Democratic Capital

THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
220 I Street, N.E., Suite 200
Washington, D.C. 20002
Phone: 202-861-0791 • Fax: 202-861-0790
www.international-economy.com
editor@international-economy.com

To the Editor:

In the Spring 2014 issue of *TIE,* the discussion by eighteen different distinguished economists of the question, "Does Innovation Lead to Prosperity for All?" predictably resulted in the answers yes, no, sometimes, and it all depends.

The answer to the question is really very simple. Innovation leads to prosperity for the owners of the physical and intellectual capital employed in the productive exploitation of the products based on it.

Of the factors of production, land and labor are declining in their contribution to production, and capital, both physical and human, is increasing at an exponential rate. Land is increasingly less important to commercial activity, much of which now takes place in cyberspace, and labor is increasingly unnecessary as technologies such as three-dimensional manufacturing and advanced robotization are invented and applied.

The social and political implications of this development are manifest. More and more of the people of the developed world are sustained not by productive activity, but by government handouts. An underclass of serfs dependent on the state is growing rapidly, and in the United States currently includes more than half the population.

Serfs vote to at least maintain if not increase the rate of government largesse, which in turn leads to greater indebtedness on the part of the state, since it is unable to raise sufficient taxes from the remaining segments of the population: a diminishing middle class made up of the scientific and technological elite and those who service them, and at the apex, the owners (employers) of that human elite group and of the physical capital involved in the application of the innovative process.

"[Facilitate] the greater spread of productive capital ownership among the population at large."

That being the case, as exhaustively demonstrated by Thomas Piketty in *Capital In the Twenty-First Century,* what is to be done?

Piketty's own prescription—the application of a wealth tax to replace or supplement other forms of taxation—is faulty for two reasons. It would penalize and thus reduce the creation of wealth (if you tax something you get less of it), and it simply increases the ability of the state to fund its financial transfers to the underclass, without in any way addressing the cause of the phenomenon, namely the concentration of ownership.

The proper way of addressing this phenomenon is the facilitation of the greater spread of productive capital ownership among the population at large, through such mechanisms as employee stock ownership plans and community investment trusts. The eleven million employee-owners of the twelve thousand companies in the United States with stock ownership plans are not among the serf class, nor are the indigenous peoples of Alaska, who are owners of the Alaskan native corporations that were established by the Alaskan Native Claims Settlement Act of 1971, the second most important piece of economic legislation ever passed by the U.S. Congress, after the Homestead Act of 1863.

Other examples will be found in Spain, Costa Rica, and elsewhere. To repeat, innovation leads to prosperity for the owners of the intellectual and physical capital employed in its exploitation. The operative question is whether that is a small or a large percentage of the population.

—Norman A. Bailey
Adjunct Professor of Economic Statecraft, Institute of World Politics, and Professor of Economic Statecraft, Center for the Study of National Security, University of Haifa, Israel