Redistribution: an Unnecessary Evil

Redistribution would not be necessary if we had the proper initial distribution of income in the first place.

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Almost everybody now favors the redistribution of income and wealth by the state. Even most free-market libertarians are in favor of implicit redistribution, the increase in land rent and land value due to state-provided public goods not paid for by the landowners, amounting to a forced redistribution of wealth from tenant-workers to landowners.

Redistribution takes place when the state forcibly takes wealth from one group of persons and transfers the wealth to another group. If we look around the world today, the main activity and justification for state governments is redistribution.

The concept of redistributing wealth from the rich to the poor is rather recent in history. In ancient times, poverty was regarded as an unavoidable fact. The ancients did not have the concept of a moral duty to redistribute wealth to the poor. Charity was favored as a means to avoid social unrest, and as an act of kindness, but not by any right by the poor to the wealth of the rich. The poor were often regarded as deserving to be an underclass due to their laziness, lack of ability, birth in a low caste or class, or from conquest.

The book A Short History of Distributive Justice by Samuel Fleischacker credits Adam Smith with changing social attitudes about poverty. Smith’s landmark book The Wealth of Nations is usually thought of as advocating a free market, which benefits the rich, but in fact Fleischacker points out that the work also was revolutionary in regarding poverty as an evil that should be eradicated.

The American economist and social philosopher Henry George later agreed that, as he says in Social Problems, “There is in nature no reason for poverty.” Contrary to the conservative view that poverty is the natural condition of humanity, George argued that wealth is the natural condition if everybody equally shares the benefits of nature. Poverty is caused by first depriving people of their share of natural benefits, and then forcibly taking away much of their gains from labor.

Smith advocated the elimination of restrictions on labor and enterprise as well as the taxation of ground rent. Taxing ground rent is both efficient and equitable, as paying back the land value created by governmental public goods. Since most land value is held by the rich, taxing land rent reduces the inequality of wealth.

Free-market advocates look to Smith for free trade, but they ignore his call for the use of ground rent for public revenue. Welfare-state “liberals” today also ignore the call by Smith and George to use ground rent for public revenue. Taxing land rent or land value is not redistribution. Henry George added a moral dimension to Smith’s argument for land-value taxation. As George argued, the benefits of natural resources belong to humanity in equal shares. Thus the taxation of land value is not redistribution but the proper initial distribution.

Today all governments engage in a double redistribution. First, they redistribute wealth from relatively poor workers and tenants by taxing their wages and providing public goods that pump up the land rent and land value of the rich. Fred Harrison in his video “Ricardo's Law: The Great Tax Clawback Scam” shows how the taxes paid by the rich are given back to them in the form of rent and land value. A “clawback” means getting back what was taken.

This double redistribution -- transferring wealth from the rich to the poor by taxation, and then transferring the wealth back via land rent -- creates a colossal excess burden on the economy. If the land rent is directly taxed, there is no deadweight loss, because land cannot hide, shrink, or flee when taxed. But by taxing profits, wages, and goods which can hide, shrink, and flee, taxation creates a misallocation of resources, reducing production and growth. Because of taxation, goods become more expensive and profits are reduced. It is a disturbance in the economic space-time continuum! The distortions show up as inflation, unemployment, depressions, pollution, and poverty.

Redistribution would not be necessary if we had the proper initial distribution of income in the first place. Because we do not have the proper distribution, we have redistribution, which is evil first by forcibly taking away wages that properly belong to the worker, secondly by perpetuating unnecessary poverty, and third by depriving people of their share of the natural bounty.

The political trend now is towards ever greater redistribution, such as in the USA with the movement towards greater governmental provision of medical services. The coming high inflation will redistribute wealth from creditors to borrowers, and politics in general redistributes from the general public to special interests such as lawyers, unions, and the chiefs of corporations. Redistribution amounts to massive theft, as various groups steal wealth from one another. Redistribution is evil, unnecessary, and will ultimately be the death 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

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.