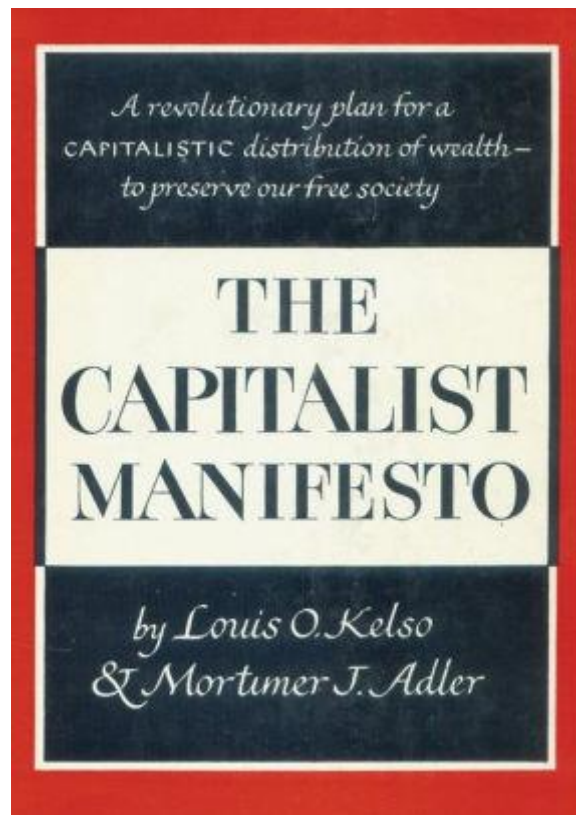


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THE CAPITALIST MANIFESTO

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14 MEASURES AIMED AT DIRECTLY STIMULATING AN INCREASE IN THE NUMBER OF NEW CAPITALISTS (Part 2 of 2)

FINANCED CAPITALISTS

When we realized in the nineteen-thirties that a mass-production economy cannot survive—and certainly cannot provide a high general standard of living—without mass consumption, we jumped to the obvious conclusion: *stimulate mass consumption directly*. This maxim was central in the economic theory behind our highly effective credit facilities for consumer goods.

It is almost a truism to say that if the rapid broadening of the ownership of capital had been recognized to be as vital to the prosperity of an industrial economy as technological progress itself, we should long ago have developed methods of “merchandising” capital interests comparable in effectiveness to those we now use to sell consumer goods. We would long since have learned that the effective broadening of the capital base would render the use of extensive consumer financing unnecessary and perhaps even unwise. We would understand that the central aim of all government efforts to promote Capitalism is to broaden participation in the production of wealth *as a means of broadening the just distribution of income*. From the point of view of Capitalism, a need for consumer financing might therefore be construed as indicating the inadequate stimulation then currently being given to the broadening of the ownership of capital.⁹⁴

Let us assume that an understanding of industrial production and of a completely capitalistic distribution of wealth becomes a matter of common knowledge, and also that we as a people begin to think economically in terms of the principles of Capitalism. What more can be done, aside from the various steps already discussed, to change households wholly dependent upon toil for their subsistence into households partially or wholly dependent upon their ownership of capital for their participation in production and their resulting distributive share of the wealth produced?

The problem of financing the broadening of the capital base in a completely capitalistic economy, like that of financing consumer purchasing in our present mixed capitalism, is to a large extent a matter of the skillful use of credit. But we must also determine what emphasis should be given to broadening the ownership of existing capital and what to financing new capital formation to be owned by new capitalists. This in itself is a major subject for study. However,

it is possible within limited space to show the feasibility of using modern credit and merchandising methods to create millions of new capital-owning households. In the process of doing so, we can also take note of some of the problems to be solved.

Forms of credit financing familiar in the consumer field today can be readily adapted to financing capital acquisitions by new

⁹⁴ John Maynard Keynes popularized the “multiplier theory” of the relationship between the amount spent upon capital formation and the resulting increase in employment. See his *The General Theory of Employment, Interest and Money*, New York, 1935: Chapter 10. This, in economic slang, is the theory of “pump priming.” It should be noted that the theory of Capitalism contemplates no use of pump priming. The distribution system of a completely capitalistic economy may be likened to a system of developing permanent new connections between the production pump (predominantly capital) and consuming households. Thus, the efforts in a capitalistic society to broaden ownership do not provide a mere temporary multiplier to create employment but a permanent source of income for new capital-owning households.

capitalists.⁹⁵ Among these are straight loans for the acquisition of equity capital holdings. These would normally be secured by a pledge of the equities purchased. The pledge arrangement, as in the case of conventional banking practice today, would involve an installment repayment plan. The right to receive dividends, the right to exercise voting privileges, and other rights of equity holders would be vested in the buying household as long as the loan was not in default. The simple pledge arrangement could be used to purchase either outstanding equities or new equities upon original issue by corporations, although the credit features might differ in each of these cases.⁹⁶ For example, excessively easy acquisition credit for outstanding equities would tend to inflate the prices of outstanding securities, while the easing of credit terms for the acquisition of new equities on original issue would readily expand the rate of formation of new capital.

Another familiar consumer credit financing device could be readily adapted to the program of financing new capitalists. This is the installment payment plan. Corporations with certain types of capital needs might well find it possible to issue equities to purchasers who would assume the obligation to pay for them over a period of months or years. While a corporation might, during the installment payment period, be required to pay out earnings on stock representing capital not fully paid in, it might be compensated for this by being able to raise capital on terms more favorable than those otherwise available.

In the case of loan and pledge financing of the purchase of already outstanding securities, these arrangements would be made an

⁹⁵ Given adequate statutory safeguards against abuse of the system for financing acquisition of capital interests by persons other than those acquiring viable capital estates, the commercial loan department of any bank could produce dozens of workable

financing plans for financing the acquisition of viable capital interests by new capitalists.

⁹⁶ The laws of most states prohibit a corporation from extending credit on the security of its own stock. State corporation laws are generally not designed to facilitate the broadening of the ownership base.

exception to the margin requirements that apply to the purchase of securities. Margin requirements, perhaps of 100 percent, might well continue to apply in the financing of equity purchases by persons whose equity holdings are already of monopolistic size or by persons purchasing for speculation rather than for investment. Absolutely effective regulatory measures should be adopted to prevent use of capital financing plans by speculators (those not buying for investment, regardless of the size of their capital estates) and those with very large capital holdings.

As the capitalist revolution progresses, the difficulties of appraising corporate equities for loan purposes would diminish as the result of measures requiring the full payment of earnings by mature corporations. It is the present discretionary right of management to withhold or pay out earnings that contributes substantially to the erratic fluctuation of security values today. The discretionary right of management to withhold or pay out earnings to stockholders at present vitiates the tests used for appraisal purposes in determining loanable values as well as the everyday composite appraisals which underlie market values. As the capitalist revolution progresses, the danger of cyclical economic disruption would diminish, so that the danger of depression which always hangs over the stock market today would also diminish and should eventually disappear.

Pledge arrangements in connection with loans to finance the acquisition of capital interests could be conventional, except that it would be desirable to provide terms of repayment that would generally leave some margin between the return on the financed capital interest and the amount of the repayment installments. If the purpose of broadening the capital base is to enable new individuals to participate in production as owners of capital and thereby to participate in the distribution of capital earnings, it is essential during the transition that there be no excessive suspension of the income available for consumption purposes—only a diminution to whatever extent is required to amortize the installments of purchase price.

The principle of investment diversification is an essential and sound principle of capital husbanding, and should be a condition of the availability to households of capital financing arrangements. This, combined with a plan for investor preference for the benefit of those in the process of acquiring viable capital holdings, would make such

financing plans highly effective in broadening the capital base.

Interest upon capital-acquisition loans should be made deductible for income tax purposes as is the case with most interest payments at the present time. All reasonable steps should be taken to channel the investible funds of those who do not have capital acquisition investment preferences (because of the already monopolistic size of their capital holdings) into the program of financing the broadening of the capital ownership base.

In the case of capital-acquisition loans to purchase newly issued securities, certain additional problems would have to be met. Intelligent diversification, as a requirement of the availability of such financing, would itself suggest a balance between securities of well-seasoned corporations and those of still somewhat speculative businesses.⁹⁷ The securities of brand-new and completely unseasoned enterprises should undoubtedly be given an investment rating which would exclude them from capital acquisition financing eligibility until they became seasoned. They should also be excluded from investor preference for small investors. This would

⁹⁷ Investments in public utility enterprises, for example, should undoubtedly be rated for investment priority for new capitalists with subviable holdings, and should be favorites for capital-acquisition loans. It would appear that the enormous power needs of the future will provide an opportunity for a vast number of new capital holdings. The Joint Committee Report in 1954 estimated that, by 1965, annual capital expenditures of 35 billion dollars for new capital formation would be required (*Potential Economic Growth of the United States During the Next Decade*, Joint Committee Print, p. 11). These enormous capital requirements, which might well be substantially higher even in early stages of the transition to a completely capitalistic economy, indicate the opportunity in the years ahead to promote that transition more rapidly than it could ever have been carried out in the past.

leave unseasoned and speculative securities available for investment by those with already large capital holdings, who are therefore better able to afford the risks involved.⁹⁸

The program of financing new capitalists would recognize the vast needs of our economy for capital formation and would provide the sources for capital formation. It would at the same time begin to do something about the presently neglected task of diffusing the ownership of capital.

Since the government, in encouraging or directly providing for such capital acquisition financing, would be acting in discharge of its obligation to afford an opportunity for all households to participate effectively in production, there would be adequate justification for the establishment of a loan insurance program covering such capital-acquisition loans. The general principles of the loan insurance program of the Federal Housing Administration, now applicable to

housing mortgage loans, could be adapted for this purpose.

One of the common explanations for the dearth of capital raised by issuance of equity securities today is the high cost of underwriting. The existence of an insurance fund for capital acquisition financing should help to reduce underwriting costs, since the risk of failing to sell qualified stock issues within a reasonable time might either be greatly diminished or entirely eliminated. This, with a revision of the corporate income tax laws designed to discourage

⁹⁸ Some indication of the massive future needs of our economy for capital formation may be gleaned from the work of three scientists of the California Institute of Technology who foresee that if the underdeveloped regions of the world become fully industrialized during the coming century, we will have exhausted all high grade mineral deposits, all petroleum and other fossil fuels, and will require water in quantities exceeding the fresh water supply of the world. "By that time the mining industry as such will long since have disappeared and will have been replaced by vast, integrated, multipurpose chemical plants supplied by rock, air, and sea water, from which will flow a multiplicity of products, ranging from fresh water to electric power, liquid fuels, and metals" (Harrison Brown, James Bonner, John Weir, *The Next Hundred Years*, New York, 1957: p. 151).

long-term debt financing, would not only dry up a major source of concentration but would also facilitate equity diffusion. It is important to note that such an insurance arrangement—let us call it the "Capital Diffusion Insurance Corporation"—would not directly underwrite any of the risks of business enterprise. That is the function of the stockholder. It would only be insuring or guaranteeing the stock subscriber's or stock purchaser's obligation to pay for the stock that he purchases.

When the necessity has arisen in the past, we have, largely through the skillful use of private and public credit, *simultaneously* produced unprecedented quantities of war goods (to be destroyed in the process of destroying wealth and life), unprecedented quantities of consumer goods and unprecedented new capital formation. Who, then, can seriously doubt our ability in the years ahead to finance, through public and private means, the formation of the vast quantities of capital *largely under the ownership of new capitalists?* Such newly formed capital, so financed that it will be owned by new capitalists, will be self-liquidating. The wealth that such new capital creates will reimburse those who have extended credit to bring about new capital formation under the ownership of new capitalists.

In the transition to Capitalism, and in the preservation of a balanced capitalistic economy once Capitalism is achieved, the purpose of the program we have been considering would be to make certain that suitable credit mechanisms are developed to assure the expansion of our economy and simultaneously to assure the rapid and efficient broadening of the capital-owning base. In the task of providing

credit facilities, commercial banks, investment banks, and other private financial organizations should be given primary responsibility and priority of opportunity. Government should not hesitate, however, to make up for any deficiencies in private credit facilities, either by the insuring of credit or by directly providing it.

There is no need to fear that government, by using its powers to promote this program, will aggrandize the power of the state or threaten individual freedom. Our Founding Fathers accurately observed that the freedom of citizens lies in their individual possession of sufficient economic power to check the inevitably centralized political power of government. The application of their principles of free government in our modern industrial society compels the conclusion that the diffusion of privately held economic power—and this now means the broadly diffused private ownership of capital—is the only means of counteracting centralized political power. Hence the performance by government of its obligation to broaden the private ownership of capital is at the same time a guarantee of the separation of political from economic power and a guarantee of individual freedom.⁹⁹

⁹⁹ The false and historically refuted doctrine of *laissez-faire* has made such a deep impression upon some minds that the idea of deliberate creation of the conditions of economic and political freedom by government regulation immediately raises for them the specter of totalitarian government. To maintain that the diffusion of economic power cannot be purposely promoted by governmental action is to subscribe to economic anarchy in precisely the same sense that those who maintain that the only politically free society is one without civil government subscribe to political anarchy.

THE NEED FOR NEW TYPES OF INSURANCE

One problem remains to be discussed in connection with all efforts to diffuse capital ownership as widely as possible.

As the transition toward Capitalism progresses, the risk of major economic dislocations or depressions will diminish until, with the establishment of a balanced capitalistic economy, it will disappear altogether. This will eliminate one of the major risks of our present mixed capitalism. But one type of risk will remain. It is the natural risk inherent in an industrial and competitive economy—the risk of loss of investment through competitive superiority and through technological supersession. In proportion as more households become more dependent upon their ownership of capital as a source of earned income, more households will incur this risk or incur it to a higher degree.

The problem suggests its own solution. The theory upon which most disability and life insurance is purchased is that the head of the family (usually the one insured) through his or her ability to work constitutes the source of economic support for the household.¹⁰⁰

Sickness or disabling accident and death usually involve loss of income for the household. It is against such risks that insurance protection is sought. But when a household owns a viable capital estate, its participation in production is to that extent vicarious, and the disability or death of a member of the household no longer has the same economic significance that it has when the family income is earned mainly by toil.

Where a household is primarily dependent for support upon its ownership of capital, the primary risk to be guarded against is simply the business risk inherent in a competitive and technologically evolving economy. In large measure this risk can be minimized through investment diversification, but beyond this it should be possible to devise casualty insurance designed to protect the family income against a coincidence of business failures that would materially impair the support derived from capital holdings. This would be a logical application of the theory of life insurance to a completely capitalistic economy.

Furthermore, while a completely capitalistic economy would be exempt from the causes of major economic breakdowns, it is unlikely that it would be wholly exempt from cyclical variations of more and less intense economic activity. It may well be that at the governmental level an insurance plan protecting the owners of capital against the troughs of even these mild cycles could be devised. If so, such insurance arrangements in a fully capitalistic economy would be the complete substitute for the patchwork quilt

¹⁰⁰ The intricacies of our tax laws, both income tax and estate tax, frequently provide an artificial motive for the purchase of life insurance. Such purchases are exceptions to the normal economic motive.

of pump-priming schemes now constituting the devices used by government to deal with the cyclical variations in our mixed economy. This plan for insuring capital income against certain kinds of risks might be integrated with the income taxes levied by the federal government in such manner that its operation would be largely one of absorbing the dips of the cycle against the income tax and collecting the premiums against the peaks.

THE NEW CAPITALISTS

In the period of the transition to Capitalism, as efforts to create employment for the purpose of distributing wealth are withdrawn, the number of persons seeking employment in the production of subsistence may exceed the number of jobs. The educational task of elevating human interest and effort from subsistence work to leisure work cannot be accomplished overnight. Members of households whose participation in production is already of monopolistic extent

through their ownership of large capital estates may still erroneously persist in looking upon the performance of subsistence work as the only outlet for their creative energies. Only when the nature and objectives of the capitalist revolution are so fully understood that those with monopolistic capital estates look to the liberal tasks of leisure work as the socially useful occupations in which they should be engaged, will their clamor for full employment in the production of subsistence die away. It is a function of government to exercise its regulatory powers to facilitate this change.

Where the demand for labor is less than the “full employment” of all potentially employable persons, the incidence of “unemployment”—so far as subsistence work is concerned—should fall first upon the owners of monopolistic capital estates.¹⁰¹

¹⁰¹ It should be remembered that a principal consideration in the legislative determination from time to time of what constitutes a monopolistic capital holding

In the sphere of subsistence work a large number of mechanical tasks will always have to be performed in order to produce the wealth that will provide a generally high standard of living for all. Millions of mechanical workers will always be needed. For its educational effect, however, if for no other, every member of society should have the opportunity to engage in such work. In applying this general policy, nevertheless, two things should be borne in mind. Where the employment demand for mechanical workers is smaller than the number of employable persons seeking such employment, widespread participation in mechanical work is not possible for all except on a limited basis. Furthermore, where the aggregate demand for subsistence work is less than the “full employment” of those who either desire to engage in such work or who have no other means of participating in production, the proper regulation of a capitalistic economy would prevent members of households having capital estates of monopolistic size from further monopolizing participation in production by engaging in subsistence work for compensation.

During the period of the transition to Capitalism, the healthy growth of the economy as well as the enhancement of its stability would be best promoted by a steady upward movement of men from exclusively wage incomes to incomes more and more largely derived from capital property. This should, of course, begin with workers who, through experience and education, show themselves best qualified to become financed capitalists. There should be a steady movement from the ranks of the most important and responsible workers (including technical and managerial workers) into the group whose participation in production is largely or exclusively through the ownership of viable capital estates.

The extent to which households might combine the ownership of viable capital estates with the participation in production of one or more of their members as workers would be entirely dependent

is the excess of the number of persons seeking subsistence employment over those for whom viable employment opportunities exist.

on the needs of the economy for subsistence workers. The point at which regulatory limitations would discourage such combined participation would have to be determined legislatively as a matter of public policy from time to time and in relation to the prevailing state of technology and the desired standard of living.

Throughout the transitional stage, the objective of regulatory efforts should be to reduce the number of households dependent on the wages earned by one or more of their members to a figure commensurate with the number of actual, not “made,” opportunities for subsistence work in the economy. This would mean squeezing out all forms of “made work,” the featherbedding, the paid unemployment, and the technologically superseded jobs which are now artificially created and maintained by our policy of full employment. It would mean eliminating the jobs resulting from the subsidization of farm surpluses, from the making of unnecessary “defense” purchases, from “stock-piling” in excess of actual defense and normal production needs, and from all other programs that derive their real support today from the desire to multiply subsistence jobs as a means of promoting a laboristic distribution of wealth.

This, as we have already indicated, would be accomplished by a general upward movement within the economy, shifting the incidence of “unemployment” (so far as subsistence work is concerned) to the members of households having monopolistic capital holdings or viable capital estates approaching that magnitude. The maintenance of viable wage levels for those whose incomes are largely or exclusively obtained from subsistence work would be accomplished, not by the fixing of wages at higher than the competitively determined value of such work, but by eliminating from the labor market a number of workers equivalent to the number of those who have been technologically superseded under then current conditions.

One of the guiding aims of the capitalist revolution is that all men should become capitalists, *i.e.*, owners of viable capital estates, as early in their lives as possible. The more advanced the technology of our economy becomes, the earlier this should become possible for all men or, more exactly, for all households. Hence, during the transition period, the guiding policy should be to eliminate as

rapidly as possible all deterrents to technological advance, for these directly frustrate the promise which Capitalism holds out—the promise of an early release from wage earning by toil.

The small farms, thousands of which are technologically obsolete, must not be preserved as a drag on the economy. Many of these have long ceased to be capable of supporting a household in a freely competitive market. They can be preserved only at the cost of utter waste of human toil. The hundreds of thousands, perhaps millions, of workers who, through infinite varieties of featherbedding, are forced to maintain the pretense of producing wealth when they in fact do not should be given the opportunity to rise in their economic position. They should come to fill the places of others who have also moved upwards in the real economic importance of their work; and these, in turn, should move to the top of the ladder of subsistence jobs, filling the places of those whose capital holdings are viable and sufficient to enable them to transfer their energies to the liberal tasks of leisure work. Members of households who hold viable capital estates should increasingly, and members of households who hold monopolistic capital estates should exclusively, come to engage in such activities for the sheer satisfaction of doing so and not for the purpose of acquiring additional wealth.

As men shift from the ranks of labor into the ranks of capitalists, they would be followed by others who are moving toward such a change in their economic condition and, even more important, in the occupation or employment of their time, energies, and talents. The general upward tendency envisaged by the capitalist revolution is not only a shift from direct participation in production through toil to vicarious participation through ownership of capital, but also an elevation of human life itself from the unrewarding, extrinsically compensated tasks of subsistence work to the intrinsically rewarding tasks of leisure work, which men can gladly engage in without thought of financial compensation.

In all the pre-societies of the past, the fortunate few who belonged to the leisure class and had the moral and intellectual virtue to profit from their good fortune, engaged in the pursuits of civilization—in the liberal arts and sciences, in political and religious activities—for their own sake, not for financial returns. Virtue is not the prerogative of the few, certainly not of those whom good fortune, in the form of income-bearing property, emancipates from toil. When, in the transition to Capitalism, a larger and larger number of men are thus emancipated, the central task of liberal education, in school and out, must be to cultivate the virtues that prepare men for the work of leisure—work that is both harder and better than the drudgery of

toil.¹⁰²

Once the first stage of the transition to Capitalism has been completed and a balanced capitalistic economy has been established the objective of the various transitional programs, including that of creating new financed capitalists, should be to maintain a steady decrease in the proportion of households that are entirely dependent on wages and a steady increase in the number that are able to live on capital earnings. The rate at which these changes can be effected must, of course, correspond to the rate of technological advance.

In the first stage of the transition to Capitalism, the shift from participation in production through toil to participation in production through ownership of capital must be achieved as rapidly as

¹⁰² There may always be persons who, through mental or moral incompetence, fall below the level of life which, according to its own ideal, Capitalism strives to make possible for all. We may now greatly overestimate the probable number of such persons because we have not yet begun the process of educating men for life under Capitalism. Nevertheless, it remains highly probable that there always will be some. Such persons will necessarily have to earn their living in the performance of subsistence work; or, if they are unsuited for this, either by natural endowment or educational failure, then they will have to be the wards of a social security program designed to provide humane subsistence for them simply because they are human beings. But except for the unfit, which no society can hope to eliminate entirely, a capitalistic society will use every means to discourage dependence on the state for subsistence.

possible. Thereafter, the shift from being a worker to being a capitalist should be a more gradual one for most men and their households. This shift may occur for some men at a relatively early period in their lives and for others somewhat later, especially those who are not aided by inheritance, family gifts, or other transfers of capital.

Where a particular creative activity is receiving less attention and support than it warrants for the common good of our society, such activity may be encouraged directly through making income derived from performing it tax-exempt or through lowering the rate at which such income is taxed. Thus what may be by its nature purely liberal work, such as teaching, may earn a decent income, even though such work is intrinsically rewarding and should be done without extrinsic compensation by those who can afford to do so.

It is hoped that, with the advance toward Capitalism, the opportunity to engage in such work would be highly prized and sought for its own sake by more and more persons who do not need extrinsic compensation or need less and less of it. Where we have a great shortage of teachers today, we should, in a fully capitalistic society, have many who, engaging in the production of wealth vicariously through their ownership of capital, would delight in teaching—without compensation or even where they might be put to some expense in order

to do so.

What is here said of teaching applies to other forms of leisure work performed as vocations, not avocations. In an advanced industrial society with a fully capitalistic economy, it should be normal for ministers, research scientists, philosophers, musicians, poets, painters, lawyers, physicians, statesmen, and those engaged in mass communication, to carry on such purely leisure work for the inherent satisfaction and creative pleasure it gives them. The measure of their merit would not be the amount of income they derive from such vocations, but rather the excellence they achieve in their art and the significance of the contribution they make to the advancement of civilization.

In a balanced capitalistic economy, we should in general expect to see those young people who desire to do so enter into the field of subsistence work after the completion of their schooling. As they grow older, they would gradually become the owners of viable capital estates—through equity-sharing plans, through inheritance, gifts and other transfers of capital equities within families, and through the program of creating new financed capitalists. Consequent thereon, their economic need to engage in subsistence work for compensation would gradually diminish.

Their recognition of their obligation to participate in the hard, but intrinsically rewarding, work of civilization would be increasingly reflected in the forms of activity in which they engaged as they graduated from employment in subsistence work to employment in leisure work. At no point would they regard themselves as “unemployed” or as “socially useless” because they were not working to produce wealth. At no point would they “retire” or look forward to “retirement”; for in that conception of human life which Capitalism holds forth, retirement from socially useful activity is a refuge only for the mentally unfit or physically disabled.

Instead of looking forward to the nightmare and emptiness of “retirement” when they cease to be employed in subsistence work, men will from the very beginning of their lives prepare themselves for eventually turning to humanly better forms of employment; and as they gradually acquire capital estates, they will also gradually shift their interests from one form of employment to another. When at last their capital estates become large enough to provide a viable family income, it is to be hoped that they will hasten the day when they turn all their energies and talents to the performance of the liberal tasks of leisure. The number that do so will be the most critical measure of the effectiveness of education under Capitalism, as well as the best indication that a capitalistic economy is serving its

ultimate human purpose.



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