

# **The Just Third Way**

## **How We Can Create Green Growth, Widespread Prosperity and Global Peace**

**By Norman G. Kurland, Dawn K. Brohawn, and Michael D. Greaney**

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*We are called to be architects of the future, not its victims.<sup>1</sup>*

— R. Buckminster Fuller

### **1. Introduction**

Humanity in the 21<sup>st</sup> Century faces a conundrum: we have escaped the bonds of earth's gravity and left our footprints on the moon. We have created new agricultural and manufacturing techniques that can feed and clothe billions using a fraction of the labor once needed. We have connected every corner of the world via communications technologies, allowing us to share a wealth of knowledge and information, promote global commerce and exchange, and bring together diverse people and cultures in the marketplace of ideas.

Yet we peer into an abyss, largely of our own making: the scourge of war threatening to spread from countries to regions to the world . . . the horror of global terrorism and weapons of mass destruction . . . a plague of global epidemics from HIV/AIDS and malaria, to cancer and other illnesses born from a poisoned environment. A seemingly insurmountable gap in economic power and ownership widens between the rich and poor within all nations, and between rich and poor nations. In a world that could produce abundance for everyone, not just the few, billions remain starving, homeless and with little hope for their futures.

As a *Chemical & Engineering News* “Special Report” foretold in 1972,

Environmental degradation, affluence that is only an illusion for many, war, the capital-labor conflict, a system that forces a man to fight for a job on an environmentally destructive project, unresponsive institutions, and a consumer who can't afford to pay for the pollution control costs that will inevitably be passed on to him. That is a good statement of the problem, which is inevitable under one-factor economic theory.<sup>2</sup>

Even within the richest and most powerful nations, many people are feeling increasingly vulnerable to loss of jobs and income, and trapped by consumer debt. A vast majority of citizens have become powerless wage slaves, workers who are now merely disposable assets in the global economy.

At this crossroads in world civilization, we have to ask ourselves: are we missing something? Is it time to rethink our paradigms, assumptions and systems? Are there fundamental principles that could guide us in restructuring the laws and institutions that govern our lives, to bring about peace, prosperity and a healthy environment for every person on the planet?

## 2. A “System Failure” in Global Society

Under every economic system operating today, most human beings suffer under a common defect of both capitalism and socialism, and their various permutations. Simply put: Most people own no share in the world’s productive capacity. Lacking ownership of the means of production, they *cannot produce enough* to purchase the productions of others. As Jean-Baptiste Say pointed out nearly two centuries ago in a response to the Reverend Thomas Malthus:

I have drawn a conclusion which appears to me evident, but the consequences of which appear to have alarmed you. I had said — As no one can purchase the produce of another except with his own produce, as the amount for which we can buy is equal to that which we can produce, the more we can produce the more we can purchase. From whence proceeds this other conclusion, which you refuse to admit — That if certain commodities do not sell, it is because others are not produced, and that it is the raising produce alone which opens a market for the sale of produce.<sup>3</sup>

Most people on the planet have no legitimate ownership claim to, and have insufficient means to purchase, what technology’s phenomenal productive capacity can generate. On the other hand, the small minority of people who own and control most of the productive instruments of society end up producing more than they can humanly consume. As “Say’s Law of Markets” explains: “The power to produce overwhelms the power to consume.”<sup>4</sup>

Rising levels of consumer credit mask this imbalance somewhat by creating a temporary burst of purchasing power within non-owners, but this rapidly increases the debt burden on individuals and households. Future disposable income is reduced to pay off consumer credit extended in the past, and more must then be borrowed to make up the increasing shortfall<sup>5</sup> — like trying to get out of a hole by digging yourself in deeper.

Flawed paradigms lead to false dichotomies, leaving us to wonder, for example, “Can environmentalism be reconciled with economics?”<sup>6</sup> Under today’s systems, the only solution to a perceived failure of the “free market” appears to be for the State to apply its coercive powers of regulation and redistribution. This still, however, fails to address a fundamental problem:

With productive power and purchasing power drastically out of balance, wealth must be redistributed to keep the economy going. Government performs this

function, primarily through the graduated personal income tax and the corporate income tax. These are necessary devices, . . . but are not effective in accomplishing what should be their primary goal: preventing monopolistic concentrations of capital.<sup>7</sup>

Further hampering our ability to untangle and resolve today's global problems is a common tendency to confuse principles with expedients — constructing solutions based on what the problem-solver judges to be politically acceptable given current circumstances. By ignoring basic principles, many of today's policy- and decision-makers fail to cure the root causes, and are left to address long-term or systemic problems with stopgap measures and band-aids. Eventually expedients can create problems of their own.

The viability and sustainability of solutions to global crises cannot be divorced from the application of logically consistent and morally sound principle, regardless of any expedients that may be necessary *in the short-term* to move toward a desired change. In this paper we will seek to define and apply sound logic and universal principles, in order to offer effective, long-term and comprehensive solutions to current global crises.

### **Addressing Environmental Damage ... Effectively**

What happens in a world where the power to produce is rising rapidly due to technological advances, but the power to consume marketable goods and services is shrinking, or confined to a stagnant or shrinking consumer base? Producers are forced to cut costs in order to make their goods and services affordable to more consumers. This can result in substandard production processes and shoddy goods that harm the environment, as price rather than quality determines whether a sale is made.<sup>8</sup>

Damage to the environment, with its “hidden costs,” exacts a toll on the economy in terms of rising health costs and other unforeseen consequences of poor stewardship of our land and natural resources. But when the choice is between “the environment” and being able to purchase what you need at a price you can afford, true costs of production are often swept under the rug:

Faced with an impoverished public, industry must produce ever cheaper goods. This explains why many of our industrial heroes are the cost cutters. . . . An all-out effort to cut costs inevitably leads to environmental degradation, taking advantage, perhaps unwittingly, of nature to keep the economy running.<sup>9</sup>

Most forms of pollution are potentially useful resources that are wasted or “out of place.” Applying appropriate technologies, pollutants could be recaptured and turned into productive resources. In a healthy economy where purchasing power is widespread, consumers would be able to pay the added cost of technologies for preventing or remediating pollution. Government would play its proper role in preventing “nuisance” and imposing pollution fines to encourage producers to add technologies that would

prevent harm to others and the environment. In those cases the added costs would be internalized in the prices charged by the producers.

Many people assume that the way things *are* is the way things *have to be*. This assumption is a major problem in the world today. It allows bad or inadequate ideas to shape our opinions and condemn us to a *status quo* that imposes an inhuman and environmentally damaging system on all of us.

### **Economic Globalization: A Boon or Disaster for Humanity?**

Conventional development frameworks are based on the “win-lose” assumption that scarcity is inevitable and shared abundance is impossible. R. Buckminster Fuller, a post-scarcity thinker, architect, and engineer, rejected the conventional wisdom. He asserted, “There is only one revolution tolerable to all men, all societies, all political systems: Revolution by design and invention.”<sup>10</sup>

Fuller’s deep understanding of the synergistic potential of advancing technology to create universal prosperity, and of the continuing process of doing-more-with-less human energies and natural resources, suggests to those seeking solutions to problems rooted in economic injustices: “Don’t try to reform human nature. Reform the environment.”<sup>11</sup> And, as Fuller might put it, “redesign your tools.”

In contrast to Fuller’s optimistic approach to global development, there is widespread hopelessness around the world. This pessimism has been fueled by the growing awareness of a force greater than that of any nation state in the world — the force of economic globalization. In his 1998 book, *One World, Ready or Not: The Manic Logic of Global Capitalism*, best-selling author William Greider concludes that economic globalization — driven by a financial elite with the power to shift billions of dollars almost instantaneously from one country to another — is a reality and will not go away.

The subordination of most world political leaders to the controllers of money was predictable at least a century ago when one of the world’s earliest financial capitalists, Baron Mayer Anshel Rothschild, was quoted as saying, “Permit me to control the issuance of a nation’s money and credit, and I care not who makes the laws.”<sup>12</sup>

For most people, however, economic globalization means a growing gap between rich and poor, technological alienation of the worker from the means of production, and the phenomenon of “wage arbitrage.” It means an environment in which global corporations and strategic alliances can force workers in high-cost wage markets to compete with labor-saving tools and lower-paid foreign workers.

Even the United States, which has long enjoyed economic strength and stability, is showing these effects of globalization. Along with an historically high trade imbalance and a declining dollar, the U.S. continues to have one of the widest gaps between the “haves” and “have-nots.”<sup>13</sup> American business has the widest pay gap between CEOs and ordinary workers. While unemployment has remained relatively low, there is an

accelerating displacement of workers by technology and cheaper foreign labor, resulting in greater economic uncertainty and shakier retirement incomes for the average citizen.

### **Why isn't Global Capitalism Working?**

Most people in general, and academics in particular, can describe problems. They flounder, however, when it comes to developing comprehensive solutions for countering threats to regional and global peace, freedom and the rule of law. Many agree that economic growth equitably shared is necessary for overcoming poverty — the taproot of conflict, revolutions and war — within and among nations. Few, however, ask new questions that could reveal *systemic* flaws in current development models that have failed to significantly reduce poverty in a world capable of producing economic sufficiency for every person.

If “ownership is a *sine qua non* of sustainable development,” as expressed by former World Bank President James Wolfensohn,<sup>14</sup> why have the strategies of Western development experts failed to create nations of owners, from the bottom-up? What in the current system of economic globalization produces an ever-widening and dangerous gap in economic power and economic self-determination between haves and have-nots, among nations and within all nations in the global marketplace?

Can free markets, free trade, private property, and limited government be compatible with economic and social justice? What practical systemic changes could be introduced to transform the globalization process into a blessing, especially for the poorest of the poor in Iraq, Gaza, the West Bank, Afghanistan, Kashmir, Indonesia, the Philippines, Chechnya and other breeding grounds of human hopelessness, group hatred, and the next rounds of suicide terrorism?

### **The First Challenge: Overcoming Bad Ideas**

Our first hurdle is one of ideas, especially in the field of economics and other “soft sciences,” which shape the “invisible social environment” that ultimately determines the quality of life for each of us. This invisible environment consists of our laws, institutions and “social props” that determine how we as individuals are connected to — or too frequently are alienated from and possibly victimized by — the physical technologies and structures that our scientists, inventors, architects and engineers create.

Today's systems of capitalism and socialism, and their various permutations, share the same fundamental flaw. The laws and institutions of these systems all concentrate power and property in the hands of a few, whether in a private elite, or in the State and its bureaucratic elite. Even in so-called “democratic capitalist” systems, access to the ballot has no economic counterpart to empower the individual through equal access to the common good. Underlying this flaw is a moral omission: the current economic paradigms lack a defining principle of justice that is universal, inclusive and practical for guiding development in the Age of Super-Technology.

This paper explores the idea of the “Just Third Way,” a new paradigm of political economy centered on “Justice,” a universal value that is largely misunderstood in the modern world. The Just Third Way argues that all sovereignty within the social order should begin with each human person, not social institutions or any elite. Underlying its universal conception of justice is the dignity of every human person.

In contrast to prevailing capitalist, socialist, and mixed economic systems, the Just Third Way defines specific principles of economic and social justice for restructuring laws and basic social institutions, particularly money and credit. In this way, power and property can be spread systematically to every human being, thereby enabling purchasing power to match productive power, and the real cost of production — including repair and maintenance of the environment — to be passed on to the consumer at a fair and just price.

### **3. A New Paradigm of Political Economy**

Media pundits continue to refer to a “Third Way,” but none of them seems to know quite what it is. People on the left who are positive toward the idea present it as socialism with a capitalist whitewash; people on the right present it as capitalism with a socialist veneer.

Many skeptics, correctly in our opinion, view the “muddled middle” formula for the “Third Way” (such as the version formerly espoused by Tony Blair and Bill Clinton) as an attempt to give moral legitimacy to the Wall Street capitalist approach to economic globalization. This formula attempts to blend political democracy with economic plutocracy, an inherently unstable mix. The *Washington Post* on August 30, 1998 editorialized that “there is in fact no third way.”

#### **Is There a “Just Third Way”?**

In contrast to the intellectual fuzziness now pervading high policy circles, this paper asserts that *no so-called “third way” is a true third way or a “Just Third Way”* if it:

- Does not economically empower the people,
- Keeps economic and social power, especially over advanced technologies, concentrated in the hands of an elite,
- Keeps most people in a status of servile dependency on the State or other people,
- Lacks a coherent theory and principles of economic justice to guide policy makers,

- Lacks a structured system for closing the gap between the rich and the poor within the evolving global marketplace,
- Forces the environment to absorb costs that, if consumers had adequate purchasing power, could be reflected in a just price for goods and services,
- Ignores the central role of such “social tools” as money, capital credit and central banking in determining how all people can acquire access to assets and economic power in the future, and
- Remains trapped by inherently bankrupt pay-as-you-go Social Security and other income redistribution schemes, instead of encouraging asset-backed systems to link future consumption incomes with future wealth production.

We *can*, however, conceive of a “Just Third Way” that goes beyond the traditional answers supplied by the right and left. It offers a new vision and alternative model of development for countries of the world in which they can succeed to their fullest potential within the framework of a global marketplace.

### **Looking Beyond Socialism and Capitalism**

Power will always exist in society. If we accept Lord Action’s insight that “power tends to corrupt and absolute power corrupts absolutely,” our best safeguard against the corruptibility of concentrated power is *to decentralize* power. Furthermore, if Daniel Webster was also correct that “power naturally and necessarily follows property,” then democratizing ownership is essential for democratizing power.

In the economic world, property performs the same power-diffusion function that the ballot does in politics. It does more. It makes the ballot-holder economically independent of those who wield political power. Socially, private property defines a comprehensive — and comprehensible — system of relationships that regulate how we as members of society relate to one another with respect to our possessions, rights, and status. Proposals to abolish private property by redefining it undermine the stability of society by attacking the validity of the defined relationships that constitute the social order, potentially throwing society into chaos.

Both socialism and capitalism concentrate economic power at the top. It makes little difference that under capitalism the concentration is in private hands and under socialism the concentration is in the hands of the State. Both systems are excessively materialistic in their basic principles and overall vision. Both, in their own ways, degrade the individual worker. Both engender economic systems that ignore and hinder the intellectual and spiritual development of every member of society.

Amalgams of the two systems, as in America’s so-called “mixed economy” or the Scandinavian Welfare State model, differ only in their degree of social injustice, corruption, economic inefficiency, human insecurity and alienation which permeate each

level of class-divided societies. What then would be a genuinely alternative economic model for moving toward a more free, just and economically classless society?

#### 4. Defining the Just Third Way

The “Just Third Way” is a free market system that economically empowers all individuals and families through direct and effective ownership of the means of production.

From the standpoint of moral philosophy, this new paradigm views healthy self-interest as a virtue (*i.e.*, where individual good is directed toward, or in harmony with, the common good). It views greed and envy, on the other hand, as vices, both destructive of a moral and just society. In contrast to capitalism that institutionalizes greed (creating monopolies and special privileges), or socialism that institutionalizes envy (through coerced leveling and artificial barriers to creative initiatives), the “Just Third Way” institutionalizes justice, tapping on the full creative potential of every human being.

#### The Architects of the Just Third Way: Kelso, Fuller, Ferree, and King

The Just Third Way, understood as a holistic paradigm, synthesizes the binary economic theories and principles of economic justice<sup>15</sup> developed by the late lawyer-economist Louis O. Kelso, the social justice principles developed by Pius XI and Rev. William J. Ferree, the world design science concepts of R. Buckminster Fuller, and the non-violent activism of the Rev. Martin Luther King, Jr.

The Just Third Way starts with the view that all dignity, sovereignty and rights within the social order begin with the individual human being, not with institutions including, and particularly, the State. As the Rev. Martin Luther King, Jr. stated:

Man is not made for the State; the State is made for man. To deprive man of freedom is to relegate him to the status of a thing, rather than elevate him to the status of a person. Man must never be treated as a means to the end of the State, but always as an end within himself.<sup>16</sup>

The Just Third Way is guided by, as King put it, “the conviction that the universe is on the side of justice” and “a deep faith in the future.”<sup>17</sup> In contrast, today’s predominant paradigms —whether capitalist, socialist or mixed— are based on “win-lose” assumptions that scarcity is inevitable and shared abundance is a fairy tale. Under such assumptions, conflict is the natural outcome of our economic systems, and peace a momentary lull between bloodshed and war. The mass of humanity is relegated to the role of victims, pawns and tools, whose futures are largely dictated by the will of a tiny elite.

In parallel with Buckminster Fuller’s concepts of synergy, “ephemeralization” (“doing more with less”), and design science — and sharing Fuller’s win-win orientation

and acceptance of human nature — Louis Kelso provided within economics a theoretical and moral framework for creating a truly classless society and world of universal affluence where human potential could flower in a healthy environment. Kelso’s redesign of how we finance growth and development answered the inescapable question: “How do we pay for it?”

Recognizing both the individual and social nature of human beings and the inherent dignity of the human personality (the reason for which we create our social institutions), the social philosopher Fr. William Ferree refined the concept of Social Justice, as defined by Pope Pius XI in his revolutionary encyclical, *Quadragesimo Anno*. Ferree asserted that as historical creations of human society and civilization, institutions such as tax systems, money, credit, corporations and property, can and must be reformed through “acts of Social Justice” when they fail to support the dignity and empowerment of each person.<sup>18</sup>

All the seminal thinkers of the Just Third Way recognized that poverty and powerlessness are an affront to human dignity and freedom. They all foresaw the impact of technology, systems and environment on human development. And as systems thinkers, they all understood the dangers of concentrated power, and sought to diffuse it to all members of the community. Noting the deficiencies in the two governing paradigms of capitalism and socialism, King called for a new synthesis:

[T]ruth is found neither in Marxism nor in traditional capitalism. Each represents a partial truth. Historically capitalism failed to see the truth in collective enterprise, and Marxism failed to see the truth in individual enterprise. Nineteenth century capitalism failed to see that life is social and Marxism failed and still fails to see that life is individual and personal. The Kingdom of God is neither the thesis of individual enterprise nor the antithesis of collective enterprise, but a synthesis which reconciles the truths of both.<sup>19</sup>

### **What is Justice?**

As Pope Paul VI reminded us, “If you want peace, work for justice.”<sup>20</sup> Unfortunately, definitions of “justice” are as many and as varied as the people you ask. Before we can apply its principles, we need to ask ourselves, what is “justice”? Here is a classical definition of “justice” by Louis O. Kelso (the intellectual father of “the Just Third Way”) and his co-author Mortimer J. Adler, the eminent Aristotelian philosopher:

Justice, in its most general formulation, imposes the following moral duties or precepts upon men who are associated for the purposes of a common life: (1) to act for the common good of all, not each for his own private interest exclusively; (2) to avoid injuring one another; (3) to render to each man what is rightfully his due; and (4) to deal fairly with one another in the exchange of goods and in the distribution of wealth, position, status, rewards and punishments.<sup>21</sup>

## Understanding Social Justice and Social Charity

In his seminal work, *The Act of Social Justice* (1943), the late Marianist priest Father William Ferree, a co-founder of our religiously and spiritually pluralistic center, explained how Pius XI viewed the dignity of the human personality as the basis of any sound theory of justice:

For Pope Pius XI [in his 1931 Encyclical, *Restructuring of the Social Order*], the theory of justice is based squarely on the dignity of the human personality. His position is that charity regulates our actions toward the human personality itself, that *Image of God* which is the object of love because it mirrors forth the Divine Perfections, and in the supernatural order shares those perfections. The human personality, however, because it is a created personality, needs certain “props” for the *realization* of its dignity. These “props” or supports of human dignity, that include such things as property, relatives and friends, freedom and responsibility, are all objects of justice. To attack a human person in his personality *itself*, as by hatred, is a failure against charity; but to attack him by undermining the supports of his human dignity, as by robbery, is a failure against justice.<sup>22</sup>

Ferree pinpointed Pius XI’s philosophical breakthrough in defining the “social” virtues, particularly “social justice.” Preserving the classical concepts of “individual justice” and other individual virtues that guide interactions *between individual human beings*, Ferree recognized a corresponding set of virtues in the “social” realm, guiding *how we as individuals should interact with our institutions and as members of society*. In discussing the basis of social justice, Ferree wrote:

The human community, as such, shows forth the perfections of God in ways that are not open to individuals. This fact is very clearly stated in paragraph 30 of the Encyclical *Divini Redemptoris*:

“In a further sense it is society which affords the opportunity for the development of all the individual and social gifts bestowed on human nature. These natural gifts have a value surpassing the immediate interests of the moment, for in society they reflect a Divine Perfection, which would not be true were man to live alone.”

Society *itself*, therefore, as thus revealing further the perfection of God in His creatures, is worthy of love: of a love directed not only towards the individuals who compose the society, but also toward their union with each other. This love is social charity.

Moreover, as society thus makes available to man the further perfection of his potentialities of mirroring the Divine Perfection, *it is also a support* for these perfections, and hence is an object of the virtue of justice. This justice, Social

Justice, which is directed at the Common Good itself, requires that the society be so organized as to be in fact a vehicle for human perfection.<sup>23</sup>

These fundamental concepts of justice are embedded in the founding ideals of America and the UN's Universal Declaration of Human Rights, as well as in the moral tenets of Judaism, Christianity, Islam, and other great spiritual traditions.

### **Understanding Economic Justice**

If social justice consists of organizing with others to perfect social institutions, then the pursuit of economic justice is an indispensable part of social justice. Principles of economic justice deal with all institutions affecting the production, consumption and distribution of economic goods and services. They deal with the more urgent, material needs of human beings — in contrast to the higher spiritual, intellectual, cultural and social needs that must be satisfied for the fullest development of every person. Since institutions are artifacts created by human beings, all institutions are capable of being transformed and perfected by human beings. Indeed, as Ferree reminds us, organizing with others to transform and perfect our institutions is a continuing responsibility of each of us, once we share a common vision and common principles of effective action.

Among all the writings on the subject of economic justice, the clearest set of principles we have encountered is in a 1958 book, *The Capitalist Manifesto*,<sup>24</sup> co-authored by Louis O. Kelso and Mortimer J. Adler. While the book was a bestseller when published, most scholars never got past its cover (undoubtedly because the word “capitalist” had negative connotations in many academic circles at the time). Kelso and Adler challenged basic assumptions of conventional paradigms of political economy. Even more, they developed a simple yet profound theory of economic justice that sheds new light on the impact of technology on human work and the development of modern civilization. They described the political and moral flaws of national “full employment” policies and how today’s global economic order creates an ever-expanding gap in economic power, opportunity and incomes between a wealthy elite and propertyless workers.

As a lawyer Kelso saw that the design of our “invisible” institutional environment and social tools (especially methods of corporate finance) determines the quality of people’s relationship to technology. Such intangible things as our laws and financial systems determine which people will be included or excluded from access to economic opportunity, power and capital incomes.

Access to capital ownership, Kelso argued, is as fundamental a human right as the right to the fruits of one’s labor. Kelso demonstrated that the democratization of money creation and capital credit is the “social key” to universalizing access to future ownership of productive wealth (particularly in corporate equity). This social key could enable every person, as an owner, eventually to gain income independence through the profits from one’s capital.

## Kelso's Economics of Ownership

At the heart of what Kelso called “binary economics”<sup>25</sup> or “the economics of reality”<sup>26</sup> is a simple but revolutionary proposition: *Own or be owned*. Today most political and business leaders and academic economists assume that the mass of people can only earn a living through their work, and where that is insufficient, through welfare or charity. They, like most people, remain blind to the reality that accelerating technological progress makes it possible, even necessary, to solve the income distribution problems of our global economy through the widespread ownership of the labor-saving technologies that Buckminster Fuller called “energy slaves.”<sup>27</sup> Kelso asserted that people could legitimately create economic value through two (thus *binary*) factors of production:

- *Labor* (which Kelso defined as all forms of economic work by people, including manual, intellectual, creative, and entrepreneurial work, and so-called “human capital”), and
- *Capital* (which Kelso defined as anything non-human contributing to the production of marketable goods and services, including tools, machines, land, structures and infrastructural improvements, management systems, and patents).

Kelso attributed most changes in the productive capacity of the world since the beginning of the industrial revolution to technological improvements in our capital assets, and a relatively diminishing proportion to human labor. Capital, in Kelso's terms, does not “enhance” labor productivity, *i.e.*, labor's ability to produce economic goods. It makes many forms of labor unnecessary. Furthermore, according to Kelso, productive capital is increasingly the source of the world's economic growth and therefore should become the source of added property incomes for all.

Kelso's revolutionary insights helped him to solve an economic enigma: how Say's Law of Markets — rejected both by Marx and Keynes — could achieve sustainable and balanced growth in a modern global economy. His legal background enabled him to see how the structuring of basic laws and institutions creates a system that either concentrates or decentralizes ownership and economic power, that encourages participation by all or sets up barriers to participation. Kelso invented “soft technologies” — including monetary and tax reforms, and financial tools like the ESOP — for lifting up the world's poor without pulling down the world's rich or damaging the environment.

## The Three Basic Principles of Economic Justice

Kelso based his ideal market system on three essential and interdependent principles of economic justice:

**(1) Participation**, the input principle. If both labor and capital are interdependent factors of production and if capital's proportionate contributions are increasing relative to

that of labor, then equality of opportunity demands that the right *to* property (and access to the means of acquiring and possessing property) must in justice be extended to all.

**(2) Distribution**, the out-take principle. Property rights require that income be distributed based on the value of what one contributes to production — one’s labor, one’s capital, or both. *Assuming that capital ownership is spread broadly*, the free and open market under Kelso’s system becomes the most democratic and efficient means for determining just prices, just wages and just profits. If both sales revenues and all labor costs are set by globally competitive market forces, then profits — the revenues left over after all labor costs and the costs of all suppliers of an enterprise are subtracted — represent a market-based return to capital in the form of profits to be shared among all the firm’s co-owners.

The principle of distribution for the virtue of charity (according to need) complements the distributive principle for the virtue of justice (according to contribution). Charity, however, should never be a substitute for justice. Without justice people will not be motivated to produce enough wealth for themselves and to engage in charitable acts for the needy, and the needy will never become self-sufficient.

**(3) Social Justice**, the feedback and corrective principle or, in moral terms, the anti-greed, anti-monopoly principle. (Louis Kelso and Mortimer Adler referred to this as the “Principle of Limitation.” Other Kelsonians have called it the principle of “Harmony” or “Restorative Justice.”) CESJ has re-labeled this principle in recognition of the “act of Social Justice,” exercised through organized efforts to transform unjust institutions. In addition to its feedback function, Social Justice guides the restoration of balance between “participation” (input) and “distribution” (out-take) when either principle is violated. For the sake of harmony, personal freedom and equality of opportunity, the just social order puts limits on monopolistic accumulations of capital and other abuses of property.

### **The Four Pillars of a Just Market Economy**

Common to all economies of the world — whether capitalist, socialist or mixed — is a set of premises and logical framework called the “wage system.” In general the wage system assumes that the vast majority of people will earn their basic sustenance through wages or welfare, while the bulk of productive capital will be owned and/or controlled by a tiny elite or the State that employs the laboring masses.

All wage systems ignore one or more of what can be called the “Four Pillars,” the essential principles for building a more just economy:

- Universal Access to Capital Ownership — The Moral Omission
- Limited Economic Power of the State
- Private Property

- Free Choice and Open Market Competition

Leaving out any one of these pillars, particularly during a period of economic reform, weakens the entire fabric of the economy and leads to eventual conflict or collapse. Applying the Kelso-Adler theory of economic justice, the four pillars offer a policy framework for transforming “wage systems” into “ownership systems.”

### ***Universal Access to Capital Ownership — The Moral Omission***

One of the most crucial problems that Marx addressed in his economic theories was that ownership of productive assets — “capital” — was limited to the very few. As a result, no technologically advanced market system could possibly produce sustainable growth, since working people would have only their labor to sell in direct competition with labor-displacing technology and a growing world population of workers willing to work for lower wages.

Unfortunately, Marx’s solution to this mismatch between the rising productiveness of technology and market-based consumption incomes was to abolish the institution of private property in technologies, natural resources and all other forms of wealth-producing assets, shifting power over capital assets from capitalists to state ownership and control. This resulted in enormous concentrations of wealth and power in the hands of whatever new elite gained control of the state.

The real problem that Marx faced, however, was not private ownership of productive property, but systemic *concentration* of private ownership. Turning Marx “upside down,” Kelso proposed making every worker an owner of a growing property stake in income-producing assets. This would achieve economic justice for all, make economic power universally accessible and democratically accountable, and produce optimal rates of market-determined growth based on a balance between the productive capacity of the economy and the power of consumers to purchase what the market produced.

Only when society reforms its laws and economic institutions to address this “moral omission” and lifts systemic barriers to equal citizen access to capital ownership opportunities, will now-propertyless citizens support politically the three other essential pillars of the Just Third Way, which free market, limited government theorists since Adam Smith have been advocating with little political impact.

### ***Limited Economic Power of the State***

Limiting the economic power of the State ultimately involves the goal of shifting ownership and control over production and income distribution from the State to the people. To do this, the economic power of the State should be specifically limited to:

- Encouraging sustainable and life-enhancing growth and policing abuses within the private sector, including environmental damage;

- Lifting barriers to equal ownership opportunities, especially by reforming the tax system and money-creating powers of the central bank to generate widespread access to low-cost capital credit as the key to spreading ownership and economic empowerment among all citizens and the full distribution of profits to repay the credit;
- Preventing inflation and providing a stable, asset-backed currency for sustainable development;
- Protecting property, enforcing contracts and settling disputes;
- Ending economic monopolies and special privileges, except for limited terms for holders of patents, copyrights and other intellectual property rights;
- Supporting advanced research and breakthrough technologies, making royalty-free licenses available for commercializing taxpayer-funded innovations;
- Encouraging democratic labor unions to become democratic ownership unions that organize to turn all citizens into owners and promote economic justice in the ownership, governance and management of all private-sector enterprises;
- Protecting the environment; and
- Providing social safety nets for human emergencies.

Within these limits the State would promote economic justice for all citizens. Coincident with this objective would be the goal of reducing human conflict and waste and erecting an institutional environment that would encourage people to increase economic efficiency and create new wealth for themselves and the global marketplace. Increased production would increase total revenues for legitimate public sector purposes, reducing the need for income redistribution through confiscatory income taxes and social welfare payments.

### ***Private Property in Productive Assets***

Given the exclusionary and monopolistic nature of capitalism as it evolved from the beginning of the Industrial Revolution, Karl Marx and most socialists have never understood the political significance of the institution of private property.<sup>28</sup> The connection between widespread distribution of property and political democracy, however, was evident to America's founders. This understanding was reflected in the 1776 *Virginia Declaration of Rights*, the forerunner of America's *Declaration of Independence* and *Bill of Rights*. Following John Locke's triad of fundamental and inalienable rights, the *Virginia Declaration of Rights* declared that securing "Life, Liberty, with the means of acquiring and possessing Property" is the highest purpose for which any just government is formed.

With the abolition of slavery and feudalism, the United States insured that no American would ever again become the property of another. Through this and other limitations on the rights of private property, a just government transcends the weaknesses of a pure *laissez-faire* approach to ownership rights. However, by fulfilling its duty to all its citizens to lift barriers to private property in the means of production, government builds a permanent political constituency for a sustainable free market economy.

### ***Free Choice and Open Market Competition***

Artificial determinations of prices, wages and profits lead to inefficiencies in the use of resources and scarcity for all but those who control the system. Those in power either have too little information or wisdom to know what is right, or will set wages and prices to suit their own advantage. Just prices, just wages, and just profits are best set in a free, open, democratic and competitive marketplace, where consumer sovereignty reigns. Assuming economic democratization in the future ownership of the means of production, everyone's economic choices or "votes" on prices and wages influence the setting of economic values in the marketplace.

Establishing a free and open market would be accomplished by gradually eliminating all special privileges and monopolies created by the State, reducing all subsidies except for the most needy members of society, lifting barriers to free trade and free labor, and ending all non-voluntary, artificial methods of determining prices, wages and profits. (Here we recognize that competition among enterprises is the most rational alternative to monopoly, not something that negates cooperation within competing enterprises.) This would result in *decentralizing economic choice* and *empowering each person* as a consumer, a worker and an owner.

Wealth distribution assumes wealth creation, and technological and systems advances, according to recent studies, account for almost 90% of productivity growth in the modern world.<sup>29</sup> Thus, balanced growth in a market economy depends on incomes distributed through widespread individual ownership of the means of production. The technological sources of productive growth would then be automatically linked with the ownership-based consumption incomes needed to purchase new wealth from the market. Thus, Say's Law of Markets — which both Marx and Keynes attempted to refute — would become a practical reality for the first time since the Industrial Revolution began.

### **Why is Private Property Essential to Justice?**

Owners' rights in private property are fundamental to any just economic order. In the law, property is not the things that are owned. Property is the bundle of rights that determines one's relationship to things. (In the modern era, we recognize that property owners cannot legitimately treat other persons as "things," as in more dehumanizing cultures including America's own past.) Property secures personal choice, and is the key safeguard of all other human rights. By destroying private property, justice is denied. Private property is the individual's link to the economic process in the same way that the

secret ballot is his link to the political process. When either is absent, the individual is disconnected or “alienated” from the process.

In his devastating critique of *Das Kapital*<sup>30</sup>, Louis O. Kelso, who agreed completely with Marx’s description of the structural flaws and injustices inherent in a laissez-faire, monopoly capitalistic system, found three fatal errors<sup>31</sup> in Marx’s analysis. One of these, according to Kelso, was “Marx’s failure to understand the political significance of property”:

Before examining Marx’s second critical error, it may be helpful to take note of what the concept of “property” means in law and economics. It is an aggregate of the rights, powers and privileges, recognized by the laws of the nation, which an individual may possess with respect to various objects. Property is not the object owned, but the sum total of the “rights” which an individual may “own” in such an object. These in general include the rights of (1) possessing, (2) excluding others, (3) disposing or transferring, (4) using, (5) enjoying the fruits, profits, product or increase, and (6) of destroying or injuring, if the owner so desires. In a civilized society, these rights are only as effective as the laws that provide for their enforcement. The English common law, adopted into the fabric of American law, recognizes that the rights of property are subject to the limitations that

- 1) things owned may not be so used as to injure others or the property of others, and
- 2) that they may not be used in ways contrary to the general welfare of the people as a whole. From this definition of private property, a purely functional and practical understanding of the nature of property becomes clear.

Property in everyday life is the right of *control*.<sup>32</sup> [Emphasis added.]

**Property in Land.** With respect to property in land, we need merely note that the acquisition of an original title to land from a sovereign is a political act, and not the result of operations of the economy. If the original distribution of land unduly favors any group or type or persons, it is a political defect and not a defect in the operation of the economy as such. A capitalistic economy assumes and recognizes the private ownership of land. It may, as under the federal and state mining laws and federal homestead acts, encourage private ownership of land by facilitating private purchasing of mining, timber, agricultural, residential or recreational lands.

**Property in Capital.** In a capitalistic economy, private ownership in all other articles of wealth is equal in importance to property in land. From the standpoint of the distributive aspects of a capitalistic economy, property in capital — the tools, machinery, equipment, plants, power systems, railroads,

trucks, tractors, factories, financial working capital and the like — is of special significance. This is true because of the growing dependence of production upon capital instruments.

Of the three components of production land is the passive source of almost all material things except those that come from the air and the sea, while labor and capital are the active factors of production. Labor and capital produce the goods and services of the economy, using raw materials obtained, for the most part, from land. Just as private property in land includes the right to all rents, the proceeds of sale of minerals and other elements or substances contained in land, private property in capital includes the right to the wealth produced by capital. The value added to iron ore by the capital instruments of a steel mill becomes the property of the owners of the steel mill. This is the case with all other capital instruments.

**Property in Labor.** What is the relationship of the worker to the value that he creates through his work? It has been said that no one has ever questioned the right of a worker to the fruits of his labor. Actually, as was long ago recognized by John Locke and Jean-Jacques Rousseau, the right of the worker to the value he creates is nothing more than the particular type of private property applicable to labor. Each worker, they said, has a right of private property in his capacity to produce wealth through his labor and in the value that he creates.<sup>33</sup>

Restoring the idea as well as the fact of private property — especially in corporate equity — Kelso advocated the reform of laws that prohibit or inhibit acquisition and possession of private property. This would include ensuring that all owners, including shareholders, are vested with their full traditional rights to participate in control of their productive property, to hold management accountable through shareholder representatives on the corporate board of directors, and to receive income from the full stream of profits produced by their share of productive assets, not subject to the discretion of corporate boards of directors or discriminatory double taxation by government. Private property links income distribution to economic participation — not only by owners of existing assets, but also by new owners of future wealth.

#### **4. Rethinking the Fundamentals**

The primary social means to bring about expanded ownership of productive assets involves the *democratization of productive, self-liquidating credit*.

By making productive credit available on a truly democratic basis, society could move people toward economic self-sufficiency and independence. A broad dispersion of wealth and power would serve as the ultimate check against abuse of power by the State or by the majority against minorities or individual citizens.

Money and credit systems are critical institutions in developing principles and methods for building a just market economy. Control over money and credit (*i.e.*, financial capital) largely determines who will own and control productive capital in the future.

### **Access to New Money and Credit: A New Right of Citizenship<sup>34</sup>**

When the subject of money and money creation comes up, we sometimes forget that money is a man-made thing, and is morally neutral. Its goodness or badness depends solely on how it is created and how it is used. Like the secret ballot in politics, money is a uniquely “social good,” an invention of modern civilization, a means for measuring economic values and enabling people to participate in a market economy.

Before we can transform our national and global economic systems, we need to have a common understanding and working definition of money. Louis Kelso explained:

Money is not a part of the visible sector of the economy; people do not consume money. Money is not a physical factor of production, but rather a yardstick for measuring economic input, economic outtake and the relative values of the real goods and services of the economic world. Money provides a method of measuring obligations, rights, powers and privileges. It provides a means whereby certain individuals can accumulate claims against others, or against the economy as a whole, or against many economies. It is a system of symbols that many economists substitute for the visible sector and its productive enterprises, goods and services, thereby losing sight of the fact that a monetary system is a part only of the invisible sector of the economy, and that its adequacy can only be measured by its effect upon the visible sector.<sup>35</sup>

Today money is created and credit extended in ways that keep the rich wealthy, and the poor in their place. Consumer credit, for example, is available virtually to everyone, while access to capital (or “productive”) credit is restricted to use by those who meet the universal requirement for collateral, *i.e.*, the rich. Thus, the poor and middle-class get the most risky and highest cost credit, while the rich get the lowest-cost and least risky kind of credit. It is more than an outworn truism that you need money to make money — lenders will only extend capital credit to people who already have assets.

For example, let us look at the estimated \$2 trillion of growth assets added each year in the US public and private sectors, consisting of new technology, plant and equipment, physical infrastructure and rentable space.<sup>36</sup> Amounting to a growth increment of approximately \$7,000 for every man, woman and child, these productive assets will be financed in ways that add almost no new owners. If capital credit were to become as universally accessible as the political ballot, capital assets could become a growing source of independent capital incomes for all persons and their families.

What makes capital credit special is that by nature it is procreative or “self-liquidating.” That is, capital credit is restricted to the purchase of assets that are expected

to pay for themselves out of the revenues generated from the capital project which it financed, and thereafter these assets are expected to earn a continuing flow of profit for whoever owns the assets. Capital credit is inherently counter-inflationary. Consumer credit, on the other hand, does not generate its own repayment, and any repayment must come out of the user's other resources. When used to any significant extent, consumer credit greatly reduces the purchasing power of the user.

### **Beyond the Wage Systems of Smith, Marx and Keynes**

The object of the Just Third Way is not higher wages or the redistribution of income. The Just Third Way aims at restructuring the underlying *system*, balancing the demands of participative and distributive justice by lifting institutional barriers that have historically separated owners from non-owners.<sup>37</sup> This involves removing the roadblocks preventing people from participating fully in the economic process as both workers and owners. More people could then begin earning higher incomes from their own capital, as well as from their labor, creating for the ordinary citizen what Michael Lind of the New America Foundation calls a “Capital Wage,” as a supplement to the “Labor Wage” and the “Welfare Wage.”<sup>38</sup>

The Just Third Way provides every person full access to the common good — a legal system and the social means that will encourage all people to create their own new wealth and share in profits broadly and equitably. The Just Third Way offers a just free market system that economically empowers all individuals and families through the democratization of money and credit for new production. Widespread citizen access to money power would create universal access to direct ownership of income-producing capital.

Within the economic process of a market economy, widespread dispersion of capital ownership (and the powers of property) functions as the economic check against the potential for corruption and abuse by the government and by corporate and financial elites. Restoration of the full rights of property and extension of equal access to private property to every individual, serves as the basis for economic democracy, the necessary foundation for effective political democracy.

### **The Transformation of Human Work**

In striving to “make every worker an owner,” the Just Third Way recognizes that by nature *every* person is a worker. Under the wage system framework, the concept of “work” has been stripped of much of its dignity, consigned only to that portion of human endeavor dealing with “making a living.” In its larger context, however, work involves physical, mental, entrepreneurial and spiritual forms of human activity, from manual labor to meditation.

Within the paradigm of the Just Third Way, the highest form of work is not economic labor, but unpaid “leisure work” — the work of building a civilization and improving the social order, work that no machine can perform.

Throughout history, creative work has mainly been engaged in by individuals with independent incomes, those who were supported by a patron or by someone else's labor. The Just Third Way provides a means whereby more people can engage in "leisure work," continue their lifetime learning and personal development, and be liberated from wage slavery by an independent capital income produced by their own labor-displacing "technology slaves."

## **5. A Blueprint for a Sustainable Ownership Society**

In the 1860s, Abraham Lincoln's Homestead Act turned thousands of people into owners of frontier land, the single most valuable productive asset at the time, by giving them the opportunity to earn ownership of one hundred and sixty acres. The land itself wasn't just given away. Each homesteader had to develop the land and work it for five years — the "quid pro quo." He or she was then granted title.

However, in today's world, ever-improving technology accounts for most of the newly produced wealth. Thus, limiting everyone to ownership opportunities in finite land and natural resources would merely result in a growing population dividing up a static amount of wealth into ever-smaller pieces, ensuring poverty for themselves and their descendants. There are, however, social technologies that can be used to democratize individual ownership of a type of wealth that has no limits save human creativity and ingenuity. We are referring here to ownership of new tools of production constantly being added to the world's expanding technological frontier.

### **Capital Homesteading: Monetary, Tax and Inheritance Reforms**

Louis Kelso invented the Employee Stock Ownership Plan (ESOP) for workers in the corporate sector as a first step toward a Capital Homesteading plan for all citizens. For the economic policies of government at any level to work for the greatest number of people, such policies have to build a universal political constituency for free enterprise growth. A Capital Homestead Act<sup>39</sup> promotes such a broadened constituency by applying principles of justice at both the macro- and micro-economic levels.

Components of a national Capital Homesteading program are interdependent, supporting the total program like the legs of a tripod:

- 1) Reforming national monetary policy,
- 2) Simplifying the national tax, and
- 3) Reforming inheritance policy.

### ***Reforming National Monetary Policy***

Central banks were invented to create money. Speaking somewhat flippantly, the economist Paul Samuelson calls central banks “legal counterfeiters.” They can create good money linked to productive growth or bad money with no asset backing. Only the latter is inflationary.

Through Capital Homesteading reforms, economic growth would be freed from the slavery of past savings (“old money”), while creating a domestic source of new asset-backed, interest-free money and expanded bank credit to finance new capital repayable out of “future savings.”<sup>40</sup> To ensure that ownership of future private-sector growth and newly created wealth is universally accessible to every citizen, such newly created money and credit would only be available through economic democratization vehicles, administered through the competitive member banks of a well-regulated central banking system.

The creation of such new money and credit under Capital Homesteading would be non-inflationary and would simultaneously broaden purchasing power throughout the economy. To accomplish this, a key reform under Capital Homesteading is a two-tiered interest policy by the central bank that would sharply distinguish between productive and non-productive uses of credit.

Under the first tier, future increase in the money supply (“new money”) would be linked to actual growth of the economy’s productive assets, creating new owners of new capital through widespread access to interest-free capital credit repayable with future profits. The central bank would create (*i.e.*, “monetize”) interest-free credit, with lenders adding their normal markup as service fees above the cost of money, thus establishing an *unsubsidized* minimal rate for financing technological growth. This would provide the public with a currency backed by increasingly more efficient instruments of production, real wealth-producing capital assets, rather than over \$9.5 trillion of unsustainable government debt.

The second tier would allow substantially higher interest rates for non-productive purposes, for which “past savings” or “old money” would remain available. The central bank would be restrained from future monetization of national deficits or encouraging other forms of non-productive uses of credit, causing upper-tier credit to seek out already accumulated savings at market rates.

Capital Homesteading would also provide through capital credit insurance a rational way to deal with risk, as well as an additional check on the quality of loans being supported by the central bank. Capital Homesteading would promote private-sector insurance and reinsurance pools to offset the risk that the enterprises issuing new shares on credit might fail to repay the loans. Such capital credit default insurance would substitute for “collateral” demanded by most lenders to cover the risk of non-payment, thus enabling the poor and others with few assets to overcome the collateralization barrier that excludes poor people from access to productive credit.

### *Simplifying the Tax System*

Few Americans today would label the U.S. tax system as either simple or fair.<sup>41</sup> Many Americans believe that tax breaks are mainly benefiting the extremely wealthy. While the top 5% of Americans account for more than half of all personal income tax revenues, through advantageous arrangements wealthy taxpayers frequently are able to avoid paying anything but a token amount of taxes on their capital incomes. The payroll tax and sales and excise taxes take a much bigger share of disposable income from middle and low income Americans than from wealthy Americans, according to the Institute on Taxation and Economic Policy.<sup>42</sup>

Meanwhile, our current approach to taxation continues to be justified under the erroneous assumption that there is no other way than through supply-side tax incentives to stimulate new investments and create jobs.<sup>43</sup>

A just tax system would encourage accelerated rates of sustainable and life-enhancing growth in wealth-producing assets, enable all citizens to become economically self-sufficient in the process through growing “Capital Homestead” accumulations, and tax every citizen’s consumption incomes above a decent living level, at a rate sufficient to balance the government’s budget.<sup>44</sup>

A more realistic and just tax today would be a single rate imposed on all directly earned and so-called “unearned” incomes above a decent level needed to meet all one’s basic living needs and savings for retirement. Thus, the burden of government would be spread proportionately among all taxpayers earning more than the exemption levels. A single tax rate would be administratively more efficient than a progressive or graduated tax. Ideally, the single-rate tax on individuals would cover all government expenditures each year, including welfare, defense, interest on the Federal debt, Social Security and Medicare obligations, unemployment and all other current spending not covered by user fees. Incomes exempted from taxes could also cover the cost of private-sector health insurance premiums under universal comprehensive health care coverage. Health vouchers would be supported through general revenues to enable the poor to choose among private-sector providers under the single-rate tax system.

This will allow for the gradual or immediate elimination of regressive payroll taxes on workers and companies, making the economy more competitive. And it would help make government vastly more accountable and transparent to the electorate. If tied into a vigorous national growth and expanded ownership strategy, one could easily imagine future candidates for public office actually competing for votes on the basis of who could offer the best government services at the lowest single rate. Each year’s single direct tax rate could be adjusted up or down to provide sufficient revenues to avoid budget deficits and even pay off government debt over time.

Taxes on property and capital improvements would be discouraged as impediments to development. Inheritance, gift and wealth taxes would be redesigned to encourage

broadly-based ownership of large aggregates of existing wealth, rather than passing monopolistic accumulations of wealth and economic power from one generation to the next.

### ***Reforming Inheritance Policy***

Under a national ownership strategy, inheritance policy should be restructured to discourage excessive concentrations of wealth and, in order to promote individual initiative and capital self-sufficiency, to encourage the broadest possible distribution of income-producing assets. Rather than gift and other “death taxes” on the estate (including assets accumulated within proposed Capital Homestead vehicles), taxation on generational wealth transfers should be based on the size of the *recipient’s* total accumulations after receiving the gift or bequest.

If the value of the recipient’s asset accumulations remains below the exempt level of capital self-sufficiency (e.g., \$1 million), no tax would be imposed on the newly acquired assets. Above that exempt level, a reasonable generational asset transfer tax (or a single rate tax on “excess” Capital Homestead accumulations) would be paid. This would encourage the wealthy to spread their wealth among family members, friends, employees, and others they consider worthy, as long as the recipient’s accumulations remain below the statutory exemption.

### ***Linking Tax, Monetary and Inheritance Reforms to the Goal of Expanded Capital Ownership***

Capital Homesteading would raise as a goal of national economic policy, universal participation in the ownership of capital resources, alongside full employment of labor resources. These two goals would be, as the late Senator Hubert Humphrey put it, the “twin pillars of our economy.”<sup>45</sup> Monetary and tax policy-makers and all public-sector economic institutions would be encouraged to upgrade their programs to maximize ownership opportunities for all citizens<sup>46</sup> by:

- restructuring Federal Reserve policy and Federal tax policy to favor ownership-expanding productive credit over non-productive and speculative credit;
- unharnessing the private sector to turn underutilized and wasted human and technological potential into feasible “green growth” and renewable energy technologies;
- spurring the economy to new heights by increasing entrepreneurial innovations and productive private-sector jobs to compete with monopolistic enterprises;
- providing a long-term solution to the unsustainable debt crisis on Wall Street and from \$9.5 trillion in past Federal deficits and \$74 trillion<sup>47</sup> projected futures deficits in Medicare and Social Security; and

- radically reducing the growing costs and dependency of citizens on government-created jobs and welfare.
- leaving more money in people’s pockets so that they can meet their own needs without recourse to State aid or private charity as a result of taxing away income people need to survive.

This paper assumes no increase in the current rate of new capital formation every year (\$7,000 *per capita*) and full implementation of the tax and monetary reforms proposed under the Capital Homestead Act. We calculate that an annual allocation of \$7,000 of capital credit to every Capital Homestead Account would finance a sustainable green growth economy, and enable every citizen to become economically independent, within two generations. A child born in 2008 would accumulate over \$460,000 and receive after taxes annual dividend incomes of close to \$46,000 by the time he or she reached age 65. In addition that citizen would receive nearly \$1.6 million in after-tax dividends before reaching 65 to supplement wage, salary and other incomes earned during those years.<sup>48</sup>

These steps would restore the original meaning of “the American Dream” by enabling every citizen from birth to death to enjoy property incomes, expanding economic independence and property rights in a 21st Century Ownership Society.

### **Universal Health Care, Income Maintenance and Retirement Security**

The tax and monetary reforms proposed by the Capital Homestead Act would effectively address economic defects in our currently fragmented and costly health care system, and would enable all Americans to receive the care they need with minimal public sector and bureaucratic control. The tax system, for example, *would exempt a four-member family from paying any income or payroll taxes on incomes below \$100,000*, to cover their own basic living expenses. That family could then afford to pay premiums for nationally standardized, comprehensive health care coverage offered by the private sector, with no exclusions. Needy families would receive a health voucher to pay for the same coverage. Capital credit would also be provided to health delivery systems and mutual health insurance companies owned and governed jointly by health care providers and subscribers.<sup>49</sup>

The basic elements of universal health coverage under Capital Homesteading would include:

- Pooling of risk. “The Doctors’ Plan” developed by CESJ employs a basic principle of insurance: Spread out risk by pooling the entire U.S. population in the entire annual cost of health care, to determine the *per capita* cost for every individual.
- Health care coverage borne by the individual rather than the employer.
- Universal coverage with no exclusions.
- Standardized minimum insurance package.

- Required level of coverage.
- The means for citizens to choose and pay for their own health care providers through personal exemptions, deductions, and deferrals to allow citizens to accumulate a viable estate of income-generating capital assets.
- Payment of all entitlements and other government spending at present levels from general revenues. This plan would eliminate the payroll tax on workers and employers, make dividends deductible to corporations, and balance the budget by substituting a single rate tax on non-exempt personal incomes from *all* sources.

### **Combining Efficiency and Justice at the Enterprise Level**

Work in most companies today follows the “scientific management” philosophy of Frederick Winslow Taylor. Writing in 1911, Taylor proposed that systemizing efficiency should be the primary focus of corporate managers. He declared, “In the past, man was first. In the future, the system will be first.”

Unfortunately, Taylor’s system turned the worker into a disposable human tool, a worker-for-hire, a wage serf. As satirized in the classic movie “Modern Times,” where Charlie Chaplin actually *becomes* a mere cog in the assembly line, Taylor’s system dehumanized the worker and the culture of work, pitting workers against technology.

Taylor was also oblivious to another danger inherent in his system: it left ownership, control and the distribution of profits in the hands of a small elite of managers, time-study engineers and owners. His system offered once self-reliant workers higher wages in exchange for their loyalty to what many consider a modern form of feudalism.

Most companies today still operate according to Taylor’s top-down vision of the workplace. However, the advent of robotics, advanced informational systems, and the globalization of production, marketing and distribution are forcing a basic shift in how we view the role of the worker and the nature of the workplace.

### **Justice-Based Management (JBM)**

Because of global and technological change, companies are recognizing that their survival and success will require changes in the way they “do business.” Increasingly, they are seeking new, more flexible ways of rewarding and motivating their workers while controlling costs and delivering ever-higher levels of value to their customers. They are also realizing that these objectives are impeded by the adversarial nature of the surrounding economic and cultural environment — a byproduct of Taylor’s philosophy of work and the inherent instability of the wage system. Businesses are coming to see that what is needed is a new way of thinking.

This new way of thinking would not reject the critical role of systems, but would redesign systems to put people first. It would create a new management approach that re-humanizes the workplace. It would shift power, responsibility and control over modern

tools and advanced organizational systems from the few to every person affected by the process.

The new system would combine principles of equity (justice and ownership) with principles of efficiency, to raise the performance of an enterprise and its workers to their highest potential, in order to better serve their customers and other stakeholders. Instead of tapping into the wisdom, knowledge and creativity of only a few, the new system would recognize the advantages of drawing out and combining the wisdom, knowledge and creativity of every worker.

Some of the most progressive private-sector firms have begun to implement successful new approaches for motivating workers, improving productivity and quality, facilitating change and maintaining continuity in their organization's culture. One comprehensive approach, developed by our Center for Economic and Social Justice (CESJ, is called "Justice-Based Management" or "JBM."<sup>50</sup>

Where Capital Homesteading, as described above, would help create a macroeconomic environment whose laws and institutions would encourage widespread capital ownership, Justice-Based Management introduces within the workplace a microeconomic application of the Just Third Way. Justice-Based Management (JBM) is a systems approach for creating sustainable cultures of ownership within all economic enterprises and institutions.<sup>51</sup> JBM was developed to bring synergy where there is now conflict in productive enterprises facing global competition.

Justice-Based Management was conceived by ESOP pioneers to address the shortcomings in most employee-owned companies in America, where the rights, powers and benefits of ownership remain concentrated in a small non-accountable elite controlling corporate and financial governance. JBM aims at substituting the conventional autocratic leadership philosophy with a servant leadership philosophy and a management system organized in accordance with the free market logic of binary economics and the universal principles of economic and social justice.

The ultimate purpose of JBM is to empower each person economically as a worker and as an owner, and to inspire all workers to work together to serve and maximize value to their customers. JBM embodies two precepts of equity: (1) that people are entitled to a proportionate share of what they helped to produce, both with their labor and their productive assets; and (2) that all people are entitled to live in a culture that offers them equality of dignity and opportunity, with equal access to the means of acquiring property and power to secure their fundamental rights.

### **Components of JBM**

Justice-Based Management marries the quality, educational and participation aspects of Total Quality Management<sup>52</sup> and Open Book Management,<sup>53</sup> with the equity and ownership concepts underlying employee stock ownership plans (ESOPs). JBM provides a system of participatory structures and processes<sup>54</sup> for diffusing power down to the level

of each person in the company. JBM also offers workers an opportunity to participate as first-class shareholders in the company's governance, equity growth, and in monthly and annual profits on a profit center basis.

A JBM system typically incorporates an employee stock ownership plan (ESOP), individual and team performance feedback (*e.g.*, frequent and formula-based cash profit sharing), ownership education and sharing of financial information, and structured participatory management (including the right to vote one's shares to elect representatives to the company's board of directors). JBM also reinforces within ongoing information, communications and education programs, a broad understanding by all employee-shareholders of the interdependency among every person, department, and profit center in serving the customer and competing in the marketplace.

Experience has shown that within a true culture of ownership, workers become empowered to make better decisions, discipline their own behavior, and work together more effectively as a team.<sup>55</sup> Because each person contributes, risks and shares as an owner, as well as a worker, JBM helps unite everyone's self interest around the company's bottom-line and shared vision and values. As such democratically owned and organized enterprises begin to multiply (encouraged by an institutional environment that universalizes access to credit for capital ownership), a more free and just market system can take root and thrive.<sup>56</sup>

### **Vehicles for Changing the System**

Based on the principles of binary economics and the free market, a number of private-sector vehicles have been developed for implementing the transformation to a more just economy. These include such innovations as Capital Homestead Accounts, Employee Stock Ownership Plans or "ESOPs," Community Investment Corporations, Regional Natural Resources Banks, Homeowners' Equity Corporations, and Ownership Unions.

#### ***Capital Homestead Accounts (CHAs)***<sup>57</sup>

The Capital Homestead Account (CHA) was developed to channel capital credit to citizens for private-sector green growth and to create private property stakes and ownership incomes for every person. Each citizen could establish from the time of birth a tax-deferred CHA to provide him or her a dividend income for supplementing income from other sources and to provide for retirement. The tax system would also eliminate the traditional double taxation of corporate profits in ways that would maximize greater savings and private-sector investments in new plant, equipment, infrastructure, rentable space and other income-generating capital assets and would remove other features that now discourage widespread ownership.

The discount windows of each of the 12 regional Federal Reserve banks would create "new money" and authorize the extension of interest-free capital credit (including only transaction costs and risk premiums) under Section 13 of the Federal Reserve Act. Members banks would serve as "capital credit irrigators" for financing faster rates of

sustainable private-sector growth in each of the regions. The new money would be asset-backed and channeled through bank-administered Capital Homestead Accounts in equal allotments to enable every citizen to purchase new full-dividend payout shares issued to finance the green growth assets. The loans would be privately insured by the pooling of risk premiums and structured to be repaid wholly out of pre-tax profits expected to be distributed on the new shares.

### ***Employee Stock Ownership Plans (ESOPs)***<sup>58</sup>

Leveraged Employee Stock Ownership Plans (ESOPs) have changed the culture of many businesses around the world, turning over 10 million US workers into shareholders of 10,000 mostly successful companies. The ESOP channels money power to corporate workers through self-liquidating capital credit, secured and repayable with the future profits that these worker-owners help generate. Lower-cost credit through Capital Homestead Accounts for workers and all members of their families would encourage more companies to add ESOPs to finance their acquisitions and growth in national and global markets.

The ESOP has been enacted into over twenty US laws and is being used by over 10,000 companies in the United States, and increasingly in the United Kingdom and a growing number of other countries. What makes it different from other ways for workers to purchase ownership shares is that the ESOP enables many workers with little or no assets to gain an equity stake and share profits in the company in which they work — the workers pay for their shares out of future corporate profits, not by reducing their take-home incomes.<sup>59</sup>

### ***Citizens Land Banks (CLBs)***<sup>60</sup>

For-profit Citizens Land Banks (CLBs) — also referred to as “Citizens Land Cooperatives (CLCs)” and for-profit Community Investment Corporations (CICs) — offer a “Just Third Way” for planning and building new communities, or redeveloping low-income communities, under professional management and with access to interest-free Federal Reserve financing. The CLB was designed as a private-sector economic empowerment vehicle for all citizens who are permanent residents in a defined area. It would replace typical land development corporations whose “urban removal” schemes often force out low-income residents unable to afford rising real estate costs associated with higher land values.

As a tax-deferred vehicle (similar to a leveraged employee stock ownership plan), the CLB would be able to receive interest-free money through the central banking system in order to purchase land, with the loans repaid by its land development and rental profits. Every local citizen would automatically be a voting shareholder in this for-profit land development corporation and would share in ownership incomes from land rentals, natural resource extraction fees and infrastructure user fees. Land owned by government could be transferred free to its citizens through their CLBs.

***Natural Resources Banks (NRBs)***

Similar to the CLB for community-based land planning and development, the Natural Resources Bank (NRB) was designed to link citizens as owners to the land and natural resources on a regional, or even national, basis. Like the CLB, the NRB would have a representative board elected by citizen-shareholders for approving, financing and maintaining infrastructure projects, approving construction contracts under competitive bidding, and marketing to attract feasible new investment to the region. For example, proposal called “The Katrina Plan” would have employed a citizen-owned NRB for financing reconstruction of the hurricane-ravaged Gulf States region.<sup>61</sup> As mentioned below (see “Ending the War in Iraq: An Oil Share for Every Citizen”), an NRB could also serve to build direct ownership of the oil and other natural resources into every Iraqi citizen.

***Homeowners Equity Corporations (HECs)***<sup>62</sup>

A bold strategy to solve the home mortgage crisis — a crisis with serious repercussions throughout the world — is an innovative “rent to own” vehicle called the “Homeowners’ Equity Corporation” or “HEC.”

A HEC is a for-profit stock corporation whose shareholders would be homeowners in danger of foreclosure. HECs — and there should be many, to provide redundancy, lower risk, and ensure competition in a community — would purchase distressed properties at the current market value. HECs would obtain acquisition loans from commercial banks, which in turn would discount the loans at the local Federal Reserve at a rate reflecting transaction costs and a revised risk premium. The homes could then be leased at a realistic market rate to their former owners or new tenants.

The tenant would earn shares in the HEC as lease payments were made, sufficient to cover debt service, maintenance, and taxes. When the acquisition loan for a particular property was fully paid, the tenant could exchange his or her HEC shares for title, or continue as a tenant/shareholder at a reduced lease payment, sufficient to cover maintenance and property taxes. Financing the purchase of properties through the Federal Reserve System and its member banks would cost taxpayers nothing and would be the first step in restoring a currency backed by hard assets instead of government debt. This pioneering alternative may require some enabling legislation from Congress to give it powers similar to those currently enjoyed by leveraged ESOPs.

***Ownership Unions***<sup>63</sup>

An important goal of the Just Third Way is the transformation of *Labor* Unions into *Ownership* Unions. This would expand the mission of unions (whose private-sector membership has been steadily shrinking) to reach out to and represent all shareholders, including worker-owners. An Ownership Union is designed to work collaboratively with management to secure financing of advanced technologies and other new capital investments through Capital Homestead Accounts for all citizens. It is intended to

represent a growing constituency of worker- and citizen-owners on governance rights issues as well as to help lower all barriers to accelerated and sustainable rates of green growth in a more democratically accountable corporate and financial sectors.

Ultimately, Ownership Unions will shift the source of worker incomes from inflation-inducing wage and benefit increases, to widespread distribution of growing profit and equity incomes to worker- and citizen-owners. This will enable American companies to become more cost-competitive in global markets and to reduce the outsourcing of jobs to workers willing or forced to take lower wages.<sup>64</sup>

## 6. Practical Applications for Solving Today's Problems

We have outlined above a new way of understanding major economic problems confronting all societies. We have presented new policy reforms for ensuring that every person has equal access to future ownership opportunities in green growth and wealth yet to be created. Now we can examine some immediate applications of these ideas to demonstrate practical ways to resolve our growing global crises.

### Models for Global Peace

There can be no peace without justice, and there can be no justice without economic justice. This requires that every person be empowered with the means of acquiring and possessing property (the economic equivalent of the political ballot), in order to participate fully, as a worker and an owner. CESJ has developed a number of prototypes for applying and delivering economic justice to the people of the world. These should be studied by policy makers — and all people of good will — seeking viable and lasting solutions.

One precedent on the scope of a “Marshall Plan” was the bipartisan Presidential Task Force on Project Economic Justice under President Reagan. This commission developed a strategic plan based on CESJ’s proposals for economic democratization to counter the spread of Marxism in the 1980s throughout Central America and the Caribbean.<sup>65</sup>

**Project Economic Justice for the Middle East** could provide a model for a moral offensive in the “War of Ideas” for countering violent extremism and recruitment of suicide bombers.

### *Ending the War in Iraq: An Oil Share for Every Citizen*

The CESJ Iraq Oil Plan would provide each Iraqi man, woman and child a single lifetime, non-transferable ownership share in the nation’s oil resources and oil profits. It differs from all other plans that have been proposed, such as the trickle-down sharing of profits (but *not ownership*) under the Alaska Permanent Fund. Like Lincoln’s Homestead Act, the “an oil share for every citizen” plan would economically emancipate all Iraqis. It would give them a property stake to defend against terrorists, and would produce taxable dividend incomes for every citizen. Increased incomes would help pay for the costs of a

limited government dependent on the people, rather than making citizens dependent on a government with unlimited powers.

This plan would create a cost-free starting point for a free enterprise version of economic democracy — the basis for a stable, corruption-resistant and highly accountable political democracy. It would bring a speedy and honorable conclusion to the war in Iraq, while setting a positive alternative model for the future of democracy in Iran and other authoritarian oil-producing states in the region.<sup>66</sup>

***The Abraham Federation: A Shared Future for Palestinians and Israelis***

The Abraham Federation<sup>67</sup> is a plan for the conflict-torn Holy Land, proposing a religiously and spiritually pluralistic nation that institutes economic and political democracy based on universal principles of “Peace through Justice.” This innovative approach to nation-building — introducing universal citizen access to capital ownership, advanced green technologies and a “Global Free Trade Zone” — could start in the West Bank, Gaza and Jerusalem, and be adopted by all nations throughout the Middle East.

As a basic right of citizenship, all citizens would gain an ownership share in the land and other natural resources through a Natural Resources Bank and have equal access to capital credit to finance the growth of the economy. The unity reinforced by this shared ownership strategy would bring stability and prosperity to this critical region of the world. It would also demonstrate an alternative nation-building model for other conflict-prone regions of the world, including Afghanistan, on how the “Just Third Way” could resolve group conflicts rooted in economic insufficiency.

## **7. Conclusion: Pursuing Justice, Not Utopia**

Mankind will never achieve a “perfect” economic system where all drudgery is eliminated and everyone is free to do the work they prefer. However, before the opportunity passes, it becomes imperative for all economies of the world to implement effective programs of expanded ownership of productive assets. The alternative is a pendulum swing between capitalism and socialism, where any period of stability merely serves as preparation for the next violent overthrow.

Many aspects of the Just Third Way will be determined by reforming tax and banking laws that affect the process of democratizing productive credit. How this democratization is brought about — the timing, priorities and procedures — are social issues best discussed in an open and democratic fashion by people aspiring to build a free and just future for themselves.

We have reached a rare moment in history. Having discarded the failed systems of socialism and communism, many nations are now struggling to protect their citizens against the loss of economic sovereignty under the Wall Street capitalist model of economic globalization. Before the pendulum swings back to socialism, all nations of the

world have a chance to deliver for their citizens an economic revolution without victims, a revolution of justice and hope. This positive global revolution would be consistent with the unrealized ownership vision and ideals of America's founding fathers and the ancient principles of justice expressed in Islam, Christianity and Judaism.

As they search for a better future, the citizens of developing and transforming economies — as well as those living in the developed countries — need an alternative to the outmoded and dehumanizing systems of traditional socialism and capitalism. All nations now have the power to create new property for the poor, without taking existing property from the rich. Leaders who believe in Peace through Justice have in their reach a new model for economic globalization. Guided by a true and just third way, we can meet the challenge of R. Buckminster Fuller to:

. . . make the world work for 100% of humanity, in the shortest possible time, through spontaneous cooperation without ecological offense or disadvantage of anyone.<sup>68</sup>

## Notes

<sup>1</sup> R. Buckminster Fuller, *Utopia or Oblivion: The Prospects for Humanity*, Bantam Books, 1969.

<sup>2</sup> Thomas T. Bradshaw, *Chemical & Engineering News*, February 21, 1972, p. 26.

<sup>3</sup> Jean-Baptiste Say, *Letters to Malthus*, 1821.

<sup>4</sup> Bradshaw, *op. cit.*, p. 26.

<sup>5</sup> *Ibid.*, p. 31.

<sup>6</sup> *Ibid.*, p. 23.

<sup>7</sup> *Ibid.*, p. 26.

<sup>8</sup> *Ibid.*, p. 27.

<sup>9</sup> *Ibid.*

<sup>10</sup> Fuller, *Utopia or Oblivion, op. cit.*

<sup>11</sup> *Ibid.*

<sup>12</sup> Frederick Merton, *The Rothschilds: A Family Portrait*, Athenium, 1962.

<sup>13</sup> "Statistics on Wealth and Income Distribution," excerpted with permission of the Shared Capitalism Institute, in *Capital Homesteading for Every Citizen*, by Norman Kurland, Dawn Brohawn, and Michael Greaney, Economic Justice Media, 2004, pp. 197-199.

<sup>14</sup> See endorsements for *The Ownership Solution* by Jeff Gates, Addison-Wesley, Reading, MA, 1998.

<sup>15</sup> The three principles of economic justice were first defined in systems terms by both Louis Kelso and his co-author, philosopher Mortimer Adler, in Chapter 5 of their 1958 book, *The Capitalist Manifesto*.

<sup>16</sup> Martin Luther King, Jr., "Pilgrimage to Nonviolence," *Stride Toward Freedom*, 1958.

<sup>17</sup> *Ibid.*

<sup>18</sup> William J. Ferree, S.M., Ph.D., "Introduction to Social Justice," Paulist Press, 1948, republished with foreword by Norman G. Kurland, J.D., Center for Economic and Social Justice and Social Justice Review, 1997. Free download at <http://www.cesj.org/thirdway/socialjustice/introtosocialjustice.pdf>.

<sup>19</sup> Martin Luther King, Jr., *op. cit.*

<sup>20</sup> World Day of Peace Message, January 1, 1972.

<sup>21</sup> Louis O. Kelso and Mortimer J. Adler, *The Capitalist Manifesto*, Random House, 1958. p. 66.

<sup>22</sup> Ferree, *op. cit.*, Chapter III, "Introduction to Social Justice," p. 24.

<sup>23</sup> *Ibid.* at pp. 24-25.

<sup>24</sup> Kelso and Adler, *op. cit.*, n. 1.

<sup>25</sup> Louis O. Kelso and Patricia Hetter, *Two-Factor Theory: The Economics of Reality*, Random House, 1967; Robert Ashford and Rodney Shakespeare, *Binary Economics: The New Paradigm*, University Press

of America, 1999; and Norman Kurland, “A New Look at Money and Credit: The Kelsonian Binary Model for Achieving Rapid Growth Without Inflation,” *Journal of Socio-Economics*, December 2001, pp. 495-215.

<sup>26</sup> *Ibid. Two-Factor Theory: The Economics of Reality*.

<sup>27</sup> Fuller, *op. cit.*, pp. 150-2, 236.

<sup>28</sup> Louis O. Kelso, “Karl Marx: The Almost Capitalist,” *American Bar Association Journal*, March 1957.

<sup>29</sup> John W. Kendrick, “Productivity Trends and Recent Slowdown: Historical Perspective, Causal Factors, and Policy Options,” *Contemporary Economic Problems*, 1979, American Enterprise Institute; also R. M. Solow, in K. J. Arrow, S. Karlin, and P. Suppes, eds., *Mathematical Methods in the Social Sciences, 1959*, pp. 89-104, Stanford University Press, 1960. Also: Edward Denison, “Accounting for United States Economic Growth: 1929-69,” Washington, DC: Brookings Institution, 1974, and *Accounting for Slower Economic Growth: The United States in the 1970s*, Washington, DC: Brookings Institution, 1979.

<sup>30</sup> *Ibid.*

<sup>31</sup> The other two errors of Marx identified by Kelso were: (1) “his adoption of the labor theory of value previously advanced by David Ricardo” and (2) “his mistaking the wealth produced by capital for “surplus value”, i.e., value he thought was created by labor and stolen from the laborer by the capitalist.” A post-scarcity philosopher whose views on the labor-displacing significance of technological change complemented those of Kelso was R. Buckminster Fuller. See his *Utopia or Oblivion: The Prospects for Humanity*, New York: Bantam Books, 1969 and the web site of the Buckminster Fuller Institute at <http://www.bfi.org>.

<sup>32</sup> Kelso, *op. cit.* “Karl Marx: The Almost Capitalist.”

<sup>33</sup> *Ibid.*

<sup>34</sup> Norman G. Kurland, “A New Look at Prices and Money: The Kelsonian Binary Model for Achieving Rapid Growth Without Inflation,” *The Journal of Socio-Economics*, 2001. Available at <http://www.cesj.org/binaryeconomics/price-money.html>.

<sup>35</sup> Kelso and Hetter, *op. cit.*, *Two-Factor Theory: The Economics of Reality*, p. 54.

<sup>36</sup> *Economic Report of the President*, <http://w3.access.gpo.gov/eop/>

<sup>37</sup> The moral framework of the Just Third Way is discussed in greater detail in Chapter V of Louis Kelso and Mortimer Adler’s profound book with the misleading title, *The Capitalist Manifesto* (New York: Random House, 1958). A further refinement of the specific principles can be found in *Curing World Poverty: The New Role of Property* (1994).

<sup>38</sup> “Are We Still a Middle-Class Nation?,” by Michael Lind of the New America Foundation, *The Atlantic Journal*, January 20, 2004.

<sup>39</sup> In the 1964 presidential elections, Louis Kelso and Walter Lawrence first coined the term “Industrial Homestead Act.” Ronald Reagan in a 1964 speech to Young Americans for Freedom picked up the label, advocating expanded ownership reforms. CESJ continued to promote Kelso’s comprehensive legislative reforms but in the 1990s began using the name “Capital Homestead Act.” CESJ considers this term more appropriate for describing the world design science revolution of Buckminster Fuller and new forms of technology in the 21<sup>st</sup> Century. For a comprehensive blueprint of monetary, tax and other macroeconomic reforms for transforming any economy to one that conforms to the Just Third Way, see Norman Kurland, Dawn Brohawn, and Michael Greaney, *Capital Homesteading for Every Citizen*, Economic Justice Media, 2004. For a Just Third Way strategy of tax reform, see Norman G. Kurland’s article, “Beyond ESOP: Steps Toward Tax Justice,” *The Tax Executive*, April and July 1977; republished in *Curing World Poverty: The New Role of Property*, Social Justice Review, 1994; and other publications of the Center for Economic and Social Justice, Washington, DC.

<sup>40</sup> *Ibid.* at pp. 1-10, 43-64. Also see “A New Look at Prices and Money” at n. 33 and “The Federal Reserve Discount Window,” Norman G. Kurland, *The Journal of Employee Ownership Law and Finance*, vol. 10, no.1, Winter 1998.

<sup>41</sup> The proposals in this article flow from a radical advance in political economy that some call “the Just Third Way.” It was first conceived by the late lawyer-investment banker Louis O. Kelso in his two books co-authored with the Aristotelian philosopher Mortimer J. Adler, *The Capitalist Manifesto* (Random House, 1958) and *The New Capitalists: A Proposal for Freeing Economic Growth from the Slavery of Savings* (Random House, 1961). See also Robert Ashford and Rodney Shakespeare, *Binary Economics: The New Paradigm* (University Press of America, 1999) and John H. Miller, ed., *Curing World Poverty: The New Role of Property* (Social Justice Review, 1994).

<sup>42</sup> E.J. Dionne, Jr., “Low-Income Taxpayers: New Meat for the Right,” *The Washington Post*, November 26, 2002, p. A29.

<sup>43</sup> Under the current United States tax code, capital gains are given favorable treatment under the assumption that past savings are required to form new capital. Absent the speculative influence of the stock exchanges, capital gains are, in large measure, generated by corporations retaining earnings to finance new investment. This, in theory, increases the value per share which, when the shares are sold, generates a short- or long-term capital gain. This gain can then be used to finance additional new capital. To encourage new capital formation, and presumably create jobs for non-owning workers, capital gains are traditionally given favorable tax treatment — either a lower tax or no tax. Since the rich, by definition, control the vast majority of directly held corporate equity and thus the source of capital gains, favorable tax treatment of this source of income generates substantial tax breaks for the wealthy, thus exacerbating the wealth gap and the rigid stratification of society into a small minority of capital owners and a large majority of capital-less workers.

<sup>44</sup> *Ibid.*, pp. 65-80. Also see [http://www.cesj.org/homestead/reforms/tax/kurland\\_052005.pdf](http://www.cesj.org/homestead/reforms/tax/kurland_052005.pdf) and <http://www.cesj.org/homestead/reforms/tax/taxjustice.html>.

<sup>45</sup> Senator Hubert H. Humphrey, “Broadened Capital Ownership,” *The Washington Post*, Letters to the Editor, July 20, 1976.

<sup>46</sup> *Ibid.*, pp. 28-32, 81-84.

<sup>47</sup> Recent unverified reports indicate that the present value of the projected deficit may have increased to \$82 trillion for Medicare alone.

<sup>48</sup> *Ibid.*, pp. pp. 171-172. These projections have been raised from \$3,000 to \$7,000 of annual *per capita* Capital Homestead credit allocations, to reflect the authors’ contention that *all* future private-sector growth should be financed with newly created, 100% asset-backed money channeled through capital credit democratization vehicles, starting with each citizen’s Capital Homestead Account.

<sup>49</sup> See “The Doctors’ Plan,” Center for Economic and Social Justice, available at <http://www.cesj.org/homestead/strategies/national/healthcare-exsummary.pdf>.

<sup>50</sup> An outstanding example of Justice-Based Management can be found at Fastener Industries in Berea, Ohio (described on the web site of the Canada-based Global Justice Movement.org at [http://www.globaljusticemovement.org/subpages\\_jbm/jbm\\_example\\_fastner.htm](http://www.globaljusticemovement.org/subpages_jbm/jbm_example_fastner.htm). Fastener was praised by the Ohio Employee Ownership Center as “a national model for what employee ownership can achieve. It is one of the most productive and profitable companies in its industry.” Fastener was one of three companies awarded the CESJ Global Award for [Justice]-Based Management<sup>SM</sup> in 1991.

<sup>51</sup> *Ibid.*, See “A New Social Contract” in *Capital Homesteading for Every Citizen*, pp. 85-92. Additional articles and case studies on Justice-Based Management appear on the CESJ web site at <http://www.cesj.org>.

<sup>52</sup> For a comprehensive source on Total Quality Management, see the web site of the Free Management Library at <http://www.managementhelp.org/quality/tqm/tqm.htm>.

<sup>53</sup> See *Open Book Management: The Coming Business Revolution* by John Case, HarperCollins, 1995; and the web site of The Great Game of Business at [www.ggob.com](http://www.ggob.com).

<sup>54</sup> One participatory communications and planning protocol called “Team Syntegrity,” described on the web site [www.syntegritygroup.com](http://www.syntegritygroup.com), applies the managerial cybernetics of the late Dr. Stafford Beer. “Syntegration” has been applied within corporate reorganizations and for conflict resolution.

<sup>55</sup> See *Journey to an Ownership Culture: Insights from the ESOP Community*, Dawn K. Brohawn, ed., Lanham, MD: Scarecrow Press, 1997.

<sup>56</sup> In Bangladesh, the Institute of Integrated Rural Development (IIRD) is incorporating Justice-Based Management and ESOP within its successful program of poverty alleviation, launching a worker- [mainly women-] owned garment factory to operate along JBM principles. The new enterprise, which will serve U.S. and European markets, is designed to offer a viable alternative to the sweatshop model. Information on the Bangladesh JBM garment factory is available at [http://www.globaljusticemovement.org/iird/iird\\_intro.htm](http://www.globaljusticemovement.org/iird/iird_intro.htm).

<sup>57</sup> Kurland *et al*, *Capital Homesteading for Every Citizen*, *op. cit.*, p. 36.

<sup>58</sup> See “The Employee Stock Ownership Plan (ESOP),” Center for Economic and Social Justice, available at <http://www.cesj.org/homestead/creditvehicles/cha-esop.htm>.

<sup>59</sup> A successful ESOP can be found at Mid-South Building Supply headquartered in Springfield, Virginia. In 1985 Mid-South became the world’s first 100% bank-financed, 100% worker buyout through an ESOP.

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The value of Mid-South's shares has risen from \$1,033 at the time of the buyout, to \$9,043 in 2007, a growth of 875%.

<sup>60</sup> See "The Community Investment Corporation," Center for Economic and Social Justice, available at <http://www.cesj.org/homestead/creditvehicles/cha-cic.htm>.

<sup>61</sup> See "The Katrina Wake-up Call," Norman G. Kurland, September 7, 2005. Available at <http://www.cesj.org/homestead/strategies/regional-global/katrinaplan050907.html>.

<sup>62</sup> See "The Homeowners' Equity Corporation," Center for Economic and Social Justice, available at <http://www.cesj.org/homestead/strategies/national/homeequitycorp.pdf>.

<sup>63</sup> Kurland *et al*, *Capital Homesteading*, *op. cit.*, "Capital Homesteading and the Labor Movement," pp. 89-91.

<sup>64</sup> After learning of Louis Kelso's ideas, Walter Reuther, President of the United Auto Workers and Chairman of the Citizens Crusade Against Poverty testified to that effect, and in support of democratizing equity ownership, before the Joint Economic Committee of Congress on the President's Economic Report, February 20, 1967.

<sup>65</sup> See Presidential Task Force on Project Economic Justice, *Highroad to Economic Justice: U.S. Encouragement of Employee Stock Ownership Plans in Central America and the Caribbean*, Report to the President and the Congress, October 1986.

<sup>66</sup> See <http://www.cesj.org/thirdway/paradigmpapers/iraq-nationbuilding.htm>.

<sup>67</sup> See <http://www.cesj.org/homestead/strategies/regional-global/abrahamfederation-nk.html>.

<sup>68</sup> Fuller, *op. cit.*, *Utopia or Oblivion*.

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