The Ethics of Free Market

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Manipulating figures

Socialists demonstrate statistically that liberalization diminishes the GDP growth rate, notably in Mexico. That effect is likely due the unreliability of statistics in closed, import-substituting, price-controlling economies where gray and black markets are little reported, if at all, and statistics are manipulated for political gain. Fixed prices and overvalued currency compound the problem. The deregulation of socialist economies brings their only working part, the black market, to the fore and reveals the true statistics with predictably lower results than the propaganda wants us to believe.

The only true damage—and socialists expound it fully—is an increase in the price of staple goods: basic food, housing, and electricity. Yet those prices are artificially depressed in a regulated economy, creating major distortions and impeding long-term growth. The price increase, though it hurts the poor immediately, amplifies production, introduces quality-based diversification previously suppressed by uniform low prices, and boosts mid-term economic performance, should the government not slip into a corrupt oligarchy or socialism.

A lower growth rate is only natural for the period of restructuring, when import competition forces old, inefficient industries down and new, more efficient ones are yet embryonic. It is a testimony to the great ruggedness of the market economy that it grows even during restructuring and against the background of inflated data from the earlier period.

In countries with reliable statistics, socialist pundits fish for indicators supporting their claims. Even the tremendous growth of the US telecommunication industry after the ATT monopoly was revoked diminishes by comparing sales volume instead of the physical amount of telecommunication services rendered. With long-distance call prices plunging about hundred times, the adherents of regulation could complain of slow growth: monetary, not physical.

An incidental correlation of deregulation with slower growth is possible. Economic liberalization commonly trails political liberalization which in turn comes on the heels of surging wealth, when after satisfying their basic needs, people turn to moral needs—more liberty, first of all. As a policy, liberalization often coincides with an eclipse of cyclical economic growth.

NAFTA is said to have flooded Mexico with American imports and depressed domestic production, especially agriculture. That popular view is questionable, since American produce costs more than local commodities. Further, there is nothing inherently bad for Mexicans in US government subsidies of agricultural exports. Who would object to the Japanese government subsidizing television sets exported to Mexico?

Observers often take labor, a major Mexican export, out of the trade balance. Numerous Mexicans work in the United States, and remit a part of their wages back to Mexico. That input makes trade between the two countries look much less debilitating. American investment dollars pay for most imports, a net profit to the local economy, which requires no offsetting export. The imports are mostly locally unavailable goods or in goods of better quality and do not suppress local production.

According to CEPAL, the poverty rate in Latin America increased from 35% to 49% between 1945 and 2002. That is the scholastic method of substituting the object of discussion. During that period, the poverty line rose, so the poor of 2002 are moguls compared to the poor of 1945. Further, third world economies are not technology oriented, and large increases in an uneducated population due to medical advances push down per capita GDP, though the GDP itself may be growing.

Similarly, proponents of the welfare state claim the poverty rate post-WWII America rose to more than 15%. Poverty rates increase because the poverty level rises, rather like donkey following a carrot on a stick.

An argument based on misunderstanding has gained considerable popularity: since various kinds of labor retain only part of the value added, the rest going to capitalists and profit-sharing top management, the supply of added value always exceeds the demand. The fact that entrepreneurs neither receive their profit in kind, nor pay workers so, should have told naïve pundits that more or less all added value is sold, converted into money, and thus does not exceed the demand.

True, investors generally do not need the goods their factories produce, but neither do the workers who produce machinery need it. Investors receive their part of the added value in the economy as capital equipment. Factories produce only enough consumer goods to satisfy the demand of workers, not creating significant over-supply.

Stock market profits which create additional demand for hard goods notably complicate matters, but no overproduction exists in a free market system. Any goods produced can find buyers, though often at a discount or, in cases of severe mismanagement, below cost.

Manufacturing wages in the United States decreased from 46% of value added in 1966 to below 20% in the 1990s. That does not mean that capitalists appropriate the balance. Consumers used to abundance buy not only for functionality or workmanship but also for innovative features or in response to marketing. Non-manufacturing costs become a major part of the value added.

A peculiarity of the US economy makes those statistics misleading: most inputs for local manufacturing are imported and paid for with non-manufacturing exports. Since statistics do not count added value but rather sales, not accounting for foreign wages embedded in imported parts, raw materials, and equipment artificially decrease the wage component.

Depending on the statistical method, increased production complexity could depress the wage-to-VA ratio. Allocating 20% to labor at every manufacturing stage and the balance to suppliers, five-stage production brings labor to almost 70% of the value added.

Sweden supposedly demonstrates that market socialism works. Quite the contrary. Pundits often confuse high prices with high standards of living. Sweden has the advantage of remaining unaffected by European wars. It has slight military expenditures. Its population is educated and hard working. It enjoys significant natural resources. Yet its economy is threadbare, based on the processing of local natural resources, and on credibility goods like ball bearings, armaments, cars, and telephone equipment. Consumer habits drive the fragile demand for those products, not a Swedish technological advantage. Against that background, Sweden is not so socialist as many think, with about a 1:7 income variance between the top 10% and the bottom 10% of people. Wage increases supposedly come at the cost of more demanding labor. Though seemingly untrue for European welfare states with decreasing work hours and lax requirements, the argument makes sense in the American context. Even there, anxiety is mistaken for exhaustion. Lifestyle, not labor, makes people fear falling behind the neighbors.

When even statistics provide no basis for argument, opponents of liberalism often turn emotional. The media abet them by playing up horror and hardship and creating the illusion that they are becoming more pervasive. The facts argue to the contrary. No matter the daily crime reports, modern urban murder rates are lower than those in paternalist rural societies two centuries ago; crime is "increased" by expanding *corpus delicti* and prosecuting previously ignored misconduct. Despite the modern economy's much criticized work tempo, a job on a conveyor belt is less exhausting, physically or morally, than pre-industrial labor.

Artificial persons

Since artificial (legal) person has no free will, but is an instrument of its owners, it should incur obligations for them. Therefore, its owners are subject to liability for its deeds, unlike parents in regard to their child, and even parents are liable for children in some cases. The mere fact that judicial person is run by manager with free will should not diminish the owners' liability. Such manager acts essentially on the power of attorney from shareholders, and they should be held fully responsible for their proxy's actions.

Limitation of liability has negative effects ranging from lack of the company control by shareholders, to speculative investments in risky and questionable ventures, to downright abuse by setting corporate fronts to avoid liability. The registrars often openly advertise incorporation services as a device of avoiding personal liability. Absence of the owner control leads to human rights abuses, ecological irresponsibility, corporate fraud and corruption. Limited liability provokes corporate involvement in the potentially profitable but risky and dangerous businesses. Limited liability is a considerable force behind the trend to mega-corporations and stock bubbles. If Enron shareholders were made to pay for its debts, this would greatly discourage speculations, and would push for local investment in mom-and-pop businesses whose managers the investors know personally.

The corporations should be treated as dangerous pets, as instruments, not as gaming chips whose maximum impact on the owner is their cost. Owners' liability might be limited by insurance, not by the legal concept of limited liability, which evolved in the corrupt states through corporate lobbying. Limited liability of the owners afforded corporations an immense advantage over the people. Citizens cannot claim that their responsibility for car accident, including wrongful death, is limited by cost of their car. Yet they can do exactly this by incorporating their cars.

Subjecting corporations to citizen-like obligations, both financial and legal, requires a sort of participation in government affairs, since no taxation without representation. This participation is currently taking place through lobbying. It should be legalized, with corporations receiving voting power on almost any matters besides those to which they are not subject. Thus, they do not vote on war, since are not risking their lives. Even this is questionable because corporations may incur death-like harm from war by being destroyed. While few military-related businesses would vote for war, majority is conservative and pacifist.

To prevent creating of companies just to increase their owners' voting power, it should be proportional to the taxes paid. This would be a fair representation for the taxation.

If corporations are again treated as trusts, essentially as groups of owners, corporate voting can be replaced by establishing senate-like second chamber of parliament where the members are elected based on the taxes paid. Not that this measure is impeccable - workplaces created and value added are also important, but it is reasonable and transparent.

Developed countries do not abuse free trade

Developed countries set no rules of international trade, but insist on absence of rules and restrictions, free market. No one forces the third world to export raw materials and import advanced products and services. No one restricts them from developing technologies or buying licenses. Capital is available at low interest.

Under the same conditions of world market, almost all South East Asia develops rapidly, while West Asia and most of Africa lag behind. Work ethics of sustenance agriculture suffices to enter the modern economy. Nomadic background does not predispose to systematic work, and is insufficient.

The conditions for development are well known: respect for education and property, work ethics, and political stability. Societies respecting property always value life, and are not criminal. They are politically stable. Just courts, transparent laws, and incorruptible bureaucracy make countries perfect, but are unessential until a late stage, when competitive advantage of low wage extinguishes. More or less every society long past nomadic stage and with reasonable government is posed for development.

Third world markets are tighter closed to export of advanced economies, then vice versa. Instead of the typical Western duties of 10-15%, undeveloped countries impose many barriers: high duties or VAT, cumbersome import regulation, preference margin, patriotic consumer habits, and corruption.

Developed countries are more sensitive to free trade agreements which lead to loss of unskilled jobs that previously employed active poor voters. Third world mostly lacks local production of goods it imports, and these goods increase consumption without loss of employment. Imports often serve as example for local entrepreneurs who start assembling the goods when demand forms. Import of banking services provides local economy with inexpensive credit. Undeveloped countries cannot manufacture advanced products with high added value because the value is added through innovation and skilled labor, unavailable there. The example of Japan shows that determinate people in well-managed country could overcome this barrier in a single generation.

Third world, not developed countries created cartels and imposed monopolistic prices on oil, diamonds, uranium, and bauxites without significant opposition or trade counter-measures. Developed countries simply cannot form cartels: with many companies around, some would always undersell. Similarly, they cannot force the third world to sell raw materials at uneconomic prices: importers would start offering higher prices to suppliers to buy more of the scarce materials.

Often-criticized quotas oddly serve some foreign exporters at the expense of domestic consumers by increasing prices. Duties on raw materials, the major imports from the third world, are minuscule. Higher average duties on imports from undeveloped countries are usually non-discriminatory. Imports are generally so cheap that duty hardly pays the cost of customs clearance. Imports from the third world are often downvalued, a practice impossible for exports of developed countries with transparent accounting. The duties are insufficient to reduce demand and to protect domestic industries from low-wage competition.

Cheap imports push out relatively low-end and regulated domestic industries. American manufacturers had to advance into quality and fashion clothing to stay above import competition. Steel industry, with no room to advance and trade union-imposed high wages, was phased out. Many industries retained only high-value added operations domestically, while outsourcing simple manufacturing abroad. Inefficient workers in developed economies object free trade because they cannot find jobs in advanced sectors, and have to painfully retrain, or accept lower-paying jobs in low-end services. Developed economies need free trade to sustain upward pressure and continuously advance, shedding low-end sectors to developing countries.

Advanced sectors with high added value enrich developed societies, but do not impoverish the undeveloped ones who willingly purchase advanced products to increase productivity and quality of life. From TV sets to planes to software to weapons, customers in undeveloped countries often choose more advanced products over the cheaper models. The choices might be dubious, but they are free. Third-world governments likely make most of irrational purchases, driven by political ambitions, arrogance, and financial irresponsibility. Developed countries receive too little income from exports to undeveloped nations to institutionally abuse them.

Multinationals are not predatory

Mega-corporations are often more predatory at home than abroad. At home, they manipulate politicians for tax breaks, customs barriers, and monopolies. The problem, however, is not the size of corporations, but the corruption of democratic government and the popular tolerance to corruption and non-transparent laws. Reduce the government power of arbitrary regulating the economy, and lobbying will go. Rulers, not corporations, are thesource of corruption.

Relative lobbying power of mega-corporations at governments and international bodies is considerable, because smaller fish has no access to high echelons, but such lobbying is visible to all, and constrained. If anarchists succeed in checking the lobbying by mega-corporations, bureaucrats would just turn to mid-size companies for bribes. High-level corruption cannot be extinguished because stakes are too high, and law enforcement naturally inefficient at that level, especially that decision-making is arbitrary and it is not easy to prove that bribe was involved.

Even the largest companies cannot overwhelm smaller or less well lobbied competitors without the power to tax and regulate. Without suppressing competition, mega-corporations cannot impose their terms on customers or workers. Capitalism does not promote state regulation; on the contrary, markets counteract regulation, preventing the slide into socialism. Only when the government suppresses market mechanisms through taxation and regulation can corruption and lobbying flourish.

Multinationals and international financial organizations are often accused of usurping jurisdiction in the third world. That might not be bad, if it’s true: self-interested but otherwise civilized, educated, tolerant, liberal corporate leadership is better than the selfish, militarized bigots in power in many countries with subsistence economies, where people struggle merely to survive.

The accusation of corporate cabal controlling states does not square with rising taxes, overwhelming regulation, liberalization of foreign trade, minimum wages and other social programs. Corporations desperately offset the harm to their business by populist governments.

Corporations exercise limited control in foreign countries. Modern doctrines of inviolable borders and national ownership of resources put petty dictators in charge of wealth far greater then any bribes an investor could offer. Competition for local resources among foreign companies gives such rulers all the bargaining power. Dictators would, if anything, be more receptive to an electorate than to contending foreigners.

Countries without natural resources attract investors by other means: low wages, unregulated labor, lax pollution regulations. When wages rise and regulation expands, investors move to less burdensome jurisdictions. That is no more control than when customers look for lower prices and better service.

Corporations pass most of the profit from such shifts on to their customers as lower prices. Yet, while many leftist organizations demand control of foreign wages and multinationals' ecological policies, none tries to get consumers to pay more for uncompetitive goods produced at politically correct factories paying American salaries which might be theoretically built in Indonesia. Why would any company move a factory to Indonesia in that scenario? When it does not, locals continue without employment.

International regulation (wages, ecology, clean money) would not help undeveloped countries, but rather remove their only competitive advantages and take away employment. Not incidentally, trade unions and organizations with protectionist agendas finance campaigns for foreign wage increases and pollution controls. The minimum wage in India is a tax on American consumers who would otherwise be able to buy Indian-made products cheaper. People might donate to charities or buy overpriced products manufactured at higher-wage or eco-friendly factories willingly, or boycott cheaper products of child-labor and polluting factories, but American demands for wage increases and ecological controls in underdeveloped countries at the expense of domestic consumers are irrational. The number of people supporting these policies in the third world would drop if someone posted warnings on their propaganda:

"Minimum wages and pollution controls in other countries cost you money by increasing the prices of imported goods."

Multinationals are subject to political pressures and regulation that do not affect smaller fish. Large companies' visibility prevents them from bribing minor officials (indispensable in the third world) and evading high taxes.

Economy of scale, supposedly an advantage for multinationals, is insignificant. The savings on interest, large borrowers anticipate do not materialize. The junk bond flurry showed that higher interest can be forced on huge, non-viable corporations than on small borrowers. Interest on house mortgages is lower than on the bonds of most corporations. Risk, far more than the size of the loan, determines interest.

Many believe multinationals enjoy super profits by building factories in protected markets and selling locally at inflated prices sustained by tariffs. More often than not, that reasoning does not work: protected markets are generally underdeveloped, customers preferring unsophisticated cheap versions to the multinationals' value-added innovative products. Multinationals derive only a small portion of their income from emerging protected markets. Unusually high profits, when they exist, only demonstrate the impracticality of regulation: introducing one piece of regulation—protectionism—necessitates others—restriction of foreign investment in protected industries or higher taxes or price controls—which in turn condition others—customs alliances, free investment zones, special trade regimes. An influx of competitors lured by high profits soon reduces them, especially after adjusting for the risk usually associated with abnormal profits.

Nor do multinationals profit much by moving factories to low-wage countries. Since their competitors do the same, costs and prices go down for both, and neither realizes the advantage of relatively lower cost. Only customers benefit from low-wage production which lowers prices.

Nothing could be farther from the truth than the charge that multinationals depress wages by shifting production to lower-wage countries. Mega-corporations fulfill the socialist dream of an international workers' alliance, a unified labor market. New employment obviously benefits workers in the target countries: factories do not use slave labor, workers come freely and generally eagerly, and they pay better than the local workplace or agriculture. Laid off workers in the mother country can always find jobs in other industries, though at lower salaries. Mobile manufacturing jobs result from structural causes—tired economies spiraling downward, loss work ethic and entrepreneurship, overregulation, pressure on wages and benefits, ecological concerns—of which job flight is just one consequence. The global economy benefits from international production shifts through more efficient resource allocation; lower prices mean more goods produced and consumed.

Mega-corporations are not monopolists

Management in large organizations is generally less efficient than in small, making the former costlier. While mega-corporations are usually more innovative and better marketed, start-ups are often built on narrow innovation or marketing strategies and constantly hammer at the mega-corporations with their specific advantages.

Mega-corporations are less effective than private companies because corporations with diverse ownership are bureaucratized, and not eager for risky—potentially profitable—decisions. Large corporations, being more conservative, outperform majority of risking and losing small companies, but eventually fall to few risking and winning small competitors. Mega-corporations do earn monopolistic profits. On the contrary, they consistently perform below market averages. Several flaws skew statistics to the contrary. Small companies are included in averages which also consider virtually inactive ventures created as tax shelters, as well as loss leaders run by amateurs. A proper comparison should only include viable small companies in business for ten years or more. Some corporations also pad book profits to boost the stock prices.

Huge corporations are not long-lived. They swim in a tumultuous pond with new competitors every decade. Many corporations, like IBM and Xerox, are built around a single successful product and lose their edge as soon as the technology spreads. Corporations that rely on marketing, not product (GAP), are vulnerable to competition and are not monopolies. Monopoly is a significant share of the market, protected by regulation, patents, or similar fixed arrangements, and therefore exploitable, not any large share.

Technological economy relies on services and intangible products, less monopolizable than hard goods and resources: a single engineer originally developed MS-DOS and Linux. Intangibles do not depend for sales on collusions with governments, like oil, and have low switching barrier—various software is interoperable.

Monopoly is based on limited resources. The major resource of technological economy, intellect, is unlimited.

Socialists argue that large corporations can slash prices long enough to drive smaller competitors out of business, but that tactic does not work in modern capital-flooded economies. The dot.com bubble saw minuscule companies deliberately incurring operating losses Dumping works in small markets against competitors with limited resources. In a global market, dumping lets customers profit from low prices, and fresh capital waits to pick up where the former leader lost its technological or marketing advantages. Mega-corporations risk less with new products, since marketing lets them peddle almost anything to irrational consumers. That reflects the game theory: gamblers lose not because the chance of win is below 100% but because they have less money than the casino and cannot sustain a long string of losses. The market's position is stronger than the casino. As the dot.coms demonstrated, startups with promising products attract funding despite a history of loss. Ventures often form implicit alliances against market leaders. Unlike the casino, the stakes are not equal: multinationals spend much more on R&D and pre-sales marketing than startups, exposing them to higher losses should the product fail to sell. Mega-corporations make more bets than small competitors who usually stick to a single strategy and one or a few products. More bets increase the chances of a string of ruinous losses. Military aggression offers an analogy: unless an invader leaves no opponents, a string of wrong decisions or one big mistake can bring him down, and aggressors bet too often to win all the time.

Small competitors collectively use the Martingale strategy prohibited at casinos: gamblers double every bet, and one win recovers everything. The more successfully a mega-corporation competes, the more profitable it becomes, the more venture capitalists come in to grab a piece of the profit. Success provokes competition, and leaders soon face overwhelming funding arrayed against them. The advantages of size are self-destructive.

Concentration

Diverse ownership prevents mega-corporations from sharing the market consistently, even in the absence of anti-monopoly regulation. Investors prefer risking their money to wrest market share from competitors to watering their equity down in M&A which are popular mostly because of the accounting aberrations. Market sharing contradicts the competitive principle of putting profits ahead of stability. M&A affects industries like retail banking, where regulation impedes diversification, leaving little prospect of meaningful innovation-based competition, and customers randomly skip from one provider to another. A similar frenzy in the telecom sector is due mostly to vertical integration and expansion into other markets, not competitive mergers. Stock market bubbles prop M&A up as companies try to turn inflated stock into something tangible, even another corporation's similarly overpriced shares, before the inevitable crash. M&A is the last resort of stock speculation, inflating values when other means, like hype, are exhausted. Most M&A make no economic sense. Calling the speculators who cheer them *investors* is a misnomer. Blaming stock market vicissitudes on a free economy is like condemning wages because some people gamble them away. M&A produces little lasting effect. Businesses are as soon divested as acquired, companies burdened with bonds go bankrupt, and inexperienced investors lose. Non-economic speculation aimed at paper results is not viable in a free economy.

A regulated economy necessarily concentrates power in the hands of fixed groups, like monarchies, aristocracies, socialist regimes, and the German state-controlled capitalism Marx observed.

The correlation between regulation and concentration mirrors gamblers' profits from predictable games. The winners may or may not act consciously, but winnings accrue with predictable regularity. Games of chance disallow regularity and, therefore, concentration. The economy is not a game of chance; several non-quantifiable, unpredictable, unstable factors—education, intelligence, location—affect the odds. Wins and profits are fluid, changing owners and dissipating.

The immediate effects of regulation are predictable and assure that fixed groups win over the long run. All regulation benefits some group, obviously and immediately. The offsetting losses, on the contrary, are usually dispersed, not obvious, and secondary. Should they be obvious, passing legislation would be all but impossible. The remote effects are not easily traceable, the losses associated with them unpredictable, and the losers unidentified beforehand. Redistribution does not offset regulation-induced concentration.

Modern economies rely on large investments in R&D, equipment, and marketing, but the growth of successful firms does not necessarily mean concentration. Mega-firms operate in a global mega-market. Wal-Mart is relatively less concentrated than a small shop in a village or a neighborhood a century ago. Relative size might have decreased: each supplier controls a smaller portion of the market available to consumers. While a farmer could buy a cart from a single workshop two centuries ago, today he buys a variety of vehicles from the franchises of many large manufacturers.

Concentration is a function not only of size but also of time. Large companies operated in pre-technological economies for decades, sometimes more than a century. Now mega-companies come and go much faster. In our model of gas molecules, heating increases the chance of forming high-density areas, but these areas dissolve faster. Similarly, a developed economy contains many concentrated industries, but the so concentrated mega-companies dissolve fast.

Size *per se* does not impede competition. On the contrary, large reserves allow dumping, extravagant marketing innovation, and other attributes of fierce competition. Banks, investment funds, and venture capitalists offer a ready supply of concentrated capital for promising entrants. Even mighty ATT, in a market characterized by high fixed investments and marketing requirements, was besieged by myriad new companies, some of which grew into significant competitors in just a decade. Few non-regulated corporations retain market leadership for more than twenty years, testifying to the extreme competition among the biggest sharks. Major corporations with falling profits, outright losses, and bankruptcy show they are not invulnerable.

Naturally, a small company cannot oust a giant market leader. Small players either coordinate their efforts to undersell the big companies or accept smaller market share—thousands of companies beside Nike produce sport shoes— or attract investment to compete on equal terms. Various factors, from minimum wage laws to consumer convenience, dry up the minor-share option. Businesses exist only in motion, expansion or constriction. Is that not a post-industrial perversion? Mom-and-pop shops flourished for generations before. Not all change is perverse. Automobiles put saddlers out of business. New products succeed old ones. There is no reason market organizations should fare any better. Small shops are subject to change, as are goods. Innovation supercedes tradition. No evil wizard made people turn from mom-and-pop grocery stores to supermarket chains which offer lower prices, name brands, and variety. Absolute measurements are misleading. While modern successful ventures are bigger than fifty years ago, they are smaller relative to market size, meaning increased competition. The variety of goods today requires bigger shops. Neighborhood groceries put hawkers out of business a couple of centuries ago, and did fine so long as the variety of goods was small. Longing for small companies is nostalgia: they are not better. If customers preferred little shops where the owners know the clients, they would pay the difference to keep those boutiques afloat. Most customers do not value that kind of service and will not pay for it. Those who do, are free to patronize the shops of their choice.

Statisticians usually compare large companies with all the rest and discover that 0.5% of active corporate entities hold about 80% of assets and market share, depending on location and category. Many or most *manufacturing* corporations are small and serve niche (usually neighborhood) markets, with no intent of expanding. Many *active* corporations are so only on paper, because they file tax returns. A meaningful comparison should include only companies in business for several years and working to expand. That would modify the ratio of largest corporations from 0.5% to 2-5% of the total, still a serious concentration. Another modifier is the propensity of public stock corporations to diversify rather than pay dividends and create conglomerates of separately managed businesses with the same owners. The definition of assets is tilted to favor public stock corporations, usually including goodwill and other intangibles unaccounted for by small companies. Listed corporations tend to inflate their assets' book value to make their fundamentals more attractive. The drive to fool shareholders drives economically meaningless diversification meant to increase sales and boost stock prices by applying high price/sales ratios to unrelated and irrelevant sales. Those adjustments increase the largest (80% of total assets) companies' ratio to perhaps 15-20% of the total, close to the distribution of wealth among individuals and certainly lower than historical 100% concentration observed in many markets before globalization. Measuring concentration by employment, not by the book value of assets, would likely show less concentration. Irrational stock market speculation drives concentration. Highly profitable component manufacturers without popular brand recognition are less often the object of speculation and often all but monopolize their niche markets, yet show little concentration of assets.

Diversification of ownership offsets the concentration of corporate control. Early nineteenth-century companies typically had one or few proprietors and early twentieth century corporations, a few thousand shareholders. Listed corporations today often have hundreds of thousands, even millions of shareholders, and the smallest shareholders can question, stir and organize dissent, stand for election. Large shareholders, as pension and mutual funds, also belong to many small investors. The jury is out on whether ownership of corporate assets is more concentrated now than before.

The concept of companies as artificial entities adds the confusion about concentration. Companies are artificial, without free will, the sum of their principal owners' interests. The book values used to prove concentration should be divided by the number of significant shareholders.

The unreasonable limitation of liability corporate status offers also plays into the hands of concentration. Prudent people do not become liable for companies they do not control. Prudence impedes the creation of mammoth corporations with hundreds of thousands of owners and inhibits risky diversification and M&A strategies that work only when restricted liability and bankruptcy protection limit the downside.

The increasing market share of the top one hundred companies in the United States and Britain over the last century seems to signal a Marxian trend toward concentration, much as the invention of the loom drastically decimated the number of independent weavers in England.

Perhaps the computer industry shows the future of concentration. One market leader in processors, Intel, and one in operating systems, Microsoft, remain, each with one challenger (AMD, Linux) and few soon-out-of-business suppliers. Contrary to Marx's estimate, concentration does not result in exploitative monopolies so long as capital markets are ready to finance new entrants. Cheaper products compete with the market leader's, keeping prices down. Concentration is innovation-based and ceases when industries mature, basic technology spreads, and progress slows.

Aggression and acquisition in business resemble warfare. The side with better technology wins, and determination gains importance. Even the greatest military empires eventually succumb to errors, foolishness, and loss of momentum.

Concentration also works at the country level. Most countries once boiled with business activity, corroboration of the randomness of market wins. A technological economy's main resource, skilled workers, is liquid; Indian scientists flock to the United States and Microsoft. Though in theory, that process could perpetuate R&D concentration, that does not happen in practice, not only because of economic cycles. The American demand for engineers prompts young Indians to study that discipline and are soon too many to emigrate. The best move, but many do not. Second-tier companies open offices in India, major corporations relocate second-tier projects, creating local research clusters which, absent detrimental government policies, evolve into a new technological economy.

What about the concentration of financial institutions, the historical norm? Banks cannot easily distinguish themselves from competitors. Uniformity sparks an M&A flurry which leads to concentration, but that same uniformity prevents monopolization. Other suppliers snag consumers with distinctive products. It takes time to switch from Windows to Linux. Switching banks poses no problem, and new banks rise in response to ineffective policies or mega-banks' unusually high profits. Profit-seeking depositors fund the new banks.

Banks show concentration's critical aspect: it depends on innovation. A dominant company emerges where and when innovation means significant switching costs for consumers and barrier for competitors. Where switching costs nothing, as in retail or most end-user goods, concentration proceeds without losing competition. Mega-corporations increasingly dependent on marketing to create customer loyalty and discourage competition, engage in fierce battles. Competitors cannot collude to share the market, since monopoly profits would attract new competitors at once; further collusion and market-share agreements would split the market into insignificance. Without innovation, concentration dissipates, and single companies dominate only technologically sophisticated sectors.

Since innovative industries require special skills, wages tend to be higher. Concentrated industry prefers overcharging consumers, if they can, to underpaying employees. The socialist claim that concentrated multinationals depress wages is based on a statistical trick. Multinationals move production facilities to other countries specifically to benefit from lower local wage standards, yet they often pay better than locals are accustomed to, especially in third-world countries.

History has consistently proved the apocalyptic mindset wrong. The socialist hypothesis, "from cottage industry to super-monopoly," is too linear: the development is rather oscillating or spiral. The innovation model of concentration is oscillatory. It explains the concentration of corporate assets and personal wealth during periods of rapid technological advancement and posits less concentration when new technologies become common and inexpensive. Internet storefronts might signal recess in retail concentration. An increasingly large portion of the value added is allocated to possibly inexpensive inputs: ideas, management and marketing solutions, and software engineering. The information economy spurs applications, the emergence of new sectors compensating concentration in other sectors.

Liberals claim that the poor benefit particularly from free markets, assuming that a modest absolute gain raises low incomes. If that were so, society would have been egalitarian by now. Socialists reasonably point out that the top 1% of people have acquired a larger share of the total wealth in recent decades. Were that always the case, the richest would own everything. Both tendencies coexist in varying degrees: the rich get richer, but wealth filters down through society. When output increases rapidly, as during the technological revolution, and during restructuring, wealth is created at the top faster than it trickles down, with overall concentration at the top. In quieter periods, wealth percolates faster than it is created, diminishing inequality.

The notion of egalitarian pre-industrial societies is an illusion. Wealth was concentrated at the top few, and the agrarian population was poor. The concentration was greater than today but less visible. Now, the rich live anywhere. The media popularizes and exaggerates their wealth. A plethora of luxury goods is advertised to the public, and disparity is more evident than in agrarian or socialist economies. Inequality is a by-product of rapid development.

Could wealth ever concentrate sufficiently to permit major collusion and stop competition altogether? People should be prepared to fight any such monolithic arrangement. But such a development is doubtful. Technology and its seemingly unending innovations concentrates wealth. The obverse of rapid innovation is an abundance of goods produced with outdated technology and differentiated through marketing, diverting wealth from innovative companies to less advanced manufacturers and service providers. We have little experience from which to predict innovations in the innovative economy, especially when artificial intellect and robotization could make the goods almost free. People would buy only the most innovative goods, leading to a concentration of wealth in a few leading corporations. Since robotization could displace all workers, they have no money to buy goods, unless mega-corporations swap them for political allegiance. But machinery would also be cheap, letting people create the ultimate high-tech cottage industries.

If small companies conspire against outsiders, such as consumers, concentration is irrelevant. Companies cooperate among themselves to compete jointly in many areas: taxes, duties, pollution control, and advertising regulations. Consumer cooperation through consumer groups or legislation offsets such policies to shift the tax burden, reduce duties, protect the environment, and monitor advertising.

Interests which marshall companies against consumers depend on their affiliation with government. With regulatory authority weakened, companies resort to the second most-profitable option: joining the customers. A local laundry tries to please its customers instead of fixing prices with another laundry ten blocks away. Supplier-customer alliances drive vertical integration.

Suppliers depend on customers, on cooperation, not antagonism. In abundant market economies, suppliers seek "community" with customers, not other suppliers, by promoting brand *loyalty*, and offering gifts (*friendship*) and discounts (*economic concern*), promoting *goodwill*. Without common enemies to promote consolidation, such groups are fluid and can force suppliers to offer ever bigger consumer incentives. Some groups even define their enemies and critique them with aggressive advertising, fostering brand loyalty unrelated to quality to gain adherents. Supplier-customer alliances, however, are ephemeral and vanish when competitors introduce irresistible new products or the suppliers go out of business.

Large cities are a case of concentration. Their relative size fluctuates just like the size of corporations. Defense requirements and trade logistics made ancient cities swelling. Moderate order and diminished trade made towns leaner in middle ages. Efficient and inexpensive communication and logistics, competition among towns luring employers, increasing costs of operation in mega-cities, and maturation of industries decreasing the skill requirements and making the rural workforce acceptable – work to dissipate the large cities.

The bureaucracy or corruption are the only alternatives to a free market

Since public control in complex economy is always ineffective, regulation is the only alternative to free market distribution of income and goods. Bureaucrats generally vote for social democratic parties which depend on bureaucrat for implementation of their policies.

Bribery mitigates rigid economic regulation. Corruption opens up black markets which price goods by supply and demand. Less corrupt countries price scarce goods, not in bribes, but in political and administrative pressure, the infamous *connections*. A nominally non-market economy can operate only by developing black market mechanisms.

Capitalism and market economy do not worsen government regulation but soften it and prevent socialism. Capitalism is a black market of freedom in social-democratic society.

Government should not control the banking system

Scottish banks inflated commercial paper; but so did all governments with state coins and bank notes.

Before Scotland introduced extensive government regulation, only one major failure occurred, in 1772, when the Ayr Bank defaulted on L36,000. By contrast, the initial issue by the Bank of England, essentially inflation, was L1.2 million. Until the twentieth century, only two other large banks failed in Scotland, due largely to English legislation that depressed banking.

In nineteenth century America, rigid regulation caused numerous bank panics, though most did not affect solvency. The banks just closed temporarily. If closing had meant immediate liquidation, banks would distributed reserves more efficiently between their offices, and better match the maturities of loans and deposits to meet the demand for cash.

Modern banks issue the debt receipts, though not the bank notes. They offer electronic money, credit cards, letters of guarantee, letters of credit, money market margin credits, and generally expand the money mass with moderate control.

Abrogation of gold standard made money a fiction. National banks charge interest not for gold in form of paper receipts, but for the access to legal tender. Primary lending rate is a fee for the payment service, monopolized by governments. Primary lending income is large enough that American colonies in early eighteenth century financed all or most public expenses from this income, without taxes.

State monopoly on issuing money allows the governments to profit from inflation. The monopoly is not paternalist, honestly protecting inefficient consumers. If it were so, the American government would have suggested its people to save in Swiss franks. Civilized countries do not restrict their subjects in holding foreign currencies. If Uganda could sell its kwacha money to Americans, why refuse the right of issue to reputable banks? Though no Americans hold their savings in kwacha, many indirectly hold Latin American currencies through personal deposits in the US banks crediting those governments. Governments protect consumers by setting safety guidelines, not by nationalizing factories. The same logic applies to money. Paternalist concern is irrelevant to large financial institutions which form most of the demand for money, but governments prohibit them to issue commercial paper for using in the transactions between institutions.

Market practices for commercial money would have to be very strict. Unlike goods used by only one or a few people, money circulates for a long time. Transactions should require approval from many parties, just about everyone in a given market, in fact. As an intermediate solution, the issuing bank could offer to exchange its money for any currency on demand, though the need to return to that bank repeatedly would be inconvenient. As with any commodity, strict customer demands and stiff competition would eliminate all but the best quality money from the market. That sellers price their goods in one or two currencies, suggests that a handful of commercial currencies would dominate the circulation. Competition would force the issuers to maintain good quality of their money.

Regulators argue that bad banks would pull good ones down during crises, since the public sees no difference between them. Stock market corrections counter that reasoning. As the market corrects inflated valuations, good companies are either affected little (compared to bad companies) or are actually rewarded when cash salvaged from bad companies flows their way. The panics of the early period are not indicative of the likely behavior of informed consumers in mature economies.

Scottish bank wars, with large banks not accepting the notes issued by smaller ones, are often cited to assert inevitable concentration, if banks are allowed to issue their money. The opposite is true. Similarity of services is a major force behind concentration in banking sector. Issuing money of different quality would diversify their services, impeding concentration. Several Scottish banks boycotted others, but many large banks in global economy cannot reach such collusion, like mega-corporations cannot sustain a cartel. Since clearing cash flows of small banks is profitable, some large banks would do it, and others would follow. Large banks do not boycott small ones by refusing correspondent accounts, and would not refuse to clear any sound commercial currency. People would be both more flexible and more demanding with private money than with government paper. The government should enforce transparency and fraud regulations stringently on issuing banks rather than issuing its own money. Mandatory coverage by private insurers is another viable option, since banks rarely default on a large percentage of their notes all at once. As to the risk of deliberate fraud, companies other than banks also run frauds, yet no government forbid selling stock shares to public.

A bimetallic scenario offers another check on excess monetary expansion. The public would first get rid of money the rating agencies label bad. The public would not accept the bad commercial paper, as it must with government money. Whereas bad government currency is pushed out from deposits into circulation, bad commercial money would be pushed out of existence. Shareholders cannot redeem their stocks, but people holding commercial money could. Public corporations are concerned with ratings, and issuing banks would be even more concerned to keep their finances in order, since downgrading would prompt the run on the bank.

The claim that commercial paper prompts boom-and-bust cycles ignores market players' common sense: not only would an out of control bank find few customers for its paper, but speculators would pile on such bank, selling its currency and its shares. Furthermore, accelerating the boom-and-bust cycle may be no worse than leveling them. Acceleration would shorten corrections, and corrections would be painful, prompting entrepreneurs to account for them beforehand and level the cycles instead of their consequences. The road of free economy is bumpy, but it lacks major detours characteristic of planned economy highway.

Stability of monetary supply is not an ultimate good, as adherents of central banking represent. Neither it has to elastically respond to demand for loans. Rather, money, like any other goods, should be available to cover solvent demand. With flexible interest rate, there is by definition always enough credit capacity to cover effective demand. This makes borrowing in crises hard, but this is what crises are about – wiping out the inefficient entrepreneurs and abruptly decreasing wage demands which over-extended in booming economy. In modern economy with abundant capital, banks would gladly extend credit to solvent businesses during crises, though companies in good standing by definition could manage a short while without loans.

Governments are interested in booms, not only for political reason of quick riches for voters, but also because states collect taxes in real money on paper incomes during speculative booms, while reimbursing little after the busts to losing companies that go bankrupt and do not claim tax reductions on carry-over losses. Governments cannot prevent booms: increased interest rate suffocates economy, but not high-profit speculations. On the contrary, higher lending rate pushes more funds into speculation, the only sector where expensive loans remain feasible. States, however, counter busts with relaxed lending, preventing the effects of speculative bubbles from fully dissipating before the next boom arrives, and creating decades-long mega-booms that could only end in mega-busts. Greed and rational desire of enrichment, not of bank policies, produce bubbles. Draconian taxation of speculative profits during booms is an efficient and possibly legitimate defense of society against extreme misallocation of resources. Global economy with liquid capital markets allows net benefit to booming domestic economy at the expense of foreign investors. This makes government involvement in preventing bubbles dubious.

Competition makes everything cheaper, and money should be no exception. Cheap credit, the argument goes, increases demand and pushes inflation. The argument is seemingly self-evident, since interest rates near zero, the demand for credit should be very high, and putting more money in circulation against more or less the same pool of goods raises prices. Yet the argument overlooks several issues. Consumers cannot borrow more than they could repay from their incomes, and small reduction of interest plays little role in the borrowing decisions. Manufacturers are more sensitive to interest rate, but not tremendously so. They are rather concerned with relative rate, that their loans—and costs—are not higher than the competitors'. In any case, manufacturing sector is small in developed economies. Speculators thrive on low interest which allows them to comfortably wait for a bubble to develop. But, given a choice of currencies, rational people would shy from the currency favored by speculators. In consumer cultures, savings are small, and banks compete for savings with other investment opportunities open to the public: pension and mutual investment funds, stocks, and real estate. Therefore, banks must offer attractive interest to compete and cannot afford low interest loans based on deposits. Speculators and rating agencies limit banks' capacity to issue. A small increase in the supply of goods temporarily caused by inflation compensates whatever inflation remains.

Monetary expansion without sufficient coverage is of little importance in the age of electronic transactions and immediate inter-bank clearing. Modern banks cannot count on the delay between expansion and clearing which their predecessors profited from. Control by other banks and speculators is more effective than government control, as currency crashes show when speculators play against the central banks. The market institutions would take care of the weeds, sparing the rank-and-file users from keeping the bad money.

Speculators also undermine one of the major arguments against commercial bank notes: that clearing would not punish the over-issuing banks if all banks are over-issuing, an all too common situation. Since over-issuing depresses the exchange rate, speculators buy the inflated currency and immediately redeem in the issuing banks or short at the money market. Certainly, speculators would delay such counteraction, even though the penalty for over-issuing would fall quicker on individual banks than it does currently on the central mega-banks. During stock market booms, speculators actually go with the wave, starting to short only near the peak of the boom, largely because they trust the government-backed currency. If governments did not prop currencies or stock indexes up, busts would come much sooner without accumulating huge distortions. In any case, most people keep their savings in varied-value instruments, such as shares or houses, not in bank notes. People may think their savings are in deposits, though they actually are in credits the bank issues, credits that often are used again often for questionable business expansion or for market speculation. Personal savings are not immune in any sense unless the government guarantees bank deposits, and then only in limited amounts ($100k for FDIC) and at tremendous cost, as repeated S&L crises have shown. Government does not create guarantees or cover losses with thin air but with taxpayers' money, distributing the losses of the imprudent people throughout the whole population. The government does not prevent losses but only distributes them evenly. No private money system could be less efficient. Failures of central banks are less evident than commercial banks' bankruptcies. While depositors lose their money when banks fail, holders of government bank notes can redeem them at any time for goods. The problem is two-fold. First, prices rise during inflation, and even though people still hold the redeemable money, the rate of redemption changes dramatically. They *do* lose part or even most of the money, just as with commercial banks. But the loss is of value, not quantity: the holder does not have to throw away N banknotes issued by bank A, but he loses M part of the value of the dollars issued by the American treasury. The government *does* default at the public's expense. Second, government shift losses paper money holders onto taxpayers to bail out the banks and the treasury, onto bondholders whose assets are forcibly restructured indefinitely and at a rate far below inflation, and onto entrepreneurs who are legally obliged to sell goods for worthless money and often cannot raise prices to offset the loss of value. The government has every reason to prevent bank failures at any cost to the public, because bank failures undermine the value of its banking franchise and raises doubts in the financial community and the public about the government's efficiency.

Uniform banking regulations, especially uniform coverage through the FDIC, establishes a virtual monopoly. Since all banks are the same in the public eye, the situation ripens for M&A: economies of scale predictably outweigh non-existent specialization and differentiation, a process evident in the United States. An important problem is that mega-banks multiply the money mass with little restraint and could inflate on the credit side. Working closely with the government, such banks could sustain devastating monetary policies, causing large-scale systemic deviations in the economy, the government covering their errors all the while by guaranteeing deposits and allowing the customers to ignore their irresponsible credit tactics. The choice between many small banks and a few huge ones coordinated informally with the government is a choice between many minor defaults and rare but severe crises. Responsible people prefer the former; politicians, the latter, because long lapses between busts make voters forget and because catastrophes allow more leeway for increasing regulation permanently than small readjustments from minor defaults.

There is no certainty in the world and no need to introduce artificial firmness into the business of finance. Losses are always possible, banks not excepted. Depositors must risk their money. Revoking FDIC deposit protection would work to diversify banks according to the risk level of deposits, preventing uniformity and concentration. Customers follow the risk valuations of different issuers closely in the bond market; wide diversification of bond rates would be tracked by similar variance of deposit interest. People who doubt the rating agencies' assessment of the banks could buy deposit insurance, which would give everyone the same risk-adjusted interest rate and theoretically again erase the differentiation between banks. The largest depositors, however, would not buy insurance but rather risk their money, as they do in any other investment. As in any other field, a variety of insurance plans would arise, leaving considerable differentiation in the insurance-adjusted interest rates. Though commercially insured banks might look alike to retail customers, they are very different, insurance premiums and real interest being dissimilar, and stand in the way of the present M&A flurry when the FDIC Banks Insurance Fund charges undercapitalized, badly managed banks the maximum annual premium of 0.27%, far below realistic risk assessment. If the government stopped its involvement in preserving bank stability (at the price of economic dislocation and taxpayers' money, as in the S&L crisis), such a policy might restrain mega-banks from lending to US-friendly but bankrupt countries and propping up stock market bubbles the government keeps from collapsing to reasonable valuations. Extra-conservative insurers would impose much higher premiums than the FDIC (which charges zero in some cases) on the mega-banks. The need for insurance would also prevent exceptionally large mergers, since the resulting banks could turn nowhere for guarantees, even to re-insurers. Insurers prefer diversified risk to concentration and would offer lower premiums to small banks.

Due to their monopoly on money, central banks could manipulate the money mass through interest rates, regulating demand through price. Such a mechanism is not only unnatural (supply should be raised instead), but also immoral, playing to the first borrowers who get loans at lower rates. That practice provokes booms by pushing excess borrowing at lower rates in anticipation of a rate hike. The rate would increase during crises anyway, because of scarce resources and heightened risk, but not in the usually mistaken anticipation of crisis. During such a crisis, foreign banks could act as lenders of last resort instead of the central bank. In the absence of regulation, crises are harsh but short, and a global crisis is highly improbable.

Money should not all be of the same grade. Some banks could offer delayed clearing, which would let them keep relatively small reserves and offer cheaper credit, if the borrower's suppliers would accept such inferior money. Something like this now happens with CMOs. Mortgages are cheap because they require almost no reserves or administration. Once an investor buys a CMO, he cannot redeem it prematurely but only resell it on the secondary market, not unlike term deposits. Unlike bank notes, "term notes" tied to the bank's loans are immune to bank runs. If commercial money were reinstated, most of the float would consist of term notes, with traditional bank notes redeemable on demand issued only in minor quantities to retail customers who could not stage an effective bank run.

In the end, any issue is inherently inflationary and unstable, since more money is issued than covered. A prudent person would use money only for payment and keep savings in durable goods, company shares, or investment funds. Savings accounts show no clear association between the money deposited and the object purchased. Owners of savings accounts are almost certain the bank owns less real liquid property that it owes depositors. In effect, a prudent country would issue no money other than for transactions.

People invest more in pension funds than they normally keep in cash, and the funds keep little cash and buy investment instruments. Therefore, private money would not expose people to higher risk than they run now by saving with private institutions.

The government has power to sustain and expand bubbles which otherwise quickly burst and readjust the economy toward efficiency. The US government sustains the overvalued dollar by tying up huge amounts in T-bonds and politically motivated foreign dollar reserves and by propping up the speculative stock market.

The Dow maintains its current high level because funds recovered from dot.coms flows into stable companies that comprise the index. That is not yet the last resort, however: foreign-held dollars will flow in when holders try to convert money into anything tangible, even shares. US money is greatly over-valued, and stocks, real estate, and the corporate goodwill which make up most of the dollar assets are overvalued by more conservative European standards. Once the market crashes and mortgages rate rise, devaluing the real estate, inflation will follow.

Administration under anarcho-socialism

The prohibition of private ownership of large estates and the means of production requires turning factories and credit into the public domain. Anarcho-socialist communities therefore require bureaucracy to administer communal assets and suggest that a rotating bureaucracy prevents abuse.

Bureaucracy works through obstacles to perpetuate itself even to the extent of making offices hereditary and constantly relaxes rotation requirements since professional bureaucrats are preferable to inefficient amateurs. The early Soviet practice of commissars taking offices proves that amateurs often turn abusive to conceal their inefficiency.

The people who shirk jury duty are hardly inclined to routine administration which falls into the hands of office drudges. The absence of laws in anarchic society offers bureaucrats leeway and power and exacerbates their negative traits.

What good is a rotating bureaucracy? The administration in moderately corrupt countries is impersonal, and people don’t know the names of most civil servants. Rotation now takes place through hierarchical movement, retirement, new hires, and other channels. More frequent rotation might not effect qualitative change. Anarcho-socialists treat the rich as a coherent group regardless of its fluidity but expect fluidity to alter the bureaucracy.

A popular state could only be governed bureaucratically. Privately owned corporation, or a totalitarian state exists for the benefit of its owner or ruler, respectively. That leader takes decisions, enjoys profits, and incurs losses. In a popular state or a public corporation with diversified ownership, the nominal beneficiaries are too many to agree on executive decisions, or even to regularly participate in deliberations. The most that they could agree on is electing several representatives (congressmen or board members). The latter are also too many to routinely decide on the particular actions, but they could agree on hiring a CEO or prime minister. He should install subordinate managers, and, in theory, proceed to operate the enterprise for the maximum benefit of the owners.

The benefit cannot be objectively defined. Some shareholders look for long-term appreciation, others – for dividends, and other – for speculative gains. Some citizens want more infrastructure, while others – less taxes. No certain path leads to any of these objectives: some people prefer more risky and potentially profitable, while others are conservative. A top executive cannot disregard an opinion of any large group, leaving him with two options: squeezing the immediate profits (benefits for citizens) sufficient to quash the objections of the dissenters, or adhering to conservative strategies answering a bit of demands of every large group of owners. The former policy is usually detrimental in the long term, the latter produces mediocre results. The former violates the fiduciary duty, but the latter case is more complex.

Enterprise' hierarchy does not impede freedom

In order to correlate socialism with anarchism, socialists say that private ownership of the means of production, an anathema for communists, establishes subordination of workers to owners and managers, so that employees are not free. True, employees have to obey orders, but no more than in cooperatives where they would have to obey either hired managers or majority decisions. The self-employed bow to the customer’s will. Freedom is a good for sale. People sell it for wage or other income.

Any work suppresses free will of a person who would rather sleep until ten o'clock, and go skiing afterwards. Wishes are irrelevant in the real world. A requirement to override one’s immediate will does not infringe liberty when people accepted employment for compensation. Robbery is an infringement, because the choice between life and purse is rhetorical. People rejecting employment do not starve; they might be self-employed in service or agriculture, with income far above sustenance. Refusal to take a wage job threatens lifestyle, not life.

Refraining from obligatory inhaling would cause a person to die; this does not make breathing a restriction of freedom. People refusing to give up their freedom and take a job might starve, but that damage is similarly natural. Anarchists are concerned only with coercion, not with restrictions the nature imposes on people, and not with self-imposed limitations. A person is free to partially sell his freedom. By marrying, he gives up the outside relationships for comfort of a family. By acquiescing to democracy, he gives up a freedom to live as he wishes for assurance that most conflicts are resolved by vote instead of violence. By taking a factory job and accepting the orders from managers, he receives a higher and more assured income than if self-employed: no coercion is involved. Closure of the industries which fell to import competition because the workers did not accept lower pay or more intense work, such as the American steel industry, shows large bargaining power of employees. Coercive agreement is an oxymoron since parties agreed. Coercion is a boundary case of the legitimate balance of bargaining power.

Employers colluding to impose terms on the workforce would infringe liberty, since arbitrary actions, not impersonal forces of nature or market, would be at play, but collusion is impossible in a globalized economy.

Socialists find it unreasonable that managers and other personnel supervise workers who know their jobs, such as surgeons who work without managers. Surgeons, however, study for up to eleven years before they begin working and generally study all their lives. If the workers were equally educated, there would be less need for management, but surgeons, like laborers, need others to plan investment, marketing, logistics, and finances. There is specialization even in the operating room, and surgeons follow manuals and procedures dictated by regulatory bodies, insurers, lawyers, and other specialists.

Only the owners are entitled to decide how to risk their money. Neither surgeons, nor workers could make investment decisions. Since people are different, and society not single-minded or egalitarian, hierarchy exists under any political order. Democratic hierarchy subjects people to majority. Similarly, communes impose their choices about using the common property. In lawless society, strongest rule. Capitalist hierarchy is the most flexible, since it is always ad hoc, with people deciding every time whether they want to hire and subject themselves to particular employers for particular compensation.

Following orders unquestioningly numbs people. Military men are notoriously uncritical. Does the business hierarchy make fools of workers? The relation is not so clear. Many jobs require education and increasingly analytical skills; far from suppressing intelligence, technology pays for brains. Primitive work might be detrimental to intellect, but such jobs are becoming fewer, with robots replacing the workers in developed economies. Historically, most occupations were drearier than even the conveyor work now; sustenance farming required little intelligence. Only a tiny fraction of population worked creatively. Many or most people want neither brainwork, nor full freedom or responsibility. Free market provides many opportunities for those who do.

Intellectual polarization of society is improbable: even the dullest see the wage gap and work to advance and grow intellectually. Welfare contributes to polarization, keeping low-end workers in basic occupations.

A notorious example of managerial power over workers is sexual harassment. Though most incidents exist only in the minds of "victims" and lawyers bent on extortion, genuine cases are abundant.

Why object if the factory owner offers to raise his secretary's salary for certain intimate concessions if the secretary has the option of saying no and keeping her job? A belief that only women in extreme hardship accept such offer is romantic. So long as the choice is hers, there is little reason to call such advances harassment. She can trade her favors for compensation just like any other asset willingly sold at a fair price. We could object, however, to a violation of contract if the owner changes the terms and requires intimate relations in addition to the office job.

Slavery

An issue of slavery, though repugnant, is worth investigation because it long remains a major battleground between liberals and socialists. Unrestrained liberalism suggests that a person is unreservedly free, including a freedom to abrogate his liberties – even all of them, making himself a slave. Socialists employ this fringe example to demonstrate that society should restrict freedoms, if their exercise seemingly denigrates a person. None of these views is correct. Society has no legitimate claim on freedoms generally, but liberalism, like any theory, becomes inoperative at fringes, and the extreme cases call for minimal regulation. Superfluous regulation worsens the conditions of people, rather than betters their lot.

Arguing for the man's right to subject himself for compensation, we arrive at the boundary case of a mutually binding life-long labor contract and slavery. Since people subject themselves for compensation to enjoy life in their free time, slavery renders compensation meaningless. One freedom is traded to enjoy another better. From that viewpoint, selling oneself into slavery to avoid starvation is reasonable. Similarly, people might prefer the security of a lifetime labor contract to endless job hunting.

Entrepreneur whose factory employs a process highly dependent on operator's attentiveness might offer a job contract with unusually high salary, but also providing for severe corporeal punishment for negligence. A top crisis manager hired for astronomical salary could be required by contract to submit to flogging in case of failure. Society has no reason to forbid the contracts involving some risk of punishment; indeed, soldiers sign just such contracts, risking their lives for compensation.

Society tolerates suicide, and not punishes people who survived. If people could refuse their life, why not freedom? People are free to commit suicide, or to sell themselves into slavery. Society might be concerned when buyers of slaves unduly profit from critical circumstances forcing people into slavery. Pawnshops, however, profit in similar circumstances, yet not prohibited. Coercive profits might be heavily taxed, and the "business" of slavery regulated.

Much resentment against slavery stems from its extreme manifestations: the master's control over life, punishment, sex, and the slave’s time and property. Yet dying from eventual arbitrary punishment might be a brighter prospect than immediate starvation. Thai and Filipino women willingly engage in prostitution; married Muslim women live in virtual concubinage; people in sustenance economies have less free time to enjoy than slaves are likely to have in civilized countries; plenty of people have no property to lose to masters. The prohibition of divorce is not unlike slavery if one spouse is dominant. Extreme poverty and oppression are bad, and activists are justified when they try to better people's lot; but in some circumstances, it makes sense for people to sell themselves into slavery.

A slave automatically becomes his master's neighbor, entitled to ethical treatment. The biblical prohibition of usury advances a doctrine of not exploiting a neighbor's dire circumstances. The Bible also regulates slavery, prohibiting abuse and setting a term limit of six years, with lifetime extension based on informed choice: a slave had ample time to learn his master's habits and evaluate his serfdom. Any price paid for a slave is sure to be recovered during that term; the loss of freedom for six years is worth more than any likely price.

While allowed in principle, slavery, like other fringe cases, requires regulation. Contracts freely agreed to by bother parties could spell out protection clauses: buy-out provisions, term limits, jurisdiction and punishment, and the private sphere. The buy-out clause is ethically the most significant: a slave can buy his freedom; no damages are due to the owner since people sell themselves only in life-threatening, force majeure circumstances.

Society could legislate the harshest allowable conditions of slave contracts, protecting the irresponsible against excessive abuse. Individual contracts would offer slaves wider rights than legal guidelines prescribe. The gray area between regular employment and slavery includes "regulated slavery contracts," fixed-term employment with relocation to a state with bizarre laws, and similar agreements curtailing the employee's right of exit.

The argument above provides for slavery only as a personal choice. Selling free people, notably children, is out of the question: unlike property, people have free will. The argument cannot be strictly defended; it is axiomatic: each person owns himself. No one can sell anyone else’s time, services, or freedom. Any government that does is morally illegitimate.

One exception is enslavement for unpaid debt. A malicious debtor takes someone's property; he might be enslaved economically by having to work at his master's discretion until the debt is repaid, and live where the creditor says to avoid wasting the money owed. Modern society restricts convicts in jails more than biblical slave owners did, yet the absence of punishment for malicious default encourages malingerers, as the wave of bankruptcies shows. Enslavement of malicious debtors and the resulting discipline of payments would decrease the bank rate like nothing else, benefiting the majority.

Let us consider the enslavement of children by their parents. People enjoy life and prefer even a very harsh life to suicide. Given the choice of being born to a cruel life and not being born, people would prefer the life. Parents who bear children specifically to sell them into slavery still benefit them. The same logic permits domesticating and killing animals. The essential difference between children and animals is the perceived uniqueness of each human, while animals are considered *en masse*. Parents exercising control over a child is a case of monopoly over unique object, subject to regulation. Such monopoly even creates responsibilities, and parents have to provide for children similarly to an owner of precious painting obliged to care for it. Humans have to domesticate and kill some animals for food, while no similar necessity justifies enslaving children. The degree of any regulation is arbitrary, and different societies limit the control parents exercise over their children differently, but the most extreme control, slavery, is universally prohibited.

Parents claim help and respect from their children for the time and money invested. Such relationship resembles ownership only slightly: much less than ownership of animals which also does not permit cruelty.

Trade in children varies in legitimacy. Despite the media hype, there are few cases of actual slavery. Child labor may also be misreported. Though abhorrent to human rights activists, child labor was the norm in civilized societies a century ago; there is no human right to avoid work until a certain age, though rich societies buy that cushion for adolescents. Much argues against the arrangement: it is historically unsound, promotes infantilism and time wasting, inhibits responsibility and work habits, and is irrelevant to educational needs. Minimally paid work might be better for a third-world child than starvation. Western charities seek to alleviate the problem with donations and nominal education, but when parents have to sell their children to work for sustenance, they are justified. Thai child prostitution is disgusting, but the girls are arguably better off in brothels than in their home villages. The operating criteria for selling children are urgent need and selflessness: no better options and material profit for parents. This disqualifies breeding children for adoption, but allows adoption in dire circumstances. Being subjected to a parent's will is natural; being subjected to adopting parents, though perhaps fortunate, is an arbitrary disposition of the child's liberty and is justified only in fringe cases when the child clearly profits.

The case for slavery is theoretical. Absent of enabling legislation, masters cannot force slaves to work a problem evident in law-abiding Athens where slaves were notoriously lazy. Forced labor in prisons proved useless except when totalitarian regimes threatened recalcitrant convicts with execution. Employment is much more effective: the threat of lay-offs exerts sufficient pressure, and employers do not have to guard and house workers.

Cooperatives

The anarcho-socialists' ultimate program of restructuring all factories into cooperatives warrants review. Recognizing that nothing precludes establishing cooperatives in capitalist society, socialists argue that worker-owned factories are bound to fail for external reasons.

First in their reasoning comes the inaccessibility of bank credit, an untenable argument, because those same banks push consumer credit onto the workers with mortgages, credit cards, and car loans worth more than the investment required to create a workplace. Business lending practices in developed countries are also liberal, where personal guarantees are sufficient for small amounts and larger sums obtainable with a business plan.

Socialists then shift the argument from accessibility to price. Mortgage-backed loans, however, currently run at only five percent annually, just above inflation, a rate unseen in the West since the passage of anti-usury laws. Business credit runs between eight and eleven percent. Nor did cooperatives flourish in Japan, where interest hovers around two percent. Cooperatives are very inefficient and cannot sustain interest. Workers might lose more income through reduced efficiency than they would gain by keeping all the added value for themselves. Cooperatives are not inefficient because they are small. They are less efficient than mega-corporations or similar size private companies, even in low-entry barrier sectors, like restaurants.

As Japan demonstrates, depositors' profits are minuscule with the credit rate below one percent annually. Most of the deposit interest rate compensates not "time use" loss, but inflation and a growing basic commodity consumer basket. The latter, often ignored, shows the shrinkage of the relative value of each item in the basket over time. For example, in the 1940s one car per family was good; in the 1990s two cars were below average. A car was a more important purchase in the 1940s than in the 1990s, creating "inflation of demand." Overall inflation runs considerably above the nominal two to three percent, leaving scarce real profit for depositors. Any regulatory decrease of the interest therefore amounts to an annual tax on savings, punishing thrift. Lowering interest depresses deposits. Competition among banks reduces interest profit to the bare minimum or less, forcing banks to discount risks. The only alternative is to nationalize credit and create resources from state revenues. That generates arbitrary distribution of scarce resources: bureaucrats decide who is entitled to how much cheap credit, a sort of corrupt underground market in the planned economy. The government would have to accumulate credit resources through taxation, no different as far as workers are concerned from a capitalist skimming added value in return for his investment.

Free or subsidized capital greatly distorts the prices of capital-intense goods as happened in communist economies, where cheap fares clogged the airways. Automotive production created twenty-year waiting lists for cheap cars. Low steel prices led to over-production of industrial equipment and obsolete machinery. That resulted not from sclerotic management by the Soviet gerontocracy but from artificially depressed interest rates. The government has only one way to drive demand back to normal: increase prices to market levels, which leaves the recipients of cheap loans with excessive profits. Taxing them away leaves the factories in no better position than market-priced loans. Leaving them to the factories means enriching worker-owners at the customer's expense.

Arguments related to loan interest, if valid at all, justify subsidizing credit for cooperatives, not the socialist goal of prohibiting or suffocating capitalist ventures. The demands are therefore moot, since governments already support small businesses with subsidized loans and tax incentives.

Cooperatives have strong disincentives against reinvestment, a pillar of technological competitiveness. They say they distribute added value among workers, though they withhold a large percentage to buy new equipment and are no better than capitalist ventures which also withhold VA. Indeed capitalist enterprises might actually pay more VA to employees, financing their capital needs through shares, bonds, and long-term loans. Cooperatives avoid public shares, the major non-VA source of investment capital. Not only does that leave less for salaries than do capitalist companies, but also cooperatives are always capital-hungry, since their income is often insufficient to cover major investment decisions. If they do not issue shares, with consequentially non-workers ownership, cooperatives must rely on credit and end up paying more for capital than public corporations. That depresses wages and forces cooperatives into low capital requirement sectors where workers finance the equipment out of their savings. Those sectors are by definition low-skill, low-VA, and low-wage.

Reinvestments make workers shareholders, because employees would reinvest only part of added value if they could somehow withdraw it later. Reinvestment with no hope of return amounts to taxation, no different from capitalist workers sharing the VA with investors. Different reinvestment creates unequal ownership. When workers retire, they cannot liquidate the factory, so they pass it on to new generations. Since socialists oppose inheritance, the transfer must be compensated. Since the factory's worth is the workers' life savings, new generations cannot buy it outright, but could pay installments. The factory's value would not be based on the nominal sums older workers paid for decades but on the current value, adjusted for inflation, goodwill, and so on. In socialist terms, retirees would get more than they paid, call it profit or interest. Younger workers might actually prefer renting the factory to buying it, making the retirees capitalists. In practice, they would enjoy profit on the deferred capital earlier when expansion and new processes required hiring workers with specialized skills. Free use of the equipment older workers bought by deferring part of the value-added they created is unjust. Unless the new workers pay their share of the factory's worth, they are using other people's equipment, precisely what cooperatives are meant to do away with.

Cooperatives are incompatible with another of socialism's shibboleths, the denial of inheritance. Since few people consume all they earn but share it with family, reinvestments deprive them of a sizable portion of current earnings. The family, therefore, has a legitimate claim on the worker's share in the cooperative. The case of a single-earner family with a woman as housekeeper is especially clear. She and her children have every reason to inherit the worker's share, since his reinvestment in the cooperative deprived them. Any resolution of the problem would involve arbitrary limits on the size of inheritances and the number of generations entitled.

Socialists also argue that while cooperatives are less efficient short-term and cannot pay interest on debts, they are more able in the long-term. Were that so, cooperatives could attract capital by issuing shares to workers, who would borrow against mortgages and invest in the shares soon to appreciate in value. If that did not provide sufficient capital, cooperatives could issue minority shares to outside buyers without affecting profit distribution significantly. The shareholders would not expect dividends, which few corporations pay, but look only at improved long-term capitalization, the one thing apologists for cooperatives are certain of. That the cooperatives do not routinely attract capital through incorporation and selling minority stock suggests their claims of superior long-term performance do not persuade investors.

"Pure" cooperatives, whose primary goal is to satisfy the members, are even less competitive than "market" cooperatives, employee-owned factories aimed at customer satisfaction. A society which allowed only “pure” cooperatives would be the victim of perpetual inflation, since the cooperatives would raise both wages and prices. Absent central planning, competition would ensue in a shrinking market, forcing the cooperatives back to free market principles: borrowing at interest for expansion, hiring top-notch managers at high salaries, and acting against competing cooperatives and their worker-owners. Market cooperatives pay less wages than private enterprises; “pure” cooperatives work only in government-planned economies.

Implicitly recognizing workers’ dislike for low wage cooperative jobs and cooperatives’ inability to compete with private firms, proponents of cooperatives suggest that lower efficiency is good in itself and that employees must be forced into cooperatives, regardless. A typical claimed benefit is decreased pressure on the environment. In fact, the opposite is true. Lower efficiency means using more resources to achieve the same output. Not only would environmental pressure increase, but also products would be more expensive, hurting the same workers the socialists seek to benefit in the first place.

Another typical argument for the prohibition of wage labor is ethical: people can be free only when they free others, an ungrounded positivist dictum that works against the will of workers who prefer working for wages to being herded into stingy cooperatives.

There is no rational or ethical reason why individual workers should prefer the dictates of the majority to those of professional managers. People prefer remote subjection—to those perceivably different: an authoritarian ruler, a manager—less objectionable than immediate—co-workers. The former case is plausible, but the latter is unnatural. Freedom is individual; the right to establish cooperatives implies the choice of employment, such as now exists. At most, the collaborators could form communities with near-closed economies allowing no other organizational forms.

Socialists suggest solving cooperatives' financial problems by eliminating competition: either dissolving all other entities (able to pay for loans) or by nationalizing the credit system and regulating banks to reduce the interest rate. But state economy is not free.

Many people prefer wages to owning the means of production, since ownership entails bearing the risk of production. Socialists, on the contrary, want to force public ownership of the means of production, but might find the public unwilling to assume the entrepreneurial risks. The socialists have but two choices: a centrally planned economy involving no risk or government ownership of the means of production.

Some argue that, given the investment resources they need, people prefer to work for themselves. Yet people in jobs that require no fixed investment, from house cleaning to software engineering, prefer employment to ownership.

The owner-manager-worker is free from the enterprise hierarchy, but he must serve his customers and maintain good relations with suppliers. Orwell noted that waiters in revolutionary Spain treated their customers as equals, but he had dignity in mind. Modern factory workers are not servile; hierarchy does not necessarily imply servitude. Free from managerial control, proprietors must respond to the stringent control of customers, something management shielded them from when they were employees. Workers might have considerable independence of managers and could always change jobs, but proprietors cannot lose customers. Making the workers proprietors would subject them to a more rigorous hierarchy, especially when service makes the difference between similar products and prices. The only way around that paradox is a centrally planned or licensed economy, creating deficits of goods and services and putting customers at the mercy of suppliers, as in the USSR.

Private ownership of the means of production could be abrogated only by abrogation of contract. Otherwise, owners could arrange trust agreements with nominal shareholders, dispersing the assets to the allowed per-capita amount, and receive the profits as wages. Or owners could avoid hiring labor by converting workers into co-owners receiving dividends instead of wages. They could be offered preferred shares with an a sell-back agreement if they left the job. People always find ways around restrictions.

None of the above implies that workers are unable to start and operate businesses. Former employees have launched many mega-corporations and millions of small companies. Ex-managers might be a better bet to succeed, but the data are inconclusive. The critique is aimed at businesses where ownership and dividends are unrelated to the value of labor.

Orwell describes the inefficiency of Spanish war effort. While a small amateur cooperative might be effective, big organizations require professional managers who in turn require superior salaries, benefits, and social position. Complex system cannot be egalitarian.

In this age of robots, added value comes from mental, not physical, work. Why not admit that managerial skills create VA? If not, why do private investors hire managers at large salaries? Managerial skills drive successful ventures.

Worker control of production and majority investment decisions could be better than the average manager's but worse than the best manager's. The best managers win in competition, and cooperatives remain mediocre.

Anarchist agricultural cooperatives in Spain fared relatively well without technological or investment decisions. Beyond agriculture, the results were minuscule. Orwell reports no unemployment, but that was because redundant workers joined the army. The odd industrial policy nationalized even bootblacks. Anarchist factories could not manufacture war materiel not only, as Chomsky contends, because of enemy sabotage but more likely because professional managers were not involved.

Market ventures' greater efficiency does not make them absolutely better than cooperatives. Cooperatives promote better human relations and dignity by sharing decision-making. Fortunately, the market lets employees value those benefits. Since lower wages offset the cooperatives' inefficiency to achieve competitiveness, workers could choose between high wages on the Ford assembly line and low wages and dignity at the coop. That so few choose cooperatives shows a disregard for egalitarianism. People prefer hierarchy, lower than some, but higher than others. People at the bottom, the typical fodder of communist experiments, want egalitarianism.

Except for ideologues, the only people who join cooperatives are those who can't find decent jobs. Highly skilled engineers and managers find good jobs easily—in the capitalist sector.

Cooperatives must make do with inferior workers, fatal in competition, or diversify wages significantly, making common ownership irrelevant. Without dividends, the only difference between coops and corporations is democratic management. But that system reduces competent managers to consultants, and few skilled managers would agree to terms that make technicians and janitors their peers. Cooperatives work only for homogenous groups; teamwork requires a team. Communal ownership and usufruct worked in primitive societies, but not in advance economies with diversified skills and contributions. Since modern factories involve people of widely varying qualifications at various stages, homogeneity is possible only at basic levels, in services or developing industries, and only in small companies. Another option is to make each unit of a large factory a separate cooperative, though they could make few independent management decisions.

Rejecting command economy, why accept "command enterprise," driven by managers' decisions? Because the alternative is not the freedom from centralized decisions, but less competent and innovative choices by majority. The problem with command economy is not planning per se, but rather its scale and irresponsibility of bureaucrats.

Once socialists eliminate the “injustice” of sharing added value with investors, they should turn next to the "injustice" of wages. Wage earners would argue that other workers hired them for wages. Socialists, however, see skilled professionals as monopolists imposing outrageous wage demands on the cooperative, and subject to regulation.

Cooperatives do not make a society egalitarian. Some of them fare better than others. More efficient cooperatives and their members accumulate profits in the form of higher wages, while the inept go down, losing their members' investment. Members of losing cooperatives might prefer a takeover, and work for wages, instead of layoff. On other hand, private companies are often operated much like worker-owned enterprises, with managers more concerned about personnel than about shareholders. Managers' daily comfort hinges on satisfied workers, and the preference is rational and permanent.

While cooperatives may or may not be morally preferable, workers do not suffer unduly from industrial hierarchy and sharing added value with investors, and no revolutionary change is called for. So far, socialists' efforts to lure people into coops and boycott investor-owned factories have proven fruitless.

Workers' control

Socialists do not really want to add worker input to company policy; they want to control it, a situation incompatible with property rights. No sensible person would invest in a company he cannot control either directly by appointing the officers or indirectly by selling his shares.

Giving workers and owners equality in decision-making is in fact inequality, since owners risk money, while workers' risks are limited to find new employment if the company fails. Worker control also runs into the problem of democratic decision-making. When majorities decide, dissent is ignored, yet revolutionary ideas are dissent almost by definition. They may gain support in liberal society but are patently suppressed under communal socialism. Majority decision-making could provide acceptable routine business guidance but few marketing or technological breakthroughs. Workers prefer job stability to possible rise of income, and are not eager to innovate.

One theoretical option is workers hiring managers and giving them independent decision-making authority. That does not solve the problem of disenfranchising workers and would not satisfy investors intent on control.

An increased level of employee involvement in factory management is probably good, raising awareness of the common good and promoting efficiency, but managers' arrogance and employer distrust of trade unions inhibits cooperation. Teamwork is more likely in high-tech industries, where trade unions don’t usually operate, and managers are more benign compared to savvy employees. Once the new wears off, however, policy making is just another job for workers, and the worker-owners quickly would resume their normal inefficiency. Employees, who do not significantly benefit from factory policy, would not waste time on it. Distributing stock options to workers would not improve the situation, because stock valuations are more dependent on market conditions than on particular decisions by workers' councils. Japanese companies tried cooperation based on loyalty but found it evanescent in an evolving culture. Minority shareholders, whose expectations are moderate, are largely unconcerned with company strategy. Not surprisingly, only managers are acutely concerned, since their salaries and reputations depend on results.

Prohibition of usury

The socialist goal is obsolete and has little to do with morality: French interest rates were regulated during the Terror *and* the Napoleonic wars. The Christian French misinterpreted the biblical interdiction of charging interest on personal loans. Since in the ancient Hebrew sustenance culture only extreme hardship forced one to borrow, profiting from hardship was condemned. This logic might be inapplicable to consumer credit for non-essential goods, or business loans.

There is hardly any moral reason to criminalize consumer credit. A person is clearly entitled to choose between consuming now and paying more or consuming later and paying less. Without interest, anybody with sense would buy everything he wanted immediately. High credit interest rates act as a natural lid on binge spending, and eliminating it would prompt skyrocketing demand for money, inflation or arbitrary loan provisions. Since every factory wants free credit, demand becomes infinite and resources, scarce. Loans could take years to close, and most likely a black market would find depositors, prohibited from charging interest, and borrowers making common cause to arrange ordinary loans.

Banks and other commercial entities in developed economies produce a variety of monetary instruments besides the ever-inflating exchequer. Money, like any man-made goods, becomes plentiful—and cheaper. Its price, the interest rate, declines into insignificance for both consumers and suppliers, unburdening the former and hardly affecting the latter. To this, socialists oppose the many bankruptcies in America—which has nothing to do with interest. Irresponsible borrowers default on principal, not interest. The very option of bankruptcy is a cause of defaults, provoking exponential borrowing, and amounting to legalized theft. The great variety of credit card interest (from about 6% to 18% long-term) shows that risk is the major component of the nominal interest rate, exceeding the real, inflation-and-risk-adjusted rate several times over.

Surprisingly, the arguments against usury and passive income in general are directed against working people, not the rich. In modern economies, banks create most credit by issuing financial instruments and receive most of the "passive" income from consumer and commercial loans, mortgages, and lease. Banks, like other stock corporations, belong largely to individual shareholders who are the ultimate beneficiaries of usury. Practically, banks pay few dividends and spend usury interest on salaries, benefiting the employees.

Prohibiting interest income would affect the rich relatively little but would push small depositors toward riskier investments. Generally, investors lose money in the long run, and small shareholders lose more. The prohibition of usury would bankrupt them, not save them from predatory capitalists.

The liberal justification of deposit interest as payment for delayed consumption is incorrect: at the real interest rate of 1%-2% annually, no one would postpone buying a car for a year in the hope it would be one percent cheaper. Socialists say that ending deposit interest would not stop people saving for retirement, which would be true if money were stable.

One idea behind deposit interest is that it compensates for nominal inflation, usually understated official sources and prone to surge. Saving in gold would not work, since gold devaluates in technological economy.

Rich people do not earn significantly from interest. Should socialists succeed in prohibiting deposit interest, the capital owners would invest it for profit, without the convenient mediation of the bank lending system. Restricting investments, either direct or portfolio, is unjustified because capitalists run real risks, and their profits are not more objectionable morally than gamblers'. Ruling out both passive interest and investments amounts to taxation through inflation and promotes excessive spending by the rich, the only way they could use their money in an economy with no passive –income.

The rich are the guardians of national investment resources. They spend relatively little personally, far less than nationalizing credit resources would cost in bureaucratic expense and inefficiency. Distributing the funds among the population at large would not work, since people would spend instead of mostly saving, as do the rich. Giving all credit resources to the public would not actually increase worker control of capital: since the cost of managing small savings is exorbitant, small depositors usually let banks and mutual funds manage their savings.

Governments could mandate that people invest a certain part of their income. This arrangement avoids taxation with concentration of credit resources with states. The compliance, however, would be hard to control, unless only a few funds are licensed to manage the investments.

To pay for deposits, banks must charge for credit. As competition drives profits to the bare minimum, banks peg the loan rate to inflation, minor administrative expenses, and lending risk. The latter mushroomed into a major factor when bankruptcy legislation protected malingerers at the creditor’s expense.

Businesses profit by using borrowed funds, and the depositors who make the borrowing possible expect to share in that profit. Without interest, people would stop depositing the money banks lend. Depositors agree to a minor share in the borrowers' profits, but can hardly be expected to provide funds for free. Many would save in gold or some other passive way instead of depositing in banks—and drain the economy of investment resources. And resources are required to adjust seasonal cash flow or replenish supplies, even in the most primitive economy where people own the means of production at which they work.

Prohibition of passive income, including rent and usury, negatively affects people of modest means who save scrupulously. Plenty of working families indirectly rent out industrial assets by holding shares of factories and mutual investment funds. They do not fit the profile of fat capitalists whom socialists want to constrain.

Limiting the right of ownership

On this point, the demands range from total collectivization to personal property to owning the production means for one’s own labor to arbitrary reasonable property. The last option is not unreasonable.

Hayek cautiously argued against all-inclusive intellectual property rights because they are not essential: few do research or write books strictly for profit. Similarly, large investors enjoy the results of their work irrespective of the decreasing marginal utility of profits.

While slapping the wealthy person with a 90% tax rate seems abusive, the wealthy might theoretically be required to distribute the same 90% to charities.

Working that out is problematic, since it would diminish investment resources as charities used money for consumption. Dispersing profit among family members, nominal owners, and trusts could easily circumvent the policy. Price transfers allow relocating excess profits to jurisdictions that protect them. Any arbitrary regulation, however intended, is unsustainable.

The post-industrial age poses another problem for the most common argument for limited ownership, that no one should own more than he can work with himself. Instead of hiring workers, modern capitalists could use robots whose welfare is as yet no one's concern. In current theory and future practice, an investor can operate a factory from his computer without hired labor.

Since increasingly wealth in technological economies comes from mental work without exploiting or draining society's precious resources, the real motive behind calls to limit ownership is envy.

Bourgeois revolutions demanded representative state, not its absence, because capitalists are practical, and prefer attainable and immediately workable solution to ideal. They wanted a liberal state, essentially anarchy enforcing ethical prohibitions of murder and looting.

Anarcho-socialists usually reject ownership because it cannot survive without a state and is supposedly incompatible with anarchy.

Following that logic, not only industrial assets but all property should be collectivized, a length to which usually only the extreme communists want to go, an option proved inefficient. Most people respect others' property, except when appropriation poses no harm to the owner and creates no risk for the perpetrator, as with pirated software and music. Liberal society requires very little coercion to preserve property rights, including the rights to industrial property.

Abrogating property rights would be intrusive. Animals have a concept of ownership, protecting as much turf as they can. Disregarding ownership of inanimate goods, what guarantees the ownership of self, a freedom? People will kill or die for property. Ownership is essential to political freedom, since with all assets collectivized, where would the material support for alternative ideas come from? To respect property is to respect the person who owns and values it. Prices, money, and profit reflect human feelings and desires, like letters in poem. Prices and letters are dull, but they represent in universally understandable terms the unique feelings of people.

Property rights require a state, but abrogating them would not hasten dissolution of state. A society without property would still require courts, police, and an army. People covet many things beside goods: women, for example. Ideological and ethnic hatred raises armies. The rich keep relatively less of their assets in hard goods, could hire private security, and are relatively less in need of protection than the poor. All people own something, and majority of the people who need protection is not rich. The property conflicts usually occur between robbers and honest citizens, not between poor and rich. Even collectivized property needs protection, thus police. Disputes arise in any community, therefore courts. People protected property long before courts and police came into existence. Those institutions merely regulate property conflicts which are otherwise settled by violence.

Most people now support unrestricted ownership, somewhat leveled by taxation. Abrogating property rights would not likely get broad support. The anarcho-socialists therefore rely on democracy, which anarchists despise, or even on dictate. Since democracy is indispensable to their policies, anarcho-socialists are at pains to explain how they differ from mainstream socialists and communists, who also rely on democratic centralism without significant private property. Anarcho-socialists try to differentiate their democracy from the mainstream, improving democracy by rotating the political establishment frequently and with either popular referenda or representatives elected for a single short term. That system leaves democracy's major shortcoming, the legal suppression of dissent, intact. The inefficiency of amateur politicians and swings in politics and the government-dominated economy with every new election might be worse than abuses of the present government. Freedom exists only where regulation is not needed, not where it is bland. Rotating politicians means regulating regulators, a recipe for a cumbersome hierarchical system, not for liberty.

Though some socialists envisage a Luddite cottage industry economy where everyone owns his means of production, others realize that modern technology requires either the concentration of capital in private hands or public ownership. Faced with the failure of bureaucratically managed economies in the Soviet bloc, which they labeled "state capitalism," socialists came up with a more flexible alternative, rotating bureaucracy. The USSR tried that system in the 1920s and 30s to dismal effect and persisted among party cadres into the 1960s. Moderately corrupt but otherwise professional bureaucrats are better for society than less corrupt but inefficient ones. The knowledge a manager needs for a specific occupation takes time to acquire and argues against frequent rotation.

Intellectual property rights

Intellectual property differs from hard goods in at least one important aspect: whereas stealing goods directly diminishes the owner's assets, stealing information costs the owner profit but does not affect his pre-tort property. Civil legislation does not protect potential profit, which is the question with intellectual property.

Intellectual property creates value (expressed as price at sale) at little or no cost. Price reflects the buyer’s appreciation of the item, not its cost to the owner. Legal restrictions on the use of intellectual property prevent others from profiting at no cost to the owner. Should society do that? Liberal doctrine allows unearned profit elsewhere. Bible differentiates punishments for theft and withholding due payments, such as tithe, confirming the view that illegal copying is not theft.

Historically, governments never protected intellectual property, except for rare cases of vital national interest, like Portuguese prohibition on export of maps. Early industrialists brought the issue of patents among other attempts at monopolization. Intellectual property is relevant in informational economy, but rapid innovation also decreases the importance of patents.

The issue at hand is whether a second party should profit from someone else's property without incurring meaningful expense to the owner. Generally condemned prohibition of hunting in royal forest is one extreme, socialist demand that workers may use industrial assets for free, is another. The difference with intellectual property is that hard assets are amortized and consume power which cost the owner. People often tolerate illegal use of relatively inexpensive property, such as minor trespassing, stolen stationery, personal use of office equipment. Personal use of industrial assets, however, interferes with commercial use, since only one person at a time could work a lathe.

Society tolerates free use of private property when such use is harmless and undetectable to owner. Trespassing on backyards is punished consistently, while trespassing in large private forests is prosecuted only sparsely.

Much intellectual property, some of the most important, is indefensible under current laws. Ideas cannot be patented, nor can marketing strategies or fundamental innovations. The patent system is abusive: if two researchers work independently for years and reach the same results, the one who files first gets the patent. Measures for relief are complicated and expensive. Modern competitive research underscores the significance of the problem. Other issues are arbitrarily regulated: all books can be leased, but not software and some copies of movies.

Abrogating intellectual property rights might benefit society. People would not stop creating. Singers could earn from live performance instead of recordings. Eliminating patents spurs innovation: constantly upgrading companies would enjoy unusually high profits, copycat competitors would always lag behind.

But what of goods that exist only in copyable form, notably movies and software? Just as Coca-Cola guards its formula without a patent, the producers of films or software are entitled to copy protection. Perhaps they could make plagiarism less attractive by bringing prices down: people are less likely to steal MS Office at $10 than at $150. The movie industry has ample room to reduce costs. Another solution would certainly follow: customer support and updates for registered software users, interactive and on-demand TV for pay. The society has no reason to provide legal protection. Movie and software producers are an insignificant, exploitative minority capable of defending itself.

The protection of unique expensive research makes economic sense, but patents offer only limited protection, since competitors re-engineer products relatively fast. Large research corporations might conduct research jointly to reduce exposure as already happens. Joint research flattens differentiation among various companies' products, increasing their propensity to M&A, though insignificantly compared to the stock market. . Slowed research is a downside effect of joint projects; the rush to patent promotes both effort and speed. Still, companies must bring new products to the market ASAP to start profiting, especially since some competitor may be developing a similar product. The incentive for speed would remain, and eliminating redundant research would free funds other developments.

Price mechanism

Socialists treat the rich as a group, ignoring the volatility of membership in that elite. In direct contrast, they analyze workers individually. This flawed approach supports the asymmetry of bargaining power, a socialist notion.

While individual workers generally need employers more than employers needs them, the latter must offer good terms to lure good employees. A history of abusing workers would turn workers away, forcing employers to offer higher wages to compensate the risk of abuse. Worker turnover entails expensive re-training and low productivity. With wages in American manufacturing at about 20% of each cycle's added value, employers lose more from turnover than the workers themselves.

The best benefits go not to union workers but to the highly skilled, as with software engineers during the dot.com boom. In a technological economy, where the need for new knowledge is continuous, people who produce high added value get good salaries. Employees do not have to formally organize to keep employers from abusing individual workers.

Concentration does not necessarily increase employers' power. Most small companies bargain with employees as equals. Mega-employers are visible, as well as susceptible to regulation and shark lawsuits. They are bureaucratic and inflexible, preferring costly stability to workforce turnover and conflicts. Mega-corporations always innovate and often charge premium prices, since overcharging customers based on imagined advantages of products is easier than underpaying employees.

Democratic government, though vulnerable to corporate lobbying, is inherently more responsive to the voters who legitimate it. Since most voters are employees, regulation favors them. Voters find it easier to demand raises than to earn them by education and hard work. Public opinion accepts that wages reflect the non-market distribution of added value, and efficient employees subsidize the inefficient. Vast national trade unions more than offset corporate concentration.

Proudhon correctly argued that, though manufacturer and laborer, or merchant and customer are equally free to enter a contract, a weaker side yields. This is a feature of any bargain. But laborers and customers are not weaker than manufacturers and merchants in economies with abundant capital and goods. The ratio of individual consumers to suppliers than is lower than that of workers to employers; mega-corporations typically serve millions of consumers, but perhaps only a hundred thousand employees. Even so, customers feel no asymmetry of bargaining power, and competing corporations commonly sell at unprofitable prices. That no large corporation routinely receives more than single-digit percent' profits, shows how little power they have to squeeze profits from employees or customers. An individual consumer’s bargaining power is irrelevant in the marketplace; the power of his interest group matters.

Rationalists, socialists resist anything not entirely comprehensible. Complex interactive systems, like the market economy, are not understandable; otherwise, a centrally planned economy would be the best option. Free-floating prices are the universal measure in economy. Regulating prices for individual commodities produce the same effect as regulating measures: a government might set a price for a bushel of corn, or mandate the "corn bushel" of double the normal weight. Both approaches are equally absurd. Since marketers try to maximize income, government price regulation forces them to adjust investment and production. Price regulation is a soft version of central planning. There is no local regulation: any price adjustment eventually spreads throughout the economy, upsetting proper allocation of resources and reducing efficiency. Western governments generally shy away from direct prices setting. Exceptions are devastating because they affect prices of basic commodities which add low value, employ large numbers of workers in inefficient production who possess political clout and demand price supports. Price regulation supports the least efficient sectors instead of doing away with them, and increases costs for many customers who use those commodities. Price controls mask re-distribution and keep the nominal tax rate deceptively low. Instead of taxing some and subsidizing others, the government lets people tax themselves and subsidize certain others. Owners of fast-food restaurants overcharge clients to subsidize artificially high minimum wages. None of that should be allowed. Governments should leave prices alone and deal with perceived social needs with explicit and accountable subsidies.

Marx observed correctly that labor creates value and should enjoy the whole price of the goods it produces. Liberals and communists define labor and its value differently. The question is not so important as the communists imply. The cost of management, capital interest (not to be confused with depreciation), and operational profits in the modern competitive environment are low, usually less than ten percent of added value, and operational improvements, such as internet marketing, production outsourcing, widespread licensing of technologies, and liquid capital markets have depressed them to insignificance. Innovators and entrepreneurs are few, as opposed to many workers, and even a small part of the value added makes these individuals visibly rich.

Labor is a necessary component of most products, though in a technological economy an increasingly large part is mental labor. But *necessary* does not always mean *major*. A Mercedes 600 and a Hyundai Pony require about the same amount of assembly line labor, yet their prices differ notably. The same is true of Nikes and Chinese knock-offs. Consumers gladly include innovation and marketing in prices. The cost of innovation is small, since it requires little real time. Sometimes the brightest ideas appear suddenly. The focus should be on the price mechanism.

Classic economic theory says the prevailing price balances supply and demand, which is true in a fixed-resource economy where increasing production is costly. To get more coal, miners have to dig deeper, spend more labor per ton of coal, and coal goes up. In an industrial economy, the relation is the opposite: increased production lowers per-unit cost slightly through economies of scale. In a modern technological economy, increased production cuts per-unit costs dramatically, amortizing fixed R&D expenses faster, which is why Microsoft can sell Office software for a tiny fraction of the production cost. Unlike in Adam Smith's time, supply and demand curves today run almost concurrently, prices falling as production increases. While in classic theory supply and demand curves intersect at a certain point, they now run very close on long span of the axis of output. Nor do they need precisely intersect any more, since closeouts ordinarily adjust overproduction. In result, price and demand could coincide at any realistic production level, and marketing or technological improvement brings the curves together, balancing supply and demand. At the low production end, prices are relatively high, due at times to the amortization of fixed development expenses. More often suppliers exploit scarcity. At the beginning of production, price tends to track perceived consumer utility, possibly subjective, as with art objects or luxuries. When the new wears off and competition appears, prices fall to reflect production costs—marketing and management, R&D depreciation, some provision for risk, and other components. Innovation and marketing, not labor, create the difference between non-competitive and cost-pegged prices. Just as consumers willingly pay for innovation and marketing, workers cede part of the value added to innovators and managers voluntarily.

Why do customers pay for innovative or attractively marketed products when much cheaper functional equivalents are available? Because in an economy of abundance, most products are inexpensive. Hikes in oil prices shock consumers into a temporary reduction of demand, but demand rises again despite price increases. Three-fold oil price increase in 2003-2005 did not curtail the demand; increasingly larger amplitude of price variations is now required to balance supply and demand. In Smith's time, the consumer basket consisted of several staple goods, with direct correlation between price and consumption. Modern consumer baskets include thousands of products, and total buying power remains stable even if one particular item goes up, and often prices hike on high-demand goods where price matters little. Innovation in related products commonly offsets rising costs: economical engines counter expensive oil. Innovation also works the other way around, increasing utility instead of reducing cost and increasing demand. Consumers prefer one good TV to ten bad ones for the same price. Demand is a function of price only at a boundary when prices are very high; normally demand is a function of perceived utility: usefulness, quality, fashion. The process is still more evident with foodstuffs. People buy better food, not more of it. People willingly paying for value added by innovation and marketing, unrelated to labor. People not interested in those intangibles, like people in poor countries, can buy imitations produced with widely available technology and little or no investment in innovation or marketing. Customers have a range of intermediate options: from functional but outdated to the more functional and new, from generic online to generic in low-end shops to brand name in upscale shops. They choose consciously to pay a premium for innovation and marketing.

Since informed consumers in civilized countries willingly pay for innovation (including ideas that come at no cost), marketing (entailing business risk), and capital (sophisticated goods are expensive to produce), those components become recognizable parts of the value added. Innovators, entrepreneurs, managers and capitalists benefit legitimately from the percentage of added value consumers concede to them. Society recognizes that cost is not limited to wages of production labor. Disregarding the cost of capital, socialists would arrive at widely different wages in capital-intense and low-investment sectors. To bring wages together without setting them directly, socialists have to regulate prices across broad sectors of economy, distorting price mechanism and, consequently, causing misallocation of resources and uneconomically excessive use of capital-intense items, such as machinery and steel.

Industrial management creates products by organizing work more effectively, increasing output from given resources. Marketing works similarly, increasing demand and closing the gap of underused workers' time. New capital equipment also increases output. That does not justify profit on capital, but who would supply anything, capital in particular, without remuneration unless credit is collectivized?

New products, the majority of a technological economy's output, are riskier than goods with established markets. The entrepreneurs who bear the risk are consequently entitled to keep part of the value added to compensate for contingencies. A rigidly risk-averse environment does not foster innovation, but producers take risks if their share of profits is adjusted for risk.

Entrepreneurial risk is not like workplace risk. Employees receive risk compensation through higher wages, insurance, and benefits. Employers have to compensate for investment risk through contingency layaways. Communists build the highest risk premium into wages but object when capitalists build investment risk premiums into profits. Planned economy eliminates risk, but drawbacks of planning outweigh this benefit. Copycat economies like Chinese, accepting only proven innovations, might be efficient in their mediocrity, but society should not restrict entrepreneurs who want to bear the risk of innovation and customers who pay for it.

Risk compensation explains the unusually high profits in innovative sectors. The results of R&D are far from assured and they could be worthless if competitors file for patents first. Investors therefore need a higher return, deducted from the employees' share of added value. The effect is surprisingly small: investors consistently underestimate risks, and investing in innovation is usually a losing proposition, especially during bubbles when rosy expectations fly high.

In cooperatives, workers handle management, innovation, and investment, and keep all value added to themselves. That does not mean that labor keeps all the product. Rather, workers perform functions other than production and receive the income earmarked for whoever performs those functions.

Many think managers' high salaries unmerited. But what is merit? A great looking model may be empty-headed, yet she earns far more than assembly line workers. Opera divas work hard, but most of their income derives from innate talent. Ballet dancers work the same whether their audience is fifty or five thousand people, but compensation vastly differs in the two cases. Governments farm out natural resources without raising a hand. Merit cannot be practically related to work. Fairness is a better measure. So long as a certain price is agreed upon without coercion, the deal is fair. Interest and salaries are thus fair. From among wages, cooperatives, or self-employment, workers choose wages, because even when they share added value with capitalists, managers, and inventors, they still end up with more money than in cooperatives or self-employment. Workers consume the services of investors and managers.

Socialists who refuse unmerited income logically reject payment for right of use where the object thus used is not considerably amortized. By this logic, everyone must leave his house open to others when he is not home, certainly an unacceptable arrangement. The merit of supplier is irrelevant to the consumer who pays for limited resources, whether goods or professional services. The people with the resources set the price: bureaucrats take bribes, capitalists get interest.

The question of merit in allocating value added is moot. Suppose the socialists outlaw all unearned income. How then to quantify merit? Value is inherently subjective and would never reflect "objective" merit. No appraisal would satisfy everyone. Majority decisions would reflect the statistical distribution of workers, concentrated in routine occupations. They would decrease the portion of added value earmarked for researchers and managers arbitrarily and based solely on self-interest. Short of forcing their decision on management, workers would have to negotiate the details—which is what contract negotiations do now.

A production-labor theory of value is odd in the age of robotized factories where output depends on equipment and a handful of operators. Suppose the capital portion of the value added is set aside for the workers and engineers who manufactured the equipment. They would have to wait years for their money and bear considerable risk. Few would accept that, if they could have a reasonable return on the value of the equipment they produce at once and leave the balance to financiers and management. Workers can acquire the risk and the time-value portion of the added value by buying the shares in their factories, but they don't, keeping the savings in other forms. Workers concede the risk of owning plants to entrepreneurs voluntarily.

Workers may get more than 100% of the value added. Companies frequently go bankrupt. Workers produce unnecessary goods which must be marked down to create demand. Wages are based on overestimated added value. Employees, unlike creditors, can pull out at any time; defaulting managers meet payrolls with money they would ordinarily channel to their creditors.

Consumer credit is a good like any other; interest is its price. Consumers benefit from borrowing by taking possession of the goods immediately rather than saving for years to afford them. Depositors own a resource—money— consumers need. Regardless of the time value of money to depositors, they control a scarce resource others want. They can either give credits to some and refuse others arbitrarily or set up objective guidelines. One such guideline could stipulate interest-free loans on a first-come-first-served basis. Another could call for needs testing of applicants, as do charities. Interest facilitates impersonal, objective decisions. Borrowers who need credit will pay higher interest to get it ahead of others. Interest rates, the price of credit, balance supply and demand and give depositors some small unearned income and, more important, give borrowers impersonal access to money.

Outsourcing circumvents traditional Marxist arguments by replacing "parasites" with service suppliers. Outside companies can provide almost all management services, including production supervision, logistics, marketing, financing, legal services. The trend in that direction is marked. Communists generally do not object to paying suppliers, presumably because no coercion is involved.

Likewise, leasing undoes the argument against capital interest. Suppliers are entitled to ask different prices for equipment depending on whether the payment is now or later. Other intermediaries, banks in particular, could resell the equipment at a different price, depending on the terms of payment. Risk insurance could replace contingency layaways, a profit which the communists decry.

Jealousy of highly paid non-laborers is misdirected. Top managers with super incomes are visible but too few to affect the distribution of added value significantly. Suppose top managers contribute only 1% to the final product, though in fact their contribution is much greater, since managerial decisions often make the difference between market dominance and bankruptcy. But even with 1% involvement, a manager is entitled to five times the average worker's salary in a factory with 500 workers. A mega-corporations with over a hundred thousand people might reasonably pay its CEO a thousand times the average wage.

Most such compensation packages are not salary but stock options. Managers do not benefit from the value added at workers' expense but from the stock appreciation at the expense of future shareholders. Executives are not the only ones who profit from options. Employees get them, too.

Large shareholders are reasonable and efficient, able to adjust the wages of top managers. Shareholders agree to super wages because they are rational. Corporations prefer paying much to CEOs with established performance than to risk the business by hiring newcomers at smaller wages.

The existence of anarchist mini-jurisdictions depends on private ownership of on fallow land. Libertarians advocating the "expenditure of labor" as the ethical basis of ownership undermine ownership of such land. The money paid for fallow land results from the expenditure of labor, and even vacant land becomes useful when invested with labor. Yet price is not the product of labor only but of luck, ingenuity, and talent as well. How then to prevent immediate claims on all unowned land? It could be treated as neutral waters, freely available for use with restrictions placed on pollution. Even if land were acquired wrongly, people have expended labor working it since its acquisition. Without owning fallow land, who would develop it? This is a typical boundary case: market economies operate after all assets are privatized, but initial privatization is arbitrary. All useful land already belongs to people or governments. Even if states expended no labor on fallow land, and hold it perhaps illegitimately, buying land is cheaper than warring for it. Anarchists should drop the discussion on whether the governments and private entities own their lands justly, and buy the lands necessary to form anarchic communities.

Any means of appropriating natural resources are arbitrary. Awarding them to discoverer makes Columbus an owner of America. Awarding them to locals is unjustified as any territory-based monopoly, such as states. Besides, a practical question of the size of locale is unsolvable: Saudi Arabia's Shiites would gladly cede their oil-producing region from the Sunni country. If the resources belong to all humanity, they are free, and would be squandered, or must be regulated. Regulation of all natural resources is a planned economy. Recognizing inherent injustice of initial appropriation, it is usually the best to skip over to market economy which will clean initial injustices away. Regulation of the appropriation might be justified for very large, almost monopolistic resources, such as territorial holdings of states, and oil fields.

International wage distribution

Why do labor wages differ so much among different countries? Not because managers rob workers in ineffective markets. Even with entrepreneurial share of output an incredible 30% instead of the usual 3%, wages would not vary as widely as is often observed. French autoworkers make five times what their colleagues in Korea make; American steelworkers, ten times what Russians make. Efficiency matters in the last case but not in the first. Indeed, Korean output is higher than French.

Workers, who produce expensive goods, receive higher wages. But the price difference is mostly related to innovation, not workmanship. Workers in developed countries receive some of the value, added by technological and marketing advances, the value which properly belongs to authors of these advances.

Labor is a commodity for sale and involves production costs: food, housing, education, *etc*. That is labor's minimum price. In sustenance economies like Bangladesh, prevailing wages equal the cost of necessary inputs. In developed economies, people expect more than survival provisions, and that expectation puts upward pressure on wages.

Some of that pressure is realized in inflation but more often in undue price increases. There is no economic reason, for example, to pay McDonald's employees more in the United States than in the Philippines. Wages in the low-end service sector are inappropriately high since workers extort from their counterparts in competitive industries through habitual, moral, or legal means, such as minimum wage.

Higher wages result from the monopoly of employment through immigration restrictions at companies which might overcharge local or foreign customers: low-end services and competitive exporters, respectively. The latter is ethical, the former is not. Competitive industries sell to customers who are free to buy cheaper products. The government forces minimum wage legislation on employers in low-end sectors who then pass the costs on consumers. Or, government pays subsidies with tax money. In both cases, the competitive industries underwrite the wages of the rest. American software engineers spend $600 a month for childcare instead of importing Filipino nannies for $300. Even the countries with permanent immigration restrictions have no valid argument for preventing aliens from taking temporary jobs without using their infrastructure or welfare systems. Limiting employment to citizens mirrors the way trade unions inflate wages.

Democracies became welfare states, and redistributed to less efficient workers much of the competitive industries' surplus income, drastically increasing income gap with proletarians in authoritarian states. International wage difference for simple jobs, not in highly competitive (unique) sectors is an aberration. Globalization allowed entrepreneurs to bypass redistribution by shifting factories abroad and outsourcing, and brought low-wage immigrants to welfare countries, returning to historical norm of internationally comparable wages for similar jobs. This created impression that globalization impoverishes workers in developed countries, though it only slashes uneconomic gains welfare state accorded them at the expense of more efficient workers and consumers. Innovation, not redistribution allows workers persistently higher wages.

Fords sell better than Hyundais out of consumer habit. Microsoft sells its software at prices American wages determine, though it could lower prices by moving development to India. Innovation occurs faster in clusters: networks of creative people engaged in competitive industry, usually near each other, switching between companies and projects, attending universities and proprietary courses, acquiring expertise and interacting. Clusters of that kind develop software in the US but not in India. Microsoft profits more from innovation by paying top dollar for the American cluster than it would by outsourcing to India to cut costs, which would slow innovation and reduce competitiveness and profits—and innovation, not cheap labor, makes the difference in a technological economy. Technological advances create temporary monopolies, allowing the companies to fetch unusually high profits.

Innovation creates anomalies in otherwise isomorphous, complex, adaptive market economies and exploits them for competitive advantages and high profits and wages. Some exploitable irregularities produce others, eventually creating a self-supporting competitive cluster which eventually blends back into the herd when innovation plays out. Continuously innovating economies stay ahead of copycats.

Higher wages in developed countries are due to competitive advantages, real, habitual, or political, and stay up so long as businesses maintain competitive advantages and could sell at high prices.

Domestic price levels—not to be confused with buying power—adjust to those of the principal local competitive industries. Prices in the impoverished Caribbean or Iceland are high because they are benchmarked to the tourist sector. The process of setting price/wage levels recalls valuing currency by the export performance of the principal domestic industries.

The golden billion

This phrase, which socialists employ so often, should give them pause. The astonishing number of wealthy people is the best testimony that market forces increase the welfare of nations despite government regulation. The number is also meaningful in relative terms: a fifth of the world population is well off, more than in any society at any other time save for small trading or warring city-states.

In technological economies, the gap between advanced and primitive societies grows. Educated people build new wealth exponentially with imagination and innovation, not with natural resources but with human knowledge and at no one's expense. Stone Age societies will need decades, if not centuries, to acquire the culture of learning. The post-Soviet Russia lost any foreseeable prospects in global economy after a generation was brought up in pallid universities.

But people and societies who learn bridge the gap very fast. Unlike in the pre-industrial era, old money means little in technological societies since most wealth comes from innovations in science, technology, and marketing, and the ability innovate faster than the competition. That is a function of learning and decent, not burdensome civil order.

Historically, every new breakthrough in production technology, the wealth gap between societies widened briefly, then closed when the new technology became universally available. The modern age, however, has produced not only new technologies but also the tools for building them in a revolution in information acquisition and processing. Backward nations can profit from twenty-year old industrial processes, but the wealth gap still grows, because the developed nations have already developed more effective processes. No amount of aid or redistribution closes the gap, but only learning, work ethic, and respect to property.

Globalization makes capital, technologies, and markets more accessible, and helps the developing countries. Stagnant manufacturing processes, where lower wages, not innovation or skilled labor provides competitive advantage, are transferred to the third world and create jobs there.

Advanced economies have no rational reason to obstruct the development of the third world. The United States lost in relative terms, but gained absolutely from the ascent of Japan. Traders import products only when profitable. Consumers buy imported products when better than local. Foreign currency to pay for imports is earned by profitable export of local products. Sum of all positives is positive, and foreign trade in the absence of major distortions benefits all participants. Specialization, domestic or international, is beneficial. If advanced economies do not fight each other over natural resources in order to reduce demand, they do not care about small consumption by undeveloped countries. Economic development of the third world adds more important resource than any natural ones, human intelligence. Japan consumed some oil, but it gave the world Walkman and inexpensive cars. America started with grain exports, just as Colombia exports bananas now. Advanced societies accept the measures taken by undeveloped countries to offset inefficiencies: setting minimum export prices, currency flow restrictions, duties and implicit trade barriers, such as consumer chauvinism, and lax pollution laws. Development of the third world at first increases pollution, mostly locally. Soon, however, the population advances above sustenance, and no longer wants jobs with any side effects, but demands cleaner environment, and pollution decreases.

The population explosion might lower the per-capita GDP in such countries where added value depends more on fixed stocks of natural resources than on labor. For sub-Saharan countries, the population explosion resulting from improved and inexpensive medical care poses a real food problems. The region's agriculture is not self-sufficient, and hydroponics and other contemporary technologies are too expensive. Civilized countries might help the locals to resettle in the more fertile African areas.

Failure to account for buying power often exaggerates the gap between rich and poor countries. While the average nominal income gap between Thailand and the United States hovers around thirty, actual buying power differs much less. Since the price of labor-intensive services relates to the average wage, basic services are thirty times cheaper in Thailand than in America, and buying power is about the same for those services, even though nominal incomes differ markedly. As the prices of tradable goods converge in the world market, buying power disparity rises with the ratio of hard goods included in the output. Thus, while Thais can buy about as much cleaning service as Americans, Americans can buy more food-related services and nearly the ratio of nominal incomes in fully tradable goods like cars. Since the poor in both countries consume fewer hard goods, the actual income difference (adjusted for buying power) between the working class in various countries varies less than dollar figures suggest. In effect, the exchange ratio of low-end economies, based on the balance of trade in hard goods, is devalued. If services were tradable, letting Thais work in the United States for $50 a month plus food and lodging, the exchange rate would be more favorable.

An obvious way to increase the lower-income class' buying power in undeveloped countries is to restrict the export of essential goods, especially food, and drive down prices. That policy, however, would slow the growth of export industries and should be used only when there is no room for growth. Only if a country uses *all* its arable land for local consumption, opening the export market to local agriculture would raise food prices and hurt the poor without benefiting the economy.

Since internationally tradable goods are only a small part of developed economies' output, globalization does not depress wages much. Laid off workers can find employment in sectors unaffected by import competition. Foreign trade improves third-world economies, however, since export industries are major employers, and the average wage rises.

The increasing foreign trade in services circumvents labor immigration restrictions: Americans go to Mexico for vacations, entertainment, and retirement, instead of bringing inexpensive Mexican laborers to the United States. In effect, economies export customers where they cannot import services. Trade in services bring global wages closer. This convergence threatens minimum wage earners in developed countries. Trade in hard goods similarly undermined wage fixing by trade unions, killing the industries burdened by high wages. Since many low-end services are non-exportable, the threat is moderate. The opposition to trade in services comes from high-end sectors: the American medical lobby would not like American patients to be inexpensively treated in Mexico, where good hospitals would surely appear given the demand.

People in developed countries consume dozens of times more than in the third world, but the difference in output is even greater, since advanced countries redistribute more of their GDP than do undeveloped countries. Output of advanced economies is also more efficient. They consume fewer resources and pollute less per dollar of added value. A copy of Microsoft Office costs about as much as a ton of wheat, but does not require fresh water or clearing the forests. The third world squanders resources. Developed economies use them responsibly and justifiably. They actually create more resources than consume. Oil was not a significant resource before advanced economies put it to mass use. Plastic, a major manufacturing material, is human-made, unlimited. Developed societies create the "ultimate resource," knowledge, overcoming shortages of other resources by discovering or replacing them. With human activity, consuming more makes more available – and at lesser cost to environment. India is dirtier than the United States. Brazil cuts down forests, while Israel – plants them. Clean environment is an expensive good, and countries need to develop to afford it. Humans produce negligible amounts of energy compared to what Earth receives from sun and dissipates into space. Ice ages and global warming occurred before humans kindled a first fire. Air and oceans are too vast to be heated by human efforts, or even polluted long-term.

Organized wage demands

Governments send the wrong signal when they promise uneducated people a decent salary—"decent" compared to the pay for similar work in less developed countries. Due to minimum wage legislation, American fast food workers earn about thirty times more than their Asian counterparts. Minimum wages inflate the cost of basic goods and services and send the cost of living up. They are the largest tax Americans pay, and most people do not even recognize that it is a tax.

Unlike other taxes, the government does not redistribute the wealth directly but requires everyone to pay more than the market price for the products and services of the workers inefficient in terms of value they add. Low-wage workers benefit at the consumers' expense. The society might accept so massive wealth transfer to avoid the discontent of extreme polarization, but subsidies are more transparent and honest to this end. They are also more efficient: recipients of subsidies feel themselves on charity, vulnerable to budget allocations, and have incentive to advance, while the minimum wage is taken for granted. The incentive is not very strong, as the welfare recipients show, but minimum wage provides none: people are content with $5.75 an hour wage. Direct subsidies to potentially turbulent low-income workers would cynically—therefore efficiently—bribe them into compliance.

Massive redistributions distort prices and lead to inefficient allocation of resources, slow growth, and skew the balance of payments. The pressure exerted on democratic government by low-wage earners, a large group with well-defined common interest, leads to continuous increases of legislated minimum wage.

Minimum wage establishes a benchmark, and pushes other wages up, increasing costs throughout the economy from agriculture to construction to retail banking. Very competitive industries with high salaries are affected little, and transfer the excess costs on mostly export customers. Indispensable local industries with moderate wages increase them considerably, and push the costs on local consumers. Other industries shrink when higher costs decrease the demand for their products, laying off their workers to welfare programs. The increased pool of jobless depresses market wages, increasing the need for minimum wage. Bad policies are self-perpetuating.

The benefits of minimum wages are exaggerated. Low wage earners consume basic goods produced by other workers whose wages are closely pegged to the minimum wage. Inflated wages pay inflated prices. Organized demands for wage increases do not benefit society. Businessmen generally earn profits of no more than two to three percent adjusted for inflation annually. They have no room for wage negotiations and indeed, they are often conducted over negligible amounts. Salaries are a big part of costs. The USSR and China got rich keeping wages down. Sometimes artificial wage rises are amortized through underinvestment. More often, prices rise accordingly. This is why negotiations with single businesses don't work. Owners cannot raise prices without falling to the competition. Labor movements deal with whole industries, and almost all suppliers raise prices to accommodate wage demands. Inflation is the outcome, and unionized workers only benefit by running ahead of it, pressing more demands ultimately at the expense of consumers or taxpayers.

Faced with rising prices, customers turn to cheaper imports. Trade unions subsequently lobby for tariffs, protecting the power to overcharge. Protectionism contradicts socialist dream of uniting the proletarians across the borders, and seeds misanthropy to foreigners. Protectionism benefits capitalists and some workers at the expense of consumers. Protectionists often side with ultra-right nationalists. Shielded from global competition, industries deteriorate. Raising tariffs is simpler than cutting costs. Tariff shielded industries decompose after few a decades. Tariffs did not save the US steel industry made uncompetitive by wage pressures. Employers in ineffective domestic industries often align with trade unions to demand protection, and split the resulting price increases.

Switching to the high-end sector—not to be confused with niche markets—to accommodate wage increases is rare. The relationship is reverse: innovation provides for high wages. Organized labor generally concentrates on the low-tech sector where the innovation is limited and not attributable to workers. Innovative industries have no organized labor since wages are high and rising. Only outdated industries with little added value resort to fleecing consumers. When wage pressure gets innovation up, the benefit is temporary. Businesses soon realize they can have the best of both worlds: innovating to reap the value added of the hi-tech sector and manufacturing or outsourcing in low-wage countries to lower production costs. Staying home lets competitors who move abroad sell for less and drives away skilled workers responsible for innovation since trade unions carp about their salaries.

On other hand, artificially low wages depress consumer demand and shrink the market. The USSR countered that problem by creating non-consumer markets for industrial equipment and weaponry, and China looked for consumers abroad. Economies do better left to their own devices. GDP is highest when wages are unregulated.

Unemployment

Free economies know no long-term unemployment. People with limited resources have to work. There is always demand for more products, especially services, and consequently, for labor. Imagine housemaids in America at Thai wages. Millions would find work immediately. Labor demand is a matter of wages. By lowering their wage requirements, people can always find a job. Alternatively, they might wait for better times or re-train for another job. Unclaimed labor is like other goods which need to be marked down, shelved, or reworked to sell. At the minimum, unemployed could engage in basic services and sustenance agriculture to support themselves.

Minimum wages create unemployment by keeping people from accepting low pay and depressing the demand for low-end services. Since most long-term unemployed are unskilled and could earn only low wages, minimum wages make their services too expensive for consumers.

Welfare also lets people be picky about jobs. As the saying goes, there are no unemployed *engineers,* just *unemployed people* who must get *any* job to avoid becoming a burden to society. Or, better, society must not rescue unemployed people who refuse available jobs. The socialist claim that unemployed workers take the first job offered (thus reducing their wages) is not true. They take the first *acceptable* job.

The surest solution to unemployment is to revoke welfare benefits.

Workers in developed countries fear layoffs, not because they fear starvation but because their living standards fall. Society should be concerned with the former, but not with the latter. Mass layoffs result from inflexible wage demands. Small wage reductions often keep companies afloat, but employees are usually unwilling to accept even minor cuts, even if the business fails and closes. Employers have no advantage over workers in effective economies.

Minimum wages cannot last without welfare. Without the so-called "safety net", people would soon accepting pay lower than minimum wage.

Welfare provisions and unemployment in developed countries in Europe show little correlation because countries with best economies afford more comprehensive welfare. Good economy masks the negative effects of welfare. Also, relatively small portions of the welfare allocations go to long-term unemployed: correlation between these portions and unemployment is likely. The unified European job market makes comparisons meaningless: Germans who cannot find work in their welfare-ridden country, for example, do not file as unemployed but find work in other countries. Most Europeans have a work ethic and do not exploit welfare loopholes. European welfare programs slow the economy but have not yet created an underclass. Welfare might work with responsible citizens, but culturally backward groups exploit it.

The positive correlation between high wages and low unemployment leads to the erroneous conclusion that rising wages lower unemployment. Expanding industries with high labor needs make wages rise. The causation does not work backwards. The notion of a *high wage* is meaningless: $5.75 per hour might be low in the United States but would be too high in Zaire, halting its economy. . . Comparisons of salaries' purchasing power too uncertain to allow conclusions. Wages are high or low only compared to the value added by labor, but the added value is itself defined through wages. The definition of high salary is *above market levels*. Artificially raising wages at consumer expense quickly curtails demand, and increases unemployment.

The British experiment with socialism included Wage Councils which stipulated minimum wages for various industries, which showed slight increases in employment. Several things explain the anomaly. One was the overall rise of manufacturing output. Another was preferential treatment of the relevant sectors. The third was an influx of new workers attracted by relatively higher wages. The fourth was that employers hired better workers at the new wage, but could not lay off the old ones. The labor force grows with pay raises in isolated sectors, along with a demand for shorter hours, which means hiring yet more workers. So long as consumers accept the resulting price hikes, wage controlled industries prosper. Employers in essential industries, like trucking, might even collude with trade unions to fleece consumers and split the profits, leading to increased investment—and employment.

Disproportional distribution of wealth

A society might choose egalitarianism—or any other objective—but that goal is arbitrary. Abilities, luck, and dishonesty diversify society naturally. Liberal community might aim at the substantial equality of chance, but fringe cases of unequal chance are unavoidable: unusually smart or dull people, good or bad teachers, etc.

Redistribution does not affect opportunities, except in the narrow sphere of the education of very poor children. Equality of outcomes in countries with high tax rates comes at the expense of lower growth and unequal distribution of social costs, often benefiting the lazy at the expense of hard-working people. Such societies are comfortable if people accept the economic disadvantages. Low growth harms even the poorest in the long run. Like any other good, comfort and security come at a cost.

Welfare programs cause harm other than lower growth. Welfare solidifies poverty by removing the incentive for self-development. The rich own too little to satisfy all the poor, and most welfare money comes from working families. In democracies, taxation redistributes more horizontally than vertically, *i.e.,* to special interests rather than to the needy. Taxation stifles reinvestment, thus new jobs, thus wage increases.

The contrast between highest and lowest American incomes springs from logic similar to comparing the US and Zaïrian incomes. The top one percent are usually big winners in the stock market, as rare, as rich, and generally as unstable in their position as most gamblers. Only society addicted to booms and gambling consider such earnings ethical. As more people invest in stocks, the top one percent's wealth increases, since they profit from bull markets. The lowest twenty percent often lack education, a work ethic, and mental or physical health. The proper comparison is within the middle class among people of the same culture, education, and working habits and reveals a reasonable differentiation.

Leftist economists' analyze the top one percent as a coherent group, ignoring its volatile membership, rarely lasting longer than two or three decades. The ten-year moving averages of household incomes, eliminating ethereal stock riches and leveling quick gains, would reveal even smaller variation than a comparison of wealth.

The concentration of wealth affects investment resources positively. A near-equal distribution of wealth would raise buying power establishing a new standard of consumption. Since consumer spending of all but the richest families trails income closely, wealth would be spent for consumption, leaving little for investment and damaging the economy in the long run. In fact, the welfare of all depends on the wealth of a few, who are the corrupt custodians of the national credit resources. The only alternative is to nationalize those resources through progressive taxation, making bureaucrats the less effective and more corrupt custodians.

Among socialism's many disadvantages, one is especially significant in a technological economy dependent on innovation: the lack of venture capital, usually the domain of the rich. There are many gamblers among the poor, but investment risk is another matter. Not all risky endeavors are alike. When small savers pool their resources in venture funds, those publicly accountable entities are more conservative than others that raise money from the rich. Excessive taxation, like Sweden's, also drains capital, leveling society, but stifling the economy.

Much nominal wealth of the rich, especially volatile and inflated stocks, but also bonds and luxury real estate, is ephemeral, of no practical use to the rest of people if handed over to them. The distribution of real wealth, whether goods or monetary instruments, varies less than nominal wealth.

Other factors, too, make scenario of the richest one percent owning as much as the bottom ninety percent less scary. One or two people usually have a title to most of the property of rich families, and share with the others through trusts and gifts. That practice artificially limits the number of the wealthiest people reported in statistics. The top one percent is probably closer to five or ten percent when you include dependents.

Inheritance also ups the number. Heirs often have several dependents not counted in the one percent. Few great fortunes survive more than a couple of generations, and though inheritance spreads the wealth a little, the whole family may have already slipped from the top. Wealth dissipates. Few contemporary billionaires have fortunes carried over from the pre-Depression era. In technological economies, wealth is a matter of invention, not inheritance.

Of the bottom ninety percent, from twenty-five to thirty percent are chronically unemployed, uneducated, and unskilled. Such people can hardly save money.

Of the next sixty percent, many do not save, especially young professionals, certain of their future income. The tendency is not necessarily bad and reflects confidence. Perhaps two-thirds of that sixty percent save.

The ballpark forty percent who save own about as much as the richest top ten percent, a variation of four times instead of the nominal variance of ninety to one. The real difference, further, is at least halved if fleeting stock market fortunes are taken into account. The per-capita real wealth difference between the slightly rich and the middle-class is only about fifty percent. The morally significant difference in consumption is even less.

Modern socialists generally do not attack the middle class, wanting on to tax the rich. Let us define “the rich” as the people who own half the national wealth, generally about ten percentof the population. Suppose now that socialists nationalize the property of the rich and distribute it to everybody else. Since the rich own half the total wealth, the distribution would double everyone’s property. Is that worth a revolution? Doubling is in fact an exaggeration, since it disregards inflation resulting from consuming the previously latent riches and assumes that the recipients consume or otherwise enjoy stocks and long-term bonds which are most of the wealth and that they divide expensive items, for how to distribute a confiscated Learjet? Families with little or no savings would not do well: twice nothing is still nothing. What about those of negative worth? To double everyone's wealth at the expense of the richest is impractical.

Offering everyone the same amount of spoils would turn away the middle class, since that amount is too small relative to their incomes to justify nationalization, a major social upheaval.

The rich own too little, and their nationalization cannot satisfy all. Take extreme case: distributing $4 trillion owned by the top ten percent of Americans to forty million Americans below the poverty line would give each of them $100,000, not a fabulous amount, and mostly in useless shares. Distributing this money to the four billion of the world's poor would give each of them only a thousand dollars mostly in nominal funds or useless services, not goods. Income varies still less than assets, the fact that creates widespread illusion of the rich paying little income tax. Redistribution eliminates riches, not poverty.

Socialists could appease the poorest only by giving them the middle class' wealth. This brings us to the USSR and the statistically proven point that the middle class is the major source of redistribution. As the poor spent the windfall, other would soon accumulate fortunes, bringing on another round of confiscation.

Periodic confiscation would discourage most productive people from work, the fruits of which are certain to be taken away, and would harm the society by stifling development. Alternatively, productive people would move out of socialist communities. Fed up with mediocre income in cooperatives, socialists would soon hire themselves to more effective capitalists, just as now. In order to preserve their political order, socialist leaders would have to destroy even outside capitalists.

Draconian taxation does not solve the problem of inequality: socialist Sweden has a seven-fold income gap between the top and bottom ten percent. Even stripping the middle-class did not satisfy socialist—or welfare—states who practiced horizontal redistribution among the lower-middle and poor classes. Benefits accrue not the poor but to the most vociferous and politically active. The redistribution, despite its sheer size, is generally implicit. Minimum wages raise the price of hamburgers. Trade unions drive costs up in schools, steel, transportation. Customs duties run up the prices of imports and comparable domestic goods. Those factors push socialism toward nationalism to protect selected local workers and consumers against competition of their foreign comrades.

Absolute figures show the problem of income distribution is less urgent than socialists claim. In 1995, the median net worth of the top twenty percent of American households was about a reasonable $116,000. The incomes of the top one percent of households are high, but they are three million people, not a closed elite group. Since this group is ever changing, perhaps fifteen to twenty million Americans are among the top one percent at some point in their lives., Liquid capital, rapid obsolescence of fixed investments, and effective transportation and communication keep that number on the rise. Still more people, like distant relatives, benefit from this group indirectly.

At the height of free markets in nineteenth-century America, income inequality was great, so *laissez-faire* is unjust. That argument presupposes that equality is good in itself. Capitalism indeed creates large variations in income, but it also raises all incomes fastest, as happened then. Gross inequality is not ideal but optimal. Envious socialists want sacrificing growth of incomes for equality. The disparity diminished throughout the last half of twentieth century, until the technological revolution generated new wealth which has not yet percolated through society. Much of the nineteenth-century income gap was due not to the market being free but ineffective, corrupt, overly regulated, and lawless.

In developed countries, the gap increases due to welfare policies promoting idleness and the influx of untrained immigrants and minorities. The latter factor soon dissolves unless the former preserves it. Regulation, not free markets, cause the gross inequalities.

Market economy increases GDP fastest, but disregards short-term egalitarianism. Soviet centrally planned economy also put GDP ahead of egalitarianism because practical communists realized this is the only way to increase GDP. Socialists do not aim for egalitarianism, since few would suggest that cleaner and a professor receive the same salary. If salaries are equalized or the variation significantly reduced, people would avoid professions with long study period, or involving heavy work, or otherwise unattractive. Consistent egalitarians wind up assigning people to particular jobs, substituting force for the lost economic stimuli. Socialists do not want equal incomes for all, but rather they want the differentiation to occur according to their understanding of merit, instead of the understanding of the multitude of market participants voting with their money. Socialists want to arrogate the control; they do not want equality which, as any transparent system, would leave them without controls.

In the 1990s only for families headed by college graduates had appreciable income increases. In any economy, only the people with relevant skills prosper. In technological economies, the relevant skill is education. Prices increase only for innovative products. The uneducated generally work in sectors little affected by innovation, and the prices of their products go down. While increasing efficiency sustain their wages against falling prices, minimum wage legislation does more to this effect.

Socialists note that manufacturing wages in the US almost double between 1946 and 1973 before the reemergence of free market policies. The statistics are doubtful because dollar was overvalued. A considerable increase, spurred by military production, was no surprise after the Depression. America enjoyed a unique position in a world market recovering from the war. The country was in many respects more liberal then than now. Tax rates were lower, there was less regulation. With global competition, a devaluated dollar, double-digit inflation, and the influx of new workers, it's no wonder the manufacturing wages stagnated.

The incomes of top earners grew faster than those of bottom end earners in the past few decades. The data is misleading, however, since the groups are not static. The bottom end includes immigrants, minority workers, and ex-housewives who often lack skills. All got big wage increases, and many eventually ascended from the bottom group. The many part-time employees also depress the statistics. People at the top are riding the crest of the technological wave, profiting from ideas and rare managerial skills. A forty-year average of top and bottom incomes between homogenous and static groups, say the 1960 graduates of Yale and of the Queens public schools,, would undoubtedly vary less and perhaps even converge.

Five percent of Americans own ninety-five percent of privately owned stock shares. The figures, again, are misleading. Most shareholders own stock under brokerages' street names or through mutual, insurance, or pension funds and are not statistically categorized as individual holdings. The largest stock holdings belong to founders and top employees. The valuations should be taken with a grain of salt. Owners are often prevented from selling, and the sale of large blocks invariably brings prices down. Big stock holdings differ from other wealth: the owners usually did not buy them but created the value in efficient corporations.

About thirty percent of black households in the United States are in debt. Negative worth is not necessarily bad, since it might reflect consumer confidence. Affluent societies are less predisposed to saving. People confident of future employment might compromise their entire current income and even borrow, since more income is certain. White Americans continue to save, though less than before. Poor blacks are tolerant to contingencies, and often rely on assured income from the government, feeling less need to save.

Even the very poor used to save a large portion of their income, investing in children, land, or houses. Debt is not a sign not of poverty but of confidence or irresponsibility.

The net worth of white Americans is about eight times that of African-Americans. The worth of the richest affects the net worth of whites, but there are few blacks among the wealthiest five percent. The variance between the average worth of middle-class or working families of given ethnicity is small.

Blacks were three times as likely as whites to have their small business loan applications turned down in the 1990s. Bankers seek profits, not social or racist goals. Given affirmative action pressures and lax American lending policies, only the unqualified are rejected.

Shareholders can and should oppose management's abusive compensation packages. Income distribution is based not on personal effort but on the value society attributes to effort. Bill Gates' work is more important to the world than that of a million people in sub-Saharan Africa. Yet corrupt managers abuse the shareholders' trust and steal big chunks of corporate income. Corporations fulfill the socialist dream: workers (managers) control production and investors get nothing. Minor stockholders can pool their votes only through trust arrangements. Mutual funds do not like the job because they are closer to the corporate elite than the investors they ostensibly serve. Even specialized share management institutions soon become as irresponsive to shareholders as corporations themselves. The internet provides a workable solution with real-time shareholder conferences and votes.

Charity

Though some cannot imagine life without welfare programs, they are a recent innovation, going back perhaps to Napoleon who established shelters for disabled veterans. Earlier cases were peculiar. Rome, for example, distributed grain to its citizens because tribute made local economic development unimportant. Bismarck first brought the concept of pensions forward to lure Germans into unification. Bismarck took care not to burden the treasury, setting the retirement age at sixty-five, an age few attained then. With life expectancy far beyond sixty-five, the burden of pensions grew onerous in the last century. With birth rates decreasing, some countries opened the door to immigration to sustain the pool of taxable workers.

The United States created Social Security system in the throes of the Depression. The system performed awfully, lagging behind the stock market. Unemployment insurance made workers less mobile and disinclined to accept employment in other occupation, or to look for work pay cuts.

Scholars, preachers, and poets of old received not charity, but payments from individuals for services rendered to society.

People lived without the government safety net for millennia, investing in children and property to provide for the old age. Towns full of beggars are a considerable exaggeration of writers. Religious institutions often usurped the donations, constraining the flow of charity. Beggars became rare much before the developed states introduced extensive welfare programs which benefited the interest groups more than the genuinely poor. Advanced countries have few paupers because the societies are wealthy, with large demand and many job opportunities.

Besides the subsidized interest groups, such as agriculture, all except the chronically unemployed pay more in taxes than they receive in benefits, especially if the time-value of money is considered. Only the government and, bureaucrats benefit from redistribution. Managing the money gives them control over people. The Social Security fund is the largest investor, with considerable influence in the bond market and potential to affect the stock market.

Private insurers can offer unemployment insurance if workers want it. Disability is also sufficiently rare that private insurers could cover it. But can private funds handle depressions and natural calamities? Where do government funds come from, if not from taxing private funds? If the government did not tax the people, insurers could accumulate enough. Would people buy insurance against economic hardship? If they would not, why the government provides them with protection they do not want? The premiums for insurance against such an improbable event would be low, unless government mandate expanding the coverage, as it does for health insurance. One definition of the contingency is a person's inability to find any job paying at least half his previous wage in a month locally, or anywhere else in the country in three months.

The Depression is a poor argument for the safety net, but rather against regulation. The government meddling with monetary supply led to stock market bubble and bust. The increased efficiency of agriculture diminished the prices, impoverishing small farmers, but providing the laid-out workers with inexpensive food. The government suffocated the food supply in order to increase prices and please the agrarian lobby. Inept monetary policy, tight lending in the economy desperately needing fast restructuring, massive later public works increasing the price of labor precisely when the economy could afford only low wages, and other erroneous intervention transformed a short crisis into prolonged depression. Wrong welfare policies worsened the situation, requiring more welfare policies.

Government welfare deals with moral choices arbitrarily. Charitable purposes are infinite, and bureaucrats seek to increase programs and funding. Since budgets can never deal with all possible charity needs, bureaucrats decide who gets how much ahead of whom. More schools or better hospitals? Free universal basic medical insurance or more medical research? Children or the aged? Since the potential for improvement is infinite, there is never enough money. A utilitarian approach assigns funds based on the recipient's value to society, tilting outlays toward educating and taking care of children and young adults. Young people will pay more taxes than those who are old now. But young people are bad voters, and legislators take care of the aged. Rich people pay more per-capita taxes, so society should take the best care of the rich, an odd conclusion. Hedonism suggests perpetuating unemployment, since unemployed have more time to enjoy, given sufficient welfare. Other guidelines for allotting public funds among the various charitable purposes are even less sustainable, leading the government to ad hoc solutions favoring vociferous lobbies and popular "as-seen-on-TV" causes. Morality cannot be institutionalized. No one has moral right to arbitrarily allocate welfare, whether to teach the young or save the old, to provide better prenatal care for all poor mothers or exclude illegal aliens. Communal charity must go to the single consensually supported purpose: sustaining the neighbors in life-threatening poverty. Life improvement should be left to donors and private charities who can donate their money to whom they wish. There is a solution: impose a charity tax, but let taxpayers to spend it as they wish. The government might license acceptable charitable organizations or purposes, but the choice would be left to the donors. Charities seeking more funds would open themselves to public scrutiny, keeping abuses to minimum.

The needy are always with us, but they should not be confused with people who want to equalize incomes. Only people who cannot sustain themselves deserve society's help. The current level of welfare in developed countries has passed that standard, and public pays for quality housing, good diet, and fabulous medical services for conscientious unemployed. Providing minimum sustenance for the needy is not costly. Tithe sufficed in sustenance economy. If “sustenance” means between five and twenty percent of the average wage in developed countries, a charity tax between half a percent and two percent, a "sustenance tithe," would suffice. People would give that much, especially if the government abandoned welfare and returned responsibility to the donors. Citizens, who supposedly support government redistribution of about thirty percent of their income, should be expected to pay half a percent without compulsion.

The mandatory charity need only be paid on consumed income, not on savings or reinvestments. The idea behind charity is redistributing ten percent of society's sustenance expenses to the poorest, whose number is thus reasonably limited. Increasing the charity tax base creates superfluous funds, and benefits dubiously needy.

Redistribution intends to allow everyone minimal consumption, not income. Consumption, not income is a proper tax base. Possibly, only essential consumption should be taxed, since poor cannot claim a share in luxury spending. Charity obligations would not differ tremendously between rich and poor, and evasion would not pay.

American colonists in the eighteenth century reportedly opposed taxes earmarked for poorhouses, but attitudes then were harsh. People working for sustenance were reluctant to share, and likely loathed criminalized poorhouses in their towns.

People skip on taxes destined for pork barrel spending, but would pay small charity critical to their neighbors, just like people forget self-interest and pursue societal values in other critical situations, such as war. Charging the charity tax on expenses, like sales tax, with automatic deduction from electronic payments, would make evasion impractical.

Government expenditures which are basically charity are huge: subsidies to agricultural lobby, costs of affirmative action, and even peacekeeping. Taxes used to pay these and similar costs often exceed national investments. Eliminating the costs and reducing the taxes accordingly would significantly increase investment and create more and better-paid workplaces, and reduce poverty more effectively than governments pretend to do.

Inheritance

Inheritance cements family relations by establishing economic continuity between generations. If unable to pass their property to heirs, people would consume rather than invest. Inheritance is a logical extension of the freedom of ownership, and act of final disposal of property, and promotes prudence, frugality, and altruistic concern about the family members. Inheritances often dissipate through inflation, waste, incompetence, and distribution among many heirs. The vast estates that survive two or three generations often belong to families close to government and government contracts.

The wealth of societies increases rapidly; inheritances soon become insignificant. Inheritance no longer changes the odds of entrepreneurs because start-up capital is widely available. Innovators and specialists in technological economies accumulate great fortunes in decades or even years. Perhaps the only spheres where the wealth of previous generations still affects the present are education and "society" in the sense of family connections, and even those blur. Prestigious universities prefer elite but admit many ordinary students. Grants and loans have made college available to middle-class or even poor families. Social connections often depend not on the family or bloodline but strictly on wealth or profession. Fixed advantages, such as family or inheritance, are important in mature isomorphous economies where slightest differences matter. Rapidly advancing heterogeneous economies overcome fixed advantages with luck, ideas, and rare skills.

Prohibiting the inheritance would make people equally poor initially, but their wealth will soon diverge. Some important personal traits are inherited: intelligence, learning ability, beauty, or temperament, features more important to some than wealth. Those features cannot be leveled, nor should they be, since diversity provides for the evolution of human society. Why single out for leveling a diversity of wealth, which is as impossible to eliminate as variance of personal traits?

People usually enjoy more of their parents' money from birth until adulthood, than as inheritance. There are many ways to circumvent inheritance restrictions. The greatest burden a society can impose on heirs is income tax. To void death duties beyond that, people distribute their property to their heirs as salary or business income or establish beneficial trusts. This income is unearned, but so are many others. Allowing only earned incomes—the extreme socialist' "to each one by his work"—requires arbitrary definition of merits and regulating the prices, a state-run economy.

Society could limit the timeframe of inheritance, just as it could limit patents, but controlling the compliance is almost impossible, since each generation could sell the inherited assets and buy new ones. Taxing inheritances in each successive generation limits endowment, though not effectively, since the income on the endowment each generation of heirs gets likely exceeds the taxes their heirs pay. Consumption and dissipation are the principal destroyers of legacies.

Taxing inheritance is like taxing any other income. Inheritance is unrelated to payment for added value, but neither is gambling—which is taxed. Taxation, as any regulation, is arbitrary: applied to spending, income, or added value. It makes more sense to tax consumption only and eliminate the issue of inheritance. Who spends is not important. How much he spends is important.

Heirs could reject an inheritance if it involved debt. That choice makes inheritance unjust. Children are not responsible for their parents' mistakes though repaying the parents' debts is a minimal gratitude for being brought to life. Jail sentences are not passed down to heirs; should debt be? What about debt arising from criminal penalties? Taking inflation into account, it is unlikely that inherited debt would last many generations. Debt liability could be limited to four generations and the people who knew the debtor. Mandatory debt transfer seems unjust, and some people might abuse that guarantee by borrowing shortly before death to spite heirs they despise. The hardship imposed on such "heirs" is undeserved—but so is inherited wealth Most people would become more circumspect in their dealings to avoid burdening their children with debt.

People could designate heirs outside their family, but symmetrical right to appoint heirs to one's debt is impractical. A fundamental difference generally exists between endowing one's children and those outside the family. The last case is usually qualified by the heirs doing charitable work prescribed by testator. Such inheritance is a contract where a testator pays for the job. He could not, therefore, bequeath to third parties a debt, but only give them a positive amount. No such contract exists with the children who inherit generally without corresponding obligation. Society recognizes children as economic successors of their parents, and such succession need not be limited to positive amounts. Children might be made responsible for their parents' debts with a right to refuse inheritance, whether of assets or debt, before the event. The issue is of little practical importance, since creditors rarely let unsecured debt accumulate.

The asymmetry of inheritance shows impossibility of positive responsibility. A person could charitably endow another or accept responsibility for his debt, but not be *made* responsible for another's debt or welfare.

Equality

An early socialist goal was community property. Since under such a scheme all goods are free, demand is unlimited, and there are never enough goods. Such a system would create competition for free communal resources, necessitating the regulation of access. Equality in that system means equality of access or, rather, of standing in the long line. Small groups of like-minded people could cooperate to work around the problem and refrain from excessive claims. But what works in the *kibbutzim* does not work in society as a whole. The communal property USSR devised intricate regulation giving bureaucrats considerable latitude in deciding assigning, for example, living space. Equality of access is easily abused, and the communal state must restrict or redefine equality to make access even minimally fair.

To circumvent the impossibility of equal access to free goods, socialists implied that people don't *need* the goods which they want. The equality principle was applied to the fulfillment of subjective needs. As Marx predicted, To each according to his need. Other than in advanced economies where robots produce the required volumes of merchandise, people’s needs always outstrip resources. Bureaucrats try to quantify desire, unavoidably blurring subjective differences. Every Soviet adult was entitled to a 150 sq ft apartment. Therein lies the rationalist trap: to build an equitable society, socialists must to assess impossibly complex subjective factors. What is fair to one seems outrageous to another. Fairness is both subjective and personal and can not be standardized.

When the Soviet Union abandoned communism, socialists repackaged the equal fulfillment of need as equality of outcomes. While superficially more philosophical, the idea is the same: society makes everyone happy by taking responsibility for individual lives. Since responsibility is inseparable from control, people are loyal and cooperative. An obligatory goal of equality strips people of free will, reducing them to the infamous *screws* of the Stalinist machine.

Equality of outcomes requires allocating different resources to people who are very unlike, defeating common-sense meaning of equality. Less motivated people need more communal help to bring them to a predefined material level. Marx predicted that capitalism naturally evolves into socialism. Democracy either succumbs to demands of redistribution, turning to socialism, or bourgeoisie installs an authoritarian government which disregards public demands. Many Western countries have elaborate welfare programs far beyond the Soviet redistribution.

Next comes the equality of potential, from uniform education to giving workers equal shares of the means of production—which creates a bonanza for bureaucrats in charge of redistribution but does little to promote equality. Children have different learning abilities; teachers differ professionally; some people are more enterprising than others. Offering everyone equal potential (at a huge cost to society) does not produce even remotely similar outcomes. Decades of homogenized education have not eliminated differences among people.

When liberals realized the impossibility of positive equality in a vibrant society, they turned to negative equality, the absence of human-made impediments: caste restrictions on education, union restrictions on employment, class restrictions on ownership. The logic of marginal utility suggests that a liberal society might help the few especially disadvantaged through charity, educational loans, or similar voluntary actions.

Effective markets overcome injustice

The textbook case of capitalist exploitation is an ineffective labor market with an over-supply of labor. Excessive demand drives wages up, and socialists do not call that injustice, nor do capitalists, though they could claim that labor unusually high profits.

Unemployment is, however, self-correcting. An abundance of labor depresses wages, letting capitalists reap unusually high profits, most of which is reinvested to create new jobs and drive up the demand for labor, and wages.

If socialists keep wages artificially high wages during a depression, workers use most of their wages and save very little, insufficient to keep pace with normal rises in the cost of equipment required by technological progress. New jobs are not created, and unemployment persists.

The only other option is to mandate high salaries and tax them more to transfer the excess profits to the government instead of to capitalists. The government can then, theoretically, reinvest the extra funds to create new jobs. More usually governments give in to special interest pressures and use the funds to subsidize the most vociferous voters. Government investment, ineffective as it is, cannot create as many jobs as private enterprise. Moreover, workers' net wages would remain depressed, and governments abuse workers at state factories the same as capitalists.

Efficient and ethical free market has boundary case, a transitory period. The injustices that accompany the transition to market capitalism from some other system are short-lived. Illicit wealth of the transitory period dissipates quickly among heirs, and becomes unimportant compared to licit wealth continuously acquired by others. Few families in democracies can trace their fortunes very far back, and few inherited significant assets accumulated during the first stages of capitalism. The traditional means of preserving value, such as land or gold, lose much of their value in technological economies. Large landowners are not tremendously rich and influential in our time, but rather need subsidies.

During a century of efficient market capitalism, heirs put enough efforts even into illicit wealth to make it morally acceptable. European peasants and later the bourgeoisie were morally justified in seizing feudal lands. Even if they were acquired originally through some meritorious act, by revolutionary times feudal holdings were unmerited. The heirs did nothing to preserve the land or rework the assets into economically different forms.

Gold and silver from the New World brought riches, soon dissipated by resulting inflation. African slaves were employed in the least efficient industries, where hired workforce was not feasible, and created little value. Massive imports of raw materials began after industrialization, when innovation made the colonial inputs progressively less important part of the value added. Long-term wealth come by industriousness, not despoilment. Even Ancient Rome profited not so much from looting as from tribute, a fee for protection and peace.

In technological economies, property acquired centuries ago loses importance and dissolves in a sea of newly created wealth. In agricultural economy, added value always depended on the same illicitly acquired land. By the era of the bourgeois revolutions, land had lost its significance. The early peasant revolts aimed at redistributing feudal property. Later revolutions saw confiscation as auxiliary to overthrowing aristocrats and abolishing class-based monopolies. So long as liberal societies prohibit monopolies, economic injustices do not accumulate.

Nineteenth century Russian serfs were freed without land, but many were soon richer than the aristocrats. American settlers got land free or inexpensively and developed it, yet the twentieth-century agricultural revolution revealed great inequities, and only a handful of farmers survive in the competitive economy. Equality of start-up conditions matters little in free economy.

The post-communist privatization in the Ukraine that gave each member of a collective farm a considerable plot of land for free shows that freeing serfs and giving them land does not work. The action was not only unethical, since farmers got much more formerly common property than others, but also useless, since the would-be farmers had no business skills and were unwilling to take risks. They sold their land instead of working it, despite government support, including almost zero taxation. In only a decade, the egalitarian society became a typical third world developing economy with great social inequities, to say nothing of corruption. This happened though the government policies in Ukraine, generally pro-market, were still influenced by communist dogma and included much regulation. Similar dispossession of homesteaders earlier took place in America. Few people succeed as entrepreneurs even in simple agriculture. When consumer credit became widely available to wage workers, they fell in the same trap as grassroots entrepreneurs, over-buying and over-borrowing. Not many people are sufficiently responsible to invest.

Harsh treatment of American Indians by colonists is another textbook case of injustice in transitory period. But colonists were surprisingly restrained toward Indians. Europeans treated Africans much harsher in the same era, and brutalities of the twentieth century conflicts surpass the Indians' horrors.

Unusually, the colonists *bought* the land. Jewish immigration to Palestine is the only other example of colonization-by-purchase. In both cases, locals realized that massive purchases allow the immigrants much more that the right to property - a jurisdiction. This realization led to bloody conflicts.

Advanced agriculture let the locals produce more food on less land, but misanthropy prevailed over reason. Pastoral Indians often fought their hunter-and-gatherer neighbors more ferociously than did the Europeans. The struggle took place along civilizational, not ethnic or economic lines, a conflict repeating itself since farmer Cain killed hunter Abel.

Free market is the most effective social organization

The market is the most effective mechanism for acquiring wealth, because the evolution of imperfect decisions—many people making imperfect decisions based on imperfect information, then competing to make only the best decisions win—is the most effective approach to decision-making when no one has all the information or knows all the rules for processing it. A game of chess, in which computers beat humans, differs from economy which has trends rather than rules, and where the values of positions are not objectively assessable. Planned economies disregard more factors than they account for and are possibly less efficient than random choices and much less efficient than local choices by reasonably informed and competent people acting out of genuine self-interest.

Micro-level participants possess substantially all the information that matters for them: that they would part with so much money, and receive so many goods. Choices might not be wise, but they are informed. Defectiveness of information increases with scale of decisions. People often decide what they want to buy on spot; government has to plan. Recalling typical family decision-making on purchasing a costly item, with prolonged deliberations, changing objectives and choices, show that planning is futile. Even flexible regulation developed societies flirt with, does not work. Promoting one industry at the expense of another presumes knowledge of people's wants; they, however, often are not sure of what they want until they buy. Nor is flexible regulation necessary: industries with high demand attract investment with government help.

Society cannot be modeled, predicted and planned even if a computer collects all information available in the world—because of free will. Determinacy or fate is a matter of probability, and so are economic decisions. Society, as the world of particles, operates statistically, and cannot be rigidly regulated. Randomness statistically balances out, and planning might disregard it, but government regulation infringes on something more important than economy—on the right to random choices called the free will which is the human essence.

Profit rewards accurate micro-level decisions, while loss punishes mistakes. The accuracy is rarely conscious, largely a matter of chance, so the prudent and moral do not always prevail. The economy does not suppress or ignore them, rather they are not consistently correct. Few people are always right even at the micro-level. Liberalism, refusal to impose one's views on others, is the only feasible approach to complex systems where one cannot be certain that his views are correct. Because only few people are right at any given moment, society should take care not to suppress dissent through democratic decision-making.

The market is impersonal: society welcomes and will pay for the right economic moves, regardless their origin and merit. There is a great temptation to devise a system to reward each according to his merit. The first problem is counter-intuitive: what is merit? Or how are the different merits of the mathematician and the humanitarian, the professor and janitor, the president and the cook correlated? The answer is subjective, with no possibility of consensus. Free people prefer chance to coercion, especially the arbitrary suppression of their chances; yet planning requires such suppression. The market is oblivious to merit, because almost no one has merit in the sense of consciously benefiting society. Positive actions in complex adaptive systems produce unpredictable results. The merit system presupposes advance knowledge of the causation between actions and their results, yet such knowledge is generally impossible in complex adaptive systems (CAS); that is why planning fails. No objective merit-based system of reward can be devised for CASs.

Market is an efficient vehicle for any goals. In free societies with transparent laws, just courts, and responsible government, market produces wealth. In corrupt societies, oligarchs use market for enrichment at the expense of people. In welfare societies, market magnifies and perpetuates misallocations. Neoliberal model cannot be transplanted to failed states.

Market works only when people pursue self-interest, moderated a bit by concern for the group. People might embrace other ethical systems: of communists, samurais, or hermits. Doing so, however, sacrifices material development of society.

Many people are unable of rational decision-making optimal in free market. It is enough that they act in the perceived self-interest. They act imperfectly, but often in right direction. Market punishes unusually irrational behavior, which does not proliferate. In any case, the behavior of government is no more rational than that of average people, probably less than theirs. The reversals of policy coming with regular change of government are one of the worst strategies. Many decisions bureaucrats take incompetently are worse than random. Government is bad at paternalism, promoting inefficient behavior and spoiling the recipients. Foundations might provide guidance for people who want it, and convince those who do not.

Free market does not produce equality. Like in the example of gas molecules, free market offers the closest equality of chance. Probability of attaining any given income is equal for perhaps the middle 80% of population. Though the odds are tilted for some people, this inequality of chance compares favorably to that existing under any other system: it is not fixed, as with castes, or arbitrary, as with socialism. Equality of chance translates into equality of incomes only in stagnant economy where no one could realize the chance. Communes, engaging in agriculture and cottage industry, model such undiversified economy, and provide outlet for egalitarians under capitalism, without the need to overturn the existing order.

In boundary situations, the few with specific knowledge or other relevant qualities (such as relation to the government) benefit economically at the expense of everyone else. Such limited situations might justify regulation. The boundary effects are, however, short-lived. The market overcomes them through the diffusion of knowledge, skills, and access. Absent a predatory government, market ineffectiveness corrects itself. Regulation, on the contrary, is self-sustaining and expansive, damaging market mechanisms when they are weak and building long-term structural inefficiencies into emerging economies.

Like inserting cores in saturated liquids facilitates growth of crystals, so the government policies theoretically help competitive clusters emerge. The result, however, depends on ability of the authorities to pinpoint the areas of comparative advantage, and on puzzling inability of local and foreign investors who hear the same experts, to do likewise. Successful policies possibly make the development slightly faster; unsuccessful policies disastrously misallocate resources. Regulation stands best chance when it is limited to temporary protection of developing sectors from import and foreign direct investment competition.

Regulation in the simplest economy, with theoretically predictable results better than obtainable by interactions of inefficient marketers, soon becomes counter-productive: the United States built too many public roads, the Soviet Union – too many machine-building factories. Regulation violates human rights, depriving people of what they see as viable economic decisions, forcing them to adhere to government policy. GDP is not the end, but the means to people's happiness which depends both on freedom and money. Too much trade-off of the former in favor of the latter is unacceptable; people who give up their freedom are often deprived of money, too: excessive taxation in the United States long after the New Deal, institutionalized poverty of Soviet workers long after the accelerated industrialization was completed.

Even if government reduces regulation in response to increasing market efficiency, the overall benefit of regulation is still questionable. The transition to efficiency takes much longer when regulations soften the emerging free market's harsh effects.

The most important thing about the evolution of imperfect decisions is that no decision is critical, or affects the whole system. Concentration and monopolies reduce market efficiency, better nevertheless than that of any other organization. Mammoth deals can be fatal for mega-corporations but just a blip on the market's radar.

Market does not prevent mistakes, such as erroneous decisions on producing certain goods, or a bank asking too high credit rate, or a trade union demanding impossible salaries. Rather, market assures limited scale of each decision, and non-proliferation of wrong choices: unnecessary goods do not sell, bankrupting their producers, unreasonable banks go out of business for lack of clients, unionized industries deteriorate. Any innovative system produces many errors. The market's trick is extinguishing them fast.

In developed societies with effective markets, governments obstruct decision-making. Large governments are not to markets as whales are to fish. Whales are, at least, in one place, and fish can swim around. Government is everywhere, influencing and changing everything.

Since central planning depends on rationalism, it opposes doubts, and applies the supposedly correct approach to the whole economy. Instead of appearing at the correct answer through competition of different approaches, central planning applies the theoretically best, unproven approaches. The errors (say, what fertilizers to use) are thus applied to the whole economy, with devastating consequences. Most imperfect decisions are erroneous, and states consistently err on mega-scale. Technical issues balloon into political matters; the Soviets equated genetics with imperialism. Market approach, on the contrary, allows to apply every approach only on a small scale, to see which one would eventually prove correct, to be adopted by all.

Having failed to produce economic results, planning is now touted for ecological and ethical concerns. But ecological scares, from overpopulation to food shortage to global cooling to global warming, consistently prove wrong, while governments follow tremendously expensive and often contradictory advices of scholars. Planning cannot produce better results than a slightly regulated or court-controlled market economy, nor is it suitable for achieving ethical purposes because positive regulation is unworkable and merits are subjective.

The market increases wealth of nations and equalizes the likelihood of success at birth by destroying fixed advantage of aristocracy and assured privileges of government employment, and leveling inherited advantage of wealth in favor of education. Socialists, however, aim for egalitarian society, attainable only at the expense of wealth. Since any emerging system is diversified and inequality increases as incomes rise, egalitarianism is only attainable in poorer societies.

An egalitarian society cannot develop. Since all incomes are about the same, consumption is also similar. Since most earners consume almost all their income, savings are minimal. In egalitarian societies all saving is minimal and investment resources dwindle. Without investment, the economy stalls. The only way around is to tax people to create a national pool of investment resources, turning the government into a single lender and transforming the economy toward centrally planning, or obliging people to save a certain percent of their income. Beside having little to do with freedom, the latter would leave the banks or other credit institutions in control of industry, just what egalitarians want to eliminate.

An analogy with gas molecules demonstrates regulation's negative impact on wealth. In a closed system, molecules move at different speeds but each has an equal chance of reaching any particular speed; in free markets, people have different levels of wealth, but the chances of acquiring wealth are almost the same. Each molecule and each person continuously change speed (wealth) based on interaction with others. Introducing a static object into the gas container causes temporary inefficiency; *e.g.*, the molecules nearest the object slow on impact but soon are able again to reach any particular speed. Passive and predictable social convention, such as a ten percent mandatory levy for charity, would cease to affect the market soon after the initial shock. Things are different with an active object with no external power source. Arbitrarily slowing some molecules and speeding others (redistributing wealth), such an object causes entropy, slowing the whole system. Intellect complicates things. Unable to comprehend the behavior of complex adaptive systems, governments consistently come up with mistaken predictions, not just the fifty percent wrong of molecular random "choices." Similarly, a multitude of small investors who do not understand the system consistently lose money in the stock market.

Mistaken choices slow GDP growth further, offer advantages to insiders close to the government and destroying the equality of opportunities to acquire wealth.

Societies could adapt to any static influences, and reinstate the efficiency. Positivist policies, however, are ever changing in response to new failures. Unlike in Plato's model, the laws of change themselves change. Policies often rationalize ad hoc decisions.

Societies do not merely adapt, but shape themselves. Unlike gas, societies are influenced from inside; intellect propels them. Humans are active agents. Some accept rationalism and planning, and try to further them; some reject government intrusion, and devote intellectual resources to circumventing it. Planning, therefore, changes not only actions, but also thoughts which eventually cause and influence much more actions than planned. Regulation causes synergetic distortions in societies.

Bakers around the world acceptably serve their customers, though bakers generally know very little of the economy, public relations, and other notions relevant to planning. But if a government wants to centrally plan its bakeries, it has to possess all this information, a tremendous amount of knowledge, not easily collectable, accessible, or quantifiable. No government has the resources to collect the knowledge required for central planning. Then the rationalist government resorts to imperfect planning, guiding the market participants with economic policies. But whereas in market or human memory myriad imperfect solutions occur at the low scale, suppressing the errors, and allowing the right decisions to proliferate to dominance, large-scale errors of central planning are devastating.

Socialists say that free markets pursue short-term profits. Stock market investors expect speculative stock appreciation, not dividends. Though little better than gambling, stock market investment still provides the long-term financing. Free markets correlates widely different interests, such as strategic investment and speculation, through their common denominator, the profit motive.

Many investments offer an inflation-adjusted return of only two to three percent annually. The capitalists investing for thirty to fifty years just to get their money back are not oriented short-term.

Managers of public stock corporations allegedly focus on short-term profits to boost stock prices and their own performance-based salaries. Arguably, the opposite is true. What looks like a short sighted decision is often the elimination of an unprofitable, unrelated business which, if allowed to continue, cuts into investment resources and slow the development of the profitable sectors. Some losing businesses could be made profitable, but few managers are capable of turning them around, and collapse is the best solution. Stock corporations engage in myriad other books-only abuses to boost immediate performance, but such policies usually go against stockholders' interest, at least those who bought at inflated prices before the crash such abuses precede. The managers who do this are criminals, as exist in any economic system, not free marketers.

Anarchy is order means dynamic order of complex adaptive system, not rigid order of authoritarian states. Rigid order does not continuously adapt to changing circumstances, and produces deviations and eventual clashes. Anarchic order is soft, continuously adapting. Like gas, it seems superficially chaotic, but is ordered statistically.

In crystal, each molecule takes its rigid place, almost lacking space to move. In this sense, it is like people without free will. All molecules keep preset distances among themselves, there is no interaction, collisions and “enmity” among them. Their world is fixed, dead.

Gas molecules engage in chaotic movement. Like people in social relations, they frequently encounter collisions, hit each other, and withdraw. Although that system looks wild, it is on the average very comfortable, since most of the time each molecule freely moves around “as it wishes.” Back to our social analogy, free will is there, and enmity of the collisions (infringement on others’ interests, entering their sphere of interests) is the way of constant readjustment of the comfortable state of society. It does not matter who hit whom, both molecules were moving and they hit each other. As much as you do to him, he will do to you. So do not do to him what you do not like him to do to you; this is the negative commandment of reciprocity.