Economic systems between socialism and liberalism and the new threats of neo-interventionism

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Civita
Mises on socialization and socialism

The notion of socialism as conceived and defined by all socialists implies the absence of a market for factors of production and of prices of such factors. The "socialization" of individual plants, shops, and farms – that is, their transfer from private into public ownership – is a method of bringing about socialism by successive measures. 

It is a step on the way toward socialism, but not in itself socialism.

_Ludwig von Mises, Human Action, 1949_
The economic concept of socialism

«The concept of socialism is a controversial one. Disputes have, and presumably always will, rage as to what shall be understood by socialism and as to how the socialist society shall be organized. There are, however, two main criteria for socialism which are generally accepted in scientific discussions: that the State owns the means of production, and the State controls industrial life.»

Trygve J. B. Hoff

Economic Calculation in the Socialist Society, 1949 (1938)
Economic systems between socialism and liberalism

Other major differentiating dimensions of economic systems:

- Decision making: decentralized vs. centralized
- Coordination: competitive market processes vs. non-competitive administrative processes
- Incentives: market- and rules-based vs. commands
- Taxes: tax level and degree of tax neutrality
- International openness: free trade vs. autarchy
Norway’s drift into and escape from economic socialism

Seven different Norwegian Models:
- 1800-1850: Pre-industrial mercantilism
- 1850-1914: Liberal modernisation and industrial revolution
- 1914-1940: Instability, social and labour reforms, protectionism
- 1940-1953: Heavy handed state-led interventions and collectivist planning
- 1953-1970: Mixed welfare state economy
- 1981-2020: Gradual and significant ordoliberal reforms and welfare state adjustments
Norway’s silent ordoliberal revolution since the 1980’s

Areas of significant ordoliberal reforms:

- Monetary policy: Independent central bank, floating exchange rates and a rules-based monetary mandate
- Fiscal policy: Reductions in tax rates, more neutral taxes, widened tax base and a fiscal rule.
- Liberalized banking and finance sector
- International market opening, EEA-member
- Reformed competition and anti-trust regime (EU conforming)
- Opening new sectors to competition: broadcasting, telecom, internet, electricity, transport, education, welfare services
- Privatizations and new market conforming governance of remaining state owned enterprises
- Deregulation of the housing market
- Labour market reforms: new collective bargaining rules, more «flexicurity», pension reforms
The Great Convergence after liberal reforms


- Norway
- Sweden
- Denmark
- Germany
- France
- UK
- USA
Similar level of Economic Freedom at different levels of Government Expenditures

Economic Freedom and Total Gov. Expenditure in % of GDP

Total Government Expenditures in percent of GDP (OECD 2017 or latest IMF)

EFW Summary Index 2016 data (Fraser Inst.)
Economic Freedom and different measures of government size

Economic Freedom and «Size of Government»

Economic Freedom and Total Gov. Expenditure in % of GDP

EFW Summary Index 2016 data

Total Government Expenditures in percent of GDP (OECD 2017 and latest IMF)
Similar level of Institutional Quality at different levels of Government Expenditures

Ease of doing business and total government expenditure in % of GDP

- Doing Business 2019 Index (World Bank)
- Total Government Expenditure in % of GDP (OECD 2017/IMF)
Is «more or less state» the right question?

«Whether there ought to be more or less state activity – this question avoids the most important problem. It is not a quantitative, but rather a qualitative problem.»

Walter Eucken, Grundsätze der Wirtschaftspolitik, 1952
The World Bank’s Ease of Doing Business Index as a proxy for regulatory quality
Where is the «American Dream» a reality today?

Figure 1.13. In most countries, earnings mobility across generations is higher when income inequality is lower.

**Note:** Earnings mobility is proxied by 1 minus the intergenerational earnings elasticity of fathers with sons. Gini coefficients refer to the mid-1980s/early 1990s.

**Source:** Chapter 4.

*OECD 2018: A Broken Social Elevator*
Inequality, Social Mobility and Social Trust

Gini-coefficient disposable household income 2013
Intergenerational income elasticity (Meta-study OECD 2010 - inverted scale)
Social trust (World Values Survey 2010 - inverted scale)
The neo-interventionist threats to the liberal economic order

**Economic Nationalism:**
- Neo-mercantilist zero-sum international trade policies
- Assertive and disrupting bilateralism
- Discriminatory tariffs, managed trade deals, micro-exemptions etc.
- Systematic undermining of a rules-based multilateral world order and trading system
- The new spectre of (mostly right-wing) authoritarian national populisms with a nationalist-interventionist agenda

**Micro-interventionism: Picking winners and loosers:**
- New industrial policies
- «The entrepreneurial state»
- Foreign policy sanctions followed by discriminatory micro interventions
- Interventionist climate policies
- Lack of market and competition conforming regulation of the digital economy and platform-based giants

**Hyper-concentration of economic and political power:**
- Decline in competition
- Crony capitalism and the increasing role of money in politic
- Sophisticated regulatory capture
- Complex regulations and tax systems
- Dysfunctional (international) corporate tax system with anti-competitive outcomes
- Increasing inequality, decreasing social mobility
- Increase in executive power and majoritarian power
- Disruptive politics and polarization
Do we need a new systems debate?