

Fixing Capitalism

By Fred E. Foldvary

Jean-Yves Calvez, a French theologian and author of books on social issues, has written a book, *Changer le capitalisme*, on what's wrong with capitalism and how to fix it. He focuses on the problem of economic inequality, and says that social justice requires a more equitable distribution of income. He also says that we need some balance between individualism and social solidarity or collective spirit. There is a tradition in the Catholic Church, including the Jesuits in the Church, of examining economic systems and proposing more just reforms.

Most proposed remedies for economic inequality consist of government restrictions on enterprise, such as dictating the hours and conditions of labor and setting legal minimum wages. The usual remedies proposed by social reformers include redistribution of income from the rich to the poor, and providing economic services such as medicine, housing assistance, and welfare aid for those with children. Education is already widely funded and provided by government.

Probably the greatest obstacle to economic reform is the use of the term "capitalism." The American social philosopher and economist Henry George wrote that action follows thought. When we criticize "capitalism," we need clarity as exactly what that is. Every economy uses financial capital and capital goods, so as an "ism" the word itself carries no meaning.

When one speaks of the problems of capitalism or changing and fixing capitalism, the term refers to today's economic system. What is that system? Now that there are only one or two command economies left in this world, the countries of today's world have mixed economies, a mixture of markets and government.

What is a "market"? A pure market consists only of activity that is voluntary for the whole society. Government then can play two different roles. It can be market-helping when it helps society be voluntary, such as by prohibiting and penalizing theft. Or, government can be market-hurting, as when government interventions restrict voluntary action or make it more costly.

When we propose remedies for social problems, there are two types of reforms we can have. One is to only treat the effects, the symptoms. The other approach is to determine the basic cause of the problem, and eliminate it, curing the problem so further treatment is not needed.

Remedies for inequality such as minimum wages, welfare aid, and income redistribution, only treat the effects. Since they do not confront the causes, the problems persist, and are made even worse by the interventions. We have massive intervention in almost all countries today, and poverty, gross inequality, unemployment, and pollution are still with us.

Redistribution penalizes production, consumption, labor, and investment, leaving workers and the poor worse off, requiring more redistribution in a vicious circle of welfare statism. How could we cure these problems? The effective remedy was discovered over 200 years ago by the

French economists who called their discoveries "**physiocracy,**" meaning the rule of natural law. They showed that government interventions such as the taxation of trade hurt the market and thereby hurt workers and increase poverty. The natural economic law they discovered, and termed *laissez faire*, was that we get the greatest prosperity when we let the natural economy work freely, with no restrictions or imposed costs on peaceful and honest trade.

Another natural law they discovered was that the natural economy provides society with a "net product," which economists now call a "social surplus." This benefit from natural resources is reflected in the market rent of land. Use this rent for government revenue, said the physiocrats. The founder of classical economics, Adam Smith, visited France and met the physiocrats and he too wrote that free trade provides for the maximum Wealth of Nations. Smith too said that land rent provides the best source of government revenue, as landlords reap where they don't sow. The classical economist David Ricardo came up with a more precise theory of the "law of rent," explaining how rent comes from the differences among the qualities in plots of land.

Karl Marx and his followers then came along and mucked up the language and thinking. Marx wanted to distinguish the workers from all those who owned assets, and so he lumped land into capital. From then on, most economists followed Marx in focusing only on labor and capital, and the physiocratic and classical emphasis on land was set aside. The neoclassical economic thought that followed the classical was encouraged to forget land, since this benefited the landed interests who financed them, and it also made the mathematical models easier if there are two rather than three factors. From now on, the system would be called "capitalism."

But is capital a problem? Capital provides investment, and investment and better technology is what has raised living standards world-wide. "Capitalism" makes entrepreneurs and owners of capital the villains, whereas Ricardo's law of rent shows that much of the gain from trade and technology go to the owners of land as rent, since wages equalize at the least productive margin.

Henry George sought to bring back the land factor. He recognized that the gross inequalities of wealth and income have always come from the unequal ownership of land. This was not a new discovery, but long recognized everywhere. In *Progress and Poverty* (1879) George cites the ancient Indian Brahmins: "To whomsoever the soil at any time belongs, to him belong the fruits of it. White parasols and elephants mad with pride are the flowers of a grant of land."

George went beyond the classicals and physiocrats, adding a moral dimension to economics: that workers have a natural right to their own labor and wages, whereas since no human being created land, equality requires an equal sharing of its benefits, as manifested by the rent. Moreover, as land value is enhanced by government public works, it is just for that added rent to be paid back to finance the services.

The remedy for poverty and inequality is therefore clear. The inequality and depression of wages can be cured by equalizing the rent: either use it for public and government revenue, or else distribute it equally to the people. The remaining inequality from unequal wages will then be much less severe and is justified as a reward for human exertion, talent, and skills.

George's policy is now being called "geoism," geo meaning land. Geoism fixes "capitalism" by curing the cause of poverty and inequality, eliminating any need for government redistribution, welfare states, minimum wages. Geoism equalizes while also improving economic efficiency, eliminating the market-hurting taxes on wages, profits, goods, and investment. Geoism also harmonizes the individual with society, letting individuals keep their wages while providing the social solidarity of sharing in the natural benefits provided by nature and God.

Social reformers like Calvez, from all religions, have sought an economic system that is just as well as productive. If you believe that God has created the world and its human presence, then could it be that a just God would put human beings on earth without any means for an abundant economic life for all? That is unthinkable, and therefore there must be natural economic laws that provide for universal prosperity. Moreover, these natural laws cannot be so obscure that they cannot be discovered and easily understood by humanity. The law of prosperity has been in the Bible for over 2000 years: "The profit of the earth is for all" (Ecclesiastes 5:9).

The natural-law philosopher John Locke recognized back in 1690 that God had given the earth to humanity in common, and also that each human being, if he is not to be a slave to others, has a moral right to his own person and labor. The moral law that provides justice is thus in harmony with the economic laws that provide for prosperity: share earth and keep earnings. There is no need to equalize the ownership of produced goods if we equalize the ownership of the earth.

Capitalism today has market-hurting interventions that take away the earnings of labor to finance public works that redistribute the wealth to landowners as higher rent and land value. Social justice requires fixing and eliminating the interventions rather than hampering voluntary action. Once this great truth becomes recognized, then surely right action will follow righteous thought.

-- Fred Foldvary

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