

Capitalism: a brilliantly confused story

To understand the economic policies of governments, and the main cause of social problems, grasp this idea:
The main purpose of government is to serve the big landed interests.

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What is “capitalism”? It is the free market. It is private enterprise. It is a label for the economies of the world. It is the mixed economy, government plus market. It is the practice and doctrine of governmental interventionism. It is the exploitation of labor by the big owners of capital. It is the source of our economic problems. All of these have been used to describe “capitalism.”

And that's the problem; the term “capitalism” has no specific meaning, and has had contradictory meanings. Consider the following propositions:

1. The U.S. economic system is capitalism.
2. The U.S. economy has social problems such as poverty and unemployment.
3. Therefore, capitalism causes such social problems.

If “capitalism” in the first proposition means merely a label for the economic system, then the third proposition is meaningless, since a label does not tell us the cause of social problems. These propositions are the heart of the film *Capitalism: A Love Story* by Michael Moore. What is really going on in this brilliant but confused critique of “capitalism” is a sly shift in meaning. In the first statement, “capitalism” means private enterprise. In the third statement, “capitalism” means the actual economic system, which consists of a mixed economy.

The propaganda message is that private enterprise or the “free market” causes our social problems. It seems like a reasoned argument, but the logic is invalid, because the term “capitalism” has two quite different meanings in the first and third statements.

In the film *Capitalism: A Love Story*, Michael Moore provides many examples of governmental abuse and of colossal subsidies to financial interests. There is a judge who sent harmless teenagers to long terms in a private juvenile prison, having received payoffs from the private firm, and he calls this “capitalism.” He brilliantly depicts how Congress was bribed and panicked into giving away hundreds of billions of dollars to bail out the chiefs of finance. That too is “capitalism.” But it is hardly free enterprise.

Moore comically seeks to arrest the chiefs and get our money back, but why not also arrest their benefactors in Congress, who gave them the money? Moore shows how the financial industry handed millions of dollars to legally bribe members of Congress, and how the financiers became the chiefs of the U.S. treasury. We can see more clearly what is going on if we use this definition for “capitalism”: Capitalism is the control of government by the big landed interests and their financial-capitalist partners in order to obtain subsidies and other privileges.

The term “capitalism” has been the most successful propaganda term in human history. First, the word slyly puts the blame for social problems on a non-existent “free market” and not-so-private enterprise by shifting the meaning of “capitalism” as discussed above. But even more importantly, the term “capital” masks the underlying and more fundamental interest that receives governmental privileges: real estate, and more specifically, the big landowners.

If you want to understand the economic policies of governments world-wide, and the main cause of social problems, it becomes clearer if you grasp this proposition: The main purpose of government

big landed interests.

The U.S. government has subsidized and protected the big landowners from the beginning of its history. Land speculators were chief among the interests who promoted the American revolution, so that they could grab the land beyond the Appalachians. Landowners promoted the adoption of the U.S. Constitution to strengthen the central government so that the native Indians could be more effectively removed. The U.S. government then gave away millions of acres of land to the railroads and to land speculators. Only a small proportion of the land stolen from the Indians was homesteaded by settlers (see my article on “Ground Rent Seeking in U.S. Economic History” at [click here](#))

Tax advantages given to real estate owners include deductions for property taxes and interest, tax-free capital gains, tax-free trading of property, and the deduction from taxable income of legal-fiction depreciation. But the biggest subsidy to landowners is implicit: it is the enormous increase in land rent and land value due to the public goods provided by government. Streets, parks, security, schooling, transit, etc., all make land more attractive and productive. The rich pay high taxes, but they get it back, and often much more, in higher land value. Taxes fall most heavily on the middle class, as the state tax-confiscates about half the wages of a typical worker, including the taxes they pay when from their remaining wages they buy taxed goods.

Michael Moore depicts the tragedy of folks losing their homes, jobs, and money, but he does not delve into the cause of such problems. The economist Henry George put it well, when he wrote in his book *Social Problems*, “There is in nature no reason for poverty.”

Land is a creation of nature, not human action, and its value comes from natural features and the population, commerce, and public works of the community. Land rent is a pure surplus that mother nature offers to us as a gift by which to finance the public goods provided by government. But you have rejected mama’s natural offer. Instead, you, by voting for the status quo governmental chiefs, you attack the earnings of labor, and with that loot, you provide public goods that pump up land rent and land value. Yes, you, the voter!

What happens then is that rent absorbs much of the gain from economic expansion and progress. Speculators jump in to leverage profit from the land-value rise. Landowners buy land with borrowed funds, so they engage their partners, the banks and other financiers. To further boost land values, the U.S. government sponsored Fannie Mae and Freddie Mac to buy mortgages and then package them into securities sold to hedge funds and other financiers. Thus the financial sector has created mountains of debt and derivatives ultimately grounded in land value.

But land has no cost of production. Its price can fall to zero, and the land will still sit there. Speculation raises land values to peaks unaffordable for actual use, and then land values plunge, and the leveraged mortgages and derivatives crash. That is the source of panics and depressions.

There is only one remedy for the boom-bust cycle, and that is to stop subsidizing real estate. Tax most of the rent and land value, so that landowners pay back value received, and stop taxing labor and enterprise. Wages would rise and land values would fall, and then houses would become affordable. The mortgage would be only on the building, not on roller-coaster land values. The financial superstructure based on land values would disappear.


None of this explanation appears in the film “Capitalism,” and if it did, we would see clearly how empty, how meaningless, how deceptive, how confusing, and what a tragedy it has been to use the term “capitalism” as if it meant or explained anything. A “love story”? The meaning is ironic, but confusion goes


policy folly has not only caused human misery but is now catapulting the global economy into yet another boom and bust sequence that, because bailouts will no longer be possible for tapped-out governments, could really end in the collapse of civilization.


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FRED E. FOLDVARY, Ph.D., (May 11, 1946 — June 5, 2021) was an economist who wrote weekly editorials for [Progress.org](#) since 1997. Foldvary's commentaries are well respected for their currency, sound logic, wit, and consistent devotion to human freedom. He received his B.A. in economics from the University of California at Berkeley, and his M.A. and Ph.D. in economics from George Mason University. He taught economics at Virginia Tech, John F. Kennedy University, Santa Clara University, and San Jose State University.

Foldvary is the author of *The Soul of Liberty*, *Public Goods and Private Communities*, and *Dictionary of Free Market Economics*. He edited and contributed to *Beyond Neoclassical Economics* and, with Dan Klein, *The Half-Life of Policy Rationales*. Foldvary's areas of research included public finance, governance, ethical philosophy, and land economics.

Foldvary is notably known for going on record in the *American Journal of Economics and Sociology* in 1997 to predict the exact timing of the 2008 economic depression—eleven years before the event occurred. He was able to do so due to his extensive knowledge of the real-estate cycle.

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