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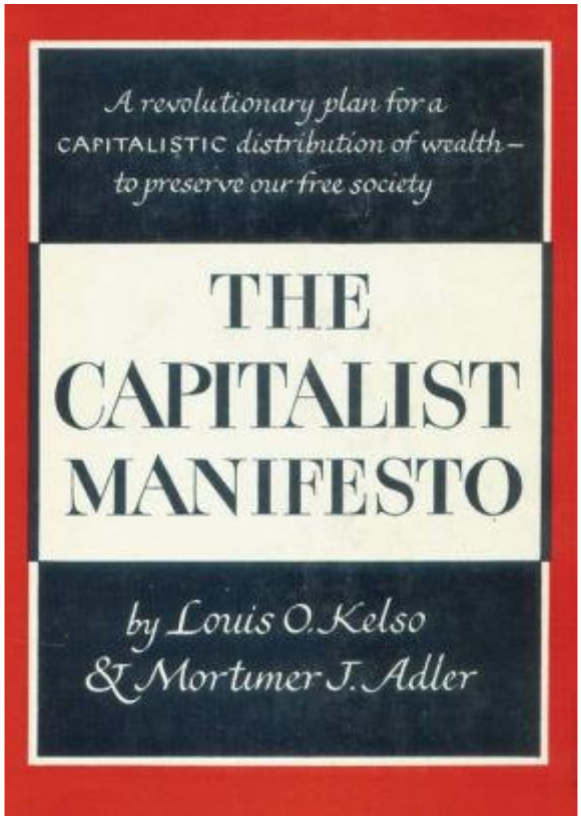

THE CAPITALIST MANIFESTO

by Louis O. Kelso
and
Mortimer J. Adler

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THE SITUATION FROM WHICH WE START

The present high standard of living in the United States is attributable primarily to the high productiveness of capital. The weakness of our mixed capitalist economy lies in the fact that, on the one hand, the ownership of most of the capital producing about 90 percent of the wealth of the economy is concentrated in about 5 percent of the households of the economy; while, on the other hand, more than 70 percent of the stream of income representing wealth produced is distributed through labor. In our society a high standard of living for all households has become a morally approved objective. In fact, it is an economic necessity if mass consumption is to support mass production.

The capitalistic resolution of these conflicting elements in our mixed economy lies in bringing about a balanced participation in production through diffusing the ownership of capital. As the burden of production shifts from labor to capital, so must the means of participating in production shift from ownership of labor to ownership of capital.[72] As the wealth of the economy is increasingly produced by capital, the distribution of the wealth of the economy must be increasingly achieved through the ownership of capital. The alternative to this is the erosion—to the vanishing point—of the private ownership of capital itself.

As we consider the means of accomplishing the capitalist revolution, we must recognize that our task today is different from what it would have been one hundred fifty years ago if, standing on the threshhold of the industrial revolution, we had then a clear idea of how a capitalist economy should be organized. In that case, our primary obstacle would have been the scarcity of capital instruments. Our attention would have focused on the problem of diverting sufficient current production from consumer goods to capital goods, in order to shift significantly the burden of production from labor to capital. Under such circumstances, little effort on the part of government would have been required to promote Capitalism through bringing about a progressive diffusion in the ownership of capital as its productive power progressively increased.

Surprising as it may seem, our task today in bringing about the transition to a fully capitalistic society is perhaps easier than it would have been at any time in the past. We are possessed of capital equipment capable of producing nine-tenths of our goods and

72 The shift from participation in production as worker to participation as owner of capital carries with it no certainty of a decline in aggregate employment. It is true that as progressively more of the total wealth is produced by capital, and less by labor, employment in terms of man -hours will decline unless increases in total wealth produced offset the decreasing demand for labor. But it will also be true in a completely capitalistic society that the economy need not produce surpluses in order that the technologically displaced be enabled to participate in production. When the effect of technological displacement falls upon men who are capitalists as well as workers, they will still continue to participate in production as owners of capital. Their contribution to production may even be enlarged.

services. We have adjusted ourselves to the erosion of private property in capital as the inevitable consequence of distributing income laboristically in our mixed economy. We have learned to bear artificially high and inflationary wages, unnecessary toil (*e.g.*, featherbedding), and dozens of varieties of artificial stimulants to industry for the sake of producing employment. We have come to endure painfully high graduated personal and corporate income taxes.

In short, while preserving the superficial appearances of private property in capital, we are submitting to measures already more severe (and they must become even more severe as technology a dvances) than those necessary to effect the capitalist revolution over a reasonable period of time.

We shall see that the capitalist revolution can be in part accomplished by the use of currently tolerated and familiar income taxes, estate taxes, and credit mechanisms. We shall also see that as the distribution of income becomes less laboristic and more capitalistic (with a wider diffusion of ownership of capital), a progressive reduction in the use of these measures will become both possible and necessary. At the same time, as the diffusion of economic power becomes more complete, the danger of abuse of the taxing and credit-control powers of government will diminish.

THE ROLE OF PRIMARY DISTRIBUTION IN A CAPITALISTIC ECONOMY

Primary distribution is the distribution of purchasing power that automatically results from participation in production. The contribution of the worker to production results in his receipt of wages, salaries, fees, bonuses, or other compensation. The contribution of the owner of capital results in his receipt of rent, dividends, interest, or payments for raw materials.

In a free economy, each participant receives in purchasing power the value, competitively determined, of his contribution to the wealth produced. It is the fact that the contribution has been made by the use of his productive property which entitles each participant to receive in some form, usually in money, the value of his contribution toward the production of wealth.

The market value of the wealth produced sets a limit to what producers and suppliers receive in the aggregate as their distributive shares of purchasing power. While the use of credit may smooth out the operation of this system, it does not alter it in principle, since sums borrowed must be repaid. The equality between the wealth created and the purchasing power received can be expressed in the following manner:

Value of capital used in production in the form of land, raw materials, plants, machinery, office buildings, working capital, etc.	=	Aggregate purchasing power received by the individual owners of capital in the form of rents, payments for raw materials, interest, dividends, royalties, etc.
Value of labor expended in production	=	Aggregate purchasing power received by the individual owners of labor in the form of wages, salaries, bonuses, interest in goods, fringe benefits, etc.

Value of wealth produced[3]	=	Total purchasing power created by production, *i.e.* the cost of total product to consumers.

The ownership of the capital and labor engaged in any productive enterprise determines *who* shall receive the purchasing power resulting from each contribution to the final product. The competitively determined value of each contribution determines *how much* of the total wealth produced shall be distributed to each owner participating in its production. This is the automatic distribution of wealth—the *primary distribution*—which would result from participation in the production of wealth in a completely capitalistic economy.

Under Capitalism, primary distribution would, therefore, be responsible for the general distributive pattern of the economy. Secondary distribution, which includes transfers of wealth taking place outside of the production-distribution process, is made up of such transactions as gifts, inheritance, transfers of wealth through marriage, losing and finding, thefts, exchanges of property after it has been acquired by its original ultimate consumer, and various other forms of distribution not occasioned by the return upon productive effort. While the distributive pattern which results from secondary distribution may accord with, exaggerate, or tend to counteract the pattern of primary distribution, primary distribution determines the general distributive pattern of a capitalistic economy.

It is evident from the nature of primary distribution that the purchasing power which arises from participation in production must be fully applied, either to the purchase of consumer goods or

[73] As Harold G. Moulton h~~as tersely stated it, “the truth is that t~~here is an identity between the market price of a commodity and the sums received by those who have engaged in its production” (*Income and Economic Progress,* Brookings Institution, Washington, 1935: p. 39).

to the purchase of capital goods, if the prevailing level of production is to be maintained or expanded. If purchasing power is sterilized in idle savings (*i.e.*, savings which are not or cannot be invested in capital goods), output must be adjusted downward until the wealth produced and the income used to purchase consumer goods and capital goods are again in balance.

We have observed the fact that the ownership of capital may be concentrated to any degree, while the ownership of labor in a nonslave society is always completely diffused—each man being the proprietor of his own labor power. The chief cause of the present highly concentrated ownership of capital is the discrepancy between the increasing productiveness of capital and the nearly constant productiveness of nonmanagerial and nontechnical labor. This differential productiveness began with the industrial revolution and has been increasing relentlessly ever since.

There are two subordinate causes of concentration in the ownership of capital. One is itself a direct result of the greater productiveness of capital: among the higher incomes of the economy, it is generally true that the higher the income, the higher the proportion that is derived from capital. The other cause is simply a well-known pattern of economic behavior: excluding the great number of persons in the low and lower middle income groups who account for no capital formation, the higher the income, the smaller the proportion that is spent upon consumer goods and services; or, what is the same thing, the higher the income, the larger the proportion that is normally invested in further capital formation.

Thus we see why the ownership of capital by individuals or households tends in general to increase in a geometric progression. In the absence of governmental regulations designed to counteract it, the natural functioning of an industrial economy with private property in capital results in a progressively greater concentration rather than in a progressively greater diffusion of capital ownership. So amazingly productive has capital become under the relentless advance of technology that this phenomenon has continued in spite of the graduated corporate income tax (which falls entirely upon the wealth produced by capital), and the steeply progressive personal income tax (which generally confiscates a much greater proportion of the income of the capital owner than of the worker).

INDIVIDUAL SECURITY VS. SECURITY FOR ALL INDIVIDUALS

One of the motives of the owner of capital in seeking to "plough back" his income and thereby to expand his ownership of capital is to provide himself and his household with ever more massive economic security. The same process takes place, under much the same influences, at the corporate level.

This phenomenon—the concentration of the ownership of capital—is, on the other hand, the basic cause of depressions in a capitalist economy. That insulation against the effects of a depression is one of the motives for concentration is not in itself startling. But that it is itself a cause of depressions indicates why the widely diffused ownership of capital is a necessity for the healthy functioning of an advanced industrial economy.

The possession of massive economic security by a small proportion of the households of the economy is destructive of the economic security of all. The concentration of the production of wealth in the hands of the few is inconsistent with participation in its production by all. This is but another way of saying that the production of most of the wealth by a small proportion of the households is inconsistent with a just distribution of income to all households. To the extent that all the households of an economy derive an income under conditions of concentrated capital ownership, the principles of charity or expediency (or both) must be operative.

There is necessarily a limit to how concentrated the ownership of capital can become without disrupting the stability of the economy. The advancing productiveness of capital may be viewed as the comparatively declining productiveness of submanagerial and subtechnical labor. With these changes, an opportunity to participate in the production of wealth to an extent sufficient to provide a viable distributive share comes increasingly to mean an opportunity to participate as a capitalist. The degree of concentration compatible with the right of every household to participate in production is thus progressively lowered as technology advances. Similarly, the degree of concentration compatible with the right of every consumer unit to participate in production is progressively lowered as the lowest income groups in the economy demand the opportunity to produce more wealth in order that they may enjoy a higher standard of living.

In a completely capitalistic economy, the balancing of participation in the production of wealth with the gradual shift from participation through the employment of one's own labor to participation through the employment of the capital one owns will be effected at a rate commensurate with that of technological progress. This can only come about, in an economy that retains the institution of private property, through an ever greater diffusion of the private ownership of capital. And when this comes about under Capitalism, it will, by eliminating the cause of economic instability, provide all with the sense of personal security that only some have enjoyed in the past through their highly concentrated ownership of capital.

The principles of Capitalism make it apparent that the achievement by the few of massive insulation against poverty causes poverty for the millions. Under Capitalism, such security cannot exist for the few alone, but only for the many. In addition, the balanced relationship which Capitalism will establish between (a) participation by all households in production and (b) the distribution of the proceeds of production to such households in proportion to their productive contributions will eliminate the primary hazard of equity ownership itself—the cyclical depression.

THE DEGREE OF CONCENTRATION IN THE OWNERSHIP OF CAPITAL

It is necessary to examine more closely the extent and character of the concentration that constitutes the central problem to be solved in order to effect the transition from mixed capitalism to Capitalism.

We must first distinguish between the concentrated ownership of capital and the concentrated ownership of consumer goods. The regulatory problem of a capitalistic economy centers on unbalanced participation in production. This can only come about through concentration in the ownership of capital, or through some combination, within a household, of concentrated capital ownership with participation in production by one or more of its members as workers. No degree of concentration in the ultimate ownership of consumer goods is significant for the problem of the production and distribution of wealth in a capitalistic society. The number of houses a man owns does not affect his participation in production so long as he does not rent them to others. It makes no difference how many yachts a family owns, so long as it does not go into the transportation business. Similarly, it makes no difference how many books or suits a man owns, so long as he does not open a bookstore or a clothing business.

With regard to the concentrated ownership of productive capital, common knowledge renders wholly unnecessary an extended review of the many studies that have been made during the past twenty-five years. We will content ourselves with two brief references.

The great bulk of the productive capital in our economy consists in the assets of corporations. In a study sponsored by the Merrill Foundation for the Advancement of Financial Knowledge and made by J. Keith Butters, Lawrence E. Thompson and Lynn L. Bollinger in 1949, it was found that between 65 percent and 70 percent of all the marketable stock held by private individuals was owned by families with estates in excess of $250,000. Such families constitute a minute fraction of 1 percent of the households in the economy. This study also disclosed that 75 percent of all such marketable stock was held by the 2 percent of the population with the largest incomes—$15,000 per year and over.

Nonmarketable stocks of corporations (*i.e.,* the stocks of closely held corporations) are even more concentrated in ownership, while the highest concentration, of course, is to be found in proprietorships and partnerships.[74] In the July, 1956, issue of *Labor's Economic Review*, published by the CIO-AFL, it was reported that 92 percent of American families own no stocks of any kind. Studies show that the ownership of corporate debt is even more highly concentrated than the ownership of equities.[75] A comparable concentration in ownership exists for individually owned real estate used in business. Even in the case of farms, a strong tendency toward large holdings is stimulated by technological advances which give a great productive advantage to the large farm.

The real test of the concentration of ownership of capital in the United States lies in the number of households owning a suffi-

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[74] The results of this study are summarized in "Effects of Taxation on the Investment Policies and Capacities of Individuals," by Lawrence E. Thompson and J. Keith Butters, and published in the *Journal of Finance,* May, 1953, pp. 137-151

[75] In its publication *Who Owns American Business, 1956 Census of Shareowners*, the New York Stock Exchange, which has long urged a broadening of the ownership of capital, reported that between 1952 and the end of 1955, the number of people owning

shares in publicly held corporations (corporations with securities listed on a Registered Stock Exchange and having 300 or more stockholders) increased from 6,490,000 to 8,630,000—an increase of 33 percent. The inconsistency of this fact with the concentration of ownership as shown by all major studies is apparent rather than real. The Exchange's study does not even purport to reflect concentration of ownership. The ownership of ten shares, or even one share in a public corporation, is all that is necessary to be counted as a shareholder in this study. Two-thirds of the shareowners counted were in the $7,500 per year income level or below—a group shown by all other studies to be insignificant in the formation of the equity capital of American business. What the Exchange's study does show is that an increasing number of people are interested in becoming owners of capital or of securities representative of capital.

cient amount of capital in any form to provide them either with a viable income at present levels, or any significant portion of such income. The available evidence confirms what anyone would suspect—that the number of such households is minute. It is not, in any event, over 5 percent of all households.

THE FORMS OF CONCENTRATED OWNERSHIP OF CAPITAL

To consider the forms which the concentrated ownership of capital takes, we must remember that the essence of private property is to give its individual owners control over the use and disposition of their property.

In the case of property in capital, the forms which such ownership can take are various. Capital privately owned by individuals may be held in corporate form. In this case, the owner of the capital is a fictitious person—the corporation. In legal theory, the ownership of the corporation lies in its stockholder or stockholders. The stockholders may at any time eliminate the intermediate entity, by dissolving the corporation and assuming direct ownership of its assets and business. The corporation is, however, a most effective method of uniting the productive power of capital with the talents of managers, technicians, and other workers; and it is ordinarily not convenient (even aside from tax considerations) to dissolve a corporation in order to enforce the property rights of a stockholder.

Most of the productive capital in the United States is held in the corporate form. Nevertheless, substantial amounts of capital are subject to direct individual ownership (proprietorships), or held by partnerships, trusts, and other forms of association. Whatever form ownership takes, it is vitally important, if a capital asset is to be private property, that its control be vested in its owners as such. When, for example, corporate management is more influenced in the making of decisions, by the state (or by those to whom the state has loaned its countervailing power) than by its own stockholders, then the corporate capital is no longer predominantly private property. It has become predominantly state controlled and, correspondingly, state owned.

We regard the household as the basic unit of ownership because the household is the basic unit for spending income and because it is family or household income that generally determines the standard of living of the individuals in the family unit.

We have already called attention to the distinction between an actual concentration of private ownership of capital and what is merely an apparent concentration of privately owned capital. The real measure of concentration where ownership is partly nominal and partly effective is the extent to which the wealth produced by capital actually flows into the hands of its owner or owners. The real measure of concentration where ownership is fully effective would be the magnitude of the income received within a given period by the owners of the capital in question.

For example, let us consider the case of a household owning capital invested in an incorporated business (or in diversified investments in a number of such businesses) which produces, after taxes, \$200,000 a year. If the ownership of this capital were fully effective and the household received the entire \$200,000 annually, it is clear that this household would have the earning power or wealth-producing power of 40 worker households in which the earning power of the worker or workers averaged \$5,000 a year per household. On the other hand, if this capital-owning household received only \$50,000 a year, the rest being drained off through artificially high wages and the uncontrollable decisions of management to withhold the disbursement of a portion of corporate income to stockholders, and if this condition continued year after year, it is clear that the ownership of the capital in question would be 25 percent effective and 75 percent illusory or nominal. Where income taxes levied upon the corporation provide funds for expenditures outside the proper sphere of government (*e.g.*, for redistribution of wealth to submarginal farmers, or to support economically unnecessary toil), the ownership of the capital may be even further attenuated.

The ownership of capital may be partly or wholly nominal, *i.e.*, it may in varying degrees lack effectiveness, regardless of the form of ownership. If it is owned in corporate form, such ownership may become ineffective through the short-circuiting of the flow of wealth produced by the capital so that none, or only a part of it, reaches the capital owner. This may come about through income taxes, excise taxes, or property taxes levied to provide funds for purposes outside the proper sphere of government, *i.e.*, for the redistribution of income. It may come about through diversion of the wealth produced by capital to workers, as it does wherever wages are raised by legislation or union pressure above the level at which they would be set by free competition. It may come about through the ineffectiveness of the laws of property as applied to stockholders' rights in corporations, as it happens whenever these laws leave stockholders without any means of enforcing their right to receive the income or wealth produced by their equity capital. Corporate management can then, without consulting the stockholders, "plough in" earnings for the purpose of indefinitely expanding the enterprise, instead of being forced to persuade and justify further investment by stockholders who have been fully paid their shares of the corporation's earnings.[76]

One other form of concentration of productive power remains to be mentioned before we consider ways of solving the problem that concentration raises. As we have seen, productive power may be concentrated by combining within a household the ownership of productive capital with the participation in production by one or more members of the household as workers. Such concentration reaches its peak when ownership of a large amount of capital is combined with holding a very highly paid position as a managerial or technical worker in one or more businesses, or with a lucrative professional practice in law, medicine, engineering, accountancy, etc. Where there is a surplus of workers (*i.e.*, of persons whose only means of participating in production is through labor), this becomes a most important form of concentration.

76 These causes of the ineffectiveness of private property held in corporate form, except for the withholding of dividends by corporate directors, also operate in other forms of ownership.

HOW MIXED CAPITALISM DEALS WITH THE EFFECTS OF CONCENTRATED OWNERSHIP

Before we discuss the transition from our mixed economy to Capitalism, let us ask how our present form of mixed capitalism handles the natural tendency of capital to increase in the hands of its owners at a geometric rate. To reduce the question to figures, if capital, the great bulk of which is owned by about 5 percent of the households, produces 90 percent of the wealth, what prevents this 5 percent of the households from receiving 90 percent of the income?

Were the property rights of the owners of capital fully respected, that is precisely what would happen. A completely capitalistic society would be so regulated by its government that if 90 percent of the wealth were produced by capital, the diffusion of private ownership would be sufficiently broad so that 90 percent of the income could be distributed as a return to capital and still maintain widely diffused purchasing power.[77]

How does mixed capitalism meet this problem? The answer in general is obvious. Our mixed economy does not attempt to diffuse the private ownership of capital throughout the households of the society. Instead, it diffuses the wealth produced by capital; that is, it distributes to labor a large part of the income which

[77] This would be true whether or not the labor force were "fully employed." Thus if, as a matter of competitive evaluation of all contributions to production, labor produced only 10 percent of the national wealth, then the total wage share of the national income would be 10 percent. There might still be full employment if, despite the low labor content in the goods and services produced, consumer demand raised production to a level at which all available employment was absorbed. This condition would probably exist in an advanced industrial economy only when it was in the throes of war.

would go to the owners of capital if their property in capital were fully respected.

The following are the more important of the entirely familiar devices by which our mixed economy transfers at least two-thirds of the wealth produced by capital to the noncapital-owning households of our society:

(1) First and foremost is the method urged by the *Communist Manifesto* in 1848: "A heavy progressive or graduated income tax." Because most of the high incomes are largely capital incomes, the graduated personal income tax relieves the owners of capital of a far greater share of their income than it does in the case of the owners of labor. The graduated corporate income tax has a different effect. It is not heavier on capital-income than upon workerincome. It falls totally and exclusively on the wealth produced by capital. This is true of manufacturing excise taxes and property taxes on capital instruments.

(2) The graduated personal income tax itself discourages the distribution to stockholders of corporate earnings. Few corporations pay out more than half their net earnings. Many go on for years retaining much more than half. The tax laws are designed to prevent "withholding" payment of dividends where the purpose is to avoid taxes. But intent to plough earnings into further capital investment is an effective and recognized excuse for the indefinite accumulation of earnings.

The laws of property, as applied to stockholders, are almost attenuated to nonexistence in this instance. The decision whether stockholders shall receive the wealth that their capital produces lies not with stockholders, say the courts, but with management—the top echelon of workers. Generations of stockholders come and go without ever possessing or controlling more than a small fraction of the wealth their nominally owned capital produces.

The weakness of the property rights of stockholders and the overpowering strength of the graduated personal income tax conspire to corral within corporations vast quantities of the wealth produced by capital. From this collective reservoir, by arrangements between government and unions, it is used richly to supplement actual wages. It may with little resistance be appropriated by the government to pay for agricultural surpluses, subsidize foreign distributions of wealth, pay for excessive quantities of arms, and promote all manner of artificially stimulated toil.

(3) One of the largest employers of labor is the construction industry. Governmental policies of easy mortgage credit enable a home buyer, for example, to create employment today by spending wealth that he will produce over the next twenty or thirty years. Here is an instance of a policy to credit-finance a consumer item of the magnitude of a small capital holding. The shortage of homes of a desired quality is sometimes incidentally mentioned in connection with this program. For the most part, however, the proponents of these programs and the political leaders who echo their proposals are more frank. The objective is full employment.

(4) Another large employer of labor is manufacturing. Our mixed economy stimulates employment through governmentally supported easy consumer credit to encourage the purchase of durable goods. Among these durable goods are some of the most important consumer items in our high standard of living: automobiles, washing machines, dish washers, vacuum cleaners, furnaces, refrigerators, freezers, televisions, bathroom fixtures. Our mixed economy provides the households of the economy with credit to enjoy these consumer goods—just as a completely capitalistic economy would make it possible for its households to acquire them largely through their capital incomes.

(5) Farm employment is stimulated through the governmental purchase of agricultural surpluses, the “soil bank” program, and the direct fixing of prices above their competitive level as in the case of the dairy industry. Both of these types of program result in the elevation of the cost of living for all households. These programs to a large extent redistribute income to farmers as part of

the general program of redistributing income to non-capitalowning households.

(6) Employment is "spread" through a multiplicity of restrictions upon worker output. Limitations are placed on the number of bricks that may be laid, the number of pieces of work that may be handled, the number of minutes of work between intermissions. Employers are forced to hire more drivers than they need, more helpers than can effectively work, orchestras that merely sit in the wings, linotype operators who unnecessarily duplicate the type already set up, etc. With government protection and encouragement, rules of work-jurisdiction have been established by labor unions so that construction jobs require maximum employment rather than maximum efficiency, skill, ability, or effort.[78]

(7) Through a device called "collective bargaining" (which originally and wholesomely meant giving employees as much "weight" as the employers with whom they must discuss wages, hours and working conditions), government and unions collaborate to raise wages far above their competitive level. This is the most direct method of awarding to workers the income produced by capital. It introduces into the economy a governmental enfranchisement of unions to levy taxes upon employers, stockholders, and upon the economy as a whole. It sanctions a form of monopoly and conspiracy made effective by organized force which dwarfs any industrial monopoly ever contrived. It eliminates from a major area of the economy the use of objective, impartial, and free competition as a just determinant of economic values. Its only "justification" is that without a redistribution of income effected in this

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78 There is another type of concealed unemployment which, though less well known than featherbedding, may be just as prevalent and just as effective in promoting laboristic distribution. It has been examined satirically by Professor C. Northcote Parkinson, who shows that because "work expands so as to fill the time available for its completion," there is no limit to the growth in size of the clerical or administrative staff of a corporation or a government office, whether its work increases, stands still, or decreases. This tendency, called "Parkinson's Law," undoubtedly accounts for incalculable clerical and managerial "featherbedding" within corporate and government offices. See *Parkinson's Law,* by C. Northcote Parkinson, Boston, 1957.

manner, there would not be sufficient mass purchasing power in our present economy to support mass production.

(8) Our mixed capitalist economy frequently increases employment by the regularization of war expenditures. War goods require the employment of labor to produce, but they do not satisfy consumer demand. They create purchasing power in a manner which requires further employment to satisfy that purchasing power. However critically important war goods are in meeting the actual needs of defense, beyond defense they are ideal for creating "full employment" in a mixed economy. That would not be the case in a completely capitalistic society where defense would be defense, not a device for increasing employment.

(9) As in the case of the production of war goods in excess of defense needs, our mixed economy can promote the laboristic distribution of wealth through foreign aid programs which are beyond the needs of, or are entirely outside of, the requirements of defense. Our mixed economy makes some foreign aid grants which are inspired neither by international charity nor by sound defense needs, but by the advantages to full employment of disposing abroad of our surplus machine tools, agricultural commodities, etc.

(10) Our mixed economy periodically interrupts the process of concentration of ownership of capital by imposing progressive death and gift taxes. Not only do these taxes result in transfers of large amounts of accumulated capital wealth to the government, but they frequently impair market competition and promote the further concentration of ownership of the physical assets involved. In the case of many closely held corporations, taxes can be paid only by sale of control of the business, and the buyer is often the company's most powerful competitor.

(11) Our mixed economy may by its tax laws promote a form of socialization not ordinarily recognized as such. It is a form of redistribution known as the charitable foundation. Charitable foundations are, in legal contemplation, public entities. The wealth within them is under the control of the state, and the foundations themselves are so designed that the wealth can never revert to or benefit those who transfer their wealth to such semigovernmental agencies. From these foundations, wealth is distributed, under rules laid down by government, for all sorts of purposes recognized as charitable. From time to time,

> government may and does change its views on how such income must be distributed.

Many of these expedients, resorted to by mixed capitalism, to promote the laboristic distribution of the wealth produced by capital in order to supplement the wealth actually produced by labor, tend further to concentrate the nominal ownership of capital within the economy. This is sometimes referred to as the "trickle down" principle. Purchasing power is artificially introduced into an economy which, to whatever extent the concentrated ownership of capital is still effective, tends further to concentrate the ownership of capital. This in turn requires imposing even stiffer graduated income taxes to convert whatever effective ownership remains into nominal ownership and diffused purchasing power.

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