Marxism Deconstructed – A Radical Critique

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To put it simply: Karl Marx got capitalism all wrong.

Instead of understanding its radical innovative system dynamics, which would restructure human civilization for the better, Marx saw capitalism only as an extension of universal pre-capitalist systems of rent extraction. In all such rent extraction systems, said Marx, one class, a ruling one, lorded it over an inferior one in the enjoyment of wealth and other forms of power. To this day, that fixation on modes of rent extraction has blinded Marxist thinkers to other realities and possibilities. Our contemporary Marxists and others who build their social psychology, culture and politics on Marxist foundations, analyze cultures, societies and politics only as systems of oppression and exploitation.

Marxists aim to overthrow all old power relationships and replace them with new systems of authority and obedience. The new structures of rent extractions and rent transfers put in place by Marxist regimes took power from the old extractors. The power to extract was then given to the state in order that the state would transfer the rents previously collected by the old, now dis-possessed elite to those who are more deserving, due to their lower social status, thus bringing fairness to society. Marx's formula for such extraction and redistribution was "From each according to his ability, to each according to his needs."

I was taught to think of Marxism in this way by Barrington Moore, a distinguished and notable American Marxist scholar, who was my tutor junior year at Harvard College in 1966. As another one of my professors, the economist John Kenneth Galbraith, so nicely put it: "Under capitalism, man exploits man. Under Communism, it's just the opposite."

The Communist Manifesto

For example, in *The Communist Manifesto*, their seminal call for revolution to end the suffering of many at the hands of a few, Marx and Friedrich Engels considered capitalism only as a system of oppression of the poor by the wealthy. Inter-class relations, they wrote, could only be unbalanced, exploitative, zerosum servitudes, where the rich got richer and the poor stayed poor. Those on the bottom had to spend their lives forfeiting life's advantages to finance the well-being of the ruling elite.

That human economic systems could be fair and balanced, splitting wealth and advantage among many, did not occur to Marx and Engels. Their best alternative for humanity was giving all power of rent extraction to the state and leaving everyone equally subordinate to the power of that decision-making apparatus. Thereafter, in their theory of communism, rent extraction was to be a public function and no longer a private good.

The presumption of Marx and Engels was that human history had been a dog-eat-dog affair of class struggles, waged over and over again, since the dawn of recorded history. One class of families would rise to social power and then be overthrown by a rising new class. It was always the same story. In *the*

Communist Manifesto, Marx and Engels simply updated for Western Europe, in their time, their depressing observation about the human experience: the new ruling class of their time was the bourgeoisie, which was oppressing the workers, whom they called the proletariat.

The *Communist Manifesto* opens with this narrative:

The history of all hitherto existing society is the history of class struggles.

Freeman and slave, patrician and plebeian, lord and serf, guild-master and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open fight, a fight that each time ended, either in a revolutionary reconstitution of society at large, or in the common ruin of the contending classes.

In the earlier epochs of history, we find almost everywhere a complicated arrangement of society into various orders, a manifold gradation of social rank. In ancient Rome we have patricians, knights, plebeians, slaves; in the Middle Ages, feudal lords, vassals, guild-masters, journeymen, apprentices, serfs; in almost all of these classes, again, subordinate gradations.

The modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones.

However, Marx and Engels predicted an end to such class antagonisms. If the subjugated, proletariat class could ever take over modern, industrialized society, the oppressing class would disappear, but no new ruling class would take its place. Human history would enter a new era of perfection, of delightful social justice lasing until the end of time.

In fact, Marx and Engels thoroughly misunderstood capitalism as just more rent extraction, this time orchestrated by those they called the bourgeoisie. Marx and Engels understood capitalists to be no different than feudal barons, royalist aristocrats or gentry landlords – all “rentiers,” extracting value from those peasants and other laborers who had produced it.

Their understanding of capitalists could have been written by Charles Dickens. His idea of a capitalist was his caricature of the businessman Ebenezer Scrooge in *A Christmas Carol*. Therein, Dickens described Scrooge as “a squeezing, wrenching, grasping, scraping, clutching, covetous old sinner!" By profession, Scrooge was a money lender, making money from money, taking few risks and producing nothing by which the world could benefit.

Here is Marx on the moral character of capitalists:

The capitalist knows that all commodities, however scurvy they may look, or however badly they may smell, are in faith and in truth money, inwardly circumcised Jews, and what is more, a wonderful means whereby out of money to make more money. (*Das Kapital* p.108)

Marx's historic argument for the superiority of communism (*The Communist Manifesto*) asserts:

Our epoch, the epoch of the bourgeoisie, possesses, however, this distinct feature: it has simplified class antagonisms. Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other — Bourgeoisie and Proletariat.

The bourgeoisie, wherever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations. It has pitilessly torn asunder the motley feudal ties that bound man to his "natural superiors," and has left remaining no other nexus between man and man than naked self-interest, than callous "cash payment." It has drowned the most heavenly ecstasies of religious fervor, of chivalrous enthusiasm, of philistine sentimentalism, in the icy water of egotistical calculation. It has resolved personal worth into exchange value, and in place of the numberless indefeasible chartered freedoms, has set up that single, unconscionable freedom — Free Trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation.

The bourgeoisie has stripped of its halo every occupation hitherto honored and looked up to with reverent awe. It has converted the physician, the lawyer, the priest, the poet, the man of science, into its paid wage laborers.

The bourgeoisie has torn away from the family its sentimental veil and has reduced the family relation to a mere money relation.

All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life, and his relations with his kind.

But Marx saw an end to the evils imposed by capitalists. A new class had been formed to provide the labor necessary to run the machines which created the wealth which the capitalists extracted for themselves.

Marx and Engels proclaimed:

But not only has the bourgeoisie forged the weapons that bring death to itself; it has also called into existence the men who are to wield those weapons — the modern working class — the proletarians.

The Communist Manifesto further opines:

Owing to the extensive use of machinery, and to the division of labor, the work of the proletarians has lost all individual character, and, consequently, all charm for the workman. He becomes an appendage of the machine,

But the price of a commodity, and therefore also of labor, is equal to its cost of production. In proportion, therefore, as the repulsiveness of the work increases, the wage decreases. Nay more, in proportion as the use of machinery and division of labor increases, in the same proportion the burden of toil also increases, whether by prolongation of the working hours, by the increase of the work exacted in a given time or by increased speed of machinery, etc.

As privates of the industrial army they are placed under the command of a perfect hierarchy of officers and sergeants. Not only are they slaves of the bourgeois class, and of the bourgeois State; they are daily and hourly enslaved by the machine, by the overlooker, and, above all, by the individual bourgeois manufacturer himself. The more openly this despotism proclaims gain to be its end and aim, the more petty, the more hateful and the more embittering it is.

No sooner is the exploitation of the laborer by the manufacturer, so far, at an end, that he receives his wages in cash, than he is set upon by the other portions of the bourgeoisie, the landlord, the shopkeeper, the pawnbroker, etc.

The essential conditions for the existence and for the sway of the bourgeois class is the formation and augmentation of capital; the condition for capital is wage-labor.

But does wage-labor create any property for the laborer? Not a bit. It creates capital, i.e.*, that kind of property which exploits wage-labor, and which cannot increase except upon condition of begetting a new supply of wage-labor for fresh exploitation. Property, in its present form, is based on the antagonism of capital and wage labor. Let us examine both sides of this antagonism.*

To be a capitalist, is to have not only a purely personal, but a social status *in production.*

Political power, properly so called, is merely the organized power of one class for oppressing another.

We by no means intend to abolish this personal appropriation of the products of labor, an appropriation that is made for the maintenance and reproduction of human life, and that leaves no surplus wherewith to command the labor of others. All that we want to do away with is the miserable character of this appropriation, under which the laborer lives merely to increase capital, and is allowed to live only in so far as the interest of the ruling class requires it.

Communism deprives no man of the power to appropriate the products of society; all that it does is to deprive him of the power to subjugate the labor of others by means of such appropriations.

Rent Extraction and Rent-Seeking

In this last paragraph, Marx and Engels use "appropriation" as we now would refer to rent extraction or rent-seeking. Rent-seeking is intentional activity aimed at securing a position where rents can be received.

Roughly speaking, rents refer to money earned due to the holding of a position of power, such as having title to land or other property, like patents, copyrights or trademarks or governmental, such as holding the office of police sergeant, mayor, regulator or, thirdly, that of private coercion, such as mafia protection rackets or market monopolies.

According to Robert Tollison (1982), economic rents are “excess returns” above the “normal levels” that are generated in competitive markets. More specifically, a rent is “a return in excess of the resource owner’s opportunity cost.” Henry George defined rent as “the part of the produce that accrues to the owners of land (or other natural capabilities) by virtue of ownership” and as “the share of wealth given to landowners because they have an exclusive right to the use of those natural capabilities.” Law professors Lucian Bebchuk and Jesse Fried define the term as “extra returns that firms or individuals obtain due to their positional advantages.”
In simple terms, economic rent is money earned where there is no enterprise risk or no need to sell at the real cost of production.

As U.S. Representative Alexandria Ocasio-Cortez believes: “No one ever makes a billion dollars. You take a billion dollars.”

She continued, giving a precise definition of rent extraction, one which Karl Marx himself might have written: “Well, you didn’t make those widgets, did you?…You sat on a couch while thousands of people were paid modern-day slave wages—and in some cases, real modern-day slavery … You made that money off of the backs of undocumented people, you made that money off of the backs of black and brown people being paid under a living wage, you made that money off of the backs of single mothers.”

Rents become possible when a factor of production is inelastic, such as land – it can’t be increased to keep up with increased demand. The asset which earns rent allows exclusive profiting from an opportunity, the opportunity to impose one’s will on markets. In production theory, if there is no exclusivity in pricing power and there is perfect competition, there will be no economic rents, as competition drives prices down to their floor.

In theory, capitalism with perfect competition should drive rent extractors out of business. But capitalism can’t control the opportunities for obtaining rents provided by government, corruption and other forms of political influence, the legal system and banditry. Further, capitalism is vulnerable to market manipulations, resulting in monopolies and cartels.

Another example of rent-seeking provided by economist Robert Shiller is that of a property owner who installs a chain across a river that flows through his land and then hires a collector to charge passing boats a fee to lower the chain. There is nothing productive about the chain or the collector. The owner has made no improvements to the river and is not adding value in any way, directly or indirectly, except for himself. All he is doing is finding a way to make money from something that used to be free.

Rent-seeking, the gaining for oneself of an opportunity to extract rents, is the effort to increase one's share of existing wealth without creating new wealth. Rent-seeking results in reduced economic efficiency through misallocation of resources, reduced wealth creation, lost government revenue, heightened income inequality and potential national decline.

Taxi cab licensing is a textbook example of rent-seeking. The issuing of licenses constrains the overall supply of taxi services, forbidding competition from other vehicles for hire (Uber) and renders the income earned from providing taxi services a forced transfer of part of the fare above the marginal cost of providing the service, from customers to taxi business proprietors.

John Maynard Keynes was repelled by the rent extracting reality of stock market trading of shares or other financial contracts, such as options, futures, shares of mortgage and other loans or crypto-currencies. The sales do not create real wealth. They just move money from one pocket to another. The money "earned" by the seller is "lost" by the buyer.

Now, the seller may, nevertheless, profit in money terms and so gain personal wealth, but the society hasn't grown any richer from the sale of the financial contract. Yet, if the seller then uses the profits made to consume goods or buy equity in a company for it to use to make something or provide a service, then the money earned in the sale of a financial contract contributes to real growth in the economy.

Keynes called stock markets "casinos," as their economic role was similar to gambling. In gambling, say a game of poker, no new wealth is created. Players bring all the wealth in the game to the game. At the end of the game, some have gained ownership of more money, while others have lost that same amount of money.

In poker, the cards provide players with legal title with which to extract rent from the other players. The holder of the high hand lays down the cards and picks up the pot of money on the table. So, too, does a winning lottery ticket; putting chips on a number in roulette; a betting stub at a horse race; a ticket for sideline seats at a professional sporting event; and ownership of a share of stock – all give title to a right possibly to get paid money in exchange for surrender of the title document.

Thus, in capitalism, there is a disconnect between the real, the productive part of the economy, which creates wealth and finance, which gambles on obtaining claims to share in that wealth through acquisition of a legal title to some ownership of production. Today, many traders buy shares of stock not to hold them and receive dividends, but only to sell them at a higher price or have the company buy them back for cash. These so-called investors are actually only renters of shares of stock speculating on the chance that others will come along and buy them at a higher nominal price. If those buyers never materialize, the "shareholder" will most likely sell the stock or other contract at a loss. Such investors are really only "renting" shares of stock in order to speculate on future market prices. They are not "owners" in for the long haul willing to take business risks. Their risk-taking is confined within financial markets for investment contracts of one kind or another.

So, the financial market side of modern capitalism can inject some degree of rent extraction into the economy. To that extent, Marx made a good point that at least a part of capitalism can be rent extraction.

When economic rent is privatized, its recipient is referred to as a *rentier*. How many of the world's most wealthy people today – the top 10% - are just rentiers, somewhat parasitic, living off the wealth created by others? What about all the money placed in investment and retirement funds, which play the markets buying and selling, sometimes holding the securities only for a fraction of a second before selling them via computer? Is this not also rent extraction doing well for itself in modern capitalism?

Adam Smith was a wary and suspicious observer of rents:

As soon as the land of any country has all become private property, the *landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was in common, cost the laborer only the trouble of gathering them, come, even to him, to have an additional price fixed upon them. He must then pay for the license to gather them; and must give up to the landlord a portion of what his labor either collects or produces. This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land. (The Wealth of Nations)*

Smith was also very aware of how those in business found rent extraction more attractive than taking a risk on trade or running a factory. He warned that, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public or in some contrivance to raise prices."

Here, Smith refers to competitors colluding among themselves to fix prices or limit supply in order to turn a competitive market into a rent extraction opportunity. Smith did not like guilds or monopolies, as they made money by turning markets into rent extracting perks for the sellers.

Attempts at capture of regulatory agencies to gain market power can result in advantages for rent-seekers in a market while imposing disadvantages on their uncorrupt competitors. This is one of many possible forms of rent-seeking behavior.

Regulatory capture is a related term for the collusion between firms and the government agencies assigned to regulate them, which is seen as enabling extensive rent-seeking behavior, especially when the government agency must rely on the firms for knowledge about the market. Studies of rent-seeking focus on efforts to capture special monopoly privileges, such as manipulating government regulation of free enterprise competition.

The concept of rent-seeking would also apply to corruption of bureaucrats who solicit and extract "bribes," really a kind of "rent" payment, for applying their legal, but discretionary authority for awarding legitimate or illegitimate benefits to clients. For example, tax officials may take bribes for lessening the tax burden of the taxpayers. Regulators can impose rules which favor some businesses over others in return for sharing via bribes in the resulting rent extraction profits of those given regulatory preference.

Elected officials in stable, high-income democracies are much less likely to indulge in such corrupt activities to service the greed of private rentiers than entrenched bureaucrats in socialist states, autocracies and imperfect democracies. A paradox in such systems of corruption is that rent-seekers wanting political favors can bribe politicians at a cost much lower than the value of the favor to the rent-seeker. For instance, a rent-seeker who hopes to gain a billion dollars from a particular political policy may need to bribe politicians with merely ten million dollars, which is about 1% of the gain to the rent-seeker.

Rent-seeking in a society tends to grow over time because organizations come to value risk-free rent-seeking over investing in companies to improve their productivity. In this case, there are very high levels of rent-seeking side-by-side with very low levels of output. Rent-seeking may grow at the cost of economic growth because rent-seeking by public officials or state companies can easily frustrate innovation and higher productivity. Ultimately, public rent-seeking hurts most of all the general economy because innovation drives economic growth.

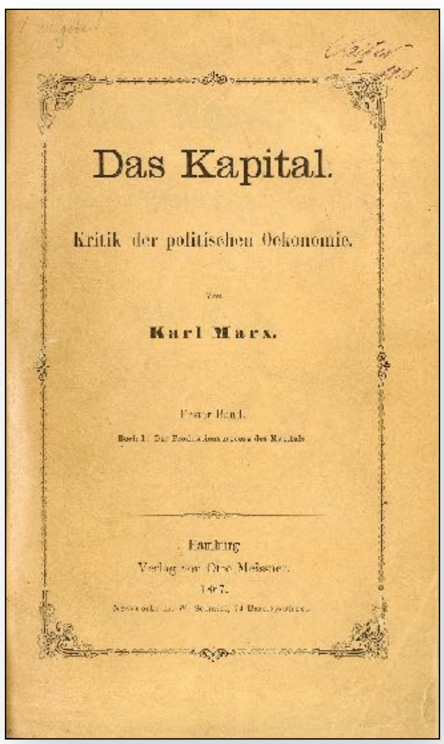
Monopoly rent refers to those economic rents derived from monopolies, which can result from (1) the denial of access to an asset or (2) the unique qualities of an asset. Examples of monopoly rent include: rents associated from legally enforced knowledge monopolies derived from intellectual property, like patents or copyrights; rents associated with 'de facto' monopolies of companies like Microsoft and Intel who control the underlying standards in an industry or product line (e.g. Microsoft Office); rents associated with 'natural monopolies' of public or private utilities (e.g. telephone, electricity, railways, etc.); and rents associated with network effects of platform technologies controlled by companies like Facebook, Google or Amazon.

The Nobel Prize-winning economist, Joseph Stiglitz, has argued that rent-seeking contributes significantly to income inequality in the U.S. through lobbying for government policies that let the wealthy and powerful get income not as a reward for creating wealth, but by grabbing a larger share of the wealth that would otherwise have been produced without their effort. Thomas Piketty, Emmanuel Saez and Stefanie Stantcheva have analyzed international economies and their changes in tax rates to conclude that much of income inequality is a result of rent-seeking among wealthy taxpayers.

After writing the *Communist Manifesto*, Marx needed a credible narrative about capitalism which would ground what he saw as rent extraction on the necessary operations of capital. To make his theory fit the facts, Marx had to come up with a narrative of capital – he had to explain how, in capitalism, value was created only for rent extraction by the "capitalists" from the workers. The result was the formidable and intellectually creative opus, *Das Kapital*, published in 1867.

In this history-making work of theory, Marx proposed that capitalism makes its money from the exploitation of labor, whose work is the ultimate source of all wealth. Owners of the means of production are able to claim the right to a surplus of value created over and above what the workers get from the system because, as owners, they are legally protected by the ruling political regime through the issuance of property rights. (Wikipedia, Das Kapital)

***Das Kapital*: A Social Theory of Rent Extraction**



To describe capitalism as rent extraction masterminded by rent-seeking bourgeoisie, Marx proposed a concept of "surplus value." To find the surplus value of goods and services sold by capitalists in markets, Marx then devised a concept of "exchange value" – what customers would pay in money for goods and services. Such exchange value varied from customer to customer depending on their preferences. If a product (or service) is traded as a commodity in markets, it is given its "exchange value," most often expressed as a money price.

The capitalist would take in exchange value as money. The costs of production would be deducted from the income and the remainder would be retained by the capitalist.

For Marx, the most relevant component of the cost of production was labor power because from labor power, the capitalist ultimately extracted money as exchange value. Marx argued that the capitalist received more money from the exchange value of goods and services sold than he paid to the workers. That difference between the two money values – money paid out and money taken in – was the "surplus value" appropriated by the capitalist:

The rate of surplus value is therefore an exact expression for the degree of exploitation of labor power by capital, or of the laborer by the capitalist.

By labor power or capacity for labor is to be understood the aggregate of those mental and physical capabilities existing in a human being, which he exercises whenever he produces a use value of any description.

The essential difference between the various economic forms of society, between, for instance, a society based on slave labor, and one based on wage labor, lies only in the mode in which this surplus labor is in each case extracted from the actual producer, the laborer. (*Das Kapital*, p.153)

Making his argument more complex, Marx proposed that any product also has a "labor value" and a "use value."

The capitalist only needed to pay what Marx called the "use value" of the work commissioned from workers to produce the goods or services to be sold for their exchange value:

Living labor must seize on these things, awaken them from the dead, change them from merely possible into real and effective use values. (*Das Kapital*, pp.45, 289).

For the capitalist as buyer paid for each commodity, for the cotton, the spindle and the labor-power, its full value. He then did what is done by every purchaser of commodities; he consumed their use-value. (*Das Kapital* p.136)

The use value of any good which can be exchanged according to its exchange value is its usefulness to someone:

The utility of a thing makes it a use value. But this utility is not a thing of air. Being limited by the physical properties of the commodity, it has no existence apart from that commodity. … Use values become a reality only by use or consumption: they also constitute the substance of all wealth, whatever may be the social form of that wealth. In the form of society … they are, in addition, the material depositories of exchange value.

So, for Marx, in capitalism, the worker contributes labor power to the creation of a use value to be sold to a buyer which also has an exchange value given to it by the buyer's assent to the purchase price. The opportunity presented to the capitalist by markets is to insert himself/herself into the value stream of use value of inputs, labor power, new use value of what is produced, exchange value of that product. The capitalist extracts for himself/herself money from this sequence, the value which Marx conceptualizes as "surplus value."

The capitalist takes advantage of arbitrage – a difference in money values between two sets of circumstances. A good is cheap here and more expensive there. One circumstance is what the capitalist must pay for labor power to create a use value (cheap) and what the capitalist receives from a buyer as exchange value (the more expensive). In short, for Marx, the capitalist is a trader – buying low and selling high. This essentially is the economic process of rent extraction, using legal ownership of an asset as the way of getting money for the asset from those who want it.

Arbitrage profits are rent – simply the difference between two prices in two independent markets. You don't create arbitrage – you take advantage of it. Marx, thus, implicitly positions the capitalist as an unnecessary intermediary between the worker and the end customer.

The use value of a worker to the capitalist was the worker's labor power. To buy that, the capitalist need only contract with – hire – workers looking for work at an agreed upon wage. The market rate for a worker need only be the money sufficient for the worker's subsistence:

In order to be able to extract value from the consumption of a commodity, our friend, Moneybags, must be so lucky as to find, within the sphere of circulation, *in the market, a commodity, whose use value possesses the peculiar property of being a source of value, whose actual consumption, therefore, is itself an embodiment of labor, and, consequently, a creation of value. The possessor of money does find on the market such a special commodity in capacity for labor or labor power.*

In short, the capitalist would only share with the worker a portion of the exchange value received by the capitalist for whatever commodity (good or service) the labor power of the worker had produced for sale. Or, as Marx wrote:

The interest of the capitalist was to keep the wage as low as possible in order to make the "surplus value" to be extracted from the work-product of the worker as great as possible. … we know that surplus value is purely the result of a variation … of that portion of the capital which is transformed into labor power. … that the excess of the value of the product over the value of its constituent elements, is equal to the expansion of the capital advanced or to the surplus value produced. (Das Kapital p.150*)*

Now, to make the case that a capitalist is only an extractor, not a creator, of value, Marx opines that labor power really is, after all, the source of use value and therefore, also of exchange value. First, the use to be sold must be made possible, which brings use value into being and then the actuality of use can be sold for an exchange value:

Use values are only produced by capitalists, because, and in so far as, they are the material substratum, the depositories of exchange value. Our capitalist has two objects in view: in the first place, he wants to produce a use value that has a value in exchange, that is to say, an article destined to be sold, a commodity; and secondly, he desires to produce a commodity whose value shall be greater than the sum of the values of the commodities used in its production, that is, of the means of production and the labor power, that he purchased with his good money in the open market. His aim is to produce not only a use-value, but a commodity also; not only use value, but value; not only value, but at the same time surplus value. (*Das Kapital* p.131)

A use value, or useful article, therefore, has value only because human labor in the abstract has been embodied or materialized in it. How, then, is the magnitude of this value to be measured? Plainly, by the quantity of the value-creating substance, the labor, contained in the article. The quantity of labor, however, is measured by its duration, and labor time in its turn finds its *standard in weeks, days, and hours.*

The labor, however, that forms the substance of value, is homogeneous human labor, expenditure of one uniform labor power. The total labor power of society, which is embodied in the sum total of the values of all commodities produced by that society, counts here as one homogeneous mass of human labor power, composed though it be of innumerable individual units.

Marx then argued that to grow the surplus value extracted from the production process, the capitalist needed more and more labor power:

If the exploitation of the laborers already employed do not increase, either extensively or intensively, then additional labor power must be found. For this the mechanism of capitalist production provides beforehand, by converting the working class into a class dependent on wages, a class whose ordinary wages suffice, not only for its maintenance, but for its increase. It is only necessary for capital to incorporate this additional labor power, annually supplied by the working class in the shape of laborers of all ages, with the surplus means of production comprised in the annual produce, and the conversion of surplus value into capital is complete.

Turning Surplus Value into Capital

Thus, Marx derives from his chosen definitions the conversion of labor power into money taken in by the capitalist as exchange value. Next, Marx found a way to explain how the money received by a capitalist as payment for exchange value of goods or services sold could become "capital" and part of the foundation of a "capitalist" economic system. He proposed:

Capital is money: capital is commodities. (*Das Kapital* p.13)

The capital value was originally advanced in the money form. The surplus value on the contrary is, originally, the value of a definite portion of the gross product. If this gross product be sold, converted into money, the capital value regains its original form. From this moment the capital value and the surplus value are both of them sums of money, and their reconversion into capital takes place in precisely the same way. The one, as well as the other, is laid out by the capitalist in the purchase of commodities that place him in a position to begin afresh the fabrication of his goods, and this time, on an extended scale.

In one word, surplus value is convertible into capital solely because the surplus product, whose value it is, already comprises the material elements of new capital.

The first chief function of money is to supply commodities with the material for the expression of their values, or to represent their values as magnitudes of the same denomination, qualitatively equal, and quantitatively comparable. It thus serves as a universal measure of value.

Commodities come into the world in the shape of use values, articles, or goods, such as iron, linen, corn, &c. This is their plain, homely, bodily form. They are, however, commodities, only because they are something two-fold, both objects of utility, and, at the same time, depositories of value. They manifest themselves therefore as commodities, or have the form of commodities, only in so far as they have two forms, a physical or natural form, and a value form.

Everyone knows, if he knows nothing else, that commodities have a value form common to them all, and presenting a marked contrast with the varied bodily forms of their use values. I mean their money form.

The circulation of commodities is the starting point of capital. The production of commodities, their circulation, and that more developed form of their circulation called commerce, these form the historical groundwork from which it rises. The modern history of capital dates from the creation in the 16th century of a world-embracing commerce and a world-embracing market. If we abstract from the material substance of the circulation of commodities, that is, from the exchange of the various use values, and consider only the economic forms produced by this process of circulation, we find its final result to be money: this final product of the circulation of commodities is the first form in which capital appears. As a matter of history, capital, as opposed to landed property, invariably takes the form at first of money; it appears as moneyed wealth, as the capital of the merchant and of the usurer. (*Das Kapital*, p.107)

The simple circulation of commodities - selling in order to buy - is a means of carrying out a purpose unconnected with circulation, namely, the appropriation of use values, the satisfaction of wants.

As the conscious representative of this movement, the possessor of money becomes a capitalist. His person, or rather his pocket, is the point from which the money starts and to which it returns. The expansion of value, which is the *objective basis or main-spring of the circulation M [money] to C (capital] to M [money] becomes his subjective aim, and it is only in so far as the appropriation of ever more and more wealth in the abstract becomes the sole motive of his operations, that he functions as a capitalist, that is, as capital personified and endowed with consciousness and a will. Use values must therefore never be looked upon as the real aim of the capitalist; neither must the profit on any single transaction. The restless never-ending process of profit-making alone is what he aims at. This boundless greed after riches, this passionate chase after exchange value, is common to the capitalist and the miser; but while the miser is merely a capitalist gone mad, the capitalist is a rational miser. The never-ending augmentation of exchange value, which the miser strives after, by seeking to save his money from circulate his money from circulation, is attained by the more acute capitalist, by constantly throwing it afresh into circulation.*

All new capital, to commence with, comes on the stage, that is, on the market, whether of commodities, labor, or money, even in our days, in the shape of money that by a definite process has to be transformed into capital. The first distinction we notice between money that is money only, and money that is capital, is nothing more than a difference in their form of circulation.

The simplest form of the circulation of commodities is C-M-C, the transformation of commodities into money, and the change of the money back again into commodities; or selling in order to buy. But alongside of this form we find another specifically different form: M-C-M, the transformation of money into commodities, and the change of commodities back again into money; or buying in order to sell. Money that circulates in the latter manner is thereby transformed into, becomes capital, and is already potentially capital.

The circuit M-C-M … commences with money and ends with money. Its leading motive, and the goal that attracts it, is therefore mere exchange value.

The repetition or renewal of the act of selling in order to buy, is kept within bounds by the very object it aims at, namely, consumption or the satisfaction of definite wants, an aim that lies altogether outside the sphere of circulation. But when we buy in order to sell, we, on the contrary, begin and end with the same thing, money, exchange value; and thereby the movement becomes interminable.

Buying in order to sell, or, more accurately, buying in order to sell dearer, M-C-M+, appears certainly to be a form peculiar to one kind of capital alone, *namely, merchants' capital. But industrial capital too is money, that is changed into commodities, and by the sale of these commodities, is re-converted into more money. The events that take place outside the sphere of circulation, in the interval between the buying and selling, do not affect the form of this movement. Lastly, in the case of interest-bearing capital, the circulation M-C-M+ appears abridged. We have its result without the intermediate stage, in the form M-M+, "en style lapidaire" so to say, money that is worth more money, value that is greater than itself. M-C-M+ is therefore in reality the general formula of capital as it appears prima facie within the sphere of circulation.*

In truth, however, value is here the active factor in a process, in which, while constantly assuming the form in turn of money and commodities, it at the same time changes in magnitude, differentiates itself by throwing off surplus-value from itself; the original value, in other words, expands spontaneously. For the movement, in the course of which it adds surplus value, is its own movement, its expansion, therefore, is automatic expansion. Because it is value, it has acquired the occult quality of being able to add value to itself. It brings forth living offspring, or, at the least, lays golden eggs.

But the money itself is only one of the two forms of value. Unless it takes the form of some commodity, it does not become capital. There is here no antagonism, as in the case of hoarding, between the money and commodities. The capitalist knows that all commodities, however scurvy they may look, or however badly they may smell, are in faith and in truth money, inwardly circumcised Jews, and what is more, a wonderful means whereby out of money to make more money.

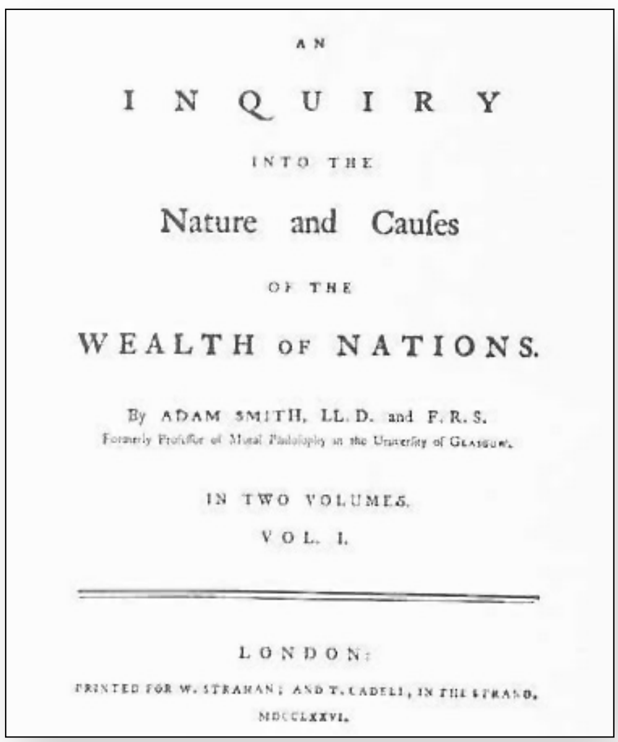
Value therefore now becomes value in process, money in process, and, as such, capital. It comes out of circulation, enters into it again, preserves and multiplies itself within its circuit, comes back out of it with expanded bulk, and begins the same round ever afresh. M-M+, money which begets money, such is the description of Capital from the mouths of its first interpreters, the Mercantilists. (*Das Kapital*, p.108)

Refuting Adam Smith

Next, to prove his thesis that capitalism is just another mode of rent extraction, Marx needed to deny the truth of Adam Smith's observation that, with its specialization of functions in the productive process and a resulting division of labor among workers, capitalism was actually a new economic system in human history, a wonderful one because it brought forth innovation and inventions, one after the other, year-in-and-year-out and so created new wealth for capitalists, for workers, for the suppliers of capitalists, for consumers, for the government and for society as a whole.

In order to make his claims about the evils of capitalism uncontestable, it was incumbent upon Marx to expunge from the public mind, elite and mass, acceptance of Adam Smith's vision of capitalism as a force for good.

What Marx needed to target, above all, in Smith's account of the origin of the wealth of nations was the Scotsman's presentation of the beneficial effects of the division of labor in a factory equipped with machines. Smith provided as a fitting example of the new capitalist mode of production a factory making straight, stick pins for use in sewing and making clothes. I remember my grandmother having small boxes of such pins in her sewing room.



AN

INQUIRY

INTO THE

Nature and Caufes

OF THE

WEALTH OF NATIONS.

By ADAM SMITH, LL.D. and F.R.S.

Formerly Profeffor of Moral Philofophy in the Univerfity of Glasgow.

IN TWO VOLUMES.

VOL. I.

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MDCCLXXVI.

Smith reported that before the invention of factory production, pins were made as a craft by individual workers. Each worker, most likely, could not make 20 pins a day and profit from the exchange value of that small quantity of goods produced. Now, wrote Smith, in a factory, some 18 different operations –

specialization of functions – were divided among ten workers, each equipped with specialized tools to accomplish the task assigned. Those ten workers could make a total of 48,000 pins per day, or 4,800 pins per worker. Thus, each worker was 240 times more productive than before. With more supply of pins on the market, the price would drop and those at lower levels of income would benefit most from the decrease in price. Society would have more wealth in terms of pin availability, earnings for the workers and the factory owner and more equitable use of pins across economic classes.

As capitalism increased productivity in society, economic growth took place. Values – commodity values, use values, exchange values, ownership values – increased to be shared among many stakeholders – capitalists, workers, consumers, communities and governments, local and national.

To falsify Smith's favorable depiction of capitalism, Marx found a way of subordinating the reality of the division of labor to his conceptual construct of surplus value. Simply put, Marx made up an argument that the organization of many workers into specialized roles in a system of cooperation gave the capitalist more surplus value to extract from the modalities of factory production:

By decomposition of handicrafts, by specialization of the instruments of labor, by the formation of detail laborers, and by grouping and combining the latter into a single mechanism, division of labor in manufacture creates a qualitative gradation, and a quantitative proportion in the social process of production; it consequently creates a definite organization of the labor of society, and thereby develops at the same time new productive forces in the society. In its specific capitalist form - and under the given conditions, it could take no other form than a capitalistic one - manufacture is but a particular method of begetting relative surplus value, or of augmenting at the expense of the laborer the self-expansion of capital - usually called social wealth, "Wealth of Nations," (a condescending snide reference to Smith's book – *An inquiry into the nature and causes of the wealth of nations*) *&c. It increases the social productive power of labor, not only for the benefit of the capitalist instead of for that of the laborer, but it does this by crippling the individual laborers. It creates new conditions for the lordship of capital over labor.* (*Das Kapital*, p.249)

Marx then proposed the concept of a "detail" laborer – a worker who is subjected to excessive specialization of task and thus harnessed to a machine to become an extension of its non-human mechanics. Thus, argues Marx, machines in a factory repress workers into becoming less, not more. Their skills are not fully used, their potential is not developed and their intellect is not called upon. The increased use value and exchange value of what factories produce go to the capitalists who build and manage them:

Hence, the productive power resulting from a combination of labors appears to be the productive power of capital. Manufacture proper not only subjects the previously independent workman to the discipline and command of capital, but, in addition, creates a hierarchic gradation of the workmen themselves. (*Das Kapital*, p.248)

In order to make the collective laborer, and through him capital, rich in social productive power, each laborer must be made poor in individual productive powers. (*Das Kapital*, p.249)

Marx admitted that:

manufacture thoroughly revolutionizes [production] and so *seizes labor power by its very roots. It converts the laborer into a crippled monstrosity, by forcing his detail dexterity at the expense of a world of productive capabilities and instincts.*

What is lost by the detail laborers, is concentrated in the capital that employs them. It is a result of the division of labor in manufactures, that the laborer is brought face to face with the intellectual potencies of the material process of production, as the property of another, and as a ruling power. This separation begins in simple co-operation, where the capitalist represents to the single workman, the oneness and the will of the associated labor. It is developed in manufacture which cuts down the laborer into a detail laborer. It is completed in modern industry, which makes science a productive force distinct from labor and presses it into the service of capital.

For Marx, the invention and employment of more sophisticated machinery adds new scope to the ability of capitalists to extract surplus value as rents. The simple:

workshop, the product of the division of labor in manufacture, produced in its turn - machines. It is they that sweep away the handicraftsman's work as the regulating principle of social production. Thus, on the one hand, the technical reason for the life-long annexation of the workman to a detail function is removed. On the other hand, the fetters that this same principle laid on the dominion of capital, fall away.

... machinery, by annexing the labor of women and children, augments the number of human beings who form the material for capitalistic exploitation, ... confiscates the whole of the workman's disposable time, by immoderate

extension of the hours of labor, and how finally its progress, which allows of enormous increase of production in shorter and shorter periods, serves as a means of systematically getting more work done in a shorter time, or of exploiting labor-power more intensely. (*Das Kapital*, p.284)

It is evident that whenever it costs as much labor to produce a machine as is saved by the employment of that machine, there is nothing but a transposition of labor; consequently the total labor required to produce a commodity is not lessened or the productiveness of labor is not increased. (*Das Kapital*, p.270)

Next, Marx applies his concept of surplus value to the factory system:

A greater number of laborers working together, at the same time, in one place (or, if you will, in the same field of labor), in order to produce the same sort of commodity under the mastership of one capitalist, constitutes, both historically and logically, the starting-point of capitalist production.

At first, Marx agreed with Adam Smith:

The combined working day produces, relatively to an equal sum of isolated working days, a greater quantity of use values, and, consequently, diminishes the labor time necessary for the production of a given useful effect.

The fact that the workman, when the productiveness of his labor has been increased, produces, say 10 times as many commodities as before, and thus spends one-tenth as much labor time on each, by no means prevents him from continuing to work 12 hours as before, nor from producing in those 12 hours 1,200 articles instead of 120.

Beyond this, his necessary labor time, the laborer, we saw, could continue to work for 2, 3, 4, 6, &c., hours. The rate of surplus value and the length of the working day depended on the magnitude of this prolongation. (*Das Kapital*, p.220)

In this context of how long a worker must work each day and in order to move beyond the observations of Smith, Marx invents another new concept – "necessary" labor. This is the time of labor necessary for a worker to work in order to create enough exchange value to pay him a subsistence wage. Any more time which such worker devotes to work in the factory as a detail laborer toiling away in a specialized function creates exchange value which can be appropriated by the capitalist.

Marx then asks:

How now can the production of surplus value be increased, i.e., how can the surplus labor be prolonged, without, or independently of, any prolongation of necessary labor?

He answered:

The prolongation of the surplus labor would correspond to a shortening of the necessary labor; or a portion of the labor time previously consumed, in reality, for the laborer's own benefit, would be converted into labor time for the benefit of the capitalist. There would be an alteration, not in the length of the working day, but in its division into necessary labor time and surplus labor time.

The object of all development of the productiveness of labor, within the limits of capitalist production, is to shorten that part of the working day, during which the workman must labor for his own benefit, and by that very shortening, to lengthen the other part of the day, during which he is at liberty to work gratis for the capitalist. (Das Kapital, p. 226*)*

If one working hour be embodied in sixpence, and the value of a day's labor power be five shillings, the laborer must work 10 hours a day, in order to replace the value paid by capital for his labor power, or to produce an equivalent for the value of his daily necessary means of subsistence. Given the value of these means of subsistence, the value of his labor power is given;[1] and given the value of his labor power, the duration of his necessary labor time is given. The duration of the surplus labor, however, is arrived at, by subtracting the necessary labor time from the total working day. Ten hours subtracted from twelve, leave two, and it is not easy to see, how, under the given conditions, the surplus labor can possibly be prolonged beyond two hours.

No doubt, the capitalist can, instead of five shillings, pay the laborer four shillings and sixpence or even less. For the reproduction of this value of four shillings and sixpence, nine hours' labor-time would suffice; and consequently three hours of surplus labor, instead of two, would accrue to the capitalist, and the surplus value would rise from one shilling to eighteen-pence. This result, however, would be obtained only by lowering below the value of his labor power. (*Das Kapital*, p. 221)

… by our assumption, that all commodities, including labor power, are bought

and sold at their full value. Granted this, it follows that the labor time necessary for the production of labor power, or for the reproduction of its value, cannot be lessened by a fall in the laborer's wages below the value of his labor power.

But in order to shorten the hours permitted a worker to earn his wage and leave more hours for his work to earn money for the capitalist, the system of production must be "revolutionized."

That revolution was to increase the hourly productivity of the worker by providing machines for the production process, while minimizing the "labor power" needed to produce the desired output. With machines improving productivity, the capitalist can extract more exchange value from society to provide more profit for the firm after paying of wages.

Marx assumes that the capitalist need not share the returns of the higher productivity with the worker:

... that the same necessaries of life which were formerly produced in ten hours, can now be produced in nine hours. But this is impossible without an increase in the productiveness of labor. For example, suppose a shoemaker, with given tools, makes in one working day of twelve hours, one pair of boots. If he must make two pairs in the same time, the productiveness of his labor must be doubled; and this cannot be done, except by an alteration in his tools or in his mode of working, or in both.

Hence, the conditions of production, i.e., his mode of production, and the labor process itself, must be revolutionized. By increase in the productiveness of labor, we mean, generally, an alteration in the labor process, of such a kind as to shorten the labor time socially necessary for the production of a commodity, and to endow a given quantity of labor with the power of producing a greater quantity of use value.

But if, in consequence of increased productiveness, the value of the necessaries of life fall, and the value of a day's labor power be thereby reduced from five shillings to three, the surplus value increases from one shilling to three. Ten hours were necessary for the reproduction of the value of the labor power; now only six are required. Four hours have been set free, and can be annexed to the domain of surplus labor. Hence there is immanent in capital an inclination and constant tendency, to heighten the productiveness of labor, in order to cheapen *commodities, and by such cheapening to cheapen the laborer himself. The value of a commodity is, in itself, of no interest to the capitalist. What alone interests him, is the surplus value that dwells in it, and is realizable by sale.*

We have shown that the surplus value produced by a given capital is equal to the surplus value produced by each workman multiplied by the number of workmen simultaneously employed. (*Das Kapital*, p. 226)

We also saw that at first, the subjection of labor to capital was only a formal result of the fact, that the laborer, instead of working for himself, works for and consequently under the capitalist. By the co-operation of numerous wage-laborers, the sway of capital develops into a requisite for carrying on the labor process itself, into a real requisite of production. That a capitalist should command on the field of production, is now as indispensable as that a general should command on the field of battle.

All combined labor on a large scale requires, more or less, a directing authority, in order to secure the harmonious working of the individual activities, and to perform the general functions that have their origin in the action of the combined organism, as distinguished from the action of its separate organs. A single violin player is his own conductor; an orchestra requires a separate one. The work of directing, superintending, and adjusting, becomes one of the functions of capital, from the moment that the labor under the control of capital, becomes co-operative. Once a function of capital, it acquires special characteristics. The directing motive, the end and aim of capitalist production, is to extract the greatest possible amount of surplus value, and consequently to exploit labor power to the greatest possible extent. As the number of the co-operating laborers increases, so too does their resistance to the domination of capital, and with it, the necessity for capital to overcome this resistance by counterpressure. The control exercised by the capitalist is not only a special function, due to the nature of the social labor process, and peculiar to that process, but it is, at the same time, a function of the exploitation of a social labor process, and is consequently rooted in the unavoidable antagonism between the exploiter and the living and laboring raw material he exploits. (*Das Kapital*, p. 231)

Just as at first the capitalist is relieved from actual labor so soon as his capital has reached that minimum amount with which capitalist production, as such, begins, so now, he hands over the work of direct and constant supervision of the individual workmen, and groups of workmen, to a special kind of wage-laborer.

*An industrial army of workmen, under the command of a capitalist, requires, like a real army, officers (managers), and sergeants (foremen, overlookers), who, while the work is being done, command in the name of the capitalist. The work of supervision becomes their established and exclusive function. When comparing the mode of production of isolated peasants and artisans with production by slave labor, the political economist (*i.e. Adam Smith*) counts this labor of superintendence among the faux frais (*negligible cost*) of production.* (*Das Kapital*. p. 232)

But in the reality of capitalism, as correctly perceived by Smith, what Marx called dismissively *the work of control made necessary by the cooperative character of the labor process* was a vitally important, value-adding feature of the system. In such cooperative endeavors, capital and labor must work together in harmony for the firm to be profitable over time. Only by such collaboration can wealth be created for allocation among all those contributing to its creation. This truth informs the stakeholder theory of capitalism. Rent extraction is rather inconsistent with such mutual dependence and bilateral reliance with one factor of production on the other.

Marx then goes on to equate the capitalist of his time as having the *power of Asiatic and Egyptian kings, Etruscan theocrats, &c.,* which he said: *has in modern society been transferred to the capitalist, whether he be an isolated, or as in joint-stock companies, a collective capitalist*. (*Das Kapital*, p. 233)

Fatefully, Marx Ignores Risk and So, Again, Misunderstands Capitalist Wealth Creation

Nowhere in his analysis of value does Marx include risk as a factor of production, as necessary for genuine, new wealth creation. All his value concepts – surplus value, exchange value, commodity value, use value, labor value – are static when it comes to risk. Each source of value he proposes resembles something physical, pre-existing, just waiting to be found and picked up and exploited. These sources of value flow like a stream of one to another. The only function, apparently, for the capitalist is to jump into the stream and with a bucket, take out some of the precious water.

In a rare reference to risk, Marx pointedly said that capitalists were "lucky" to find in society labor power which they could exploit. Note that Marx gave capitalists no credit for creating labor power or for any of the other sources of value.

When he writes of the skill of the capitalist in using money to provide factories and machines, Marx does not acknowledge the risk inherent in such investment: the factory may not be profitable; the machines may not work as needed. Marx seems to presume that businesses can't fail. Nor does he acknowledge that capitalists might make mistakes and mis-judge a use value, the exchange value available in the market or the quality of labor power.

All of which obtuseness is a bit strange.

Risk is inherent in human living. Good things happen to us and bad. We can be successful in love and in business and we can be spurned by others to our distress. Moreover, risk has a special relationship with value. Taking some risks leads to reward. Taking no risks actually is a formula for stagnation and even loss, as events and opportunities around us march on into the future, passing us by. The passive, risk-averse person in life is vulnerable and weak in the face of circumstances. They depend on luck alone, which is a form of risk-taking. As the character Blanch in Tennessee William's play, *Streetcar Named Desire*, affirmed: "I have always depended on the kindness of strangers."

In modern financial analysis, risk is associated with reward. Where there is higher risk in a venture, the expected return to be earned must be higher to attract those willing to take that risk and if necessary, lose all. It is easier with most people to get them to act when risks are low and outcomes more certain. But the innovation inherent in many actions, especially in the introduction of new products and services – like opening a new restaurant – is always risky.

Needed, then, for innovations actually to be undertaken are people who can emotionally and psychologically accept risk. Such people add value to society and the economy, outside the parameters of labor power, labor value, use value, exchange value and surplus value. This propensity, what Adam Smith called a moral sentiment, is a personal attribute not at all related to either the quantum or the quality of the labor power which they bring to their employments.

The incorporation of risk into wealth or, reversely, wealth into risk outcomes, is justified by the fact that risk can be priced and traded as some kind of factor in the production of future wealth. Price is ever a measure of some value, positive or negative, which people covet or want to avoid. A prudent risk is worth buying; a likely loss is worth selling. Thus, in horse racing, the payoff for a favorite is lower per unit invested than the payoff for an unexpected, long-shot winner. In casinos, low risk always attracts some bettors. Poker players bet on the odds that the cards they hold will win the pot. Low odds and money already put in the pot becomes a sunk cost, never to be recovered.

In the business of insurance, insurers will charge differentially for different levels of risk. Risk of loss – say, hurricane damage – can be offset with the purchase of insurance. Insurers can offset their risk of loss by buying re-insurance. Owners of financial assets can buy hedges from speculators with more aggressive appetite for risk. Buying forward contracts can minimize risk by locking in a price today. Futures contracts can be bought for a price as a hedge against future unlucky declines in the market price of an asset.

Contrary to Marx, Adam Smith, in his dissection of how capitalism creates the "wealth of nations," was very aware of the role of risk and risk takers in the process. In writing about the difference in wages among different employments, Smith advised that the variance was caused by "the probability or improbability of success" to be found in each. He noted: "In trades which are known to be very unwholesome, the wages of labor are always remarkably high."

Smith, then, commented on our propensity to over-value our own prospects: "The chance of gain is by every man more or less over-valued and the chance of loss is by most men under-valued." Smith recognized that gain and loss contain value and that our obtaining one or the other happens by chance.

When turning to the profits which a capitalism might or might not make in a venture, Smith concluded, that "The ordinary rate of profit varies more or less with the certainty or uncertainty of the returns. … The ordinary rate of profit always rises more or less with the risk."

With regard to the realities of success in capitalism, Marx and his followers were not as insightful as were Smith and his followers.

Rousseau's New Heaven on Earth: Rent Transfers

Marx was not the first to associate capital as rent extraction. Rousseau believed that "If we look at human society with a calm and disinterested eye, it seems, at first to show us only the violence of the powerful and the oppression of the weak." What the powerful took from the weak was rent. Rousseau saw that rent extraction caused inequality and that such inequality was established by convention. Abolish the conventions, Rousseau advised, and that will end social injustice.

For Rousseau, the most heinous of human conventions was the legitimation of private property rights: "The first man who, having enclosed a piece of ground, bethought himself of saying "This is mine," and found people simple enough to believe him, was the real founder of civil society."

Rousseau asked rhetorically, "From how many crimes, wars, and murders, from how many horrors and misfortunes," could humankind have been saved if anyone had challenged the idea of private property. Equality was replaced with property. Property was oppression and extraction. People became "perpetually employed in getting others to interest themselves in their lot and making [such others] find [personal] advantage in promoting that of theirs." ... Insatiable ambition, the thirst of raising their respective fortunes ... from a desire to surpass others inspired all men with a vile propensity to injure one another. ... There arose rivalry and competition on the one hand, and conflicting interests on the other, together with a secret desire on both of profiting at the expense of others. All these evils were the first effects of property...." (*Discourse on the Origin of Inequality*)

Thus, for Rousseau, property was systemic extraction of advantage from others for the self: "Society and the law bound the poor with new fetters and gave new powers to the rich and so subjected humankind to perpetual labor, slavery, and wretchedness."

Following the prescription of Rousseau, Maximillian Robespierre, a leading Jacobin in the French Revolution, composed his own Declaration of Rights in 1793. He proposed a social economy of rent transfers from the rich to the poor with the state extracting rents from the rich: "Society is obliged to provide for the subsistence of all its members, either by procuring work for them, or by assuring the means of existence for those who are unable to work. The aid indispensable to whomsoever lacks necessities is a debt of whomsoever possesses a surplus; it appertains to the law to determine the manner in which such debt is to be discharged. Citizens whose incomes do not exceed whatever is necessary for their subsistence are exempted from contributing to public expenditures; the others must support them progressively, according to the extent of their wealth."

Then, in May 1796, the radical Gracchus Babeuf set forth moral principles for his "society of equals," again looking at society as systems of rent extraction until all were made equal in wealth and opportunity under state supervision. For Babeuf, the purpose of society is to defend the equality of each person in sharing all goods. Nature has imposed on each individual the obligation to work – to create value. “Anyone who evades his share of labor is a criminal.” Both work and benefits must be common to all; there should be no rich and no poor. Until then, there is oppression when one person is exhausted by labor and is destitute of everything, while another lives in luxury without doing any work at all. “Anyone who appropriates exclusively to himself the products of the earth or manufacture is a criminal. … The rich who are not willing to renounce their surplus in favor of the poor are enemies of the people.”

The struggle for social justice would never be complete for Babeuf as long as “the rich monopolize all the property and govern exclusively, while the poor toil like slaves, languish in misery, and count for nothing in the state.” Here, Babeuf foreshadowed Marx in presuming that the timeless and universal norm for human societies is rent extraction by some that they might live off the many.

The only alternative to perpetual rent extraction, in Babeuf’s view, was a benevolent state which extracted a surplus from some to better the lives of others.

Babeuf has been called the first revolutionary communist. *Communism* was first used in English by Goodwyn Barmby in a conversation with those he described as the “disciples of Babeuf.” (Years later, Khmer Rouge leader and strategic planner Kieu Samphan, when a student in the Sorbonne, wrote his Ph.D. thesis on Babeuf. Other major Asian communist leaders who studied in France included Zhou Enlai, Deng Xiaoping and Ho Chi Minh.)

The Dynamics of Systemic Rent Extraction

Rent extraction has a systemic, moral dynamic which points protagonists seeking wealth and prosperity for themselves towards rent-seeking, the taking of value from others for use by the self. The morality most aligned with such rent extraction is selfishness, as Dickens described Ebenezer Scrooge and as Marx disparagingly called capitalists “moneybags.”

Thus, structures of rent extraction have a propensity to warp an individual’s moral sense towards narcissism and acting out a personal will to power. The cognitive bias of rent extractors is to seek command in order to unilaterally get more from others.

Since rents flow to those who have power, rent extracting systems privilege those who hold positions of power. Their moral sense is corrupted by such selfishness. Lord Acton’s maxim that “Power tends to corrupt and absolute power corrupts absolutely" applies most aptly to Marxist and related socialist systems.

The most abusive Marxist regime I have known, Pol Pot's Cambodia under his Khmer Rouge, concentrated all power in the regime and left none with the people who were to devote their all to creating value for *Angkar* or "the organization." The people had no private property, not even food or clothing to call their own. All was provided to them as rent transfers from *Angkar*. Between two villages, the exchange ratio of rice from one for fish from the other was set daily by party cadres.

The status of people under the regime was well described in the saying of the cadres: "If you live, we gain nothing. If you die, we lose nothing. So why not kill you today?" The Khmer Rouge, thus, claimed the right to "extract" life from anyone under its power.

From the Wall Street Journal: remains of the killing fields in Cambodia:

The Khmer Rouge, though extreme in its imposition of its principles on the Cambodian people, was not the only community government to have killed its subjects in massive numbers.

The authors of the 1997 *Black Book of Communism*, first published in France, estimated that more than 94 million people had been killed by the communist governments as follows:

- 65 million in the People's Republic of China
- 20 million in the Soviet Union
- 2 million in Cambodia
- 2 million in North Korea
- 1.7 million in Ethiopia
- 1.5 million in Afghanistan
- 1 million in the Soviet satellites in Eastern Europe
- 1 million in Vietnam
- 150,000 in Latin America

If Marxism had been ignored or rejected, those people most likely would not have died at the hands of the state. Most likely, there would have been more wealth created by the governments of Russia, China and other communist countries, improving the lives of millions and there would have been less repression of culture and society – no gulags or prison camps for re-education. In short, there would have been more human happiness had Marx's ideas been accurately assessed and properly dismissed.

Further, the toll on humanity in lost lives, lost personal achievement, lost wealth, corruption, etc. taken by communist movements which did not succeed in becoming sovereign governments by the wars in Korea and Vietnam and by Marxist inspired socialisms in Cuba, Venezuela, Burma, the Middle East and Africa has not, to my knowledge, been estimated.

If we were to include the harms done by the non-Marxist, but still rent-seeing and rent transferring socialist governments of Mussolini and Hitler, we might include in the human costs of Marxism all those who suffered in the European theater of World War II and in the Holocaust.

Really, not much for Marx and Marxists to be proud of.

It's no accident, but rather a necessity mandated by the inner logic of its system, that Marxist economic regimes, such as those established by Stalin and Mao, serve the party cadres, those who extract rents over all others in society. In such Marxist systems, those benefiting from rents may have shifted from the private to the public sector, but the system's *modus operandi* of some extracting from others did not. The state get rents, people get rent transfers. Those empowered by the state get high-value rent transfers. The masses must share in whatever remains.

An exceptionally illustrative contemporary example of systemic Marxist rent extraction is Venezuela under its two most recent leaders – Hugo Chavez and Nicholas Maduro. After the discovery of oil reserves in the 1920's, still the world's largest proven oil reserves, Venezuela developed a strong middle class and incomes grew steadily. But today, 95% of Venezuelans are poor in terms of income. More than 3 in 4 Venezuelans live in extreme poverty and food insecurity. Half the working age population has dropped out of the work force. Six million have left the country seeking better lives elsewhere. Remittances from abroad support 40% of the population. GDP per capita has plummeted to the level of the 1950s. Water shortages are endemic in all major cities. Blackouts are common. There are chronic gasoline shortages. Public transport has come to a halt in many locales. People wait in lines for hours to fuel their vehicles. The healthcare system has collapsed. The infant mortality rate is back to where it was a generation ago. Diphtheria and malaria have returned. (*Wall Street Journal*, Review, Dec 11-12,2021)

The productive, wealth-creating part of Venezuela's economy today gives depressing realism to the old joke about Stalinist Russia: "If the Communists took over the Sahara, it would run out of sand."

Here is a 2019 satellite image of South America, where light indicates urban development as a result of wealth creation. Venezuela is dark:

Now, the system of rent extraction afflicting Venezuela is international. First, the Venezuelan ruling party extracts oil (a commodity possessing use value and exchange value) from the national economy. Then, much of the oil's use value is sent abroad. In October, 2021, Venezuela exported 700,000 barrels a day of crude oil. Cuba, China, Singapore and Malaysia obtain oil from Venezuela, providing the ruling clique with some form of exchange value or use value to help that exporting nation's rent extracting cohort sustain its repressive police apparatus. The Venezuelan ruling party also receives use value, mostly barter exchanges, from Russia, Iran, Belarus, Turkey and Qatar.

Separately, the Maduro regime sucks the lifeblood out of domestic Venezuelan enterprise. Hyperinflation has destroyed private wealth and the possibility of getting either use value or effective exchange value from enterprise. In 2018, it was estimated that local currency prices rose one million percent.

Those who make their livelihood through rent extraction are disposed to think well of rent extractions and transfers and so are as well disposed to socialist theories and public policies of rent extraction and transfer payments. A number of famous Marxists had their social origins in rent extracting or service professions. Lenin, Stalin, Trotsky, Mao, Ho Chi Minh, Fidel Castro and Pol Pot were all intellectuals and functionaries who provided white-collar services to the ruling elites of their times. None of them created any wealth. Their line of work was in promoting ideas and providing leadership for political organizations. To use the language of today's post-modernists, these men were experts in discourse and the transformation of discourse into social and political authority.

Previously, during the French Revolution, Jacobin leaders like Robespierre, Marat, Saint-Just, Danton and later Babeuf, had also emerged from the lower-middle class as discourse professionals with credentials that enabled them to live off rents paid by others.

The social origin of all these men was membership in an intelligentsia. Before their respective revolutions, their intelligentsia was on the margins of the elite. But after social upheavals, their part of the intelligentsia became empowered with sovereign authority, organizing and directing systemic rent extractions.

Even Marx and Engels in *The Communist Manifesto* recognized that the leaders who would overthrow the bourgeoisie would come from its rent extracting institutions:

"... small section of the rule class cuts itself adrift and joins the revolutionary class, the class that holds the future in its hands. ... a portion of the bourgeois ideologists, who have raised themselves to the level of comprehending theoretically the historical movement as a whole."

The despotism that necessarily comes with Marxist rent extraction was perceptively and very truthfully revealed by the Russian anarchist, Michael Bakunin, in his long essay, *God and the State*, published in 1882, six years after his death. He accused "our doctrinaire materialists – the German Communists" of despotism, saying, "They have found no way to shake off the religion of the state."

The cause of their failure, according to Bakunin, was a misguided act of faith – an intellectualism, the turning of science into a religion. For Bakunin, science only "comprehends the thought of the reality, not reality itself; the thought of life, not life. That is its limit, ..." He not unjustly concluded that "The government of science and of men of science, even if they be positivists, disciples of Auguste Comte, or, again, disciples of the doctrinaire school of German Communism, cannot fail to be impotent, ridiculous, inhuman, cruel, oppressive, exploiting, maleficent." " ... they will ask to perform [their experiments] on the social body, and that is what must be absolutely prevented."

Insightfully, Bakunin described the power structure of "men of science:" "In their existing organization, monopolizing science and thus outside of social life, the savants form a separate caste. In many respects analogous to the priesthood. Scientific abstraction is their God, living and real individuals are their victims and they are the consecrated and licensed sacrificers."

Bakunin even had the social science skills to see the reality of the proto-Marxists, Rousseau and Robespierre: "Lay priests, short-robed liars and sophists, among whom the principal roles devolved upon two fatal men, one the falsest mind, the other the most doctrinally despotic will, of [the Eighteenth Century] – J.J. Rousseau and Robespierre. The first is the perfect type of narrowness and suspicious meanness, of exaltation without other object than his own person, of cold enthusiasm and hypocrisy at once sentimental and implacable, of the falsehood of modern idealism. To all appearance the most democratic writer of the eighteenth century, he bred within himself the pitiless despotism of the statesman. He was the prophet of the doctrinaire State, as Robespierre, his worthy and faithful disciple, tried to become its high priest."

As with other rent extracting and rent transfer systems and as Bakunin intuited, Marxist and quasi-Marxist regimes enable a cognitive bias of narcissism in those who receive rent transfers. Under their ministration, such regimes give individuals the reins to a truncated moral sense, one exclusively devoted to protecting and promoting the lonely, atomized, unattached, absolutely insecure, self. Such regimes especially foster such a limited moral sense among members of the ruling elite who, without shame or good conscience, seek to get more and more for themselves as that which is justly due to those privileged to share in regime suzerainty over society.

The co-dependency of rent extraction/rent transfers and narcissism was cleverly exposed in Orwell's fable, *Animal Farm*, where some animals became more equal than others, once the farm had been socialized.

However, it is very sad, but important to note, that non-Marxist rent extraction regimes, even those of national socialism, where the state directs private economic activity, experience the same moral dysphoria.

Rent extraction regimes systemically shift risk against those who suffer most from the extraction. Those who extract rents thereby insulate themselves from risk of loss. They are more able to protect their assets and the quality of their lives when things go wrong than are the poor and the dispossessed. Those who withdraw wealth from the social system for personal advantage we say are "privileged", meaning that they can more easily and more unequally avoid the "slings and arrows of outrageous fortune". Rent extraction transfers returns to the privileged and risks to those of lower status.

This systemic feature of rent extraction regimes reminds me of Thucydides report of arrogant Athenians who said: "The strong do what they can; the weak suffer what they must."

Those extracting rents get stronger and therefore, can guard against risks, leaving the weak to suffer whatever they must. Rent extraction, by shifting risk, thus increases the quality of assets on the balance sheet of those extract rents and reduces the quality of assets on the balance sheet of those who pay rents. Shifting risk, when taken to extremes, can even create liabilities on the balance sheets of those who pay rents.

Those higher in wealth, status and power, in all systems, have more security of life, health and possessions than those in the middle and at the bottom. But in capitalism, risk is more fairly distributed. Even the wealthy can succumb to poor risk management. Even upstarts can use risk to earn high returns. The private sector provided to a society by capitalism generates many opportunities to use risk constructively, hedge against it and profit from thoughtful investing. Rent extracting hierarchies generally fail to protect the majority against risk.

Rent extraction regimes are the cause of the "natural resource curse," a political cancer retarding the economic growth of poor countries rich in natural resources, such as Venezuela. In development economics, the resource curse, also known as the paradox of plenty or the poverty paradox, is the phenomenon of countries with an abundance of natural resources (such as fossil fuels and certain minerals) having less economic growth, less democracy or worse development outcomes than countries with fewer natural resources.

Another current example of a country afflicted with the resource curse is Kazakhstan. The country provides 40% of global uranium production. A member of OPEC, Kazakhstan pumps out of the ground about 1.7 million barrels of oil a day or 2% of world daily consumption. As of August 2021, Kazakhstan was the second largest venue for creating cryptocurrencies through "mining" algorithms on computers, taking advantage of the country's cheap electricity.

But such resource wealth has not been converted into private wealth for the people of Kazakhstan, where the minimum wage, some 30 years after the breakup of the Soviet Union, is less than $100 a month. Only 162 individuals account for 55% of the country's total wealth, according to KPMG. The country has 5 billionaires stemming from banking and mining. Kazakhstan ranks 94th on Transparency International's index of corrupt countries, where lower scores indicate more corruption.

After independence, privatization allowed those close to the government to acquire rights to exploitation of natural resources – entitlements to extract rents. A recent report said: "This system of decision-making continues to reflect the interests of a relatively small group of players, whether counted in terms of individuals or their business vehicles or holdings." (Wall Street Journal, Jan 8, 2021)

What is true for Kazakhstan is also true for Putin's Russia, with its oligarchy of the wealthy subservient to those who control the state apparatus. After the collapse of Marxism, state rent extracting entities were turned over to private owners so that the flow of rents shifted from filling state coffers to enriching a few private ones.

Those who live by rent extraction are also prone to expanding their ability to seek rents. Rent seeking organizations – bureaucracies mostly, monopolies – tend to expand the span of control. They rarely surrender functions or limit the scope of their authority. Their desire to extract more in rents leads them to bring more rent-payers under their sway. This leads to endless rent-seeking behaviors on their parts.

One of the sought-after advantages of rent-seeking is to lower risk by shifting its vulnerability to others. The rent-seeker is often looking for low-risk ways of gaining money and assets. Just by lowering the risk of an enterprise by soliciting and obtaining government collusion, a monopoly license or restrictions on competitors immediately adds to the net present value of the business and to its total capital value. Future profits that are attached to low risk are more certain to arrive and so investing in them is more valuable today than an alternative investment in future profits attached to high risk of failure.

In this way, rent extraction promotes risk aversion in those it benefits. Rent extracting regimes and institutions attract those with more risk averse personalities. Thus, over time, rent extraction practices result in sluggish, self-protecting, inflexible structures, incapable of innovation or effective responses to challenges and change. One thinks immediately of the incorrigible aristocrats of the French Bourbon and Russian Romanov dynasties in the decades before their collapse.

I suspect that Marx intuited that the capitalists of his era had no capacity to change their ways and respond effectively to the "risk" of a future proletarian revolution due to their presumed rent extracting, extreme risk aversion. Confidence in this analysis emboldened Marx and his colleagues to take up the path of revolutionary activism with enthusiasm and conviction that history was on their side.

Those comfortable with living off rents need the power of the state to sustain and expand their extractions of rent. In Marxist terms, they need support from the repressive apparatus of the state, from regulators, police and others in law enforcement. In the field of corruption prevention, those public servants who put the use value of state authority at the service of private citizens or to otherwise unauthorized users are described as "rent-seekers."

Rent-Seeking

Rent-seeking is a bane of emerging economies, keeping them poor and politically oppressive. It is estimated that every year, US$1 trillion leaves poor and developing economies for relocation in tax havens and cities such as Singapore and London. The source of such money is almost always successful rent extraction undertaken by the elites in such developing and emerging countries.

A December 2015 report titled, *Illicit Financial Flows from Developing Countries: 2004-2013,* from one of our partner organizations, Global Financial Integrity, found that from 2004 through 2013, developing and emerging economies lost US$7.8 trillion in illicit financial flows from their economies to rich money centers. This is the first report to include estimates of illicit financial flows from developing countries in the year 2013, which the study pegged at US$1.1 trillion. If that money had been invested in the poor countries from which it was extracted, they could have developed more and faster.

Though they have market economies, such countries are not really capitalist, but more rent extracting. The principle of the moral good which acts as an axis for their cultures, politics and economics and so drives their societal behaviors is self-sustaining social dominance for a ruling elite.

In China, as of the year 2000, 14.1% of total capital was managed by private companies with state connected investors. By 2019, some 33.5% of capital had such connections, thanks to the growth of rent-seeking by the state sector. Public investments in private companies rose from $9.4 billion in 2016 to $125 billion in 2020. Now, it is estimated that some 130,000 private companies have joint ventures with state enterprises.

Acemoglu and Robinson, in their important book, *Why Nations Fail*, write of extractive economic and political institutions as the cause of state failure to produce economic growth and social justice. They conclude: “Countries differ in their economic success because of their different economic institutions, the rules influencing how the economy works and the incentives that motivate people.”

“Inclusive economic institutions,” they say, “are those that allow and encourage participation by the great mass of the people in economic activities that make best use of their talents and skills and that enable individuals to make the choices they wish.” These inclusive institutions pave the way for the two engines of prosperity: technology and education. Sustained economic growth is almost always accompanied by improvements in technology – creative destruction of obsolete modes of production – that enable people (labor), land and existing real capital (buildings, machines) to become more productive.

Extractive institutions, on the other hand, say Acemoglu and Robinson, are structured “to extract resources from the many by the few” and “fail to protect property rights or provide incentives for economic activity.” As the joke in the Soviet Union had it: “We pretend to work and they pretend to pay us.”

Economic results under extractive economic institutions are only those made possible by existing technologies. When those possibilities hit their limits, growth comes to an end and the extractive regime collapses.

Rent extracting regimes are also often co-incident with countries suffering from the "middle-income trap," a systemic stagnation in economic development where a developing country can build wealth until its GDP per capita is in the middle-range, but then it stagnates without further increases in GDP per capita. The term was introduced by the World Bank in 2006 to describe countries in the 'middle-income range' with gross national product per capita that has remained between $1,000 to $12,000 at constant (2011) prices. From 1960 to 2010, only 15 out of 101 middle-income economies escaped the middle income trap, including Hong Kong, Taiwan, Singapore, South Korea and Japan.

Countries caught in the middle-income trap have lost their competitive edge in the export of manufactured goods due to rising wages. However, they still cannot compete with more developed economies in markets for high value-added goods. They suffer from low investment, slow grow in the manufacturing sector, limited industrial diversification and poor quality human capital. It is structurally difficult for such countries to diversify their mix of exports.

Avoiding the middle-income trap requires deployment of new production processes and entering new markets to maintain export growth. Such countries must move from resource-driven growth, based on cheap labor and cheap capital, to growth based on high productivity and innovation. This requires investments in infrastructure and education. Countries in the trap must also increase domestic demand because an expanding middle class will spend domestic private sector liquidity on high-quality, innovative products and so help drive growth in GDP. But too much elite rent extraction penalizes the income and wealth growth of a middle class and so keeps a country in the middle-income trap.

In the U.S., the term "grifting" has come into common usage for rent-seeking behaviors. One thinks of Hillary Clinton's buying and selling of hog belly futures when her husband was Governor of the State of Arkansas or her and her husband speculating on real estate in the Whitewater development. More recently, the employment of President Joe Biden's son Hunter by the Ukrainian gas company Burisma was most likely not real work, but only rent-seeking on his part using his father's political position as the quid-pro-quo for the monthly rents he extracted from that company.

As a form of rent extraction, grifting has corrupted the American political system just as more explicit rent-seeking has in less democratic nations.

As organizations, both public and private, turn more and more towards rent extraction, time consuming and stultifying bureaucratic processes of consultation and collaboration across functions, along with supporting norms for conformist "don't rock the boat" behaviors and value orientations, tend to grow more dominant in the organization's culture. Bureaucracies tend to pull the individuals whom they compensate with a rent-like salary – money in return for having a position – towards a submissive and conformist way of thinking and behaving. The moral dynamic encouraged by seeking rents to extract is to subordinate one's moral sense to organizational values and behaviors, to conform or be excluded by the group. The larger the organization, the stronger the centripetal pressures on its members are to intentionally conform their identities, values and behaviors to group norms. Highly differentiated, creative and innovative individuals can't thrive in such social environments. Rent extraction hierarchies erode the social capital necessary for organizational success over the long-term.

Rent extraction structures, either in public settings or private corporations, including non-profits, like universities and charitable foundations, foster mediocrity through high tolerance of risk-aversion, groupthink, short-termism and immediate gratification. Such structures reward systemic defense of the status-quo and core power configurations against threats, including the destabilizing and the unconventional.

These structures, with their commitment to risk aversion, easily ossify, reward torpor, marginalize courage and lose the ability to lead society forward for the good of all.

For example, a recent commentator described Vladimir Putin's Russia as: "The country's economy is stagnant, with few sources of value other than the extraction and export of natural resources. The entire system is rife with corruption and dominated by inefficient state-owned or state-controlled enterprises … Russia struggles to develop, retain and attract talent; the state chronically underfunds scientific research and bureaucratic mismanagement hinders technological innovation. … Real disposable incomes are ten percent lower today than they were in 2013."

Rent extraction systems, filled with the self-centered moral sense common to rent-seekers, tend towards entropy, where energy is diverted away from real work and applied instead to system maintenance. The flow of innovation slows, bit by bit, until it disappears for good. Kodak and Xerox, once great American companies, died that way. A similar corrosion seems to have come upon both Boeing, with its 737 MAX fiasco and General Electric, which has just broken itself into three separate companies. Scandals at Enron (rent-seeking through misleading markto-market accounting and asset sales) and General Motors (not fixing a defective ignition switch) took place in rent-seeking corporate cultures.

In 1959, Philip Selznick drew a famous distinction between leadership and administration, between leaders and managers. In his opinion, administration and managers were more likely to value rent extraction, while leadership and leaders, on the other hand, had values which sought to create new products, serve customers, build wealth and provide beneficial outcomes for multiple stakeholders.

In other words, leaders assume risk while managers try to contain it.

Rent-seeking mediocrity at the core of an organization works like dry rot. The core of the organization loses resilience, therefore rots away on the inside of the organization. The organization grows less and less able to adjust, to adapt, to avoid and to overcome challenges, threats and new circumstances.

Today, we find those living by rent-seeking working in large corporations (especially their HR, communications and community relations staffs), public bureaucracies (including teachers unions), tenured faculties, foundation and non-profits, entertainers in Hollywood and the media, Wall Street financiers and those who live off arbitrage, the FANG big tech platforms. Interestingly, all these organizational settings have been leaders in adopting and promoting the "woke" ideology of redistribution from the oppressors to the oppressed, our modern Marxism advocating systemic entitlements to rent transfers to be awarded to various claimants to remediate their invidious status as society's victims.

Capitalism – A New Order for the Ages

Capitalism emerged as an alternative to rent extraction regimes as a new systemic process for enhancing human well-being. Capitalism was disruptive innovation on a social scale. Once it proved its mettle in wealth creation, there was no need to perpetuate the status-quo ante of systemic rent extraction.

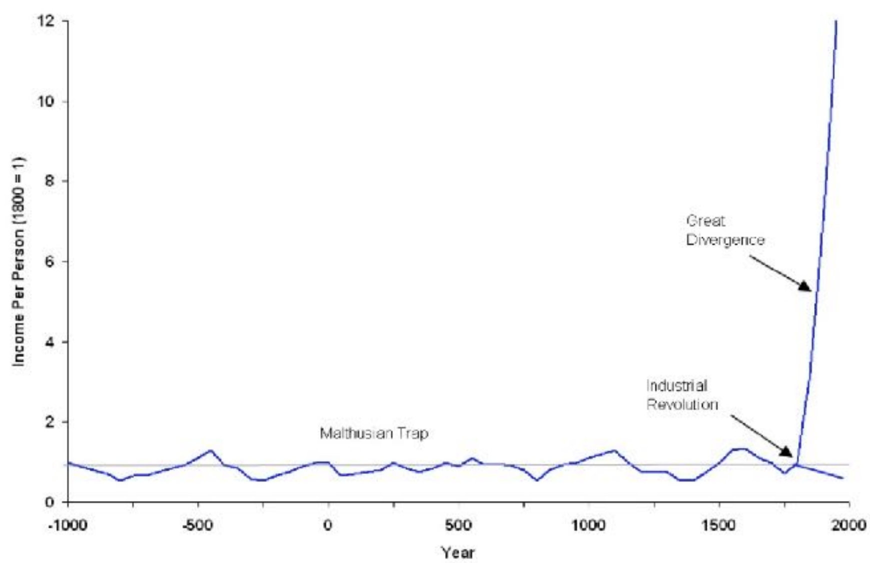
Capitalism was birthed in one Western European culture – that of Calvinism. Capitalism arose out of feudal and mercantile systems of rent extraction in Holland, England, Scotland and the British and Dutch colonies in North America. The process started in the late 1500s and kicked off the Industrial Revolution in the mid-1700s.

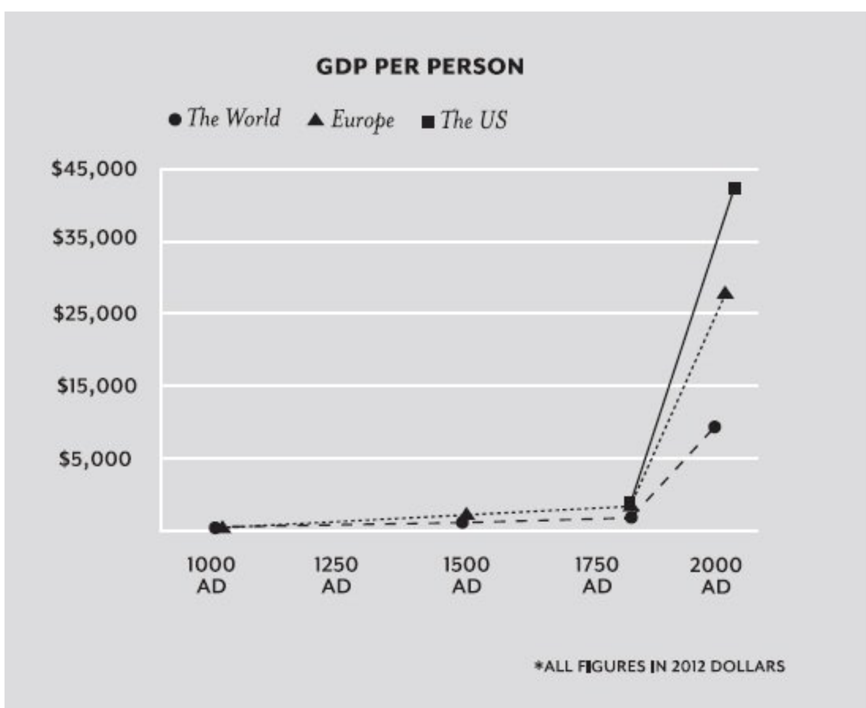
Capitalism, as Adam Smith noted in his 1776 book on the *Origins and Causes of the Wealth of Nations*, was the antithesis of rent extraction and rent-seeking.

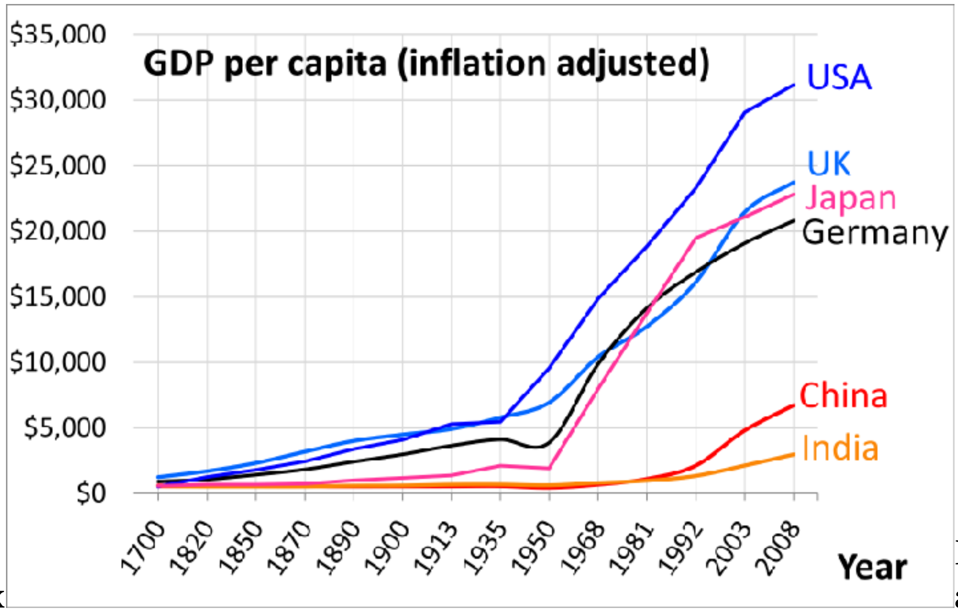
Rent extraction regimes – French mercantilism and Russian serfdom, for example – could not compete with capitalism in wealth creation. Capitalism was radically and totally new in human history, an inflection point, putting the past behind us. Karl Marx never understood this.

If Marx were alive today, he would have to consider the following data points on the real effects of capitalism:

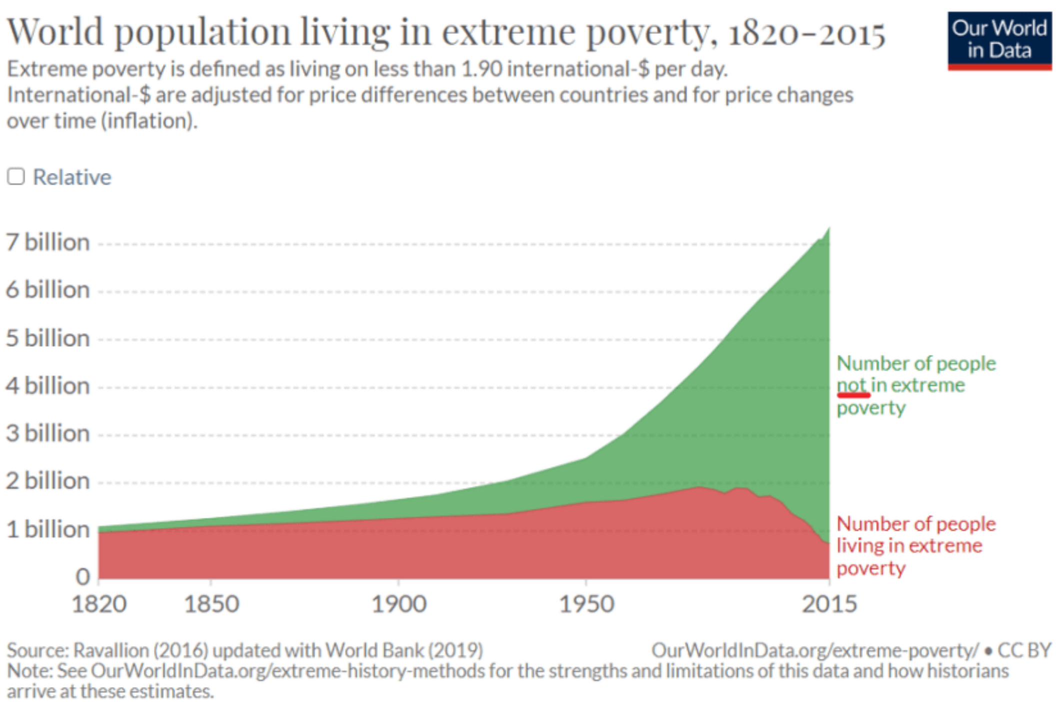
Global income per person before and after capitalism:







U.S. Dow Jones
Index as measure of



personal wealth:

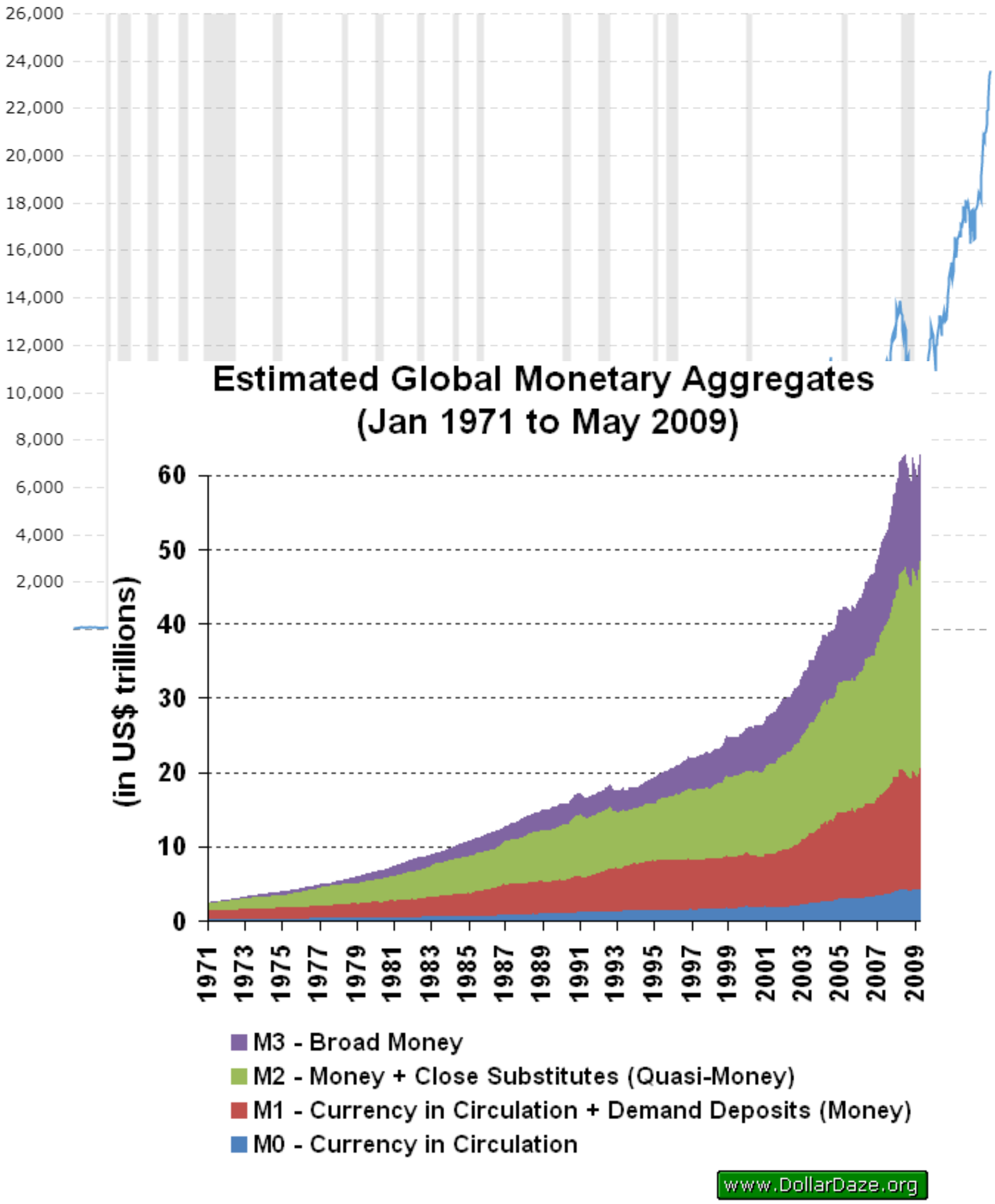
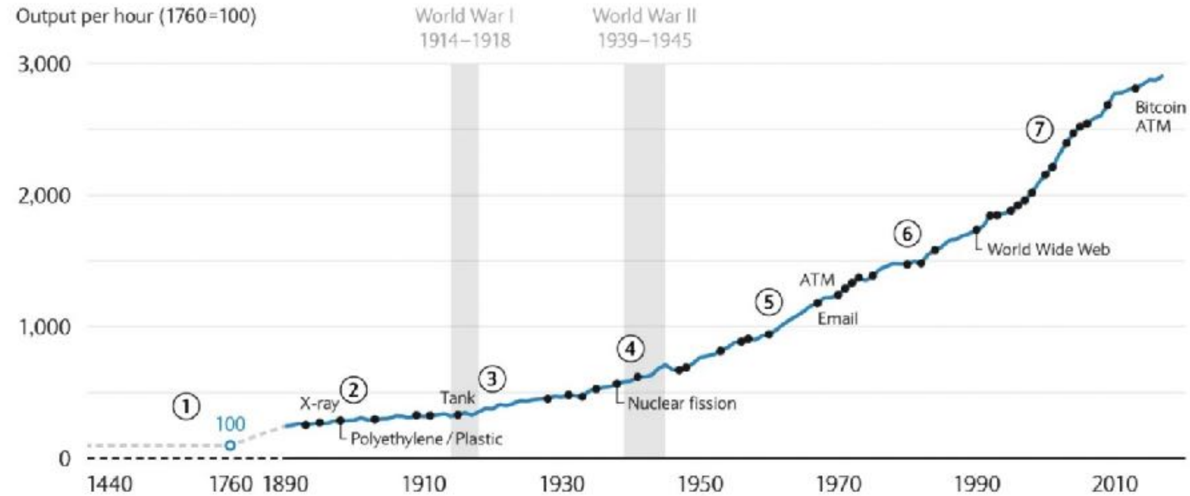

26,000
24,000
22,000
20,000
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
Estimated Global Monetary Aggregates
(Jan 1971 to May 2009)
(in US$ trillions)
60
50
40
30
20
10
0
1971 1973 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009
M3 - Broad Money
M2 - Money + Close Substitutes (Quasi-Money)
M1 - Currency in Circulation + Demand Deposits (Money)
M0 - Currency in Circulation
www.DollarDaze.org

FIGURE 1

From the printing press to the global internet, technology has evolved, and human societies with it



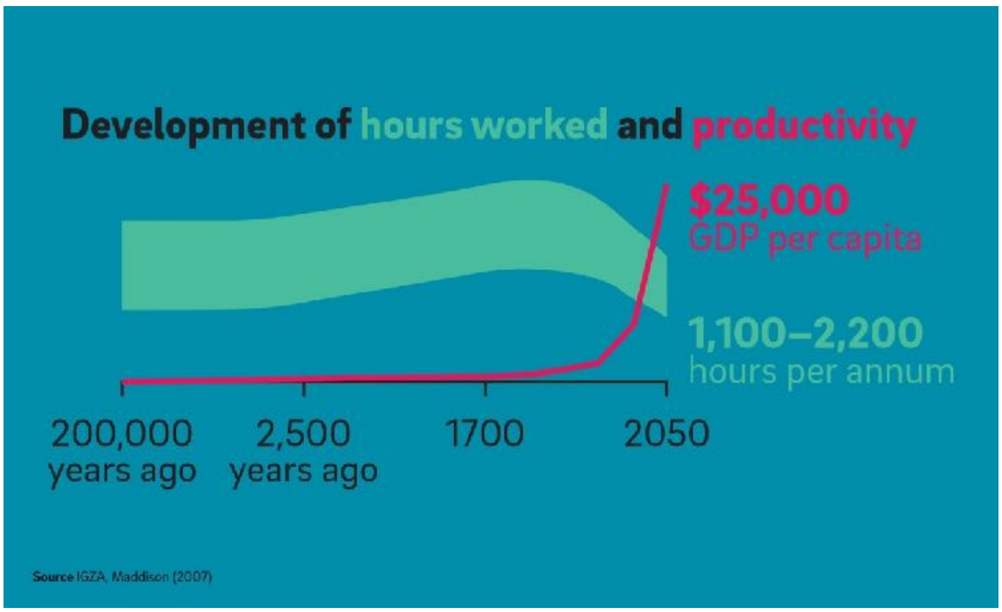
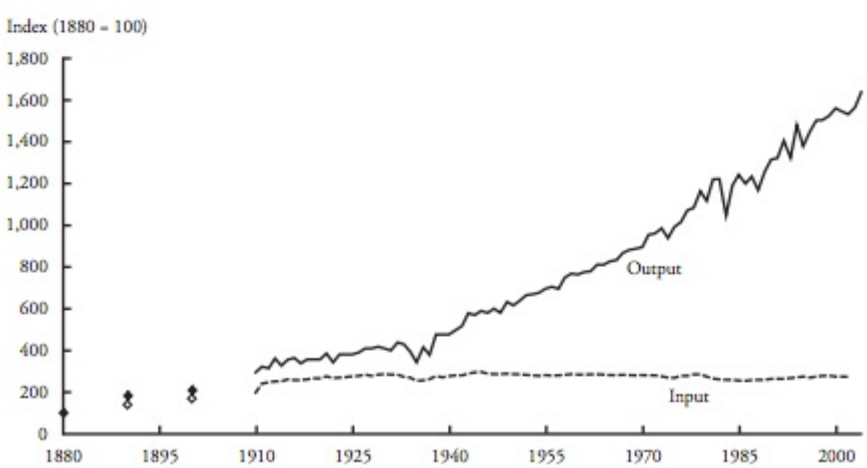


Figure 2-3 Aggregate Agricultural Output and Input Quantity Trends, 1880–2004



A dramatic illustration of the different outcomes made possible by capitalism and Marxist rent extraction is a nighttime satellite view of the North and South Koreas:

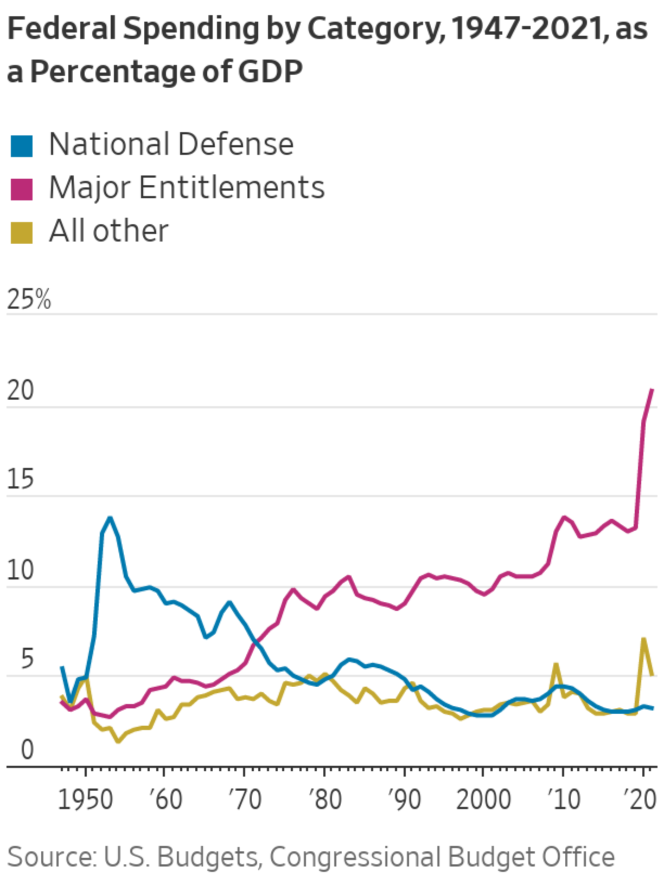
Rent Extraction within Capitalism

However, capitalism, for all its wonders, could not eliminate the rent-seeking propensity nourished by our human nature. Our self-interest is always tempted to live off secure rents, rather than risk our well-being on the volatility of markets and on reliance on others who have no self-interest in our well-being. The motivation for rent-seeking is that a bird in hand is worth two or more in the bush. We are, by nature, risk-averse creatures.

Thus, we should not be surprised that in every capitalist economy, there are pockets of rent extraction competing for power, funding and market share. Manipulation of government regulatory powers, collusion with competitors to share in the market power of a cartel, driving out competitors to take a monopoly position in a market and imposing contracts on weaker parties to restrain trade, all these and more find a home in modern capitalism.

The modern welfare state, with its public sector rent extractions to provide redistribution through rent transfers (public retirement funds, welfare payments, health care and education), perpetuates rent extraction modalities, on top of or as part of capitalist wealth creation.

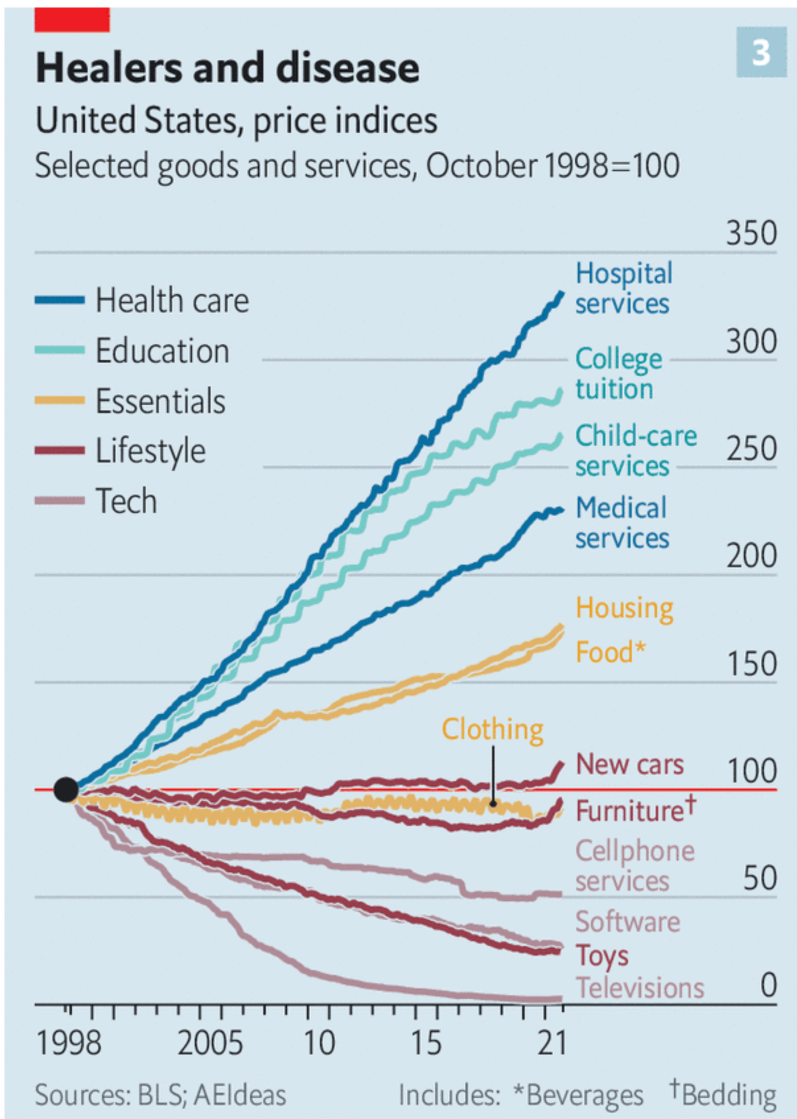
Here is a chart on the growth of rent transfers made by the federal government in the U.S. since 1945:



In capitalist societies, government rent transfers and provision of public goods intend to moderate the unfairness done in shifting of risk from the less well-to-do to the more powerful and affluent through rent-extraction, both public and private. By providing no-risk benefits and guaranteed entitlements to the risk-averse, whose marginal utility of each dollar, say, is very high, high enough to cause prudent avoidance of loss, meets their needs for security and reliance on others.

In capitalist societies, rent transfers and entitlements which provide education and health and the government's provision of security for life and property are designed to promote personal agency and its willingness to take risks in bettering one's social and economic conditions. In a sense, this promotion of risk-taking was a principal aim of John Locke in writing his *Second Treatise on Civil Government*, the basis for modern constitutional democracy, the Anglo-American cultural tradition.

In the U.S., with its post-industrial economy and society, economic sectors vary as to their degree of rent extraction. The following chart shows the difference in cost increases for consumers of different sectors:



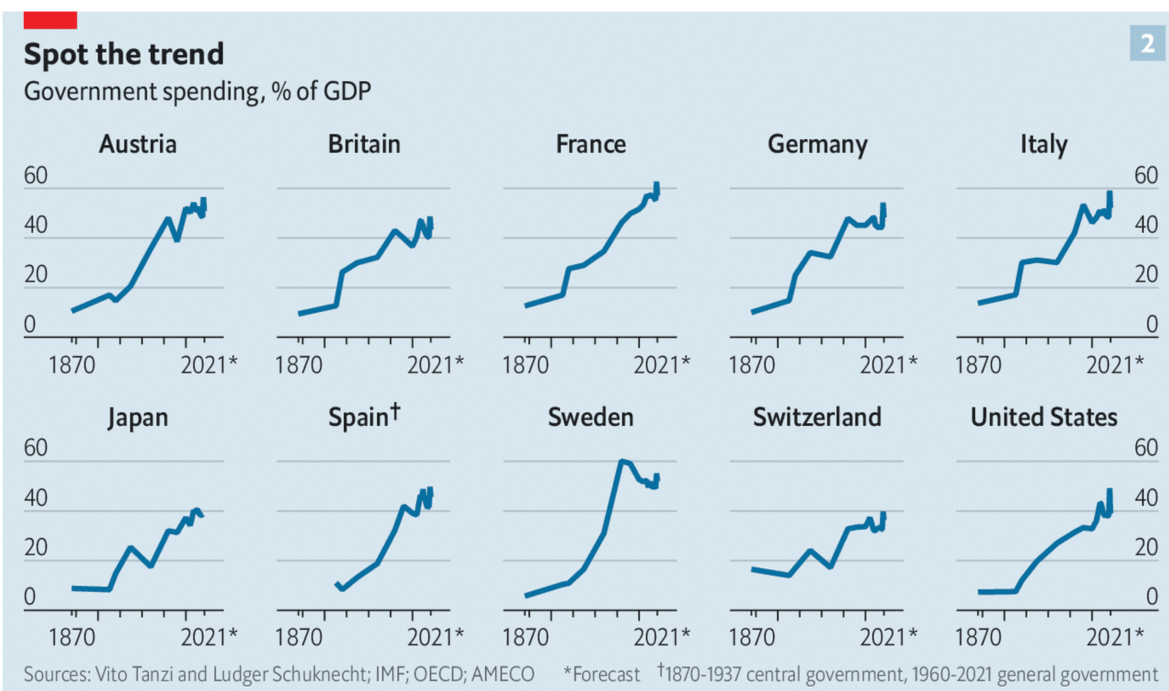
The Economist

The sectors with the highest price increases are those which depend more on rent extraction, coupled with inelastic demand curves. Sectors with inelastic demand curves are ripe for rent extraction practices, as consumers more readily swallow price increases.

There is another systemic affiliation in modern economies for rent extraction and that is in the production of public goods. Public goods can't be easily owned by individuals, as they are, in a sense, free goods, provided for the general public and not goods transferred in private buy/sell exchanges. Therefore, the accustomed funding of public goods is through taxation of the general public and then provision of the goods by public government using the money collected in taxes. Taxes are a form of rent extraction. Those hired by government to deliver public goods live off rent transfers provided by public officials.

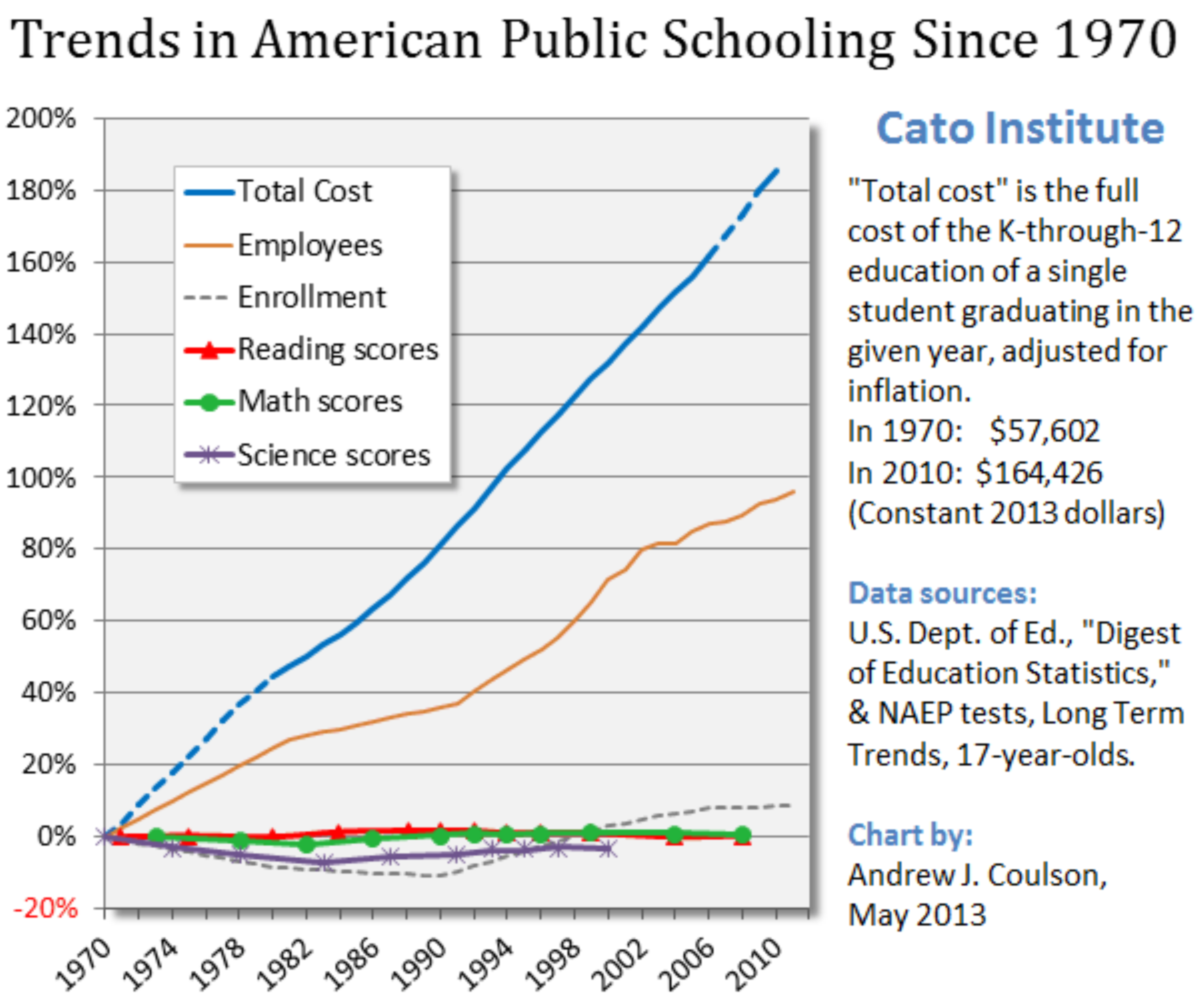
The argument for such rent extraction and rent transfers centers on the failure of private markets and private enterprise to provide public goods in sufficient quantity and quality to meet societal needs and desires.

This chart shows the increase of rents received by governments as national economies grew wealthier and wealthier:



The Economist

However, as the following chart indicates, in the U.S., providing the public good of education is frustrated by the inefficiencies inherent in systems of rent extraction:



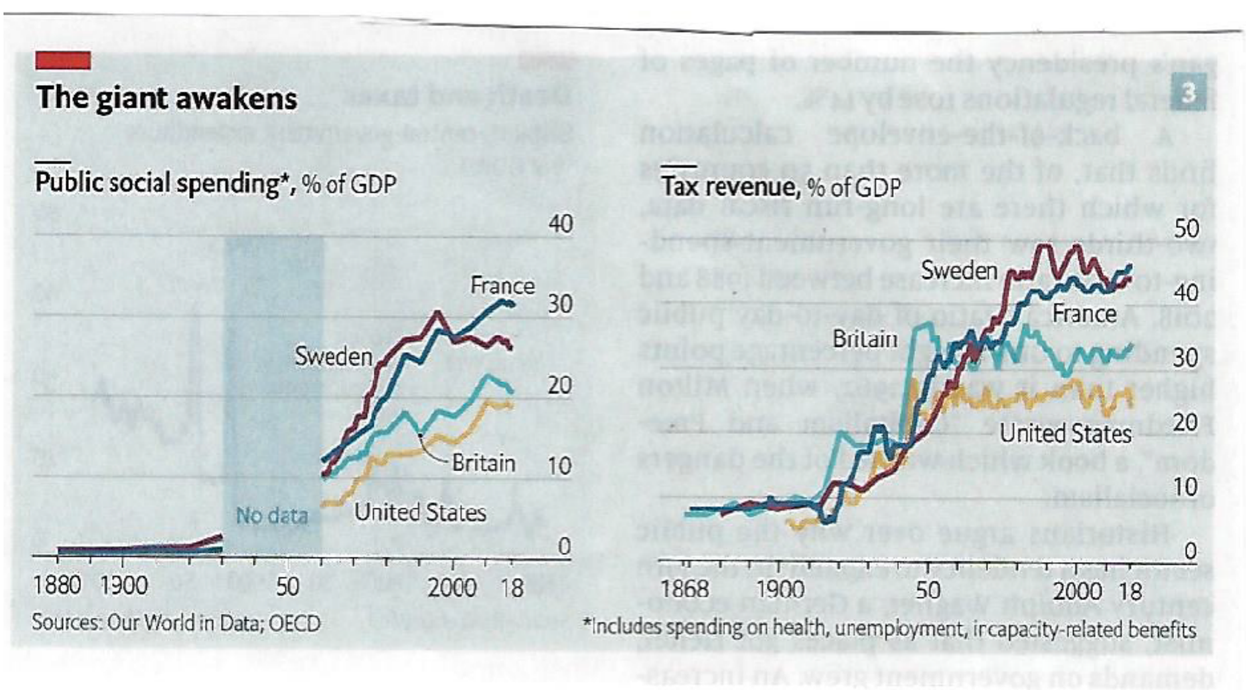
As both costs and employees grew and grew over 40 years, educational outcomes remained static. There was no productivity increase with increased expenditures and more labor applied to the production of educated citizens.

On the other hand, many so-called public goods, like education, actually can be appropriated by individuals. In education, individuals, one at a time, come to "own" the benefits of learning. Society benefits indirectly, as individuals become more educated and so can contribute more to the economy and as citizens. Healthcare is similar, with the good of better health captured by individuals who, in turn, indirectly contribute to better health outcomes for the community around them.

Private providers have long funded and operated schools, hospitals and nursing homes. Doctors and dentists in private practices, where their patients pay the full cost of health care services, are not rent extractors. As profit-seeking professionals investing in a small business, they are capitalists.

Neither are teachers in fully private elementary schools rent-seekers. As employees of private businesses, they run the risk of company market failure to compete successfully for tuition paying students.

Happily for well-intended public rent extraction providing beneficial public goods, capitalism has created vast wealth to support more and more such government rent transfers and expenditures for the common good. Note the following chart:



This chart was published in the November 20, 2021 issue of The Economist.

Capitalist wealth creation provides government with more tax revenue than ever before in human history. This permits sustainable government spending on public goods for general consumption.

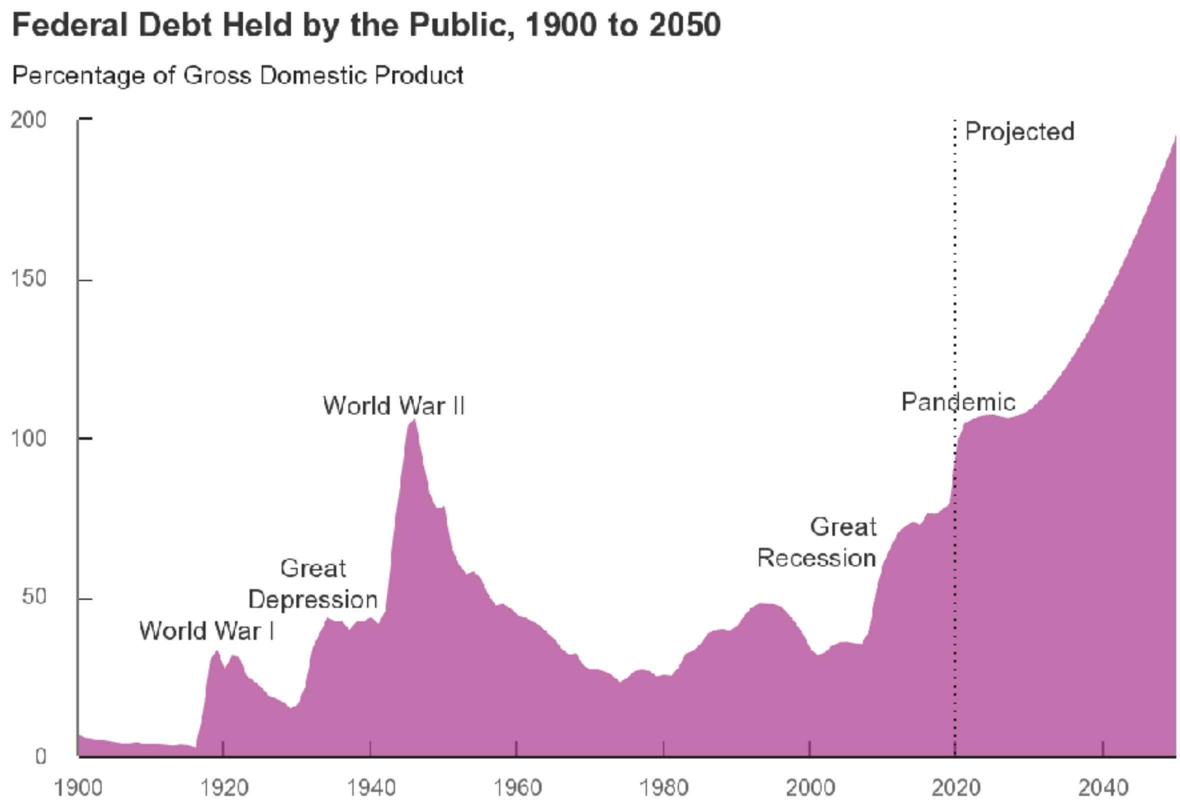
Governments have two other ways of paying for their contributions to society than collecting taxes. They can borrow money to support current expenditures and their central banks can inject money into the economy by buying debt issued by government entities and private firms. Deficit financing and central bank provision of liquidity are economic regimes which mimic rent extraction. The funding of public goods and services has the government receive rents from society. The government, in general, does not sell these goods and services to consumers under the discipline of a market where consumers have the power to buy or not buy what the government offers. The government can finance its production of public goods with current revenue, the issuance of debt to provide immediate cash repayable in futures years or more recently, by having its central bank create money to be injected into privileged sectors of the economy, such as banks and financial houses in 2009.

Government receipt of money through taxes is coercive and depends on the government's legal authority, enforced by its police powers, to impose payments on individuals and companies. In theory, government payment of its debt obligations also depends on collecting taxes to make the payments. However, governments can default on their debt and impose the cost on those who bought the debt securities or with help from central banks, it can foster inflation, which increases the nominal amount of taxes collected and also causes the debt to lose real value.

When central banks put money into the economy in return for accepting debt obligations to collect in the future, that money acts like the proceeds of rent. It arises from the use of political power given to central banks, not from real wealth creating market transactions. Such money does not necessarily and always come from the creation of real wealth.

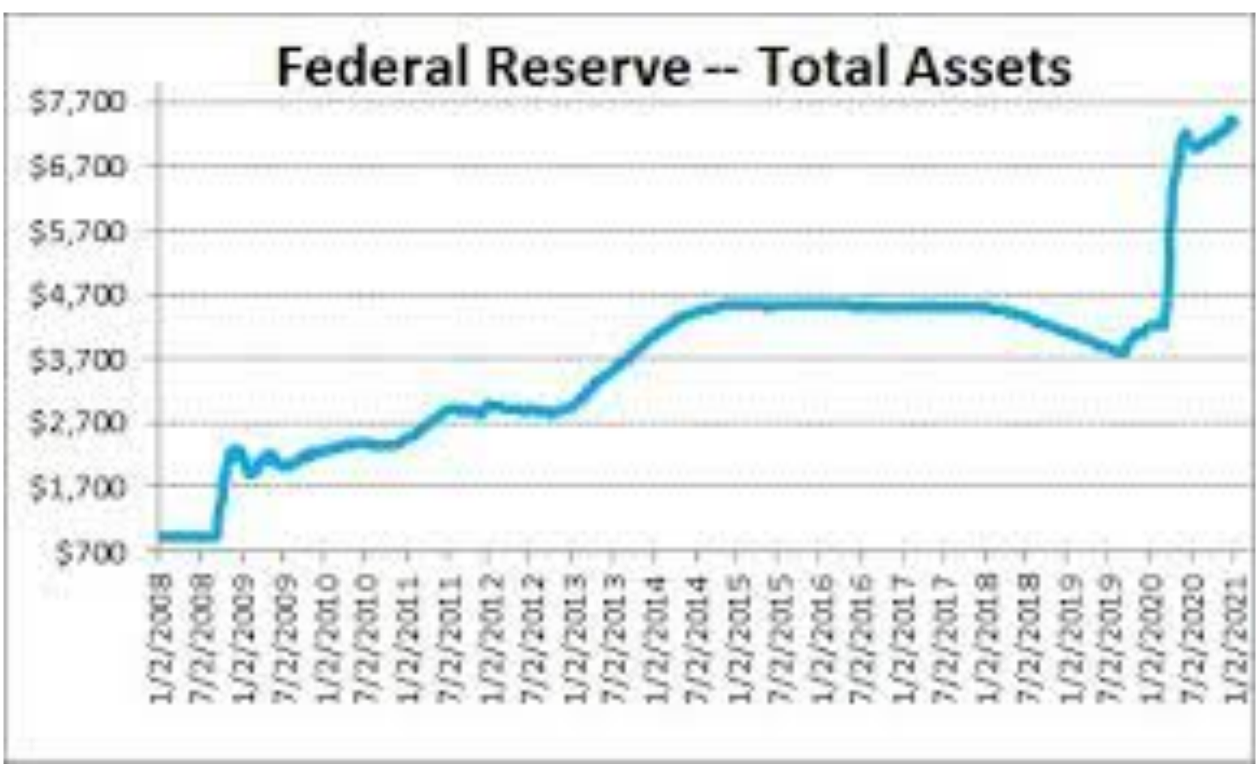
Deficit spending and having central banks create money in the economy by buying debt often leads to inflation, which is not the creation of real wealth and may actually lower the real value of existing assets.

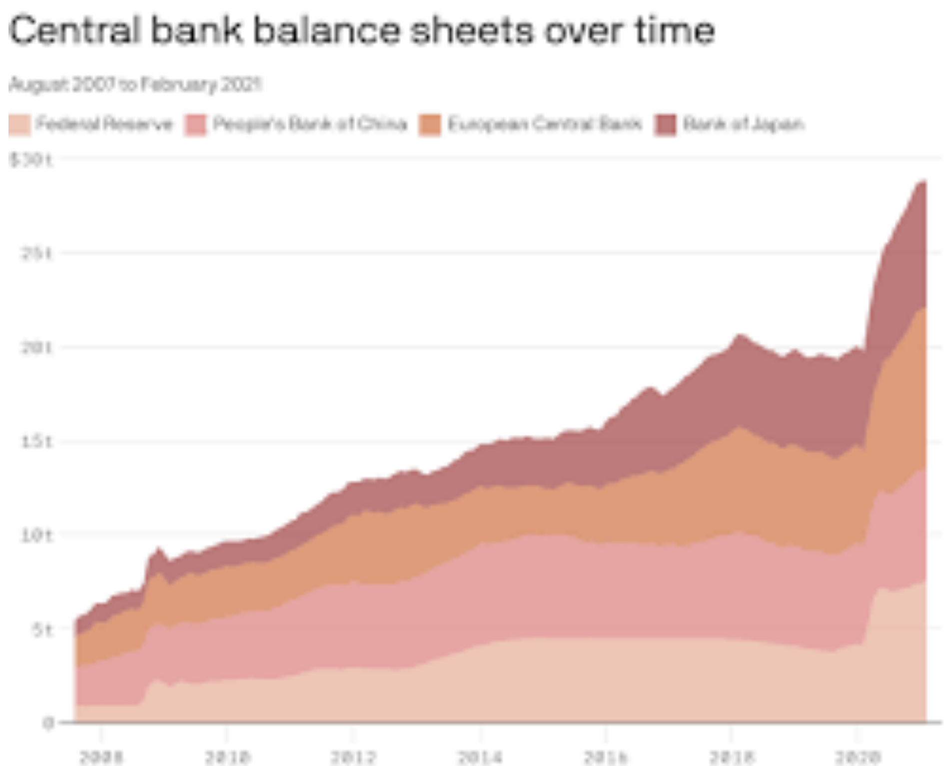
The following chart shows the growth of the U.S. government's deficit spending:



Such deficit spending can support much expansion of government, bureaucratic authority and allow expanded rent-seeking off such expansion.

These charts show the growth in trillions in the acquisition of central bank assets, which also expands the importance and power of government sanctioned interventions in the economy acting very much like rent transfers:

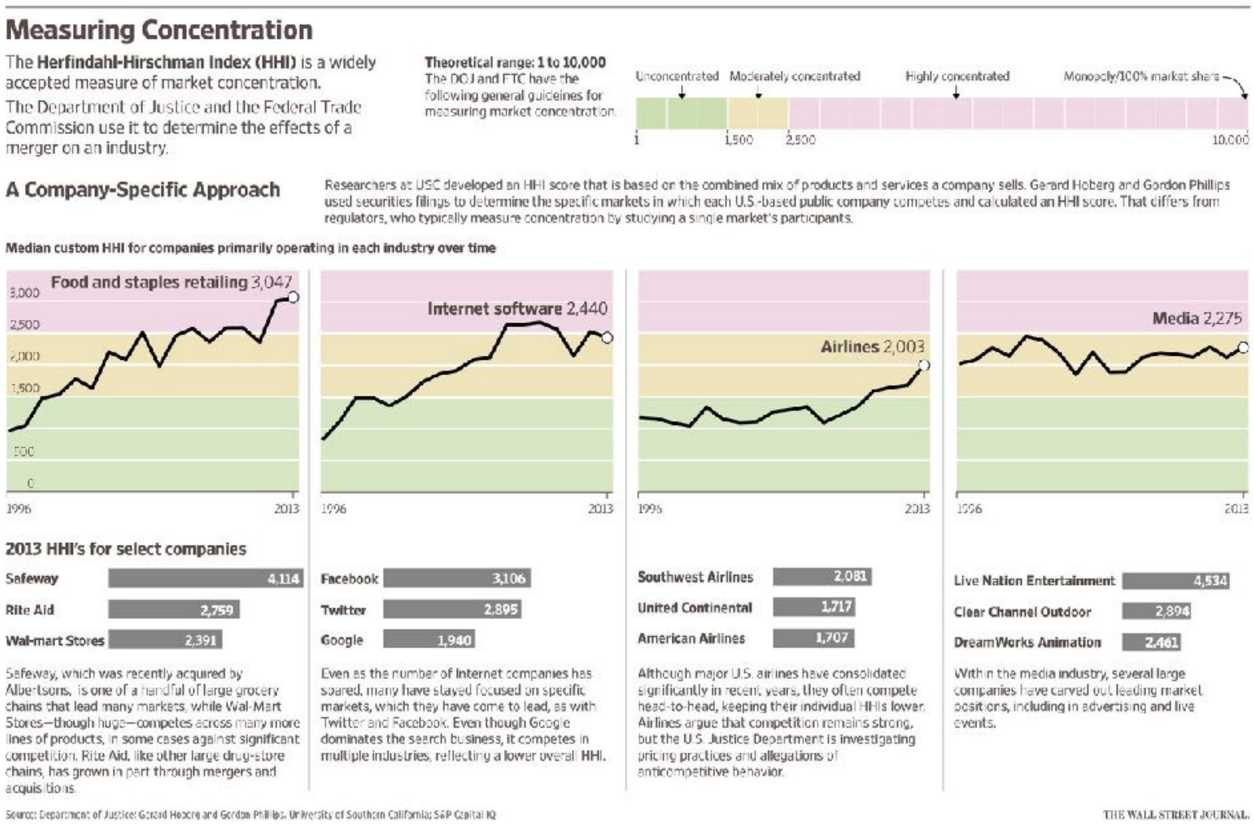




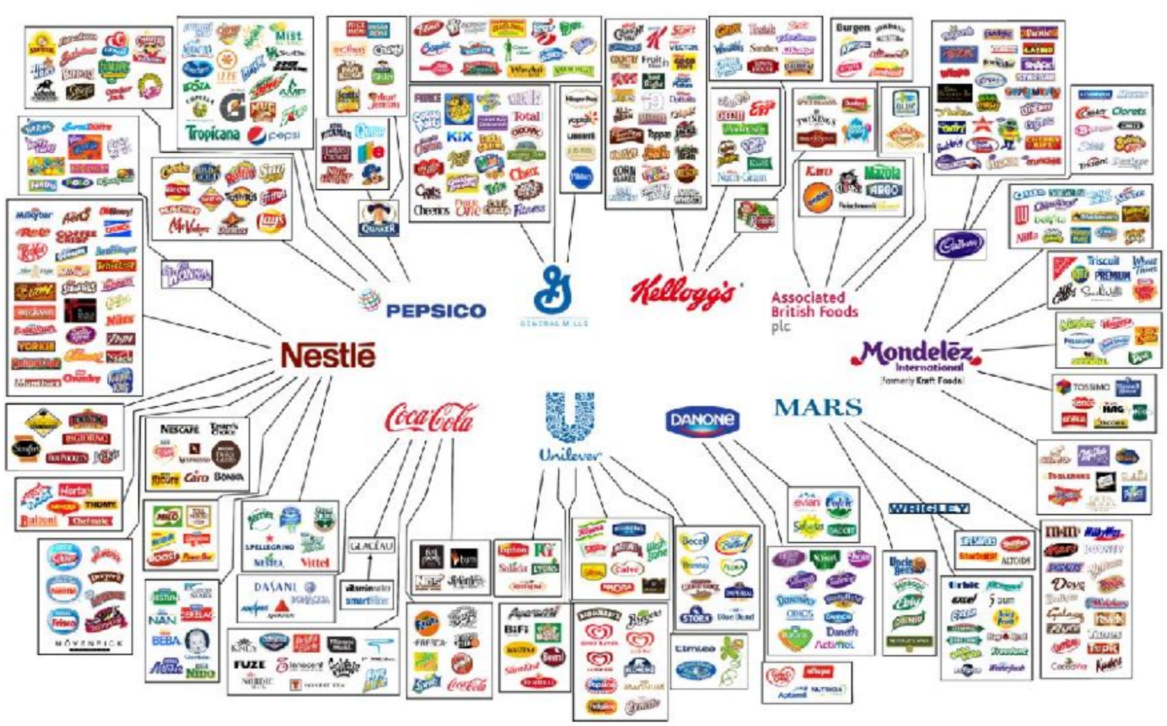
Private Sector Market Share Consolidation

Where a few private firms dominate an industry or a sector of the economy, they are positioned to impose prices on suppliers and customers. Such market power can facilitate rent extraction, even in capitalist systems. For example, in 1994, the largest companies in the U.S. created 33% of the country's GDP. In 2013, they created 46% of national GDP. In 2000, the five largest American banks held 25% of all bank assets. In 2013, those five banks held 45% of national bank assets.

Concentration of market power has grown in major sectors of the American economy:

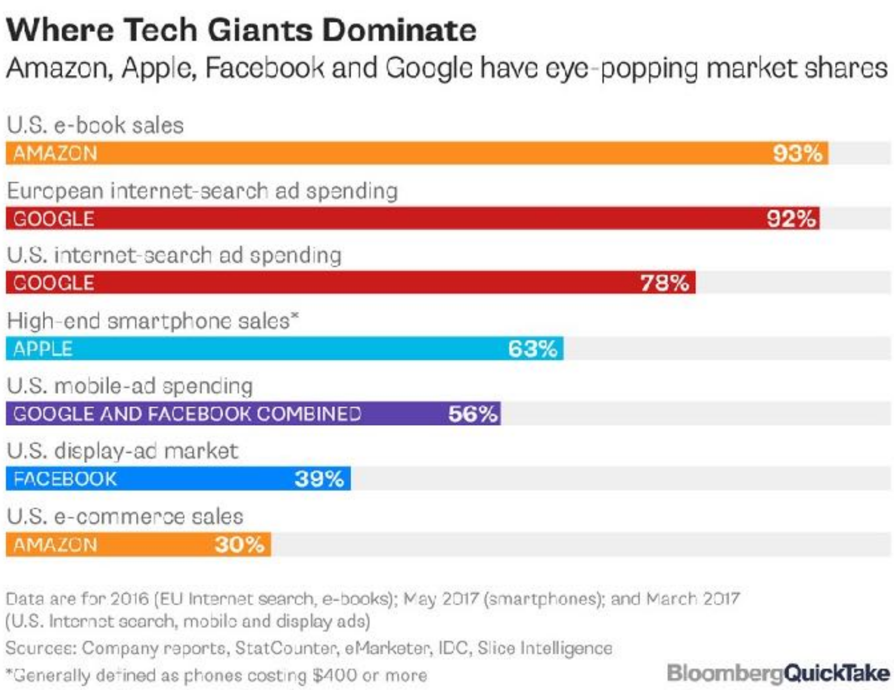


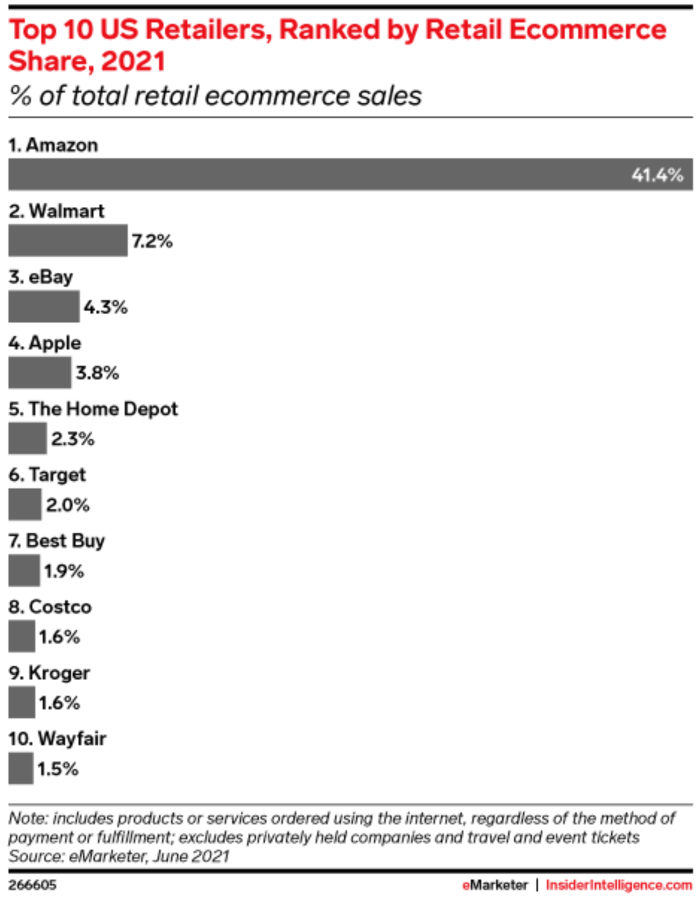
In the food industry, many consumer brands are provided by only ten large firms:



Many American media alternatives are owned by only 6 large companies.

The American high-tech sector is dominated by a few firms (2016 data):





In mid-January 2022, Microsoft paid $75 billion to acquire a potential competitor – Activision. Activision invented and is the seller of three of the most popular video games – Call of Duty, World of Warcraft and Candy Crush. When Activision is absorbed into Microsoft, Microsoft will own 30 game studios and become the third largest game company by sales.

Thus, through acquisition – a free-market transaction – Microsoft prevented Activision from growing to take gaming sales away from Microsoft. The acquisition also allowed Microsoft to gain revenues and market share without innovating and bringing to market products that would compete with Activision. The combination was an end-run around market competition towards more profits for Microsoft.

Now, in this case, the profits to be earned are akin to rents. The games which Activision invented and was selling are brands protected by intellectual property laws. As such, they give rise to rents, the return on monopoly goods. Microsoft was buying brands from Activision, the legal rights to extract rents from society.

Further, the acquisition empowered Microsoft to promote its cloud computing capacity using brand market power to entice gaming customers into paying subscriptions to Microsoft for access to its cloud, which will provide the desired gaming experience. Previously, gamers had to buy hardware with which to pay the games. Now, those who switch to using Microsoft's cloud will no longer buy such hardware, lowering profits for the makers of such gaming hardware and putting those companies and their employees and owners in a more precarious position in the market.

To be fair, in bringing about a consumer shift from an old technology – hardware – to a new one – the cloud – Microsoft was living out the capitalist model of creative destruction – bringing a new technology to market which made an older technology obsolete and so benefiting consumers with lower costs or other added value. Yet, the fact remains that this capitalist social advantage came about with the help of rent extraction capability.

Market power in the consumer food sector in the advanced economies of Australia, the U.S. and the United Kingdom is concentrated, as the following graphs show:

Thus, our modern economies, therefore, are a balance of market-driven capitalism and rent extracting entities – public services and large firms with pricing power.

As already noted above, Adam Smith was keenly aware of the vulnerability of capitalism in degrading into rent extraction. He wrote in *Wealth of Nations* that: "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public or in some contrivance to raise prices."

However, capitalism, with its appetite for innovation and wealth creation most importantly and in the main, evolves through competition, where there are losers, as well as winners. American capitalism has seen companies like Montgomery Ward, Sears, Kodak, Wang Computer, Control Data, Compaq, Blockbuster, Pan American Airways, Polaroid, Myspace and AOL come to be, grow big and then fail.

Bethlehem Steel was, at one time, the second-largest U.S. producer of steel. By the 1970s, customers started to buy cheaper imported foreign steel, which reduced Bethlehem's sales. By the 1980s, the company began shutting down some of its operations to cut costs in an effort to remain profitable. Bethlehem Steel was removed from the Dow Jones index of leading American companies in 1997 after a seven-decade run. The company declared bankruptcy in 2001 and its remaining assets were sold off in 2003. Those assets exist today as part of ArcelorMittal.

Here is the chart for price movements with Xerox stock, another victim of competitive innovation:

The Dow Jones Industrial Average tracks the stock prices of 30 large American Companies. In 2018, when General Electric was removed from the list of companies and replaced by Walgreens Boots Alliance, none of the original companies were still included in the index. Then in 2020, Salesforce, Amgen and Honeywell were added to the Dow, replacing ExxonMobil, Pfizer and Raytheon Technologies.

The social justice function of capitalism incorporated into modern constitutional democracies is 1) to restrain private rent extraction from abusing monopoly and cartel powers and 2) to prevent public rent extraction from funding an oligarchic politics. The decentralization and innovative capacities of capitalism and constitutional democracy combined offset and thwart the oppressive possibilities inherent in public and private structures of rent extraction. Thus, capitalism provides a very constructive alternative to Marxism.

How Did Capitalism Come to Be?

Why did capitalism happen? How did it break with the heritage of centuries? There are six reasons. First, a new values culture emerged – Calvinist Protestantism. Secondly, Calvinism promoted interpersonal trust as fundamental social capital. Thirdly, Calvinism valued work as a spiritual calling. Fourth, Protestant thinking gave rise to faith in natural law, in a word, to science, which gave birth to modern technological innovation. Fifth, both the Dutch and the English created markets for financial intermediation in banking and the trading of financial contracts. Sixth, the Dutch and English invented constitutional democracy under the rule of law, compellingly memorialized in the political theories of Althusius and Locke.

A bond between the two nascent capitalist cultures developed for a time during the reign of the Dutch leader, William of Orange, as King William of Great Britain.

Then, on a practical level, as the Dutch and especially the British grew wealthy, they could stand up to powerful neighbors, such as France and Russia. Their capitalist American cousins were even able to defeat the British and win their independence. Protestant military and economic power, thus, protected infant capitalism from its rent extracting rivals, allowing it to flourish and produce more and more wealth.

The best account I have read of why capitalism is so different was written in 1960 by W.W. Rostow in his book, *The Stages of Economic Growth*. Aware of the implications of his thesis, Rostow chose as a sub-title for his book the phrase, *A Non-Communist Manifesto*.

First, Rostow recognized that capitalism did not come from nowhere. It arose from pre-conditions.

Secondly, Rostow called the innovative genius of capitalism "the take-off" into perpetual economic growth or what we might call self-sustaining wealth creation, writing, "We turn now to analyze narrowly that decisive interval in the history of a society when growth becomes its normal condition." That interval occurs when forces of modernization contend against the habits and institutions, values and vested interests of the traditional society and make a permanent breakthrough.

Rostow posits a stimulus which provokes change. Capitalism emerges if the society being stimulated makes a positive, sustained and self-reinforcing response to the new circumstances. The necessary self-reinforcing response is achieving a higher proportion of potential innovations accepted in a more or less regular flow and a higher rate of investment. The proportion of national income risked in net investment should grow from the traditional, say 5%, to over 10%. In that way, an economy can morph from financing only sustained stasis to financing growth, year in and year out, outstripping the consumption demands of population growth and so "yielding a distinct rise in real output *per capita*."

As to the social justice outcomes of the new wealth created, Rostow noted that it would depend on whether per capital consumption also rises. That, in turn, depends on patterns of income distribution and population pressure, as well as on the magnitude, character and productivity of the investments made.

In becoming capitalist and breaking with the past, a society needs, said Rostow, starting with its assembly of the preconditions for take-off, an ability to mobilize domestic savings productively, as well as habits and business mechanisms permitting a high marginal rate of savings.

In this regard, Calvinism was especially relevant to the first emergence of capitalism. Calvinists believed in savings, not conspicuous consumption. They inculcated in one another behaviors of plain dress and plain living, all the better to serve their Lord God with diligence and humility.

If capitalism is to take-off, such savings also need to be passed to others in loanable funds, not hoarded as gold coins locked away in a chest. Here again, Calvinism had a special contribution to make. Calvinist ethics brought forth the social capital of mutual trust and reliance. The Calvinist ethic was one of stewardship, of work as achieving a greater good as a service, not for self-promotion or other narcissistic outcomes. Calvinists, given their religious concerns not to be sinners in the hands of an angry God, took the long view of life as a pilgrim's progress through trials and adversities, where short-sightedness was sure to bring about trouble and loss and where idle hands were the devil's workshop.

A famous Calvinist hymn, which I sang in Sunday school, proclaims:

> We gather together to ask the Lord's blessing;
>
> He chastens and hastens his will to make known;
>
> The wicked oppressing now cease from distressing.
>
> Sing praises to his name; he forgets not his own.

This is not a hymn celebrating rent-seeking.

Calvinists were, thus, prone to trust one another as fellow pilgrims, which led to a disposition to lend funds and to lower market interest rates which reflected higher expectations of timely repayment. In such a low-risk environment, lenders and equity investors were more than a little willing to advance their money to new enterprises using new technologies.

A classic Calvinist moral parable was written by Benjamin Franklin. It was called *The Way to Wealth*. In his *Poor Richard's Almanack* of 1737, Franklin admonished his readers that: "A penny saved is two pence clear."

Secondly, investment needed to finance manufacturing, not just merchant trade.

Rostow noted in a capitalist take-off the need for entrepreneurship – not rent extraction. He defined entrepreneurs as those who were prepared to accept innovations. Some significant number of people must come to believe and to act on their belief, that it was both possible and good to make capital investments in enterprise, not just to loan funds at interest as a money manager. As Rostow observed, this state of mind included some concept of making a profit from enterprise, from managing factors of production – land, labor, machines, raw materials. They had to accept risk and be willing to lead, to make decisions. Calvinism created a cultural space encouraging such behaviors.

In particular, Calvinism, and to a great extent other Protestant denominations also, provided new cultural energy for risk taking with its insistence on salvation through faith in God's grace. The individual, not the priest, was in charge of one's salvation hopes. This put emphasis on personal agency rather than dependence on social superiors in church and state. Personal agency could emerge so easily through the simple step of the inner conscience taking a risk in trusting the Creator, not any human intermediary or other idolatry. Such a psychology, supported by religious instruction, the revelations of scripture, a community of like-minded believers, and its own inner coherence, converted subjects into citizens, passive and dependent risk-avoiders into risk takers.

Rostow's conclusion that capitalism was an inflection point in human history was later seconded by David Landes in his book, *The Wealth and Poverty of Nations*. In reviewing the history of economic growth around the world over the few centuries, Landes showed that nowhere did systemic growth arise from rent extraction.

William Easterly, in his book on modern development efforts in poor countries, concluded that "Regions in which slavery or feudalism lingered longer were slower to industrialize." "Prosperity happens," he concludes, "when all the players have the right incentives." Governments in developing countries must have incentive to "induce technological adaptation, high-quality investment in machines and high-quality schooling." Easterly sees no development happening in societies which are polarized and undemocratic, where "interest groups are in a vicious competition for loot." Such societies need capitalism, not more rent extraction, to serve their people well.

In modern terms, what capitalism thrives on is individual agency – self-confidence in the face of a silent cosmos – not the cultural, political and economic stultifications preferred by domineering rent extracting power structures.

Conclusion

So, Karl Marx got capitalism all wrong. So what? Many people have been wrong.

Marx's ideas gave rise to communism – movements around the world to put his ideas into practice – “the forcible overthrow of all existing social conditions.” Marx and Engels demanded: “WORKINGMEN OF ALL COUNTRIES UNITE!” for “The proletarians have nothing to lose but their chains.”

Communism gave rise to communist governments, most notably in Russia and China.

If Marx got capitalism all wrong, then all the costs imposed by communism on humanity were unjustified.

Rent extraction, in theory and in practice, provides no dike to protect society against the formation of elites and oligarchies. Rent extraction encourages and facilitates rent-seeking by self-interested individuals. Rent extraction facilities abuse of public power and quite comfortably sustains violations of human rights, small and large.

Moreover, understanding the dangers of rent extraction in all economic systems puts humanity on notice to take care and not advocate concentration of power in the state, as well as in the private sector. True, using rent extraction in order for the state to provide more public goods and so advance social justice has some emotional appeal.

But emotions should never be allowed to overcome a correct understanding of reality. The argument for rent extraction as a systemic way of producing public goods which will enhance social justice is very weak, given 1) the invalidity of Marx’s argument against capitalism and 2) the propensity of human nature to exploit others.

Rent extraction seems to be a noxious viral temptation in human societies. There is no herd immunity, for most of us do not carry antibodies powerful enough to keep the virus dormant. The temptation is ever present and free to take over personalities and dilute their moral senses at any time. Our propensity as human persons to put ourselves over others and take from them is pervasive and persistent. The narratives of Adam and Eve and their son, Cain, so intentionally put in Jewish Book of Genesis, seek to explain, by metaphor, a baseline temperament inherent in the human condition. The political theories of Thomas Hobbes and Mozi, not to mention the councils of Machiavelli, make a similar assumption that, given our natures, our lives are “nasty, poor, brutish and short,” unless we submit to strong authoritarianism to keep us from being the worst that we can be. Psychoanalysts, such as Sigmund Freud and Harry Stack Sullivan, sought to find quasi-biological causes for our worst propensities in what we experience as persons living precariously with our emotions and fears among other persons, including with our parents.

Long ago, Thucydides put as a rule that the strong do what they will, the weak what they must. He also left for us the supposed truth that "Everyone commands wherever he has the power to do so. No one can resist mastery over others because the alternative – to be dominated – is so wretched. We know only too well that you, too, like all the rest, as soon as you reach a certain level of power, will do likewise."

But if rent extraction is over every social order, every economy, even capitalism and rent-seeking can emerge anywhere, anytime, how can we achieve and sustain social justice, as we seek to earn our daily bread?

Most practically, we can and have, from time to time, put in place structures vindicated by supportive discourse regimes of cultural and psycho-social well-being that act to steer us away from the worst towards better outcomes for us individually and for those around us. These practical measures diffuse and distribute our individual and collective powers – cultural, social, economic and political – so that a spontaneous balance of interests, ideals, forces and ambitions emerges to keep our worst instincts, passions and manners in check. Systems of multiple and competing sources of power prevent the concentration of dispositive resolve in too few hands. These systems are what Karl Popper called "open societies."

Prescriptions for such flexibility and sustaining balanced equilibria were recommended by Aristotle with his golden mean standard for finding the right thing to do; by the Qur'an in its injunction to keep the *mizan* or balance; by the Buddha, with his selection of the middle way as the best path to take in life; by the Taoists responding to Heaven's Tao of mixed yin and yang forces and by the Confucians in their doctrine of mean. One can, I believe, also quite reasonably infer that the Gospel injunction that you shall love your neighbor as thyself is a prescription for reciprocity, for constantly seeking a balancing, dynamic, equilibrium, keeping two independent powers – you and the other – in constructive tandem, in a duality of mutuality. Impossible to get from that concern for your neighbor to extracting excessive rents from your neighbor's weal.

Open, balance-seeking societies manage shifting day to day dynamic equilibria to ensure a flow of sustaining and benevolent life forces which avoids systemic stagnation and repression of the good. Openness, cultural plural-ness and factual multiplicities all encourage us to appreciate and seek collaboration and compromise. As partners, to some extent, with others in the venture of life, we come to value reciprocity – giving, not only taking – as such partners, we grow comfortable with stewardship standards of fiduciary loyalty and due care in our various social offices – parent, friend, associate, subordinate, superior, policeman, priest, financier, farmer, worker. Open systems undermine autocracy and throw up roadblocks to fuehrer-like decision-making. Social justice, thus, becomes a pilgrimage of the many, not the diktat of the few.

Capitalism and constitutional democracy (not democracy as the tyranny of a majority) are the systems best calculated to minimize rent extraction and rent-seeking. But as systems, they are insufficiently protective of their openness, being vulnerable to the machinations of corrupt and malicious persons. Capitalism and constitutional democracy naturally and easily amalgamate one with the other. Capitalism well-done mitigates the concentration of economic, cultural or political power. Such capitalism funds competitors to innovate and bring about changes in power alignments. In turn, constitutional democracy can legislate restrictions on concentrations of economic power, giving too much sway to any factor of production or permitting too much dominance of any market, keeping capitalism true to its best manners.

The 1787/1788 Federalist essays, written to explain and defend the just proposed constitution for a more robust federal union of states in North America, with prescience, made a compelling case, one based on a realistic understanding of human nature, for an open society as most effective in promoting human well-being.

In the 10th essay, written by James Madison, the deleterious consequences of "faction" are held up as a reason to keep "factions" in check in any just polity. By "faction," Madison was apparently thinking of rent-seeking and rent extraction combinations and groups of citizens. He defined "faction" as "a number of citizens …who are united and actuated by some common impulse of passion or of interest adverse to the rights of other citizens or to the permanent and aggregate interests of the community." Madison noted that "the latent causes of faction are… sown in the nature of man." But more specifically, his view was that "the most common and durable source of factions has been the various and unequal distribution of property." In other words, factions arise to grab for themselves an immodest share of community economic opportunities and so make themselves especially wealthy.

To limit the divisive and oppressive consequences of factions, then, their ability to extract rents from their fellow citizens must be restrained.

Madison believed that the causes of faction were near impossible to irradicate, so that a society seeking equity and justice must seek to control the effects of faction. This could be accomplished, Madison wrote, by putting in place institutional arrangements to check the power of factions. Madison recommended social, economic and political arrangements that brought about plurality and competition among different interests and passions: "Extend the sphere and you take in a greater variety of parties and interests; you make it less probable that a majority of the whole will have a common motive to invade the rights of other citizens."

Federalist essay 51 (written by either Madison or Alexander Hamilton) recommends that "Ambition must be made to counteract ambition." The essay admits that "If men were angels, no government would be necessary." We are such that constraint is as necessary as love and protection for our societies to be well and optimally successful. We need institutional arrangements that, on the one hand, set ambition against ambition, but, on the other, have high expectations of our moral character as good stewards of the powers that we use to make our different ways in the world.

As Madison or Hamilton wrote in Federalist 55, "As there is a certain degree of depravity in mankind which requires a certain degree of circumspection and distrust, so there are other qualities in human nature which justify a certain portion of esteem and confidence.

The Caux Round Table has suggested differentiation among three principal sectors of society – business, government and civil society. Each sector needs some degree of autonomy in order to check excesses and shortfalls in the other two sectors. Simultaneously and interdependently, each sector receives succor and inputs from the other two. For example, government provides public goods which let business flourish and in return, receives income from business. Civil society also thrives on public goods provided by government and funding from the wealth created by business, while contributing moral and intellectual values, meaning and purpose, to government and business, along with services of a public good character.

But both capitalism and constitutional democracy depend for their survival on the moral quality of those who work the system. Bad people tend to bring about bad outcomes, while good people are more likely to value open society institutions and best practices.

To preserve the benefits of capitalism and constitutional democracy, who, then, should assume responsibility for the character formation of those who make systems come alive with their individual efforts and contributions?

A second counterweight to rent-seeking and tolerance of rent extraction is our moral sense – the mental and psychological faculty that each individual has that gives rise to what Federalis*t* 55 called "the qualities in human nature which justify a certain portion of esteem and confidence."

Given our moral sense, we are not strangers to openness to others once we find within ourselves wellsprings of mercy and compassion. Shakespeare wrote that "The quality of mercy is not strained, … it becomes the throned monarch better than his crown."

Counteracting our propensity to seek and extract rents from others is our moral sense, a faculty that comes to us at birth, but which may or may not be developed into good habits and fine traits of character as we mature.

The Caux Round Table Principles for moral capitalism, moral government, worthy civil society organizations and stewardship of personal wealth presume our ability to gain intentional control of our moral sense and then put it to work as a ministry of good stewardship. The Caux Round Table seeks to bring forth those very qualities in our natures which "justify a certain portion of esteem and confidence."

We might also note the impact of Catholic social teachings on preventing excessive rent extraction and rent-seeking. Validation of the importance of human dignity, in the face of the Adam and Eve story, with the redemptive ministry of Jesus Christ to save us all from sin and error, gives importance to the moral sense within each of us.

The call for solidarity with others provides a roadmap for pluralism and diversity. We need to be with others, not subjecting them to our needs and pleasures.

The requirement of subsidiarity provides societies with decentralization, pluralism and diversity of endeavors and points of view. Power is to be distributed widely among many people and institutions, the better for social well-being.

Likewise, the preference for what is called by some the universal destination of goods or by others, the common good, directs economic activity, income and wealth across all of society to wherever it can be best used and appreciated. The goods of this world, including personal labor and services, are not provided only for the few or for just those who hoard what is good for themselves or who surround themselves with walls, both real and intangible, walls of the spirit and of the mind.

Karl Marx may be given credit for articulating his desire that all people live meaningful and dignified lives. But he must be faulted for failure to rightly understand the beneficial potential of capitalism in funding achievement of that very aspiration and to rightly perceive that capitalism is a wisely designed social system that balances self-interest with the moral sense. Marx also failed to perceive that capitalism has the inner logic and existential drive to offset any one source of social power with the countervailing power of others.