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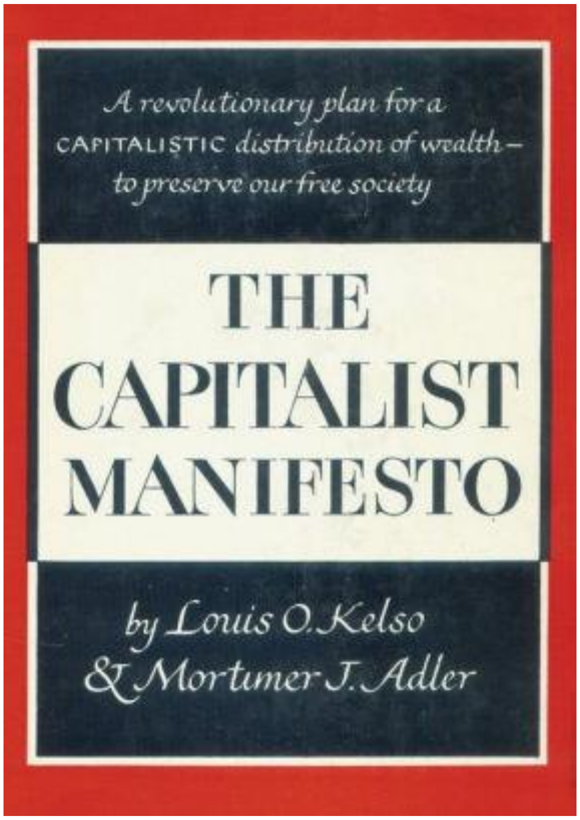

THE CAPITALIST MANIFESTO

by Louis O. Kelso and Mortimer J. Adler

13 Measures Aimed at Deterring an Excessive Ownership of Capital by Individual Households

INVESTMENT PREFERENCE FOR SMALL OR NEW CAPITALISTS

We have asserted the necessity of requiring a full periodic distribution to stockholders of the net earnings (*i.e.*, the wealth produced) by corporations. This might be accomplished through tax deterrents that do not differ in principle from those provisions of the present Revenue Code that restrict accumulations in excess of the reasonable needs of a business.

Any such enforced payment of corporate net earnings would have to be accompanied by great improvement in the efficiency of investment banking practices for the marketing of new equity issues. The costs of marketing security issues would have to be materially reduced, and regulations to insure fair dealing and full disclosure of relevant information would have to be made more effective.

No government efforts are of greater importance to the rights and interests of its citizens than regulations aimed at molding the base of private ownership to fit the state of technology and the needs of the people for a high standard of living. There do not appear to be any insurmountable obstacles to the development of security flotation procedures which would help to broaden the capital base and to discourage concentration of ownership of capital.

Effective security flotation procedures during the transition period may require the establishment of preferential opportunities for investment by households whose aggregate capital interests are subviable. Any study of present and past financing practices quickly discloses that the choice investment opportunities are available to those whose capital ownership is already concentrated. To date, political leaders, economists, and businessmen focus their attention on the amount of capital formation needed to furnish desirable growth for the economy. They pay almost no attention to the sources of the capital and the diffusion of its ownership. An outstanding but by no means solitary example of this is the money, amounting to billions, which the government has granted in tax-free loans (*i.e.*, the accelerated five-year amortization privileges) to the largest corporations. As a result, highly concentrated ownership is further intensified and freely competitive markets are impaired. The establishment of effective investment preferences for new and small capital owners would be one means of accomplishing the dual responsibility of all concerned to see not only that adequate capital formation takes place, but also that the growth in the number of households owning viable capital interests occurs at a satisfactory rate.

We cannot explore here all of the possibilities of making reasonable use of a system of investor preferences which would tend to advance the capitalist revolution. In general, such controls should operate through (1) preferential credit financing of the acquisition of viable capital interests by noncapital-owning households or households with subviable capital holdings; and (2) giving households with very large holdings of capital low investment preferences which might limit them to investment in fixed income bonds (*e.g.*, the bonds of financing institutions designed to provide the credit necessary to carry on the program of financing new capitalists).

To illustrate the type of investor preference we have in mind, investments in public utility enterprises, including new atomic energy plants, would undoubtedly be rated for investment priority by new capitalists with subviable holdings, and should be favorites for capital-acquisition loans of types we will discuss later. The enormous power needs of the future will provide the opportunity for a vast number of new viable capital holdings. One well-informed estimate places the amount of capital investment in power resources to be required in the United States over the next twenty years at nearly 100 billion dollars.

INCOME TAX DETERRENTS TO PERSONAL CONCENTRATION

The ownership of a large amount of productive capital is not the only manner in which the excessive concentration of participation in production may come about. It may also come about in a particular household through combining a very large holding of capital with the performance of highly paid work. The combination of ownership of a large capital estate with the performance of highly paid managerial or professional work gives a single household the possession of great productive power. Whether this form of concentration presents problems different from those of concentrated capital ownership by itself depends upon certain factors which we will now consider.

The economic goal of Capitalism is to shift the burden of producing subsistence from human labor to capital instruments as far as it is possible to do so. The state of technological advancement and the standard of living which an economy sets for itself will determine at any particular time the amount of subsistence work for which there is a real demand in the economy. The more successful an economy is in substituting the production of subsistence by capital for its production by labor, the smaller the actual demand for labor, *whatever the given standard of living.*

In terms of these relationships, we can see several things. At the beginning of the transition to Capitalism, the proportion of households whose only opportunity to participate in production is through toil will be at a maximum. At the conclusion, when a balanced capitalistic economy is achieved, there will certainly always be some portion of the population who, for reasons of mental incompetence or moral delinquency, will fail to husband their property in capital and otherwise fail to adapt themselves to the exigencies of a completely capitalistic economy. Hence there will always be some whose only possibility of participating in production is through the performance of toil. Aside from this, the production of wealth will always require millions of workers, although it seems absolutely certain that the amount of necessary toil will progressively diminish in relation to the amount of wealth produced.

The government of a completely capitalistic society should do the very opposite of promoting "full employment," for to promote the employment of all employables under a nonlaboristic distribution of wealth would be to make an end out of toil itself or to encourage individuals to make the same slavish mistake. A capitalistic economy could countenance full employment only at a time when methods of production are technologically so primitive that the employment of all employables is necessary to enable it to achieve the standard of living it desires. Even then it would seek to promote technological advance in order to correct this deplorable condition. But if, in an advanced industrial economy, there are households whose only opportunity to engage in production is through the performance of toil, *at a time when the demand for labor is less than the supply of persons seeking employment,* the government of a completely capitalistic society cannot fulfill its obligation to provide an opportunity to all to participate in production *unless it inhibits the particular kind of concentration that is involved in combining participation in production as a worker with participation as the owner of a monopolistic capital estate.* This kind of concentration does more than diminish the opportunities of others to participate in production. It destroys them.

Whatever may be determined to be a monopolistic capital holding at a particular time, if the need for jobs is less than the supply, the government of a completely capitalistic society should prohibit the pre-empting of employment opportunities by those who do not need them, to the harm and detriment of those who do. The performance of toil for subsistence is a means to the enjoyment of wealth. But the nature of production and distribution in a completely capitalistic society is such that if some hoard more of the opportunity to produce than is consistent with the participation in production by all, whether it be through avarice, ignorance or foolishness, then the obligation falls upon government to deter them from doing so.

As we continue to make technological progress, the importance of preventing this type of concentration of participation in production will increase. As more men become holders of viable capital estates, and as the capital formation that is concurrently taking place represents an ever greater shift of the burden of production from labor to capital, the greater will be the danger that those whose only opportunity to participate in production is through labor will become wards of charity as a result of the combination by others of large capital ownership with highly paid employments.

The policy of government in this respect should be more than regulatory. It should be educative. It is the greatest of all slanders on humanity to think that only through the production of wealth can men find outlets for their creative energies and impulses. This is a falsehood that civilized society should make every effort to refute. Through preventing men from adding an increment to their income which they do not need, *by doing subsistence work where their doing so would deprive others of their only opportunity to participate in the production of wealth*, government can drive home a truth that all men in industrial societies must learn.

How can government most effectively prevent the combining of very large holdings of capital with compensation for subsistence work, where well-paid employment opportunities are less than the number of those whose only possibility of participation in production is through work? Our answer to this question is no more than a tentative suggestion. The problem is a matter of the deepest importance, and the study given it should be commensurate.

It appears to us that the problem can be dealt with through a deterrent use of taxation. Income from capital sources and income from labor sources might be separately classified for income tax purposes. After a household's capital income reaches the magnitude of a monopolistic capital holding, any additional income it derives *from subsistence work* (as distinguished from such income as may be derived from liberal pursuits) might be subjected to a separate progressive tax, rising—perhaps precipitously—to the level determined necessary to discourage this type of concentration. This might eliminate any economic incentive for those who try to combine such incomes with incomes resulting from subsistence work.

One other possible form of income tax deterrent to personal concentration should be mentioned. It should be the policy of a completely capitalistic society to encourage the acquisition of viable capital holdings by a maximum number of households, but at the same time to discourage capital holdings from growing to monopolistic size. Consequently, it would seem essential that this policy be reflected in the establishment of personal income tax rates. Graduated rates might be designed to rise steeply at the point where any increase in income would represent a monopolistic capital holding.

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