

THE CAPITALIST SYSTEM

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IN THESE DAYS of so much planning and theorizing about the capitalist system and other forms of organization, one looks in vain for any well considered defense of existing capitalism. We hear a great deal about the merits of planned collectivism. These have the great advantage of not being practiced and therefore not under fire, in America at least. But poor old capitalism enjoys no such immunity. Its opponents are constantly weighing it in the balance of experience and finding it wanting. It has charged against its account in recent times a dozen or more depressions, the one beginning late in 1929 being regarded as the climax of them all. There is in times like these no lack of acknowledgment of the evils of our existing system, but it would be remarkable indeed if a type of organization of business and industry under which the general standard of living has advanced more than the most optimistic could have dreamed two or three generations ago did not possess many very great advantages, far exceeding any that flowed from any experiments in communism and collectivism so far known.

*Spencer Heath was a founder and lecturer at the Henry George School of Social Science in New York City. This article, dated March 12, 1934, was prepared for the *Atlantic Monthly*, but never published. It was recently found among the author's papers, which will be domiciled at the Universidad Francisco Marroquín. Heath's article is the earliest known exposition of the proprietary community concept, and is an uncanny forerunner, by eight years, of a related article by economist Raymond V. McNally. McNally's paper was also unpublished and found among Heath's papers. It recently appeared as, "Some Observations on the Nature of Public Enterprise," *Libertarian Papers*, Vol. 6, No.1 (2014): 57-66.

CITATION INFORMATION FOR THIS ARTICLE:

Spencer Heath. 2015. "The Capitalist System." *Libertarian Papers*. 7 (2): 127-135. ONLINE AT: libertarianpapers.org. THIS ARTICLE IS subject to a Creative Commons Attribution 3.0 License (creativecommons.org/licenses).

Whatever its vices, there must be merit in the capitalist system, else under it our economy could not have advanced as it has. If anyone has cast up its merits in anything more than a negative way no such appraisal is current today. There must be a reason for this. It lies in the proneness of men to disregard every advantage which has come to them through a process of *growth*. They assume that these advantages always existed and that the status quo will continue substantially unchanged and unimproved unless overthrown by violent, or at least radical, action. All these assumptions are wrong. Nothing organic can be static. It cannot be denied that our capitalist organization is organic and alive. To assume that it has reached its zenith would be to pronounce it dead. It is therefore right that we should examine what is vital in it.

What is its creative process and why does not this completely dominate the whole? What is the direction and what are the hindrances to its further development and normal evolution? Without careful searching and appraisal we can gain no knowledge of what we have, where we are, or whither we may wisely go.

What marks, at bottom, the capitalist system is the presence of capital, that is, the present of concrete wealth not for immediate satisfactions but in process of successive exchanges consequent upon labor being added to it or incorporated in it during the intervals between exchanges.

Capitalism began when men began to exchange goods and services, for there could be no considerable exchanges without some carrying or manipulating to impart a higher degree of exchangeableness to the goods so acted upon, thereby creating in them a higher value. All goods so treated are wealth used in a special way to create value. They belong therefore in the special category of capital until they receive their final increment of value and at that point pass out of the stream of exchange and are consumed. To expedite the carrying and manipulation of goods in exchange, certain implements and facilities are required. These "tools of production" may vary all the way from a log canoe to a steamship, or from a sickle to a grain "combine" or a chain of factories in which machines are built. These are a special kind of capital known as the tools of production, to distinguish them from the *materials* of production. The tools of production, which includes transportation, warehousing and merchandising, may be considered as active capital, while the materials upon which they work may be considered as passive capital. Both kinds of capital are necessary to conduct any production and exchange, and all the wealth in the world that is in process of exchange and not yet being consumed is capital.

It is easily seen that capital is employed to increase the exchangeableness either of itself (by its being carried or fabricated) or of other capital goods by acting as the implements or facilities for increasing their exchangeableness. Now, since the function of capitalism is to make things more and more exchangeable (higher and higher in value), exchange is the very heart of its operating. It is the vital phenomenon wherein human effort is transmuted into satisfactions on a universal and magnificent scale. Every employment of capital in production is solely with a view to commodities being acted upon to increase their exchangeableness. The system depends upon the existence of a society, for without society (though there might be production) there could be no exchange. Tools might be used, but their product except in a society could have no demand and no exchangeableness. There might be a crude science of engineering and the like, but no science of values for there could be no exchange. Where trade is least restricted there the capital economy is most employed, and there also is the greatest "division of labor."

Every business transaction culminates in an exchange which, like a chemical reaction, resolves efforts into satisfactions—the efforts of both parties into the satisfactions of both. It is the vital process, the central creative act in the social economy. The streams of trade convey effort in labor (accumulated in goods) to every part of the social organism by an infinite series of exchange processes like that which draws sap to the tree tops, and the constant conversion of this effort into satisfactions is to the social body—as the conversion of fuel into energy is to the animal body—a process of social metabolism.

Under division of labor goods are produced and consumed not in the same kind but of different kinds. This leads to "quantity or mass production" of particular kinds of goods, and their exchange for similar quantities of goods in many kinds. The trading is no less essential than the production. Whatever restricts trade ties down the whole process—poisons its very root in exchanges—and what destroys trade destroys the system. The motivation to the use of capital, to the division of labor and to trade is the desire for more goods and satisfactions than can be procured without employment of these agencies. This increased production is called *wages* and *profits*; *wages* when it is enjoyed in advance of the exchanges in which it is realized and *profits* when it is deferred until after its consummation in trade. Wages, interest, rents, and profits all are the return for labor or services of some kind; but wages, interest and rents are certain and immediate being fixed by agreement, and are called costs of production, while profits are contingent and deferred, and depend upon trade for their realization.

This exchange of increased production for other increased production is effected by sale of product and repurchase of other product. Selling is the first half of the exchange process; purchase is the other half. The use of money, especially credit money, is only the necessary bookkeeping process for completing exchanges easily and without resort to barter. Finance and commerce are two great agencies to promote exchanges on a universal plan—a clearing-house for goods and services.

Just as modern science rests upon recognition and adaptation of the laws or uniformities of nature as disclosed in the physical sciences, so does the advance of sound economic science depend upon apprehension and adaptation of the laws of human nature as revealed in industry and commerce. These laws revolve about the phenomena of capitalist production which is the use of wealth in the creation of more wealth and the extension of exchanges by the aid of commerce and finance. At their center is the great principle that they are creative, that we can advance them to our profit and well-being but we can restrict and impede their operation only at our certain loss and peril.

While science and the creative genius of man have circled the world with every aid and agency of transport and communication and placed in the hands of industry almost magic talismans, bending all nature to human needs and desires, still one human agency has been and still continues largely to be used to set all these conquests at naught. Assuming private violence to be restrained, there is no power in the world, *save government*, that can destroy trade. It is a true office of governments to protect trade from every invasion or restriction at home or abroad, but sad to say modern states and peoples in their political capacity seem bent upon its utter destruction. In the whole capitalistic economy there is hardly an essential step or process that is not blighted and restrained by law. The tricks and devices, subterfuges and chicaneries to this end are as the sands of the sea. The substance of them all is this: forbid something that under nature is lawful and profitable to do. Then make exception in favor of special persons or of such persons as submit to certain penalties in advance (licenses) or uncertain penalties subsequent to engaging in the act or occupation (taxes, fines, confiscations, imprisonment, etc.) or “regulations” and restrictions so vexatious and destructive as to destroy the natural profit and inducement. These penalties and restrictions so greatly reduce the number of persons who might otherwise engage in the given activity that the few who can engage in it are easily driven, first to combine defensively against greater restrictions upon themselves, and then offensively against all others who would engage in it, using the power and might of the government itself to maintain their monopoly. To enhance this they usually succeed in procuring their own

associates or employees to be placed in charge of the government offices supposed to control their activities, thus confirming themselves as special privilegees to make private merchandise of a freedom that should belong to all. Frequently they establish secret legislative bureaus and thereby obtain untold millions of public funds as subsidies for hypothetical services never substantially performed. This process of excluding the unprivileged from carrying on production and trade is going on either slowly or swiftly, but inevitably, in almost every field of trade or service.

Because goods increase in value in the course of being exchanged, the heaviest weight of taxes and other restrictions is imposed upon them at the intermediate and more advanced stages of exchange. This raises prices and cuts down consumer demand and dams up the outlet for producers' goods all along the line. The effect is first felt in the later stages of exchange, where values are highest and turnover most rapid, and last felt at the primary stages of slower turnover. Hence the great apparent surpluses of farm products, coal and oil, lumber, metals, etc., periodically resulting from restrictions on exchanges in the industries where these goods are required. Take wheat, for example: the turnover at the farm is once in twelve months; the same wheat as bread or cake at the retail bakery turns over each twenty-four hours or less. The surpluses most arise where there is the longest anticipation of demand. The retailer and processor can at once curtail or cease purchasing when the cost of taxes and restrictions reduces or destroys demand, but the farmer and other primary producers cannot. Whatever the point of obstruction in the flow of exchange, the immediate result is congestion on the side of supply and anemia on the side of demand. Taxes and other restrictions are like a tourniquet that makes the member purple and blue with congestion on the side of blood supply and white and anemic at all points beyond. So is trade stifled by accumulations on the side of production and bled white on the side of demand, and producers' prices fall while consumers' prices rise. Where the restrictions are unrelieved business slowly moves into the hands of those special interests that are most able to meet or avoid restrictions upon themselves and through their influence or control of public offices are able to impose the utmost rigors on all others while exempting themselves. This process of extinction, this "cut-throat competition," so called, by the misuse of government power is the real grievance of those who would restrict or abolish competition.

The process is *monopolization*, the very reverse of competition. It is a process of destruction, whereas competition is wholly creative. Competition is one of the ways in which men manifest their mutual adjustments in order that the highest values and utmost satisfactions may be obtained and enjoyed with most economy and without waste. Competition is a mental process

prerequisite to the honest and profitable exchanging of goods or services. It causes goods to be moved in the direction where they acquire the highest exchangeableness in terms of other goods. This makes goods flow toward the point of greatest demand for them and thus to exchange at successively higher levels of value. It calls into production the kinds of goods most in demand, thereby yielding to those who receive them the greatest satisfactions, and to those who supply them the greatest price or value of goods in return. It is the sole determiner of value, for it discloses what is in men's minds as to the exchange relationship between different kinds of goods, either directly or by reference to a common standard. It is the very eyes of trade. Without it all exchanging would be as haphazard, uncertain and unproductive as blind man's bluff, and trade would cease to be carried on. And it must be remembered that these advantages and benefits of competition completely exist only if competition is free. They recede and diminish whenever and wherever and to whatever extent the evil of monopoly or any form of economic coercion or restriction is introduced or imposed. The historian, Buckle, in his day of so-called *laissez faire*, maintained that parliaments had so ravaged trade that it must have perished from the earth had it not been kept alive by those who broke the laws.

Seeing how trade is destroyed by burdens and restrictions on exchange and the monopolies that spring from these, from what other source could government draw their support? Ultimately, there is no other source; all things are supported out of human labor, and the values it creates and realizes only in exchange.

But government itself is a service. It creates values—land values—realized at the point where rent is paid for the use of land in order to obtain the public services furnished at the place where the land is. Ground-rent is payment for public services, and public services can not be obtained in any other way, for it is the nature of government to serve persons only so far as they use its territory and for this use ground-rent must be paid and must be paid out of the values produced by labor and exchange. Now, if this present ground-rent were drawn into the public treasury it would be a little more than the present costs of government, and all trade and exchanges, all labor and production could be entirely freed from the burdens and restrictions by which it is now distorted and destroyed.

All that which is now taken from business either directly or by stealth would at once be paid in additional rent, for this exemption from taxation would be a public service to business and would be reflected in rents just like any other public service. With business no longer harried and harassed to the point of prostration, with all the channels of exchange opened wide and all barriers down, every consumer would be free to produce and could freely

exchange his product with every other producer; every unit of both labor and capital would be *profitably* employed because of the open channels of *exchange* between it and every other producing unit.

This opening of the exchanges would be another vast advantage to labor and capital, and like any other public service would be reflected in the demand for land. And this demand would come from a prosperous and successful world of business, able and eager to utilize more and more land and able and willing to pay more and more rent for its use. This multiplication of the productiveness of the business and rent-paying community would have an effect on rents similar to what would follow upon a corresponding increase of population—for it is by their productive and rent-paying capacity that populations raise the value of land.

All this increase in rents would be clear net gain for landowners above the income they now enjoy—the profit to them of having their tenants free and prosperous instead of despoiled by taxation and regulation and divested of their rightful profits and prosperity. But this is not all: the effecting, of economies in the cost of public services and government administration would be to reduce the tax cost to landowners without in any wise reducing rents. Every dollar saved in the public budget without reducing service would be a net gain to rent. This would supply a most powerful motive for land owners, who would be supplying the public revenue out of rent, to see that this revenue was well and profitably spent. Thus the landowning interests, bearing the immediate cost of government, would be irresistibly drawn into the directing and administering of public affairs. And this relation to the rest of the public would be ideal, for there would be a perfect welding of their private and particular interest with the public and general interest—certainly a mighty improvement upon the present state of affairs where either corrupt political gangs or an occasional “reformer” is in control. But set against the blessings of a free business community, there is still yet more for the landowning interest to enjoy. Having learned how to administer the public revenue in a manner highly profitable to themselves and to the general public as well, they will seek to invest more and more of their funds in public enterprises and services and will profitably administer these funds and services to the full extent of the growing need and demand for them, the limit of this demand being reached only when the rent-paying public has been fully supplied with all the public services that can with profit be used.

In this we have the rational and ethical completion of the capitalist economy—the other great half of capitalism wherein private capital is invested in the public services, administered by those who invest it, and the product, public services, sold to the public at a profit which is paid in rents. This parallels the more familiar investments in private enterprises such as

manufacturing in which private capital is invested in a private service (the production of automobiles, for example) and the product sold to the public at a profit paid in the price. And in these public enterprises the parallel goes further; for not only will owners of land tend to become capable public administrators and good public administrators tend to become owners of land, but they will employ the highest special talent to assist them, just as those who direct private industries employ scientists, technicians and engineers. Nor do their opportunities for high service and reward end with supplying all of the need for public services as commonly understood. Relieved from bondage to material things, the public taste would rise to activities and enjoyments of higher and finer kinds. Where subsistence and security for the future had been the goals, the desire would now be to develop and employ the higher powers of body and mind.

With classes and men no longer set apart by wide disparities of power and possessions, their free activities would take on more and more cooperative form in community culture of the esthetic arts and the intellectual powers. Communities in which this cultural progress had most advanced would yield highest satisfactions to their members, and would attract the highest types of individuals from other communities. Thus would spring up social values to the enhancement of rent and a need for social services in their highest forms. In this rich field the owners of land, by virtue even of their pecuniary interest alone, become the natural patrons of the arts. And while the landowning interest raised the cultural level, so would the higher cultural level aid in determining the kind of persons who would be most impelled to place their resources in the ownership of land and all their activities on the community side of life in preference to the individual and private side. And thus as civilization advanced would the tastes and capacities of men differentiate them to the production of community services and values on the one hand and of personal and private properties and values on the other—with progressive subordination of material goods to higher satisfactions. This would take the public services out of the hands of their present despoilers and into the hands of those most gifted to perform them, and whose material rewards for their public services would be the more enhanced the better these services were performed.

To set our feet in the path to these high goals we must first recognize the creativeness of exchange, remove the government-imposed ligatures on trade and allow the life-processes of society to proceed without political restriction and its concomitant monopolistic restraint. This is no less than to emancipate and untax every private activity, letting the value of this exemption and this emancipation fall into the rent of land and letting so much of this enhanced rent as may be needed for the purpose defray the cost

of all necessary government and of present public services; and permitting the owners of land out of their rents or other resources to make such further investments in needed public works or services as, under their wise guidance and administration, will yield them the greatest enhancement of rents. This establishes the landowner as a manufacturer of public services which he finances, creates and sells in the community to the highest bidders in the form of rent.

The ownership of land would become an investment opportunity—an opportunity to join with others in honorable and profitable enterprise, the profits and rewards depending on the skill and wisdom with which the investment was made and the efficiency with which the public enterprises were operated and administered and the higher cultural values advanced. The vast and certain profits of unshackled trade and exchange would take the lure out of gambling and leave to speculation its normal service of making preparations in advance of demand. The financing and administering of government and its services by the owners of land out of their abundant and increasing rents would witness a perfect union of their private and particular interest as collectors of rent with their public function as creators of land values by their productive and diligent direction of governmental affairs and enlargement of the public welfare on every plane.

The policy of freeing production and exchange and opening up new channels of profitable enterprise and investment in the facilities of public service effects the grand adjustment of industry to a basis of continuous profits and prosperity and places land owners in their true function as creators of public services and conservators of honor and efficiency in the administration of public affairs.

