

6 POLICY CONSIDERATIONS IN GRANTING LOANS UNDER THE FINANCED-CAPITALIST PLAN

Under the financed-capitalist plan, let us imagine an investment banker counseling his client (an entrepreneur who wishes to launch a new enterprise or to increase the capital facilities of an existing one) to qualify the securities of a corporation so that they would be eligible for financed-capitalist loans to prospective buyers of the stock to be issued. One of the investment banker's principal tasks would be to bring the new issue of securities and the issuing corporation into conformity with the policy requirements laid down by the Federal Reserve Board, the Capital Diffusion Insurance Corporation, or such other body as Congress might designate to interpret its general statutory policies.

Similarly, a prospective purchaser of a portfolio of equity stocks, or of additional stock for an existing portfolio, might go to his bank to arrange a CDIC-insured capital-acquisition loan. In determining the size of the loan for which the prospective borrower

is eligible, the commercial banker would be expected to apply the uniform governmental policies established for such loans. Otherwise the loan would not be eligible for rediscount, and the lending power of the bank under the financed-capitalist program would be, to that extent, limited.

What are some of the policy considerations which might be incorporated into the financed-capitalist program?

A. ANTI-MONOPOLY POLICY

Anti-monopoly policy in the United States, Canada, Great Britain and other countries of the free world has been traditionally and, we think, necessarily ineffective. Why? Primarily because it is possible for a corporation which has already grown to such size that the markets in which it buys or sells are no longer freely competitive markets to continue to acquire funds for further growth and intensification of its monopolistic position. In fact, as we have seen, under the ineffective anti-monopoly legislation of these mixed-economy countries, such monopolistic corporations are uniquely able to obtain capital for further expansion and further destruction of competition. When the financed-capitalist program has been established sufficiently long in any economy so that it is the primary source of new capital formation, it will be a relatively simple matter for governmental anti-monopoly policy to be made effective and to keep markets freely competitive. This can be done under uniform policies applicable alike to all similarly situated corporations through control of the capital that can be invested in a corporation which threatens free competition.²⁵ The benefits attendant

²⁵ Under the proposals for legislation we have made to bring about the restoration of private property of corporate stockholders (see *The Capitalist Manifesto*, pp. 219-229), anti-trust control in the maintenance of competitive markets could be exercised through control of the inflow of capital from sources other than

upon this aspect of the financed-capitalist program alone would be enormous, for there is no way to calculate the amount of technological advance that is stifled, and the benefits of lower consumer prices through effective competition that are thwarted, by the present ineffective antimonopoly policies. This financing technique would be a double-edged weapon, diminishing or preventing the flow of capital into corporations which threaten free competition, and encouraging other corporations to enter markets suffering from price administration attendant upon lack of competition.

B. PROMOTION OF TECHNOLOGICAL IMPROVEMENT

One of the goals of a capitalist economy is the production of a maximum amount of wealth with a minimum input of toil. The promotion of technological advance should be a main policy consideration of the financed-capitalist program. Under such a policy, every encouragement would be given to the financing of new enterprises which are being formed or existing enterprises which are being expanded to exploit promising new technical improvements. However, this policy should be tempered by the imposition of high standards for demonstrating feasibility of new enterprises or new expansions before their securities could qualify for CDIC-insured loans.

financed-capitalist loans, since internal generation of new capital formation by corporations would be prevented.

C. INCREASE IN CAPITAL-OWNING HOUSEHOLDS

The theory of capitalism is inconsistent with the socialist philosophy of the necessity or desirability of full employment, *i.e.*, the employment in the production of wealth of all employables, or all those who would seek employment, without regard to whether there is an economic demand for the increased product. It likewise is inconsistent with the idea that a share of wealth should be distributed as a reward for toil, regardless of whether such toil produces wealth or not. A capitalist economy encourages technological advance as the means by which the burden of the production of wealth may be shifted from labor to capital, thus freeing progressively more men to engage in the work of civilization, and providing them with subsistence to enable them to do so.

To carry out this objective, two things are required. The first is the means of enabling a constantly increasing number of households to participate in the production of wealth through their ownership of capital, and the second is the diminishing of the labor market, *i.e.*, the number of *persons* seeking employment in the production of wealth, so that the value of labor can again be competitively determined without driving wages down to a bare subsistence level.²⁶

In brief, a capitalist economy should not seek to contrive toil in order to maintain full employment in the production of wealth. Rather, its task is that of shifting such unemployment to those who can afford it, namely, those who own substantial capital estates.

²⁶ See *The Capitalist Manifesto*, pp. 232-235.

D. PREVENTION OF CONCENTRATION IN CAPITAL-ACQUISITION

Among policies which might contribute to these objectives in the financed-capitalist program would be policies designed to make the machinery of the program unavailable to those with capital estates that are already monopolistic in size. If this precaution were not taken, the financial institutions of the state would be used, as they are under our mixed economy, to concentrate further the ownership of capital. This in turn would make it necessary, as under our mixed economy, to invade concentrated ownership in order to redistribute income, thus socializing the ownership of capital and substituting the principles of charity or expediency (however disguised) for those of justice in the distribution of wealth. Since the ownership of capital can be concentrated, while that of labor cannot, the owner of an excessively large capital estate is in the position where he and others similarly situated may so monopolize the production of wealth that they necessarily deprive some households of the opportunity to participate in the production of wealth at all, or to a sufficient extent.

E. INVESTMENT PREFERENCES FOR NEW CAPITALIST ESTATES

We have pointed out elsewhere that the encouragement of the growth in the number of new viable capital estates may well require the adoption of legislation establishing a system of investment preferences, giving new or small capital owners prior access to safer types of stocks.²⁷ This would leave higher-risk equities to those who are investing savings and who are, generally speaking, in

²⁷ *Ibid.*, pp. 230-232.

a better position to take higher risks for higher gains. It would be the exact opposite of present practice under which the most promising investments are usually available only to those with the largest capital estates.

F. PREVENTION OR DISCOURAGEMENT OF SPECULATION IN STOCKS

Every precaution should be taken to prevent the use of the financed-capitalist program by speculators in securities or for speculative purposes. The financed-capitalist program would make possible the elimination or correction of defects in the American economy—and in other economies of the West—which discourage the acquisition of capital interests *as a means of participating in the production of wealth* and at the same time encourage speculation in capital equities.

Among these existing defects is the steeply progressive personal income tax, particularly when combined with a lower-rate capital gains tax. This ill-conceived combination makes it wiser for the stock buyer to permit corporations to “plow in” earnings to encourage capital gains, rather than to hold his stock for the wealth produced by his invested capital. Such wealth or income, if received as dividends would meet the generally steeper rates of personal income taxes. In those countries which have no capital gains tax at all, the tendency to promote gambling in stocks is, of course, much more pronounced. The simple wisdom of handling one’s own capital interests in such manner as to minimize tax confiscation obscures the fact that we are legitimating gambling in equity stocks and discouraging the ownership of capital for the wealth it produces, by all except tax-free financial intermediaries such as charitable trusts.

This deliberate legislative promotion of speculation in stocks to convert some portion of the wealth produced by capital into a gambling profit, taxed as a capital gain or not taxed at all, also obscures the difference between the wealth produced by capital represented by equity stocks and the mere manipulation of stocks to achieve a financial gain entirely independently of the production of wealth at all.

G. CO-ORDINATION OF CONSUMER DEMAND AND NEW CAPITAL FORMATION

In a study which Harold G. Moulton of The Brookings Institute made a quarter of a century ago, it was incontrovertibly demonstrated that in an era when the funds for capital formation came mostly from market sources, new capital formation took place only in response to increases in demand for consumer wealth.²⁸ In the intervening twenty-five years, we have slowly changed our methods of capital formation until today almost three-fourths of new capital formation is achieved through the internally generated funds of business enterprises. These funds come primarily from depreciation, amortization, withheld earnings and depletion allowances under corporate and personal income tax laws. So distorted has our economy become under the policies of full employment, confused tax legislation, laboristic distribution, and attenuation of the rights of stockholders that it is not uncommon today to have capital formation take place far in excess of the prospective demand for consumer goods to be produced with the expanded capacity in the rea-

²⁸ The study also demonstrated something well known to everyone except the experts: that high levels of capital formation are reached during periods of high-level consumption. Financial experts are fond of repeating that increased capital formation is at the expense of immediate consumption, although it ultimately brings about increased output of consumer goods. *Op. cit.*, pp. 157-158.

sonably foreseeable future. Under the financed-capitalist program, internally generated funds for new capital formation (as distinguished from replacement of worn-out capital instruments) would gradually be eliminated, and in their place would be the equity investments of individuals, financed either through capital-acquisition loans or through the investment of savings. One of the policy considerations affecting the volume of CDIC-insured loans would be the need for keeping the capital wealth-producing capacity in line with the aggregate desire of the economy for consumer goods and with the actual defense needs of the nation—as distinguished from full-employment schemes made more palatable under the disguise of defense needs.

H. INFLATION CONTROL AND CONCURRENT REDUCTION OF CONSUMER CREDIT

Money and credit, being merely representative of real wealth, cannot expand at a faster rate than real wealth without bringing about inflation. A just economy requires a stable currency of uniform purchasing power. Consequently, it would be both necessary and desirable, in order to avoid an inflationary effect through the accumulation of purchasing power in excess of available production, that the expansion of credit in the financing of capital formation be accompanied by a contraction of credit in the consumer field. Such a program would also tend toward the ultimate objective of a capitalist economy in which the dominant source of purchasing power is the income directly derived from capital ownership and labor ownership by the individual participants in production and in which consumer credit plays a diminished part.

This is but another aspect of the tendency of a capitalist economy to equalize *participation in production*, as distinguished from the tendency of a socialist economy or our mixed economy merely to equalize consumption irrespective of contribution to production.

The inflationary danger of massive purchasing power accumulated in the highly concentrated estates of the largest capitalist households and in the semi-socialized trusts or foundations to which these estates are customarily transferred today under the threat of tax confiscation would be eliminated as these estates were diffused, through normal transfers by gifts and bequests, under legislative changes designed to encourage transfers to submonopolistic beneficiaries.²⁹

I. ENCOURAGEMENT OF EQUITY FINANCING AND DISCOURAGEMENT OF DEBT FINANCING

The economic and political objectives of a capitalist society can be achieved only through widely diffused private ownership of productive capital. This is to say that direct common-stock ownership is, from the capitalist point of view, a preferable method of financing capital formation, and that debt financing, other than the use of credit to finance acquisition of equity portfolios by individuals, should eventually be extinguished. Debt financing by corporations is a device for weakening the property of the owner of small “savings” in his capital because both the benefits and control of such capital interests generally fall into the hands of financial intermediaries. Furthermore, debt financing facilitates the concentration of ownership of the already great capital estates, while separating the owner of savings from the responsibilities and advantages of capi-

²⁹ See *The Capitalist Manifesto*, pp. 204-211.

tal ownership. Unquestionably, one of the policy considerations which would dominate the financed-capitalist plan would be the promotion of equity ownership, the discouraging of direct debt financing of capital formation, and the elimination of types of financial intermediaries that impair or frustrate a healthy, direct equity ownership of industry by a growing proportion of the individuals of the economy.

On its face a proposal to gradually substitute common-stock financing for debt financing in capital formation would appear to be a change of considerable magnitude, but actually the change is more apparent than real. In bulk, the protective provisions of loan agreements, mortgages and the like are aimed at shielding creditors against large-scale default by borrowers in the event of a major depression. However, it is reasonably certain that any major depression of the future will be looked upon, legislatively and politically, as a man-made catastrophe, and that any wholesale enforcement of debt obligations would be prohibited. Thus in reality capital formation on the whole is, from the risk standpoint, though not in economic effect, equity financing whether it is called such or not. The truth of this statement is further evidenced by the fact that today even the occasional defaults that arise under loan agreements and mortgages generally result only in an administrative compromise, with the creditor assisting the debtor in the working out of a difficult position. It would therefore appear that in the majority of cases capital funds obtained under loan agreements are in substance treated as equity investments.

J. PERSONAL APTITUDES AND EDUCATIONAL REQUIREMENTS

Many of the most important and difficult policies in the administration of the financed-capitalist program would be those formu-

lated by Congress and by the agencies designated by Congress to determine the eligibility requirements of individuals for CDIC-insured capital-acquisition loans.

The difficulties in establishing such policies are those of human adaptability. Throughout the period of man's existence on earth, he has never before been able to produce a comfortable supply of economic goods and services for large numbers of people, while employing for this purpose but a fraction of human capacity for toil. Can human beings survive substantial freedom from subsistence toil?

It is clear that in the past limited numbers of people, wholly freed from the necessity of personal labor to satisfy their economic wants, have used the leisure thus afforded them to devote their creative energies to the arts, sciences, literature, statesmanship, invention, religion, education, discovery—in short, to the works of civilization. Most of our cultural and scientific heritage is the product of such men of leisure.

But examples to the contrary abound. Many men, freed from the energy-sapping, time-consuming requirements of personal labor for subsistence, and being furnished with a comfortable and secure supply of goods and services, have permitted themselves to fall into idleness, lasciviousness, perpetual play, or other mischief. Still others, apparently failing to distinguish between the means to a good life and the living of a good life once adequate means are assured, continue feverishly to produce and accumulate more of the means—*i.e.*, more wealth.

A capitalist society would cast out the irrational doctrine of full employment. As more and more of its wealth is produced by capital and less by labor, more households would participate in the production of wealth as owners of capital and fewer as owners of labor. The number of persons in the “labor market,” *i.e.*, seeking paid employment in producing wealth, would progressively be reduced by tax legislation designed to keep owners of large capital

estates from taking employment opportunities from households whose only means of participating in production is through their labor.³⁰ As a result, enlightened men and women owning viable capital estates would come to see that the world is full of many things more attractive than excessive wealth-getting and many creative activities more inherently satisfying than toil for subsistence.

But would the majority of owners of substantial capital estates, thus released from toil for subsistence, follow the pattern of the virtuous men of leisure?

One of the reasons why this question is so difficult to answer is that up to the present *we have continued to delude ourselves that the purpose of technological advance is to provide full employment*. So long as we cling to this nonsense, it seems futile to begin educating children and adults alike to comprehend the limited (if still considerable) extent to which human toil is either necessary or capable of producing wealth in an industrialized society. Yet the glaring lesson of technology is clear for all to see: while the toil requirements for producing subsistence are limited, the leisure-work requirements of civilization are unlimited.

Thus the question comes down to whether men and women, who in general recognize that *they must work in order to be happy*, are so shortsighted that they can see and understand only the more animal forms of work—work to produce wealth—or whether they can come to see that the most important, most productive, and least explored tasks of mankind on earth lie above and beyond the subsistence field. The question is perplexing beyond measure, for *it is a question that could never have been asked before*.

There is no doubt as to how socialism deals with this question. Karl Marx propounded the false labor theory of value. This is the theory that only labor produces wealth, regardless of how much capital and how few workers may actually be employed in any pro-

³⁰ *Ibid.*, pp. 232-235.

process of production. All socialists, from Marx on down, worship subsistence toil.

On September 21, 1958, Nikita S. Khrushchev published a long discourse on Soviet education, condemning the graduates of Russian high schools and colleges for being “unfit” for anything except higher study, even though the higher institutions of learning did not “need” additional teachers. Furthermore, he charged, these graduates have come to regard heavy toil as the proper lot of those who have failed to get higher educations. Khrushchev proposed as a slogan for the new program “that all children must prepare for *useful* labor and participation in the building of Communist society.”

It would seem that as the Russian economy approaches a state of industrialization comparable to ours, either its totalitarian masters will be faced with a large-scale revolt of slaves who see the possibilities of freedom in an industrial society, or these rulers will maintain the full employment of everyone but artists and infants in the tasks of producing wealth and war. It is doubtful whether the slave state of socialism can survive in an industrial age without “full employment” and, conversely, whether *full employment* can survive in an advanced industrial society without bringing about the socialization or collectivization of that society.

Among the proper pursuits of the constantly growing proportion of men in a capitalist society whose participation in production is largely or entirely through their ownership of capital is the defense of their nation. There would seem to be less danger, however, that this opportunity would be abused to create an aggressive militarist state than that the over-building of defense or war establishments will arise, under a mixed or social economy, out of the use of military programs to provide full employment.

This brief discussion of an involved problem should at least suffice to indicate how important it will be, in granting capital-acquisition loans to individual households, to see that eligibility

requirements include the possession of sufficient economic knowledge wisely to husband, manage and preserve a capital estate, or at least the aptitude and willingness to acquire such knowledge during the pledge period of the loan. It should be equally apparent that the educational background of applicants for capital-acquisition loans would be an important qualification. Such educational requirements might be met through formal schooling in schools and colleges, or it might be met by other means, but they should in any event provide some basis for hope that the freedom from personal toil which can be achieved through capital acquisition would be constructively used to contribute to the work of civilization.³¹

We can reasonably expect that the establishing of substantial aptitude and educational requirements for borrowing under the financed-capitalist program should have a quite different effect upon the general level of mental attainments of the people than has the practice of laboristic distribution in our mixed economy. The primary tool of laboristic distribution for maintaining prosperity and full employment is successive and unrelenting injections of great quantities of purchasing power into the economy. While this is achieved by direct government redistribution of income, by subsidizing various high-employment occupations and industries and other well-known techniques, one of its more effective means is the raising of wages far above their competitive value through legalizing and supporting monopoly labor practices and through legislative underpinning of wages.

From the standpoint of education, this has had the effect of subsidizing the refusal of increasing numbers of potential students to enter higher education. We are today bemoaning the inadequacy of the number of candidates for careers as scientists, engineers, lawyers, doctors, teachers and as members of the other learned professions. With the empty materialism characteristic of the

³¹ See *The Capitalist Manifesto*, pp. 257-263.

mixed economy, we attempt to offset this entirely normal effect of the synthetic elevation of wages by devising various ways to subsidize higher education. This is another battle of subsidies, comparable to the subsidizing of agricultural prices and the counter-subsidizing of wages to enable workers to pay for higher-priced foods.

The financed-capitalist program would not only gradually eliminate the false values attached to toil, but could also give enormous impetus to the search for self-improvement through education, by imposing gradually rising educational requirements upon applicants for capital-acquisition loans.