

Politics doesn't Matter: Socialists and Capitalists seem to have very similar Economic Policies

Prabhakar Deshpande

Abstract: The cacophony of political circus may cause one to believe that the war between capitalists and socialists is for real. But if one reads between lines, one will find that the tax to gdp ratio of right wing capitalist party in a nation are almost equal to tax to gdp ratio of left wing socialist party in a nation. Hence it could be argued that socialists and capitalists have very similar economic policies. Perhaps, politics doesn't matter after all.

Date of Submission: 02-10-2022

Date of Acceptance: 14-10-2022

I. Introduction

In most of the democratic nations of the world there are usually two major parties – one is left wing or socialist and other is right wing or capitalist. It is presumed that the left wing parties make greater effort at reducing inequalities by imposing higher taxes and ensuring greater redistribution through transfer payments in cash and kind. And right wing parties argue that higher taxes reduces growth rate and hence lower tax rates are better for economy.

Hence a lay person might expect that tax to gdp ratio when left wing socialist parties are in power will be significantly higher than the tax to gdp ratio when right wing capitalist parties are in power.

Indeed the media and even academia convey the impression that left wing socialist parties in power means significantly higher taxes and right wing capitalist parties in power means significantly lower taxes.

Of course the political parties themselves proclaim their policies to create such an impression. Right wing capitalist parties espouse supply side economics of growth stimulation through lower taxes and Left wing Socialist parties show their welfare concerns by increasing redistribution by higher taxes.

What is the reality? Are tax to gdp ratios when left wing socialist governments are in power different from tax to gdp ratios when right wing capitalist parties in power? This paper tries to answer that question without any preconceived prejudice.

United States

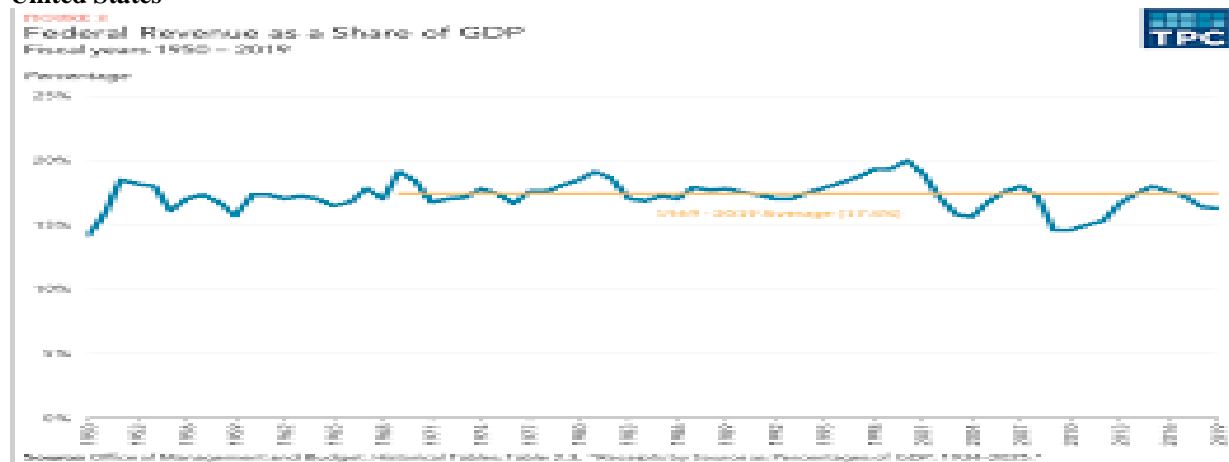


Figure 1

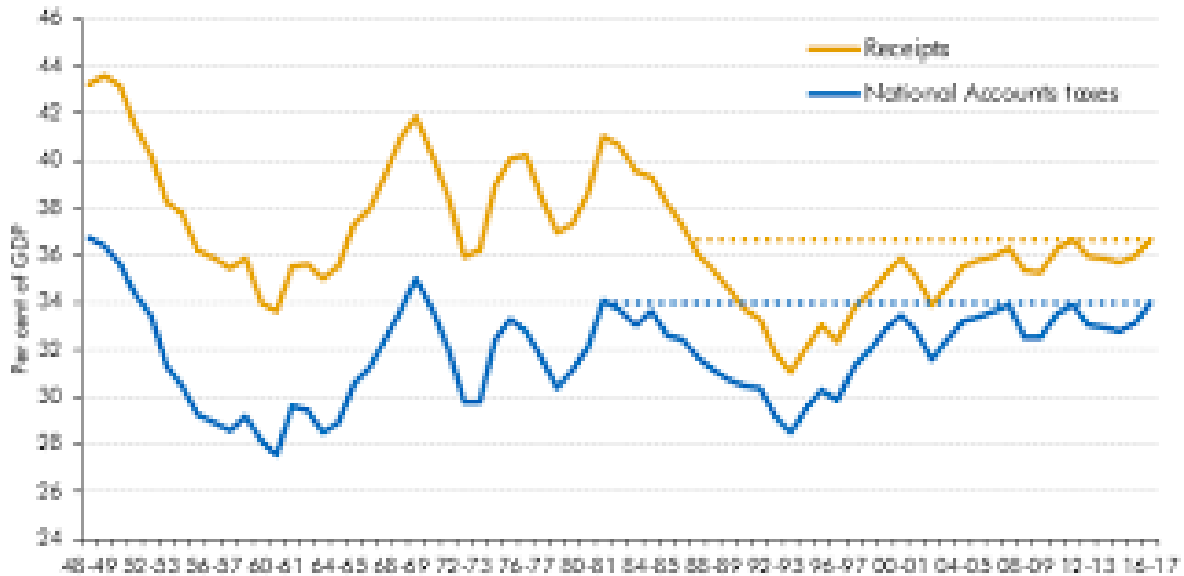
Consider the above figure. The above figure shows federal tax as share of gdp ratio of United States over several years. It is obvious at a glance that the tax to gdp ratio hasn't changed much over the years. Now over the years there have been Republican right wing capitalist party in power as well as Democrat left wing socialist party in power. However the tax to gdp ratio seems to be even.

Hence one questions if Republican party actually reduces taxes as it promises to and if the Democrat party actually increases social spending by increasing taxes as it promises to. It would seem from analysis of

above data, that the economic policies of Republican party and Democrat party are almost similar though the former claims to be capitalist and the latter espouses socialist leanings.

United Kingdom

United Kingdom presents a rather complicated picture. Here the tax to gdp ratio has declined substantially from 1950 to 1960 and there are some variations.



Source: ONS

Figure 2

However if one compares between period 1992 and 2017, the tax to GDP ratio seems to be fairly even with very little changes. In this period clearly the Conservative Party has been in power as also the Labour Party has been in power. But there does not seem to be significant difference in tax to gdp ratio between Labour Party and Conservative party.

Now apparently Conservative party and Labour party are as different as chalk and cheese. The Conservative party is capitalist right wing party, whereas Labour party is left wing socialist party. One would expect that the tax to gdp ratio would be substantially and significantly different in the periods when these two diametrically different parties were in power. However that does not seem to be the case, causing us to question, if economic policies of Labour party and Conservative party are actually different at all?

India

The BJP in India is right wing capitalist party and the Congress or the Third Front are left wing socialist party. Now one would expect that the tax to GDP ratio between these opposing parties would be substantially different.

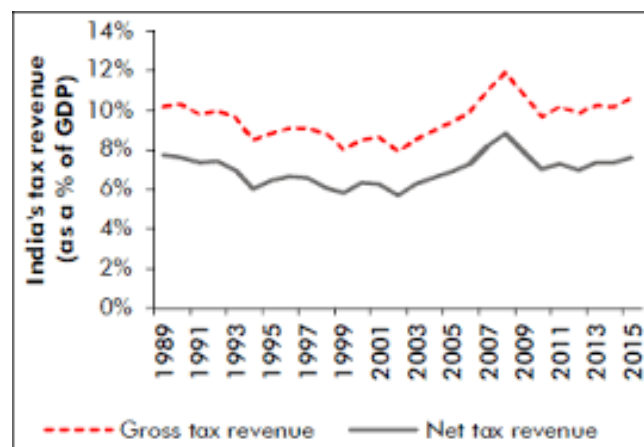


Figure 3

However the figure above shows that tax to gdp ratio between BJP and Congress and Third front are almost similar. After all between 1991 and 1996 Congress was in power and between 1996 to 1998 Third front was in power and between 1998 -2004 BJP was in power. Yet the tax to gdp ratio are so similar as shown in above figure.

Hence one questions, if the economic policies of BJP, Congress and Third Front are different at all? Or are these parties just pretending to have different policies.

II. Conclusion

The paper has examined tax to gdp ratio of three major nations of the world. And it appears that tax to gdp ratio does not change substantially over a short period of time despite change in political party at government.

It appears hence that right wing capitalist political parties have similar tax to gdp ratio to left wing socialist political party. Hence some might be tempted to believe that economic policies of socialists and capitalists are actually same.

Hence some may argue that politics does not matter. Because if socialists and capitalists are going to have same policies then how does it matter who is in power. There is no difference between socialists and capitalists.

Politics thus seems to be some sort of magician's illusion, where socialists condemn capitalists for lack of concern for poor and capitalist belittle socialists for lack of concern for growth, yet when it comes to government, both socialists and capitalists are almost the same. Politics is just a waste of time and attention and effort. Politics doesn't matter.

Prabhakar Deshpande, "Politics doesn't Matter: Socialists and Capitalists seem to have very similar Economic Policies." *IOSR Journal of Economics and Finance (IOSR-JEF)*, 13(5), 2022, pp. 36-38.