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Capital and Liberation from Poverty

When we say that the difference between a poor country and a rich one lies in the average amount of capital invested per person, what we're really saying is: People have more things when they delegate to machines the hard tasks that keep them from having time for the very activities we associate with a high standard of living, those that are less necessary.

We delegate to wheels, springs, and the motor of a truck what we used to haul on our back. To the tractor and plow, we give the work we did before with a hoe. To pipes, what we used to carry in water jugs. To the electric generator, the heat that used to come from logs we chopped ourselves. To the chain saw, what we cut before with a machete. When man frees himself from primitive tasks by making a machine that will reduce his labor, and he "saves" labor and resources for future (not present) consumption, he can increase what he produces on a daily basis, and he stops being poor.

Obviously, we cannot enjoy the use of something that hasn't been produced. Thus, capital is the secret to liberation from poverty because it allows us to produce more with less labor.

How important is the question of who owns the capital? What difference does it make if capital is private or government-owned?

Let's analyze the question from the perspective of how these issues affect the poor man's standard of living. Consider the following:

- 1) What is the cost of forming capital according to who owns it?
- 2) How is the efficiency of capital affected when capital belongs to the government compared to when it is privately owned?
- 3) What tax system best encourages the formation of capital?

Let's put it in real terms. To produce machines, real resources such as iron, machines, man-hours, energy, etc. must be spent; at this point, these resources become unavailable for other uses. What other uses? Present consumption needs. This sacrifice of present consumption constitutes the real cost of capital. All economic resources are scarce; therefore, when you produce one thing, it's impossible to avoid not doing another. What we don't do is the real cost.

In socialist countries, the government uses coercion to force the capitalization of some 30% of the country's total production, "for the good of the people." That is, the authorities decide to channel X amount of *real* human and natural resources to that end. The citizens have no

opportunity to express their will. Consumption by the people is restricted simply by an arbitrary decision to reduce the supply of consumer goods.

In a market economy, where capital is private, typically 15% of the country's total production is capitalized. Present consumption of the people is restricted by *half* of what happens when capital belongs to the government. Moreover, in a market economy, the people determine what will be capitalized whenever they purchase or abstain from purchasing. By choosing what needs or satisfactions they will spend their limited income on, they also choose which entrepreneur will end up with their money; in other words, who will get rich and who won't. The entrepreneur who has not learned that the customer is always right, fails.

When consumers and entrepreneurs are free, those who satisfy—rather than sacrifice—present needs of consumption better than others are the ones who capitalize. Everyone will try to be the best at serving others, because everyone is as selfish or virtuous as the consumers themselves. Everyone would like to belong to the “wealthy” minority. (No matter how rich or poor a society is, there will always be a minority with more, another minority with less, and the majority in the middle: “the middle class.”)

What is important is that, in a free society, capitalization results in a minimum sacrifice of present consumption, and it is channeled towards future consumption needs that are determined by the consumer himself.

In fact, it is a daily plebiscite that compares present benefits and sacrifices with future ones.

We need to maintain government just as we need to produce food. Even if we lived off air alone, we would still spend the effort and resources we used to put into food production on other satisfactions. In the same way, if everyone were upstanding citizens, we would still employ the resources we currently spend on the police for other satisfactions. Just as we have to spend on food, we also have to direct resources to government. What are we going to sacrifice? Present consumption or capitalization? In other words, present consumption or future consumption?

Nowadays, fiscal philosophy based on “least sacrifice” is very popular. It is considered fairer to levy taxes based on who supposedly sacrifices the least in paying them. The thinking is that it is less of a sacrifice for a millionaire to pay Q1,000 than it is for a poor man to pay Q10.

The rich man who earns enough both to consume what he wants and capitalize will pay his taxes by sacrificing his capitalization rather than his consumption.

The reason people think the sacrifice for the rich man will be less is precisely because they don't witness him giving up satisfactions that consume real resources. Instead, what he gives up is the psychological satisfaction of putting real resources to work (not using them up). In the end, he will own fewer capital assets because there will be less capital.

What happens is the following. To the extent that a government is sustained by sacrificing the rich man's capitalization, real resources are not shifted from present consumption to increasing the capacity of future consumption. Consequently we don't have enough capitalization to raise

the poor man's productivity. It's the poor man who makes the sacrifice; his future consumption will be less.

One cannot expect the poor man to capitalize when his income is insufficient to enjoy even a dignified and healthy life. However, it doesn't really matter if it's someone else who owns the capital. As long as someone capitalizes, workers can earn better-paying salaries; both the cost of their labor and what they produce will decrease . . . and, eventually, of what they buy.

The owner of capital is nothing more than the person who directs its use for as long as the consumer decides he is directing it well. But the capitalist cannot squander his machines, his factories, his trucks, or land; neither can he take them with him when he dies. In fact, he is only a director of how resources are used, and, as in any system, a director has to be selected. Under socialism, the difference is that when capital belongs to the government, people acquire economic power through political skill and not according to their ability to satisfy the desires and needs of others.

Who should be the owner of capital? The conclusion is obvious as to what is better for the poor man.

In order to get the benefit of capital, capital has to exist. In terms of raising the standard of living of a nation, it doesn't matter whose box the assets are kept in. However, to create capital efficiently and quickly, it is of utmost importance that it be private, subject to the genuine mandate of the people.

As to the costs of capitalization, they will be less under a system of private capitalization due to the savings inherent in such a system. Therefore, all of society will become wealthier, sooner.

Translated from the original Spanish

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