The Influence of the Division of Labor on the Institutions of Capitalism I

A. Private Ownership of the Means of Production

1. The prevailing view of private property, including private ownership of the means of production, as serving only the interests of the owners.

   a. The alleged need for redistribution or socialism.
   b. The assumption that the advocacy of capitalism implies that one is a capitalist.
   c. The media's treatment of voting patterns.
   d. The belief that fighting communism requires creating capitalists.

2. Prevailing view ignores the division of labor and the fact that under capitalism privately owned means of production *serve the market,* and thus provide a *general* benefit.

   a. The benefit of the buyers of products served by the means of production—if you can buy the products, you don't have to own the means of production to benefit from them.
   The buyers' control over production in contrast with the powerlessness of the consumers under socialism—the dictator and the people's shoes, the lack of stores in Moscow's suburbs.
   b. The benefit of the wage earners from the demand for labor.

3. The *increasing* general benefit from private capital.

   a. Profit and loss incentives and the freedom of competition and individual initiative; the chances for new ideas being tried.
   b. Gains to non-owners greater, the more the property rights of capitalists respected: stronger incentives; higher demand for labor and capital goods relative to consumption; more efficient production of capital goods—all result in capital accumulation and rising productivity of labor and real wages.

4. The special benefits of private ownership of the means of production to the owners: not profits or interest, but limited personal consumption—probably less than ten percent of the national income—and the psychological benefit of the *potential* of personal consumption.

5. The absurdity of "redistributionism."

   a. Already have the benefit of almost all the capitalists' wealth without redistribution—the wealth is in means of production; and the benefit steadily growing
   b. An open demand for capital decumulation and impoverishment.
   c. If not such a demand, then a demand for at most a one-time, non-repeatable transfer of about ten percent of the national income; capitalism gives the equivalent over and over again every few years, through economic progress.

6. Consequences of redistributionism:

   a. Can't achieve even the one shot transfer—the destruction of incentives to maintain and manage capital; collapse into the chaos of socialism.
   b. The lesser case of isolated nationalized industries: the destruction of profit and loss incentives and the freedom of competition and individual initiative—the Post Office case; nationalization and the destruction of the *special* benefits of ownership: the inability to sell one's "shares"; instead of dividends to consume, taxes to cover losses brought on by the nature of government ownership—no profit and loss incentive, uncontrolled costs, run up costs in vote-buying employment and contracts.

7. Conclusion: the institution of private ownership of the means of production in a division of labor, capitalist society serves everyone—*non*-owners as well as owners; the real self-interests of everyone lie with capitalism, not just the interests of the capitalists; better to be a non-owner under capitalism than an equal owner under socialism.

B. Private Property Continued: the Special Case of Inheritance

1. The prevailing view: only the heirs gain; the non-heirs gain by a policy of confiscation and redistribution.

2. Fact: the institution of inheritance promotes capital accumulation, from which *all* gain, non-heirs as well as heirs.

3. Confiscatory inheritance taxes destroy the incentive to accumulate capital insofar as the motive of accumulation is to leave wealth to heirs; the collection of inheritance taxes diverts capital into consumption: if estates did not have to be sold to pay taxes, the buyers would have used their funds to purchase capital goods that would have existed in addition to the estates; with the inheritance taxes, their funds are diverted to the purchase of existing capital goods, and from there to the Treasury.

C. Private Property Continued: the Taxation of Profits, Interest, and Capital

1. As far as the taxes come out of capital or additions to capital, they reduce or hold down the demand for labor and capital goods—cause lower wages relative to the demand for consumers' goods and lower productivity of labor.

2. Also retard innovation—reduce incentive and means for implementing new ideas; especially destructive for new firms, which are prevented from growing large.

3. These the effects in whole or part not just of inheritance taxes, but of corporate income tax, progressive personal income tax, capital gains tax, social security taxes, and government deficits. Need to reduce or abolish these taxes and the deficits to restore economic progress; need to cut government spending.

4. Self-interest of everyone lies with ability of business to save and invest and innovate: interests of non-owners hurt by whatever keeps down the demand for labor and supply of products.

D. Private Ownership of Land

1. Ricardo's doctrine on land rent, and Georgism: land rent, population growth, diminishing returns, and subsistence; the "unearned gains of the landowners."

2. Seeming application of the doctrine in the period l250-l750.

3. The real problem: too slow progress caused by *the lack of private property and property rights in land*—the common lands, feudal restrictions on selling and alienating land, the impossibility of firing unnecessary agricultural workers under serfdom.

4. Private property in land provides the incentive basis for rapid enough progress to more than offset the operation of the law of diminishing returns and the need for inferior lands; it thus works to hold down and actually reduce land rent as a share of national income.

   a. Historical confirmation: the decline in the economic significance of land rent coincides with the enclosure movement in England, the privatization of North America, and the establishment of property rights on the European continent.
   b. Further confirmation: the case of oil today.

E. Private Property and Political Sovereignty

1. Mistaken view on the need for extensions of sovereignty; what is really needed is free trade and respect for the property rights of foreigners; then the whole world gains all that can be gained from the territory of each country; extensions of sovereignty made unnecessary; implications for world peace.

2. The general interest in free government everywhere—the historic role of the British Empire.

3. The exportation of natural resources not an exploitation but a source of benefit to the countries in which found: higher demand for local labor, the import of goods otherwise impossible to obtain.

4. How the backward countries could be rapidly developed and how their policies prevent it: property rights vs. confiscations and restrictions on dividend remissions.

The Influence of the Division of Labor on the Institutions of Capitalism II: Economic Inequality

A. The Nature of Economic Inequality Under Capitalism

1. The prevailing view: "the rich get richer, the poor get poorer"—one man's gain is another man's loss.

2. Fact: the division of labor allows for constant increase in the total of what is produced. One man's gain resulting from an increase in the total of what is produced is *not* another man's loss—the example of Crusoe and Friday.

3. How the gain of the one easily leads to the *gain* of the other: productive emulation.

4. The fallacy of unjust "distribution," when what is actually involved is an inequality of production.

5. How in a division-of-labor society, one man's gain *typically implies the gain of others:* productive emulation—present in competition; the nature of free exchange and the sharing of the growing gains from the division of labor.

6. The especially important case of *the origin and disposition of fortunes:* the earning of a high rate of profit over a long period of time, with most of the profit constantly being plowed back. The high rate of profit reflecting the introduction of repeated improvements in production of benefit to the buyers; the plowing back of the profit resulting in growing means of production employed to the benefit of the buyers and also raising the demand for labor.

7. Illustration of point 6 in American economic history: the cases of Carnegie, Rockefeller, and Ford.

B. The Marxian Doctrine on Economic Inequality: A Critique

1. The claim that inequality under capitalism is an extension of inequality under feudalism and slavery and that socialism is the culmination of political democracy and will represent the establishment of a classless society.

2. The injustice of comparing capitalist with feudal inequality: productive contribution and general benefit versus force and loss.

Position of the feudal aristocrats not based on any economic role, such as land ownership, but on governmental power: they lacked essential rights of ownership (such as ability to sell their land, compete for the workers of others, and fire their own workers) and possessed powers far beyond those of any property owner: i.e., tax collection, "low and high justice."

3. Marxist and Galbraithian equivocation on freedom: the doctrine of "wage slavery" and "nominal" freedom (see J. K. Galbraith, *The New Industrial State,* Second Edition, New American Library, New York, 1971, p. 141—quoted in *Capitalism,* p. 331.)

a. "Having" to work for a capitalist, even a hundred and fifty years ago, at very low wages, not a violation of freedom; the vital importance of being able to choose for *which specific employer one works.*
b. Capitalists (businessmen) not responsible for workers feeling the pain of hunger, as Galbraith implies, but for paying wages to *alleviate* the hunger.
c. Opposite character of freedom and slavery shown in the simple fact that a slave is held at his work by force, while it takes force to keep the poor but free worker of the capitalist *from* his work.

4. Inequality under socialism (see *Capitalism,* Chapter 8, Part B).

5. Socialism *versus* democracy (free government)—see *Capitalism,* Chapter 8, Part B.

The Influence of the Division of Labor on the Institutions of Capitalism III: Economic Competition

A. The Nature of Economic Competition under Capitalism

1. The prevailing view: law of the jungle, survival of the fittest, dog eat dog, etc.

2. Actual nature: not the grabbing off of limited, nature-given necessities, but competition in the positive creation of new and additional wealth for the market—the inherent general gain; no genuine losers.

3. Competition and the survival of all: e.g., the effects of competition among farmers, eyeglass manufacturers, pharmaceutical makers, etc., on the hungry, the weak, and the disabled.

4. How even the apparent losers gain: e.g., the effects of the competition of the automobile on the horse and buggy makers.

5. The short-run loss periods; differing effects on unskilled and skilled workers; the effects on the losers of fortunes.

6. How *opposition* to free competition implies the advocacy of the law of the jungle.

7. Economic competition and economic security.

   a. Competition and the physical security of having goods—the paradox of the guild system.
   b. Competition and job security—the need for *fully* free competition; the seniority system and the artificial lengthening of the short-run loss periods.

8. More on competition and the "weak": the law of comparative advantage and the room for all in the division of labor. Statement of the law: *Even if one party is productively superior to the other in every respect, it still pays them to engage in division of labor, with the productively superior party concentrating on his area(s) of greatest superiority and the productively inferior party concentrating on his area(s) of least inferiority.*

   a. The boss and the secretary, the lady lawyer and the maid.
   b. International applications: England and Portugal, the US and Brazil.
   c. How both cases work out in terms of money.
   d. The implied dependence of international free trade on a free labor market domestically.
   e. The competitive damage to the less able of attempting to force the market to pay them the wages of the more able.

9. The pyramid of ability principle: *To the degree that the more able obtain the higher positions in the economic system, the productivity and standard of living of the less able are increased*—e.g., the case of the engineer and the mechanic, the foreman and the worker, the great industrialist and the average person.

10. The integration of the law of comparative advantage and the pyramid of ability principle: the gain from the existence of other people; the greater gains from the existence of the more able—even janitors can have automobiles and television sets.

B. Competition and the Population Question

1. The Malthusian specter of overpopulation: the implied competitive conflict over land and natural resources.

2. Applies only to *non*-division of labor societies; in a division-of-labor society more population means a more intensive division of labor (Adam Smith's principle that the division of labor is limited by the extent of the market) and the realization of more economies of scale—manufacturing, the advantages of cities, the case of the medical school and all other sources of new knowledge; more people and more productive geniuses.

a. The implicit case for worldwide free trade.
b. Partial explanation of the higher standard of living in the US compared to Western Europe.
c. Explanation of the effects of the Common Market.

3. Unlikely problems of too high a ratio of children to adults and of labor to capital.

4. The case for free immigration into a *capitalist* society: the general benefit from others' possession of freedom—the bringing of talent to freedom, where it can flourish.

The Equality of Opportunity Doctrine: A Critique

1. A fallback position for egalitarianism.

2. Some unpleasant implications of the equality of opportunity doctrine: Platonic orphanages, eugenics, tearing down advantages.

3. Observations on the nature of opportunities.

a. The meaning of an opportunity.
b. Their fundamental superabundance.
c. Their creation by the individual.
d. The room for all to rise in the context of a division of labor society.
e. The need for the *freedom* of opportunity, not the "equality" of opportunity.
f. How individuals beginning under extreme disadvantages overtake others who begin with the greatest advantages—*the self-made man.*