THE SEARCH FOR THE OBVIOUS

By Louis O. Kelso and Patricia Hetter Kelso

> Great crises come when great new forces are at work changing fundamental conditions, while powerful institutions and traditions still hold old systems intact.
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> —Willliam Graham Sumner, 1904

Everywhere the realization is growing that something is wrong—fundamentally and dangerously wrong—with the world's economic structure. People who want to work are finding it increasingly difficult to earn a good living. Leaders in the Western industrial democracies are tacitly abandoning their formal economic goal of full employment, finding that the costs of creating it are unacceptable.

Yet the historical tendency of the rich to grow richer and of the poor to sink into dependency accelerates, while the middle class loses ground or struggles to retain its tenuous foothold. Despite awesome technological progress, the wondrous accomplishments of science, engineering, agriculture, and public health, we seem as stymied as ever by the wealth-poverty dichotomy that is turning neighborhoods, cities, nations, and the world itself into a battleground of haves versus have-nots. Hopeless poverty, social alienation, and economic breakdown in a world that has all the physical, technical, managerial, and engineering prerequisites for improving the lives of millions attest to a crippling organizational malfunction that prevents us from making full use of the powers we have developed. Many other apparently insoluable problems also point to a structural defect: increasing economic dependence on arms production and sales, rising public and private debt, unmarketable production surpluses in agriculture and manufacturing, the loss of domestic and international markets to foreign competitors, and the lack of an alternative to full-employment. The inability of our leaders to solve these problems, or even contain them, is undermining confidence in democracy.

This book is concerned with root causes—the root cause of poverty and, more important, of affluence in the modern industrial world. It is concerned not only with economic helplessness and dependency, but also with economic power and independence. It investigates the source of personal and individual economic power, not to eliminate it, as the socialists have vowed to do, but to extend it beyond the rich to the traditional disenfranchised poor and middle classes.

There is a wonderful word that has fallen into disuse as the economic conditions that gave it vitality have faded away—*competence*. Its oldest meaning, now obsolete, is sufficient supply, or a sufficiency. Its second meaning is property, or means sufficient to defray the costs of the necessities and conveniences of life: sufficiency without excess. The word further extends to the condition of possessing or enjoying such sufficiency—living in peace and competence, or the quality or state of being functionally adequate, or having sufficient knowledge, judgment, skill, or strength. "A man's first duty is to make a competence and to be independent," declared Andrew Carnegie.[1] In a prescient turn-of-the-century essay, Peter S. Grosscup, a U.S. Circuit Court of Appeals judge, pointed out, the "soul of republican America, as a civil government ordained to promote the welfare and happiness of its people" is not commercial greatness, territorial ambition, national power, or national wealth. Rather it is "individual opportunity—the opportunity and encouragement given to each individual to build up, by his own effort, and for himself and those dependent upon him, some measure of dominion and independence all his own."[2]

Having a competence is still the American economic ideal. The hope and chance of obtaining a competence is American economic opportunity. The right to have and hold a competence, once obtained, is a fundamental American right. Taken together, these conditions add up to economic happiness as the founding fathers understood it when they declared its pursuit on a parity with the right to life and liberty. Not enormous hoards of unusable and unspendable wealth, but competences and the recovery of individual hope and prospect—these are still the dream of the American people and the proper and necessary goals of U.S. economic policy.

For well over a century it has been obvious that our private-property, free-market, capitalist economy has a serious flaw. Whether it is called the production-consumption gap, over-production, or under-consumption, its fundamental characteristic is the same: At any stage of economic growth or productive efficiency, the power available to produce goods and services outstrips the ability of the people with unsatisfied needs and wants to buy them. As Chief Sitting Bull told Annie Oakley, "The white man knows how to make everything, but he does not know how to distribute it."[3] Franklin D. Roosevelt made the same observation in his first inaugural address in the dark days of 1933: "Plenty is at our doorstep but a generous use of it languishes in the very sight of supply."

We must ask ourselves why western society has so long tolerated—indeed, remained officially blind to—obvious and repeatedly documented institutional defects. Why have we preferred myths to easily verifiable facts? For example, why are we still pretending to believe that labor is becoming more productive? That technology creates jobs? That we have ever achieved legitimate full employment in the United States in this century except when the nation is at war, recovering from war, or preparing for a new war? That full employment is a feasible, or even desirable, economic goal for people living in an industrial age?

The explanation is to be found in a simple but tenacious misconception about how goods and services are produced. The notion that labor is the only, or chief, factor is the keystone of conventional economic wisdom. Laissez-faire, Marxian, and Keynesian theoreticians all treat the physical things that are actually the chief producers of material goods and services in an industrial economy—tools, machines, structures, capital intangibles, and increasingly productive land—as if they were extensions of the worker himself (the hammer, an extension of the hand; the wheel of the foot; the computer, of the brain) or as if they were natural resources functioning gratuitously like the sun to raise *labor* productiveness.

As long as we remain under the sway of fallacies like these, we are not concerned about *who* owns *what* capital (provided there is plenty of it) in our economy, nor do we realize that we have allowed the ownership of capital, and consequently the earning power of capital, to concentrate to the point of rendering the economy unworkable.

In the preindustrial past, when labor *was* the principal means of production, the labor theory of value was at least approximately true, and labor power was distributed democratically by nature—one person equaled one unit of labor power. But with the invention of the spinning jenny, the Newcomen engine, the power loom, and hundreds of other capital instruments, the nonhuman factor began to dominate every aspect of production. Technology continues to transform the ways in which goods and services are produced, so that production is constantly becoming more capital intensive and less labor intensive. Today only human institutions can restore to men and women the autonomy they once had through their inherent labor power.

In the ancient and medieval worlds, toil had been only a means to an end: consumption and leisure. Now in an industrial age, as technological change systematically eliminates labor input into the production process—and with it, the only officially recognized way of participating in earning—we have perversely elevated toil from a practical necessity to a moral and social duty. Instead of toiling to live, people are increasingly living to toil. Under the laborcentric economic thought formalized in the earliest writings on economics, technology itself is presumed to create toil. The overwhelming evidence to the contrary is ignored, falsified, or rationalized away.

When a theory contrary to fact persists against all evidence, it must be drawing sustenance from a vital and powerful emotional source. The durability of the labor theory of value, the full-employment goal, and the institutions built upon them can be traced to the Puritan ethic, specifically to the idea that "if any would not work, neither should he eat." In essence, the Puritan ethic is a production ethic. It holds that people ought to be economically autonomous, that each consumer unit should earn the income equivalent of the goods and services it wishes to consume. This injunction shows that people hate being objects of charity just as much as they hate being victims of parasitism. Economic motivation requires that people both produce the goods and services they wish to consume and receive the income equivalent of their productive contribution.

In a preindustrial world, where labor provided most of the input into production, it was natural that production and toil became unconsciously identified. But what made sound practical and moral sense in a preindustrial economy becomes nonsense in an industrial one, not because the principle has changed but because the mechanics of production have changed. Anachronistic insistence that productive input is *labor* input solely and only, or even mainly, does not square with the facts. In an economy where people engage in production and earn income through their privately owned capital as well as their privately owned labor power, a laboristic interpretation of the Puritan ethic will not suffice, indeed, becomes more and more unjust. Conventional economic policies that exhort and inflict toil and self-denial no longer make sense in an age when technology has shifted most of the pains of production to the machine.

Institutional renewal and reform must begin with a reinterpretation of the Puritan ethic. If its moral message is not that people should toil for the sake of toil but that they should produce for the sake of consumption, then we must ask: How are all individuals to be adequately productive when a tiny majority (capital workers) produce a major share and the vast majority (labor workers), a minor share of total goods and services?

An updated Puritan ethic would acknowledge that individuals produce through their privately owned capital just as truly and legitimately as they do through their privately owned labor power. In the economic sense, the owner of an equity interest in an industrial corporation, a corporate farm, or other production facility can be immeasurably more productive than the most skilled and industrious preindustrial artisan. Production efficiency and product quality are what count, not the factor of production itself. Thus, the capital owner is not a parasite or a rentier but a worker—a capital worker. A distinction between labor work and capital work suggests the lines along which we could develop economic institutions capable of dealing with increasingly capital-intensive production, as our present institutions cannot.

There is another consideration. Economies can no longer solve their income distribution problem through full employment, even if this ever retreating and questionable goal were entirely achievable. When capital workers replace labor workers as the major suppliers of goods and services, labor employment alone becomes inadequate because labor's share of the income arising from production cannot provide the progressively better standard of living that technology is making possible. Labor produces subsistence at best. Capital can produce affluence. To enjoy affluence, all households must engage to an increasing extent in capital work. Under the facts of contemporary U.S. production, this would be so even if the entire population were fully employed in labor work.

As we will later show, the insufficiency of labor-based earnings to purchase increasingly capital-produced goods and services gave rise to labor laws and labor unions designed to coerce higher and higher prices for the same or reduced labor input. The myth of the "rising productivity" of labor is used to conceal the increasing productiveness of capital and the decreasing productiveness of labor, and to disguise income redistribution by making it seem morally acceptable.

Until we grasp the modern implications of the Puritan ethic, we will be unable to design an economic system that recognizes that there are *two* ways for individuals to engage in production and earn income. We will continue to misuse, misdirect, and waste technology in the name of full employment; concentrate capital ownership in the hands of those who already own more of it than they can or will use; and deny capital ownership to those who need to own it but cannot acquire it legitimately through traditional savings-based financing methods.

Leisure, not toil, and general affluence, not elitist wealth must be the goals of a rational and democratic industrial economy based on the need of every citizen to be a producer as well as a consumer. Moreover, once we recognize and articulate these goals, they are not difficult to achieve. One device, the Employee Stock Ownership Plan (ESOP), has already demonstrated how easy it is to make capital workers of corporate employees. Other financing devices that employ the same logic can accomplish the same transformation for public employees; for Social Security recipients; for artists, musicians, actors, and others not employed in the private or public sectors or suited to such employment; for customers of public utilities; and for home owners.

Since affluence is generally the product not of labor but of capital, the economy must be structured so that eventually all households produce an expanding proportion of their incomes through their privately owned capital and simultaneously generate enough purchasing power to consume the economy's output. The techniques of finance described in this book can legitimately connect households that own little or no capital with the productive power of capital instruments organized into appropriate operating entities. Conventional business finance has concentrated individual ownership of productive capital into the possession of the very few. The proprietary base is shrinking at an accelerating rate through mergers, acquisitions, and non-ESOP leveraged buyouts. Democratic financing methods, such as the Employee Stock Ownership Plan (ESOP), the Consumer Stock Ownership Plan (CSOP), the General Stock Ownership Plan (GSOP), and others, finance capital ownership for economically underpowered individuals at the same time that they finance corporate growth. They simultaneously create new capital owners and new productive power in ways that benefit everyone, including present stockholders.

New productive power is essential if everyone is to have some opportunity to become a capital worker. The limitations that prevent us from realizing our vast potential for general affluence are not physical but institutional. What is lacking are the implementing concepts—the logic diagram, the operating manual—for the private property, free-market economy that already splendidly serves the few, but that, by democratizing capitalism, we can expand to include and serve the many.

By updating the Puritan ethic to conform to the technological facts of live, we will renew not only our economy but also our political institutions in the spirit of the American ideal. American political institutions assume a citizenry of self-supporting families. They were never intended for a large and growing segment of poor and dependent people. In 1989 we will celebrate the 200th anniversary of the ratification of the U.S. Constitution. It is time that we do for economic power what the founding fathers did for political power: put it on the road to democracy.

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[1] Andrew Carnegie, *The Empire of Business* (New York: Doubleday, Page & Co., 1902), p. 99.

[2] Peter S. Grosscup, “How To Save the Corporation,” *McClure’s Magazine* 24, no. 4 (February 1905).

[3] Dee Brown, *Bury My Heart at Wounded Knee: An Indian History of the American West* (New York: Holt, Rinehart & Winston, 1971), p. 427.