What Right-Libertarians Fail to Grasp About the Last 100 Years

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At Foundation for Economic Education, Preston Brashers — commenting on a statement by Bernie Sanders that this country can't afford a billionaire class which is at war with working families — replied ("What the Socialist Left Fails to Grasp about Wealth and Innovation in America," June 28):

> But when you consider the vital economic activities funded by billionaires, it becomes clear that it's a society without billionaires that we can't afford.
>
> Not all Americans are rich. But all of them are more prosperous because they live in a society where great entrepreneurs can attain great wealth through their vision, innovation, and industriousness.

I think FEE has been rerunning this same op-ed under different bylines, with a few minor changes in wording, since 1946. It hasn't aged well. It's reminiscent of Rip Van Winkle, waking up after a decades-long sleep, oblivious to the economic changes that have occurred since his talking points were formulated in the mid-20th century. Commentators like Brashers are still living in a dinosaur age when technological innovation was capital-intensive — instead of it actually causing capital requirements to implode through ephemeralization.

It's telling that, in writing on the massive improvements to our daily lives since the mid-1800s as a result of capital investment, Brashers focuses on innovations, associated primarily with the Second Industrial Revolution, that spurred the development of large-scale capital-intensive industry:

> beginning around 1870, waves of new inventions and innovations burst onto the scene and changed people's lives. In the 1870s, Thomas Edison invented the incandescent light bulb and the phonograph.… Alexander Graham Bell invented the telephone. By the 1880s Edison was building electrical grids, and Andrew Carnegie's cost-efficient steel was revolutionizing transportation and industry.
>
> In the 1890s, Richard Sears and Alvah Roebuck were sending out mail order catalogs, giving rural Americans access to far more choice in consumer products. In the

> early 1900s, Willis Carrier's air conditioning was improving productivity in factories and making people's lives more bearable on hot summer days. In 1908, Henry Ford introduced the Model T, making car ownership attainable for the middle class.

But billionaires today, in contrast to Brashers' captains of industry, have far more wealth than they can invest profitably in producing things to make life better. Most of what they invest in, instead, is mostly making things worse.

Brashers' contemporary examples of the "richest Americans, who — "from Elon Musk to Jeff Bezos to Warren Buffett to Larry Ellison" — are likewise telling. Of the lot, Musk is the only one whose companies specialize primarily in physical goods with capital-intensive production processes. And his accomplishments in this realm prominently feature running Tesla into the ground with shoddy product design — see, in particular, the universally mocked Cybertruck. His management of Twitter, meanwhile, has become a textbook illustration of how to destroy a social media platform.

Brashers links Musk's name to a typically brainless John Stossel column, in which he celebrates Musk as a "maker" rather than a "taker." The primary form of "making" Stossel references is SpaceX's rockets; he includes the phrase "NASA has given up building spaceships" — never mind the fact that NASA has *never* built spaceships, and has always contracted them out to companies like Boeing.

And Musk didn't actually design — let alone "make" — any of the products put out by SpaceX or Tesla. His engineers did. What Musk provided was limited entirely to money — a "service" he was only in a position to provide for reasons I'll discuss below. The products, like all innovations, were the product of [[https://c4ss.org/content/53425][social intellect] — of science and technology as global, open-source, cooperative projects.

As for the rest of them, Buffett is almost entirely a rentier investor who puts money into existing companies, not an innovator. Bezos' and Ellison's companies both center on online platforms, and they both depend heavily on state-enforced intellectual property monopolies and other regulatory constraints to maintain their proprietary, walled-garden business model. Bezos created Amazon 20 years ago; but what he's done with his billions over the past decade or more has consisted almost entirely of enshittifying the platform he founded.

The fact that so little of the recent investment Brashers hails results from building out new industrial infrastructures reflects an economic environment in which extensive growth is no longer a major source of new profit. Previous long-waves of capital investment were created by new technologies which required the build-out of large-scale, expensive infrastructures. But for the past several decades, the ephemeralization of technology — the imploding scale and capital outlays required for production — has dried up many of the profitable outlets for investment capital. And this crisis tendency has been further exacerbated by the share of the total economy taken up by knowledge and information industries, as Douglas Rushkoff pointed out.

> The banking crisis began with the dot.com industry, because here was a business sector that did not require massive investments of capital in order to grow. (I spent an entire night on the phone with one young entrepreneur who secured $20 million of capital from a venture firm, trying to figure out how to possibly spend it. We could only come up with $2 million of possible expenditures.)…

> What's a bank to do when its money is no longer needed? Especially when contraction is not an option?

So the investment capital of billionaires has become increasingly superfluous. Much of it goes into the FIRE (finance, insurance, real estate) economy. Much of it goes into buying up U.S. government debt (basically a price-support program for capital that otherwise couldn't find a profitable outlet). And a huge amount of it goes into actively destroying productive capacity: private equity and hedge funds buying up existing productive enterprises, loading them with acquisition debt, and stripping them for parts.

In the case of the Internet economy, the end of profit models based on extensive growth through an expanding consumer base means that profit has shifted primarily to making existing products and platforms worse — enshittifying them. Look at the destruction wreaked on online news platforms by the pivot to video. Look at the tens of billions Zuckerberg poured down the Metaverse rathole. Look at the pivot to AI, which promises to outdo the damage of the pivot to video by an order of magnitude.

The issue isn't that "entrepreneurship" involves risk, or that progress is driven by the handful of experiments that pay off, out of all the failures. It's that tweaking things around the edges and making them shittier is now the primary outlet for investment. The only thing that would really make social media and other online platforms significantly better would be opening up the walled gardens and giving users the ability to innovate through adversarial interoperability — and Bezos, Zuck and Musk aren't going to do that because it would also destroy their profit model entirely.

But on top of all this, people like Brashers are guilty of a major conceptual error. He writes:

> Edison, Bell, Carnegie, Sears and Roebuck, Carrier, and Ford all became very wealthy from their inventions and endeavors. Major companies today can still trace their roots to each of these men….
>
> The wealth of billionaires, millionaires, small business owners, and investors doesn't sit idly in safes. It's actively at work throughout the economy: building factories, filling inventories, shipping products, researching and developing new products, and making payrolls.

Billionaires benefit greatly from their ventures, but so do other Americans. Their companies employ millions of workers. Consumers enjoy their products. Brashers and other adherents of his ideology fail to recognize that, to whatever extent billionaires' money does all these things, it's because they're the ones who currently have the money. But their control over investment capital and credit, in order to finance innovation and production, is precisely the problem.

As I wrote elsewhere:

> as part of a spate of articles in June celebrating Adam Smith's birthday, *Reason* published a cartoon by Peter Bagge in which the ghost of Smith eavesdropped on a conversation between Karl Marx and Friedrich Engels. In response to Engels' enthusiastic (complete with scowl and pounding fist) proclamation that "it's inevitable that private property will be *eliminated*… after which workers will run the factories *themselves*," the perplexed Smith replies "They *will*? *How*? How will they repair, expand, and *improve* those factories? Doesn't that take *capital*?"

> More recently on Facebook, someone posted a meme about a worker churning out 3000 widgets an hour but being able to buy only three of them with their hourly wage. The replies were filled with comments like "Using a machine that costs $100K," "in a plant that cost $25M to build," and "you can't make 3,000/hour without using someone else's machine and factory"…
>
> Listening to these people talk about the indispensable role of capital, you might get the impression that capitalists actually construct the machinery themselves from bags of money.
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> But in fact workers *do* "make their own parts and tools," or at least make each other's parts and tools. Every step of the production process, going through not only the construction of the machinery and the factory, but all the way back to the mining of raw materials, is just human beings acting on the material world, applying their labor either on goods supplied by nature or on each other's labor products. The investor's money is nothing but a socially constructed ownership claim, that gives them the authority to coordinate and allocate the streams of production from the different groups of workers acting on nature.

Thomas Hodgskin, a radical economist in early 19th century Britain, described the way such socially constructed ownership claims facilitated the extraction of unearned wealth:

> Betwixt him who produces food and him who produces clothing, betwixt him who makes instruments and him who uses them, in steps the capitalist, who neither makes nor uses them, and appropriates to himself the produce of both. With as niggard a hand as possible he transfers to each a part of the produce of the other, keeping to himself the large share. Gradually and successively has he insinuated himself betwixt them, expanding in bulk as he has been nourished by their increasingly productive labours, and separating them so widely from each other that neither can see whence that supply is drawn which each receives through the capitalist. While he despoils both, so completely does he exclude one from the view of the other that both believe they are indebted him for subsistence.

The manufactured necessity of this capitalist investor is the result of a credit system based on artificial scarcity — namely the myth that credit is something that must be lent "against" previously stockpiled wealth, rather than simply requiring a unit of account for coordinating the flows of production between different groups of producers. The latter model of credit could be organized horizontally by the producers themselves, advancing their products to one another, with no need for accumulated wealth.

"Billionaires provide needed investment capital" isn't a defense of billionaires. It's an indictment of a system that makes their capital necessary.

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