1 Introduction and Definition of Terms

In *The Capitalist Manifesto,* which we published previously, we outlined a practical program for bringing about the economic changes needed to transform our present mixed economy into a truly capitalist society. Among the measures proposed, one of the most important was the plan for creating new capitalists concurrently with the formation of new capital. This essay, devoted to explaining the financed-capitalist plan, is an attempt to advance our practical thinking about capitalism. It does not add anything except evidence of feasibility to the theory of capitalism as outlined in our earlier book.

Briefly summarized, that theory involves the following propositions: (1) both labor (the human factor) and capital (the non-human factor) are *producers of wealth in the same sense;* (2) the *productiveness* of labor, except for temporary interruptions, has been declining since the dawn of civilization, and the productiveness of capital has been—both relatively and absolutely—increasing, as has the amount of capital employed in production; (3) technological change is the physical process by which the burden of producing wealth is gradually shifted from labor to capital; (4) political and economic freedom in an industrial society depend not merely upon each household's being entitled to *consume* economic goods but upon each household's being entitled to *produce* economic goods;

and (5) as labor progressively produces less, and capital progressively produces more, of the gross national product, a growing proportion of all households must participate in production through their ownership of capital and a diminishing number must depend upon the earnings of their labor. (Unemployment, in short, is natural and desirable in technically advanced economies. The task of a capitalist economy is not to fight unemployment at any cost, like a plague. Rather, its objectives should be to make certain that normal technological unemployment falls upon those who can afford it, and to whom it should be the greatest of blessings.)

Two facts must also be kept in mind. The first is that capital produces at least 90 percent of the gross national product in our economy; yet all but a small fraction of the capital instruments are owned (for the most part indirectly through share ownership) by 5 percent of the households of the economy. The second fact is that in spite of this concentration of apparent ownership, 70 percent of the income produced is distributed through labor.[1]

These two facts plainly indicate the extent to which private property in capital has been attenuated in its rights. They reveal the extent to which the ownership of capital is being socialized in the American economy. Similar erosion of private property in capital is taking place in all of the industrialized economies of the free world.

It will be our thesis in this essay that our conventional methods of financing corporate enterprises inevitably lead to the socialized ownership of capital. We will try to show that this results from the rigid linkage between the ownership of existing capital and the acquisition of newly formed capital.

The conventional methods of financing new capital formation involve a systematic concentration of the ownership of productive capital. Since a constantly increasing share of the wealth of the economy is produced by capital, the rights of concentrated owner-

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[1] See *The Capitalist Manifesto*, pp. 269-270.

ship arising from conventional finance must be invaded, eroded, and attenuated, if not eventually destroyed; for to give full effect to the rights of such highly concentrated ownership would be to aggregate the great bulk of the annual income of capital in the hands of the capital-owning 5 percent of the households. The ultimate consequence of this would be the disappearance of the mass purchasing power so essential to the maintenance of our mass-production economy. The majority of our population would be plunged into poverty. This, were it to happen, would verify Marx's prediction that capitalism, sowing the seeds of its own destruction, will eventually destroy itself.

The socialization of capital which has gone on apace in the last thirty years has one thing to its credit: it has staved off the immediate failure of our economy as a result of the concentrated ownership of capital. But we do not believe that, in order to save our economy, it is necessary to socialize the ownership of capital. In our opinion, unprecedented economic growth and the restoration of full integrity to private property can be simultaneously brought about by minor changes in our business-financing techniques—changes that will cause them to create a capitalist, instead of a socialist, pattern of ownership. Corporate finance can be made simultaneously to create growth in the number of private owners of capital and growth in newly formed capital. The only limits to growth in either respect would be our manpower (a limitation that is more theoretical than factual), our resources, know-how, and our desire for wealth.

We believe that the existence of a free society in an industrial age depends upon the adoption of the proposed changes in our techniques of financing capital formation. In the course of the following essay, we will deal with other implications of our proposals and with their far-reaching significance.

We will confine ourselves in this essay to fundamental principles that can be simply stated and that have broad application in

the field of financing new capital formation. We will try to avoid the use of narrow and specialized terms. Nevertheless, the following simple definitions may be helpful.

A. WEALTH

Wealth consists of anything that is treated as wealth in a society, *i.e.*, anything that is offered for sale or exchange, and for which a demand on the part of potential buyers exists. It includes both goods and services.

There are two radically different kinds of wealth. One, which we may call consumer goods, consists of things or services held or intended for the satisfaction of human wants by the consumer of such goods or services. The period over which consumer goods may render satisfaction can, of course, vary substantially. Food or a service may be wholly consumed at the time of its use, whereas a house or a table may render service to the consumer for decades.

The other basic kind of wealth is capital. Capital items are things held or intended to be used not for immediate satisfaction of human wants, but to produce other goods or services. Capital wealth includes everything used to produce wealth except labor; it is *the non-human factor of production*. The varieties of capital are great indeed, and include such unlike things as land, stores, factories, residential buildings held for rental, tools, machines, railroads, airplanes, ships, mines, etc.

It is both common and practical to include money and credit within the definition of capital, although in the physical sense, neither is productive. The reason for this is that money and credit, being part of our medium of exchange and *representative of wealth*,

can be speedily converted into productive capital wealth.[2] Furthermore, business practice makes a certain amount of working capital—money or credit—as necessary in the actual production (including distribution) of wealth as any of the forms of productive capital.

B. SAVINGS

The term "savings" is used both in a financial and in a physical sense, but more commonly in the financial sense. It means, in the financial sense, money or credit diverted from immediate use for consumption. Although from the standpoint of the individual saver, savings may be held in the form of money or credit and not used to purchase capital goods, such "sterilization" of savings is and must necessarily be relatively rare. Rather, personal savings are normally invested in capital goods or in a bank, pension fund, insurance company or other financial intermediary which, in turn, perhaps through other financial intermediaries, "invests" or uses the purchasing power thus represented to buy an interest in wealth-producing capital goods.

In the physical sense, "saving" is simply the use of goods or services to produce capital goods rather than for immediate consumption.

Personal savings are savings by individuals. Business or corporate savings are made up of the wealth produced by business or corporate capital that is retained as working capital, or is applied to the acquisition of further capital goods—in the graphic term of the financial world, "new capital formation."

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[2] Aside from the factor of risk, this is, of course, the basis for the charging and payment of interest.

C. INVESTMENT

The act of using money or credit to acquire, either directly or indirectly, an interest in productive capital is called investment.

D. CAPITALISTS

This is a working definition. Its reasonableness and practical significance are fully apparent when one begins to understand the implications of the theory of capitalism. A capitalist is a member of a household which derives not less than half the amount the household spends on consumption from the ownership of capital, *i.e.,* from interest, dividends, rents, royalties, and the like. Not over 1 percent of the households in the American economy would be capitalist households under this definition.[3]

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[3] Joseph Livingston, in his book *The American Stockholder* (1958), p. 35, estimated that about 650,000 households in the economy derive half their income from capital sources.