative as all-encompassing as the Green New Deal resolution that Ms Ocasio-Cortez and Ed Markey, a senator from Massachusetts, have introduced into Congress.

As well as promising emissions-reduction efforts on a scale beyond Hercules at a cost beyond Croesus, in framing global warming as a matter of justice, rather than economic externalities, it promises all sorts of ancillary goodies, including robust economic growth (which some hard-line greens will have a problem with) and guaranteed employment. It abandons the economically efficient policies that have been the stamp of America's previous, failed attempts to bring climate action about through legislation, most notably those in the cap-and-trade bill Mr Markey sponsored in the late 2000s. This is hardly surprising; the most popular text on global warming in left-wing circles, Naomi Klein's "This Changes Everything: Capitalism vs the Climate", derides such market-based mechanisms.

Millennial socialists want to do more than boost the incomes of the poor, create better public services and slash emissions. "Keynesianism is not enough," in the words of James Meadway, an adviser to John McDonnell, Mr Corbyn's shadow chancellor. It is also necessary to "democratise" the economy by redistributing wealth as well as income.

In part, this is an economic argument. Having a wage but no wealth increasingly means settling for a lower standard of living. In recent decades and in rich countries the share of total income accruing to owners of capital (in the form of profits, rent and interest) has risen, while the share paid to labour (in the form of salaries and benefits) has dropped. This means the incomes of people with lots of capital will diverge from those who have none. If the predictions made by Thomas Piketty, a French economist noted for his studies of wealth inequality, prove correct—something that many economists doubt—the total amount of capital in the economy will continue to rise relative to GDP, further compounding the advantage of wealth-holders.

But the argument for redistribution of wealth goes beyond economics—and its roots spread far beyond the socialist canon. James Harrington, a political theorist of the 17th century, wrote that "Where there is inequality of estates, there must be inequality of power." He saw a reasonably even distribution of wealth and the freedom of democratic politics as two sides of the same coin. His ideas were a strong influence on America's founding fathers. John Adams wrote that "Harrington has shewn that Power always follows Property." Though Thomas Jefferson plumped for "life, liberty and the pursuit of happiness" as the rights to be mentioned in the Declaration of Independence, he was inspired by John Locke's trinity of life, liberty and property, and his love of the yeoman farmer stemmed from his belief that those who produced their own food never needed to bend to the will of another, and thus were truly free.

Well before Karl Marx started to write about alienation, the idea that people treated only as factors of production would not only lack true freedom, but also other opportunities to reach their full potential, was a mainstay of Enlightenment thought. Adam Smith worried that the factory system, where workers simply turned up and followed the instructions of capitalists, would make its participants "as stupid and ignorant as it is possible for a human creature to become." John Stuart Mill, who valued political freedom above all else, also predicted that

under capitalism people would become passive, dull wage-slaves; he wanted to see many more working in co-operatives. The echoes of Harrington, Smith and Mill are clear in the works that articulate the views of today's left, from Mark Fisher's "Capitalist Realism" to David Graeber's "Bullshit Jobs". Globalisation, in their eyes, is less an engine for prosperity and more a generator of insecurity, unfreedom and unfairness.

## Share-taking democracies

On this reading, today's task is to redistribute the economy's stock of wealth—and thus political power, freedom, self-worth and prosperity.

How best to do this is hotly debated. Some are keen on a centralised path. Matt Bruenig of the People's Policy Project, a crowd-funded think-tank, touts "social wealth funds" through which the state could accumulate stakes in equity, bond and property markets, subsequently disbursing a share of the resulting income as a "universal basic dividend". Norway and Alaska already have something akin to this, though funded by oil wealth. Others are sceptical of such measures. A policy paper commissioned for the Labour Party argues that such state-planning risks creating "a small private and corporate elite", resulting in "little democratic scrutiny or debate". Receiving a monthly cheque from the state social wealth fund would be nice, but would ordinary people feel empowered?

That concern is one reason why the left, generally well disposed to welfare spending, is divided on the question of universal basic income—despite, or perhaps because of, the support such schemes also have from some on the right. Mr Graeber and Andy Stern, an American trade unionist, are among those who have expressed support for the idea. Others worry that under such schemes "we gain 'free time', but we lose the historical agency we have as workers...we are seen as passive, alienated, taking as given a world shaped by others," as John Marlow, an economist, argues in a recent edition of *New Socialist*, a journal.

A possibility for the centralised redistribution of wealth more compatible with the dignity of labour might be endowing all children with "baby bonds", a policy Gordon Brown tried in Britain and which Cory Booker, another senator running for president, champions in America. But many see a stronger case for transfers of wealth at a sub-national scale, such as through the expansion of worker-owned co-operatives, which at present form a small proportion of firms in America and Britain.

Die Linke, Germany's most left-wing party, has promised "to create suitable legal forms to facilitate and promote the joint takeover of enterprises by the employees." In the Accountable Capitalism Act offered by Elizabeth Warren, another Democratic hopeful—though not, she insists, a socialist—workers would elect 40% of the members of corporate boards. That is not the same as seizing a chunk of the firm's capital. But Senator Warren has other plans for redistributing wealth. She has proposed an annual tax of 2% on the wealth of Americans with a net worth of more than \$50m, 3% on those worth more than \$1bn.

Perhaps the most radical detailed plans for the "democratisation" of an economy put forward by a mainstream party are Labour's. It says that it will double the size of the co-operative sector if elected, and that private firms of over 250 employees will have to transfer 10% of their shares to a fund managed by "workers' representatives". Staff would be entitled to dividends from the shares; the representatives would have a say in how the company was run.

## Modern times

As far as public services are concerned, shareholders of England's water utilities would be bought out and "regional water authorities" created in their place, to be run by "councillors, worker representatives and representatives of community, consumer and environmental interests". Similar steps would encourage local energy provision. Proponents of such reforms speak glowingly of Paris's municipal government, which a decade ago brought its water companies in-house and has created a mechanism for enabling local people to hold the new operation to account.

Buying up chunks of the economy at the same time as greatly increasing public services would be a costly undertaking. Some on the socialist left try to wave this aside by invoking "modern monetary theory" (MMT), which holds that the primary constraint on government spending is not how much money can be raised through tax or bonds, but how much of an economy's capital and labour the state can use without sparking rapid inflation. Adherents of MMT note the lack of inflation seen since the financial crisis, despite big deficits and governments printing money to buy bonds through "quantitative easing". Many on the left have come to see the concerns that the right raises about deficits—which tend to surface only when it is not in power—less as economic prudence than a partisan politics of impoverishment.

Scholars such as Stephanie Kelton of Stony Brook University, who has the ear of various left-wing Democrats, suggest the very notion that spending must at some point be paid for by tax should be scrapped. Only when government spending pushes an economy beyond its capacity to produce goods and services should it be cooled using spending cuts and tax increases.

## Let the billionaires bleed

Resistance to millennial socialism comes in various forms. Critics may believe that the socialist goals are bad ones; that, as a matter of fact, their policy ideas will not achieve those goals; that, even if the policies were to work, they would be too illiberal to stomach; or that, whether they work or not, they will cost the critic money. It is possible to hold all four of these positions at once in various degrees.

Take MMT. Most economists strongly resist the idea that governments can spend so freely, and such disagreement can easily be found on the left as well as the right. They also doubt that governments would, in fact, be able to cut spending or raise taxes when called on to do so by the tenets of the theory. And if a government were to do so, its actions could be quite regressive. Jonathan Portes of King's College, London, points out that under MMT a country facing a combination of weak growth and high inflation, as Britain did in 2011-12, would require spending cuts rather than the increased stimulus called for by Keynes. The Labour Party, which was at that time decrying government austerity, has none of the sympathy for MMT seen in some of its fellow travellers across the Atlantic. "MMT is just plain old bad economics, unfortunately," says Mr Meadway.

The non-MMT answer to "how to pay for it all" is usually to soak the rich. This is not always as popular a policy as some imagine, but today it does look like quite an easy sell in America. Unfortunately it yields less money than many on the left suppose. The best estimates of the extra revenues Labour might raise through the tax increases it plans for high earners suggest there may be none at all, in part because the rich may simply work less. The party is ignoring

more reliable revenue raisers, like taxes on consumption and property. Yet its policies call for lots more government spending.

Ms Ocasio-Cortez has suggested a marginal tax rate of 70% on incomes above \$10m; one estimate puts the extra annual revenue at perhaps \$12bn, or just 0.3% of the tax take. The original New Deal cost a great deal more than that. Even if ambitious new steps were taken to stop the rich from hiding their lucre in tax shelters, a broader tax base would be required. There would be little help from Ms Warren's wealth tax, which would discourage those whose wealth was the business that earned them their income and would be immensely hard to administer. Mr Sanders's policy of increasing the inheritance tax, which introduces much less distortion, is a better one. But it would still be a hard sell for relatively little return.

Higher taxes on the rich can be about more than revenue. Emmanuel Saez and Gabriel Zucman, two economists, argue in favour of Ms Ocasio-Cortez's tax plan on the grounds that shrinking top incomes is necessary to prevent America from sliding into oligarchy. Such plans can be read simply as punitive populism: billionaires are not very well regarded on the left, and thinning their number has an appeal all its own. The rich are well aware of this. It would be wrong to assume that Michael Bloomberg, a businessman and former mayor who may run for president, was motivated by the threat to his considerable personal wealth when he recently suggested that Ms Warren's wealth tax threatened to make America a new Venezuela. Though, taken at face value, his hyperbole shows a profound pessimism about the durability of American institutions, his broader point is that once you start saying some people are just too rich, where do you draw the line?

However paid for, efforts to "democratise" the economy have their own problems. It is possible for companies partly controlled by their workers to raise capital. The German principle of "co-determination", which aims to give shareholders and employees an equal say in the decision making within firms, has not hit the country's international competitiveness. But some investment will surely either be scared off or rationally choose other destinations, depending on the circumstances and/or your perspective.

There is also a risk of capture. A lot of people may feel they have better things to do of an evening than discuss metering policy down the water company. Trade-union officials and government lackies may feel differently. Experience suggests that firms run by people close to the state may come under pressure to give contracts to political insiders rather than to the best supplier, and that they will often give in. A worry from the left is that workers on boards might, in self-interest, behave as badly as they think capitalists do.

Even if there were not so many legitimate causes for concern, and even setting aside their own interests, many liberals and conservatives would still be against policies explicitly aimed at appropriating private wealth for the common good. They see the confiscation of private property as an infringement of liberty just as sincerely as some socialists see it as the road to a wider popular freedom. That is a powerful argument, all the more so if it is offered alongside its own set of more acceptable approaches to empowering those currently without the capacity to exercise all their freedoms.

The possibility of the Green New Deal being enacted in all its pomp is nugatory. Seeing the full range of Labour's schemes for worker empowerment established is unlikely. And therein lies a paradox facing millennial socialism. An unremitting pursuit of radicalism could easily contribute to defeat for the broader left. A more incrementalist approach will be too slow to deliver for the impatient young, not to mention their elderly leaders. Unless, that is, precipitating events as head-over-heels as the fall of the Berlin Wall intervene. Judge them,



then, in decades to come, when Ms Ocasio-Cortez is either forgotten—or the *grande dame* of a Washington risen again from the waves of sea-level rise through monumental public works.