What defines capitalism? What is wrong with it and how to fix it

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ABSTRACT

Economists have neglected the nature of property rights as a policy variable for mitigating the inefficiencies, inequities and un-sustainability of capitalism. Ecological property rights are described that provide a way for introducing prosperity without growth to sustain both society and the environment.

Key words: Ecological capitalism, Property rights, Surplus profits, Universal income

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What is capitalism?

Many people consider that capitalism is defined by the existence of markets. But markets exist in primitive, feudal, fascist and socialist societies. Capitalism is better described and identified by the existence of private negotiable property rights. Such rights are not widely available in the type of market economies referred to above.

Ironically, the biggest problem with capitalism is its ability to eliminate, frustrate and/or distort markets. This problem is created by the rules for owning property including money. Rules made by society can be changed by society and so there exists the possibility of designing new rules to mitigate the ability of capitalism to paralyze the "invisible hand" of markets. I outline below a more equitable and efficient set of ownership rules. The rules were presented in my book *Democratising the wealth of nations* (Turnbull 1975). Details have been updated with "ecological" money added in Turnbull (2011b).

The current widely accepted system of property rights denies efficiency and equity because there are no time limits on the ownership of property except for all intellectual property. Property ownership bestows managerial, economic, social and political powers that undermine democracy. Perpetual ownership rights to realty, corporations and money provide excessive powers and deny establishing localized control to nurture the environment, democracy and progress through continuous change.

In these way perpetual property rights allows capitalism to eliminate, frustrates and/or distort markets. As a result, investors get overpaid, wealth and social power becomes concentrated with democracy hollowed out by political rights being subjected to the ownership rights of a minority.

Distributing investor overpayments with voters

Property ownership is said to be like manure: a lot of it in single location stinks but spreading it around can do a lot good. To widely spread ownership and control we need to adopt "ecological" rules that have a time limit like all living things and as exists for all intellectual property rights. Ecological ownership provides a basis to create a global political mandate for an ethical, efficient, equitable and sustainable form of capitalism.

A widespread belief that we live in a robust market economy that would squeeze out any overpayment to investors means that the process by which overpayments can occur is not widely investigated or understood. As a result the very notion of investors getting overpaid seems to be contradictory, especially when there is a widespread understanding and acceptance that there is no limit to greed.

Investors can get overpaid because they are not fortune-tellers. Because the future can be uncertain and unknowable, investors will not rely on the unforeseeable future to obtain either a return *of* their investment and/or a return *on* their investment. This means that any money received after the foreseeable future, is not required to bring forth their investment. In other words money received after the foreseeable future provides a surplus incentive or a "surplus profit". Surplus profits are inconsistent with the assumption that a market economy will limit profit. So the possibility of its existence is typically rejected.

As accountants do not identify the foreseeable future described as the "investment time horizon", they cannot measure or report surplus profits. This means surplus profits are hidden and so ignored by economists. Economic ignorance about the existence of surplus profits is maintained by a belief system that denies the possibility of markets failing. While excess profits and other rents are measured and reported by accountants, surplus profits are not and so need their own special name.

The practice of re-distributing ownership every 50 years is reported in the Bible. A number of philosophers have advocated limits on the extent of private ownership. Gandhi promoted the idea of "Trusteeship" (Baratan 1979). The idea being that if anyone owned more property than they could use for themselves then they would hold it in trust for others. This idea is compatible with the practice found in squatter settlements where the rule is if you do not use it then you loose it. The idea of limited life and use it or loose it is feature of living things. This supports the reason for describing ownership rules that change with time and are time limited as "Ecological". Current ownership rules for realty and corporations are typically static, perpetual and exclusive. Ecological rules are dynamic, time limited and inclusive.

Ecological ownership would appear radical, not practical, and inhibit investment. However, this is not the case as is next explained.

Investment cannot be inhibited when the loss of ownership is beyond the investment time horizon. All intellectual property has limited life yet this does not limit the very substantial sums invested. No change in reported profits occur when an investor gives up the ownership of an asset at the same rate it is depreciated. So only a minor tax incentive is required to provide investors with an incentive to give up ownership of their assets at the same rate they are depreciated. This provides one key method for democratizing the wealth of nations by reducing taxes instead of increasing them (Turnbull, 1975; 2011a,b).

Sharing windfall land values only with voters

Another major source of inefficiency and injustice arise from the ownership of urban land not being separated from the ownership of buildings constructed on the land. The value of urban land depends on external investment in roads, sewerage, power, transport, schools, hospitals, shops, recreation facilities and places of work. As a result much of the private profits arising from uplift in land values is created by public infrastructure investment. Taxpayer money is generating private profits not just for citizens but also for enterprises and those residing outside the community.

Landowners are obtaining windfall gains from both public and private investments made by others. Rather than tax these noncash windfall gains, a more efficient, equitable and effective solution is to appropriately share the ownership of all land in each suburb on a mutual basis by forming a Cooperative Land Bank (CLB) (Lewis with Turnbull 2011). Ownership of all land can then be shared by each resident pro-rata to the area of the site occupied by each dwelling they own or rent. In this way any entitlements to windfall gains by corporations, trusts and non-residents are eliminated to stop economic values created by a community leaking out.

Private negotiable ownership of buildings on the land is provided by a separate title deed. It is like a lease that in some countries is described as a "strata" title.

CLBs capture all the uplift in site value that would otherwise be owned by non-residents, firms or trusts to allow CLBs to become self-financing. By allowing urban sites to become self-financing, commercial investment becomes more attractive as the cost of land is eliminated. As the cost of land is typically half the price of suburban houses, half pricing housing is created for homebuyers (Davis & Palumbo 2006; Roskam 2006).

All citizen homeowners and tenants acquire shares in the CLB and so all residents can share in any windfall gains in the community land being paid for by their rates and rents. The CLB shares are purchased back by the CLB at a value that recognizes the vendor's contribution to creating value as determined by the size of the site they occupied and the duration of their residency paying rates or rents. Residents who have paid rates or rents for a period that allows the CLB to amortize its set-up costs need not incur any discount on the buyback of their CLB shares.

CLBs would attract commercial investors as they can create bigger profit quicker with less risk because the size of their investment is reduced by not needing to purchase land. The attraction for investors exists even though the CLB obtains ownership of their assets as the same rate they write them off for tax purposes. Relinquishing assets ownership to the CLB at the tax write-off rate does not reduce reported profits as the cost is already recognized by depreciation charges. It is in this way that CLBs can capture surplus profits as well as windfall gains to not only become self-financing but to provide a universal minimum income from dividends paid out on its shares to all citizens.

Eliminating unearned income from owning money

Interest payments allow those who own money to acquire more wealth by doing nothing else. Interest payments on money created out of nothing by governments and banks is inefficient and inequitable. It cannot be sustained indefinitely while maintaining the integrity of the currency, as it requires more money to be created to pay for the interest accumulating at a compounding rate.

The solution is to issue ecological money that has a limited life like all living things. Limited life money that "rusts" away was widely privately issued during the Great Depression (Fisher 1935). It was so successful in competing with the government money and in invigorating local communities that it was banned in Europe and the US to protect the monopoly of government money.

Currency notes were printed and issued by local communities with the reverse side having 52 spaces for affixing a stamp each week. A 2% stamp purchased from the issuer had to be added each week to keep the money valid. At the end of 52 weeks the issuer would have raised 104% of the face value of its "Stamp scrip" on issue. In this way the issuer could *give away* the money and still make a 4% surplus to cover administration costs. Merchants are better off because the use of stamp scrip avoids paying credit card commissions of around 2% per transaction. This cost saving would be many times greater than paying the cost of stamps for any notes held at the end of the week as each note could be used many times in a week. In addition merchants, or their chamber of commerce who typically issued the script, would also profit from stamps affixed to scrip that was later lost or otherwise not redeemed.

Instead of paper notes, today, the money would be digital and stored in the SIM cards of cell phones. Cell phones could automatically debit the user fee to pay the issuer. Cell phones would become electronic purses that could be "swiped" to make payments like a debit card or used to transmit money directly to other cell phones to bypass the banking system. Cell phone banking is rapidly growing in developing economies that possess few land lines and fewer banks (Turnbull 2010). Because governments limit the value of their monopoly fiat money that can by-pass the banking system, informal units of value have become popular. Stored "talk time" on SIM cards that can be sent to other cell phones for the payment of goods has become widely used as an alternative currency.

Sustaining the environment and society without growth

Ecological ownership of realty, firms and money creates a way to sustain society without economic growth because it avoids wealth concentration and so the need and cost for big taxes, big government and big welfare payments. It achieves the objective of the political right to further the objectives of the political left to provide a basis for attracting a governing political constituency.

Ecological capitalism allows the ownership and control of communities to become localized to empower their citizens to act as good stewards for their host environment. Anchoring the value of rusting money in the local renewable services of nature would provide feedback from the environment for determining the prices by which resources are allocated by markets. Current official money is not related to nature in any direct way or anchored to anything real. Prices created by fiat money introduces "faulty feedback" (Jacobs 185: 156) to produce gross distortions that make any notion of a free market meaningless.

As the consumption of energy closely correlates to the quality of life, it makes sense to define economic values in terms of the retail value of kilo-watt-hours of electricity obtained from cooperatively owned local renewable energy generators. Electricity produced by non-profit organizations would resist inflation as its cost is largely fixed by the life of the generating technology at each locality. Different localities would have different endowments of renewable energy so the relative values could be different. But this would provide a way to distribute the plague of people on the planet according to the renewable energy carrying capacity of each location. In this way kilo-watt-hours would provide a way to create a highly decentralized locally controlled financial system that would be both crisis and inflation resistant (GMWG 2012). Central banks would not be needed to maintain the value of fiat money. Central banks represent a specialized type of central planning that allows gross misallocation of resources.

Because ecological capitalism provides a way to achieve prosperity without growth it becomes practical for politicians and their economic advisers to give up the mantra of growth, development and policies of full employment. The universal minimum dividend income created by CLBs and/or through "boomerang ownership" (Turnbull 2011a) provides a way to replace policies of full employment with a policy of fulfillment in employment and/or leisure. The adoption of this policy becomes more critical as people live longer but are incapable of productive work, especially in the most advanced economies with declining populations. The ability of ecological capitalism to create prosperity without growth can in itself make it practical for politicians to encourage de-growth to nurture the environment.

In these ways ecological capitalism would allow a post-industrial society to follow the tradition of Australian Aboriginals. Ecological ownership is not nearly as radical as the relationship between Aboriginals and land. There is no word in the many Aboriginal languages for the concept of "ownership". Likewise, there was no word in the English language to describe the relationship of Aboriginals to land so I invented the word "ownee" (Turnbull 1986). The ownee is subject to the power of the land rather than possessing power over land as an owner. Early anthropologists mistakenly thought tribal collective relationship to land was communism, as they did not understand that the power relationship was reversed.

This insight led an Australian court to decide that Aboriginals did not possess a "proprietary interest" that gave them power over land. Not only were Aboriginals dependent on the land for their existence as hunters and gatherers they also considered that their totemic ancestors created the features of the land to make them part of the land in a given location. Likewise a boomerang is not owned by its creator but is off him.

The existence of even advanced societies is also dependent upon natural resources of the land. So like aboriginal societies the existence of humanity is dependent upon sustaining our environment. Ecological capitalism provides both an objective and the means for achieving it with increased efficiency, equity, democracy, quality of life and prosperity.

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