EQUALITY OF ECONOMIC OPPORTUNITY THROUGH CAPITAL OWNERSHIP

By Louis O. Kelso and Patricia Hetter

"Men in Cadillacs meet at champagne lunches to plan our future while expecting us to stand hat in hand," an inner city minister from Chicago told a House Education and Labor subcommittee in April 1965, and in April 1966, Sargent Shriver himself was unceremoniously routed by the poor from a Washington, D.C., poverty conference where the keynote complaint was bawled into the microphones by Mrs. Johnnie Tillman of Watts. "When all this poverty money is spent," shouted Mrs. Tillman to applause, "the rich man is going to be richer and I'm still going to be receiving a welfare check."

These rumbles from America's poverty craters signify that the impoverished resent being rehabilitated by their "betters"—and even suspect that the poverty under attack in the Anti-Poverty War is mainly their betters' own.

To understand such rank ingratitude, we must remember that the economic objective of the poor in an affluent society is exactly the same as everyone else's: to be *affluent*. The sociological jargon of the poverty investigator obscures this fact. It also obscures the special peculiarity of the poor, that unique characteristic of their caste that fatally distinguishes it from every other caste: namely, lack of money. "There's One Thing Money Can't Buy: Poverty!" reads the legend on J. Paul Getty's paperweight. This great truth should be emblazoned on the shield of every poverty warrior. The poor lack money. They lack money because they do not know the secret of producing wealth. They know it is possible to be old, unemployed, uneducated, lazy—even disabled or bedridden—and still be excessively rich. But you have to be in on the secret, and the poor by definition are not.

What the poor man wants is an end to his poverty. Charity, handouts, even his own personal social worker, have no appeal. Even if humiliation has crushed his spirit, or he has learned that what he can produce in the economy on *its* terms is not worth *his* effort, he hates being dependent on the ephemeral good will of others. Experience has taught him that the bread of charity is not even bread, but crumbs, and that distribution when measured by need is, has been, and always will be niggardly.

In practice, charity is always niggardly because people are incapable of judging the needs of other people to be as great as their own. This is true whether the dispenser of affluence is a Soviet commissar, an American politician, or one's own rich Great-Aunt Maud.

To be sure, the compassionate man is prepared to do much for the poor. He will feed them, clothe them, teach their children, bandage their sores. He will live for them gladly and die for them with grace. He will do everything under heaven for the poor except give them what they yearn for most—the secret of his ability personally to produce the wealth that enables *him* to serve *them*. At that juncture, the compassionate man—and the compassionate society—always back off. And this the poor man knows.

The theme of the government anti-poverty program is “economic opportunity."

“I don't believe the Government owes you a living," Vice President Humphrey told eighty trainees at the Camp Kilmer Job Corps Center dedication. “I don't believe the Government owes you a salary. But I do believe the Government owes you the opportunity to make something of your lives."[1]

Writes Sargent Shriver in *Point of the Lance*: "But no one connected with the poverty program proposes to equalize life's burdens. Helping the poor help themselves is the keynote of the President's program. It does not offer handouts; it offers opportunities. It is concerned with creating the conditions under which the child born into poverty can have the chance to help himself, to compete on equal terms with those lucky enough to be born into affluence."[2]

These are authoritative Great Society utterances. The burden of them and of the President's Message on Poverty transmitting the Economic Opportunity Act of 1964, is that economic opportunity is a responsibility of the federal government. It would be difficult to argue otherwise. The right *effectively* to participate in the economy would seem to be a corollary of the right to life and the pursuit of happiness. A citizen excluded from making his living, somehow prevented from taking a significant part in the production and distribution of goods and services, could not sustain life very long, much less live it. Therefore, economic opportunity would seem not only a constitutional, but a natural right, valid for all men, everywhere, at all times.

In practice, however, the question is local. The nature of opportunity depends upon the conditions in a specific economy—its resources, state of technology, physical development, and potential. It is a matter of how wealth is currently produced, of how the livings of substantial and honorable citizens are generally made. What represents opportunity in one economy (for instance, owning a herd of reindeer) would be useless or irrelevant in another. What represented opportunity in the past may be anachronistic in the present. No one connected with the anti-poverty program suggests apprenticing young men as blacksmiths or harness makers, or providing them with thirty acres and a mule. In 1840, the slogan “6-1/4 Cents a Day and Sheeps Pluck to the Laborer under Van Buren—2 Dollars a Day and Good Roast Beef under General Harrison" helped elect a president, but it would hardly win any votes today.

Besides being temporally appropriate, economic opportunity implies favorable prospects for producing a reasonably good and dependable living. While many well-fed people deny that intellectual and spiritual life has any connection with such a vulgar organ as the stomach, or that culture has anything to do with the financial ability to buy and maintain, say, a grand piano, or to pay the music master, the fact is that living in “decency and dignity" is impossible without a stable source of income. Legitimate economic opportunity must offer at least a fair chance of providing it.

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1 *New York Times* (March 14, 1965).

2 Sargent Shriver, *Point of the Lance*, Harper & Row Publishers, Inc. (New York, 1964), p. 98.

Thus, while the Goddess Fortuna rules all, enterprise counting too heavily on her favor is not genuine economic opportunity. Large sums are won all the time in football pools and horse races, and many countries (and a few but growing number of our states) use lotteries to divert the people from the hopelessness of their situation; but the opportunity such events provide is illusory. So is the chance to "compete" for a job, for all except the winner, if too many persons want it. Not long ago, a San Francisco union ran a tiny classified advertisement announcing eight openings on its roll—and hundreds of men showed up. In London a few years ago, an industrial federation in need of an economist, found that the Ministry of Labour and the University of London alone could immediately supply forty economists theoretically capable of doing the job. No attempt was made to check the “human resources" on deposit in such institutions as Oxford, Cambridge, the London School of Economics, or the provincial universities. Instead, the thirteenth man interviewed was given the job—on the theory that at best the other twenty-seven would prove only equal to No. 13. The post paid £500 a year. That so many well-educated and qualified men should have been eager, indeed desperate, to compete for what they all knew to be a mediocre and dead-end job, eloquently defined economic opportunity for economists in Great Britain at that moment.

Incidents like this are commonplace not only in Great Britain, but in Italy, the Philippines, Greece, Latin America, wherever the number of persons qualified by education and training is greater than the economy can support in a style commensurate with the social status traditionally associated with persons of their accomplishments. They show that education per se is not economic opportunity, although some professional educators toil mightily in the anti-poverty vanguard to implant the notion that their specialty is the key to the golden door. Certainly, enough federal billions spent in support of this fallacy will keep the young off the labor market and the wolf away from the door of the professional educator.

But the poor man, let us remind ourselves once more, is not interested in being used to solve the poverty problems of others. He is interested in solving his own poverty problem. As a citizen of the richest and most fortunate nation in the history of the world, he is interested in learning how he can be rich and fortunate instead of poor and miserable. His hope is to find out how wealth is being produced in the United States in his time, so that he can produce some of it for his own benefit and enjoyment and that of his family and his heirs.

One might expect such valuable and relevant information to be at least touched upon in a congressional enactment entitled the "Economic Opportunity Act of 1964." But the poor man will search its fine print in vain for the secret of how ‘the well-being and prosperity of the United States have progressed to a level surpassing any achieved in world history."[3] About the source of this well-being and prosperity nothing is said. Indeed, in his Letter of Transmittal to Congress, the President of the United States is as coy about telling the electorate where affluence comes from as a Victorian parent telling his children where they came from. We just "grew" to be the richest and most fortunate

[3] *Economic Opportunity Act of 1964*, Section 2.

nation in the history of the world; what caused the growing, the Economic Opportunity Act does not confide.

While the words "job" and “work" stud the 19-3/4 pages of this document like raisins in a pudding, the word "capital" is not used once. A visitor from another planet could read the Act from beginning to end without ever learning that there exists within the boundaries of this spanned continent any such thing as physical capital or the non-human factor of production. Much less would he suspect the presence of almost $3 trillion worth of it. Or that this aggregate might be related to the nation's historicalIy unprecedented well-being and prosperity.

The Economic Opportunity Act neglects to mention that 180 years ago, when "we were a small country struggling for survival on the margin of a hostile land," Watt's first steam engine and the Wilkinson boring mill (the first basic machine tool) were still not a decade old, and Cartwright's power loom was on the eve of being announced. Even half a century later, though industrial technology was gaining momentum and breakthroughs in science, chemistry, metallurgy, precision measurement, and mechanics were remaking the face of England, and the winds of the Industrial Revolution were sweeping toward our eastern shore, Americans were still providing themselves food, clothing, and shelter with simple hand tools—essentially the same ones that their forebears brought from Europe. Axe, hammer, bellows, anvil, knife, plow, flax spindle, loom, spinning wheel—simple capital instruments like these had kept generations of Europeans fully employed. Unfortunately, the process hardly yielded daily bread. For the great majority of men, doomed to toil for others or to squander their labor on farms too small and poor to provide more than subsistence, life everywhere was a struggle for survival.

It might be salutary for a generation desiring to collect the scattered hopes of the American past to remember what kind of opportunity America once represented to the poor. At its best, it was something infinitely more precious and rare than a job. It was the opportunity of claiming title to some kind of productive property. The most violent hope of the American past, still ungathered and every day more scattered, is not merely the hope of using one's energies in productive work. It is the hope of freeing oneself from the compulsions and indignities of economic necessity by producing one's livelihood to a substantial extent through ownership of capital.

Economic opportunity in the American past was land—unclaimed, uncultivated, unexploited earth and forest—that would reward the resourceful and industrious for their hardship and toil, instead of breaking their backs and hearts for nothing. Our ancestors understood, as we apparently do not, the truth of the Russian proverb: "Work does not make a man rich, but round-shouldered." And beyond abundance, although secured by it, was the ultimate opportunity—the opportunity forever beyond the reach of the employee or tenant: autonomy. The pulled forelock, the doffed cap, the bent knee—most of our ancestors were well rehearsed in these outward signs of economic subservience, and they wisely addressed themselves to repairing their dignity by improving their estates.

Not all of these ventures ended happily, nor did all of the immigrants achieve the independence of landowners or small proprietors. The New World was still a long way from Cockaigne, the folk paradise where fritters grew on trees and dropped into lakes of syrup. An elderly Latvian woman remembered her bitter disappointment as a girl to discover that for her the golden door of America led only to twelve hours a day of subsistence toil in a New York hat factory. For persons owning nothing but their power to labor, the outlook has rarely been enviable anywhere. The economic opportunity offered by America, Canada, South Africa, Australia, and other popular emigrant destinations of the last century, was strictly relative, and its terms were often cruel; but within the context of a primarily agricultural economy requiring large amounts of labor, it was fairly genuine and positive. If the door to the ultimate prize, land property, was not wide open, at least it was ajar.

But economic opportunity, we have said, is related to the way in which goods and services are produced. *If the means undergo a change, then the nature of economic opportunity must also change*. The agricultural economy of the last century was rewrought by the Industrial Revolution, and now the Cybernetics Revolution is recasting the industrial economy. In both revolutions, the agent of change is technology embodied in capital instruments. Productive wealth in the United States today is in the form of machines, structures and land. Not "human capital" but non-human capital has transformed the quality of life. To it is owed those opportunities which have in fact expanded—opportunity for leisure, for education, for cultural pursuits, for travel. But at the same time, the triumph of the non-human factor has diminished economic opportunity as our forebears understood it. Predominantly, economic goods are most efficiently produced and distributed by large, incredibly expensive aggregates of capital instruments organized into appropriate patterns through large corporations; within them, the labor power of human beings other than key management is of diminishing importance. Work cannot be pushed onto machines and still be performed by men. To coin a proverb, "You can't automate your job and have it, too."

Even if economic growth were to expand at a rate sufficient to provide real work for everyone who wanted or needed it, work is no longer the first step toward acquiring capital. The day of the self-made man is waning. Every day the small farmer, the small businessman, the small proprietor, finds it more difficult to exist. Saving one's way to capital ownership was never easy, but it used to be done just often enough to perpetuate the illusion that it could be done by anyone sufficiently toilsome and parsimonious. Today, only a few highly paid professionals can save enough to acquire an income-producing capital estate.

For a long time now, the avant-garde of science and technology has been telling us—warning us—that in our lifetime we are witnessing five millennia of drudgery draw to a close. Even if we choose to ignore men like Dr. Richard Bellman (the Rand Corporation scientist who predicts that within twenty-five years our vast capital plant can turn out all the goods and services the entire economy can consume with the assistance of only two percent of the labor force), it is obvious that a revolution is going on. Not in our "manpower resources," as the Department of Labor pretends, but in our capital instruments.

In his open letter to the President, published in *Datamation*, Dr. Louis Fein, a pioneer computer designer, builder and consultant, tactfully inquires: "Isn't it plausible that U.S. science and technology is advancing at a sufficiently great rate that at some instant soon we will have just one more person than we need, then two more, then ten more, then thousands more, then 3.5 million more, then tens of thousands more. . . ? Is it not imperative that we start right now seeking alternative viable economic policies for coping with such contingent conditions—instead of gambling that the" roof won't fall in?"[4]

But poor though the outlook for mass employment may be, the question of economic opportunity is not necessarily related to the number of jobs available, or even to employment. The decisive question, to repeat, is: *How is wealth actually produced?* While research that would measure the respective contributions of labor and capital remains unproposed and undesigned, we can deduce which of the two factors plays the dominant role.

We know, for instance, that the annual three percent increase in output per man-hour must be credited mostly, if not entirely, to capital instruments. We know that capital expenditure per employee is constantly rising—that it averages $10,000 in the gas and electric utilities industry, for example, and that in other industries the figure is as high as $300,000 per employee. We know that new plant and equipment expenditures have set records every year since 1961, and that projections for 1967 promise a new record of almost $65 billion.[5] We know also that while the estimated market value of land in the United States in 1964 was $16.8 billion, the value of structures (i.e., land improvements) and other reproducible assets was over $81 billion.[6]

And finally, we know from reading, from experience, and from observation which factor of production is being displaced by technonogical change. Not capital primarily. Technology is its lifeblood. Technology raises the productiveness of capital instruments and paves the way for more to be formed. Technology thus favors the capital owner. Its effect is to make his economic role ever more profitable and secure.

Since technological change increases only the output of capital, and since every round of new plant and equipment spending only speeds up this process, genuine economic opportunity must be linked to capital ownership. A job will not unlock for its holder the full potential largesse of the economy. With rare exceptions, households entirely dependent on their labor cannot produce enough purchasing power to buy the things they

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4 Louis Fein, “Dear Mr. President,” *Datamation* magazine (January 1965).

5 *Business Week*, February 11, 1967.

6 R. W. Goldsmith and R. E. Lipsey, Studies in the National Balance Sheet of the United States, Vol. I, Table 11, extended to 1964 by J. W. Kendrick, assisted by J. Japha, The Morgan Guaranty Survey (New York, Morgan Guaranty Trust Co., August 1966), p. 8. While about $25 billion of the reproducible assets were residential structures, a substantial portion of these are rental structures and thus properly classified as productive capital rather than consumer goods.

want to consume—things the economy could produce with ease, but does not because of inadequate purchasing power of those with unsatisfied wants and needs. Economic participation through labor alone is inadequate and uncertain. Only families owning viable capital estates can drink the pristine waters of affluence directly from the source. The labor-dependent must wait, often hat in hand, for affluence to trickle down—and the farther down it trickles, the thinner it gets.

There is more to life than material well-being. Who would claim that the wholly wage-dependent family enjoys the dignity, the security, the range of choice, and the autonomy (not to mention the leisure and freedom) of the family even partially supported by capital ownership?

If employment no longer represents full participation in the production of goods and services (assuming it ever did), then economic opportunity cannot merely consist of job training. In a capital-dominated economy, labor-centered measures *are inadequate*. Creating jobs, training people for jobs, retraining people for different jobs, matching people and jobs—all of these miss the mark. The opportunity most appropriate to an industrial economy is the opportunity to acquire a viable interest in the increasingly productive factor: *capital*.

The Economic Opportunity Act of 1964, of course, does not provide—nor even mention—any such opportunity. Although capital ownership is most emphatically a social opportunity (indeed, a socially created opportunity), it is evidently not one which society is prepared to share with those who are not already capital owners. All non-owners may share is the economy's toil. The message this Act delivers to the plain man (by definition, one who owns nothing but his power to work) is something less than inspiring. It tells him that "economic opportunity" for *him* consists of a job, or the chance to train for a job. This is as high as he may aspire. He may not aspire to ownership of the capital instruments that are obsoleting his labor. His economic contribution must be made through labor, or not at all.

Even at best, assuming that its vocational training is successful and that all its graduates find employment, the Economic Opportunity Act dooms those "aided" to a life of low economic productiveness, with its resulting semi-poverty, insecurity, and dependence on organized coercion to force their employers to artificially elevate wages or salaries.

"I had to forget my seniority and start all over again," said a Pennsylvania glass-cutter after automatic glass-cutting machines converted him into an unemployment statistic. By going back to school for twenty-six weeks under the Federal Manpower Development and Retraining Act (while his family of six got by on a $33-per-week federal allowance, a little service pension and $15 worth of surplus food a month), this spunky and energetic man, "marvelling at his luck while sympathizing with 3,200 of his neighbors still unemployed, "finally got a new job paying $20 a week *less* than his old one."[7]

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[7] *Life* magazine (July 19, 1963), p. 69.

In its summary of the so-called "Manpower Revolution," the Clark Committee concluded: “The time appears near at hand when the average worker cannot expect to continue a single occupation for a working lifetime. Even if the occupational title does not disappear, the occupational content over time is likely to change completely."[8]

Let us consider, then, the fate in store for that fortunate fellow: the *employed* worker. This is what he has to look forward to—a lifetime of shedding his vocational skin, of periodically being stripped of his habits and skills, of being trained and retrained, advised and revised, remodeled, revamped, rehabilitated, doled, redoled, retreaded, rerouted, relocated, uprooted, and replanted. And behind him all the while that "untiring foe of all skilled manpower: obsolescence" pants hotly down his neck. Indeed, rather than providing him with economic opportunity, the Act of that name seems designed to make the poor man do penance all his life for the sin of being born into a non-capital-owning family.

Meanwhile, the political and financial arrangements that visit the sin of the fathers upon the sons (i.e., non-ownership of the economically most productive factor) go unchanged and even unchallenged. And yet the children of the capital owner come into the world as naked of property, as innocent of the ability to manage it, as the child of the lowliest pauper! It is the institutions of society, not parental genes, that bestow the blessings of ownership of productive capital. Yet Sargent Shriver has declared that the federal anti-poverty program is concerned with "creating the conditions under which the child born into poverty can have the chance to help himself, to compete on *equal* terms with the child lucky enough to have been born into affluence."[9]

If we may assume with Aristotle that equality is for equals, let us analyze our richest and most fortunate citizens in the same detached scientific spirit that characterizes the dedicated poverty investigator. But instead of, "Why are the poor, poor?," let our question be, *"Why are the rich, rich?"* To our surprise, we discover that the hard-core structural poverty at the bottom of the social pyramid has a counterpart at the apex. Let us call it *hard-core structural affluence*. And then we discover something else: the existence of a profound causal relationship between hard-core structural affluence and ownership of sizable pieces of productive real estate or large blocks of corporate shares in such concerns as those listed on the boards of the New York and American Stock Exchanges, or other viable holdings of the non-human factor of production. This association occurs much too regularly for chance. Indeed, the connection is so common that affluence can be described as a *function* of capital ownership.

Moreover, our study of the rich and fortunate discloses a very close correlation between ownership of productive capital and the most gainful and rewarding employments. This

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8 “Toward Full Employment: Proposals for a Comprehensive Employment and Manpower Policy in the United States,” Subcommittee on Employment and Manpower of the Committee on Labor and Public Welfare, United States Senate (Washington, D.C., U.S. Government Printing Office, 1964), p. 19.

9 Sargent Shriver, *op. cit.*, p. 98.

finding is further substantiated by the Economic Opportunity Act. One searches it in vain for measures designed to provide economic opportunity to the capital owner. Nobody proposes to educate, train, or rehabilitate either him or his children, even when their "unemployment" is notorious. Evidently the capital owner's skills and talents are fully developed by the opportunities provided by capital ownership itself. The conclusion is corroborated by the large numbers of capital owners we find employed as corporate lawyers, stockbrokers, bankers, managing directors, corporation presidents, cabinet members, government department chiefs, ambassadors, governors of sovereign states, and presidents of united ones.

This being demonstrably so, it would seem that an effective anti-poverty program, instead of seeking to share the poverty of an economy many times too small to provide the majority with real affluence (i.e., the standard of living enjoyed by the ten percent of households at the capital-owning apex) would seek to (1) greatly expand the existing economy and (2) finance this "second economy" in ways that would enable those who own none of the existing assets to buy and pay for equity shares in the new or expanded industries. Instead of matching men and jobs, it would seek to match propertyless, labor-dependent households with portfolios of corporate securities or other viable capital holdings capable of providing, in time, a "second income" from dividends. Within the context of private property, this means providing equality of access to ownership of the economy's newly formed capital. And unless we wish to perpetuate our economic double standard (one kind of opportunity for the rich man, another for the poor), families without capital *must* have the same "opportunity" to acquire capital ownership without tightening their belts and reducing their (already minimal) consumption. In short, means need to be found to enable the poor man, who cannot afford belt-tightening, to finance the acquisition of newly formed capital in the same manner as the rich man, whose consumption is not necessarily restricted by his capital-acquiring activities.

In comparison with the financial feats we are performing daily by the millions, such a policy would be child's play. An economy that has developed techniques to credit-finance a house, every kind of appliance, a holiday in Hawaii, even a weekend in Disneyland, will find it easy to finance the things that produce income. Productive capital is inherently financeable. Newly created capital instruments (plants, equipment, etc.) in well-managed enterprises, with negligible exceptions, in a few years produce net income equal to their cost and then go on to produce income for owners for years. Consumer goods, by contrast, produce no income.

Our remarkable credit techniques, developed to narrow the purchasing-power gap, in the long run only widen it. Service and interest charges reduce the spendable income of the consumer. How much wiser it would be to use these familiar and highly developed techniques to finance the acquisition of income-producing capital for every household in America, thus enabling them to consume the abundance our industries are ready, able, willing, and eager to produce, if only they could find enough customers with dollars in their pockets, or even unsaturated credit.

If, after embarking on this objective, the government still has time to engage in training, it might train the propertyless in one of the chief skills required in an advanced industrial economy: the care and management of one's productive capital, or in the art of selecting competent advisers and fiduciaries for this purpose.

As for retraining, we might well begin with those in our society who, though they already possess large capital estates, persist in setting examples of economic toil and greed for more accumulation, instead of inspiring the rest of us to a more noble use of wealth and leisure.

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