The Balance of Wealth

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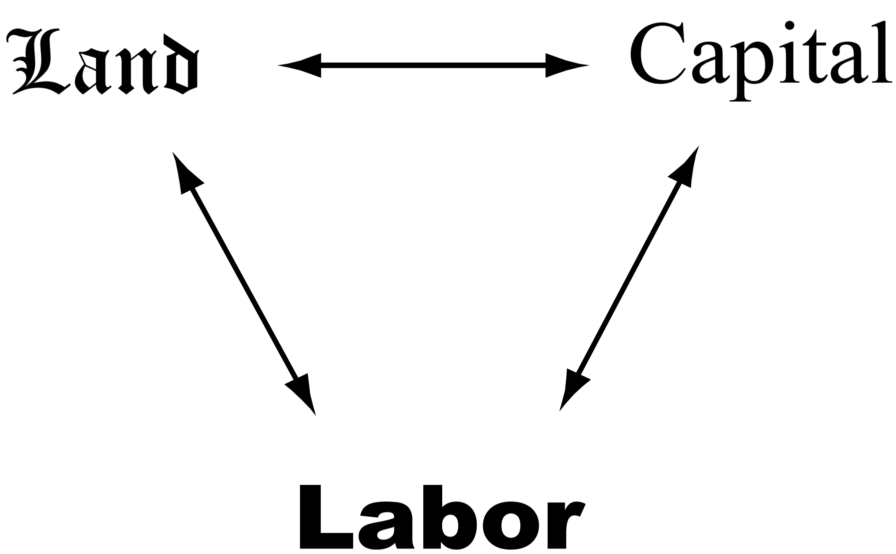
" The rich get richer while the poor get poorer" goes the lament. Many solutions have been tried to fix this problem, with rare success. Many efforts (Marxists dictatorships, usury laws, and the income tax) have focused on punishing the rich. There is a problem with this approach. In a free society, most rich people get that way by providing things others want. To hit the rich means to hit their "customers."

To really reduce the gap between rich and poor without destroying freedom and/or the economy, we need to find out why people are paying the rich so much and to find alternatives. In the process, we will find that our government has been in the process of stealthily subsidizing the rich – to the tune of trillions of dollars!



As a first step, we need to understand the foundations of the economy. There are three major components, as seen in the figure to the left. (Note: "Land" refers to natural resources in general.)

The ability to work is something we are born with, though we can improve on it with discipline, learning and so forth. Laborers do not all earn the same amount, but the gap in ability is much smaller than the U.S. Wealth gap.

Land and Capital, on the other hand, can be bought. Those who own Land and/or capital, can use the resulting income to buy more and pyramid their wealth accordingly.

To reduce the wealth gap, we need to increase the share of the national income that goes to Labor vs. that which goes to Land and Capital.

To do so, we can apply the principle of Supply and Demand. If we increase the supply of Capital and reduce the demand for Land, we will increase the fraction of the national income that goes to the working class.

This can be done while shrinking the size of government and increasing freedom.

Over ⟶

The Grand Subsidy

The owners of Capital are subsidized in much the same way that farmers are subsidized.

" Destroying Produce"

Think of all the rotten cheese gone bad in government warehouses. Think of the other government programs where the government has bought up food and destroyed it. By consuming farm goods, the government raises food prices to subsidize farmers at the expense of the hungry.

The government does the same thing for capitalists!

What do capitalists do but provide capital? That is, they save wealth and then loan it out for the tools laborers use to produce products for consumers. **When governments run deficits, they are consuming capital**. Therefore, they are raising the price of capital: interest rates.

This raises corporate profit rates since a corporation's profits must keep up with or exceed the interest rate of conservative investments or the corporation will not be able to receive financing. True, an old corporation can stay in business by having its stock price plummet and the investors are stuck with a sunk cost, but new companies and new ventures require new investment capital. So over time corporate profits will catch up to interest rates.

As I write this, the U.S. government has amassed a debt of nearly 6 1/2 *trillion* dollars! **That is, 6 1/2 trillion dollars have gone to prop up the money lending class!**

If we were to run surpluses to pay down the debt, we would dramatically increase the capital chasing the same amount of labor. Wages would rise and profit rates would fall.

This paper is admittedly terse and incomplete. For more details, go on the web to www.holisticpolitics.org

" Paying not to Plant"

Another way in which farm prices are artificially raised is that some farmers are paid not to plant. This reduces the supply of farm products, which puts more money in the hands of those still planting.

A similar program exists for those who save money: Social Security. Workers are encouraged to spend less by having the government provide for their retirement on a "pay as you go" basis. However, unlike the farm subsidy, workers pay a regressive tax for this benefit, giving them less money to save on their own behalf.

On the surface, Social Security appears to be progressive; many poor old people depend on it. However, many of these poor old people would have had a large nest egg had there been no Social Security. And less obvious, the process of having millions of laborers saving for retirement would have pushed down real interest rates and thus boosted labor rates – more tools chasing the same number of workers.

On World Trade

When the U.S. opens its borders to goods and immigrants from poorer countries, the effective is regressive – in the U.S. The effect is more labor for the capitalists.

However, for the much poorer laborers from other countries, the effect is extremely progressive. Free trade helps the poorest.

To be *really* progressive, we should open the borders to more trade and offset the locally regressive effect by running budget surpluses and changing our retirement system.