

# Capitalism's Tragic Flaw and Redeeming Inequality

## Ushering in the age of Hypercapitalism with the Blockchain

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**Abstract**—Capitalists have long derided the State's intervention into markets and attempted to point to a moral dilemma in the state extracting resources from the market while at the same time ignoring capitalism's intrinsic reliance on taking more than its share in any one economic transaction. I shine a light on this contradiction and then propose a self-compelling solution based on blockchain technology that redeems capitalism and creates an alternate economic reality for the future.

**Keywords**—democratic hypercapitalism; blockchain; full value of labor; capitalism; return on capital; growth; economic rent

### I. INTRODUCTION

I have always had some misgivings about capitalism. Many of these were nebulous and I always suspected that most of my misgivings had to do more with capitalist (the people) and less to do with capitalism (the philosophy). Most of these misgivings originate in the significant lack of humanism in the capitalist economies that capitalism tends to generate. Objectivists tend to magnify this with their deification of the individual as opposed to humanity as a whole. Objectivism has always left a very bad taste in my mouth and I will illuminate the specific distasteful flaw and offer a solution.

Thomas Piketty's 'Capital in the 21<sup>st</sup> Century' presents a compelling set of data that confirms many of the long term consequences of pure objectivistic capitalism. Specifically that if the rate of return on capital (  $r$  ) is greater than the growth rate of the economy (  $g$  ), that capital has a tendency to concentrate. Concentrating wealth leads to growing inequality [1]. My distaste for objective capitalists comes from the fact that they revel in this. As an example, 'The Virtue of Selfishness' finds high regard among the objective capitalists. I don't mean to imply that capitalism started with Ayn Rand or that she encompasses any sort of authority over all capitalists. I do consider it a problem that capitalism in general finds consistency with her brand of objective capitalism [2].

The current Bitcoin community seems to be rife with this objectivism and many of the ideals that Bitcoin seems to espouse come from this tradition. I'd like to separate the ideals from the technology and cast the technology in much more humanistic light.

I will start by addressing

$$r > g \quad (1)$$

I will break down the rate of return on capital into three types of capital: Natural ( $r_N$ ), Hybrid ( $r_H$ ), and Artificial ( $r_A$ ).

$$r_N + r_H + r_A > g \quad (2)$$

I will discuss why we should treat these three types differently and how each one affects growth.

Once I have established that artificial capital needs a makeover I will discuss the technological opportunity that Bitcoin affords us.

Next I will address the moral weakness in capitalism based on the concept of economic rent and how this flaw undermines the basic objectivist argument.

Finally I will discuss how the blockchain allows us to establish this new economic system called hypercapitalism. This new social contract, called democratic hypercapitalism, neutralizes objectivists' moral dilemma and injects humanism back into the capitalistic equation.

### II. THREE TYPES OF CAPITAL

We must take a deeper look at the rate of return on capital. I would like to breakdown capital into three different types and discuss the rate of return for each of these three types and how they affect the overall economy.

#### A. Natural Capital - $r_N$

Natural capital is amazing. The human race has become very good at generating this kind of capital. Machines, factories, computers, human capital, etc. are all forms of natural capital.

Natural capital gets its name due to its subjugation to entropy. All physical things in our universe are subject to entropy and if we create something that isn't then that thing loses its natural quality. More on this later when I talk about artificial capital.

Natural capital has a tendency to lead to innovation, a better world, better kinds of jobs, less waste, and efficiency. When debating whether  $r > g$  holds true or not, the people who doubt the validity, generally think only of natural capital. Taking their point of view changes the argument and makes them probably correct. More and more complicated forms of natural capital will generally raise the well-being of all humanity. This occurs when more capital brings more entropy. The less fortunate generally seek out the unpopular and dreary jobs to maintain, fix, and keep up capital assets. The haves don't want to bother with this work.

I think that  $r_N > g$  does not lead to significant inequality. The bounds of inequality may increase, but the height of the lowest level of subsistence will also rise so as to dampen the effect and sometimes overcome it.

### B. Hybrid Capital - $r_H$

Hybrid capital begins to seed the rising inequality that we see today. The corporation capitalism that drives our modern economy today implements hybrid capital. Corporations create paper stocks to represent a right to a share of natural capital. The unit value of a piece of stock stays constant over time and entropy does not degrade it. The fact that the underlying assets still degrade (in instances where the corporations deal in natural capital) dampens this problem but does not solve it. Wealth concentration can emerge when the efficiency of running corporations outruns entropy.

The corporation has been an amazing entity for creating value and improving the life of humans. We have become so efficient at running companies that they have become potentially immortal. When one corporation tips toward failure, other corporations quickly buy it up and create an even bigger beast.

With modern hybrid capital we can create a wealth snowball that outruns entropy. When we do this, most of the value created resides 'on paper' and this begins to have an unnatural odor to it.

The corporation has done so much good in the last couple of centuries that I hesitate to throw the baby out with the bathwater. In an ideal scenario, I'd like to keep the growth driver that  $r_H$  has while putting some sort of damper on it so that  $r$  does not outrun  $g$ . Our final solution does this.

### C. Artificial Capital - $r_A$

I view artificial capital as the main culprit in  $r > g$ . Loans, Federal Reserve notes (cash money), bitcoins, bonds, and all sorts of other financial instruments make up artificial capital. If a thing's value rests on a foundation of laws or ideas, it can be categorized as artificial capital.

The rate of return on these forms of capital drives the  $r > g$  dilemma. Artificial capital does not degrade and is not subject to entropy. Cash can be subject to inflation, but we've managed to control that well in the last couple of decades.

This form of capital does not degrade and it can amass great fortune with simple interest. Great fortunes of artificial capital grow without end unless degraded by force. This power

leads to an unnatural and unsustainable balance. We are dealing with a mathematical and economic identity and not a matter of philosophy.

To overcome the  $r > g$  dilemma we must obliterate  $r_A$  without also obliterating  $g$ . In order to do this we need to develop a new and natural form of money.

## III. A NEW FORM OF MONEY

Bitcoin has proven that we can create a useable digital currency. Since we are in the course of creating a new form of currency, and already improving some properties of cash, it seems that it would make sense to take this opportunity to naturalize cash as well.

What does it mean to naturalize cash? It means that cash must also suffer from entropy. Silvio Gesell put this concept forward in the early 1900s in his book *The Natural Economic Order* [3]. The idea of stamped money has always had logistic problems. The digitation of currency removes many of these logistic problems. Furthermore, the block confirmation process allows us to confirm the payment of the proper demurrage amount on a coin. If the payment excludes the proper demurrage payment, the miners can exclude it from the blockchain.

Bitcoin does not have this functionality at the moment, but others have tried to implement similar systems with Freicoin [4]. We can find many positive effects of natural cash. I explore these much more in depth in 'Art and Democratic Hypercapitalism' [5]. At the moment I will leave you with the generalization that a natural form of cash is superior to an artificial form. Cash moves faster and finds its place of use more quickly if holders incur a penalty.

Our technological advantage does not end at naturalizing cash. Why not go one step further and humanize cash? The blockchain not only acts as a tool for accepting that a proper payment has been made, it also allows us to see the history of the account making the payment. Currently, cash is an instantaneous transaction. I give you one dollar and you give me a widget. The transaction completes as soon as it has begun. The blockchain allows us to reach through time and apply temporal properties to our cash. I will use this temporal tool later to humanize cash.

## IV. ECONOMIC RENT AS THEFT

I return now to the bad taste of objectivist capitalism. The argument goes that the state commits theft if it uses force to extract resource from citizens and thus the state should not force the paying of taxes beyond basic defense and justice. At the same time the objectivist will laud the capitalistic free market system as the end-all-be-all of efficiency and objective virtue. But what of economic rent?

Economic rent is the amount charged for a good or service above and beyond the cost of creation. The amount of economic rent that must be paid can vary from person to person and from market to market. Most modern day capitalists position products and services so that the capitalist can extract the maximum value from the consumer despite the

cost involved in its creation. I will contend that the charging of economic rent is as much of a ‘theft’ as over taxation by the state. The fact that a human or corporation forces the payment instead of a state makes it no less immoral.

We have ignored this immorality and this crime against our fellow men and women for far too long. Fortunately, I have a proposal for how to restore ourselves and still maintain the power of economic rent in generating value.

While I may call economic rent immoral, it is also incredibly efficient at creating value. Economic rent has driven modernization and many of us get up in the morning because we can go out and earn an economic rent. I call out economic rent as immoral, but I also want to redeem it and use its power for good. To do this we will need a new social contract.

This problem boils down to the role and value of labor. Is labor a commodity to be unitized? Or is labor an art that delivers and magnifies value? Capitalists try to do the first by constantly trying to file away the value of a piece of labor. Marxist attempt to claim the second yet have no logistical way of quantifying the value of the art of labor. We cannot, at the moment of labor, look forward and predict the full value that that unit of labor will produce in the marketplace. When we use the output of labor, it is a logistic nightmare to look back and assign the value to all the inputs. We do not yet have a blockchain for physical things and units of labor.

Instead I propose to flip the Marxist demand of ‘the inalienable right to the full output of one’s labor’ on its head. Since we can’t ever know the full output, we must instead rely on an inequality.

$$\sum b_T > v_L \quad (3)$$

Where  $\sum b_T$  is the sum of a benefit over time and  $v_L$  is the value of labor at the time it is performed. I agree that the market correctly establishes the value of the work. One can only be paid what the market will pay for your labor. I want to guarantee that you will actually be able to achieve  $v_L$  out in the marketplace. If I pay you \$150 for a day of labor, you have the right to achieve \$150 of value out in the market place ‘free of economic rent.’ That is impossible today. Everyone charges economic rent.

Because I cannot force the market to not charge you economic rent I must find a way to guarantee that you receive at least that value by some other method.

I’ve already mentioned natural cash, the temporal dimension tool that the blockchain provides, and the distributed authority of the blockchain that the blockchain provides. Here I will combine them to form the hypercapitalism part of democratic hypercapitalism.

## V. HYPERCAPITALISM

I will now establish how we can provide ‘the inalienable right to the output of one’s labor’ and mend the immoral flaw of objectivist capitalism.

$\sum b_T$  must be established so that it supersedes the value of the labor at the time the laborer gets paid. To do this we need to make everyone a capitalist. When one account pays cash to another account, we keep track of this and give the paying account a ‘share’ of preferred stock in the paid to account equal to the dollar amount paid. Tracking this can already be done with the blockchain. Getting airline miles when you purchase air travel has many parallels to this concept, but in this case, you get ‘thing miles’ whenever you purchase things. The motto is ‘No Cash, without Capital’.

What good is capital without a dividend? When an entity spends an unspent output, it must pay a demurrage fee equal to the agreed upon demurrage rate times the time period. The system distributes this fee to all of those that own shares in the account as a dividend. You can also think of this dividend as a bank fee or a carrying cost of money. I call this concept the ‘predistribution of economic rent.’ My theory states that the sum of all demurrage payments over time will always be greater than the value that went in. This should hold true barring the drastic reduction in global productivity on the order of magnitude of near extinction of the human race.

In reality, the human life span limits an account’s ability to collect this cash stream, but commonly those who leave this life cease to care about reaping any more benefit.

In Silvio Gesell’s version of stamped money, the demurrage went to the government. He could have hardly dreamed of a tool like the blockchain that would have allowed the economic rent to flow back to the ones that paid it. I think he would be pleased with the arrangement.

Note that this new social contract leaves economic rent seeking in place. Very little of how we do business needs to change in so far as we deal with natural capital. Finance and Corporations have a bit more of a burden in this new system. Natural cash will drive the interest rate toward and/or below zero. Banks will have to adapt and find new avenues for generating profits. The diminishing returns of future demurrage payments will limit the realistic lifespan of corporations. A new industry of corporate transition and revolution will be necessary. These repercussions have incredible benefits for the human race and increase our adaptability to volatility.

Predistributing economic rents will provide the benefit of pretty much fixing long term social security. Consumers will receive dividend payments long into the future and, in general, in proportion to how much they participate in the economy. Someone who has worked, spent, and produced for 25 years will end up having a nice recurring stream of predistributed economic rents. This stream will be based on the ability of the companies and people that they have transacted with over that time period to continue to take in cash and deliver value. Since we have made everyone a capitalist, they now have ‘skin in the game’ and I expect a general flight to quality in most purchasing decisions [6].

The velocity of money will also drastically increase. Holding money will carry a penalty. We will of course have to control inflation, but adding a tax to the demurrage that can fluctuate with inflation allows us to permanently remove cash from the system when needed.

I discuss these issues and other repercussions more in ‘Art and Democratic Hypercapitalism.’

This new social contract resembles the Magna Carta. In the 1200s the Magna Carta established that while the state could extract taxes from its citizens, the state had a moral obligation to use the taxes for the benefit of the people. The Hypercapitalism social contract allows the capitalists to charge their economic rent, but requires them to use it to generate additional value or to return it to the original owners.

The distributed accountability of the blockchain makes this a very strong system. This system will have to sacrifice the idea of distributed authority. Many in the Bitcoin community will decry this as betraying a key component of Bitcoin. I would challenge them to read Francis Fukuyama’s two volume work on Political order and Political Decay. In these works you will find the historical basis for the requirement of strong centralized institutions balanced by accountability and rule of law. Currently Bitcoin does a great job of prohibiting rule by law, but also rules out rule of law [7]. When justice dictates that fraud has occurred, our money should allow us to make amends. Fraud in the current Bitcoin infrastructure is nonrevocable. The democratic part of democratic hypercapitalism speaks to modernizing the citizen/state social contract and establishing a rule of law. The details are beyond the scope of this paper.

## VI. CONCLUSION

I have established that objective capitalism is inconsistent and immoral in the way that it treats economic rent and have

proposed a system called hypercapitalism that seeks to redeem the capitalistic system and restore it to a humanistic institution. This can be achieved by leveraging the temporal dimension and the public record of the blockchain.

I have expanded these ideas further in ‘Art and Democratic Hypercapitalism’ where I have approached the creation of a new money from a generative standpoint as proposed by Christopher Alexander [7]. This work includes a pattern language, a form language, and a generative language for a new form of money that I think will be helpful in discussing these ideas and the future of a humanistic and natural currency.

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