

## 14 MEASURES AIMED AT DIRECTLY STIMULATING AN INCREASE IN THE NUMBER OF NEW CAPITALISTS

### THE PRIMARY FUNCTION OF CREDIT IN A CAPITALISTIC SOCIETY

We have already discussed the possibility of greatly increasing the number of new owners of capital through the indirect device of equity-sharing. We pointed out that this could take place painlessly, *i.e.*, that it could be accomplished within the severe progressive corporate income tax rates to which we are accustomed. While there is some prospect that such corporate income taxes can be reduced to what is required for the basic costs of government as we approach our goal of a balance between production by capital and diffusion of capital ownership, there is little chance of tax reductions in our present mixed economy. The chances are all the other way.

Let us now consider the possibility of creating millions of new “financed capitalists”—men who have become acquainted with the principles of a capitalistic economy and whose acquisition of viable

capital holdings has been financed with something approaching the effectiveness of our present financing of the acquisition of consumer goods. The latter has facilitated the acquisition by consumers of 142 billion dollars of durable goods, nearly 250 billion dollars of residential housing, 54 billion dollars in farm lands, and 35 billion dollars in farm improvements.<sup>86</sup>

The view that an orgy of production is needed to keep our mixed capitalist economy functioning effectively is frequently stated in terms of an economic pie. We are told that the problem is not one of dividing up the economic pie, but rather one of making an ever larger pie. Neither is a correct statement of the problem. The task of a truly capitalistic society is to broaden the ownership of the pie-making machinery and to build a vast number of new pie-making machines that will be owned by people who do not now own such machines.

#### HISTORICAL PRECEDENTS

The explanations of “how capitalists got to be capitalists,” advanced during the last two hundred years, have of necessity been conflicting, implausible, absurd, and frequently even whimsical. Without an explicit formulation of the theory of Capitalism, and especially without the basic insight that capital is the major producer of wealth in an industrial society, any account of the distributive dynamics of Capitalism tended to be fragmentary and distorted.

One of the most widely accepted of the traditional explanations of how men become capitalists is that individuals by thrifty and sacrificial savings of sums earned by toil, combined with courageous, imaginative and shrewd investment, are able to build up

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<sup>86</sup> Estimates of wealth for 1952 by R. W. Goldsmith, *A Study of Saving in the United States* (Princeton, N. J.: Princeton University Press, 1956), Vol. 111, Table W-1.

capital holdings.<sup>87</sup> This is certainly a correct explanation of how many viable capital fortunes were *started*. But the explanation is valid only for the early beginnings of such fortunes; for with the tendency of capital to accumulate in a geometric progression, the period of sacrificial frugality is soon over. Furthermore, this traditional explanation has no application to the great number and frequently vast size of the capital fortunes built upon inheritances, family gifts, transfers through marriage, and other ways of acquiring an initial equity holding without any frugality or postponement of consumer satisfactions.

There are other explanations of how men become owners of substantial capital holdings. They range from one extreme of claiming that the successful capitalist is always a man of superior intelligence, if not a genius or wizard, to the opposite extreme of saying, as Julius Rosenwald did, that 95 percent of all large fortunes were the result of luck.<sup>8879</sup>

One thing is certain: not only has capital always been a producer of wealth, but its productiveness has evolved so far and risen so high in relation to that of labor that it is now the primary producer of wealth in an industrial society. Where private property in capital was fully respected as under the system of primitive capitalism, and even where it is respected only to some degree as in our present mixed capitalism, substantially all capital formation out of savings has taken place under the ownership of the existing pro-

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<sup>87</sup> For example, the Invest-In-America Committee, sponsored by the investment banking fraternity, whose motto is "Invest in American *for more and better jobs*," states in its 1957 campaign propaganda: "A million new jobs a year call for at least \$14,000 new capital investment per job—fourteen billion dollars per year! And at least another twenty billion dollars a year will be needed to maintain the plants and machinery providing the sixty-six million present jobs. Where is the money coming from? *From the same sources of capital that have provided it in the past... savings in the form of retained earnings of corporations and the savings of the American people... your savings, we hope...*" (Italics added.)

<sup>88</sup> See Gustave Myers, *The Ending of Hereditary American Fortunes*, New York, 1939: p. 236, Note 8.

prietors of capital. The reasoning behind this statement can be simply stated. If economic values, including the values of the respective contributions of capital and labor to production, are competitively determined, then the large incomes and the substantial savings will be those of the owners of capital.

So completely accurate is this statement of the relationship between the high wealth-producing power of capital and the ownership of new capital formation arising out of savings, that it has held in spite of the enormously discriminatory effect of the double graduated income taxes. In spite of the corporate income tax, which falls only upon the wealth produced by capital, and the graduated personal income tax, which falls much more severely upon capital incomes (because they are the largest incomes) than upon labor incomes, the bulk of new capital currently formed out of personal and business savings is acquired by the present owners of capital.

In a competitive economy, the acquisition of capital through savings from wages and salaries is wholly inadequate to maintain the balance between the growth in the number of capital owners and the growth in the productive power of capital. The power of labor to produce wealth is small. In the absence of monopolistically controlled wage levels, the productive power of labor is wholly inadequate to support a standard of living anywhere approaching that which prevails in the United States today. Even with artificially high wage levels, unless they were to rise to a point where they resulted in the total extinction of private property in capital, the withholding of sufficient labor income from consumption to diffuse the ownership of capital and to create a significant number of new capitalists would immediately precipitate a depression.

Even with the present wage levels of our mixed capitalist economy, designed as they are to shift some 70 percent of our national income to labor in spite of the fact that labor produces less than 10 percent of our national wealth, our savings institutions currently operate to separate the wage saver from effective ownership

of the productive capital in which his savings are invested. Savings made through life insurance policies illustrate this. The buyer of a life insurance policy or his selected beneficiary gets back, on the average, the fixed dollar amount representing the savings portion of his policy, plus a small fixed interest rate. The vast wealth produced by the factories and other capital instruments which are built on life insurance company loans accrues to the borrowers, to the insurance companies, to the self-perpetuating highly paid officialdom of insurance companies, and to the general recipients of laboristically distributed wealth. The life insurance buyer, instead of becoming a capitalist in the proprietary sense of the word, receives—in our inflationary mixed economy—the number of dollars he saved plus a small interest return, all duly devalued by the intervening inflation.

The same may be said for savings bank deposits and other forms of savings which do not result in direct equity ownership of capital.

The fact of the matter is that our entire attention has been concerned with providing a sufficient flow of funds into the formation of capital to insure the growth of industry, without regard to how the ownership of capital is diffused. At the same time, we strive to provide employment for all those who wish or need employment in order to support the mass consumption of goods and services. We have shown great imagination in the invention and refinement of credit mechanisms to diffuse the ownership of consumer goods because we have found that the broad distribution of consumer goods is a prerequisite to the effective functioning of a mass production economy and to satisfying the popular demand for a high standard of living. We have shown great poverty of imagination in the invention of credit mechanisms to diffuse the ownership of capital, for the following reasons.

(1) We have not yet become fully persuaded of the truth that widely diffused capital ownership is *an absolute necessity* in a completely capitalistic economy.

(2) We are still prone to the superstition that some people are destined to be owners of capital and some are not.

(3) In the few instances where something like credit financing of new owners of capital has been resorted to (*e.g.*, the 10 percent margin requirements for the purchase of equity securities prior to the 1929 market crash), the nature of the arrangement was conceptually inadequate to foster the growth of viable capital holdings and at the same time it failed severely to punish the use of this credit system to promote concentration or mere speculation.

The fascinating history of the laws dealing with the transfer of our public lands to private ownership provides something of an exception. As early as 1785, Congress considered an ordinance directing the Secretary of War to draw by lot certain townships in the surveyed portion of the public lands for bounties to the soldiers of the Continental Army. Under the Homestead Act of 1862, under various acts granting land bounties to railroads for pushing their systems into the wilderness, and under other acts for reducing the public domain to private ownership, nearly a billion acres of public land passed into private hands. It is to the results of the Homestead Act and of the federal and state laws relating to the patenting of mineral deposits that we may turn for one of the few examples our history affords of the art of creating, on a large scale, millions of private owners of capital.

Two basic conclusions may be drawn from the experience gained under these laws. (1) They were effective in creating millions of private owners of farms, ranches, mines and timber tracts. Had these same individuals been dependent on frugality and on sacrificial savings from the earnings of toil, few of them could ever have achieved such ownership. (2) These laws were conceptually inadequate to serve the objectives of Capitalism to the extent that they failed to prevent men from taking advantage of their provisions to create great concentrated proprietorships and to carry on wild and unscrupulous speculation.<sup>89</sup>

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<sup>89</sup> "Millions of acres of valuable timber, mineral, and grazing lands were literally stolen under the eyes of dishonest or negligent officials in the federal land office;

The lesson which can be learned from the history of the laws, relating to the transfer of land from public to private ownership must be read in the light of the pre-industrial, *i.e.*, agricultural, system of producing wealth during the period when most of the transfers took place. But the credit significance of these laws, which enabled the new private owners of land to “pay back” to the federal and state governments billions of dollars in taxes over the years, cannot be overestimated.

Those new individual owners of farms, ranches, timber tracts and mines may be looked upon as the pre-industrial models of tomorrow’s “financed capitalists.”

The lesson to be learned is that families who have no proprietorship of productive property but who understand the advantages of it can quickly shift from an environment in which they are wholly dependent upon wages from toil to one in which their income is in substantial part derived from their ownership of productive property. In spite of many failures through misfortune, mismanagement or profligacy, the Homestead Acts demonstrated that millions of households could learn to husband productive property, improve it, depend upon it and pass it on to succeeding generations of their families to do likewise.

Our experience with the transfer of public domains to private ownership refutes the claim that men who have not always been capitalists cannot be taught to become capitalists in modern society. Nor can it be said that the lesson of the Homestead Act and

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and other millions were wrested from the government by chicanery of one kind or another. In the history of political corruption, seldom, if ever, had there been transactions on a scale so prodigious or conducted with more brazen effrontery. Thousands of great fortunes in the East as well as in the West were built out of resources wrung from the government for a pittance or for a bribe to its officials, if not actually stolen. Nevertheless, in the process of dividing the national domain, millions of new farms were staked out. . . . Between 1865 and 1900 billions of new wealth were added annually to the national output” (Charles and Mary Beard, *A Basic History of the United States*, New York, 1944: p. 295). See also Frederick Turner’s “The Significance of the Frontier in American History,” reprinted in *The People Shall Judge*, Chicago, 1953: Vol. II, pp. 129-141.

the Mineral Patent Act is limited to the kinds of capital represented by farms, mines, and timber lands. Any household that could learn to exploit the productive value of a farm yesterday can learn to exploit the productive value of an anhydrous ammonia fertilizer plant, a cotton ginning factory, a frozen food processing plant, a lumber mill, a synthetic rubber plant, or of any other capital instrument today. There is nothing esoteric about the fact that a one hundred thousandth interest in a steel mill may produce far more wealth than full ownership of a farm.

Socialist writers and some American economists who are not aware of the socialistic implications of their views frequently try to distinguish between (a) private property in farms or in small craft industries (in which the owner must, or at least traditionally did, add his personal toil to his proprietorship of capital in order to produce wealth) and (b) the holding of an equity in a modern industrial enterprise (in which the owner need only add his voice as a stockholder). To equate this distinction with one between (a) "active proprietorship" and (b) "passive ownership," or with one between (a) being an actual possessor of property and (b) being only a passive recipient of some of its earnings, is to misunderstand the nature of property rights and to ignore the *productive activity* of capital.

In a pre-industrial society, toil constitutes more than 90 percent of all productive activity. But in our advanced industrial economy, toil furnishes almost none of the energy and but a minute fraction of the control that enters into production. By approving the wholesomeness of private property only where it is of such a nature as to require the personal toil of the owner, socialists have tried to make modern industrial economies conform to the productive and proprietary pattern of pre-societies. The financed capitalist of tomorrow cannot be expected to match the productive power of his capital with toil, for the productive power of labor cannot match that of capital. The very essence of industrialization is the elimination of human toil wherever possible.

There is one other, fairly recent, exception to our general failure to develop methods of financing the acquisition of viable capital interests. It is the farm finance system provided by the Federal Farm Credit System and by the Farmers Home Administration of the Department of Agriculture.<sup>90</sup>

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<sup>90</sup> The Farm Credit Administration, successor to numerous federal agencies designed to aid in farm finance, is an independent agency of the executive branch of the government. The system consists of 1,100 national farm loan associations, the stock of each of which is owned on a temporary basis by member borrowers, who purchase stock equal to 5 percent of their loans. The farm loan association then in turn purchases a like amount of stock in the federal land bank located in its farm credit district. The nation is divided into twelve farm credit districts. Farmers and ranchers may obtain land bank loans through their local farm loan association in amounts varying from \$100 to \$200,000. Loans are on the basis of 65 percent of the appraised "normal agricultural value" of the farm offered as security. Funds of the federal land banks are obtained primarily from the sale of consolidated federal farm loan bonds to the investing public. These bonds are not guaranteed by the federal loan programs. Rates of interest on the loans are established by the Farm Credit Administration in each district.

The Farmers Home Administration was established in 1937 as an agency of the Department of Agriculture for the purpose of providing credit for farmers who are unable—usually because of the marginal nature of their holdings—to obtain credit through normal banking channels. The Farmers Home Administration makes production and subsistence loans to farmers or stockmen to buy equipment, livestock, seed, fertilizer, supplies, and for other things which are in effect working capital. It also makes loans on a joint basis to two or more farmers to enable them to purchase heavy equipment, high-grade breeding stock, and like capital advantages which they could not afford on an individual basis. Loans are made on the basis of applications which are screened by a "county committee." These committees determine the character, ability, industry, and farm experience of the applicant. This Administration also makes farm ownership loans to enable the purchase of family-type farms and to improve and equip them. Loans are amortizable over a forty-year period, with a variable payment plan under which advance payments may be made in good years. The value of farms so financed may not exceed the average value of efficient family-type farms in the particular county.

The program of the Bureau of Reclamation in the construction of irrigation dams and distribution systems is only partially a credit program for the promotion of the formation of farm capital, since only about half of its costs are repaid by the farmers benefited.

Here is a case in which the power of government is used to assist the acquisition or increase of capital holdings by households engaged in farming. The system developed in response to the needs of small farmers whose operations have been rendered submarginal by the advance of farm technology, and to give relief to many small farmers who were impoverished during the depression.

The credit procedures of these farm finance programs are valuable sources for the studies that must precede the establishment of the financed capitalist program as a major step in the capitalist revolution. Unfortunately, however, the economic lessons to be drawn from our experience in providing credit to farm owners are mainly negative.

The federal farm credit system has operated to preserve and perpetuate productive enterprises that are highly inefficient when compared with well-capitalized large farms. Like handcraft factories, horse-drawn harvesters and sailing vessels, small farms have been technologically superseded by more productive agricultural enterprises with more efficient methods of production. Governmental efforts to preserve them, both through direct credit assistance and through buying the surplus commodities they produce, does not constitute a policy to be imitated in carrying out the capitalist revolution.

Not only has the farm credit program preserved the existence of the submarginal farm, but it has pegged the price of agricultural commodities consumed by the entire population at well above competitive prices, raising the costs of living for all and “jamming” the value-determining communication processes of competition in a large and important area of economic activity.

#### **CREDIT AND THE DIFFUSION OF CAPITAL OWNERSHIP**

Our mixed capitalist economy has developed highly efficient credit facilities by which a family may purchase a home costing \$20,000 with a small down payment, and in some cases without any down

payment at all. The loan, bearing a low interest rate, may be repaid in installments over a period of twenty-five years. Equally liberal credit is available to consumers who desire to purchase an automobile, or household equipment, or indeed any consumer item. These highly efficient consumer credit facilities have no counterpart which can now be used for the purpose of financing the acquisition of capital interests by households.<sup>91</sup>

The flourishing financing systems for the purchase of homes and other durable consumer goods, as contrasted with the negligible facilities for financing the acquisition of capital interests, cannot be explained by the greater inherent practicability of credit financing in the case of homes and other durable consumer goods. On the contrary, the differences between the credit financing of consumer goods and the credit financing of capital goods are conspicuously favorable to the latter.

The ownership of an interest in actively productive capital entitles the owner to the wealth produced by the interest, and under a completely capitalistic form of distribution, he would receive all the wealth his capital property produced. By its own earnings, the ownership of a capital interest can contribute to the ability of the owner to discharge the debt incurred in its acquisition. The ownership of consumer goods provides a household with enjoyment, not

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<sup>91</sup> The New York Stock Exchange has sponsored a system for the purchase of equity securities through monthly payments. However, the purchaser through this plan merely organizes his purchasing of shares in small quantities as odd lots. It is not a system of credit or installment financing for the acquisition of substantial holdings of equities. Indeed, the Federal Reserve System rigidly limits the "margin," or difference, between the full market value of a security listed on a registered exchange and the maximum loan value. These margin requirements have varied from 50 percent to 100 percent since 1934, and at the present writing are 70 percent. Margin loans are useless as a financing device for acquiring equities as investments, since the loan can be "called" at any time by the bank, and if the stock drops in market value, the owner is of necessity forced to put up enough additional cash to make up his margin. Margin loans are usable only by speculators, and the restrictions on them are intended only to restrain speculation.

with income.<sup>92</sup> Thus houses and other durable goods, as well as many other consumer items, if purchased through credit, must be paid for wholly out of earnings derived from other sources. The financing of the purchase of capital interests, or equity stockholdings representative of productive capital, is therefore a far simpler transaction, for the buyer's ownership of the capital is itself some insurance of his ability to pay.

To put it another way, in an economy in which seasoned corporations would be required to pay out their earnings to stockholders, the yield of securities could be expected to be materially higher than they have been in the past. Any system of credit which enabled an individual to acquire a viable capital interest through being able to borrow the purchase price (normally secured by a pledge of the securities) at an interest rate lower than the average net yield of the securities, would therefore enable the equity holding to "pay for itself."<sup>93</sup> This is never true of the purchase of consumer goods on credit.

One further fact is worth mentioning. The easiest equities to finance through long-term installment purchase plans or long-term loans, where the earnings of the securities can be expected to amortize their purchase price, would of course be those of the largest, best-established, and most stable corporations, *e.g.*, the equities of public utility corporations. Thus, an overall program for facilitating the development of a great number of new financed capitalists

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<sup>92</sup> Whether a particular item is a consumer item or a capital item depends, of course, upon the purpose for which it is held. A residence held by a household as a place in which to live is a consumer item, while a residence owned for purposes of rental to others is, from the standpoint of the owner, a capital item.

<sup>93</sup> The prices, in a freely competitive market, for equity securities which return to their owners the full economic yield of the capital they represent might or might not, on the average, be higher than under our present mixed economy. It must be remembered that a continuous—a deliberately continuous—dilution of the concentration of ownership would take place through the constant seeking by corporations of new funds in the market, rather than from internal sources and loan sources as at the present time.

might well require that securities meeting particular investment tests be given a preferential rating. This, in turn, would give those seeking to assemble viable equity holdings a priority on original issue over those whose capital interests have reached monopolistic magnitude. From everything which has been said, it should be clear that a credit system intended to bring into existence millions of new financed capitalists should be designed to create viable equity holdings and be absolutely unavailable to those whose ownership of capital is already monopolistic.

### **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.<sup>94</sup>

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

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<sup>94</sup> 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.<sup>95</sup> 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.<sup>96</sup> 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

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<sup>95</sup> 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.

<sup>96</sup> 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 bans 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.<sup>97</sup> 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

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<sup>97</sup> 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.<sup>98</sup>

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

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<sup>98</sup> 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 ob-

served 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.<sup>99</sup>

### 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

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<sup>99</sup> 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.

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.<sup>100</sup> 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

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<sup>100</sup> 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.<sup>101</sup>

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<sup>101</sup> 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

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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 technol-

ogy 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.<sup>102</sup>

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

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<sup>102</sup> 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.