The Man Who Would Make Everybody Richer

EVEN in an age that venerates heroism, the iconoclastic philosophy of Louis Orth Kelso outrages many a professional economist. "A crackpot theory," argues Money Expert Milton Friedman, "instead of saying that labor is exploited, Kelso says that capital is exploited. It's Marx stood on its head." Replies Kelso: "Darn right—and what's wrong with that?"

Kelso, 56, a highly successful San Francisco corporate lawyer, author and sometime economist, insists that economics is drier than divorce law. He has spent 15 years telling his clients: "Don't go for the money. Remember, it's the capital that gets rich and you'll never be poor if you're honest with the capital and honest with yourself." He then explained how his theory of "the capital that is exploited" could free the poor and unemployed. The theory states that capital is paid a fair share of labor's income. This, in turn, would allow the poor to work less and have more leisure time. The poor would be able to afford to pay taxes, thus eliminating poverty. The theory also argues that the rich will work less and have more leisure time. This, in turn, would allow the poor to work less and have more leisure time. The poor would be able to afford to pay taxes, thus eliminating poverty.

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each of Beneficial Paper's 1,000 employees would not only own $20,000 worth of stock but would also have a second income of $4,000 a year.

Some companies have already set up tax-sheltered trusts that allow their workers to become stockholders on credit. When the employees of San Francisco-based First California Co. found that the investment banking firm was for sale, they converted their profit-sharing plan into a stock bonus trust. The trust used its cash, plus a borrowed $1,000,000, to buy F.C.C.'s common shares, pledging the assets of the company to secure the loan. Within 21 years, the trust repaid the loan out of company profits. In similar fashion, employees used a Kelso-designed fund to buy Peninsula Newspapers, Inc., of Palo Alto, Calif.

Unbottling the Genie, Like any adventurous idea, Kelso's plan has drawbacks. Critics argue that even if Congress could be persuaded to change the necessary laws—a big if—his second-income plan would merely be a substitute for today's Government redistribution of wealth through taxes, welfare, give-aways and make-work programs. Another difficulty is that Kelso concentrates on the manufacturing sector of the economy, noting that greater capital investment would lead to more productivity. But he tends to play down the rising importance of the economy's service sector, in which productivity growth is slow and cannot be rapidly expanded by capital investments.

Present stockholders might logically object that issuance of so many new shares to finance plant expansion would dilute their equity in corporations. Kelso notes, however, that stockholders' proportional share in the old assets of a company would remain the same; only the new wealth created by expansion would be spread widely among the new shareholders. To be sure, if Kelso's plan were widely adopted, the stock market might lose its lure as a casino. Reason: investors would have much less incentive to gamble on rising stock prices and much more inducement to invest for steady income. Kelso expects that his plan would smooth the gyrations of stock prices. Even in a bear market, he argues, the public's appetite for new shares would hardly diminish because investors would not be risking their own savings to acquire stock. And he figures that people who own stock as a source of second incomes would be apt to retain it as long as corporations avoid large cuts in their dividends.

Despite the flaws, Executive Vice President Walter Headley of the Bank of America calls Kelsonian theory "a forward-looking concept designed to preserve our enterprise system." Kelso himself seems convinced that his time has come. "I let the genie out of the bottle, and it's not going back," he says. "What did the French College of Surgeons call Pasteur? A mere chemist. I think that I am the Pasteur of finance."

TIME, JUNE 29, 1970