

<http://mises.org/daily/6134/An-Open-Letter-to-Warren-Buffett>

Editor: I am a huge fan of Mr. Buffett as a capital allocator. This letter addresses his daft recommendation to tax the rich which, in turn, would hurt the poor. If I were to choose a country to work in if I was penniless, I would choose one with a rule of law with property rights and no/low taxes on the rich. Why?

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Mr. Buffett:

You have been quoted time and again, without any denial on your part that I am aware of, as having said, "There's class warfare, all right, but it's my class, the rich class, that's making war, and we're winning."

In view of the seriousness of this statement, I have to ask you some questions.

Do you intend to be taken seriously when you speak? **Do you know the meaning of the words you use? Do you know the source and implications of the doctrines you espouse?**

The doctrine of class warfare is a derivative of the exploitation theory, whose best-known proponent is Karl Marx. **According to the exploitation theory, profit and interest, indeed, any income other than wages, is an unjust deduction from what naturally and rightfully should be wages.**

What makes possible the existence of incomes other than wages, according to Marx, is the same basic fact that makes it possible for a slave owner to gain by owning a slave. Namely, the fact that a worker is capable of producing the necessities he requires in order to have the strength and energy to work a full working day, in less than a full working day.

To use one of Marx's own examples, a worker is capable of producing in 6 hours the food and other necessities that he requires in order to be able to work 12 hours. The 6 hours, or whatever the number of hours may be that the worker requires to produce his necessities, Marx calls "necessary labor time." The hours that the worker works over and above the necessary labor time, Marx calls "surplus labor time."

Just as surplus labor time is the source of the slave owner's gain, so too, according to Marx, is it the source of the profit and interest of the capitalist. When the worker works 12 hours for a capitalist, his labor, according to Marx, adds a commodity value corresponding to 12 hours of labor to the materials and other physical means of production used up in producing the resulting products. If those materials and other means of production required 48 hours of labor in their own production, the product that results will contain those 48 hours of labor plus the 12 additional hours of fresh labor performed. It will have a value corresponding to 60 hours of labor in all.

Thus, the process of production, according to Marx, has resulted in a value added corresponding to 12 hours of fresh labor time. That value added will be divided between the wage earner and the capitalist in the form of wages on the one side and profit/interest on the other. What the

capitalist must pay as wages, says Marx, is determined by the application of an allegedly universal principle of commodity valuation, namely, the labor theory of value. The capitalist will pay the wage earner a wage corresponding to the hours of labor required to produce his necessities, which by assumption is 6 hours, and will pocket the value added by the worker's performance of 12 hours of labor. His profit/interest is what remains after deducting the worker's wages, and corresponds exactly to the worker's surplus labor time.

This example can easily be translated into monetary terms, simply by assuming that to every hour of labor performed in the production of a product there corresponds \$1 of product value. Thus the materials and other produced means of production were worth \$48 and the products that result from the application of 12 hours of fresh labor are worth \$60. The 12 hours of fresh labor adds \$12 of new and additional product value.

The capitalist's profit/interest allegedly results from the fact that for the 12 hours of fresh labor added, with its corresponding additional product value of \$12, the capitalist pays a wage of only \$6, the sum corresponding to the labor time required to produce the necessities that enable the worker to perform his 12 hours of labor. **The capitalist's profit/interest thus represents "surplus value," which corresponds to "surplus labor time."**

The ratio of surplus value to wages, or of surplus labor time to necessary labor time, Marx calls **"the rate of exploitation."** In this illustration it is 100 percent, i.e., \$6/\$6 or 6 hrs./6 hrs.

A combination of greed and of forces otherwise tending to reduce profit/interest relative to capital invested, says Marx, drives the capitalists to step up the rate of exploitation. If the workers are able to work 18 hours a day on the basis of necessities produced in only 6 hours per day, then the working day will be increased to 18 hours. If the wages the capitalists pay their adult male workers are sufficient to enable them to support a wife and two replacement children, the capitalists will reduce those wages and thereby drive women and children into the factories, giving the capitalists the benefit of still more surplus labor time and surplus value. The capitalists will allegedly also strive to cheapen the worker's diet, substituting potatoes or rice for wheat, say, thereby reducing the necessary labor time and increasing the portion of the working day that is surplus labor time. Working conditions, needless to say, will be horrific, since their improvement would generally come at the price of a reduction in surplus value.

This alleged state of affairs of subsistence, indeed, sub-subsistence wages, inhuman hours and working conditions, down to small children laboring in the mines, is the outcome of the operation of capitalism and the profit motive, says Marx, on the basis of his exploitation theory.

Class war is the result of the fact that in the light of the exploitation theory capitalists are to be regarded as the mortal enemies of the overwhelming majority of mankind, deserving to be stood against a wall and shot, which is exactly what has happened time and again, when Marxists have seized power.

Where Does This Put You, Mr. Buffett?

Based on this account of the origins and nature of alleged class warfare, I have to ask how you see your place in the world, Mr. Buffett. **Are you an exploiter of labor? Has your life's work consisted of the accumulation of wealth in a manner fundamentally indistinguishable from that of a slave owner? Has the accumulation of your billions been the result of your systematic theft of workers' rightful wages? Has your life consisted mainly of efforts tending to impoverish**

still further the workers you employ, and been prevented from doing so only to the extent of the existence of such measures as pro-union, minimum wage, and maximum-hours legislation?

By your view of things, Mr. Buffett, are you and your fellow capitalists truly enemies of the rest of the human race – vile, blood-sucking parasites who deserve to be killed for what Marx's exploitation theory claims they have done and every day try to do to an even greater extent? **Are you attempting to escape what you implicitly recognize as your just punishment by urging President Obama merely to raise your taxes and parade you before the country as his "house capitalist" as he names an alleged rule of taxation – "the Buffett rule" – after you? Have you been running to fetch the whip with which he will beat you, in the hope of avoiding what you regard as the more just punishment of your being shot?**

What You Need to Know, Mr. Buffett

I'd like you to know, Mr. Buffett, that what you believe about the nature of capitalism and profit/interest has absolutely no connection with the actual nature of capitalism and profit/interest. **Despite all your great accomplishments in the realm of investment, you are as ignorant of these things as the average labor-union member or the average professor of literature.**

I hope you are interested in correcting your errors and misconceptions in this vital area. Frankly, I don't see how you can live with yourself in the face of your views about the nature of your economic activity. The fact that, [according to your "Giving Pledge,"](#) you plan to give away more than 99 percent of your wealth would not atone for your crimes if the exploitation theory and the doctrine of class warfare were correct. There would still be not only the deadweight loss of everything that you and your family have personally consumed over the years that was stolen from others, from the occasional ice cream soda you reportedly like to your private jet. There would also be the fact that whatever you might now give away would not be any compensation to your actual victims, many of whom have passed away by now or are too old to enjoy it as they might have at the time they earned it and you robbed them, and who would receive nothing at all to the extent that you give your wealth away to completely different people.

If, on the other hand, you succeed in correcting your mistakes in this area, then you will almost certainly be able to regard yourself in a strongly positive light, as a highly productive individual, whose self-interested economic activities and resulting great accumulated wealth have served to improve the lives of others rather than harmed them. **Someone who has accomplished as much as you actually have, should not have to carry a massive burden of unearned guilt, as you apparently do.**

Capitalists, Not Wage Earners, Are the Primary Producers

You do not realize it, Mr. Buffett – hardly any one does yet – but the wage earners that you and all the other alleged capitalist exploiters employ are *not* the primary producers of the products the exploitation theory attributes to them. Just as Columbus was the discoverer of America, not the sailors who manned his ships and who were his *helpers* in the achievement of *his* – Columbus's – plans and projects, so too, Mr. Buffett, you are the primary producer of the products produced by your firm Berkshire Hathaway and any other firms that you may own and whose actions take place under your initiative and control. Your employees, Mr. Buffett, are accurately described as "the help" in the production of *your* products. **Your profits or interest are not a deduction from what rightfully belongs to them as wages. They are what you have *earned*, on the basis of**

your mainly intellectual labor of thinking, planning, and decision making. And the same, of course, applies to all of your fellow alleged capitalist "exploiters," past and present, who are producing *their* products, albeit with the help of others whose labor they employ for the purpose of implementing their plans and thus producing their products. Thus, for example, old Henry Ford was the primary producer at the Ford Motor Company, Rockefeller, at Standard Oil, and now Gates at Microsoft, and Bezos at Amazon, along with you at Berkshire Hathaway.

Marx had one major idea that in itself was entirely correct and which can shed further light on this discussion. That was his distinction between what he called "capitalistic circulation" and "simple circulation." Marx, unfortunately, completely ignored and contradicted the actual implications of this idea.

What you and all the other alleged capitalist exploiters are engaged in is capitalistic circulation. Capitalistic circulation, as Marx described it, is the expenditure of money, M , for the purchase of commodities, C , which are to be used in producing products that are to be sold for a larger sum of money, M' . Capitalistic circulation, in short, is $M-C-M'$. If you and all the other alleged capitalist exploiters did not exist, and capitalistic circulation disappeared from the world, what was left of those who now are able to work as wage earners would have to live in a world of simple circulation, i.e., $C-M-C$. That is, without making any initial outlays of money, they would attempt straightaway to produce commodities, C , which they would sell for money, M , which in turn they would use to purchase other commodities, C .

Capitalists Are Not Responsible for the Phenomenon of Profit, But for the Phenomena of Wage Payments and Costs

Marx, like Adam Smith before him, mistakenly assumed that in a world of simple circulation, which Smith called "the early and rude state of society," all income would be wages and that profit/interest came into existence only with the appearance of capitalistic circulation and then was a deduction from what originally had all been wages. The truth is that in a world of simple circulation what is absent is not profit/interest but the monetary outlays – the initial M – that *pay wages and buy capital goods and that then show up as costs of production.*

A world of simple circulation would be a world ***without money costs of production.*** It would be a world in which the expenditures for commodities with money received from the sale of other commodities, or from the mining of new and additional money, would constitute sales revenues to sellers who had no money costs to deduct from those sales revenues because they had made no prior outlays of money to bring in those sales revenues. It would thus be a world in which labor was the sole source of income, but in which *the income of the workers was profit, not wages.* It would be a world of workers producing products, however, primitive and meager, for which they received sales revenues from which they had no money costs to deduct and which therefore represented pure profit.

The appearance of capitalistic circulation is thus not responsible for any deduction of profit/interest from wages. On the contrary, it is responsible for the coming into existence of wage payments, expenditures for capital goods, and money costs of production to be deducted from sales revenues, which had previously been entirely profit. The more economically capitalistic the economic system, in the sense of the higher the degree of capitalistic circulation, i.e., the higher the ratio of M to M' , the higher are wages and other costs relative to sales revenues and the lower are profits relative to sales revenues. At the same time, the economic system's greater concentration on the buying and thus the production and supply of capital goods serves to raise the productivity of labor and increase the overall ability to produce.

The supply of products grows relative to the supply of labor and thus prices fall relative to wages, with the result that real wages rise and continue to rise so long as the productivity of labor continues to increase.

Thus, the truth, Mr. Buffett, concerning the relationship between capitalists and wage earners is the exact opposite of what is claimed by the exploitation theory. Namely, capitalists do not deduct profits from wages, but are responsible for the positive existence of wages. As a cost of production, wages are deduction from sales revenues, which in the absence of capitalists would be pure profit. Thus capitalists are responsible for increasing wages relative to profits and reducing profits relative to wages. At the same time, through increasing the production and supply of goods and thus reducing prices, they increase the buying power of the wages they pay. This is not any exploitation of wage earners but their massive and progressive economic betterment.

The Economic Good You Have Done Without Realizing It

Over the course of your life, Mr. Buffett, **you have accumulated a massive amount of capital. The capital you have accumulated serves as the foundation of the demand for a very large quantity of labor and is thus a source of higher wage rates in the economic system than would otherwise exist.** At the same time, it is the source of the supply of a considerable quantity of goods and services, the effect of which is to make prices lower than they would otherwise be. So, it seems to me, Mr. Buffett, contrary to your beliefs about the nature of your economic activity, you have actually done a significant amount of good in the world. You have made a significant positive contribution to the standard of living of the people of the United States and the rest of the world.

The Social Benefit of Investing

You appear not to understand the positive effect on others of the way you have earned most of your wealth, which has been mainly in the purchase and sale of securities. **You characterize your work merely as detecting the "mispricing of securities." Correcting this mispricing is actually very important to the economic system. In buying securities that are underpriced, you help to raise their price, thus reducing the mispricing that is present. In selling securities that are overpriced, you help to reduce their price, thus again reducing the mispricing that is present. To the extent your judgment is right, you earn profits, and to the extent you save those profits, you are in a position to buy and sell securities on a larger scale and thus to correct errors of mispricing on a larger scale.**

In raising the price of their securities, the effect of your action is to help firms raise capital that should be able to raise capital; in reducing the price of their securities, the effect of your action is to make it more difficult for firms to raise capital that should not be able to raise capital. As you know, the price of securities functions in this way because it determines what percentage of ownership in a firm needs to be given up in order to raise a given amount of capital or how much capital can be raised by giving up a given percentage of ownership. In other words, you are facilitating the raising of capital by firms that will use it well and impeding the raising of capital by firms won't.

Of course, even your best efforts, along with those of many others working in the same way, are not sufficient to counter the fresh massive errors of mispricing again and again introduced into the securities markets by the Federal Reserve System. The Fed's massive creation of money and credit and manipulation of interest rates correspondingly inflates securities prices, which then

begin to collapse as soon as its stimulus ends. In the meanwhile, it misdirects economic activity to the areas where the new and additional money is preponderantly spent.

The General Social Benefits Accompanying the Accumulation of Great Fortunes

The general social benefits accompanying the accumulation of a great fortune are easier to see in the typical case. Here, as in your case, the fortune is made by a combination of the earning of a high rate of profit accompanied by a high rate of saving out of that rate of profit. This determines the rate of growth of the fortune. A high rate of growth continued over many years turns initially small sums of capital into immense sums.

What provides the high rate of profit is successful innovation, i.e., the introduction of new and improved products or more efficient methods of producing existing products, or correct anticipation of changes in the pattern of consumer demand. Your activity contributes to this process by facilitating the raising of capital on the part of firms that can be successful in one or more of these ways and denying capital to those that cannot. The effect is an increase in overall production in the economic system and thus an increase in the general standard of living.

Again and again, competition erodes the high profits that accompany successful innovations. In order to continue to earn a high rate of profit, a whole *series* of successful innovations must be made. Perhaps the most dramatic illustration of this is the case of Intel. In the early 1980s, it earned high profits on the strength of what was then the most advanced personal computer chip: the 8086. But very soon, competition took away those profits and to continue to be exceptionally profitable, Intel had to develop the 80286.

Then the same story was repeated with the necessity of replacing the 286 with the 386, this with the 486, then the 586, and an equally large further series of advances after that. The end result has been tens (worldwide, hundreds) of millions of people each with more computing power on his desk than was available 50 years ago from a computer occupying a whole room or more, and at a price equivalent to a tenth of one percent or less of the price of the computers of 50 years ago. And all or practically all of the capital that Intel accumulated in its incredible process of innovation and accompanying earning and saving of high profits is employed in producing the computer chips it now sells or in developing the still more advanced chips that it will sell in the years ahead.

Though perhaps not often as dramatic as in the case of Intel, the same pattern has prevailed in the capitalist economic system in virtually every industry since the start of the Industrial Revolution. High profits were made in producing cotton, using the cotton gin, and cloth, using power looms, and later, in using sewing machines to produce ready-made clothing. Competition soon took away those high profits, and to make further high profits in these fields, further advances had to be made. Meanwhile, the high profits were largely plowed back into the larger scale production of cotton and clothing. The end result was that the average person in the Western world got new and better clothing more and more affordably.

The same story was repeated in shoe production, grain production, steamships, railroads, coal mining, iron and steel production, natural gas production, petroleum production, meat packing, electric light and power, running water hot and cold, flush toilets, central heating, telephones, automobiles, motion pictures, radios, refrigerators, air conditioners, television sets, antibiotics, all manner of other medications, diagnostic equipment, prosthetic devices, and even artificial limbs, plus a vast number of other advances. In each case, the end result was that the average

person got the benefit of products or methods of production that, left to himself, he could not even have imagined, and at prices he could more and more afford.

And in every case in which fortunes were accumulated, the high profits earned were heavily saved and invested and used in producing either a larger quantity of the very products whose production had generated them, or a larger quantity of other products. At the same time the capital represented by the fortunes provided wages for the average member of the economic system high enough to be able to afford these products, along with funds to finance the research and development required for further improvements.

The Marvelous Results of Fortune Building

The end result has been an economic system in which the average person today enjoys a standard of living far above that of kings and emperors of a few generations ago, a standard of living far higher not only than that of Alexander the Great, Julius Caesar, Louis XIV, and Napoleon, but even Queen Victoria, who lived into the 20th Century. The hated capitalist "exploiters" have produced an economic system in which the enjoyment of scientific and technological marvels is a normal feature of daily life. An economic system in which the average person can travel in an automobile at 70 miles an hour, listening to the world's finest music if he wishes, and in air-conditioned comfort. And when he reaches his house or apartment, he can flood darkness with light at the flick of a switch, enjoy food from across the country and around the world, in season and out, with not terribly much more effort than is required to open his refrigerator door. And while he is eating, he can press a button or two and watch events taking place 10,000 miles away or, with the press of another few buttons, talk to someone on the phone not just nearby but practically anywhere in the world. And, of course, now and then he can fly through the air at 30,000 feet, watching a movie while drinking a martini if he likes, and in the course of a few hours travel distances that a few generations ago required months to traverse.

People prattle about "stopping and smelling the roses." I have a better suggestion. Now and then, everyone should stop and try to look at our world of technological marvels through the eyes of someone born in an earlier century. They should imagine that some historical figure they admire could somehow come forward and be their guest for a brief tour of the modern world. How great would be his astonishment, awe, and amazement! From time to time, we ourselves need to stop and experience that astonishment, awe, and amazement. We need to realize that our world, despite all of its problems and flaws, is, as far as its material products are concerned, truly amazing and wonderful.

The economic system which has produced all these wonderful results, on the foundation of the countless individual advances in products and methods of production achieved by profit-motivated capitalists – *this* is the economic system to which you have the audacity to apply the concept of "class warfare," as though those who again and again raise the standard of living of the masses were at war with them. It's simply incredible that someone as astute as you are can be so utterly blind to the facts here and do such a monstrous injustice to a class not of exploiters but innovators and benefactors.

What You Need to Do and Undo, Mr. Buffett: The Giving Pledge

I think it's clear, Mr. Buffett, that when it comes to the most fundamental matters of economic theory and economic policy, you are as much an ignoramus as you are a genius in the field of securities trading. You badly need to correct yourself and rescind your outrageous statement about class warfare.

You need to do much more. You need to undo the harm you've done in preying upon the unearned guilt of your fellow billionaires whom you have misled into thinking that to atone for their alleged sins they need to give away at least half of their wealth. Here I'm referring to the so-called "[Giving Pledge](#)," in which this is promised by the signatories. You and your fellow signatories of "The Giving Pledge" appear to want to abandon the institution of inheritance (at least to the extent of 50 percent) and its transmission of accumulated wealth to heirs in favor of a policy of atonement for fictitious sins that fly in the face of the accomplishment of actual massive good.

Incredibly, you've managed to help persuade more than 80 billionaires, whose billions reflect their having given to their fellow men the benefit both of whole series of important innovations, along with the daily benefit of the wealth accumulated by virtue of those innovations, that they have been given their fortunes gratuitously, in exchange for nothing. And that now they need to give back at least half of their allegedly unearned wealth. You, and they, need to understand that they've *already* given and daily continue to give, by virtue of what they've accomplished and by virtue of the capital they've accumulated as the result of their accomplishments.

Indeed, if they actually did give away their capital for the alleged sake of supporting the poor, the result would be a serious reduction in the general standard of living. It would mean capital decumulation, which is a process of eating the seed corn on the scale of the economic system. It would mean that the demand for labor and wage rates would be lower along with the demand for and supply of capital goods. The reduced supply of capital goods and the consequent reduced ability to produce would mean a reduction not only in the subsequent supply of consumers' goods but also in the subsequent supply of capital goods, whose production also depends on the existing supply of capital goods. At a minimum, the rate of further economic progress would be reduced. Capital consumption on a sufficient scale would be followed by economic retrogression. What you are advocating with your support for The Giving Pledge, Mr. Buffett, is a policy of capital decumulation and economic destruction, albeit one engaged in voluntarily. You should withdraw from The Giving Pledge and urge all the other signatories to do likewise.

But you do not stop with urging merely voluntary destruction. You want the government to raise the taxes of those who earn the highest incomes and who save and invest the most heavily. You thus want to reduce the demand for labor and capital goods by force.

Why Your Taxes Are Too High, Not Too Low, Mr. Buffett

You prattle on and on about the alleged injustice of the taxes paid by your secretary constituting a larger percentage of her income than the vastly higher absolute amount of taxes paid by you constitute of your income. To correct this alleged injustice, you want President Obama to raise your taxes.

Actually, Mr. Buffett, your taxes are already far too high. What makes your overall tax rate the [17.4 percent](#) reported by ABC News, while your secretary's rate is 35.8 percent, is the fact that almost all of your income reflects dividends or capital gains. These types of income were taxed at 15 percent in the tax year in question. A 15 percent tax rate on dividends is not a low rate; it is actually part of a very high rate of taxation on corporate profits. Dividends are taxed at 15 percent despite the fact that the profits out of which those dividends are paid are themselves taxed, at a rate as high as 35 percent at the federal level plus an additional 4.2 percent on average at the state level. Indeed, [according to CNN](#), the United States now has the highest overall corporate income tax rate in the world.

To the extent that you or anyone else owns shares of stock, the corporate income tax is indirectly part of your and their tax burden, in each case in proportion to the percentage of ownership an individual has in any given company. Thus, for example, if you own 5 percent of a hypothetical *Company X* that earns a \$1 billion of profit and pays \$392 million of corporate income taxes, you indirectly have \$50 million of income and \$19.6 million of taxes that need to be included in the calculation of your tax burden. The dividends you receive from this company are counted in the \$50 million, but the taxes you pay on those dividends are an addition to your overall taxes. So, if the company paid you a dividend of, say, \$10 million, the \$1.5 million of taxes you had to pay on that dividend would be added to the \$19.6 million of corporate income taxes that already are being paid by the company on your account. Your actual percentage of tax as far as this example goes, is not 15 percent of \$10 million, but the percentage found by dividing \$21.1 million of tax payments by \$50 million of corporate profit, i.e., more than 42 percent. This, of course, is a higher percentage of tax than your secretary pays. And, of course, such results apply to *all* of your dividend-paying stocks.

Before going into the issue of capital gains taxation and why your taxes are already too high because of it as well as the taxation of dividends, let us take a moment to appreciate the difference between *the amount* of taxes you pay and the amount of taxes your secretary pays that is consistent even with the 17.4 percent rate that you believe describes the extent of your tax burden.

Your net worth has been reported as having been about \$47 billion in 2010. Let's accept that figure and assume that you had a fairly good year in 2011, earning 6 percent in capital gains on that sum. The amount of your capital gains income would then be on the order of \$2.82 billion. That income, of course, is taxed only to the extent that it is realized through sales of securities at prices higher than those paid. Let's assume that all of that income were in fact realized. At 17.4 percent, the taxes you paid would then be \$490.68 million. I don't know how much you pay your secretary, but let's assume it's \$200,000 a year, which is extremely high for practically any secretary. In that case, your secretary's taxes at 35.8 percent would amount to \$71,600. The taxes you paid, however, would be *6,911 times as great* as the taxes she paid. (Indeed, they'd be substantially larger, because any accurate accounting of them would include your share of the taxes paid by the corporations you own, which, as we've seen, is not included in the 17.4 percent figure.) But even this enormous multiple would not be enough for you, merely because the *percentage* of the taxes your secretary pays is higher than yours.

In the ABC news report, your secretary is quoted as saying, "Everybody in our office is paying a higher tax rate than Warren." If one ignores the failure to include payments of corporate taxes on your behalf, that's true. But even if that were a legitimate calculation, which it isn't, so what? What is the percentage of their income that your secretary and everyone else in your office pays for *anything*, from a pound of apples to a pound of zinc, compared to the percentage of your income that you must pay? Isn't it typically higher, to the precise extent that your income is higher? Do you want an arrangement in which everyone pays the same percentage of his income for everything? Is that your concept of fairness? That would be a system of perfect egalitarianism, in which everyone was perfectly equal in terms of buying power to everyone else. I'm sure that the truth is that if you ever had an experience in which your secretary was charged \$5 for something that you were charged \$35,000 for, you'd consider it a case of very serious "mispricing" and wouldn't accept it for an instant. Why are you ready to accept it in the case of taxation? A considerable part of the taxes paid by your secretary and other employees is for social security and Medicare. You have no need of either. Why should you be compelled not only to pay for both but to pay thousands of times as much for them as your employees pay?

The fact that normally you pay a lower percentage of your higher income for everything that both you and your employees buy is precisely what allows you to buy more than them; it's what leaves over the funds required to buy your private jet and all the additional securities and other investments you add to your holdings. Surely, you accept this. You're not a communist, are you?

Capital Gains as the Byproduct of Inflation

Now we can turn to the subject of capital gains specifically. What creates capital gains throughout the economic system, most importantly in the stock market and the real estate market, is the government's continuous expansion of the money supply. More money and more spending operate to raise prices. Insofar as the rise in prices applies to stocks or real estate, capital gains are created.

These gains should not be taxed at all. They are not genuine gains. The proof that they are not genuine can be seen in the fact that after paying the capital gains tax, the seller of an asset whose price has risen is only able to buy *less* of other assets whose price has risen comparably than he could have bought before the rise in prices. For example, when someone bought 1,000 shares of stock at \$100 per share, he had the ability to buy 1,000 shares of any stock selling for \$100 per share, or 2,000 shares of any stock selling at \$50 per share, and so on.

Now, if inflation of the money supply succeeds in doubling stock prices, our buyer sells the 1,000 shares he bought for \$100,000, for \$200,000. But after paying a 15 percent capital gains tax, he is left with \$185,000. With this sum he can longer buy 1,000 shares of another stock that previously was \$100 per share and is now \$200 per share. With \$185,000 he can now buy only 925 shares of that stock, not 1,000 shares. And the same principle applies to the purchase of anything else whose price has increased to the same extent as the price of his assets that are subject to capital gains taxation. In terms of what he can buy, the earner of capital gains is impoverished in such a case. The combination of inflation and capital gains taxation is a racket that puts money into the government's hands at the expense of its citizens.

The citizens' expense is by no means limited just to the expense of those who must pay the capital gains tax. It is also at the expense of wage earners throughout the economic system who are faced with a demand for labor and thus wage rates that cannot keep pace with the rise in prices, because the capital gains tax holds down the increase in the supply of capital funds that pay wages. It is also at the expense of the general consuming public insofar as smaller supplies of capital goods and thus a smaller production of consumers' goods contribute to prices rising more than they otherwise would have.

It should be obvious that in the face of inflation, there should be zero capital gains tax. Indeed, if one understands the role of capital in making possible both the demand for labor and the supply of consumers' goods, there should never be a capital gains tax. Taxation should avoid as far as possible standing in the way of capital accumulation and the efficient use of capital. A capital gains tax does both.

The Interests of Wage Earners Are Far Better Served by Reducing Your Taxes, Mr. Buffett, than Your Secretary's

I sympathize with your secretary and everyone else whose income is ravaged by the income tax. But however much I welcome a reduction in her taxes, when I consult my own material self-interest, and the material self-interest of every other wage earner in the economic system, I must

conclude that a reduction in the taxes that *you* pay is more to my self-interest than a reduction in the taxes that she pays. This is because when you and your fellow billionaires and those on the way to becoming billionaires pay lower taxes, the main effect is an increase in saving and investment, which serves to increase the demand for the labor that I sell and the supply of consumers' goods that I buy. Lower taxes on your secretary have little or no such effect.

The way to reduce the burden of taxation in the economic system is to start with the reduction of the taxes that land most heavily on saving and investment. This includes the capital gains tax, the inheritance tax, the progressive income tax, and the corporate income tax. Every reduction in these taxes, provided they are accompanied by equivalent reductions in government spending, moves the economic system in the direction of greater economic progress and rising real incomes. In such conditions, any given initial burden of taxation will become progressively smaller as time goes on and real incomes rise more and more.

Renewed Capital Accumulation and Economic Progress Also Require a Radical Reduction in Government Regulation

This program of tax reduction will not be sufficient by itself. There must also be a massive reduction in the laws and regulations that undermine the efficiency of production. What undermines the efficiency of production undermines capital accumulation as much as does taxation that prevents saving and investment.

The essentials of what is required for capital accumulation in the economic system can be understood by considering the conditions of a self-sufficient farmer. For such a farmer, seed can be taken as representing capital goods. In producing his crop, he consumes seed. He replaces the seed consumed in producing his crop, out of that crop. Given the size of the crop, some definite portion of it must be set aside to replace the seed consumed in its production and thus to have seed available to produce the same sized crop the next year. This portion can be termed the "maintenance portion." To the extent that more than the maintenance portion of seed is set aside, the farmer will have more seed available for growing his crop in the next year than he had this year. And so he will be able to produce a larger crop next year. The extent to which a year's crop is set aside for serving in the production of the next year's crop represents the role of saving and investment in the economic system.

The second determinant of capital accumulation is the efficiency of production, which can be illustrated in terms of the ratio of the bushels of crop produced to the bushels of seed consumed in producing it. If only two bushels of crop could be produced for every bushel of seed consumed in producing them, then fully half the crop would be required to replace the seed consumed in producing it. That would be the maintenance portion. If, however, four bushels of crop could be produced for every bushel of seed consumed in producing them, the maintenance portion would be only 25 percent instead of 50 percent. In that case, devoting half the crop to seed would result in the ability to produce twice the seed required for maintenance and thus, potentially, a doubled crop. While this is all highly simplified, it nevertheless follows that anything that serves to reduce the efficiency of production serves to reduce the amount of capital goods produced no less than the amount of consumers' goods and thus to hold down production in the future.

All laws and regulations that needlessly increase the costs of production have this effect. They all serve to require more input to produce the same output and thus result in less output for the same input. That lesser output means a smaller supply of capital goods produced along with a smaller supply of consumers' goods. This smaller supply of capital goods in turn serves to further hold down the output of both consumers' goods and capital goods in the future.

To understand the decline in the rate of progress in our economic system, one must take into account such things as ever more extensive environmental regulation. Such regulation again and again increases costs of production merely in order to satisfy the arbitrary and largely religious demands of the environmental movement. In doing so, it necessitates employing more input to produce the same output, and thus reduces the overall output that can be produced with the same input. A good example is requiring three garbage trucks to collect the same amount of garbage as one would suffice for, in order to satisfy requirements for arbitrarily imposed "recycling". The same situation has been repeated in industry after industry, in the production of one good or service after another.

The worst thing, Mr. Buffett, would be to raise your taxes and those of your fellow billionaires to provide funds to finance the imposition of still more laws and regulations that undermine economic efficiency.

In conclusion, Mr. Buffett, you should keep your money and go on saving and investing your profits as heavily as ever. Don't volunteer to finance still more economic destruction.

The Wealth of the Rich Does Its Greatest Good to Others While It's Still Theirs and Serves as Capital

Of course, your money is yours. And you should certainly be free to give it away if you wish. Perhaps you can do some actual good to others by doing so. Andrew Carnegie, whom you have chosen as your mentor, certainly did. But what needs to be realized and never forgotten is that you are already doing good with your money, just by using it as capital. The good that Carnegie did for others did not begin with his giving to charities. It was underway and then continued on an increasing scale with his founding and progressive expansion of the Carnegie Steel Company, which provided many thousands of people with gainful employment and tens of millions with iron and steel products. That good was certainly as great or greater than the good that came from his giving away his wealth. And to avoid the loss of such good, it would be helpful if those who wished to give their wealth away did so in the form of giving endowments. This would finance their charitable activities out of income rather than out of capital.

Give up the attitude that all you have to do to lead public opinion is to have good intentions. That's not enough. You also need to know what you're talking about. If you don't, then you're a force working for economic destruction, and all your good intentions are worthless. Good intentions cannot be allowed to serve as cover for going through the economic system with a wrecking ball. But that is our situation today. For the last 75 years the Supreme Court has abandoned its role as the protector of economic freedom, allowing ignorant congressional majorities to do practically anything they like, however destructive their actions may be.

Driving under the influence of alcohol and other substances that impair judgment is dangerous and illegal. Legislating under the influence of Marxism, without constitutional safeguards that serve to make such legislation illegal, is much more dangerous. It represents the unleashing of physical force against innocent victims: the threat of being dragged off to jail by armed officers for doing what serves one's peaceable pursuit of self-interest and for refusing to do what one believes to be against one's self-interest. If you want to know why our economic system is in trouble and getting in worse and worse trouble, Mr. Buffett, it's because the government is more and more stopping people from doing what's in their self-interest and more and more compelling them to do what's against their self-interest. It's that simple. And when it stops those who are capable of revolutionizing the economic system through the introduction of great new products and methods

of production and the founding of whole new industries from pursuing their self interest, its action is an assault on the self-interest of everyone.

Concluding Advice

You need to educate yourself in the economic theory and political philosophy of capitalism, Mr. Buffett. You, your fellow billionaires, and practically the whole rest of the country have been steeped in an intellectual environment that is incredibly one-sided and biased in its treatment of businessmen and capitalists. Ideas such as those I have presented you with in this letter are virtually unheard of. Marxist ideas have had a virtual intellectual monopoly.

As illustration of this, consider the meanings of the words "socialist" and "capitalist." A *socialist* is supposed to be a disinterested intellectual who believes, on the basis of his understanding of economics, history, philosophy, and perhaps other subjects as well, that socialism is an economic system operating in the interest of all mankind (other than the capitalist exploiters). But what is a *capitalist*? A capitalist is not any kind of thinker or intellectual, who advocates the capitalist system based on his knowledge and convictions. No. A capitalist is *an owner of means of production*. You and your fellow billionaires are capitalists. You and the other capitalists are assumed to be the only possible advocates of capitalism, based not on any consideration of the interests of mankind, but on the basis of your alleged narrow class interest in the exploitation of labor and the commission of harm to the rest of mankind. And, of course, even you and most capitalists are not in fact advocates of capitalism, because you and they have accepted the essentials of Marxism along with almost everyone else.

Thus, we have a situation in which there are two ostensible economic and social systems, socialism and capitalism, but allegedly only one set of disinterested thinkers: socialists. At the same time, the socialists are driving us toward ever more government control of our lives, a process which, if not checked, will end in enslavement and mass murder, as history has repeatedly shown, in such cases as Soviet Russia, Nazi Germany, and Communist China.

This is a situation that must be changed. There *are* pro-capitalist intellectuals. They are still few in number but intellectually they are far more powerful than the socialists. They have the potential to change the world in the diametrically opposite direction of the socialists, i.e., in the direction of individual freedom and the security of person and property. You badly need to become acquainted with their writings.

If you wish to do so, then I recommend above all that you study the works of Ludwig von Mises, especially his major classics, [Socialism](#), [Human Action](#), and [The Theory of Money and Credit](#). Along the way, his shorter books would also be helpful, such as his [Planning for Freedom](#), [Bureaucracy](#), and [Liberalism](#), as would be the writings of [Henry Hazlitt](#) and [Frederic Bastiat](#). The writings of some of Mises's predecessors in the Austrian School of economics, most notably [Eugen von Böhm-Bawerk](#) and [Carl Menger](#), also contain major contributions. (There is valuable material in the writings of the old classical economists as well, in particular, Smith, Ricardo, James Mill, Say, McCulloch, Senior, and John Stuart Mill, but the great truths in their writings have generally been badly vitiated by the appearance of their being precursors to Marx.) In addition, you should be sure to read Ayn Rand's [Atlas Shrugged](#), [The Virtue of Selfishness](#), and [Capitalism: The Unknown Ideal](#). And finally, I recommend that you read my book [Capitalism: A Treatise on Economics](#). A unifying theme, explicit or implicit, of all of these works is the demonstration of a harmony of interests between rich and poor and between capitalists and wage earners under laissez-faire capitalism, and thus the total absence of the exploitation of labor and class warfare under laissez-faire capitalism.

I'd like to close, Mr. Buffett, by making a final suggestion. If you read and study the authors I've just named, above all Mises and Rand, and reach the point of concluding that what they have to say at least deserves to be heard, then I would urge you to take a step along the path laid out by Carnegie. As I'm sure you well know, Carnegie founded thousands of free lending libraries, which served to bring enlightenment to vast numbers of people. What I would urge you to do is to contribute a substantial sum for the purchase of ebook versions of the works I've referred to, on behalf of libraries throughout the United States and the rest of the world, including university, college, and secondary school libraries, and public libraries. The goal would be to make these books accessible to students and intelligent members of the general public everywhere, including faculty members at all levels of education, journalists, lawyers, professionals of all descriptions, and, of course, businessmen. With today's technology, people could read them on their laptops, iPads, or even smart phones. In the case of institutions of higher learning, enough copies should be bought to make possible the assignment of these books to large numbers of students at the same time, in order to be able to provide for instances in which portions of them would be recommended or required readings in courses but students were not required to purchase them.

Today's educational establishment prides itself on its love of "fairness," "level playing fields," and "diversity." This would be a chance for its members to prove it, by making students aware of these books as providing a serious and cohesive alternative to their own political and economic philosophy and assigning the relevant portions of them on a course by course basis in their liberal arts and business programs and in all other programs insofar as they contained courses that could be characterized as belonging to the liberal arts. You and your fellow billionaires should make this policy on the part of the colleges and universities an absolute condition of receiving donations or bequests from you for any purpose. You could think of it, perhaps, as the "Fairness for Capitalism Pledge."

The success of this project would bring about a state of affairs in which much larger numbers of college and university students, and intelligent people generally, were exposed in depth to pro-capitalist ideas, as propounded by capitalism's best defenders. Businessmen and capitalists are regularly vilified, denounced, and harassed in our society, not only to their loss, but to the loss of the entire society, insofar as such a climate again and again throws up obstacles in the way of further economic progress. The process emanates from the classroom, led by professors who are steeped in Marxism. This project will counteract that malignant and powerful influence.

Criminal suspects are advised of their right to an attorney. You and your fellow billionaires are regularly perceived as criminal suspects in the court of public opinion, where you are not only vilified, denounced, and harassed, but more and more made subject to actual criminal prosecution. In addition to the regular attorneys you all must employ, what you all need are attorneys before the court of public opinion. These authors are those attorneys. With their help, the great majority of you will ultimately be judged not only not guilty, but positively righteous in the eyes of the public.

The further, longer-run effect of global exposure to these authors could be a world of respect for property rights and all other actual individual rights. This would mean a world of free trade, freedom of investment, and ultimately the free movement of people from everywhere to everywhere. Such a world would be a world in which no motive would exist for territorial aggrandizement on the part of any country, since its citizens would already be able to gain everything they might wish from the territory of any other country simply by buying its products, investing in it, or living in it.


In this way, the worldwide education of intellectuals in the economic theory and political philosophy of a capitalist society would be the foundation for a peaceful and ever more prosperous world.

Your substantial participation in this project, Mr. Buffett, would far more than wipe clean the harm you have up to now caused with your pronouncements on the subject of class warfare. I hope both for the sake of the advancement of capitalism as an intellectual movement and for your personal sake as well, that you will do the right thing and help to launch this project.

Yours sincerely,

George Reisman

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