A Right-Libertarian Myth Meets Reality

Kevin Carson

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A report submitted to the EU in September, as interpreted by Michael Roberts, casts considerable doubt on the standard right-libertarian party line regarding investment.

The standard right-libertarian talking point is that labor is dependent on investment, that investment — in the form either of credit or equity — comes from previous capital accumulation, and that profit and interest are the rewards for the use of that money, the capitalist's abstention from use of it, the marginal productivity of the capital, or some variation on one or more of those.

Some two hundred years ago, English political economist Thomas Hodgskin — both a classical liberal and early socialist of sorts — wrote in *The Natural and Artificial Right of Property Contrasted* that, because of absentee land ownership, a piece of land sufficiently productive to provide subsistence to a household living on it was held out of use unless it was also productive enough to provide a rent to the landlord. In the same way, he wrote in *Popular Political Economy*, "It is maintained … that labour is not productive, and, in fact, the labourer is not allowed to work, unless, in addition to replacing whatever he uses or consumes, and comfortably subsisting himself, his labour also gives a profit to the capitalist…"

The EU document seems to bear out this principle. The report ("The future of European competitiveness"), was written by Mario Draghi — former Goldman Sachs banker, head of the Italian Central Bank, head of the European Central Bank, and prime minister of Italy — pursuant to a request by the European Commission. It was published in September.

Europe's declining rate of growth, the report found, is due primarily to the failure to increase productivity. And low productivity growth, in turn, "is caused by low investment in productive sectors, particularly in the new technologies. The gap between productive investment to GDP in the US and Europe is some 1.5% pts of GDP every year." The low investment, in turn, results from "the lower rate of profitability for European capital compared to the US," caused in part by the high cost of private financing. Because of this lower rate of profitability, investment does not provide "***the returns that the EU's capitalist sector require to increase productive investment, as** opposed to investing in real estate or financial assets*" (emphasis added).

"Draghi's answer," Roberts observes, "is the usual pro-business solution. There must be monetary and fiscal incentives by governments to 'encourage' capitalists to invest." Simply lowering the costs of private financing, by such expedients as the Capital Markets Union, will not be sufficient by itself. The greatest need is for "fiscal incentives to unlock private investment…, in addition to direct government investment."

> So the EU-wide governments must provide more public funds. But this leads to another problem. EU governments, particularly in core Europe, are driven by the need to 'balance the budget' and not to increase public debt or tax too much. There are the EU fiscal rules that cannot be broken!"
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> Draghi wants more 'joint borrowing' ie the EU issues more EU-backed debt to fund projects. But this is a great taboo in the EU….
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> Draghi suggests more EU-wide taxes to boost the size of the EU Commission which is too small and concentrates spending on 'social cohesion', regional subsidies and agriculture rather than on 'productive investment'. Draghi wants to cut EU public spending in the existing areas and switch it to technology.

The report contains a graph showing that R&D funding by the EU is an order of magnitude larger than by the federal government in the US.

So to sum it all up, the people with accumulated wealth won't put resources into actually increasing production unless the rate of profit is sufficiently high. They'll put it into the speculative FIRE (finance, insurance, real estate) bubble economy — in exactly the same way that absentee land owners hold vacant, undeveloped land out of use for speculative purposes until the return is high enough for them.

Note well: their money doesn't actually do anything. They don't build production machinery out of bundles of cash. Not only is the production process itself performed entirely by labor, but every single physical input that goes into the production process — machinery, raw material, and subsistence goods for workers — is also the product of human labor acting on the gifts of nature.

Different worker-owned and -managed enterprises could carry out production, constantly advancing raw materials and production machinery between themselves, using only a dollar-denominated unit of account to track the floating balances of each enterprise and individual in a credit network. But this is prohibited, because bank licensing and capitalization requirements for banks are founded on the myth that credit is "lent against" past savings, and the credit function is therefore legally monopolized by the owners of accumulated wealth. Their accumulated wealth is nothing but a set of paper claims on the right to allocate resources — resources which are, in fact, entirely the product of human labor acting on nature — and hence gives the rentier classes a legal monopoly on the right to direct resources.

Because of all this, despite the necessary skills, labor power and resources all being readily available and in need only of credit to mobilize them, their legal monopoly on credit enables the plutocracy to hold resources hostage until the ransom is sufficiently high.

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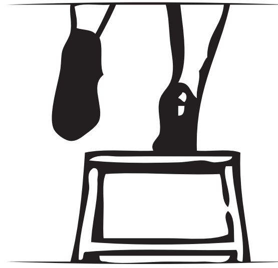

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