

## Socialism or National Socialism?

Governments in numerous countries, especially in the high income countries, have responded to the current acute financial crisis by extending their role in the economy in ways that have not been seen in at least a couple of generations and in magnitude that appears unprecedented. Many observers, and not just unrepentant ideologues, are worried that capitalist practices and institutions are being abandoned in favor of socialism.

### Two Socialisms

There were two types of socialism that appeared early in the 20<sup>th</sup> century. There was the socialist revolution in Russia in 1914. Russia was primarily an agricultural quasi-feudal society of mostly peasants. And it is Lenin and Stalin's violent, oppressive, totalitarian, statist regime that many associate with socialism. But there was another type of socialism that was being articulated and implemented in the early 1920s. It was called fascism in Italy and was later called National Socialism in Germany.

Could it be that the second form of socialism is a greater threat than the first? In WWII, the Allies joined forces with the first type of socialism to defeat the second type. Although we often think of fascism with racism and genocide, it need not be. In fact, Mussolini's fascism was totalitarian and fiercely nationalistic, but did not generally share Germany's racism. Fascism opposed liberalism, individualism and socialism. The objectives and interests of the state were supreme and everything was subservient to it.

The US and Western Europe's response has been to tighten the embrace of two economists of that period: Irving Fisher, who tended to emphasize a monetary response, and Keynes who advocated complementing the monetary moves with fiscal policy, to bolster aggregate demand. Many pundits and bloggers confuse the Fisher/Keynes program with left-wing socialism. But as John Barnes, who studied fascism in the 1920s, wrote: "Fascism entirely agrees with Mr. Maynard Keynes, despite his prominent position as a Liberal. In fact, Mr. Keynes' excellent little book, "The End of Laissez Faire" might, so far as it goes, serve as a useful introduction to Fascist economics. There is scarcely anything to object to and there is much to applaud."

Ironically it was the fascists 75 years before (former UK Prime Minister) Blair and (former US President) Clinton who proposed a "third way". For the fascists it was between capitalism and socialism. Even Hitler apparently recognized the similarities between socialism and fascism. In 1942, he commented that, "There is not much difference between the basic economic techniques of socialism and fascism."

If observers are correct and the United States and other high income countries are becoming socialist, is it the socialist or fascist variety? A key difference between the two is the type of institutional alliance that is the driving force. Under socialism, the state ostensibly is allied with workers, though in practice as in Soviet Union, China, and Cuba, workers were miserably poor. Under fascism, the state is often more aligned with businesses, though the rights of property were conditional on its use and closely regulated.

### The State

Since WWII, the high income countries, including of course the United States, have seen a permanent and significant increase in the role of the state in various aspects of the economy. In fact, to the extent that Keynes is associated with the use of fiscal policy to bolster aggregate demand, Nixon was right, we all have become Keynesians. However, in fairness, Keynes anticipated after an economy entered a self-sustaining upswing, the state-sponsored boost to demand would cease.

The permanent and ubiquitous state in the US and Europe seems like such a natural state of affairs that the much respected highly esteemed editor of the Financial Times thought that the forced marriage of Bear Stearns to JP Morgan Chase in March and the large role that the US Treasury and Federal Reserve played in protecting Bear Stearns counterparties marked an end to the laissez faire capitalism that Keynes himself had declared was over 85 years earlier.

The size and role of the US government increased regardless of the party affiliation of the governing party. It is true that in some areas, the government has tried out-sourcing some of its functions, like operating prisons, schools, and some military activities. But generally speaking, the government's growth has kept pace with the growth of the economy and expenditures as a percentage of GDP have been fairly stable at a little above 35%. In continental Europe, the governments' expenditures are closer to 50% of GDP. Out of the current financial crisis, it does seem likely that the permanent role of the state is increased, even if, as should be expected, the governments re-privatize parts of the banking system at some juncture.

### **Maintain Aggregate Demand**

There are two main forces that encourage a larger role for the state. The first is related to citizenship. Over time, people want to increase the basket of goods and services they receive from state. Perhaps in days of yore, the farmer or peasant would part with a substantial fraction of their produce to the sovereign or feudal lord, muttering under their breath that they were getting nothing for their hard work. But in the Age of Democracy, people expect the government to provide a range of goods and services that have generally increased over time.

The force has been fed by another, since the Great Depression and helps explain the Keynesian Revolution. The modern economy can produce far more goods and services that it can consume. This is a function of excess investment and under-consumption. During this crisis, we often hear that central banks are the lender-of-last-resort. The permanent substantial role of the government mirrors its role as the consumer of last resort. Of course, officials may rarely think in such terms, let alone talk about this, but in effect this is what is going on.

There are some notable exceptions, but generally after deep economic downturns, the government's role incrementally increases. It is the go-to-strategy, if you will, to end the business cycle downturns. Modern governments, even non-representative governments, like China, want to deliver rising living standards to their people. Contrary to their ideological leanings, neither Reagan nor Thatcher managed to break that pattern. Critics of the larger role of government have not proposed a viable alternative to maintain adequate aggregate demand. The government ensures sufficiently high utilization rates for capital and labor that allows for social stability.

### **Statism Does not Equal Socialism**

A fascist from the 1920s would find much of modern society that would be agreeable. The role of government would not be objectionable. The corporatist structures, in which functional groups like business, workers (or consumers) and the state are represented, would be recognizable and perfectly consistent with their vision.

Even some of the most cherished American sayings, like John F. Kennedy's admonishment to "Ask not what your country can do for you, but what you can do for your country" could have easily been uttered in a fascist country. Or Bill Clinton's admission that "I don't understand how someone can say they love their country but hate their government" also expresses a sentiment that fascists could identify with.

Perhaps the key difference between the two types of socialism is in whose interest are things being decided. The growing disparity of wealth in the US, the American dream of a car, a house and college education for one's children is increasingly out of reach for many American families based on current income and is a fundamental problem. It is being addressed by debt and the government. Debt is out. The government is in. This might not be socialism as the right decries, but fascism, and none dare speak its name.

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