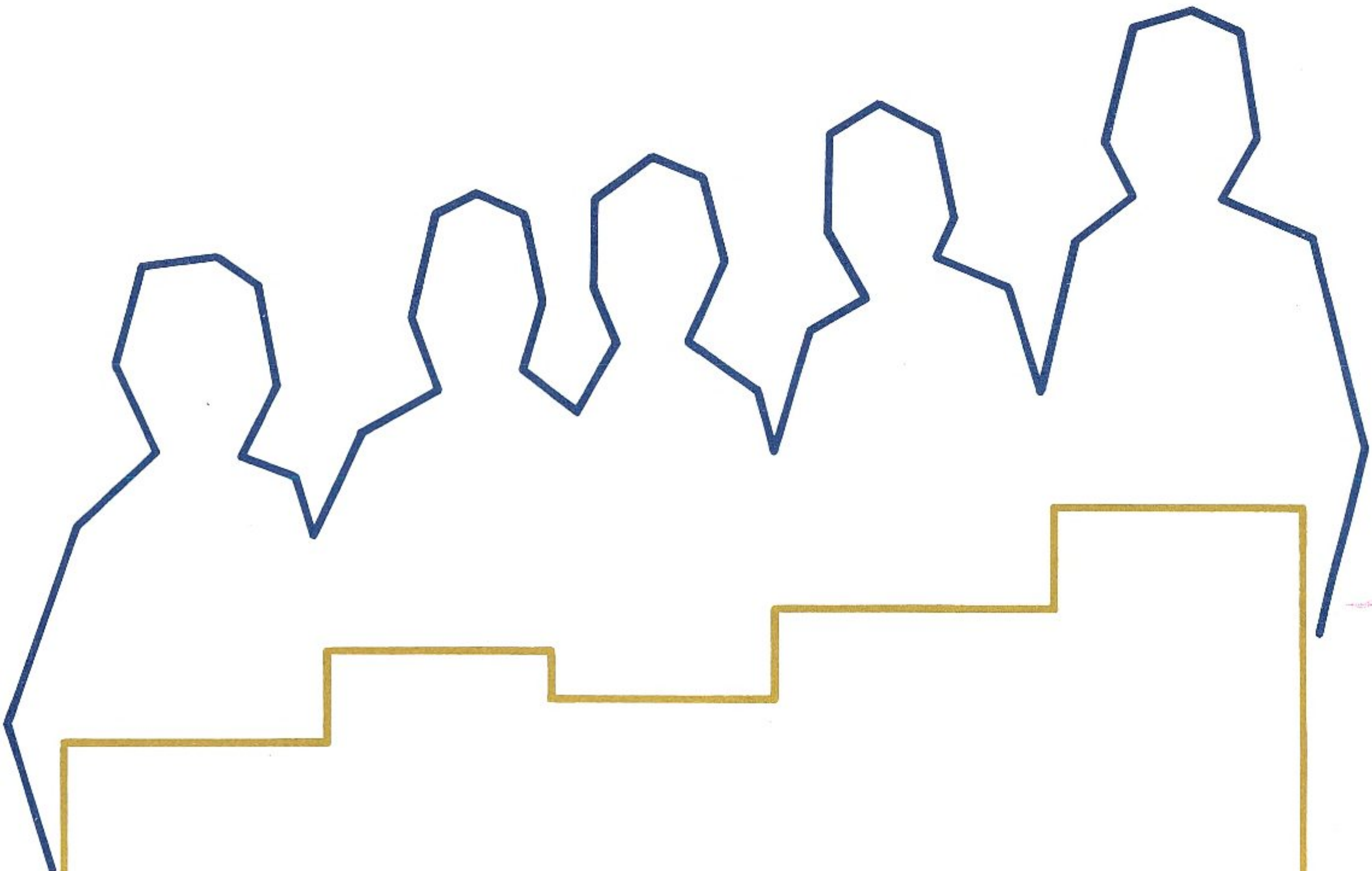
Orientation Book for the

Presidential Task Force on Project Economic Justice



EVERY WORKER AN OWNER:

A Revolutionary Free Enterprise Challenge to Marxism

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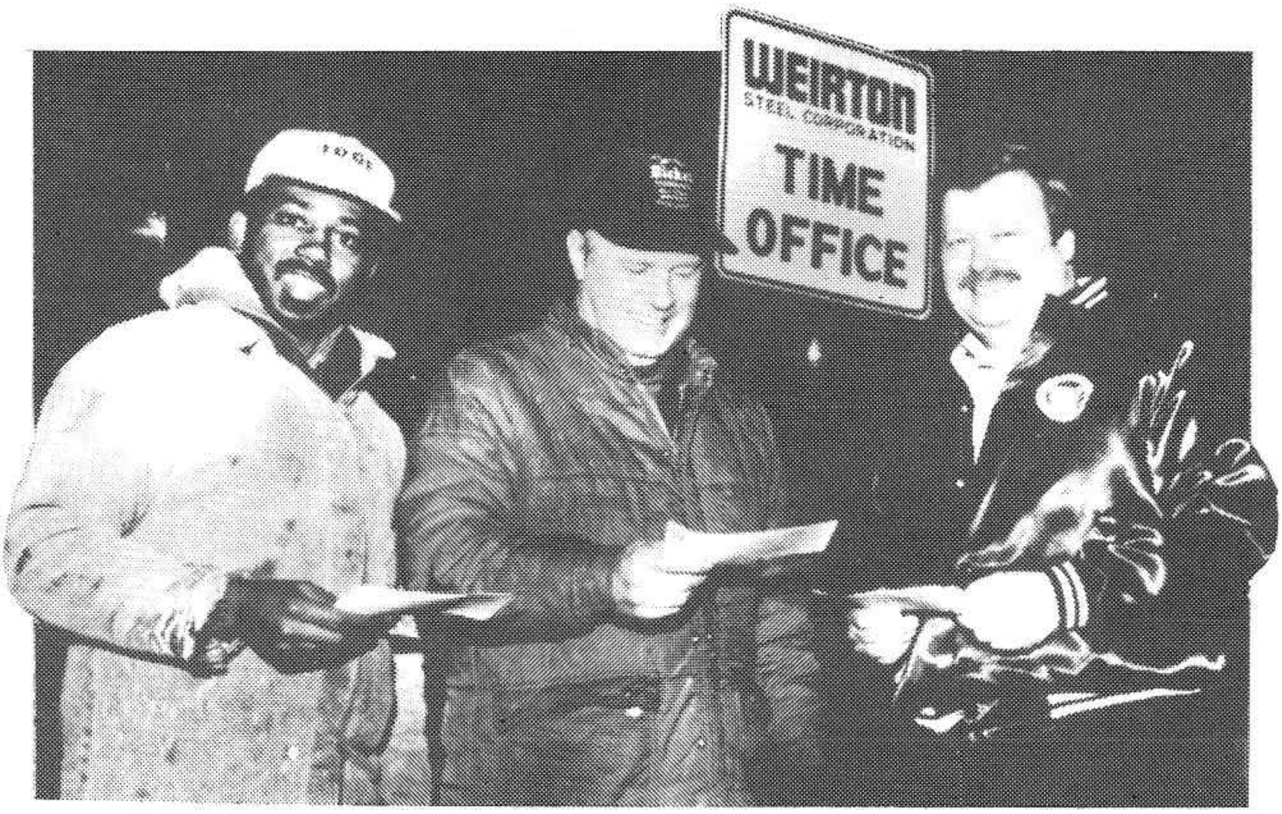

"Could there be a better answer to
Karl Marx than millions of workers
individually sharing in the ownership
of the means of production?"

Ronald Reagan

Three employees of Weirton Steel Corporation (the nation's largest wholly employee-owned industrial firm) proudly display their profit sharing checks following a successful 1986. This was Weirton's second profit distribution since the employees saved the company though an ESOP buyout in 1984. Weirton is now the most profitable integrated steel manufacturer in the U.S. (Photo provided courtesy of Weirton Steel Corporation.)

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PREFACE

The Center for Economic and Social Justice (CESJ), which conceived, developed and promoted Project Economic Justice, is pleased to provide this collection of writings as a companion book to the Presidential Task Force report, ***High Road To Economic Justice***. It is offered for the benefit of those who read the report and wish to explore more deeply the theory, policies and social technology being advocated. Many of the writings included here served as orientation material for the members of Congress who sponsored this legislation, as well as for the members of the Task Force appointed by President Reagan.

CESJ commends the Task Force for its hard-hitting recommendations, all of which were agreed upon by consensus. We especially commend Task Force Chairman J. William Middendorf for his leadership in bringing about this consensus among people with highly diverse views and backgrounds. And we are forever indebted to Jeff Gates, the editor of the report, for assimilating mountains of material into a coherent and highly readable package.

While the Task Force members unanimously endorsed the recommendations of the report itself, we want to emphasize that not all the members subscribe to some of the proposals presented in this background collection. Due to the press of time, such controversial proposals as the "two-tiered" interest policy and the wide-ranging "Industrial Homestead Act" could not be adequately examined and debated. (The Task Force, however, recommended that the "two-tiered" interest proposal be further studied.)

Among this collection are writings on money and credit, which CESJ feels are subjects of central relevance to the recommendations in the Task Force report. CESJ believes that the challenge of extending significant capital ownership opportunities to more citizens will finally come down to the question of, "Where will the money come from?"

Specific papers in this collection answer the "money" question and offer a practical set of recommendations to address this problem. Others offer geopolitical strategies and a national plan of economic reconstruction, which include participatory tools for promoting economic justice through expanded capital ownership. And perhaps most important are those writings which address the more basic question, "What is economic justice?"

Lastly, while we feel the Task Force's historic report reflects the spirit of the Marshall Plan, it is only a "beachhead" for establishing economic and social justice in Central America and the Caribbean. This collection of writings, ***Every Worker An Owner***, looks beyond that beachhead to a "third road," one which transcends traditional capitalism and traditional socialism. These writings offer a way for the poorest of the poor to work together with the already-wealthy to build a future global economic order based on genuine freedom and justice for all.

- The Editor

INTRODUCTION

Hon. Richard Lugar, Chairman,
Senate Foreign Relations Committee
Congressional Record, October 18, 1985, p. S13613

This series is designed to provide background materials for the Presidential Task Force on Project Economic Justice, chaired by Ambassador J. William Middendorf, II.

This task force, a nonpartisan effort combining representatives of business and labor and other private sector leaders, was established by Congress on July 29 [1985] under Section 713 of the International Security and Economic Cooperation Act of 1985.

The fundamental premise of the task force is a growing awareness that both peace and freedom result from justice, and that a just free-enterprise system is the only effective answer to the false allures of communism.

The concept of economic justice, in America and the rest of the world, pivots around a central idea: ***restoring and broadening private property ownership in the means of production as a fundamental human right***. Private property tools for economic development should continue to be refined in the United States and exported as government and private sector policy.

Who can and should own the means of production in any economy is largely determined by a society's laws and institutions, what some call the institutional infrastructure. If, for example, either the society's tax system or capital credit system is defective, workers can never gain access to any significant private property stake in the corporations they work for.

A new constituency must be created who are for free enterprise and against collective and state ownership of industry and agriculture. To create that new constituency, the fight for freedom and democracy must be reinforced with economic justice, and economic justice must be built on four pillars: free labor, free markets, private property in the means of production, and expanded access to corporate equity ownership and profits. Since future ownership is largely determined by who has access to productive credit, widespread access to credit for expanded capital ownership is key to the future of free enterprise.

The task force will examine and recommend corporate financing techniques for use in Central America and the Caribbean to broaden private ownership of enterprises. The task force will focus especially on the opportunities and obstacles for broadening ownership among employees as a means to privatize state-owned enterprises, which are the major source of government deficits and international debt problems.

During the past decade in the United States more than 10 million workers in some 7,000 successful corporations have become worker-owners. Several successful models are also operating in Central America and the Caribbean.

A principal objective of expanding capital ownership is to develop in the region a broadened political constituency among workers in support of private enterprise as the best means to accelerate economic development and political self-determination. Ambassador Middendorf believes that popular political support for free, private enterprise is essential not only to secure political stability and democratic processes, but to increase economic productivity and local capital formation. These economic accomplishments are the only long-range solution to the problems of international debt and imbalance of trade.

Following the objectives of the original homestead acts and responding to President Reagan's call in 1974 for an "Industrial Homestead Act," Norman G. Kurland, the author of Project Economic Justice, at the request of senior White House officials, prepared a detailed position paper on how to reform basic U.S. institutions to foster the goal of expanded capital ownership for all Americans. [See "***The Industrial Homestead Act*** " pp. 123-147.] In the hope that Kurland's model will be seriously studied, refined, and improved upon by the Presidential Task Force on Project Economic Justice and by others concerned with the future of free enterprise, I invite the attention of my colleagues to Kurland's industrial homestead paper.

Mr. Kurland has prepared a four-pronged agenda for economic justice in Central America and the Caribbean Basin [*see* "***Project Economic Justice***", pp. 111-119]. I invite my colleagues to consider this agenda carefully.

MANDATE OF THE
PRESIDENTIAL TASK FORCE ON PROJECT ECONOMIC JUSTICE
INTERNATIONAL SECURITY AND DEVELOPMENT COOPERATION ACT OF 1985

SEC. 713.
Use of Employee Stock Ownership Plans in Development Efforts.

(a) FINDINGS.--The Congress declares that-

(1) employee stock ownership plans in industrial, farming, banking, and other enterprises in Central America and the Caribbean can be an important component in achieving United States goals in Central America and the Caribbean; and

(2) employee stock ownership plans should be used as an instrument in financing growth and transfers of equity in the region, in reorganizing state-owned enterprises into viable employee-owned businesses, in expanding political and economic pluralism, and in strengthening democratic institutions in the region.

(b) PLAN FOR EXPANDED USE OF ESOPs--The President is urged to develop a plan for the expanded use of employee stock ownership plans in development efforts of the United States in Central America and the Caribbean, with an emphasis on policy and infrastructural changes needed to encourage voluntary employee stock ownership initiatives by multinational corporations and other private sector enterprises which have investments, are considering making new investments, or are interested in management contracts and joint ventures in the region.

(c) TASK FORCE.--To assist in this effort, there is established a Presidential Task Force on Project Economic Justice (hereafter in this section referred to as the "Task Force"), which shall consist of individuals appointed by the President who are distinguished leaders of the private sector of the United States, including significant representation of union representatives of workers in successful companies with employee stock ownership plans and of nationally recognized experts in all phases of design, implementation, and operation of employee stock ownership plans. The President shall designate one of the members of the Task Force to serve as Chairman. The Chairman of the Task Force shall appoint a volunteer fund-raising committee, and all the expenses of the Task Force shall be paid without the use of public funds.

(d) REPORT.--Not later than December 31, 1985 [*Amended to September 30, 1986*], the Task Force shall prepare and transmit to the President and the Congress a report on the expanded use of employee stock ownership plans in the development efforts of the United States in Central America and the Caribbean, including specific recommendations on strategies for using employee stock ownership plans as a means of accelerating the rate of private sector capital formation in Central America and the Caribbean that is systematically linked to expanding ownership and profit-sharing opportunities for all employees.

CONGRESSIONAL TESTIMONY ON PROJECT ECONOMIC JUSTICE

HON. MICHAEL D. BARNES
Chairman, Latin American Sub-Committee,
House Committee on Foreign Affairs
Congressional Record, July 22, 1985, p. E3420

When the House passed H.R. 1555, the International Security and Development Cooperation Act of 1985, it expressed its support for the expanded use of employee stock ownership plans in U.S. development efforts in Latin America. This approach can play an important role in assisting our friends and allies in Latin America, revitalize their economies and stimulate growth. There is strong bipartisan support for the concept of employee stock ownership plans, and it is time that we formulate specific proposals to make greater use of this development tool.

Earlier this year, then U.S. Ambassador to the Organization of American States, J. William Middendorf II, gave a speech entitled "Free Enterprise: Key to Latin American Economic Revival." [*See pp. 89-95*,] At the heart of Ambassador Middendorf's argument is the need to solve the problem of expanding capital ownership. This is exactly the goal of the employee stock ownership plan.

HON. PHILIP M. CRANE
Ranking Minority Member,
International Trade Sub-Committee,
House Committee on Ways and Means
Congressional Record, June 4, 1985, p. E2513

Expanded capital ownership deserves our fullest attention and our careful consideration, for it could turn the tide of socialism that has plagued our neighbors to the South for the past decade. This idea is a new and profoundly different concept.

Karl Marx's answer to economic injustice caused by the concentration of wealth in the hands of the few was to wage class warfare and abolish all private ownership of the means of production. For years capitalism has seemed unable to provide a convincing rejoinder to this Marxist siren's call of common ownership by all, even though socialism as an economic system has failed miserably at every turn. The slogans were too appealing and the lure was too great for those who did not hold power, and many underdeveloped countries turned to socialism to solve their problems and correct the inequities that had existed for centuries.

But now, for the first time, there has begun to appear a convincing and workable alternative to Marx's plan. This alternative, which is called expanded capital ownership, provides a tangible option to world's underdeveloped countries, one which promises true economic democracy as well as increased productivity. The beauty of expanded capital ownership lies in its simplicity: the employees of corporations gain an ownership stake in the corporation for which they work. Here in the United States these plans have come to be known as employee stock ownership plans, or ESOPs, and they are cropping up with greater and greater frequency as employers and employees alike begin to recognize their worth.

If we are to prevent the Soviets and their proxies from achieving success in Central and South America, as well in other parts of the world, ***it is imperative that we seize the high ground in the ideological battle being waged. Expanded capital ownership provides us with a weapon that will put us on that high ground.***

HON. STEVEN D. SYMMS.
Joint Economic Committee,
International Trade Subcommittee,
Senate Finance Committee
Congressional Record, July 30, 1985

Expanded capital ownership is a new bipartisan thrust in America's ideological counteroffensive against Marxism-Leninism in the Western Hemisphere.

Great courage and visionary statesmanship were demonstrated by Mr. Barnes and Mr. Crane when they joined in introducing House Concurrent Resolution 31, which calls upon the President to form a private sector task force to develop a strategy for encouraging employee stock ownership plans (ESOPs) as a major element in our Caribbean Basin Initiative. Appropriately, they call this effort, Project Economic Justice. From this seed, both the Senate and House versions of the foreign aid authorization bills, as approved in each Chamber, contained provisions to implement this new concept in Central America and the Caribbean. President Reagan, a long-time advocate of the ESOP approach, and top officials of the administration have already demonstrated in word and deed that they will lend their support to this innovative project for combining free enterprise development with a growing piece of the action for workers in the region.

To reinforce this effort and to educate the American people about the underlying philosophy and technology of expanded capital ownership, Mr. Barnes and Mr. Crane have introduced a series of articles by leading thinkers on this most important subject.

It is not good enough, however, to know the evils of marxism as a threat to justice, as discussed in earlier articles, nor the good of free enterprise in general, as discussed in other articles. Equally important are the means and technologies best suited for achieving this good, the practical case-tested techniques for providing workers with access to ownership.

As part of America's search for more effective ways to promote private-sector productivity, investments and jobs, over 7,000 U.S. companies have adopted employee stock ownership plans (ESOPs). And they seem to work. With over 10 million American workers now participating as co-owners of the companies they work for, it is useful to understand the reasons ESOPs are becoming increasingly part of the American free enterprise system.

For this purpose, I urge my colleagues and the American people to read the floor statement of Senator Russell B. Long on November 17, 1983 [*See pp. 53-71*], when with 46 Senate cosponsors, Senator Long introduced the Employee Stock Ownership Act of 1983.

Senator Long was chairman of the Senate Finance Committee for over a decade and has been Capitol Hill's leading champion of expanded capital ownership. His testimony in November 1983, with the assistance of his aide Jeff Gates, is probably the best practical description ever prepared on the operations, history, and rationale of expanding capital ownership in the United States. Making it possible for virtually all Americans to have a stake in the action where they work is the essence of the American dream. What better way to end conflicts between workers and owners than enabling all workers to earn a growing share in the equity growth and profits in the companies for which they work. I highly commend to your attention these new tools for making the American free enterprise system work more efficiently and more justly for all. The ESOP demonstrates how we can finance faster rates of investment, while offering a new labor deal that can be a model of justice for workers everywhere.

WE NEED AN INDUSTRIAL HOMESTEAD ACT

By Gov. Ronald Reagan

Address to the Young Americans for Freedom
and to the Bohemian Grove Encampment, July 1974.
Printed in the *Congressional Record,* June 4, 1985, pp. E2513-2514.

Capitalism can work to make everybody a "have." Some years ago, a top Ford official was showing the late Walter Reuther through the very automated plant in Cleveland, Ohio, and he said to him jokingly: "Walter, you'll have a hard time collecting union dues from these machines," and Walter said, "You are going to have more trouble trying to sell them automobiles." Both of them let it stop right there. But there was a logical answer to that. The logical answer was that the owners of the machines could buy automobiles and if you increase the number of owners, you increase the number of consumers.

Over one hundred years ago, Abraham Lincoln signed the Homestead Acts. There was a wide distribution of land and they didn't confiscate anyone's already privately-owned land. They did not take from those who owned to give to others who did not own. It set the pattern for the American capitalistic system. **We need an Industrial Homestead Act** ... I know that plans have been suggested in the past that all had one flaw. They were based on making the present owners give up some of their ownership to the non-owners. Now this isn't true of the ideas that are being talked about today.

Very simply, these business leaders have come to the realization that it is time to formulate a plan to accelerate economic growth and production at the same time we broaden the ownership of productive capital. The American dream has always been to have a piece of the action.

Income, you know, results from only two things. It can result from capital or it can result from labor. If the worker begins getting his income from both sources at once, he has a real stake in increasing production and increasing output. One such plan is based on financing future expansion in such a way as to create stock ownership for employees. It does not reduce the holdings of the present owners, nor does it require the employees to divert their own savings into stock purchases.

This one plan, and undoubtedly there are alternatives, utilizes an Employee Stock Ownership Trust to purchase newly issued stock when a corporation needs new capital for expansion. The trust acquires its funds by borrowing with a guarantee from the corporation, from a commercial bank or other lending institutions. Over a ten-year period, it is possible for $500 billion of newly-formed capital to be owned by individuals and families who today have little or no hope of acquiring a vested interest in our capitalist system ...

What better answer could we have to socialism? What an export item on the World market! What argument could a foreign land have against a corporation which made its "have-not" citizens into "haves"?

CESJ DELIVERS PRESIDENTIAL TASK FORCE REPORT TO THE VATICAN

Pope John Paul II receives CESJ delegation in a private audience, Feb. 9, 1987.
(*From left to right:* Piotr Jeglinski, Rabbi Herzel Kranz, William Schirra, Pope John Paul II, Norman Kurland, Fr. Cassian Yuhaus, Kris Ludwiniak, and Bruce Mazzie.)

THE MORAL DIMENSION OF EXPANDED CAPITAL OWNERSHIP

REP. PHILIP M. CRANE
***Congressional Record*, July 8 and 9, 1985**

Mr. Speaker, today I am including another segment of a series of discussions on the concept of expanded capital ownership. Today's material was written by Louis Kelso, the leading proponent and ideological founder of the idea of expanded capital ownership. In his remarkable essay, entitled "*Karl Marx: The Almost Capitalist*," he outlines some of the flaws in Marx's thinking, and describes how certain fundamental errors in Marxist theory have led to such disastrous results throughout the world. . . .

. . . . It would be well for each of us to remember that the entire purpose of the human right of equal access to productive ownership is the transcendent human right of dignity through freedom and justice. We must therefore be vigilant in assuring that private ownership of the means of production remains the ideological high ground in our battle with collectivism and oppression around the world.

KARL MARX: THE ALMOST CAPITALIST

By Louis O. Kelso

Reprinted from *American Bar Association Journal*, March 1957.
Excerpts printed in two parts in the *Congressional Record*, July 8 and 9, 1985.

[*Editor:* By labeling his moral-economic concepts as a "universal" or "social" version of "capitalism," Kelso, in the opinion of some supporters, has failed to appreciate the enormous difficulty in communicating with many people around the world who have become disenchanted with the ideological and moral shortcomings of the social system known as "capitalism."

In the classic work Kelso co-authored with the philosopher Mortimer Adler, ***The Capitalist Manifesto*** (Random House, 1958), Kelso and Adler constructed their theory of economic justice as the logical "third alternative" to primitive capitalism and primitive socialism. As they pointed out, neither system provides a sufficiently solid moral foundation for guiding social change.

Kelso and Adler justify their use of the term "capitalism" by describing an economy as "capitalistic" when its mode of production shifts from labor-intensive ("laboristic") to capital-intensive processes. However, the term "capitalism" obscures the value system which Kelso and Adler espouse.

Furthermore, the term "capitalist" was coined by socialists as a term of derision, to suggest an ownership class devoid of human values, persons who glorify the vice of greed and live by exploiting others. Adding such qualifiers as "universal," "social," "democratic" and even "worker" to a word that historically has signified monopoly power and special privilege, fails to remove the odious connotations of "capitalism."

And since Kelso defines "capital" as "things" used in production (in contrast to people or "labor"), the term "capital-ism" also suggests an ideology or value system which elevates material values above the higher spiritual and moral values of mankind. "Economic justice," "free markets," and "private property" rest on a much more attractive semantic base. Semantics aside, anyone who reads their book will find that Kelso and Adler explicitly describe a just form of "free market" society that aims at fulfilling the highest human values.]

England of the mid-nineteenth century, in the throes of the industrial revolution, was not a pleasant place to work. Anyone who entertains the contrary idea need merely consult the writings of the economists of that period, or its historians, or even its novelists, such as Dickens.

It was against a background of the disintegration of the agricultural economy of England, and the human chaos incident to the industrialization of production that Karl Marx set himself the task of improving the lot of the factory worker.

Beginning slowly during the first seventy-five years of the eighteenth century and reaching a crescendo during the last quarter of that century and the first half of the nineteenth century, incalculable changes took place in the lives of laboring people. The transformation was initiated first by the intensification of the division of labor and later by the crowding of workers into hand or hand-and-machine factories. This phase was, in factory after factory, followed by the mechanization of progressively more of the manual tasks, shifting to animal power, then water power and wind power, and then to steam for basic motive power.

The resulting disorganization in the lives of the people affected was stupendous and frightful. Only the few who were quick to adapt themselves to the era of the machine were able to avoid the destruction--frequently successive destructions--of their means of livelihood through the radical changes resulting from rapid technical obsolescence of the methods of production. The impact of these swift transformations was more than could be safely digested and absorbed by the farm populations which began to turn to the industrial cities for their means of living.

The division and subdivision of tasks once calling for the most highly developed skills until the tasks could be performed in many instances by women and children provided the opportunity, and the indigence entailed in the shifting from an agricultural life to dependence upon the fluctuating employment in factories provided the inducement: thousands of parents exploited their children by forcing them into the factories. Wives neglected their families to become factory employees. The full fury of competition between man and machine, between merchants, between manufacturers and between nations was unleashed among people who had not the faintest idea of its implications. Methods by which producers could become reasonably informed about markets were almost wholly lacking. Laws against adulteration of products had not yet been enacted. Industrial safety codes and means of compensating the dependents of injured workmen were unknown. The sanitary conditions of factories in general were incredibly bad. An employer who worked the men, women and children in his factories only twelve hours a day was something of a public-spirited paternalist. Foreign trade brought the local supplier into competition with foreign producers he had never seen or heard of.

Newly born industrial enterprises and the people whose fortunes were tied to them, learned the nature of industrial production primarily by successive bitter experiences. Businesses ran through constantly recurring cycles of expansion, boom, over-production, liquidation and depression. Superimposed upon this disorganizing parade of booms and slumps were the disrupting effects of primitive money and credit systems providing mediums of exchange containing built-in erratic gyrations of their own. The money system of Great Britain, like that of other countries experiencing the industrial revolution, suffered not merely from irresponsible banking, inadequate knowledge, poorly designed regulatory laws and rampant exploitation of the opportunities for financial fraud, but also from the results of heavy importations of gold and silver--the monetary metals--from the New World.

Without analyzing here the causes, we need merely note that the problems of the workers fell upon deaf political ears in Britain and elsewhere as the industrial revolution progressed, until agonized suffering reached the notoriety of an unsuppressible public scandal. Even then, the factory owners, who could point proudly to the fact that for the first time in history, *per capita* increase in the output of goods and services was beginning to race ahead, had no basis in experience for knowing whether they could at once be humane in their labor relations and still maintain their positions in the unprecedented hurly burly of competition.

Marx's Work... The Cause of Injustice

Against this background, in which the mere outlines of industrial production under free enterprise were vaguely taking shape, Marx set himself the task of finding the cause of economic injustice. His masterpiece, ***Capital***, draws and documents the picture of the industrial revolution from the standpoint of the industrial worker. He was the one primarily responsible for having attached the name "capitalism" to the theretofore unclassified economic system of Great Britain. Marx's source materials, in addition to his own indefatigable personal studies of factory life, were the ***Reports of the Royal Commissioners on the Employment of Children and Young Persons in Trades and Manufacturers, the Reports of the Inspectors of Factories*** (who were appointed under the Factories Regulation Acts of 1859), the ***Reports from the Poor Law Inspectors on the Wages of Agricultural Labourers, the Reports of the Select Committee*** (of the House of Commons) on the ***Adulteration of Food***, and other official documents, as well as the writings of the economists of his day.

Because of the dire suffering of the industrial workers, Marx, who knew the facts and knew how to describe them, made a powerful emotional case for economic reforms to improve the lot of the worker. Since the actual operation of the system, which he called "capitalistic" was as enormously beneficial to the segment--less than 10 per cent--of the population who owned the factories as it was destructively detrimental to most of the 90 per cent who worked in them, Marx could have led a revolt against the established order by pointing to this disparity alone. But he did not choose to do so. He made the most painstaking and ponderous effort to seek out the cause of the injustice.

At length, Marx rendered his verdict. The malefactor, the cause of all this limitless human misery, was the capitalist. His crime, felonious by all canons of human decency and fairness, was the unrecompensed piracy from the defenseless industrial workers of most of the wealth which ***they alone*** created. No plunder in history, said Marx, could compare with the enormity of the offense of the capitalist who, without working himself, appropriated the products of the worker, leaving the worker with only the minimum amount paid as "slave-wages" to keep him alive and to enable him to produce.

Marx and Capitalism... They Almost Meet in the Dark

The root of all of the evil Marx surveyed was, he concluded, the private ownership of the means of production. The emotional case which he built in favor of a revolution to improve the position of the industrial worker was mountainous. The method of carrying out the revolution, he advocated, was for the workers to seize the government by force and then to use the state to expropriate the ownership of capital. Unfortunately, the moral truth of the massive case which Marx marshaled for improvement of the lot of the industrial worker was dwarfed by the magnitude of his error in assigning as the cause of the maldistribution of wealth, ***the private ownership of capital.***

In the course of his investigation, Marx actually saw, but was prevented by this error from comprehending, the underlying principles of capitalism. Since there can be no doubt about Marx's honest effort and fierce desire to find the key to a workable industrial economy, we are justified in venturing the speculation that had Marx understood the implications of the principles of capitalistic distribution which presented themselves to him as "appearances" only, ***he might have become a revolutionary capitalist*** instead of a revolutionary socialist.

Karl Marx, as he reflected upon the causes of economic injustice in the first century of capitalism, came to a conclusion as momentous as it was mistaken. The world was to suffer as much from the critical error of the decision as it had suffered to provoke Marx to make it. Had he not been blinded by a borrowed myth, Marx might well have proclaimed "People of the world, unite! Extend the benefits of capitalism to all mankind." Instead, he exhorted the workers of the world to unite and "throw off the chains" of capitalism.

Had Marx chosen the capitalistic alternative rather than the socialistic one, the world would be a vastly different place in which to live today. Without the false and seductive promises of socialism, Russia, the nation built on Marxism, would be without the principal rhetorical weapon which it uses to seduce the minds of men.

Yet it is a fact that Marx actually considered the problems which should have led him to discover capitalism. But for three basic errors in reasoning, Marx might have been looked upon today as the apostle of capitalism rather than its detractor and tormentor.

The three mistakes that turned Marx away from capitalism rather than towards it, have made Marx the false prophet of the industrial worker. Together with the socialist writers who have followed in his footsteps, Marx deprived generations of workers from realizing that in capitalism--not in socialism--lies their hope for economic well-being, the good life, and political freedom.

Three Mistakes... The Course of History Changes

The three errors which Marx made were these:

(1) His adoption of the labor theory of value which had previously been advanced by David Ricardo.

(2) His failure to understand that the private ownership of property, including capital instruments, is indispensable to political freedom; in short, his failure to understand the menace to human freedom of the ownership of the means of production by the state.

(3) His mistaking the wealth produced ***by capital*** for "surplus value", *i.e.*, value which he thought was created by labor and stolen from the laborer by the capitalist.

Let us examine each of these mistakes. In the course of doing this, we shall see in each case how closely Marx came to acknowledging the actual principles of capitalism. Yet in every case, having grasped the principles, he also rejected them because of his fundamental errors.

Error No. 1: The Labor Theory of Value.

Except for the few wants which men can satisfy directly by things adequately supplied by nature, human labor, for untold ages, had been the primary source of the creation of wealth. Man, with his hands and his brain, has given value to raw materials found in nature by imparting to them qualities which render them able to satisfy his wants. Similarly, man has performed personal services for himself or for others which have also satisfied needs. Nothing is more obvious than that man must wrest his living from nature through the cleverness of his mind, the strength of his muscles and the skill of his body. Since, at the outset, then, man was the only acting force, the idea that all changes in nature's raw materials were wrought by man alone was both obvious and indisputable. The labor theory of value--the idea that labor is the only agency capable of creating wealth, *i.e.,* adding "value" to raw materials and performing services--must have been approximately correct in primitive times and, to a lesser degree, in pre-industrial economies.

But once men applied their intelligence to constructing tools and machines which were able to produce wealth, or at least to cooperate with human labor in the production of wealth, a basic change occurred, the significance of which was not at once fully appreciated. The fact that all economic value was not created by labor, but rather by labor and capital together, was obscured by the fact that, in the early stages of machine production, machines were usually "operated" by their owners. As a result, the services of the machine were indistinguishably commingled with those of the machine-owner and so there was yet no occasion for recognizing the separate economic functions of each.

The significance of the labor theory of value is more than academic. If ***labor is the source of all value created in the productive process, then labor has a valid moral claim to all wealth created through production.*** Then the only moral claim of the owner of capital is to have his capital restored to him, *i.e.,* to get back the value of his capital with compensation for the effects of wear, tear and obsolescence. Honestly to reach his conclusion that the capitalist was thieving from the laborer, Marx had only to believe that labor did in fact create ***all*** economic value (*i.e.,* the values added to raw materials found in nature).

But confronted with the fact that capital instruments were actually performing more and more of the functions which added value to raw materials and were even beginning to compete with labor in the performance of purely service activities, Marx could not ***prove*** the proposition that labor was the sole creator of value and ***he did not try.*** He merely asserted, again and again, that the proposition was ***historically true*** and that its truth was of very recent discovery. All commodities, including capital instruments, said Marx, "are only definite masses of congealed labour time" (***Capital,*** Modern Library Edition, p. 46, New York.)

> "The recent scientific discovery that the products of labour, so far as they are values, are but material expressions of the human labour spent in their production, marks, indeed, an epoch in the history of the development of the human race, but by no means dissipates the mist ***through which the social character of labour appears to us to be an objective character of the products themselves.***" (*Ibid.*, page 85; italics added). Marx is here saying flatly what he elsewhere elaborates--that although capital instruments ***appear*** to create wealth, this is merely an illusion, and that there is some sort of mysterious

"congealed labor" hidden in the capital instrument which enables it to give value to its products.

At this point Marx actually saw one of the basic principles of capitalism: ***that capital instruments do create wealth, just as labor does.*** But he rejected the idea as an "appearance" only and held doggedly to his belief that only labor ***could*** create wealth. By denying the obvious, that in an ever-increasing number of instances, the performance of particular production tasks may be carried out alternatively either by labor or capital instruments; and by asserting that regardless which method was used, the capital instruments owned by a "capitalist", were in fact, "labour instruments"; and by concluding that whichever method was used, labor in fact created all the value, Marx put the capitalist in the unethical role of getting something for nothing.

Today we are not merely familiar with the phenomenon of machines to make machines, we are also acquainted with the trend to make automated machines with automated machines. Nevertheless, tracing the process backwards through several technological generations sooner or later brings one to the point where the predecessor of a particular machine was made by hand labor. Since Marx regarded human labor not only as an ingredient in an economic product, but as the only ingredient other than raw materials provided by nature, the problem of machines made largely by machines was a disconcerting one for him.

The value of a product, he said, is determined by the amount of labor time it contains. After a few technological generations of producing machines primarily by machines, what could be said of the machine which, although it contained almost no "value" in terms of man-hours and required very little assistance from labor in the form of an operator's man-hours, turned out a vast quantity of products, all of which sold for very good prices?

Marx actually considered this problem. How could he square the labor theory of value with a machine containing very little "value" (in terms of man-hours of labor) which at the same time is operated with very few man-hours of labor, yet which produces a great amount of wealth? Confronted with this problem, Marx might have announced another of the basic principles of capitalism: that the productiveness, the "productivity", of capital instruments, ***in comparison with that of labor*** (other than the top echelon of labor consisting of management and technical workers) ***is steadily rising.*** But here again Marx rejected the clearly discernible truth and supplemented it with a corollary to the labor theory of value.

In this case, he said, the machine, after yielding up what little "value" it contains, ***works gratuitously***, just as the sun works ripening the corn in the field. Marx here came within a hair's breadth of recognizing the increasing productivity of capital instruments in comparison with that of labor. Had he allowed himself to see the point, it is safe to assume that a man of Marx's sincerity would have cried, "If capital instruments are the source of the increasing production of wealth in an industrial economy, the owners of capital instruments are rightly the persons who should receive the proceeds of the wealth so produced. Let us then set as our goal the greatest possible accumulation and perfection of capital instruments for the greater production of wealth. And let us so regulate our economy as to extend the opportunity of engaging in production ***through the ownership of capital instruments*** to an ever increasing proportion of the population."

Marx missed this critical point. Faced with the spectacle of the production of vast wealth through a large contributory effort by capital instruments and a negligible contribution by labor, Marx could merely say: "In modern industry man succeeded for the first time in making the product of his past labour work on a large scale ***gratuitously, like the forces of nature.***" (*Ibid.*, p. 424). Thus did Marx substitute for objective analysis the dogma he had borrowed from Ricardo.

Error No. 2: 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 "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 which 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.***

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[1] source of almost all material things except those which 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. So in the case of all other capital instruments.

Property in Labor. What is the relationship of the worker to the value which 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 which he creates.

Marx and Property. Marx did not err in his understanding of the dependence of capitalism upon private property. In fact, the Communists, following Marx, appreciate this absolute dependence more than do non-Communists, many of whom, influenced by the conviction that Marx is full of errors, have falsely entertained the idea that this is one of them.

Marx, however mistaken he was in his program for achieving the economic changes he thought were needed, cannot be charged with having intended to worsen the economic and political condition of modern man. The facts of his life and character permit us little doubt that his intention was to eliminate suffering by substituting a fairer distribution of economic goods and services, and through this, a more equitable distribution of leisure and the opportunity to lead a good life. Marx was rightly, if also vehemently, critical of the exploitation of the many by the few.

Had Marx seen that the socialization of capital (*i.e.*, its ownership by the state) would of ***necessity*** place the control of capital in the hands of those currently wielding political power, thereby unifying economic and political power, the two basic sources of social power, we can assume that Marx would not have advocated the destruction of private property in capital instruments. If the factory owners of the nineteenth century, having political influence but not unlimited political power, were in a position to exploit the workers, the bureaucrats of the twentieth century in a socialized state, possessing not only unlimited political power, but also unlimited economic power through ownership (*i.e.*, control) of the instruments of production, are infinitely better equipped to exploit workers and other non-bureaucrats. What better proof of this than Russia and the Russian satellites?

1. Agricultural and timber land may be said to be an exception to this, since in growing crops and timber, agricultural and timber lands may be said to function in an active manner.

The Communist Politician... A True Tyrannical Capitalist

It is the Communist politician who sees in Marxism the opportunity for personal power and wealth which Marx, if we may take him at his word, failed to perceive. The Communist politician perceives in Communism the personal advantage to himself which comes with the transfer of property (working control) in the means of production to the state, and the elevation of himself to a place in the management of the state. The Communist politician is thus able to epitomize in himself the kind of tyrannical capitalist Marx declaimed against, with the further opportunity for unlimited despotism that is inherent in the fusion of political power and economic power in the same hands.

Marx's failure to perceive the political significance of private property has allowed his doctrine to furnish the most perfectly designed ruse for potential tyrants that has ever been devised. In the name of benefitting society as a whole, the actual control of the capital instruments and land is placed in the hands of those wielding political power!

Marx's second great error prevented him from seeing that ***the ideal*** "classless society", of which he dreamed, is not one in which a political group in power has the function of distributing wealth. It is rather the political economy in which the ***individual*** ownership of property--particularly capital instruments--is spread over the entire population. Only such a broad distribution of private economic power can guarantee individual freedom and the power of the people as a whole to limit or turn out at will a political group in power.

Marx was actually on the verge of recognizing that so long as men are what they are, capitalism is the only possible classless society. His failure to do so derives from his failure to understand the ***political significance of private property.*** He consequently also failed to understand the political significance of state ownership in a socialist state. To concentrate control over the means of production in a political group is to establish that administration as a class--an all powerful class--and to remove all possibility, so long as such a group exercises its power fully and ruthlessly, to overthrow such despotism by means other than force.

Marx recognized that the men who were the owners of productive property also enjoyed "individuality", leisure and opportunities for culture and education. (*Ibid.*, p. 581). This being so, it is nothing short of fantastic that he brought himself to these illogical conclusions: (1) Destroy private ownership of productive property. (2) Make all men workers. (3) Appropriate all wealth produced in excess of that required to sustain workers, and let it be distributed by the state as its political leaders see fit.

The political commissars, however, who employ Marx's ideas for their own purposes--the exploitation of power and wealth which socialism offers to a ruling bureaucracy--are not so illogical. The destruction of private property in the means of production is their guarantee of self-perpetuation.

There is a Marxian tenet that the nature of a society is determined by the mode of production (whether agricultural or industrial), and the ownership of the means of production. It is sound. The conclusions here are within and consistent with this fundamental insight.

Thus the second great Marxian error caused Marx to seek in socialism what he could have found only in capitalism.

Error No. 3: Mistaking the Wealth Created by Capital for Wealth Created by Labor and Stolen by the Capitalists.

Each of the three critical mistakes which Marx made in his study of capitalism arose from the fact that he began his analysis with a study of distribution ***rather than with a study of production.*** At the distributive end, something less than a tenth of the population, for the most part owners of land and capital, were faring infinitely better--receiving a proportionately greater share--than were the other nine tenths, whose only participation in economic activity was as workers or as recipients of public charity under the poor laws. The pattern of distribution was bad from whatever standpoint it might be judged. Those who were receiving the great share were the capitalists, the owners of the expanding industrial and commercial enterprises.

For Marx, capitalism was simply what he observed in the European world around him, and primarily in Great Britain. Since the distributive pattern was unsatisfactory, capitalists and capitalism, he concluded, must be at fault. Labor had "historically" been the source of all production of wealth, and the workers were now receiving a progressively smaller proportion of the proceeds of production. Down with capitalism!

Had Marx started with an objective analysis of production and a deeper insight into the property-freedom relation, he might well have concluded with a declaration of war against capitalists ***for hoarding capitalism.***

Let us now examine once more the principles of capitalistic production that Marx might and should have used as a starting point. In an exchange economy, and particularly in an economy of freely competitive markets, each service and each commodity is valued for its peculiar ability to satisfy a certain desire of the consumer. Whether the service of commodity is produced by labor alone or by capital alone or by the co-operation of these two, is unimportant to the potential purchaser except as the method of production implants specific characteristics in the thing marketed. It is the finished product which is demanded by the purchaser, not the knowledge that it is produced in one way or another--a mere means by which the product was brought forth. Contrary to what some sentimentalists think, there is nothing sacred about the products of labor that is not equally sacred about the products of capital or those produced jointly by capital and labor.

To effect any change in the nature or position of material goods or to perform any kind of a service, material goods must be acted upon. Marx recognized this; but, because of his obsession with the labor theory of value, he contended that only labor could be credited with the value of material goods produced or services performed. "Useful labor" he said, "is an eternal necessity imposed by Nature without which there can be no material exchanged between man and Nature, and therefore no life." (*Ibid.* p. 50). To effect such changes in matter, or to perform such services, purely physical, *i.e.,* mechanical means, must be used. With rare exceptions, pure thought is not economically compensable. Speech, writings, mechanical action--all these things performed by man, are capable of entering into economic transactions. The thought behind such speech, writings, mechanical action, is not ***by itself*** capable of entering into ordinary commerce.

Man as a non-scientific and non-managerial subsistence-laborer is, from the standpoint of economics (aside from his separate nature and position as the consumer), a primitive, low-horsepower engine, relatively clumsy and of brief durability, for the production of economic goods. Man the worker, except in the fields of science and management, has grown steadily less impressive since the onset of the industrial revolution. He can work eight, ten or twelve hours at a stretch and then must rest. His strength and speed of action are quite limited. He is subject to numerous ailments, often adversely affected by climate, temperamental and not infrequently lazy. He makes many mistakes. As a factor in the production of wealth, man is progressively less successful in competing with capital instruments, except, again, as a scientist or as manager.

It is not as a worker that man is master of the earth. It is as the ***intelligence*** behind all production and as the consumer--the reason for production and the destiny of the things produced--that he is supreme.

It may well be that confusion between man the worker and man the thinker--the source of all ideas and plans--contributed as much as any cause to Marx's failure to recognize capital as a producer of wealth in the same sense that labor is. Mental activity enters into economic transactions primarily in two ways:

(1) the mental activity of the scientist and manager is responsible for the invention, development, improvement and production of capital instruments, and the supervision of productive activity of both laborers and capital instruments. Scientists and managers are in general the top echelon of ***labor*** --the professional level. Their services include entrepreneural activities, in which they provide the initiative in organizing the capital and labor to institute or expand particular business activities. A substantial portion of their services is rendered in improving the productivity of capital instruments, thus promoting the substitution of machines for men and otherwise reducing labor requirements, where to do so will reduce the costs of production and render the businesses in which they are engaged more efficient and competitively better. The steady improvements in capital instruments, systems of production, and organization of productive processes, are the results of the mental activity of the scientists and managers. Their ability to produce in these fields is the secret of their rising productiveness and the increased demand for their services.

(2) Mental activity enters into non-scientific work and non-managerial work in varying degrees. The intelligent direction by the worker of his own activities is incidental to the mechanical work performed by him. Labor is compensated for a particular type of service of a physical nature which could not be rendered in the absence of intelligent direction on the part of the worker himself.

Marx recognized that machines and men are competitors in the sense that scientists and and managers, in carrying out their function to produce goods and services in a competitive market, strive to eliminate labor costs and to improve upon hand methods of production. "The instrument of labour [meaning, of course, machines, ***the instruments of the capitalist***] when it takes the form of a machine, immediately becomes a competitor of the workman himself." (*Ibid.*, p. 470). In speaking of this competition, Marx comes as near as possible to recognizing that capital instruments are active forces in the production of wealth, performing an economic function of the same sort as labor, and frequently performing functions which can interchangeably be performed by either.[2]

Marx observes that in the case of the handcraft industries, "the workmen are parts of a living mechanism. In the factory we have a lifeless mechanism independent of the workman, who becomes its mere living appendage....By means of its conversion into an automaton, the instrument of labour confronts the labourer, during the labour process, in the shape of capital, of dead labour, which dominates and pumps dry living labour power. The separation of the intellectual powers of production from the manual labour and the conversion of those powers into the might of capital over labour, is, as we have already shown, finally completed by modern industry erected on the foundation of machinery. The special skill of each individual insignificant factory operative vanishes as an infinitesimal quantity before the science, the gigantic physical forces, and the mass of labour that are embodied in the factory mechanism and, together with that mechanism, constitute the power of the 'master'." (*Ibid.* p. 462). It may well have been Marx's failure to recognize that capital instruments in practice supplant not only physical forces, but intelligence, that deterred him from recognizing that capital "works" just as labor works.

Whether Marx could have closed his eyes to the facts of production in the now-dawning age of automation is an interesting speculation. Yet even in Marx's own day it should have been possible for him to recognize that the scientists (engineers) in designing capital instruments build into these instruments the capability of performing operations which, if performed by labor, would require the application of brainwork. His obsession with the labor theory of value rendered him incapable of this insight.

But today, with the development of feedback, self-correcting and self-programming machines, capable of automatically performing a sequence of logical operations, correcting their own errors as they perform their productive tasks, choosing from built-in instructions or characteristics their proper functions, it is likely that even Marx would have broken through his barrier-obsession that labor does all the work.

Human minds ultimately direct the production of goods and services. This is true of the functions of capital instruments as it is of workers. As a production process uses more and more capital instruments, more of the human mental ***control*** of the process of production is shifted away from workers to scientists (and their mechanical progeny) and to management. Thus the private ownership of labor is not, in action, essentially different from the private ownership of capital. Each involves the right of control of an active means of production, the right to take the fruits of such production, to produce where and when the owner desires, and to accept or reject conditions of production. The most significant difference is that the owner of capital instruments is not required to be personally present in the productive process; he produces, or in any event he may produce, vicariously. Mental activity as such is not the basis of the property rights of either labor or capital owners in wealth produced.

What difference would it have made to Marx's theory of capitalistic economics if he had recognized both the power of labor and

2. Note that by using the term "instruments of labor" to designate ***capital instruments owned by capitalists***, Marx is again indulging the labor theory of value. By referring to capital instruments as "instruments of labour", Marx makes it appear logical to attribute the productive efforts of capital to labor.

the power of capital instruments to create wealth? ***It would have made all possible difference.***

If all wealth is created by labor, and if the total wealth created is in excess of that distributed to labor on the basis of the market value of labor, then the excess is "surplus value". This surplus value, according to Marx, is something really stolen from labor by the capitalist. It is elementary that wealth belongs to him who creates it, and if only labor ***can*** create wealth and capital instruments ***cannot*** create wealth, then the owners of capital have no possible claim to a share in the proceeds of production. The most they could legitimately claim would be to have the value of their original capital, which has been partly or wholly consumed in the productive process, restored to them. In the socialist state, this "surplus value" is something that would belong to society as a whole, to be distributed as the administrators of the state decide.

In short, if labor is the only possible creator of wealth, then capital cannot be a creator of wealth, and there can be no legitimate return to capital other than a return of the original investment. The recognition by Marx of capital as one of the two active actors creating wealth would have exposed the falsity of his own basic theories. More than that, he would have been led inevitably ***to exactly the opposite conclusions.*** If labor is entitled to a return in the form of wages for wealth created by labor, then the owners of capital should be entitled to a return for the wealth created by capital.

Strange as it may seem, Marx recognized the technological trend and even acknowledged that it appeared to be the case that the net wealth remaining after payment for raw materials and labor was wealth created by capital. Yet he refused to believe this ***appearance***, and simply asserted again and again that this excess was "surplus value". With regard to the increasing productivity of capital, he noted that "every introduction of improved methods...works almost simultaneously on the new capital and on that already in action. Every advance in chemistry not only multiplies the number of useful materials and useful applications of those already known, thus extending with the growth of capital its sphere of investment... Like the increased exploitation of natural wealth by the mere increase in the tension of labour power, science and technology give capital a power of expansion independent of the given magnitude of the capital actually functioning." (*Ibid.* pp. 666-664). With respect to the apparent production of wealth by capital instruments, Marx acknowledged that there appeared to be, as Sismondi had said, a "***revenue*** which springs from ***capital*** ". But he refused, to the very end, to believe that it was the wealth created by capital--a possibility he saw but never understood or appreciated. To Marx, the wealth ***created*** by capital remained "surplus value" to which the owners of capital had no claim--surplus value stolen by the owners of capital from the owners of labor.

Marx's Three Errors... A Fateful Near Miss

But for the basic and demonstrable errors in his theory of capitalism--the three errors discussed above--Marx would have reversed his views about capitalism and socialism. His writings leave no doubt that he was making an honest search for the truth about capitalism and the causes of maldistribution of wealth under capitalism. But it is also true that his writings leave no doubt that, had he caught and prevented himself from falling into his three foundational errors, he would have become as defiant in his espousal of capitalism as he erroneously was vehement in its denunciation.

If labor alone is a creator of wealth, there must be, as Marx and Engels said in the ***Communist Manifesto,*** equal liability of all to labor. But if capital is a creator of wealth, one may participate in the production of wealth either as an owner of labor or as an owner of capital. Similarly, if land is a source of wealth, one may participate in the production of wealth as an owners of land. But this basic capitalistic principle goes further. If, as we know, the productivity of capital is increasing in relation to that of non-managerial and non-scientific labor, and if the right to participate in the distribution of the proceeds of production follows from the fact of participation in production, the social justice which Marx sought lies ***in regulating the capitalistic economy so that there emerges an ever-increasing proportion of capitalists.***

The uneasy ghost of Marx must suffer the torments of the damned at the truth glaring from the pages of history that ***one does not abolish property by transferring it to the state.*** To put an end to ***private property*** in capital and land by establishing the socialist state is to concentrate the vast aggregate of property rights in the wielders of political power. There is no mystery in the fact that through a literal application of the theories of the great seeker after social justice, the Communist countries have achieved the exact opposite of what was promised. Marx wailed over the plight of the helpless worker under the merciless lash of the powerful factory owner. What would he say of the plight of the worker before the inescapably crushing power of the dictator, the political clique, or the party which in fact (though never in name, since everything is always done in the name of "***the people*** ") owns all factories, all instruments of production, all land, ***and fuses this power with political power?***

There can be only one answer. The safety, the security, the dignity of the individual which Marx sought in socialism can be found only under capitalism. The answer to the charge that ownership of capital instruments is too concentrated lies in the proper use of governmental regulation to reduce the concentration and to continuously broaden the ***private*** ownership of the means of production.

What Marx ***almost*** discovered was that both the benefits and the success of capitalism grow with the number of men who are capitalists. His error in failing to discover this truth was the most fateful near-miss in history.

A TURNING POINT IN HISTORY:
MORE THAN WHAT APPEARS ON THE SURFACE

Rev. William Ferree, S.M., Ph.D.
Center for Economic and Social Justice, April 1985

It is evident that the Employee Stock Ownership Plans or ESOPs are one of the more dynamic ideas on the contemporary economic scene. Not only do they seem to be an idea "whose time has come," but they reach far far more profoundly into the problem of human development than is generally recognized. Unless these more profound aspects are better attended to there is danger that their full potential will be unrealized.

Putting the Movement into Context

In order to grasp the full significance of the present movement toward widespread Employee Stock Ownership, therefore, it is necessary to place this movement in the broad currents of human history. Before doing this, however, it will be useful to note for how long its necessity has been clearly understood. Pope Leo XIII, in the first landmark document of what has come to be known as Catholic Social Teaching, clearly pointed out the way:

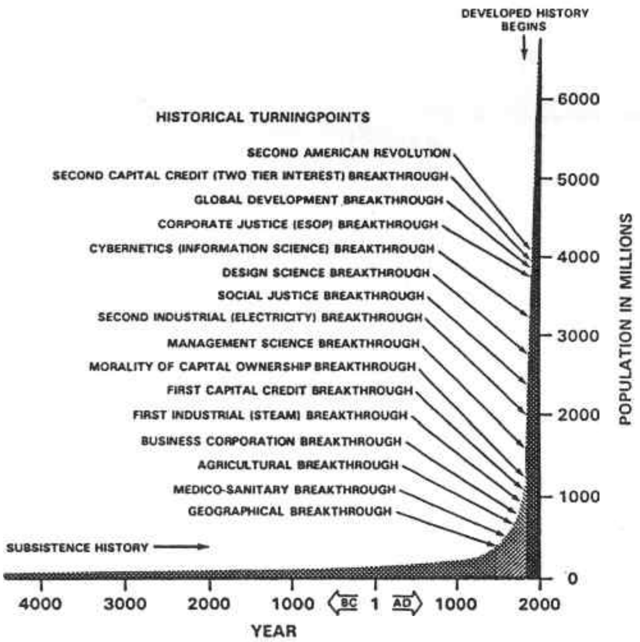
> "This great labor question cannot be solved save by assuming as a principle that private property must be held sacred and inviolable. The law, therefore, should favor ownership, and it should be public policy to induce as many as possible of the workers to become owners. Many excellent results will follow from this, and, first of all, property will certainly become more equitably divided (than the present division) between the party which holds the power because it holds the wealth - and on the other side - the enormous masses of the needy and the powerless, the sick and the sore in spirit."

Subsistence and History

The first of the great historical currents is the passage from "subsistence" civilization to the present "developed" civilization. All through history the only economic system known was almost universal involvement in production with hand tools and hand labor for the subsistence of the workers themselves, plus a small amount of trade based on the superfluous product of this hand labor.

This was not a very efficient system of production and the whole human race was never very far from catastrophe. The average age of human life was in the upper twenties, or lower thirties, and population increased very little through centuries and even millennia. (See graph) Yet in the midst of this general want a

THE DEVELOPMENT CURVE



This graph traces the growth of population through all recorded history, and projects it into the future to the year 2000 A.D. However, the same sort of curve—a near right angle slightly rounded at the corner—is of quite general application, and would be followed fairly closely by almost any significant factor of modern civilization. The reason why one curve fits so many and such varied factors of modern life is that what it really measures is the passage of the human race from one kind of history to another: from subsistence to what is now called development. This passage and its implications constitute the single most important clue to an understanding of our civilization—and of all history before it.

If the political divisions of the world at this moment were distributed according to their degree of development, they would be strung out along the same curve, with the United States at the top of the curve, the western and westernized countries below it on the "vertical" leg, the more "advanced" Communist countries on the rounded corner, and most Communist and all "developing" countries along the bottom.

few people, always and everywhere the same, managed to do very well indeed: the landlords (the nobility), the tax gatherers (the bureaucrats), the loan sharks (the bankers), and the professional military men who implemented their desires and supported them, managed to skim off the general scarcity enough to live very well, to put up monuments, to buy jewels, and to subsidize the arts. When we read history, we read about these Accumulators.

The factor that led to this monotony of economic system through all civilizations, all cultures and all nations, was the fundamental inefficiency of hand labor and hand tools. From this there was no escape as can be recognized by attempting to increase production by giving forty rakes to a single worker. They must be given to forty workers, and the relative production remains exactly where it started.

The final breakout from this monotony was the invention of what we now call capital tools, and the use of fossil energy. These enabled production to be increased without limit by increasing the capitalization per worker; and finally made possible the immense riches of what we now call the developed world.

The worst feature of the subsistence economy, was the concentration of almost all existing wealth in the hands of the few Accumulators, with the resulting poverty of the mass of propertyless workers. One might have expected the new age of abundance to change this; but in effect it did not. The mass of humanity would indeed dispose of an increasing income, but the relative position in regard to the owners of the means of production remained roughly the same, though on a clearly higher level. The recent draft of the Bishops' letter on the American Economy is occupied almost entirely with an analysis of this situation.

The mechanism by which the worst feature of the old subsistence economy was preserved into the new developed economy was two-fold: First of all, when the new capital tools came along, there was only one group of human beings who had the resources to buy and put them to use. That group was of course the old Accumulators. Thus it was those who had profited most from the economy of scarcity who by default had to shape the new economy of abundance. Specifically they had to create a new corporate body to handle the new capital tools with their immense power of production. It was they who invented the new business corporation, (as opposed to the semi-governmental corporations of history) and they necessarily gave it the shape of their own conceptions.

Thus the corporation was legally defined as absentee stockholders only; the living and breathing enterprise which carried on the production was defined as all outside contractors; and these two intrinsically opposed forces were welded into a going concern only by massive interference of Governments with what became know as Labor Legislation or Social Legislation. The achievements of Management Theory have introduced some reason into this extraordinary monstrosity, but it is still the fundamental arrangement of our economy at the present day.

A second factor was the way in which the fruits of production were distributed to the owners and the workers of the new capital tools. The great engine of modern "developed" wealth is what came to be known as Equity Growth. New capitalization was paid back immediately to the Stockholders in assignment of their negotiable stock or to the Bank in repayment of its loan; but the machinery and productive capacity bought by this new capitalization remained after the Bank disappeared from the picture entirely, and produced indefinitely until it was replaced by new capitalization.

The old Accumulators, who were also the new Industrialists, misread this situation entirely. When they discovered the machinery still producing after all obligations on it were paid off, they came to the conclusion that this could not belong to the "outside contractors" since they had been already paid off as agreed. Therefore, they concluded it must belong entirely and exclusively to themselves as the "fruit of their ownership." The real truth was that they had not only paid off the "outside contractors," but they had also paid off themselves in the value of their negotiable stock and in their dividends. Thus the real status of the equity growth was that it was the fruit of collaboration of capital and labor from the beginning, and belonged somehow to both in distributive justice. It was only machines in their crate that the Accumulators owned in the absolute manner they envisioned.

As a matter of fact the Accumulators recognized this very clearly when they later went to professional management of their property, and immediately "cut in" the managers into ownership through stock options, bonuses, etc., in order to assure their loyalty to the corporation. It is obvious that this same problem had existed for all the "outside contractors" from the beginning, but the old Accumulators did not recognize it until management loyalty became decisive and necessary to them.

What the new legislation favoring Employee Stock Ownership does is to permit new capitalization to follow a much more healthy pattern of equity distribution, and thus gradually arrive at a going concern which is synonymous with the legal corporation. The special virtue of this method is that there is no suggestion of expropriation, redistribution, or anything of that sort. It is concerned only with new capitalization and allows the present distribution of property to remain untouched but to be converted gradually over history into something much more just and much more effective.

The gradualness of this method of restructuring the corporation is an advantage in its own right. The Employee Ownership can start out in any proportion and in any degree of completeness desired, so that advances can later be made in the measure in which real advantages become evident. This is the ideal way to accomplish profound social change.

To sum up then, the Employee Stock Ownership Movement will:

1) Restructure the Corporation so that its legal definition and the going concern are identical; the Government can withdraw from its massive and inappropriate tasks of holding a fictitious Corporation together by Social Legislation.

2) End the monopolization of equity growth through the use of capital credit, which had been retained by the early successors to the old Accumulators. ***Capital credit would be opened up to the general population,*** and the Industrial Revolution would finally be completed.

Labor-Intensive to Capital-Intensive Production

Our second broad historical current into which the development of the Employee Stock Ownership Plans must be inserted, is that from the almost exclusive hand labor of subsistence civilization, to the ever increasing, and finally almost exclusive role of Capital in developed production. This progression from an almost exclusive predominance of labor in the productive process to an ever increasing predominance of capital almost to the exclusion of labor, is on the one hand a highly humanizing movement: humanity can progress from an almost exclusive preoccupation with physical and material subsistence, to a more and more intellectual and spiritual life of fully human proportions.

The difficulty is that no wage system can follow this progression through to its conclusion. As mechanization and automation give way to artificial intelligence and robotics, labor is rendered not only temporarily "more productive," but eventually superfluous. This can be handled up to a certain point by redistribution of income through public taxation, but there is an evident limit to such a procedure, based on the fact that redistribution is the most uneconomical of all forms of income generation. Sooner or later it must fail to support a universal system. ***The only alternative is that the wage system be supplemented by a system of ownership, so that each laborer will have two in-***

comes, one from his contribution to the productive process, and one from the revenue of his ownership of productive capital. In this way the income from ownership can increase as that from wages decreases and the total income of the person can be maintained.

Thus the Employee Stock Ownership Movement is not only a very advantageous thing, but it is an absolutely necessary one as the course of industrialization develops to its logical conclusion.

International Development ("North-South Tension")

A third broad current into which the Employee Stock Ownership Movement must be inserted is that of the eventual progress of still underdeveloped countries. The economic factors which permitted the development of one-third of humanity after the Industrial Revolution, are quite absent in the two-thirds of humanity which still suffer from the scarcities of subsistence living. Even those States which are now undergoing rapid development like Taiwan, Korea, Singapore, cannot be directly imitated by the less advanced States. Some way must be found to capitalize these still-subsistence economies without having everything controlled by the still active Accumulators who make up their Governmental and economic Institutions. The massive debts which increasingly threaten the world economy are the only possible result with the present techniques.

The only way out is a policy of extending foreign aid only within a plan of expanded capital ownership and a vigorous promotion of it in the underdeveloped countries with the assistance of international aid personnel, and the expertise of multinational Corporations.

East-West Tension (Collective Totalitarianism)

A final broad historical current into which the Employee Stock Ownership Plans must be inserted for full understanding is the enduring conflict between the free and collectivist societies. Collectivism rose to power when it was considered the only alternative to the supremacy of the Accumulators in the developing Capitalist society. As long as it is thus viewed as the only alternative there is no stopping this conflict, since collectivism by itself is such a tyranny of political power, military force, and economic monopoly that the groups which exercise such complete power will defend it to the death even though it is an economic failure; and thus there is no possibility of real dialogue or gradual change.

Widely extended Employee Ownership is a different pattern from both the present contestants, and thus allows new contacts and new efforts at a mutual understanding.

The same arguments that were used to convince peoples of the necessity of collectivism are even more valid for conviction concerning the utility of universal ownership in which each owner retains his rights instead of turning them over to a collective leadership which history has shown is not responsible to anyone.

Thus arguments for Employee Stock Ownership are not in any way a continuation of the present so-called dialogue between free enterprise and the collectivists, but it is a return to the original problem and research which presided over the origin of the present conflict. As such, it has a chance of success which no possible continuation of the present alleged dialogue could promise.

Human Dignity and Personal Development

There are many secondary advantages which make it desirable to promote Ownership by Workers. First of all, it is the owner/worker who best fits the description of human nature as outlined in the Biblical account of the Creation. Man is to "fill the earth and subdue it" and to "be sovereign over all the living creatures that move upon the earth." A wage system fits this description only because it permits the eventual purchase of ownership. As a matter of fact, such historical expressions as "the just wage" and "the family wage" specifically intended to imply the possibility of acquiring this ownership in addition to meeting the necessities of ongoing life. The promotion of Employee Stock Ownership Plans is a much more direct path to the ideal.

Each Will Guard His Own

A second advantage has to do with efficiency of production and of use. From the very nature of man as we have just seen it described in Genesis, man will always work better on something that he views as his own, and he will always take better care of something which he views as his own. Thus the just distribution of the things of Creation would be that one in which each one owns what he has to use. Another way of saying the same thing is that what each one uses should fall clearly under his own responsibility.

Duty to the Common Good

Man is a social being and is bound to aid and support the Common Good of himself and his fellows. He can best discharge this obligation when he is owner of the things he administers and is thus free to direct them to the Common Good in his use. An agency responsibility is always narrower than the responsibility of ownership; so a full preoccupation for the Common Good can exist only in one who has the broad responsibility of ownership. The narrow responsibility of agency simply cannot always make room for this, and leads to eventual distortions of one's vision of the Common Good.

Social Justice

At the dawn of Western Moral Science, Aristotle, in the Fifth Chapter of his ***Nichomachean Ethics,*** concluded that he would not have to write a special treatise on Social (then called "Legal") Justice, because it included all virtues, and the treatises on all individual virtues could therefore adequately cover the ground.

This mistake - for it was a serious mistake - was partly corrected in the 13th Century by Thomas Aquinas; but had to wait till 1931 for a completed theory in the Encyclical ***Quadragesimo Anno*** of Pius XI.

There Social Justice is a definite and specific virtue which structures and continually restructures all the institutions of life into a Common Good perfective of all individuals within it.

Its judgment on the "legal" corporation created, as we have seen, at the beginning of the Industrial Revolution is serious:

> "As the situation now stands, hiring and offering for hire in the so-called labor market separate men into two classes, as into battle lines, and the contest between them turns the labor market itself almost into a battlefield where face to face the opposing lines struggle bitterly. Everyone understands that this grave evil that is plunging all human society to destruction must be remedied as soon as possible."

> "But complete cure will not come until this opposition has been abolished and well ordered members of the social body --Industries and Professions-- are constituted in which men may have their place, not according to the position each has in the labor market ("classes") but according to the different social functions each performs."

Six years later, in ***Divini Redemptoris*** Pius XI summed this up in one paragraph:

> "If, therefore, we consider the whole structure of economic life, the reign of mutual collaboration between justice and charity in social-economic relations can only be achieved by a body of professional and interprofessional groupings, built on solidly Christian foundations, working together to effect, under forms adapted to different places and circumstances, what has been called the Corporation."

What a contrast to the old Accumulators' "Corporation" consisting exclusively of absentee stockholders locked in endless battle with "outside contractors" and held together in a going concern only by the massive interference of the State's "Social Legislation!"

Only generalized Employee Stock Ownership can bridge this contrast and create a built-in Social Justice.

Overall Guidance

The promotion and installation of Employee Stock Ownership Plans and their derivatives (Consumer Stock Ownership Plans, General Stock Ownership Plans, etc.) is fast creating a highly complex and technical profession of Consultants who can guide Corporations through the intricacies and pitfalls of ESOP implementation.

The issues and principles outlined in this paper have hardly been suspected by these new Professionals; but are more necessary than their technical expertise if this promising new movement is to live up to its really historical potential.

Appendix: Experimental Projects

There are certain political situations so tense and so complex that no political solution can be envisioned. An example is the Israeli-Palestinian relationship, and another perhaps is the labor-government relationship in Poland.

In such situations one side must "occupy" the other for life to continue at all.

There is a possibility of leaving the political question temporarily in an impasse while seeking accommodations in the economic order.

This would entail moving as much decision making power as possible to the personal level where it could be supported by personal contacts and personal interactions, not by hardened social pressures.

A general Personal Ownership Plan based on experience gained with ESOP management, could set up the conditions for such an experiment.

South Africa

A somewhat similar opportunity exists in South Africa where the political solution attempted by the Afrikaners has not only run into an interior impasse, but has also roused almost universal censure in the International Community.

At present there is almost no real contact outside of the naked use of force, and it would have to be discovered how economic promotion and self-sufficiency could be turned into an interim constructive program, leading the way to future political accommodations when both sides have something to lose, and when the track record of African rule can inspire more confidence.

In this field, therefore, the immediate task is one of research unless the present drive to eliminate the Multinationals can be reversed. In this latter case, something could be done with creative divestiture in favor of the workers with methods already known, perhaps in communities built up immediately around the cooperating enterprises.

HUMAN RIGHTS IN ISLAM

By Robert Dickson Crane

This article was given as a public lecture at Syracuse University, New York, on September 25, 1985, introducing a talk to the Muslim Student Association September 26, *"Expanding Share-Ownership Opportunities: An Islamic Approach to Economic Justice."*

In Islam, the individual person is both the subject and object of human rights. The human person is honored by Allah as a valuable part of creation because he or she is a direct intelligent link with the transcendent and is therefore a source of meaning in the created universe. The value of the human person derives from its ability to know and devise, because this makes it possible to understand, impart, and apply the Divine Message. Meaning begins in the person, not in the collective, because Allah communicates with the person, who is directed to form a community with others and to seek justice.

Each person is unique because the Divine call to man to achieve and maintain justice becomes in the first order a personal responsibility and then a social duty. The purpose of the Divine Message is to help each person change himself or herself as the first step to change the community. Therefore the person is the focus of change and is obligated to build a just community.

Islam, as the final and most complete expression of Divine truth, provides precise definitions and guidelines to distinguish right from wrong. This is the first step in the pursuit of justice, which means following not our own will but the Will of Allah (SWT). This total submission to Allah is the meaning of Islam. Justice, as well as mercy, is one of Allah's ninety-nine attributes, and is the core value of Allah's Will in securing human dignity.

The unique Islamic disciplines of the ***Shari'ah*** (Islamic law) define the substance of justice as six specific human rights. These are the right to life, the right to group identity, the right to liberty, the right to personal dignity, the right to knowledge, and the right to private property. These human rights, known as ***Haqq al Haya, Nasl, Hurriya, Karamah, 'Ilm,*** and ***Mal,*** formed the roots of Islamic teachings at the time of the Prophet Muhammad (SAAS). From such roots justice prevailed for each human person and for the Muslim community.

This justice inspired and still inspires the commitment to ***Jihad*** (effort), because the duty of Jihad in the cause of Allah aims primarily at securing and maintaining human rights for one's self and for others against the evils of ***Nifaq*** (hypocrisy), ***Taghut*** (hedonism), ***Sheeqaq*** (factionalism), and ***Kufr*** (maliciously hiding the truth). The opposite of these evils, namely the virtues of honesty, purity, unselfishness, and love, are fundamental to attain justice as well as in the Greater Jihad to bring oneself closer to Allah.

But the practical meaning of these virtues depends entirely on the absoluteness of one's commitment.

Although a good Muslim is willing to die for his or her faith and for the rights of liberty, dignity, and knowledge as elements of this faith, nevertheless the right to life comes first. The right to life includes the right to a dignified life without fear or oppression. The laws of evidence designed to protect life and liberty in an Islamic society are not even approached in any other legal system. The right to life is important in every other human right, even in the right to property, which provides that every person has a right-to-survival in the wealth of every other person and that no person should claim for oneself what is the product of another person's efforts, skills, and tools.

The second element of justice, as an extension of the first one, is the right to group identity. The core value in the social structure of Islam starts with the individual person and extends through the ascending structural levels of family and community that ultimately derive from that person.

This right has never existed in Western law, even in theory, though it has never been absent in any other legal system. This includes the duty to protect the group rights of minority peoples and non-sovereign nations (those with a common sense of history, a common set of values, and common hopes for the future) against claims to absolute political (or economic) sovereignty. Absolute political power, legitimized by the monopoly of sovereignty at a single level of human community, has been a source of grave injustice to human communities and nations throughout the world.

Third is the right to liberty, which includes everyone's duty to protect every other person's freedom of religion and freedom for constructive opinion. It is the duty of every person entrusted with power to abide by some formal or institutionalized system of moral law. The concept of responsive consultation or ***Shura***, of informed consensus or ***Ijma*** of the community, and of an independent court system administering the Shari'ah, in response to the principles of subsidiarity (whereby problem solving should always start at the lowest possible levels of human community), should govern under the absolute sovereignty of Allah. This should guard against the tyranny of political and financial power.

The right to dignity is an essential element of justice, because it is the purpose and criterion of all human rights for men and women equally. Human dignity is a universal requirement in every traditional religion. Human dignity is optimized by maintaining balance among man's physical, mental, economic, political, and other functions. Any distortion or disorder in a person's personality, and in the community that depends on the person, results in undermining dignity.

The fifth right, namely, knowledge, is primarily a responsibility of each individual person to oneself and a social duty to others. All rights are a balance between right and responsibility.

The Holy Qur'an has delineated essentially three sources of knowledge for the human person. The first is ***Haqq al Yaqeen***, which is certain knowledge that comes directly from Allah. This occurred in Revelation (***Wahy***) to a selected group of people, "the Prophets." Another source of direct knowledge is private inspiration (***Ilham***) to enlighten a person so he or she can understand the Divine Message as guidance for his or her own personal life.

The second is ***'Ain al Yaqeen***, which is observational or experimental knowledge gained from observing the phenomena of the universe (including man himself) created by Allah (SWT). Observation of physical creation in the natural sciences encompasses that portion of knowledge designated as ***Ayat Allah*** (signs of Allah), because everything is a sign of Allah. The movement of the clouds signifies the principle of change in opposition to the false god of stability and security, just as the multicolored variety of sunsets signifies the principle of diversity in opposition to the false god of uniformity in totalitarianism. Observation of man himself, constitutes the other portion of ***'Ain al Yaqeen*** and is known as ***'Ibadat Allahi*** (worship of Allah), because worship of Allah is the ultimate end and true rationale of all human thought and existence.

The third source of knowledge is ***'Ilm al Yaqeen*** or intellectual knowledge. Since it is the most indirect source of knowledge, it includes only the product and interactions of the rational mind. It is the outcome of the processing and rationalization of that knowledge gained by the mind from the study of Revelation, the physical universe, and man.

This Islamic guidance on the pursuit of knowledge as both a right and duty dictates that every human person should seek to know, learn, and transmit knowledge. Knowledge by definition is reality and truth that comes from Allah. Man does not create knowledge, but only discovers it through effort and achievement. No man and no religion has a monopoly of knowledge, though all principles of knowledge and all wisdom, if man can but see it, are contained in the Holy Qur'an. It is the right of every human person to enrich his understanding in order to attain wisdom, which will cause him to grant justice to others.

The sixth and last human right in Islam is the right to private ownership of productive property, ***Haqq al Mal*** . The critical importance of this human right has become evident only within the past two centuries, as wealth increasingly has been produced by tools (i.e. capital) more than by human labor, and as capital ownership increasingly has become a source of political power. Ownership of one's labor is taken for granted, because the opposite is slavery. Without ownership (shareholding) in tools (modern technology) with which one earns a living, human beings someday would be "wage-slaves" to machines and to the global politico-economic elite that owns and controls them. The unemployed, in a "permanent underclass," would be slaves of government "welfare." Consumer power would be provided by high taxation and by the redistribution of wealth through an unholy trinity of big business, big government, and big labor to prevent revolution.

The importance of ownership in a capital-intensive economy was first recognized by Karl Marx. Whereas Marx sought to abolish private property, however, Islam seeks to broaden access to it. If private ownership of productive property is a human right, then this right, by definition, must include equal opportunity for all.

The Islamic rules for earning a living reject the economic sovereignty of man in the secular sense of unqualified rights and power over nature, because man is a steward of creation under the sovereignty of Allah (SWT). Man's prosperity, and even his survival as a species, depend upon his continued acceptance of this trusteeship (***Khilafa***).

Within this overall responsibility to protect and multiply the bounties of Allah, man has a corollary responsibility (both ***Fard Kifayah***, *i.e.*, of the community, and ***Fard 'Ain***, *i.e.*, of each person individually) to promote justice by assuring that everyone has an equal opportunity to enjoy these multiplied bounties of Allah.

This provision of equal opportunity to use and benefit from one's talents is the objective of *Iqtisad* or "Islamic economics." This is a component of the ***Shari'ah*** and therefore, like all Islamic academic disciplines, is basically normative, i.e. purposive and value oriented, and dynamic in its impact on the world. Since all knowledge, by metaphysical definition, reflects and derives from Divine Purpose, the collection of data on man's economic life (secular, descriptive economics) takes on meaning and becomes knowledge only after it has been "Islamized" during the process of incorporation into a framework of moral purpose. In practical terms, one might say that descriptive economics produces knowledge only as feedback in economic policy analysis. The responsibility of ***Khilafa*** is both to observe and act.

The purpose of ***Iqtisad*** as a "policy science" very basically is economic justice. Its three component goals are:

1) participative justice (an "input" principle requiring, among other things, a universal right to capital ownership),

2) remunerative justice (an "output" principle requiring just rewards for one's contribution of labor and capital), and

3) harmonic justice (an iterative balancing principle based on feedback and governmental intervention to secure the first two principles of economic justice).

The strategy of expanding capital ownership among the vast majority of the population, both at one's place of work and otherwise, is the only efficient and effective way to assure that consumer purchasing power will equal society's productive power. This, in turn, is the only way to attain harmonic justice with a minimum of governmental intervention, so that private charity(***Zakat*** and ***Sadaquat***) can suffice, as it should, to provide a dignified life for the disadvantaged.

The right of equal opportunity in access to ownership requires fundamental change in infrastructural financial institutions and prac-ti-ces, because all modern institutions, including taxation and corporation law, are heavily biased toward the concentration of wealth and economic power. These changes should aim at freeing all human beings from the bonds of wealth concentration and monopoly both within and among nations, because they deny the basic goal of equal opportunity, which underlies every human right.

Perhaps the biggest single opportunity to revolutionize the world's economy is the growing agreement among the world's leading bankers to write down the enormous debt overhang discreetly and without fanfare by "debt-equity swap." Tens of billions of dollars loaned to government-owned industries, 100% of which are now losing money, would be converted into equity with a provision that this equity be divested automatically out of profits. To enhance productivity, the growing local ownership would be vested automatically in the employees who produce the wealth. This revolution may be forced on the bankers by a revolt of the taxpayers, who are unwilling to rescue them from bankruptcy, but are afraid to risk a general global collapse. This opportunity would go far to eliminate the strangle-hold of debt finance, privatize the global economy, and provide the employee incentives necessary to turn foreign-financed, state-owned enterprises into engines of global prosperity and free trade.

Some strategies to implement this much misunderstood human right to ownership of wealth-generating property are introduced in the author's articles, *"New Directions for American Foreign Policy"* (see *pp*.103-107), ***Orbis: A Quarterly Journal of World Affairs***, Summer 1969, and *"Peace Through Justice"*, in ***Islamic Horizons***, September 1985. They are spelled out in great detail in ***High Road to Economic Justice: A Report to the President and the Congress*** by the Presidential Task Force on Project Economic Justice, P.O. Box 40849, Washington, D.C., 109 pages, October 1986, $19.95 per single copy.

This right differs in traditional Islam from traditional Christian moral theology, because Islam does not permit any practical distinction between personal and social responsibility. Since the community is an extension of the person, and not an independent collectivity, personal morality includes social obligation. The Muslim should not passively blame society for the evils that result from ***Shirk al Akbar*** of individuals, that is, from the obvious worship of the false gods of power, wealth, and prestige. ***Shirk*** is the worship of rivals to Allah, and ***Akbar*** means the greatest or most extreme. At the same time, every Muslim has a personal responsibility to work with others within the framework of legitimate authority to change any structures and institutions of society that result from such polytheism. The political guidelines, mechanisms, and restrictions for carrying out this responsibility in all aspects of social life form the substance of the Islamic discipline, Ummatic knowledge, concerning the life of the human community or ***Umma,*** which includes whatever is valid in the Western disciplines of political science, sociology, and eco-nomics.

The substance of justice in Islamic thought is nothing other than the attainment of human rights, and was spelled out with the most modern techniques of systems analysis many centuries ago, beginning with the ***Maqasid*** (or ultimate ends of legal thought) of al Ghazali, proceeding through the treatment of the ***Dururiyat*** (the essentials or universals of the Shari'ya) by Ibn Taymiya, and culminating in al Shatibi's ***Takamuli*** (or strategy for implementation through a systemic hierarchy of purpose, which first introduced the calculus of interdependent utilities and disutilities).

Justice is sacred because it is part of Divine Knowledge. For this reason, justice becomes a powerful ordering principle and motivating force the more it is looked upon as being sacred. The concept of justice has no real sustaining power in a secular society where there is no recognition of Allah's Will, because secular justice always lacks Divine Knowledge and therfore lacks harmony and balance. This divine harmony and balance constitute a cardinal Islamic principle known as "Mizan" (balance). Secular justice is in reality no more than a farce and a tool of propaganda used by those who worship false gods. The modern age is the most polytheistic in human history, with up to 72 elements of Hidden Shirk (***Shirk al Khafi***) rampant throughout the world. The principal lesson of history, evident throughout the Qur'an and also in Christian and Jewish scriptures, is that such false gods eventually and inevitably destroy their own worshippers.

Justice is the product of divine purpose. Consequently every person and every community should be governed by a delicate sense of justice, and justice should be the framework for all public issues, including all foreign policy, because every person, every nation, and all mankind have purpose created by Allah (SWT). Man's happiness, both for the person and for the community, comes from being faithful to the nature of that purpose.

Justice may be defined as the Will of Allah for each human person and every society expressed in their commitment to ***Tawhid*** (worshipping Allah in His ***Wahdaniya*** or Oneness), which is the most basic and all-encompassing of Islamic principles. This justice, in turn, makes possible unity in diversity. From this unity comes all human harmony and peace.

ECONOMIC JUSTICE IN THE AGE OF THE ROBOT

Excerpted from "*Toward Economic and Social Justice*,"
Center for Economic and Social Justice, 1986

Everyone has an inborn aversion to injustice. We can ***sense*** injustice in our daily lives, on the job, when we shop, and as we observe life in society. Justice, on the other hand, involves ***discovered principles*** which can be applied in practical ways to help us resolve and avoid human conflicts.

Throughout history many people have given their lives for "justice." But all too frequently the ideas of justice around which people have rallied were confused, superficial, divisive or just plain wrong. This led to tragic consequences for the heroes -- and even worse for the victims -- of what seemed to be a noble cause. Often the terms "economic and social justice" were misused, describing not justice, but what were really injustices or unresolved social problems.

In pursuing and implementing justice in today's world, the first challenge is to clarify these terms so that everyone can understand them and apply them practically in their daily lives. The next problem is to develop a conceptual framework and practical methodologies for applying universal moral values to the realities of the Age of the Robot.

Defining Justice

One definition of justice is "giving to each what he or she is due." The problem is knowing what is "due".

Functionally, "justice" is a set of universal principles which guide people in judging what is right and what is wrong, no matter what culture and society they live in. Justice is one of the four cardinal virtues of classical moral philosophy, along with courage, temperance (self-control) and prudence (efficiency). (Added to these are the three religious virtues of faith, hope and charity.) Virtues or "good habits" help individuals to develop fully their human potentials, thus enabling them to serve their own self-interests as well as work in harmony with others for their common good.

The ultimate purpose of all the virtues is to elevate the dignity and sovereignty of the human person.

Distinguishing Justice from Charity.

While often confused, Justice is distinct from the virtue of Charity. Charity, derived from the Latin word *caritas*, or "divine love," is the soul of justice. Justice supplies the material foundation for charity.

While justice deals with the substance and rules for guiding ordinary, everyday human interactions, charity deals with the spirit of human interactions and with those exceptional cases where strict application of the rules is not appropriate or sufficient. Charity offers expedients during times of hardship. Charity compels us to give to relieve the suffering of a person in need. The highest aim of charity is the same as the highest aim of justice: to elevate each person to where he does not need charity but can become charitable himself.

True charity involves giving without any expectation of return. But it is not a substitute for Justice.

Philosophical Developments of the Concept of Justice.

The mandate "Justice, Justice, thou shalt pursue," we are reminded by the Old Testament, involves the highest duty each person owes to God. (***Deuteronomy*** 16:20). Pursuing justice is a moral imperative. It is not a zero-sum game where one gains only at the expense of another. By pursuing true justice, everyone can come out a winner, everyone gains dignity.

Aristotle in his ***Ethics*** divided justice into two parts: Commutative Justice and Distributive Justice. (See ***The Oxford English Dictionary.***) The first deals with exchanges of equal or equivalent value between individuals or groups of individuals. The second deals with a distribution or division of something among various people interacting together in shares proportionate to what each one deserves. These virtues impact directly on the behavior of individuals, not institutions.

The late Father William Ferree discovered in the writings of Pope Pius XI a major breakthrough in moral philosophy. [See works by Rev. William Ferree, S.M., Ph.D., including ***The Act of Social Justice***, Catholic University, 1942; and "*Introduction to Social Justice*," The Paulist Press, New York, 1948.] Pius XI pointed out that "social virtues" are separate but complementary to the "individual virtues." While individual virtues describe the moral quality of our individual actions, social virtues describe the moral quality of our ***institutions***. For example, individuals may act justly within unjust institutions, and vice versa.

Thus, "social justice" focuses on human institutions and the principles of justice which guide their formation, development, and restructuring. Social institutions affect the behavior of individuals but they are not flesh-and-blood human beings themselves.

Defining Social and Economic Justice.

Social Justice is the broader concept and encompasses economic justice. Social justice is the virtue which guides us in creating those organized human interactions we call institutions. In turn, social institutions, when justly organized, provide us with access to what is good for the person, both individually and in our associations with others. Social justice also imposes on each of us a personal responsibility to work with others to design and continually perfect our institutions as tools for personal and social development.

Economic Justice, which touches the individual person as well as the social order, encompasses the moral principles which guide us in designing our economic institutions. These institutions determine how each person earns a living, enters into contracts, exchanges goods and services with others and otherwise produces an independent material foundation for his or her economic sustenance. The ultimate purpose of economic justice is to free each person to engage creatively in the unlimited work beyond economics, that of the mind and the spirit.

What is Property?

Many people erroneously equate property with material objects, such as land, structures, machines, tools, things. In law, however, property is not the thing owned but rather the ***relationships*** an "owner" justly acquires (as a result of access to credit or previous creative activity) with respect to things. Private property is a set of rights, powers and privileges that an individual enjoys in his relationship to things. Under the law, these 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. These rights are only as effective as the laws which provide for their enforcement. The English common law, adopted into the fabric of American law, recognized that the rights of property are ***subject to 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. As a functional matter and in the final analysis, property in everyday life is the right of ***control.***

What is Private Property in Corporate Equity?

Next to the State itself, the corporation is one of civilization's greatest social inventions. In the modern world, the most important instrument for organizing private property rights in the means of production takes the form of corporate equity, represented by shares of common stock. These shares allow many owners to share individually and "jointly", not collectively, in the ownership, risks and profits of a modern corporation. The corporation in turn is a convenient legal vehicle which owns "collectively" the land, machines and other assets it needs to produce and market in the global marketplace. While individuals may own shares in a corporation, no shareholder has any legal title to the machinery or other assets owned by the corporation itself.

Why is Private Property Essential to Economic Justice?

Joint or share ownership provides each shareholder his or her own ***definable*** private property stake in the corporation and thus decentralizes economic power. In contrast, collective ownership of an enterprise offers no definable stake for any individual owner and thus concentrates power in whoever controls the collective.

Property in the means of production is the primary social "link" between a particular human being and the process of producing and distributing wealth. Property determines who has the right to share in profits, the "wages of ownership." Assuming that economic values are set democratically and freely in a competitive marketplace and that unjust barriers to participation in work and ownership are lifted, property incomes become the key to distributive justice.

Power exists in society whether or not particular individuals own property. If we accept Lord Acton's insight that "***power tends to corrupt and absolute power corrupts absolutely***," our best safeguard against the corruptibility of concentrated power is decentralized power. And if Daniel Webster is also correct that "***power naturally and inevitably follows the ownership of property***," then democratizing ownership is essential for democratizing power.

Kelso and Adler: An Expanded Ownership Theory of Economic Justice.

Both the Marxist and the Kelso-Adler theories of economic justice recognize property as an institution essential to controlling income distribution patterns. [See Chapter 5 of ***The Capitalist Manifesto***, Louis O. Kelso and Mortimer J. Adler, Random House, 1958; reprinted by Greenwood Press, Westport, Connecticut.] Both agree that where a few individuals own and control industrial capital and the majority of workers own little or no capital, income patterns will become grossly distorted and lead necessarily to the abandonment of the orderly process of supply and demand, and eventually to a breakdown of the property system itself. And without the stability of property, force eventually is required to hold together the social order.

The Marxist and Kelso-Adler theories of economic justice differ mainly on where to place ownership powers and rights over productive capital, and on the best means for preventing ownership from becoming monopolized by a few. Also, Marx recognizes only property in labor (from Ricardo's labor theory of value), denying any personal right to acquire property in capital.

Where Marx, by abolishing private property in corporate equity, would make the State (or collective) the only owner of capital, the Kelso-Adler theory would diffuse access to private property broadly among all members of society. Thus, private property would serve both as the foundation for other fundamental human rights and as the ultimate check on the potential abuses by government or by any political majority against individual liberties and the rights of political minorities.

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.

The connection between widespread distribution of property and political democracy was evident to America's founders, as was reflected in the 1776 Virginia Declaration of Rights, the forerunner of America's Declaration of Independence and the Bill of Rights.

Following John Locke's trinity of fundamental and inalienable rights, the Virginia Declaration of Rights declared that "Life, Liberty, ***with the means of acquiring and possessing Property***" are the highest purposes for forming any just government.

With the abolition of slavery and feudalism, the United States insured that no person 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. But 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 free market economy.

Developing the Role of Private Property in Building a Just Global Marketplace.

A major focus of moral philosophers in the Third Millenium should therefore be on the development of a system of economics and long-range strategy for restructuring the economies of the globe into a single common market based on private property, free markets, limited government and the modern business corporation. This strategy would not only restore the original rights of private property in corporate equity for present as well as new owners. It would also provide everyone, as one of the most fundamental of human rights, with the means--including more democratic access to productive credit--to become an owner of privately-owned capital instruments.

The Three Principles of Economic Justice.

The pursuit of justice is one of the ultimate ends of human life. There are three essential and interdependent pillars of the expanded ownership theory of economic justice: ***The Principle of Participation, The Principle of Distribution***, and ***The Principle of Harmony***. Like the legs of a three-legged stool, if any of these principles is weakened or missing, the system of economic justice will collapse. Like every system, economic justice involves input, output, and feedback for restoring harmony or balance between input and output.

The Participative Principle

The Principle of Participation describes how one makes "input" to the economic process, including the human right to private property as well as the right to work.

The principle of participation requires that every person be provided by society's institutions with equal access to make a productive contribution to the economy, both as an owner as well as a worker.

Participative justice is a humanizing alternative to institutionalized charity and governmental redistribution, which tend to become condescending and indifferent to human suffering and negate personal expressions of justice and personal charity.

Participative justice is violated by institutions and laws that cause monopolistic or privileged access for a few to participate in ownership of modern instruments of production.

The following guidelines shape the participatory opportunities available to each person in contributing to the common good through the corporation, the labor union, the marketplace and in modern economic life in general:

- The right to life includes the right to earn a living. To enjoy a rich intellectual and spiritual life, each person must have a solid foundation in the material world.

- Both human dignity and equality of economic opportunity require that every person be given access to the means to participate in future private property ownership opportunities, as well as in creative work and self-management.

- The institution of private property -- which guarantees a person access to the means to own and control capital tools, as well as the personal right to share in profits -- is fundamental for building each person's material base in the modern world.

- New technology in the form of labor-saving and energy-saving capital tools is a prerequisite for human progress and the source of material abundance. As human labor is liberated at the economic workplace by new technology, the contributions of workers to the man-machine mix must shift from their labor inputs to their ownership of new capital tools.

- In the modern corporation, each worker's property stake should determine his personal right to share in the productivity gains and profits in the business that uses these tools. His private property stake in corporate equity also should determine his power to share in corporate decision-making and in responsibility for those decisions.

- Participation is more than just gain sharing or profit sharing. It also involves self-governance, which depends on the sharing of power, responsibility, accountability and risks.

- Power, responsibility and accountability over policy and operational decisions should always be decentralized and kept as close as possible to those affected. This is the essence of democratic participation and the concept of "subsidiarity". Subsidiarity requires that corporate decisions should never be made at higher levels when they can be made prudently at the workplace. This follows naturally when full ownership rights are widely dispersed among workers.

- Applied to corporate ownership, widespread citizen participation in ownership also broadens the social accountability of the modern corporation to an expanding base of shareholders, laying the foundations for a genuine economic democracy, without which political democracy cannot long endure.

- No person should be required to do work that can be done more efficiently by a machine that he can own.

- As each person becomes economically liberated through ownership of advancing technology, education should be provided to help him redirect his "free time" to pursuing creative work which enhances the sovereignty and dignity of each person.

- Allocating among workers access to the capital credit needed by business is the key to their participation in future ownership opportunities. Capital pays for itself out of future profits. Thus, neither past savings nor wage reductions are necessary for workers to acquire future ownership.

- The democratization of credit for expanding capital ownership is therefore a fundamental human right, without which economic sovereignty for all is impossible.

The Distributive Principle

The Principle of Distribution defines the "output" rights of an economic system matched to each person's labor and capital inputs. Through the distributional features of private property within a free and open marketplace, distributive justice becomes automatically linked to participative justice, and incomes to productive contributions.

Many confuse the distributive principles of justice with those of charity. Charity involves the concept "to each according to his needs," whereas "distributive justice" is based on the idea "to each according to his contribution." Furthermore, Justice involves the sanctity of property, contracts and the free and open marketplace.

Distributive justice pre-supposes participative justice, especially the requirement that all persons be given equal opportunity to acquire and enjoy the fruits of income-producing property.

Originally understood as "to each according to his work," the post-industrial version of economic justice requires distribution "***to each according to what he contributes to production.***" This modern guiding principle of distributive justice is also consistent with the traditional distributive attribute of private property, which is violated whenever an owner or worker is deprived of the fruits of his productive inputs.

The "private property" distributive principle is essential for motivating people to build and create abundance for all and for converting waste into useful production. Widespread access to capital ownership thus combines justice with efficiency, both at the workplace and in the world marketplace.

Where workers are deprived of equal ownership opportunities, have only their human inputs to contribute to production, and their incomes are threatened by industrial robots, artificial intelligence and other labor-saving technologies, the laws of supply and demand make their family incomes less secure.

But as all members of society, including the most handicapped persons, begin to derive ever-increasing incomes from their shares of ownership of industrial capital, the competitive market mechanism, instead of harming people, can be allowed to operate as the most democratic and objective means for measuring just prices, just wages and just profits. Individual choice will govern in the marketplace.

Once consumer sovereignty can be expanded through rising ownership incomes and statesmen begin to favor greater reliance on a more just free market system, basic economic decisions of production, investment and resource allocation (subject to reasonable social regulation) can begin to be made on a more decentralized and personalized basis. Such democratic modes of economic decision-making would stand in sharp contrast to today's highly centralized, subjective, arbitrary, coercive, and bureaucratic mechanisms for guiding economic development.

The basic guidelines of distributive justice are as follows:

- An individual's earnings should be proportional to his or her contributions to overall production. Demanding to be rewarded for the labor or capital contributions of others is the equivalent of stealing. State-forced redistribution of income from one to another rests, therefore, on shaky moral grounds.

- One right of private property requires that an owner receive the free market-determined fruits of his human inputs as well as the free market-determined share of profits, reflecting his capital inputs.

- Distribution based on productive input (the distributive principle derived from private property) stands in sharp contrast to the principle, "to each according to his needs." The first distributive principle is indispensable for ***justice*** and for motivating people to produce wealth. The second is a guiding principle of ***charity***, the necessity for which is reduced to the extent justice is realized for all.

- Where the ownership of a nation's wealth-producing enterprises is widely distributed throughout society, just prices, just wages and just profits are best determined by the free and competitive marketplace, not coercively or by mercantilist or protectionist government policies.

- Forced equality ***of results*** and artificial leveling holds back human development and causes human conflict. Equality ***of opportunity***, on the other hand, is vital to the liberation and continuing perfection of the person.

- Under widespread capital ownership and a free market economy, capital incomes should automatically increase relative to labor incomes when capital productivity increases faster than labor productivity.

- All should pay fair value in exchange for what they receive in the economic marketplace. A global free marketplace should be actively encouraged so that consumers can receive the highest values at the lowest possible costs.

The Harmony or Balancing Principle

The Principle of Harmony encompasses the "feedback" or balancing principles required to detect distortions of either the input or output principles and to make whatever corrections are needed to restore a just and balanced economic order for all.

"Economic harmonies" is defined in ***The Oxford English Dictionary*** as "Laws of social adjustment under which the self-interest of one man or group of men, if given free play, will produce results offering the maximum advantage to other men and the community as a whole." This principle offers guidelines for controlling monopolies, building checks-and-balances within social institutions, and re-synchronizing Distribution (outtake) with Participation (input). The first two principles of economic justice flow from the eternal human search for justice in general, which automatically requires a balance between input and outtake, *i.e.*, "to each according to what he is due." The principle of harmony, on the other hand, reflects the human quest for other absolute values, including Truth, Love and Beauty.

In the field of economics this balancing between input and outtake is reflected in Aristotle's commutative or "exchange" justice. Balancing principles are also incorporated in double-entry bookkeeping, the logic of an individual enterprise. It is also the logic of a market economy, as first suggested by the French 18th century economist Jean Baptiste Say. Say's Law postulated that in a free market economy, supply would create its own demand and demand its own supply.

The history of politics is largely a history of ill-fated attempts to repeal the laws of supply and demand, alongside efforts of a few to monopolize economic power and privilege. Historically this has been achieved because of limited access to productive credit and capital ownership. As a result, free market policies have seldom if ever been supported by a broad political constituency, with the rare historical exception in settling America's vast land frontier.

Widespread citizen access to capital credit (in contrast to consumer or non-productive credit) would change politics by creating a political buffer against historic attacks on free market principles. It would produce an expanding political constituency necessary to shift control over the economy from government to a more dynamic and just private sector.

Consistent with the Principle of Harmony are the following guidelines:

- ***Justice in distribution follows justice in participation.*** Where the Principle of Participation is violated, social pressures increase for arbitrary and subjective substitutes for private property for determining just income distributions. Thus, the first social duty of every person is to help change economic institutions which violate the Principle of Participation.

- As the most effective check on the State or on concentrated private economic power, private property should be made widely accessible, particularly to workers.

- All private property rights should be fully restored with respect to ownership shares in the modern corporation, the most advanced form for organizing the production and marketing process. Since the right to property is an inalienable right, the derivative rights of property must not be violated either by government or by majority shareholders.

- In addition to its production and marketing functions, the most important social obligation of the corporation is to decentralize future ownership, especially among its own workers, and thus recapture from government the primary role for distributing mass purchasing power.

- The democratic labor union, whose primary social duty is to promote economic justice for workers, should undergo continual restructuring and self-renewal to gain for its members more just and widespread future access to private property rights in income-producing assets.

- The primary economic duties of the State are to respect and enforce contracts, to protect individual property rights, and to pursue the lifting of all barriers to expanded ownership and free trade within a more just global enterprise system.

- Ultimately, the State, deriving its powers from the consent of the governed, represents two legitimate potential monopolies: one over society's instruments of coercion and the other in controlling the creation of money and credit. No other monopolies should be tolerated.

- The antidote for economic and other non-governmental monopolies is competition. The key to competition is access to credit. To encourage new enterprises to compete with economic monopolies that may develop, the State must insure the availability of broad-based access to future capital credit.

- The power of government at any level to own or redistribute productive capital should be drastically curtailed. State-owned enterprises should be reorganized into profitable stock corporations and sold on credit to their employees.

- Tax laws, inheritance laws, laws affecting corporations and unions, welfare and social security laws, public employee pension programs, anti-trust laws and other laws reflecting national income and monetary policies should be reformed to encourage maximum rates of private sector expansion, but through means that ensure expanded share ownership opportunities for all members of society.

Conclusion

In conclusion, we are reminded by the words of Pope Paul VI, "If you want peace, work for justice." The work of restructuring the social order is never finished. Social Justice perfected is beyond human grasp. But justice is a moral imperative and must be pursued endlessly.

THE TECHNOLOGY OF EXPANDED CAPITAL OWNERSHIP:

BUILDING NEW SHAREHOLDERS FROM THE GROUND-UP

EMPLOYEE STOCK OWNERSHIP PLANS:
A POWERFUL TECHNOLOGY FOR EXPANDED CAPITAL OWNERSHIP

By Senator Russell B. Long

Excerpted from floor statement of November 17, 1983 on the "*Employee Stock Ownership Act of 1983;*" and reprinted in three parts in the ***Congressional Record***, July 30, July 31, and August 1, 1985.

The primary purpose of an Employee Stock Ownership Plan (ESOP), as I have been privileged to develop this financing tool during the past decade, is to serve as an incentive for corporations to structure their financing in such a way that employees can gain an ownership stake in the company for which they work.

What the Congress sanctioned with the ESOP is a socially improved technique of corporate finance that also serves as a new type of employee benefit. Thus, as a tax-qualified plan for providing employee benefits, in the form of employer stock, an ESOP is subject to many of the same standards imposed on other types of employee benefit plans but interpreted in light of the special purposes for which ESOPs are intended.

Using Leverage

The term "technique of corporate finance" refers primarily to the "leveraged" ESOP, an ESOP that uses borrowed funds to acquire employer stock, with the employer, or a related party, guaranteeing repayment of the loan. It is this guarantee, plus the underlying security provided for the loan, that puts the logic of corporate finance to work for a company's employees.

In a 1953 revenue ruling, the Internal Revenue Service sanctioned this type of leveraging by a defined contribution plan, thus laying the legal groundwork for the leveraged ESOP. The first known use of ESOP-type financing, pioneered by attorney Louis Kelso, involved a 1956 employee buy-out of a chain of California newspapers that was threatened with a takeover by a major chain. But only in the last few years has the business world at large become aware of this innovation.

Suppose, for example, that corporation X wants to build a new plant costing $10 million. With traditional debt financing, the company would borrow the $10 million, provide adequate collateral and guarantee of repayment to satisfy the lender, use the borrowed funds to build the plant, and then utilize the income generated by the new plant to repay the loan.

The ESOP adds a third element to this transaction -- an employee stock ownership trust. The trust borrows the funds based on the sponsoring corporation's guarantee that it will make periodic payments to the trust sufficient to repay the loan. As with traditional financing, the corporation may be required to secure this guarantee with collateral.

The ESOP trust then uses the borrowed funds to acquire newly issued employer securities, and the corporation applies the funds to build its new plant. As the new plant generates income, corporation X makes payments to the trust which are used to pay its obligation to the lender.

The primary difference is that with conventional debt financing, only interest payments are deductible for income tax purposes; amounts used to repay loan principal are not. The employer's contributions to the ESOP, however, are fully deductible, as employer contributions to an employee benefit plan, including those applied by the trust to repay loan principal.

Consequently, where corporation X uses the ESOP as its financing vehicle, it may repay its indebtedness, both principal and interest, with tax-deductible dollars. The Internal Revenue Code limits to 25 percent of payroll the amount that can be deducted each year for principal payments; interest payments are deductible without limit.

Thus, assuming, for example, a 50-percent tax rate and conventional debt financing, corporation X would need to generate $20 million in revenues to repay the $10 million in loan principal. With ESOP financing, however, the corporation would need to generate only $10 million to repay the loan principal through tax-deductible contributions to its ESOP.

By enabling a company to expense its capital investment, the ESOP lowers the sponsor company's taxable income and increases its available capital for other purposes; and the same dollar that finances the company's capital requirements also finances an employee benefit in the form of employer stock.

After purchase, the stock is held in an escrow account for allocation to employees' individual ESOP accounts as the loan is repaid. ***In no sense is this a "gift" to employees; rather, the capital is paid for out of the future flow of earnings that the new capital itself generates.*** As the already-rich know so well, the new capital's productiveness generally pays for itself.

The ESOP participants, however, also "earn" their ownership interest in the company through the ESOP's requirement that employees work for the company for a prescribed period of time before the stock in their ESOP accounts becomes nonforfeitable, that is, vested. An appropriate analogy can be drawn to the Homestead Act of 1862 under which the potential owner earned his or her acreage by homesteading the land for at least 5 years.

ESOP Legislative History

The Employee Stock Ownership Plan (ESOP) first received congressional approval in 1974 with passage of the Employee Retirement Income Security Act of 1974 (ERISA). ERISA made it clear that the ESOP is a technique of corporate finance that utilizes the advantages of a tax-exempt employee benefit trust to encourage the financing of corporate transactions in such a way that employees will have an opportunity to earn an ownership stake in their employer.

Federal encouragement of ESOPs has also included loans and loan guarantees from a variety of Federal agencies, including the Economic Development Administration of the Commerce Department, the Farmer's Home Administration, and the Department of Housing and Urban Development. In addition, as part of the trade adjustment assistance provided under the Trade Act of 1974, and as amended in 1983, ESOP companies are granted preferred status for Federal loan guarantees.

More recently, the Small Business Development Act of 1980 included a provision encouraging the Small Business Administration to provide financing both for ESOP companies and for employee organizations seeking to acquire an ownership interest in their employer. ESOPs were also made a condition of Federal financial assistance to the Chrysler Corp., Conrail, and others.

State legislatures have also demonstrated a growing interest in ESOPs. California, Delaware, Illinois, Maryland, Massachusetts, Michigan, Minnesota, New Jersey, New York, and West Virginia now have laws favorable to ESOP financing. Maryland's "Broadened Ownership Act," for example, establishes support for ESOPs as official State economic policy, and requires several State agencies to report annually on their progress in implementing this policy. Since 1974, Minnesota has had several ESOP related tax incentives on its books.

Several of these States have additional legislation under consideration and legislation is pending in other States as well. Financial and other assistance has also been provided for ESOP buyouts by California, Georgia, Indiana, Iowa, Maine, New Jersey, New York, and Pennsylvania.

Delaware Governor Pierre Du Pont IV signing into law a bill making broadened capital ownership and employee stock ownership plans (ESOPs) official policy to be encouraged by all Delaware state agencies, June 22, 1981. [Behind, left to right: Gayle Rogers, Corey Rosen, Bobbe Free, Rep. Jane Maroney (bill co-sponsor), Norman Kurland, Luis Granados, Rep. Kevin Free (bill co-sponsor), John McClaughry, R. Alan Stewart.]

More Bang for the Buck

This increased use of ESOPs for development financing reflects a return to incentive economics. The coupling of development programs with employee ownership programs results in a more production-oriented work force. That, in turn, helps to insure that scarce economic development dollars are invested so as to get the most "bang for the buck."

ESOPs are a healthy step in that direction. In addition to insuring that the benefits of development financing are more widely dispersed than through traditional means, the ESOP also helps to create the circumstances in which assisted companies are more likely to survive, and in which taxpayer-provided development loans are more likely to be repaid.

In terms of motivation, the merit of an ESOP-targeted economic development policy can be easily summarized: ownership counts. It summons up a common determination to succeed and insures that the company's success is shared with those on whom that success will largely depend.

Researchers at the New York State School of Industrial and Labor Relations at Cornell University and at the National Center for Employee Ownership cite these reasons and others for the fact that, to the knowledge of researchers in the field, more than 90 percent of employee buyouts are still in operation.

ESOP-type financing is not intended for losers.

It is intended, however, for those losers and for those marginally profitable firms who, with employee ownership, can become winners. It is intended for those employee groups willing to tie some portion of their future wages and benefits to their company's performance. On that point, it is encouraging to note that a 1981 Louis Harris survey of employee attitudes indicates that 63 percent of those surveyed would be willing to link their salaries to higher personal productivity.

It is also intended for those companies and those employee groups who feel that a climate of cooperation and compromise may now be better suited to their purposes than continued confrontation. That 1981 Harris survey also found that one in four Americans thinks better relations between management and labor is one of the changes that would do the most to improve productivity in the workplace. Only financial rewards for productivity gains, 30 percent, are thought to be more effective. A well-designed employee stock ownership arrangement can, of course, address both of those concerns.

Business executives surveyed -- 44 percent -- likewise think that better labor-management relations are one of the changes that would best contribute to increased productivity. Only the use of better equipment or tools -- 65 percent -- is viewed by them as more important.

Employee stock ownership provides a healthy new dimension to the economic development process. It enables those affected to examine the issue in a different frame of reference, one in which the effect on them becomes much more real, and one in which they can realize how important their productive efforts are to that process.

MAJOR EMPLOYEE OWNERSHIP COMPANIES*

Company	Location	Line of Business	# of Employees	% Owned
Alco-Gravure	Ramsey,NJ	Printing	1200	70
America West Airlines	Tempe, AZ	Airline	1000	20
American Cast Iron Pipe	Birmingham, AL	Pipe & Fittings Mfg.	3100	100
American Sterilizer	Erie, PA	Hospital Supplies	3500	20
Amsted	Chicago, IL	Mfg.	6900	98
Anderson Clayton**	Houston, TX	Institutional Food	17800	25
Arthur Rubloff	Atlanta, GA	Real Estate	2500	Maj
Ashland Oil	Ashland, KY	Oil Refinery	32000	27
Avondale Industries	New Orleans, LA	Shipbuilding	10000	70
Blue Bell	Greensboro, NC	Textile Mfg.	29000	25
Bureau of National Affairs, Inc.	Washington, DC	Newsletters & Reports	1500	100
CH2M Hill, Inc.	Corvallis, OR	Engineers & Architects	2300	100
Cianbro Corp.	Pittsfield, ME	Heavy Construction	1500	43
Clark Equipment	Buchanan, MI	Mfg.	17000	20
Cone Mills	Greensboro, NC	Textile Mfg.	11400	20
Continental Steel	Kokomo, IN	Steel Mfg.	1700	37
Crucible Specialty Steel	Syracuse, NY	Specialty Steels	1400	Maj
Dan River Company	Danville, VA	Textile Mfg.	6500	70
Davey Tree Expert	Kent, OH	Tree Service	3200	100
Dennison Manufacturing	Waltham, MA	Office Supplies Mfg.	8000	22
Dentsply International	York, PA	Dental Supplies	3610	33
Denver Yellow Cab	Denver, CO	Taxicab Company	1200	100
Duff Truck Line	Lima, OH	Trucking	1100	45
E-Systems	Dallas, TX	Electronics	9500	25
Eastern Airlines	Miami, FL	Airline	37100	25
Eberhard Foods	Grand Rapids, MI	Supermarkets	1000	45
Federal Hoffman	Anoka, MN	Ammunition Mfg.	2500	100
FMC Corporation	Chicago, IL	Industrial Mfg.	31000	32
Hallmark	Kansas City, MO	Greeting Cards	10000	65
Halmode Apparel	Roanoke, VA	Textile Mfg.	1200	89
Herman Miller	Zeeland, MI	Office Furniture Mfg.	3600	20
Holly Sugar Corporation	Colorado Springs, CO	Sugar Processor	1180	20
Jerell, Inc.	Dallas, TX	Textile Mfg.	2000	Maj

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(1986 statistics)

The Journal Company	Milwaukee, WI	Newspapers & Radio	4900	90
Kaiser Aluminum	Oakland, CA	Aluminum Products	15000	20
Katz Communications	New York, NY	Communications	1500	100
Lifetouch	Minneapolis, MN	School Photography	4000	100
Lincoln Electric	Cleveland, OH	Electric Utility	2600	40
Lowe's Companies	N. Wilkesboro, NC	Retail Lumber/Hardware	14000	30
Matthews International	Pittsburgh, PA	Marking Devices Mfg.	1300	Maj
Michigan National Bank	Bloomfield Hills, MI	Bank	7000	30
Murphy Motor Freight	St. Paul, MN	Trucking	1100	49
National Refractories	Oakland, CA	Heat Resistant Materials Mfg.	1300	Maj
North American Rayon	Elizabethton, TN	Textile Mfg.	1300	100
Okonite Company	Ramsey, NJ	Wire/Cable Mfg.	1800	100
OTASCO	Tulsa, OK	Retail Home/Outdoor	2600	100
Parsons Corporation	Pasadena, CA	Engineering & Construction	7000	100
People Express	Newark, NJ	Airline	4700	30
P-I-E Nationwide	Jacksonville, FL	Trucking	20000	38
Publix Supermarkets	Lakeland, FL	Supermarkets	31000	100
Quad/Graphics	Pewaukee, WI	Printing	2000	37
Ruddick Corporation	Charlotte, NC	Holding Company; owns Food Stores, Printer, Yarn Mfg.	9360	38
Science Applications	La Jolla, CA	Research & Development	6000	85
Smith's Transfer	Staunton, VA	Trucking	6000	49
Stebbins Engineering	Watertown, NY	Engineering	1500	Maj
STV Engineers	Pottstown, PA	Engineers & Architects	1200	65-70
Sullair	Michigan City, IN	Compressor Mfg.	1100	Maj
TDI Industries	Dallas, TX	Heating & AC Supplies	1200	100
Texas Foundries	Lufkin, TX	Pipes, Castings Mfg.	1200	45
Thomson-McKinnon	New York, NY	Securities Broker	4130	76
Tony Lama Company	El Paso, TX	Boot Maker	1250	20
Transcon	El Segundo, CA	Trucking	3700	57
U.S. Sugar	Clewiston, FL	Sugar Processor	2100	47
Weirton Steel	Weirton, WV	Steel Mfg.	8200	100
Western Air Lines	Los Angeles, CA	Airline	10500	32
W.L. Gore & Associates	Newark, DE	High-Tech Mfg.	3000	95

Data primarily from public sources. Some figures are estimates.

*1,000 employees or more and at least 20% employee owned
**Pending

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Employee stock ownership is for those who believe in the worth of the individual employee, and for those who see the rank and file as the root source of quality, creativity, and productivity.

WHOSE PIE? AND WHY ESOP'S?

Employee stock ownership has grown in popularity all across this country over the past decade.

I am convinced that this ownership issue goes to the very heart of just what sort of economic system we mean to have in the United States, and just what sort of Nation we intend to leave for succeeding generations of Americans.

Employee stock ownership is not a partisan issue; rather, it is an issue that cuts across party lines in an attempt to bring out the best in our free enterprise system. It is only fair and right that those who work to make this economy succeed should have an opportunity to share in that success. It is a matter of simple common sense and basic equity.

If we want this private property system of ours to succeed, we simply must insure that as many Americans as possible have an opportunity to earn an ownership stake in that system. A continuing fundamental weakness of our system is that so many Americans own so very little while a relatively few Americans own a great deal.

This does not mean that we should redistribute the wealth of current owners. The intent is not to take from those who own to give to those who do not. Rather, the goal is to provide incentives for financing to be structured in such a way that, in the future, more Americans will have a chance to accumulate a capital estate.

Incentive-side Economics

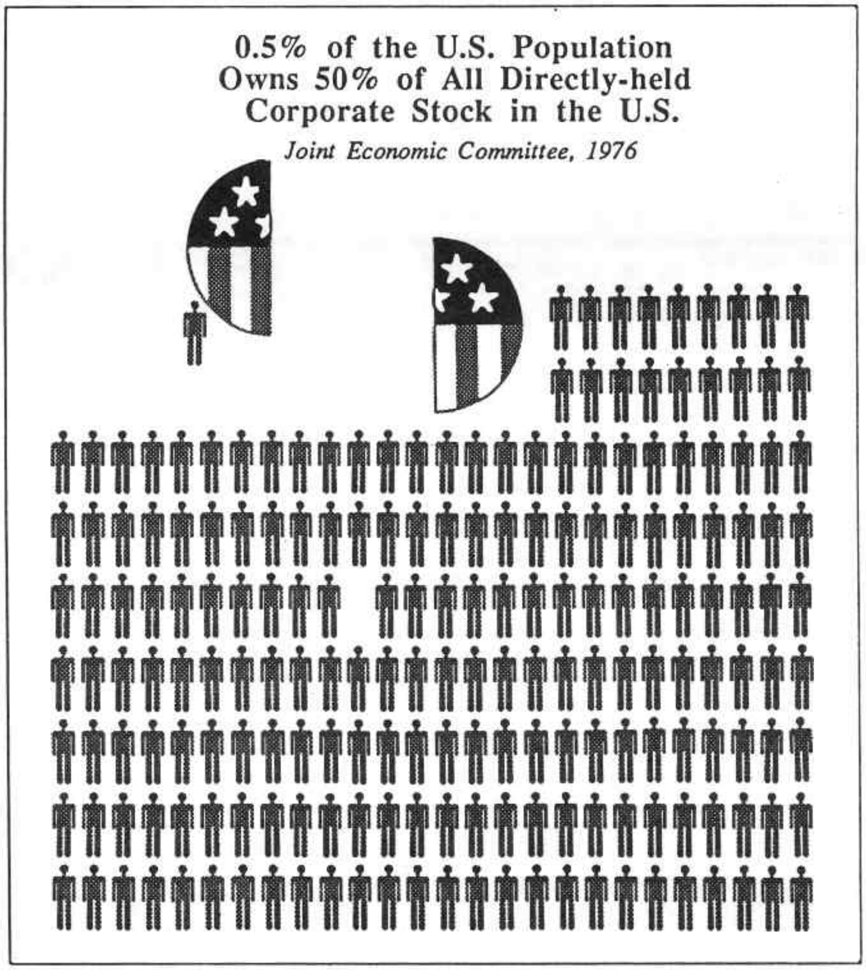
Mr. President, in the 97th Congress, we enacted a sweeping set of tax incentives designed to promote the growth of investment. Under the banner of supply-side economics, the Congress reformed the depreciation rules, cut the capital gains tax, and enacted several other amendments with the idea of encouraging capital spending.

We should continue our encouragement of this emphasis on such "hard" economic factors as capital investment and research and development. However, this approach will be shortsighted if we continue to overlook the "soft" factors that impact productivity -- the motivation, commitment, and dedication of our work force.

Incentives for employee stock ownership provide a way to link these two factors and to end the costly mis-match between our nation al goal of improved productivity and our system of incentives and rewards.

Whose Capitalism?

The economic strength and political stability of this Nation stem largely from our commitment to a private property, free enterprise philosophy. To date, however, we have not strongly encouraged the use of financial techniques designed to provide widespread access to capital ownership. Consequently, in this, the world's most avowed capitalist nation, we have only a scanty sprinkling of capitalists.



In 1976, for example, the Joint Economic Committee studied this ownership issue and found that ***50 percent of the market value of individually owned corporate stock in the United States is held by just 0.5 percent of the U.S. population*** and 72 percent is owned by a mere 6 percent of the population.

Perhaps the most disturbing aspect of the present state of our private property system, however, is noted by the National Bureau of Economic Research, which reports that for the majority of American families, their most important wealth is now their entitlements under our pay-as-you-go social security system.

Thus, for the majority of Americans, their most significant asset is an assurance that their children will be taxed on their behalf. Mr. President, I question the wisdom of both U.S. economic policy and U.S. tax policy when the end result is to leave most Americans dependent for their subsistence on taxes paid by an already over-taxed population.

The financial press indicates that the Nation's pool of productive capital will increase by $2 to $5 trillion by the end of this century. Yet unless we develop financial incentives to spread this newly created wealth more broadly among our citizens, this Nation's crippling legacy of concentrated ownership will continue and the great bulk of that new wealth will become owned largely by the already-wealthy.

This likelihood led the Joint Economic Committee to conclude in its 1976 annual report:

> To provide a realistic opportunity for more U.S. citizens to become owners of capital and to provide an expanded source of equity financing for corporations, it should be made national policy to pursue the goal of broadened capital ownership.

Whose Productivity?

This concentration of wealth is ***not only unjust***, the evidence indicates that ***it is harmful to the efficient and successful operation of a market economy.***

In a 1980 Gallup survey, which asked workers who they thought would benefit from improvements in their productivity, only 9 percent felt that they, the workers, would. Most assumed that the beneficiaries would be others -- consumers or stockholders or management.

Although increased productivity has a generally positive ring to it, for the average hourly worker increased productivity suggests that the company will benefit at his expense -- for example, through speed-ups or through job insecurity due to automation.

The inference is clear. ***When employees themselves become stockholders, their attitudes toward productivity will change.*** This commonsense conclusion gains support from a series of studies of companies with the foresight to embrace employee ownership. One of the first studies focused on employee-owned cooperatives in the Pacific Northwest in which the average output exceeded industry productivity levels by more than 30 percent.

In a related finding, a 1977 report on employee-owned companies by the Survey Research Center at the University of Michigan--sponsored by the Economic Development Administration of the U.S. Department of Commerce--found that ***companies with a substantial degree of employee ownership are 1.5 times more profitable than comparable conventionally owned firms.*** They also discovered that ***the more equity the employees own, the more profitable the company.*** Managers surveyed indicated a noticeable improvement in work attitudes and a positive effect on productivity.

Similar results are reflected in a 1979 study of 72 companies with employee stock ownership plans (ESOPs) sponsored by the ESOP Association of America. The typical ESOP company studied had been in business for 24 years and had established its ESOP 3 years prior to the study. Over the 3 years, an average of 7 percent of the stock of the company was transferred to the ESOP each year; at the time of the survey, the typical ESOP in the survey held 20.6 percent of the company stock.

During those 3 years with an ESOP, annual sales per employee increased an average of 25 percent, total annual sales rose an average of 72 percent, and annual profits grew an average 157 percent. In addition, the results showed a close correlation between ESOPs and a growth in both employment and tax revenue, the study finding an average 37 percent jump in total jobs per company and an average 150 percent increase in company-paid taxes.

A 1981 survey of 229 ESOP companies by the Journal of Corporation Law at the University of Iowa School of Law found that while other companies' productivity was declining during the 1975-79 period, productivity in ESOP companies was increasing. In addition, one-third of the companies surveyed reported reduced employee turnover and improved quality of work.

In May of this year [1985], the American Business Conference published the results of a 2-year study designed to explain how and why mid-sized growth companies have outpaced the Nation in sales, profits, jobs, and exports. In the high-growth companies studied, employees own over 30 percent of the company stock--a surprisingly high proportion for companies averaging over $200 million in annual sales.

On the basis of the research to date, it is clear that companies with employee ownership are likely to be more productive and more profitable than those without, and the more ownership held by employees, the better the performance of the company. Just as the company with employee ownership will have an advantage over a conventionally owned competitor, so too, will the U.S. economy enjoy a competitive advantage with policies and programs supportive of widespread employee ownership.

It does not require an industrial psychologist to explain this phenomenon--a phenomenon, I should add, that is being repeated time and again across the Nation as more and more companies are establishing employee stock ownership plans. A sense of ownership is crucial to the efficient and successful functioning of our private enterprise system--a system based on individual initiative and on sharing in the gains that one's efforts bring about.

As an additional benefit, it appears that the tax incentives provided for corporate financing with ESOPs may well pay for themselves in the form of more jobs and generally higher tax payments--by both employees and employers.

Employee ownership can also help to create a more widespread unity of interest and incentive, thereby fostering better relations between management and labor. It can serve as a new stabilizing element, an element that may encourage these traditional foes to act more in the national interest by beginning to operate more in a much needed spirit of cooperation and compromise.

Stock ownership by employees -- both management and rank-and-file employees -- can create a work environment in which issues are resolved more constructively. Getting both sides to work together to solve problems they share in common can be a very powerful force for dismantling alienation and distrust.

Unions need new ways to deliver victories to their members, and management must find new ways to deal with union demands. Employee stock ownership provides a fruitful new area in which these adversaries can resolve their differences.

Relieving the Fiscal Strain

A strong case for expanded ownership could be made on equitable grounds alone--or on motivational grounds alone. Certainly a nation that puts its faith in a private enterprise system should conduct its economic policy so as to insure that the voting public has a personal stake in that system.

Rather than creating a constituency for private property capitalism, however, we have been steadily adding people to the make-work rolls, to the income security rolls, and to the countless other State and Federal programs designed to disguise the onus of welfare.

This is clearly not the direction in which Federal tax policy should encourage the American economy to move.

Only recently have the consequences of this short-sighted approach begun to surface. The fiscal strains are the most obvious, with the growth of Federal transfer payments revealing one troublesome dimension of the problem. In 1960, these payments to individuals totaled 26.4 percent of total budget outlays; by 1980, they had skyrocketed to more than 50 percent; $27 billion was paid out in 1960; 23 years later these costs have risen to more than $400 billion. Just since 1970, transfer payments have grown more than $250 billion. These trends simply must be reversed....

Toward a Private Sector Solution

It would be helpful if we could reduce the Government spending devoted to public sector employment. Without continued public spending, we cannot maintain these people in the new jobs to which they have been drawn by the inflationary spending of the past. We find ourselves running faster and faster to keep people employed in what are often artificially created jobs; meanwhile deficits continue to grow at an alarming pace.

This approach stems, in part, from the belief in the deliberate stimulation of aggregate demand as a means of creating full employment. But to blindly follow that approach requires that we elevate the tax system and government-stimulated demand to a position higher than the Nation's wealth-production system, upon which all tax revenues and everyone's ultimate standard of living depend. It is production that creates income and only income that can be taxed or spent.

The expanded ownership concept suggests that continued heavy reliance on taxation and Government spending is not a sound long-term approach to maintaining market demand and economic growth in a private property economy. Our long-term economic and tax strategy should offer incentives for the private sector itself, as the principal producer of goods and services in the economy, to become a more direct and efficient distributor of the purchasing power needed to consume those goods and services.

We can begin to move in that direction by encouraging companies to finance newly formed capital so that it is broadly owned, and then encouraging a substantial payout of the earnings on that capital in order to put purchasing power into consumers' hands.

The concept of a market economy is based on the premise that each person's outtake from the economy is directly related to that person's productive input. In a technologically advanced, capital-dominated economy such as ours, that presents a problem. Where capital instruments account for a major portion of an economy's input and capital owners are few, we must call on Government to redirect the income flows that would otherwise flow to this already income-saturated few.

Market mechanisms reward productivity--the ability to produce a product or a service to meet market demand. Productivity is, in part, dependent upon individual effort. However, and this is particularly true of our crucial infrastructure, to a great extent productivity is dependent upon technological advances and efficiencies converted to productive capital.

Since the dawn of the industrial revolution, our enhanced ability to utilize labor-saving technology has enabled this Nation to gradually shift the burden of industrial production off of our labor force and onto the Nation's nonhuman resources--the machinery, equipment, processes, and other advances that have been the hallmark of 20th century economic progress.

If the market system were permitted to operate in a totally laissez-faire manner, the bulk of the national income would flow to the owners of this Nations's productive capital. Those few owners, however, could consume only a small portion of the Nation's output.

When capital owners are few, the private property conduits of a market economy create vast reservoirs of savings for those few--savings that can then be reinvested to acquire more income-producing assets.

If there were many owners, those same conduits could begin to broadly irrigate the economy with purchasing power.

By producing the economic pie, we necessarily create the problem of how it is to be distributed. Redistributive taxation is one way to achieve a more equitable and a more workable distribution of income, but for this purpose it is strictly a hindsight, remedial approach. And, of course, Government can never return as much as it takes, so its costs insure a net loss in the transfer.

This bill suggests a positive, forward-looking approach, one that begins to link the concern for production with the concern for widespread income distribution. It suggests that as we increase the economy's overall power to produce, we should simultaneously provide incentives to systematically increase the economic power of households to consume.

The long-term goal of ESOP-type financing is to create income-generating mechanisms to supplement the income earned through employment. The goal is to link a growing number of American households to the economic growth--as well as the capital income--represented by newly created capital, the capital whose creation our tax system was recently amended to encourage.

The free enterprise market mechanisms of incentive and reward have brought more and better goods and services to more people here and throughout the world than any other system in history. Yet those mechanisms are not indestructible. If they are to be preserved, we need an institutional framework that operates in their support. That support lies in the direction of a more democratic form of private property ownership.

A TECHNOLOGY FOR IMPROVING THE QUALITY OF ECONOMIC OPPORTUNITY

Our private property approach to economic matters recognizes the indisputable interplay between economic rights and political rights. Our Founding Fathers recognized that individual liberties and a democratic form of Government cannot long endure unless the majority of citizens have a high degree of economic independence. Thus, protection of the concept of private property was embodied in the Bill of Rights.

This forward-looking group also recognized that a private enterprise system was the most natural economic structure--a structure that evolved from the actions of a free people. It had not been forced; it had grown. It had not been enforced; it had come on its own.

As the 1980 Republican platform reminds us:

> The widespread distribution of private property ownership is the cornerstone of American liberty. Without it neither our free enterprise system nor our Republican form of Government could long endure.

Consequently, the 1980 Republican platform pledges the Reagan administration "to help millions of Americans ...to share in the ownership of the wealth of their nation."

> "If a Nation is to be politically free, it must structure its social contract to first insure economic freedom. Economic freedom implies the right to participate freely in the economy and the right to a just return for one's participation. Our concern for equality of economic opportunity is closely linked to those ideals...."

In a capital-intensive economy such as ours, the right to earn a living involves more than the right to work and the right to a just return for work done. True economic opportunity involves the right to economically participate by means consistent with the existing state of technology.

At our labor-saving, cost-containing insistence, American engineers, scientists and managers have been remarkably successful at destroying the very employment that Governments--again, at our insistence--have been directed to promote.

Rather than break the relationship between effort and reward or, more accurately, between input and outtake, the expanded ownership concept suggests that we recognize--and adjust to--the increasingly dominant role that capital inputs play in the productive process.

Our full employment approach--both to providing economic opportunity and also to solving the income distribution problem--simply does not reflect the extent to which productive capital is now the factor most fully employed in providing the basic goods and services of a modern economy.

The Benefits of Growth

A century ago, President Lincoln understood the importance of widespread ownership, and he signed legislation insuring that the opportunity to own capital was within the reach of all. ***The philosophy underlying the Homestead Act of 1862 should be applied at every step of the Federal Government's relationship with its people.*** Why not use the public sector to build productive capital in reasonable-sized holdings into the vast majority of American households who presently own little if any?

President Reagan, in a July 1974 speech to the Young Americans of Freedom, explained the historical precedent for a national policy of expanded ownership and endorsed the uniquely American opportunity that such a policy would represent.

In a similar vein, Senator Hubert Humphrey explained his support of expanded ownership in a letter to the editor of the *Washington Post* not long before his death:

> "Throughout my career as a public servant, I have viewed full employment as a top priority goal for this country. And I continue to do so. But I recognize that capital, and the question of who owns it and therefore reaps the benefit of its productiveness, is an extremely important issue that is complementary to the issue of full employment."
>
> "***I see these as twin pillars of our economy. Full employment of our labor resources and widespread ownership of our capital resources.*** Such twin pillars would go a long way in providing a firm underlying support for future economic growth that would be equitably shared."

Attention must be given to new ways to distribute the benefits of this growth more widely. Despite all the fine populist oratory and good intentions of great men like Franklin Delano Roosevelt, Harry Truman, Dwight Eisenhower, John Kennedy, and Lyndon Johnson, the distribution of wealth among Americans in relative terms, is about the same today as it was when Herbert Hoover succeeded Calvin Coolidge.

The already-rich of this Nation should warmly welcome this new dimension to our free enterprise economy. ESOP-type financing techniques are designed to avoid the redistribution of ownership of existing capital for the simple reason that we cannot build a broadly based private property economy on the expropriation of anyone's property.

The aim is to strengthen, not to further erode, the rights of private property ownership, and certainly we would not need to tax the rich nearly so much if we worked harder at broadening the base of those who have an opportunity to become rich.

The American people need and deserve a chance to own a stake in the U.S. economy--an economy of their own making. It is time to acknowledge the important role of the individual in our capital-intensive economy, and provide working Americans with access to ownership of the productive capital with which they work.

Creating A Welcome Context for Technology

Expanded capital ownership is a type of corporate responsibility that is consistent with the goals of American business. The free enterprise system is based on production for profit, not for employment. The concern is for the rational, efficient production of goods and services generally with little thought given to just how consumers are to get the purchasing power to buy those goods and services.

The need for economy and efficiency is indisputable. U.S. business holds a franchise from the American public in large part because we believe that we can best achieve our economic goals by relying on private initiatives.

However, if we are to create a self-sustaining economic system and one in which Government plays only a minor role, as the business sector suggests it should, then the private sector itself must play a greater role in solving the economy's income distribution problem. This will become increasingly important once the private sector begins to take advantage of the recently enacted supply-side tax incentives to apply the latest advances in technology.

One of the market's greatest strengths is its ability to stimulate and harness new technologies and resources, and to direct innovation into socially desirable directions. The historically demonstrated power of market incentives to influence the pace and direction of technological change warrants every effort to retain such incentives as part of our economic and tax policy. However, while these technological changes on balance create gains in the form of higher living standards, almost every one of them causes a loss of income to some firms and individuals.

A Carnegie-Mellon study, for example, indicates that industrial robots have the potential to eliminate two million jobs in the metalworking industry by 1990, and the Upjohn Institute for Employment Research contends that robots in Michigan will replace three times as many workers as they will provide new jobs. The trend toward increased automation seems likely to continue. Indeed, the Commerce Department insists that batch manufacturing companies must automate if they are to compete successfully in international markets.

With the advent of microelectronics, the jobless growth already apparent in agriculture, which now employs only 3.2 percent of the U.S. work force is spreading beyond agriculture and manufacturing and into the economy's tertiary sector--finance, insurance, government services, *etc.*

According to Department of Labor statistics, from 1960 to 1980, the service sector accounted for more than 85 percent of new jobs. It is in the service sector, however, that most experts are predicting that the chief impact of this new technology will be felt. Moreover, it is those with low-level clerical and analytical skills who will be most affected, particularly women and minorities.

As a nation, the American people have greatly benefited from the remarkable labor-saving advances of the past century. As individuals, however, they have not fared as well. Due to the way in which those advances were financed, they continue to find themselves left with only their labor as their stock in trade. Thus, each round of new investment further threatens their power to earn a living. Instead of being part owners of the system, they find themselves pitted against it. If this new technology is to have a welcome context for its use, we must begin to strike a new balance between social and economic objectives.

Our present supply-side, investment-based strategy can make the U.S. economy more successful, more growth oriented and less redistribution oriented. However, unless the benefits of this new growth are widely shared, for example, through a combination of employee ownership and job sharing, we may find ourselves 10 to 20 years from now with a population even more in need of governmental transfer payments.

Why ESOP Financing ?

Capital ownership is most emphatically a social opportunity, indeed, a socially created opportunity. It is the institutions of society and, more specifically, the institutions and conventions of finance that determine who will be the owners of productive capital that has yet to be created.

Capital ownership, however, is an opportunity historically reserved for a relative few. That is due to the simple fact that the ownership of new wealth is largely a function of the ownership of existing wealth. The current structure of our most widely used financing techniques insures that the rich will, in fact, continue to get richer.

The vast majority of Americans cannot afford capital ownership. Most working Americans owe rather than own: they accumulate debts rather than assets. Daily economic survival, not savings and investment, is their primary concern, and the less our technologically advanced economy needs their labor, the less they are able to save their way to capital ownership. Inflation, of course, further penalizes their thrift.

Concentrated wealth holdings contribute to the cumulative and self-reinforcing nature of the concentration of wealth and income. The concentration of stock ownership leads to a situation where those who currently own stock are those best able to save significant amounts and thus, best able to make additional investments, thereby increasing their stock ownership.

What the individual needs is access to the financial logic of self-liquidating debt--the logic used every day by businesses in borrowing to invest in productive assets that will pay for themselves. Most Americans lack assets to pledge as security for a loan to acquire income-producing capital; consequently, those who do not now own are unlikely to own in the future. Access to this type of financing simply is not available to the enormous number of Americans born into families without substantial capital assets.

Lacking access to cash or credit, they are instead encouraged to save their way to capital ownership. Thrift, they are told is their financial opportunity. I think of this as the Marie Antoinette approach to expanded ownership. Only instead of suggesting, "Let them eat cake," they recommend, "Let them buy stock." That financial philosophy brought us the concentrated pattern of ownership that we have today and unless that philosophy is changed, our ownership pattern will remain largely unchanged.

If we are to break this monopoly of participation in the ownership of productive assets, we must first resolve the financial "catch-22" that requires accumulated savings or assets as a condition of capital ownership. ESOP-type financing suggests that we approach this dilemma by broadening access to the financial logic of self-liquidating corporate debt.

The very purpose of corporate debt is to enable a business to acquire productive assets before it has saved the funds to pay for them. Instead, the acquisition is made on terms where the newly acquired assets will pay for themselves out of the earnings they generate.

Widespread access to this type of credit must be distinguished from the widespread access to consumer credit. Consumer credit produces no marketable wealth; rather, it is simply an advance against future purchasing power. Although originally developed to narrow the purchasing power gap, in the long run it only widens it; the end result is to mortgage future purchasing power, not to increase it....

ESOP-type financing is of a different sort. It is producer credit--credit for the acquisition of productive assets rather than for consumer articles.

ESOP financing involves access to credit for the financing of assets which are calculated to generate earnings with which to repay the debt incurred over a reasonable period of time, and which can then go on to generate purchasing power for their owners, their productiveness preserved by reserves set aside for depreciation, or, as it is now termed, "cost recovery."

This approach puts the concept of thrift in a new and more workable context. Capital ownership is still attained by the individual in lieu of consumption. Only now the income generated by newly acquired productive capital is saved and applied to repay the debt incurred....

A Model of Workability

If we continue to rely solely on traditional techniques of finance, those techniques will continue to allocate productive credit primarily to the already wealthy. With that approach, the concentrated ownership of newly created capital is virtually assured, and the rich-get-richer legacy of U.S. capitalism will continue unabated.

That would show a great failure of foresight on our part, because not only will we continue to have an unworkable form of capitalism here in the United States, we will also have a form of capitalism unsuitable for imitation abroad.

We need a more hopeful model, a working model of what we would advocate for other nations. We need to be able to show people all over the world how the increasing prosperity of our private property economy spreads out and reaches Americans in all walks of life. Unless we have such a model, other nations will continue to see the false promises of socialism as a more attractive alternative.

By encouraging widespread employee ownership in the United States, we would be making good on our promise of a better life for our people and challenging other nations to do likewise. Such an approach could provide the leadership that is needed to encourage other nations to move our way rather than follow the Socialist path.

Although some nations continue to move in the direction of nationalized ownership, I do not believe that they do so because they necessarily think that State ownership will solve their problems. Rather, I see it as an act of desperation; they simply cannot think of a better solution.

State ownership has enormous drawbacks; experience has taught us that time after time. All too often, both freedom and efficiency are sacrificed in the name of equity. Yet even basic equity is sacrificed as a privileged bureaucratic elite emerges in place of the property-owning elite that socialism and communism claim they are designed to replace.

Socialism and communism are not alternatives; rather they are largely a reaction to the abuses of early models of capitalism.

A Principled Approach to Foreign Policy

In recent testimony before the Finance Committee, Secretary of State Shultz suggested that what the United States needs is policies and programs "to get ahead of history." Employee stock ownership is just such a program. It not only increases the constituency for a private property economy; at the same time it undercuts the primary rationale for communism.

The path that expanded ownership takes faces in exactly the opposite direction from that taken by those who favor ownership by the State. Expanded ownership financing seeks to steadily increase the number of capital owners instead of preventing anyone from owning capital by making the State the only owner.

Employee ownership has far-reaching implications for those who share the democratic vision. By advocating employee ownership abroad, we can take a more principled approach to foreign policy, an approach that stands a far better chance than others to insure that a nation will realize its democratic ideas.

It is difficult to imagine an enduring democracy without widespread private property. Democracies are stable because people participate in them. A dictatorship--whether it be a dictatorship of the left or of the right--is unstable because people do not participate. Participation in ownership can contribute to stability by providing a broad base of support for economic and political reforms.

A principal objection to private property development is that not enough people own some of it. That has been a primary criticism of American capitalism throughout history.

Unfortunately, in many parts of the world capitalism is portrayed simply as an economic system in which a nation's productive wealth is concentrated in the hands of a privileged few.

It is a remarkably shortsighted strategy for us to expect other nations to move in the direction of a private enterprise economy when we ourselves have failed to set the U.S. economy on a sure path toward widespread capital ownership.

In an address to the American Legion convention in Washington, D.C. on February 22, 1983, President Reagan touched on this point in outlining America's foreign policy strategy. As the President explained:

> "There is no more damaging misconception than the notion that capitalism is an economic system benefiting only the rich. Economic freedom is the world's mightiest engine for abundance and social justice....Developing countries need to be encouraged to experiment with the growing variety of arrangements for profit sharing and expanded capital ownership that can bring economic betterment to their people."

The encouragement of employee ownership abroad could become a crucial factor in the U.S. foreign policy, particularly in resolving the developmental paradox of stability versus growth. It is difficult to have economic growth without stability; yet stability is elusive without a strong economic base. And, of course, where Marxism succeeds, or is seen as likely to succeed, financial capital flows out of the country, further compounding the problem of financing development. The coupling of development financing with employee ownership could provide an environment in which assistance is more likely to succeed and in which more people in the assisted country have an opportunity to share in that success.

It has also come to my attention that Pope John Paul II issued a papal encyclical on September 15, 1981, titled ***Laborem Exercens*** (On Human Work), that addresses this subject. In this letter to Roman Catholic bishops, the pontiff places particular emphasis on the dignity and the rights of workers and gives special attention to the question of ownership of the means of production.

In addition to defending the right of workers to form labor unions as an "indispensable element" of modern society and as a vehicle "for the struggle for social justice," the encyclical suggests that each person, on the basis of his work, should be "...fully entitled to consider himself as a part owner of the great workbench at which he is working with everyone else. ***A way toward that goal could be found by associating labor with the ownership of capital, as far as possible....***"

This farsighted and outspoken church statesman then goes on to cite the "need for ever new movements of solidarity" and suggests that union demands "can and should also aim at correcting--with a view to the common good of the whole of society--everything defective in the system of ownership of the means of production or in the way these are managed."

America's free enterprise system has been on the defensive for 65 years in a struggle that, it seems, cannot be won with simple neutrality. If we expect other nations to follow our lead, ***we should take the ideological offensive.*** We need to demonstrate how a government can operate to insure that its working people have an opportunity to become active partners in a nation's economic progress.

If we hope to prevail over those we oppose, we need to confront them with an idea that is better. In this battle for people's minds, we must make it clear not only what we are against but also what we are for. Employee ownership is the type of idea that we can all be for.

In a democratic nation in which only a few people are citizens, the solution is not to destroy citizenship but to make it possible for all to become citizens. Similarly, in an industrialized nation in which only a few people are owners of capital, the solution is not to destroy private ownership but to make it possible for all to become owners.

HON. RICHARD G. LUGAR
Congressional Record - Senate
November 18, 1985, p. S15721.

Mr. President, today I am introducing the last of the statements on expanded capital ownership, part of a series started by Representative Philip M. Crane on June 4, 1985. . . .

In order to complete the insertions in the ***Congressional Record*** on the technology of expanded capital ownership, some guidelines are called for to build justice in the workplaces of the world. This is necessary to make employee stock ownership a reality in its most effective form. A valuable set of guidelines is introduced today in the article by Norman G. Kurland, entitled "*Practical Guidelines for Building Justice in the Workplace.*" I ask that it be printed in full.

The article follows:

PRACTICAL GUIDELINES FOR BUILDING JUSTICE IN THE WORKPLACE

By Norman G. Kurland

Reprinted in the *Congressional Record*, November 18, 1985, pp. S15721-S15722.

In terms of saving jobs and demonstrating the power of leveraged ESOP financing, the story of South Bend Lathe remains a landmark. South Bend Lathe was the world's first 100% employee-owned company that was purchased by 100% of its employees on a 100% capital credit, no-down-payment loan. It showed how a dying company could be transformed into a dynamic success. The company has been profitable since 1975 when its 500 workers adopted their ESOP.

This model, however, also shows what can go wrong as long as management and workers cling to "wage system" thinking. In August 1980, the world was shocked to hear that union members had gone on strike against top management who controlled the voting power of the company.

What critics of this case have generally failed to recognize was that ***South Bend Lathe had the first ESOP in a large closely held corporation which passed though the vote to all employees on the shares they earned.*** Yet, without objection from the United Steel workers (either at the inception of the ESOP or during the strike), management assumed power over the control block of ***still unearned shares*** in the ESOP. The union's failure to negotiate ownership issues was the hidden cause of the strike which erupted in 1980. Thus, South Bend Lathe also became a classic case of how worker ownership can generate new expectations and create a whole new set of problems for management, workers and labor unions.

Many critics have focused exclusively on the labor-management problems at South Bend Lathe. What they have downplayed or misunderstood is that South Bend Lathe proved the fundamental importance of capital credit, even under a "worst-case" example, for converting workers into owners. Despite its flaws, this "basket-case" company proved that even diluted ownership opportunities can save jobs, which, in the short-run, are more critical to workers' income security than participation through the vote.

But South Bend Lathe also demonstrated that a taste of justice only whets the appetite for more. In the long-run, management and the union in an ESOP company can ignore the ownership participation rights of worker shareholders only at the expense of the company and everyone with a stake in its success.

For those of us searching for successful approaches for building more productive and people-oriented workplaces, the South Bend Lathe experience offers some valuable lessons:

Crisis may present opportunity. What appears to be a hopeless situation, may allow for a radical restructuring of a failing company within a more competitive ownership participation framework. Companies undergoing "Chapter XI" reorganizations may be prime candidates for a "new labor deal." This would "trade off" increases in fixed wage and pension costs for flexible but more unlimited ownership benefits linked to productivity and profits. A crisis situation may also provide workers greater leverage in helping to design the ESOPs ownership participation system.

Financing follows feasibility. If a company has a technically feasible strategy and an economically viable operation, leveraged financing can generally be obtained, even at today's high interest rates. Many people cannot find sufficient funding simply because they have not put together a package that can convince a lender that the loan can be repaid. As the South Bend Lathe experience suggests, four crucial elements should be present in any ESOP financing strategy:

(1) A management/entrepreneurial team capable of competing in the global marketplace and commanding respect from the banking community, organized labor, and suppliers and customers;

(2) A detailed feasibility study of the company and prospects for the future;

(3) A willingness on the part of organized labor to adopt an innovative productivity-oriented labor contract, based on sharing the ownership risks and future gains from the "ownership system" while holding the line on inflationary or non-productive "wage system" gains; and

(4) Access to sufficient capital credit, at reasonable interest rates to meet up to 100 percent of the capitalization needs of the company as an independent operating unit.

Where you are forced to restructure a closely-held company, re-examine its existing pension plan. Most healthy companies keep their pension plans when they adopt an ESOP. In an emergency situation, however, consider trading in the "security" of job-destroying pension promises for the opportunities of growing co-ownership. Under the conventional "defined benefit" pension plan, the company becomes locked into a fixed and increasing liability, even when company profits and pension plan assets are shrinking. This may cause a potentially fatal cash drain from the company, none of which can be used to meet the company's own growth and modernization needs.

Many progressive companies have begun to shift away from the rigid and often uncontrollable old-style pension plans, to the more flexible "defined contribution" employee benefit plans like ESOPs and profit sharing plans. A "defined contribution" type of retirement plan might conceivably provide greater job security, while linking workers more realistically to the productivity and profits of their company. Workers could thus begin to control their own destinies, rather than be left vulnerable to expensive pension overhead and the whims of Wall Street speculators, large institutional investors and money managers.

Before designing the ownership and participatory machinery for a worker owned company, there should be an

understanding of and commitment to a basic set of core values and fundamental ownership rights, by all parties who will be involved -- including legal and other professional consultants, top and middle management, workers and all levels of their bargaining units. Obviously, in a desperate situation such as in South Bend Lathe, survival is the first order of business. There may not be time to get complete consensus. But effective employee ownership participation will ultimately rest upon the careful structuring of principles which everyone perceives as fair. Since "rule by the majority" does not always insure justice, these fundamental ownership rights must be considered sacred and inalienable, and cannot be taken from an individual by the will of the majority.

While there are more immediate ways to motivate people on a material and emotional level, the most lasting way to reach them is through their minds. **The process of educating workers to the ethics and mechanics of the ownership system, while difficult and slow, should be set into motion from the very first meeting,** even in the tiniest of doses. The sooner all employees understand the superior logic and justice of the ownership system, and recognize their personal stake in it, the sooner the company will harness the fullest creative potential of each member of its team.

Negotiators should try to **develop an ideal ownership blueprint** from which to work. Bargain for the ideal. But be prepared to compromise if some of the elements are initially rejected. Keep the blueprint in a drawer to go back to for future reference, planning and bargaining.

To reinforce the gradual building of "ownership consciousness," the ESOP should always be supplemented with frequent economic feedback in the form of cash productivity bonuses linked to a formula based on profits. Once-a-year ESOP statements are insufficient for communicating ownership. A more effective ownership sharing program can be found at Allied Plywood Corporation of Alexandria, Virginia, where the average employee often earns three times more from ownership than what he earns from wages. A truck driver earning a modest base salary of $8,000 may earn an additional $24,000 from monthly and annually-determined cash productivity bonuses and ESOP distributions. While providing an objective measure of company, team and individual performance on a monthly, quarterly and yearly basis, this feedback merges each worker's self interest with the common good of the company.

Develop a just wage differential between the highest and lowest paid employee. In the Sony Corporation, for example, a chief executive officer's income is only 6 to 7 times that of a newly hired college graduate. When integrated with formula-based productivity bonuses, everyone's rewards rise and fall together. In some top-heavy American companies, where top corporate salaries run over $1 million annually and only executives enjoy productivity bonuses and ownership opportunities, that ratio can exceed 50 to 1. (***The Washington Post***, April 12, 1983, p.G1.) Too wide a gap between the highest-paid and lowest-paid employees creates an unbridgeable barrier which divides rather than unites the members of a company. Some smaller ESOP companies operate with a 3:1 differential, with modest fixed wages supplemented with more flexible ownership gains in the same ratio.

Provide greater job security by maximizing rewards based on ownership sharing for every member of the corporate team. Fixed labor costs (or at least future increases) should be set at levels to insure survival of jobs under hardship conditions, with everyone receiving regular cash bonuses during normal conditions based on an agreed upon gain sharing formula. In times of economic crisis, reduce hiring levels by attrition and avoid layoffs by across-the-board "hard-ship sharing," cuts in base compensation and work-sharing. Offer relocation assistance, compensatory ownership benefits, and sufficient severance payments to help those unable or unwilling to share in the burdens of corporate "belt-tightening."

Make sure there is a **structure for following up and continuing the dialogue on ownership issues.** Unions or worker's organizations should insure that workers have continued access to and assistance from top-flight professional and legal consultants. However, to add to the dignity of ownership participation, like involvement in the political process, ownership meetings and discussions should be voluntary and generally held after working hours.

Clearly define the expanding role of the union within the new ownership framework. Where there is a union or a workers' organization involved, it should not wait for management to take the initiative for designing and overseeing any ownership participation strategies. When the initiative comes from the bottom-up, rather than from the top-down, the ESOP generally will be qualitatively better in its design and operation. The union should assume the responsibility to negotiate with management on the ownership incentive systems, participatory and self-management machinery, accountability systems, voting rights, allocation rights, vesting schedules, mutual assessment systems, etc. While protecting the basic wage rights and working conditions of each worker, the union in an employee-owned company should also begin promoting and protecting its members' ownership interests. Union advocacy is vital in resolving such crucial issues as workers' voting rights on unallocated stock in a leveraged ESOP situation. To avoid weakening its specialized institutional role, and to avoid the danger of monopolizing power, the union should:

(1) Avoid any role in hiring and firing management. Instead the union should insure that its members, through their vote for board directors, can participate in the process of hiring and firing management;

(2) Avoid taking on a managerial role. Instead the union should encourage decentralized decision-making within all operational levels of a company;

(3) Avoid voting as a bloc (as in Pan Am) where the votes of dissenting individuals are not counted. Rather, the union should insure that each of its members has a vote, educate its members as to the rights and responsibilities of ownership, make sure that workers have access to vital financial information entitled to any shareholder, and trust that informed worker-owners will apply common sense in assessing the best alternatives.

Begin linking union revenues to the expanding ownership pie. The traditional checkoff on wage system benefits sends out all the wrong signals. The wage checkoff contradicts the union's interest in holding the line against inflationary increases in fixed labor costs. And it signals the union's reluctance toward enabling workers to gain significant private property ownership of corporate equity. To realize its own stake in the growth pie of expanding ownership, the union should explore ways to expand its checkoff system to cover new capital formation, and the worker's growing stake in cash bonuses, dividends and company stock. Potentially, a checkoff on ownership system benefits offers the union a much bigger revenue pie than the counterproductive checkoff on wage system benefits.

Determine management's "new" role vis-a-vis the employee-owners. Managers, to be effective in an employee-owned company, must begin to think more like teachers than bosses. They have to abandon "rule by the whip" methods and become genuine leaders who command the support of their co-workers by setting examples of excellence. And by sharing some of the "headaches" as well as the rewards of ownership, management can be freed of daily detail work, in order to concentrate on corporate strategy, research and development.

Balance continuity and efficiency of the firm with justice and accountability for the workers. Developing checks-and-balances is easier said than done. But the principle is clear enough. While professional managers are vital and must be free to make day-to-day operational decisions, they should not expect to be accountable only to themselves. They must be willing to make full disclosures and be accountable to a board of directors elected by the employees themselves. To achieve a reasonable degree of continuity and security for top executives, board directors should serve on a staggered-term basis and top executives should protect themselves with carefully-drafted long-term employment contracts.

To sustain the union's effectiveness as a tool for protecting the rights of individual workers against arbitrary management or even majority actions, and to minimize possible conflicts of interest, try to maintain a "wall of separation" between the institutional roles of management and the union.

Deal with the one-person, one-vote vs. the one-share, one-vote issue, but realize that the issue of "control" in an ownership framework can become very complex. Discuss the pros and cons and comparative democratic impact of both alternatives. In a small company, direct or "democratic" participation in policy and daily operational decision-making may be appropriate. And it makes good sense from a management and motivational standpoint to allow each person a meaningful degree of control over his or her immediate area of responsibility. In a corporation with thousands of employees, however, constant voting by all company members on all management decisions would become unwieldy. A corporate "republic" demands a new type of corporate "constitution," so that the major functional branches of corporate government can serve as a check on one another, while remaining responsive to the immediate and long-term interests of the new worker-stockholders.

Develop strategies and programs for helping workers adapt to and welcome new technology and the "Age of the Robot." Provide a special stock and profit sharing pool and job retraining programs for technologically displaced workers. Diversify the company's products and services to afford more job security and career transfers among employees. Begin redefining the concepts of "work" and "the workplace" in the context of the expanding ownership system. Create systems for encouraging individual creativity, initiative and responsibility within the framework of a self-sustaining, more humanizing and mutually profitable business organization. Combining efficiency with justice is a never ending challenge.

Conclusion

People want justice. Around the world, workers are demanding livable wages and greater participation in decision making. However, these demands alone are insufficient and merely mask the fundamental injustice of the wage system. And alone, they fail to add constituents for an expanding system of private property ownership, the basis of a more just, global free enterprise system, which in turn is the economic foundation for world-wide political democracy. Since power and property go hand-in-hand, "participation" can only be short-lived among people without effective, personal access to property. Participation without power is a cruel hoax.

Perhaps the meaning of ownership may not become clear to a worker until he perceives he has some property of his own to lose. But once that threshold is reached, only force can keep that worker from exercising his full rights as an owner. The human right of access to property must therefore precede participation, not as an ultimate goal but as an essential foundation for effective participation. Without this foundation, economic justice will remain an empty dream. Unless we begin connecting workers to property and power, we can only deal with the symptoms, not the causes, of economic injustice in the world. This is the most important lesson we can learn from South Bend Lathe.

A NEW LOOK AT MONEY AND CREDIT FOR THE 21ST CENTURY

CREDIT IN THE SERVICE OF MAN

By Norman A. Bailey

This paper was presented at a meeting of the Center for Economic and Social Justice on January 12, 1985.
Dr. Bailey served the Reagan White House as Special Assistant to the President and Senior Director of the National Security Council for International Economic Affairs.

The currency and credit issued by a central bank represent its balance sheet liabilities. Its assets are what it buys. Basically, three kinds of assets are purchased by central banks:

(1) Gold, silver and/or foreign currencies or foreign governmental debt instruments.

(2) Commercial, industrial or agricultural paper issued by the private sector.

(3) The debt instruments of domestic governmental bodies.

(4) Various combinations of the above.

Of the major central banks today, the Swiss National Bank's assets are primarily (1). Starting in 1983 the bank began to diversify into (2). The Bundesbank and the National Bank of Japan's assets are a combination of (1), (2), and (3) with (2) predominating in recent years. The Bank of England very recently ran down all of its government debt and now (except for a small quantity of gold) is entirely (2).

Only the Bank of France, predominantly, and the Federal Reserve System, almost completely, continue to purchase government debt directly or indirectly as their primary asset.

What difference does all this make?

If a Central Bank buys precious metals and foreign currency as its assets, inflation will be low or nonexistent but credit will not track economic activity and will thus be countercyclical financially and neutral in terms of private liquidity.

If a Central Bank buys government debt with the money and credit it issues, this has no favorable effect on the productive process within the country involved and may have pernicious negative indirect effects through inflationary or deflationary financing and/or crowding out of the private sector depending on such factors as the domestic savings rate, access of the government to foreign capital markets, size of the fiscal deficit or surplus, etc.

If a Central Bank discounts or rediscounts industrial, commercial or agricultural paper representing the production, transportation, storage, import or export of real goods and services, it is fulfilling the role of lender of last resort to the productive private economy and assuring sufficient liquidity to that sector. Since only the productive sector would have such a lender of last resort it would have access to capital at a lower rate than speculative activities. Any level of credit demand of the productive private sector can be accommodated, but if the central bank limits itself to such assets inflationary or deflationary financing is impossible. With allowance for slippage in leads and lags, the price level would be steady. If there is a fiscal deficit, the government will have to finance the deficit out of the existing pool of savings (as will those who engage in speculative activities).

In sum, (1) and (3) tend to maintain a basically steady price level, but only (3) assures a sufficient level of funding for private productive activities. (2) does neither. To repeat, (2) is followed by the Bank of France and the Federal Reserve system, despite the fact that the Federal Reserve system was established specifically to act as lender of last resort to the productive private economy, not the government.

There is no reason for a central bank to charge more than an interest rate sufficient to cover costs in its discount and rediscount activities. All central bank money and credit issuance is *de novo* and thus relatively costless. In the case of the Federal Reserve all income above costs is paid (back) to the Treasury, providing the government with a further advantage over private borrowers.

Assuming it is public policy in the country involved, a three-tier credit system can be implemented -- the speculative and governmental credit demand (*i.e.*,unproductive activities) resorting to the existing pool of capital and paying market rates; productive private activities having access to central bank discount and rediscount facilities at a rate approximating the historical return on productive capital (4 percent); and private productive activity structured so as to promote expanded capital ownership through ESOPs or other systems at perhaps half that rate (2 percent), still more than adequate to cover administrative expenses.

Thus would credit be put at the service of man rather than man at the service of credit. Who would oppose this? Those who make credit decisions now and who thereby wield enormous power (*e.g.*, Federal Reserve Board and FOMC). Who would benefit? Society as a whole and all persons individually.

THE PRODUCTIVITY STANDARD: A TRUE GOLDEN STANDARD

Carmine Gorga & Norman G. Kurland
September 1981

Fiscal policy is nearly all played out, and traditional monetary policy is effectively neutralized. It cannot be any tighter without causing a severe recession and it cannot be any looser without fanning again the flames of inflation. In the meantime interest rates remain stubbornly high.

The era of "fine tuning" has come to an end.

The discussion is back to fundamentals, as evidenced by the alternative with which we are presented: either add some technical adjustments to the existing Paper Standard or restore the Gold Standard.

The Paper Standard promises us flexibility; the Gold Standard, stability. Flexibility to deal with the great unknowns of the next few years; stability which comes from the confidence that the government is not free to debauch the currency: therefore, psychological stability first and stability of the money supply thereafter.

The limitations of the Paper Standard are numerous; but the Gold Standard is not perfect either. As Mr. Lewis E. Lehrman has frankly admitted, "The gold standard, being a human institution, is imperfect."

Yet, notwithstanding well-known weaknesses in both systems, positions are becoming so polarized as to add evidence to Professor Paul W. McCracken's statement that "there are so few helpful ideas around to deal with the most vexing problems of economic policy in the industrial world today."

In order to break the impasse, we need a new set of ideas. Urgently, we especially need a new monetary standard that will give us both flexibility and stability. This possibility is technically and politically within our reach, provided we give serious thought to it. The institution capable of bringing about this historic compromise might be called the Productivity Standard, a standard which shares with the real bills doctrine historical roots and aspirations, but nothing else. The mechanics of the two are completely different.

The Productivity Standard can be carefully constructed restricting some and enlarging other key elements of the monetary system as it exists at present. The foundation of the new structure needs to be limited. It needs to be restricted to all productive--or reproductive --wealth, "real" wealth from which a direct income stream is produced: active machinery, equipment, supplies and the like. (The

Productivity Standard says what it means: it is not meant to cover inventories alone, as the real bills doctrine does; and in certain cases it would not cover inventories at all.)

Using all productive wealth as the foundation of the new standard is to follow the middle road. It is to follow the Golden Mean between the extreme of the Gold Standard: gold alone; and the extreme of the Paper Standard: all wealth, as the basis upon which to tie the value of the currency.

Upon such a restricted foundation, the structure of the Productivity Standard can thereafter be built anew. We would then obtain a true Golden Standard. In this endeavor, we should be guided by three cardinal principles. First, ***federal credit should be extended to discount only eligible industrial, commercial, and agricultural paper - for whatever length of time it requires to repay the loan,*** and not 3-month loans, as in the real bills doctrine.

The legislative power for these operations is already embodied in Paragraph 2, Section 13 of the Federal Reserve Act of 1913. In the light of the Productivity Standard, however, this power has either not been used or it has been used improperly. In various recent or past "rescue" operations the "discount window" should have not been put into effect at all. In others, the discount factor should have been much lower.

One reason this power has not been properly used is that by itself, economists say, the discount window does not insure the control of the money supply. What institution can ever do that by itself? A deeper reason can be found in the fact that the Federal Reserve System has not been given by the Congress--and by economists--clear directions on how to distinguish eligible paper from paper transactions involving the transfer of public and private securities, consumer credit, speculative credit and government credit. Speculative loans in particular would have to be strictly defined as loans that cover transactions involving existing, nonproductive wealth which is scheduled to remain nonproductive for the near future. Hence, inventories that are not an integral, functional part of the operation would not be eligible for federal credit. On the other hand, loans to cover the creation of new wealth, no matter how risky, cannot--from a strict economic point of view --be called speculative loans.

Once these issues of definition are settled we can either empower the Federal Reserve System to operate a discrimination between (loans for) productive and nonproductive resources or, perhaps preferably, we can create a new organization with such a power. This organization might be called New Federal Credit (NFC) Agency. "New" for "Not Elsewhere Warranted" federal credit, or simply federal credit for new productive activities that are carried out by new or established enterprises - - enterprises involved in the creation of marketable goods and services. ***Federal credit is by definition new credit. It ought to be extended only for new productive activities, if we ever want to strengthen the basis for an automatic control of the money supply.*** It is in fact relatively easy to model, forecast and eventually achieve an automatic control over credit for productive activities; as the experience of recent years has amply demonstrated, it is instead impossible to regulate other forms of credit such as consumer credit and especially speculative credit.

Two points must be clarified. ***Federal credit does not imply borrowing from the taxpayer. Nor does it imply subsidized interest rates***. It implies the creation of ***new money*** --new money that is automatically taken out of circulation as soon as the original loan is repaid, i.e., as soon as the money has performed its function. In addition, the creation of new money need not become part of the political process because the New Federal Credit Agency ***would have no power to initiate the allocation of credit.*** It should simply and automatically satisfy the demand for credit after individual banks have approved the loan for the specified purposes. Thus, while still creating new money, the danger of fiat government money would be automatically eliminated.

The second crucial principle of the Productivity Standard is that ***federal credit should be extended at cost and not at an arbitrary rediscount factor***, as in the real bills doctrine--a cost to the final borrower not exceeding perhaps a 2% or 3% interest rate, in addition to a variable insurance premium to cover default risks. The insurance company, or companies, should be expected to be private, so that the new frontiers of capital formation insurance would be opened to this industry.

If the creation of new enterprises and the preservation of old ones is vital to the welfare of the nation, then it is counterproductive for the federal government to make a profit on such transactions. Besides, federal credit ought to be extended at cost if we ever want to eliminate some of the exogenous causes of price inflation. Thus we would immediately bring down the most significant interest rates. The third indispensable principle of the Productivity Standard is that if ***federal credit has to be extended at all***, and if it will be extended at cost, then in theory it should be extended to all. (The real bills doctrine never paid any attention to this crucial area.)

In practice, not everyone will qualify or would want to qualify. Eligible industrial, commercial and agricultural paper--provided there is an automatic distribution of wealth -- is indeed "self-liquidating." It essentially represents sound enterprises with feasible plans which can reasonably be expected to repay the loan, for the most part, in three to seven years. Extending federal credit to all only means that the ownership of future wealth, the wealth produced with the use of national credit, must become as widespread as possible.

We have been so very clever in extending consumer credit nearly to all. We can be equally inventive in extending capital credit. In fact, even though we are at the very infancy of the field, there is already an array of financial mechanisms to achieve this aim. Some of them are inscribed in the very tax code of the land. The most important is the leveraged employee stock ownership plan or ESOP. Through this and other potentially more effective mechanisms, the third essential pillar of the new system can immediately be made to sustain the Productivity Standard.

The use of these mechanisms would have to be made such an integral part of the system as to be mandatory, because the widespread ownership of future wealth, first, would properly have to belong to those who create it. Second, the need for alternative policies aimed at redistribution of wealth would gradually be undercut, thus leaving owners of wealth in peace. Third, and more important, the widespread distribution of future wealth would begin to build not only a very sturdy constituency for the free market system but a very sturdy economy as well. Those who should object to such an imposition would be free to obtain credit on the open market, as against federal credit extended at cost.

The thorough application of these three principles would give us the stability of the Gold Standard, because they would gradually transform the Paper Standard into a full-fledged Golden Standard--and would still preserve much of the flexibility of the Paper Standard.

The transition envisaged here can be achieved without much trauma in the economic body because the Federal Reserve System would still continue to borrow and lend money. Given its initial endowment of assets, it might even continue to buy and sell government obligations, thus contributing to the regulation of the money supply; but its ultimate source of funds would no longer be the national credit. Its sole source of funds would be banks and other financial institutions from which it would borrow and to which it would lend. The interest rate for these funds would be the going market rate. And these funds, conceivably at rates even higher than the current ones, would be primarily available for paper transactions, consumer loans--including home mortgages--loans to the government whenever it incurs deficit spending, and speculative loans. These activities would obviously be discouraged by the high interest rates until everyone--government included--would be put on a balanced budget basis. (These measures would be worth ten Constitutional Amendments to achieve a balanced federal budget.)

During the transition, and there is no reason to demand that the transition should not last forever, ***we would in essence have a two-tier --or, more accurately, a multi-tier -- interest rate structure.*** In accordance with the risk involved, there would be (lower) variable rates for loans covering productive activities as well as (higher) variable rates for all other activities.

Thus the Productivity Standard would give us great flexibility: it would automatically respond to various market conditions. And it would give us stability as well, or at least as much stability as the market needs and wants. The government would lose the power to arbitrarily create new money, but not the power to contribute to the control of the money supply. Finally, society would regain the power that it so desperately needs now: the power to use the federal discount rate exclusively for lowering the cost of capital credit, the interest rates that are the wellspring of economic progress and our best weapon for fighting inflation.

A NEW ECONOMIC PERSPECTIVE FOR GEO-POLITICAL STRATEGISTS

FREE ENTERPRISE: KEY TO LATIN AMERICAN ECONOMIC REVIVAL

By Ambassador J. William Middendorf, II

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The Problem of Economic Collectivism

It is becoming more and more obvious throughout the hemisphere that without a dynamic free enterprise system, governments can neither stimulate nor sustain economic growth nor diversify their economies to foster economic development. Too often in the past, one heard the truism that first must come a proper infrastructure, but this has led to vastly overblown bureaucracies of government-owned means of production far beyond such basic infrastructure requirements as roads, utilities, and communications. Without an efficient and limited public sector at a manageable economic cost--and without an overall environment conducive to sound investment--privately owned enterprises are unlikely to make their full contribution to development and commerce.

Economic development can no longer be financed externally through massive amounts of foreign aid or foreign borrowing, which were hallmarks of the 1960s and 1970s. Now growth, if it is to come, must begin with each country's climate to attract and keep in country local savings and to attract foreign savings, i.e., having a set of motivations and attitudes that are concretely expressed in the absence of civil conflict, a system of generally accepted and enforceable property rights, and the ability of individuals to enjoy the fruits of their labor without confiscatory systems of taxation or arbitrary seizure of property. If government controls too much of the means of production, as is the case in many of the high-debtor countries in our hemisphere, or if it is inefficient and ineffective or all of the above, or if it pursues policies that significantly distort free-market decision making, the overall prospects for economic development suffer, and international commerce with it.

Latin America must work toward a better balance between government and free enterprise, which at present is so heavily skewed toward state ownership. Unfortunately, we seem to be losing the semantic battle for the minds of Latin Americans when we extol the virtues of free enterprise. It is an unfortunate fact that Marxist teachers have infiltrated primary schools in many Latin American countries. From that key position, they take advantage of their young charges' formative years to make them feel that Marxism is the natural state of affairs of any society. Therefore, anyone who opposes it must be against humanity. Foreign private direct investment becomes "economic imperialism" in the Marxist-Leninist lexicon, and this economic imperialism opposes a "new international economic order" which calls for redistribution of the world's wealth. In the Marxist lexicon, we are in a zero-sum game where, if one group is to attain greater wealth (read "The Exploiters"), another group must lose it. None of this helps to encourage the much-needed new capital to come in to create the jobs so desperately needed in countries with unemployment levels ranging up to 30% and 40%. In fact, one wonders if Marxists in countries with non-Marxist governments don't hope to keep unemployment levels high, in the hopes that the resulting unrest might help bring them to power.

The trend toward government ownership is clearly seen in Mexico, where, according to trend data, there were only 84 government enterprises in 1972. By 1982, there were 760. During the same period, total government spending as a percentage of gross national product increased from 23% to 46%. By 1982, following the bank nationalization, the great majority of Mexico's major industries were under government control, and the government's share of total capital formation had reached 45%.

A good sign for positive change is that some of the empirical research which has been conducted on the macroeconomic consequences of the statist "solutions" so long favored in most of Latin America is beginning to receive wider publicity and beginning to affect the thinking of high-level policymakers. Ke-Young Chu and Andrew Feltenstein, in their paper ***"Relative Price Distortions and Inflation: The Case of Argentina, 1963-76"*** (International Monetary Fund, ***Staff Papers,***Volume 25, September 1978), for example, estimated that, in Argentina, government transfers to cover public enterprises' losses were proportionately 10 times as inflationary as the financing of private enterprises' losses through commercial bank borrowings, primarily because it is assumed that only in the former cases are the losses translated into high-powered money through central bank financing of the government deficit. Because the state in Argentina owns the vast majority of its industrial production, and since most of these state-owned industries operate at enormous losses which only government printing presses can make up, the inflation rate there last year approached 700%.

Other equally devastating findings are discussed in ***Public Enterprises in Mixed Economies,*** by Robert H. Floyd, Clive S. Gray, and R. P. Short: For 25 developing countries for which data were available, Short estimates the average (weighted by GDP) overall public deficit, before reduction by government current transfers, at 5.5 percent of GDP during the mid-1970s. He further estimates that the overall deficit in developing countries increased by 2.5 percentage points of GDP between the late 1960s and mid-1970s.

Defining the "budgetary burden" of public enterprises as the residual of government transfers and loans, less loan service payments by the enterprises, Short estimates this burden to average 3.3 percent of GDP for 34 developing countries, compared with a 4.4 percent estimate for the central government's overall budget deficit in these countries. ***In other words, public enterprises accounted for three-fourths of the cen-***

tral government deficit in the countries in question.

In spite of these trends, which amount to a fight for survival on the part of free enterprise in many parts of Latin America, there are several countertrends. A good example of how the private sector can triumph in spite of governmental restrictions is revealed in the study by Peruvian businessman and economist Hernando de Soto. Because it takes a person six months to get government approval to set up a simple business in Peru, an informal economic system has grown to rival the more traditional business. According to de Soto, an informal economy developed and grew despite the tremendous handicap of being illegal.

De Soto's study estimates that the informal economy of Peru now accounts for 90% of Lima's garment industry, 25% of its furniture industry, 60% of housing construction, and even a good part of the automobile and truck industries. The informal Peruvian economy, say the study, has grown so fast that it now accounts for an estimated 60% of the total Peruvian economy, and almost none of this output is counted in the official $22 billion Peruvian gross domestic product. Perhaps most important is the free enterprise system's ability to create jobs: in Peru, an estimated two out of every three jobs are now in the informal sector.

Another factor Mr. de Soto's study points out is that South American economies often have two kinds of private sectors: one that is seriously burdened by excessive regulation and hampered by bureaucratic inefficiency but is officially sanctioned, and a second one which is far more in accord with free market principles but whose existence is barely acknowledged. This difference is made clear by an experiment documented by a study group from Mr. de Soto's Institute for Liberty and Democracy, in which it tried to set up a legal garment firm without easing the way with bribes. According to a ***Wall Street Journal*** article:

> "It took a lawyer and three others 301 days of full-time work, dealing with 11 government agencies to complete the paperwork--which, when laid end-to-end, measured 102 feet. (One of the researchers then tried the same experiment in Tampa, Florida, and finished it in three and one-half hours.)"

The Problem of Vast Capital Needs

Latin America needs vast amounts of capital for progress or, indeed, to maintain present living standards. According to an Inter-American Development Bank study, between now and the year 2000, Latin America and the Caribbean will have to create 100 million new jobs, since half of the population is under 20, and birth rates are running at 3% (with Mexico's at 5.8%). The average cost for creating one new job in the region is estimated at $12,500, leading to an approximation that $1.25 trillion in capital will have to be generated in the next 15 years--a figure perhaps twice the amount of all transfers of funds to the hemisphere in the past 15 years, which includes the huge borrowing splurge of the 1970s.

For Latin America, if the decade of the 1960s can be considered as the decade of official aid from the developed countries (including the Alliance for Progress) and the decade of the 1970s as the decade of commercial bank lending (nearly $300 billion), then the decade of the 1980s must be the decade of foreign direct investment. Why? Because, regarding future prospects for official aid, it would be prudent not to expect that support via the International Monetary Fund, the World Bank, and other multilateral lending institutions will be a replacement for private sector lending--and I stress the word replacement--for a number of reasons.

First, the sums needed are simply too large.

Second, virtually all industrialized country governments, including that of the United States, are grappling with the issue of controlling their own government deficits.

Third, it is unlikely that industrialized country central banks will be as accommodating toward these deficits as they were in the 1970s.

Further, it is now widely recognized that Latin America will not receive even remotely the same high level of borrowed capital from the banking systems to which it became accustomed during the 1970s, particularly in light of debt servicing problems on existing loans.

The Problem of Capital Flight

Just at the time when Latin America needs so much more new capital, there has been the reverse trend of hemorrhaging capital outflows through flight capital.

The irony of this situation is that, in fact, Latin Americans own plenty of capital. It is just not located inside Latin America--the amounts in Swiss and Miami banks and in San Diego condominiums probably far exceed the liquid funds in the home countries. Indeed, generations of Latins claim they have been brought up to get their money out into "safer" havens as soon as they make it.

The prominent Argentine economist, Marcos Victorica, has addressed these issues. Mr. Victorica estimates that Argentine capital abroad amounts to about $27 billion and that much of this capital left the country during the early 1980s, despite the fact that real interest rates in Argentina amounted to about 20%--double U.S. real interest rates--and he has ascribed these developments to a lack of confidence.

Henry C. Wallich, member of the Board of Governors of the U.S. Federal Reserve System, in a recent incisive paper entitled, ***"Why is Net International Investment So Small?"*** made the following comments:

> "For the [world's] eight largest [non-U.S.] borrowers over the years 1974-1982...calculation(s) show an increase in debt (equity and direct investment included) of $317 billion, while the current account deficit adjusted for changes in official reserves, amounts to only $207 billion. Thus, there seems to have been a capital outflow of $110 billion. The degree to which borrowing financed this capital outflow differs among countries. For Brazil, only 12 percent of the inflow was compensated by outflows; for Mexico 45 percent; for Venezuela, almost the entire inflow was absorbed into outflows".

This trend has to be reversed if Latin America is to grow at all.

The Solution of Direct Investment

Borrowing is only one of the three types of international monetary transfers--the other two being direct aid, either government-to-government or multilateral, and foreign direct investment. It is obvious to all that foreign direct investment, if it can be gotten, has the advantage over the other two of providing management knowhow, technical skills and technology transfers resulting in a high degree of export potential and, therefore, of being a source of valuable foreign exchange. Foreign direct investment has the advantage of not requiring fixed interest payments. ***Earnings are repatriated only if the investment is profitable.*** Local enterprises are able to sell to multinational companies and often gain access to new markets and distribution channels, both nationally and internationally. Finally, and most importantly, foreign direct investment creates real jobs as opposed to state-funded make-work jobs.

In order to attract this scarce and needed capital--in competition with other countries also aggressively seeking it, such as members of the OECD and the Pacific Basin countries--the climate for investment must be much more conducive in Latin America. The best test of this is found where local investors themselves find it attractive to reinvest their own funds and where there is no capital flight.

The Solution of Expanded Capital Ownership

While it is relatively easy to diagnose the ills resulting from excessive governmental involvement in our economies, it is far more difficult to find constructive solutions. Clearly, with a change in domestic policies away from the parastatal-import substitution approach to economic development, there is reason to believe that money could be attracted back to Latin America, which would, of course, be a major contribution to a lasting solution of the debt crisis and job creation.

Unfortunately, in many countries of our hemisphere, the state-owned sector is so large, relative to the domestically owned pool of private capital, that a simple sale of those state enterprises that are running the largest deficits would be difficult (who would want to buy them?), and attracting foreign capital for this purpose also would be difficult, for well-known political reasons. Indeed, there are still many in Latin America who would view selling off parastatals to "transnationals" in the same way as they view foreign direct investment--selling off their "national patrimony." There have been ideas floated that some debt could be exchanged for equity in the parastatals. Brazil considered this for a time, but may have given up on the idea at least for the present.

However, I believe that there are other potential and feasible solutions over the long term, for, President Reagan has said, "Developing countries need to be encouraged to experiment with the growing variety of arrangements for profit-sharing and expanded capital ownership that can bring economic betterment to their people." One such method of expanded capital ownership is advocated by Dr. Louis O. Kelso and Patricia Hetter in their book ***La Economia de los Dos Factores: Un Tercer Camino.*** The plan involves employee stock ownership plans, which are nothing less than having the employees of the corporation also become the stockholders, i.e., owners. There are now approximately 8,000 corporations in the United States using these plans, and the experience with them has been quite good--productivity goes up, worker income is linked to profitability, etc. While they are only one form of expanded capital ownership, the point I am trying to make is that there are alternatives to state ownership, and they should be explored and adapted to the conditions existing in each of the countries of our hemisphere. Indeed, Costa Rica and Guatemala have rapidly increasing employee stock ownership plans.

But the benefits of expanded capital ownership go far beyond the economic, as has recently been demonstrated in the ***La Perla project*** in Guatemala. La Perla is a 9,000 acre coffee and cardamom plantation in northern Guatemala. It has 500 full-time employees, about 1,500 family members, and approximately 4,000 other people dependent on the economy of the estate. In September 1984, the farm's owners set up a trust to which they allocated 40% of the stock. The stock will be paid for out of the future profits of the farm, but upon the signing, full voting rights were passed through to an employee association.

Early this year, 120 insurgents attacked the estate and actually took control of the center. The insurgents, however, were then attacked and driven off the farm by 200 armed workers, and a number of workers and insurgents were killed. In the week following the attack, ***the estate's 300 unarmed worker-owners petitioned the owners for additional rifles to defend against future insurgent attacks and volunteered to help pay for them through a payroll deduction plan.*** As Joseph Recinos (a representative of the Solidarity Union of Guatemala, a movement aimed at expanded capital ownership as a means of economic and social reform), has stated:

> "We can more clearly see what the true message of ownership and of vested interest in the free enterprise system means in viewing the La Perla model. There is no greater significance to the concept of defending the free enterprise system than a worker laying down his life to defend the company in which he is co-owner."

The worker-owners of the La Perla plantation in Guatemala celebrate the successful defense of their growing ownership stake against repeated attacks by communist insurgents.

If we want to prevent further Nicaraguas or El Salvadors, the American Government must address the problem of economic and social justice in Central America. Promoting broad capital ownership as an alternative to Marxist philosophy in Latin America, if they are actively pushed now as foreign policy objectives, can go a long way in giving people a vested interest in protecting the free-enterprise system.

Norman Kurland, one of the founders of the ***Center for Economic and Social Justice*** (a group whose goal is the promotion of employee stock ownership plans) stated in a ***Washington Times*** interview last September:

> "To win over Marxism-Leninism you have to go beyond the military. Of course, you have to be militarily strong. On the other hand, there is an ideological battle. Marx and Engels stated that you could sum up the entire philosophy of communism in a single sentence: Abolish private property."

> "The entire case of Marxism-Leninism disappears if we prove to the world that ***private property is essential for providing economic and social justice***, and for providing human dignity to people in the Third World."

> "Marx was wrong. However, we cannot simply attack him on the basis of the problems he was focusing on but rather on the basis of the means that he would use. ***The solution is not to make enemies of the owners but to make owners out of the non-owners.***"

CONCLUSION

I title my remarks today, "Free Enterprise: Key to Latin American Economic Revival." I would like to end on a positive note.

Muhammad Ibn Khaldoun, the 14th century Arab jurist, historian, and statesman once wrote:

> "When incentive to acquire and obtain property is gone, people no longer make efforts to acquire any. This leads to destruction and ruin of civilization."

Similar wisdom can be found in the words of Simon Bolivar who said 150 years ago that Bolivia was a beggar sitting on a throne of gold. In an expanded sense, it is still true for resource-rich but extremely poor Bolivia and for several other countries in Latin America. The hemisphere is so rich in natural resources and populated by men and women of such talent and good will that there is no reason that our hemisphere cannot have a bright economic future. All that is needed is for the economic and political leadership of Latin America to reembrace the wisdom of their own founding fathers, Simon Bolivar and San Martin. These men of vision, along with our own Founding Fathers, were swept up with the liberalizing writings of Locke, Rousseau, Hume, and Adam Smith, which called for a separation of political and economic power and emphasized the sanctity of private property.

LATIN AMERICA'S ECONOMIC CHALLENGE: THE DEMOCRATIC RESPONSE

By Ambassador Alan L. Keyes, Chairman,

United States Delegation, Economic Commission for Latin America
Mexico City, Mexico, April 23, 1986

The past ten years have witnessed the triumph of democracy in Latin America. A decade ago only ten Latin American countries had freely elected governments. Today there are 25. Currently over 90 percent of the people of Latin America and the Caribbean live under democratic political systems. All over the region the people have declared their passion for liberty. They are determined to have governments that respect the inviolable dignity of the human person, governments whose form and composition are commensurate with the innate human capacity for self-government. Thanks to the rising tide of political democracy, Latin America and the Caribbean are today regions of dynamic hope, stages upon which the drama of mankind's best aspirations are each day being played out. It is a drama of pride and rising self confidence; a drama of leaders who understand the importance of justice for all the people; and of people who accept and respect the need for highly motivated leadership.

In place of the bitter resentments and antagonism that for decades have divided the governed and the governing, a spirit of reconciliation has arisen. Within and among the countries of Latin America and the Caribbean, people of different classes, backgrounds and conditions are becoming reconciled to their dependence upon one another, reconciled to the need to respect in one another the dignity, capacity and aspirations of their common humanity. In this reciprocal-confidence between and among the people and their duly elected leaders, we can see the outline of a new social contract taking shape in countries throughout the region. It is a new contract of freedom, in which the right of the people to choose their government is respected. It is a new contract of equity, in which the incentives and rewards of leadership and labor are granted without resentment. It is a new contract of justice, in which the good of the whole community is acknowledged to be the responsibility of all and the exclusive possession of no onegroup, class or division of society.

The rising tide of democratic freedom in Latin America flows toward a future of great promise. Yet in the minds of many the prospect of that future is over-shadowed by the realities of the present economic situation. Latin America may well be going through the most trying economic period in its history. The 1982-83 recession required painful adjustments. Despite these difficult efforts, economic growth remains slow. The external debt of many Latin countries remains a serious problem. This problem has been in part the result of inappropriate domestic economic policies, which have motivated extensive capital flight. Many observers believe that at least $100 billion has left Latin America since 1980. Much of the region's borrowing did not finance productive investment. The same policies that led to this financial hemorrhage generated the large demand for foreign credit in the first place. They included overvalued exchange rates, low domestic real interest rates, low confidence in the security of domestic investment and in the legal protection afforded to personal property, restrictions on labor market mobility, restrictions on the international flow of goods and services, the burgeoning of public sector enterprises, and overly expansive fiscal policies.

Many have expressed fears that favorable democratic trends in Latin America may be undone by instability resulting from the economic situation. These observers suggest that persistent net outflows of capital could deprive Latin countries of desperately needed resources for investment. They argue that stagnating economies could give rise to skyrocketing unemployment, shortages of basic goods, uncontrollable inflation. According to this view, masses of people without work or hope, their industry negated by adverse trends, their savings consumed by ever increasing prices could become the kindling for ugly social conflagrations. There is concern that, inflamed by economic deprivation, the deep divisions and rivalries between classes and groups might erupt into conflict, fueled and armed by forces unfriendly to democratic freedom. These observers believe that military dictatorships of the right or the left could stride forward, promising to mend shattered peace and order, or else realize through grim regimentation desperate dreams of egalitarian social progress.

The spectre of such a future inspires deep anxiety in the minds of many sincere friends of democratic freedom throughout Latin America. They believe that to preserve democracy, governments must find means to resolve the current economic difficulties. My delegation believes however, that the same democratic principles which have restored hope and energy to the politics of Latin America can bring growth and vigor to its economies. The same confident partnership between free peoples and motivated leaders can unlock the latent potential of its population. The new social contract of freedom, equity and justice can assure the foundations of a lasting but dynamic economic equilibrium.

The New Contract of Freedom

In the economic as in the political sphere, choice is the basis of democratic freedom. Choice implies competition among alternative conceptions, products and tastes. It implies a system in which these ingredients can interact without undue interference to determine the society's pattern of production, distribution and consumption. Competition, and free market for economic transactions are thus the implied economic bases of the new contract of freedom.

The experience of many countries, both industrial and developing, has confirmed that emphasis on these institutions contributes to economic growth. Nations that have avoided policies which interfere with the market test of competition have generally enjoyed better economic performance. The competitive pressure of the market is the force that leads to greater efficiency and accelerates economic growth. The market cannot achieve this efficiency without policies that allow the price system, including appropriate exchange rates, to allocate resources efficiently. One recent study concluded that a major impediment to investment in Latin America is widespread price controls. Though often viewed as a way to protect the purchasing power of the poor, usually just the opposite occurs. Price controls inhibit investment, resulting in reduced production, shortages and eventually higher prices than would have prevailed without the controls.

An unfettered price system provides the framework for rational economic choices by producers and consumers alike. To protect this framework fiscal discipline is essential, as well as efforts to control inflation. Fiscal deficits are financed either by inflationary money creation or by heavy borrowing. A large deficit can temporarily boost the economy, but the high soon wanes, leaving only high inflation. High inflation eventually brings low growth due to massive economic disruption.

Where the framework for choice is well established, the stage is set for healthy competition. Such competition cannot take place, however, where individuals or enterprises are mere appendages of state power or where economies are walled in by protectionist measures from reciprocal interactions with the outside world. Privatization and an open trading system are the keys to economically effective competition. Privatization is a creative process designed to shift whole areas of economic activity from the politically dominated and generally unprofitable state sector to the consumer-dominated, profit-oriented private sector. It requires that governments open inefficient state monopolies to private competition. It requires, as well, relief from the crushing burden of excessive economic restrictions.

The existence of a large informal or underground economy in many if not all Latin American countries offers clear evidence of the inhibiting effects of artificially imposed restrictions. Without governmental limits on competitive economic activity, economies expand due to the inherent dynamism of private enterprise and entrepreneurship. In some countries, uninhibited informal sectors may account for well over half of the actual GNP. The aim should be to bring the entire economy into line with the dynamism of these informal sectors.

After World War II many Latin American countries adopted an import substitution policy which led them to the establishment of a number of inefficient industries unable to compete on the world market. By contrast, the developing Asian countries emphasized export industries. Over the years Latin America largely exhausted its prospects for import substitution while the Asian countries penetrated markets throughout the world. Asian exports boomed, enabling them to import as well, thus generating high growth. Moreover, much of their expansion was financed internally with relatively less recourse to external borrowing. Experience therefore shows that countries that have shifted from import substitution to more open policies have experienced better economic performance. This is particularly true for smaller countries that concentrate on a limited range of products in which they can achieve economies of scale.

Import substitution policies result in costly inefficiencies and useless, uncompetitive industries that are a net drag on the economy.

They also result in higher prices for both imported and domestically produced goods, lower real incomes and a lower standard of living for the people. The monopoly elements that are created in the process reduce production, boost prices, and make some people extremely rich at the expense of the rest.

Increased and diversified exports are of great importance to Latin America's economic future. Exclusive reliance on traditional commodity exports is unrealistic. To compete in world markets the region's industries require the best and latest know-how, in the broadest sense. Yet these capabilities will not come in the face of restrictive import and foreign investment regimes. Unless a stable and predictable environment is created to attract in vestors, both foreign and domestic, competition in the international arena will be difficult. I hope that we can count on the support of your governments for the early initiation of a new, broad round of Multilateral Trade Negotiations, which has as its purpose the enhancement of an open international trading system. The United States looks upon the countries of Latin America and the Caribbean as natural allies in the effort to break down further the barriers to exports which exist in the regimes of our trading partners.

The New Contract of Equity

The new contract of freedom promotes the scope for choice and competition essential for economic dynamism. But without a sense of equity societies cannot achieve the stability needed to sustain this dynamism. In economics as in politics equity is based upon mutual respect. The people must respect the need for incentives, without which economic leadership and initiative will falter. Popular participation and popular consumption, however, are vital to the success of a modern economy. Economic leaders, therefore, must respect the right of the people to rewards commensurate with their indispensable contribution to the economy's success. The interdependence of incentives and leadership, of rewards and popular participation are therefore the bases of the new contract of equity.

The new contract of equity means an end to the compulsory redistribution of wealth by the power of the state. Economics need not be a zero-sum game. Respect for equity encourages appropriate incentives for economic leadership. Entrepreneurial activity ensures increasing opportunities for participation in the economy through rewarding employment. As a result, the allocation of goods in the society results from a dynamic process, an upward spiral of incentive and opportunity, participation and reward.

Nowhere is this more clearly demonstrated than in the experiments in expanded capital ownership taking place in some parts of Latin America. ***Through profit sharing in the form of stock distribution, employees in industrial and agricultural enterprises gain a stake in the success of their economic system,*** which in turn leads to increased productivity. Through expanded capital ownership schemes economic leaders break down rigid patterns of economic activity which restrict ownership to a small group or class of the people. But they do so in a way that respects and strengthens the principle of ownership, of private property and individual responsibility. Instead of narrowing the economy's base of support to an unstable few, or concentrating its power unproductively in the state bureaucracy, this approach broadens the economic foundations and diffuses economic power throughout the system.

We do not mean to suggest that the expanded capital ownership approach is a universally applicable one. However, it illustrates the principles and concepts through which democracy can build a firm social foundation for economic cooperation and growth. Ownership need not be a reality confined to the wealthy few or an all powerful state. Through the operation of democratic principles it can become an experience universally shared and understood.

The New Contract of Justice

The principles of democracy now advancing in Latin America and the Caribbean clearly offer practical foundations for addressing the region's current economic problems. Above all, however, they offer the paradigm for economic cooperation on a democratic scale. By this measure, successful economies must transcend sharp distinctions between beneficiaries and laborers, owners and workers, leaders and common folk. As individuals all experience the benefits. As individuals all take responsibility for success or failure. Governments need not be all powerful mediators among irreconcilably hostile classes or groups. Freed from their fear of one another, people can live and work together with no need of an obtrusive government power to overawe their violent inclinations. Such are the fruits and the future of democracy. Such is the meaning of the democratic contract of justice.

It is especially this aspect of the democratic revolution in Latin America which provides a principle for the relations among states in the region, and especially for the relations between them and the United States. The future of our hemisphere is a shared promise and a shared responsibility. We shall all gain or lose by the strength of our mutual trust and cooperation.

Nowhere is this more clearly seen than in our approach to the difficult problem of Latin America's debt burden. Several Latin countries have made considerable efforts in the past several years to take the necessary stabilization measures to reduce their external imbalances, improve their export capabilities and move their fiscal positions more into balance. Continued efforts are needed, however, to reduce domestic imbalances and inflation and to put in place structural reforms to improve prospects for future growth. One of the most important developments during the past year has been the emergence of broad agreement among creditor and debtor nations that improved growth in the context of further economic adjustment in the debtor nations is essential to any resolution of the debt problem.

The "Program for Sustained Growth" put forward by Secretary Baker in October, 1985 offers a framework for cooperative action to encourage and support debtors' efforts to improve their growth prospects. This initiative aims to encourage determined efforts by debtor countries to adopt growth oriented macroeconomic and structural reform policies which will permit them to take full advantage of improved opportunities in global markets, to strengthen the domestic foundations for growth in the longer term and to provide for continuing orderly servicing of their debts.

Of key importance will be policies designed to enhance domestic savings, encourage increased private investment and stimulate the return of capital flight. The repatriation of flight capital would greatly reduce the need for new external borrowing.

In the spirit of Latin America's new social contract of democracy the United States is doing its part through stronger growth, open markets, sounder fiscal policies and recent trends toward lower interest rates. Many Latin American governments have begun to create a more positive climate for private investment, and I believe investors will respond to these improved conditions. These governments are shifting away from an anti-business attitude, reducing excessive control and regulation, limiting the scope of state-owned enterprises, creating tax incentives for investment and adopting growth strategies that emphasize equity financing rather than debt accumulation. These are policies that provide the basis for a partnership of freedom, equity and justice between governments and the private sector, between the United States and the countries of Latin America and the Caribbean. On the basis of such a partnership we may all face the future without fear, secure in the belief that through the principles of democracy we will forge lasting solutions to today's economic challenges.

REP. PHILIP M. CRANE
Congressional Record, July 16, 1985.

Mr. Speaker, today I am introducing another segment of a series of discussions on the concept of expanded capital ownership. Today's material comes from an article by Dr. Robert D. Crane, entitled "*New Directions for American Foreign Policy*," which appeared in 1969 in ***Orbis***. Dr. Crane stresses the need for us to develop new initiatives designed to bring us closer to a world of justice, peace, and freedom based on God's teachings. Dr. Crane also recommends greater discussion and cooperation among the spiritual leaders of the world's four major religions--Buddhism, Christianity, Judaism, and Islam--in order to develop an alliance against atheism and totalitarianism. I believe that we would all benefit from the message as well as the suggestions contained in this article, and I hope each of you will take a few moments to read it.

NEW DIRECTIONS FOR AMERICAN FOREIGN POLICY

By Robert D. Crane

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Every individual has selfish interests and unselfish ideals which serve as substantive premises for action. Human affairs can be defined as the shifting relationship of conflict and convergence between one set of interests and ideals and another set or sets. In addition, every individual has definite, if sometimes unconscious, ideas on how best to achieve his interests and ideals. These ideas serve as basic methodological premises for action. In the international arena the same holds true, but the actors are groups of people who have achieved nation-statehood or wish to do so. International politics can be reduced analytically to the interaction of more than two dozen basic substantive and methodological premises among different national actors. One task of the foreign-policymaker in a democratic country is to understand these premises underlying the group-thinking of his country and to make policy in accordance with them.

By way of illustration, during the short but traumatic age of nucleophobia, when fear of nuclear weapons dominated the foreign policy of every major nation, many policy intellectuals elevated the control of conflict, encompassing either its resolution or its management or both, into an overarching framework of analysis. Other premises, both teleological, became dependent variables in a macromodel limited to the goals and requirements of stability.

The unprecedented challenges of a rapidly changing and interacting global society, which threatened the traditional identity and even the physical survival of many of its members, produced an obsession for "law and order." Many positive goals relating to progress in improving men's social, economic and political environment remained important. But the principal independent variable was stability. The name of the game was not progress with maximum feasible stability, but stability with whatever progress was consistent with it. Caught in such a weighted and inflexible framework of analysis, many policy makers drifted into an open-ended commitment to preserve the status quo even in the middle of systemic revolution. This in turn created pressures to militarize American responses to foreign policy challenges.

The conscious or unconscious development of a uni-premise foreign policy, no matter how legitimate the premise may be, is a sure road to policy failure. Conversely, wisdom in the formulation and execution of foreign policy depends on maintaining in balance a rich mixture of many premises. American policy toward every area of the world and every functional issue should be rethought periodically to determine whether it is consistent with our basic premises both in concept and execution. Although a high degree of consistency between policies and premises is rarely possible, the goal of absolute consistency should be periodically measured in every area of U.S. foreign policy concern.

The primary determinant of postwar international politics, as seen through American eyes, has been the Soviet Union's threat to expand its influence over world affairs, and the attempt by the United States to prevent this. In this situation, the absence of other substantial centers of non-communist power and influence forced the steady expansion of American commitments. Perhaps the biggest change in world affairs during the next ten years will be a reversal of this process, to the benefit of the United States. American and Soviet policy will no longer dominate the global environment. Rather, the global environment will be the primary determinant of American policy and the primary restraint on reactionary communism. In order to prevent an American retreat into isolationism resulting from her frustrations in molding the world environment, the United States therefore should promote those forces that support her basic interests without conscious American direction. The most important such force is global pluralism.

If the leaders of the United States want to exert world leadership during the remainder of this century, they need only support the probably irreversible trend toward decentralized initiative and pluralist responsibility in the world. Americans can best provide global leadership simply by preaching abroad what we practice at home.

Americans are now entering a period of general reaction against the failures and limited successes of the development policies we have pursued for so long at great personal expense. If our commitment to help the peoples of Asia and Africa is not to become a casualty of this reaction, now is the time to consider whether some of the political forces we have helped to suppress and some of the economic forces we have depreciated or ignored may not have a positive potential in the development of parts of the Third World. Far from being anachronisms in a sophisticated world of mass society, the two forces of communal nationalism and local initiative within a federal framework might prove more powerful in the Third World than all the military strength and economic aid the United States could possibly bring to bear either alone or in conjunction with its allies.

One of the most unfortunate consequences of this growing conflict between the artificial nation-state in the making and the existing nation which may want to become a state is the distortion in our perceptions of communal nationalism throughout much of Asia and Africa. The impostion of centralized state power as a method of modernization without the concept of community-based coherence and responsibility behind it, the propagation of atomistic individualism as a means to societal transformation without a moral recognition of the value of the individual, and the accompanying attempt to impose an omnivorous collectivity without an appreciation of the responsibility and value of free community, all combine to create a crisis in identity and authority that has profoundly unsettled the Afro-Asian peoples. The efforts of the mobilizing state to monopolize personal and group loyalties at a single level of the political spectrum, and to diffuse legitimacy downward from the corporate state rather than to permit loyalty and legitimacy to spread upward from the families and communities of individual men, have tended to cause a radical contraction of the individual away from nature and from other men into the material boundaries of the calculating ego. The primordial loyalties of communal nationalism in some instances have become a fulcrum either for a passive longing not to belong to any other group or for the blind aggression of defensive self-assertion.

By generalization from the abnormal, many modernization theorists conclude that the only way to cure the patient is to prescribe more of the medicine that made him sick. Concentration on communal groups' reaction to the imposition of the worst forms of Westernization makes it difficult even to raise the question whether in many areas the tensions that result from communal nationalism might be a symptom less of rampant separatism than of overcentralization and overmanagement. As *a priori* opposition to communal nationalism hides the fact that the problem of assimilation seems to arise most often when the ruling majority has decided that its rival or potentially rival groups must be assimilated and for all practical purposes destroyed. A cursory analysis of communal nationalism suggests that it reaches disruptive proportions only when modernization is taken to mean the imposition of centralized political power on an agglomeration of naturally independent nations, once administered collectively as a dependent colonial territory, and then elevated by the departing colonialists to the status of an independent but artificial state.

The assumption has become general that coercive assimilation is necessary in most of Asia and Africa for technological modernization. The time has come to question that assumption. We may find that only when policy is based on it do the traditional institutions of society become what many students of the modernization process believe them inherently to be: mere obstacles to progress and stability. We may also gain insights into the demonstrated potential of communal nationalism within a federal framework to channel the most powerful human drives into cooperative self-betterment.

If more modernization theorists would shift the focus of their attention from the requirements of immediate industrialization to the unromantic but locally meaningful possibilities of first applying simple technology in rural development, we might see that the secrets of the most productive form of modernization lie not so much in centralized governmental programming as in the decentralized and unplanned forces of local initiative. We might then be able to listen more sympathetically to those who insist from long experience that the real task in modernization is not to marshal manpower by organizing human resources, but to release human energy by stimulating the natural entrepreneurial desire to achieve. We would then realize that modernization is not primarily a product of governmental structure, but of individual people working as members of and in the interests of a group with which they have a common sense of identity and solidarity, whether it is in their own family or its extension in a more diffuse moral community.

Economic counterparts to political pluralism have been investigated, perhaps most creatively by Louis Kelso.[1] He suggests linking technology with the individual through the wide diffusion of capital ownership among the world's agricultural and industrial workers. He questions the long-range benefits of relying on financing growth through past savings, because this technique further concentrates capital ownership during an era when capital rather than labor increasingly is the producer of wealth. Instead he lists ways to finance new capital formation out of future earnings derived from the use of borrowed capital. Specifically, he recommends that at individual factories or agricultural enterprises a trust be organized to receive guaranteed loans for new tools, seeds or fertilizers. As the loan is repaid, all or most of the new "ownership" created through the use of new technology would vest in the workers who provided the labor input. Any defaults on repayment might be regarded as a relatively cheap form of foreign aid.

The objectives of such radically new methods of financing capital formation would be to give workers a stake in the success of their own rural and urban enterprises, to stimulate the development of local management capabilities, to release the full potential of technology in socially acceptable ways, to make feasible sweeping reforms of land ownership in areas where economic consideration dictate the preservation of large farms, and to provide an administrative framework for decentralized foreign economic assistance. If adapted to the unique requirements of the various regions and peoples of the world, such economic pluralism could have a greater global impact over the next fifty years than the collectivist economics of Marxism and neo-Marxism have had during the half-century just past.

Perhaps the most hopeful sign in the Third World is an increasing recognition among its leaders, both Westernized and traditional, that the forces of political disruption and economic immobilism, endemic during the past decade, have resulted in part from their failure to distinguish the process of modernization from the Western secularized models in which it has been cast. The emerging generation of leaders in Asia and Africa is demonstrating a maturity beyond that of their elders and their elders' advisers by welcoming a resurgence of their own native cultures. They have seen the political, economic and cultural chaos that results when political leaders rapidly and unwisely reject the traditional values, customary law and social fabric of society without providing replacements acceptable to society's members.

Most importantly, this new generation of leaders is beginning to see that their traditional cultures can serve as suitable vehicles for technological modernization. They are trying, therefore, to fill the cultural vacuum left by the Westernizing phase of the modernization process by consciously resurrecting the best from their cultures. In particular, they are trying to strengthen the institutions by which men have always been mobilized to action and those elements that promote the discipline, honesty and general cultural infrastructure necessary for modernization. Their objective is not to borrow industrialism from the West, for this has proved to be either impossible or not essential to the material or spiritual well-being of their people. They have vicariously acquired the wisdom of the rich by observing the most advanced industrial countries, whose experiences demonstrate that a high rate of material achievement does not automatically provide dignity,

1. Louis O. Kelso and Patricia Hetter, "Uprooting World Poverty: A Job for Business," Business Horizons, Fall 1964.

a sense of achievement and happiness. Their aim is to create independent cultures sufficiently strong and self-reliant to bring out the character traits latent in the individual members of society so they can apply modern technology to raise their living standards.

The most striking feature of the emerging generation of leaders in parts of Asia and Africa is a new pragmatism, well-grounded in their own moral universe, which makes them critical of rigid or magical reliance on any form of political or economic order to solve problems that often are unique to each geographic area and society. Instead, they seek the political aggregate, the method of government and the economic methods that best can evoke the forces necessary to sustain the modernization process within a moral society.

PROJECT ECONOMIC JUSTICE:

A BEACHHEAD FOR REGIONAL INFRASTRUCTURAL REFORM

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(Excerpted from a paper prepared by Norman G. Kurland at the request of the Chief Economist of the National Security Council, April 19, 1983)

PART I
THE IDEOLOGICAL FRAMEWORK FOR EXPANDED CAPITAL OWNERSHIP

In the past, most of America's responses against Marxist aggressions have been defensive, our military actions in response to their military initiatives, our nuclear build-up in response to theirs. On the ideological level, calling our strategy defensive would be a compliment.

Calling for "Freedom and Democracy" without building structures for "Economic Justice" is naive. There is no meat on the message. We should not repeat this disastrous error in the future.

Our Foreign Assistance Act of 1963 stated the overall objective of American foreign aid: "To create conditions in the world under which free societies can survive and prosper." Twenty years and billions of dollars later our foreign aid programs, as executed, have not impeded Marxism's global reach.

Indeed, American foreign aid may have helped to pave the way for many of the Marxist revolutions and expropriations of privately owned enterprises that have occurred throughout Asia, Africa, and Latin America since World War II. Handouts by themselves do not deliver justice or help create a more just social order. They often widen the gap between the rich and the poor. They alienate the people we should be helping. They magnify the obvious difference between the rich and the poor: ***the rich derive their incomes from the ownership of capital and the poor lack effective access to capital ownership.***

Thus, handouts create breeding grounds for Marxist-Leninism. Like military aid, they are at best temporary expedients, useful for buying time to attack the social and economic causes that lead to revolution. By not providing the poor in developing countries with the means to become partners in free enterprise growth, we have wasted resources and lives to revolutions that could have been avoided.

In the words of President Kennedy:

> "By making peaceful revolution impossible, we make violent revolution inevitable."

Farmers, workers, technicians, and businessmen in the developing countries now need more direct access to the finest talent and the most advanced technology, ideas, and institutional structures developed within the American free enterprise system. With access to the best tools and talent of our private sector, for mutual profit, the people of developing countries can create for themselves a freer and more just economic future. We can prove to the world that maximum justice and maximum profits can go hand-in-hand.

The time is now ripe for America to reach out to a broadened global constituency, the poor and oppressed of the many countries from which our ancestors fled. By taking the ideological high road against Marxist collectivism, we can now beat the Soviet Union, not with empty words or deadly weapons but with bold private-sector initiatives that all Americans could support. Through a radical extension of the American free enterprise system, economic justice can be brought to the poorest of the poor in developing countries. In a sense it would be a Space-Age version of the original American Revolution.

Broadened equity ownership was included in the 1938 Republican Party Platform. It was also called for in the 1976 and 1980 conventions of the Republican Party. Within the last 8 years Congress has passed 15 laws encouraging employee stock ownership plans (ESOPs) and over 5,000 companies are gradually spreading equity ownership among their several workers. [*Note: Figures for 1983.*] In 1976 the Joint Economic Committee of Congress declared broadened ownership of new capital as a major priority of American economic policy. While some academics and labor spokesmen have voiced skepticism and concern, citing a few cases where ESOPs were abused, even this resistance is diminishing. Several books and hundreds of articles have appeared in recent years favoring expanded ownership policies.

A labor statesman who recognized that the twin problems of productivity decline and cost-push inflation were unsolvable through the taditional wage system was Walter Rueuther, the late head of the United Automobile Workers. Speaking before the Joint Economic Committee of Congress in 1967, he stated:

> "Profit sharing in the form of stock distributions to workers would help to democratize the ownership of America's vast corporate wealth. If workers had a definite assurance of equitable shares in the profits,they would see less need to seek ... increases in basic wages."

Even John D. Rockefeller III called for such a plan in his book, ***The Second American Revolution*** (1973).

In a letter to *The Washington Post* not long before his death, Senator Hubert Humphrey explained why he supported broadened capital ownership:

> "[C]apital, and the question of who owns it and therefore reaps the benefit of its productiveness, is an extremely important issue that is complementary to the issue of full employment .... I see these as twin pillars of our economy: Full employment of our labor resources and widespread ownership of our capital resources. Such twin pillars would go a long way in providing a firm underlying support for future economic growth that would be equitably shared."

The expanded ownership concept, purely on its merits, enjoys broad bipartisan support on Capitol Hill. The first to publicly support the concept was populist Senator Fred Harris in 1972. The first to introduce ESOP legislation aimed at comprehensive reform of the U.S. tax system was conservative Senator Paul Fannin in early 1973. The main champion of employee stock ownership in Congress is Senator Russell Long, who first learned of the ESOP as a result of Senator Mark Hatfield's initiative to convert the Conrail system into a 100% employee-owned railroad. Other sponsors of ESOP legislation have covered the ideological waterfront, from Robert Byrd and Alan Cranston to John Towers and Mac Mathias, from Jesse Helms and William Roth to Gary Hart and Paul Tsongas, from Phil Crane, Jack Kemp and Bill Frenzel to Parren Mitchell, Don Edwards and Ron Dellums.

Rep. Michael Barnes, Chairman of the House Foreign Affairs Subcommittee on Inter-American Affairs, reacted to a proposed expanded ownership initiative for El Salvador, by recalling the words of former Salvadoran President Duarte:

> "If my people believed that tomorrow would be better than today, that their children would have a better life than they have had, then the communists could ship in all the guns they want. There won't be anyone to pick them up and use them."

Rep. Barnes added his own footnote:

> "There's more wisdom in that single statement than in everything our government has had to say on the issue in the past two years."

PART II
BASIC COMPONENTS OF AN AGENDA FOR ECONOMIC JUSTICE

To succeed on the ideological front, it would help to organize on a regional basis, perhaps within a regional bank with central banking capabilities, such as the Central American Bank for Economic Integration. From such a base it would be easier to advise on the infrastructural changes that would be necessary within one or more of the developing countries willing to cooperate on the new agenda for stimulating private sector growth linked to broadened ownership.

The strategic objectives would be to maximize growth rates, jobs, and productivity of the private sector within selected countries or target areas, with a zero rate of inflation, and maximum ownership and profit sharing opportunities among all private sector workers as a supplement to free market wage rates.

The four main components of this agenda for economic justice are:

(1) a new social contract with workers based on expanded capital ownership;

(2) a two-tiered capital credit system for local banks;

(3) a regional SDR to establish lower-tier-capital credit; and

(4) the multinational corporation as a primary vehicle for accelerating private sector growth linked to expanded ownership. These are explained below in more detail.

A. A New Social Contract With Workers Based on Expanded Capital Ownership

The traditional wage system rests on a "conflict theory" of management-labor relations. The traditional system takes for granted that workers and owners have different interests and therefore assumes that they will be in conflict. That assumption vanishes under a system which attempts to maximize the ownership opportunities of working people, whenever possible enabling the management and non-management workers to acquire up to 100% of the firm they work for.

The expanded ownership system assumes a merger of interests among all persons with an ownership stake in the enterprise. If implemented properly, maximum profits and maximum justice go together. Job security is enhanced by everyone agreeing to accept modest base wages, generally set in the freely competitive market-place. This allows the company to operate with low fixed costs when times are rough. But workers participate in a monthly cash bonus plan and an annual cash bonus plan, both based on a formula linked to productivity and profits. A wage differential may be instituted so that the highest paid manager is paid a multiple of what other full-time workers are paid, with his increases also coming from his proportionate share of productivity and profits of the overall company; in this way all members of the team prosper or tighten their belts together.

The best ESOP models allow employees to vote their ownership stake in the company, normally measured by their shares of stock. An employee-owned company is generally structured to permit delegated powers and responsibilities, with a minimum of formal meetings or group decision-making. Thus, it is a system which must be delicately structured (like a republican form of government) to balance efficiency with justice; a high degree of autonomy for leadership decisions, with high levels of management accountability and disclosure of results; professionalism at the top, with self-management of the workplace. The basic principle of management is that of "subsidiarity," where authority is left as close as possible to those responsible for doing the work.

Workers earn their ownership shares, generally based on credit extended to them individually or jointly and repayable with their share of future profits. Ideally, the tax system would avoid the double tax on corporate profits, so that the capital credit for workers could be repaid with future dividends. In the United States workers are taxed on the bonuses or dividends they receive in cash, but they are not taxed until retirement on the stock they accumulate within an ESOP trust. Tax laws that allow workers to accelerate the rate of their equity accumulations help promote savings and investment within the private sector, while reducing the need for redistributive taxation. (See the "Expanded Ownership Act" introduced by Senator Long for additional tax reforms to encourage employee stock ownership.)

Remember, one of the unique features of an ESOP is that it systematically **extends the benefits of capital credit** among all workers of a company. This allows the employees to borrow to buy outstanding stock from an existing owner (including the government, where it wishes to denationalize a nationalized enterprise), or to buy newly issued stock directly from the company for meeting the expansion or working capital needs of the company. A properly designed loan to an ESOP is more secure than a straight loan to the company because, in addition to normal security on loan repayment, the workers have a stake in the outcome and there are special tax advantages for all parties.

B. A Two-Tiered Capital Credit System for Local Banks

There is one thing that bankers, businessmen, and political leaders in the developing countries can agree on; high interest rates are a major barrier to sustaining a healthy free enterprise system. On the other hand, everyone would agree that nothing would do more to get everyone's attention and to promote a more broadly-owned and more just free enterprise system than to combine it with the carrot of a radically lowered interest rate. There is a logical way to create a differential of 7.5% or more in prime business loans that would be made available through local bankers. This strategy is known as a"Two-Tiered Interest Rate Policy." The rationale for this policy is as follows:

High interest rates are choking the life out of business. Today's interest rates have effectively stifled business expansion and modernization, have depressed innovation and productivity, and have curtailed the absorption into a revitalized private sector of millions of unemployed and underemployed and excess government workers in almost every free enterprise nation.

Much of today's economic malaise stems from the money-creating policies of central banks like the International Monetary Fund (IMF), which reflects the same policies as the Federal Reserve Bank and the central banks of the major Western economies. The IMF is an emergency lending organization to which 146 governments belong. Because of the central role the IMF plays in international finance, the debts of poor countries are expected to reach $650 billion by the end of 1983, nearly $400 billion of which is owed to private banks. Many of these countries cannot afford the interest payments at today's high rates, let alone the principal.

When it issues Special Drawing Rights (SDRs, sometimes called "paper gold"), the IMF "creates money" which can be used for making loans. We call this "pure credit," to contrast it with credit based on already existing savings. How "pure credit" is used, however, determines whether it will be inflationary or not and whether or not it will be an asset-backed currency.

The IMF, like all central banks today, including our Fed, fails to distinguish between supply-side and demand-side credit, between self-liquidating credit for productive purposes and non-self-liquidating credit for non-productive purposes. Self-liquidating credit is used to buy things intended to produce new wealth or future savings sufficient to pay its own acquisition costs. Non-self-liquidating credit (e.g., loans to cover government costs or consumer credit), by definition, is never used to buy things expected to "pay for themselves." While capital credit creates a healthy demand for the plant and equipment producers need to supply more consumer goods and increase real consumer incomes, non-productive government credit simply pumps new currency into the economy, giving consumers a false sense of their buying power. ***Productive credit*** increases the supply of new marketable wealth or is used to acquire new income-producing investments. ***Non-productive credit,*** in contrast, merely stimulates demand, creating artificial buying power to purchase existing wealth, commodities, and securities. For example, the IMF monetizes non-productive government deficits when it buys that government's debt paper, instead of allowing market savings rates to discipline government overspending. This fuels inflation.

The discount powers of an international central bank like the IMF could be the key to uniting the workers and owners of developing countries, without taking anything away from present owners, except the dubious "right" to monopolize future access to capital credit. It should not be forgotten that control over capital credit represents control over future ownership patterns.

A more logical and just use of a central bank's credit machinery would be under a two-tiered interest structure. The ***higher level*** would be geared to market-rate yields on existing savings. This reservoir of credit would remain available for all forms of conventional loans, including loans to governments and state-owned enterprises. The higher interest rates would discourage these less productive and non-productive uses of credit. This works against inflation.

The ***proposed lower level*** would create a new reservoir of credit, reserved exclusively for structuring a more just and productive future for free enterprise. Only credit intended for productivity-oriented purposes in the private sector would be eligible.

But there is a hitch. ***The lower-tier would be reserved exclusively to channel the "magic" of future capital credit in ways that systematically transform wage-earners into an ever-widening base of capital owners,*** or to save farmers and entrepreneurs from losing their farms and businesses because of today's high interest rates. This combination of reduced credit costs and worker ownership is counter-inflationary by design.

For business reasons, and to underscore the injustice to workers of state-owned enterprises, this lower-tier should never be used, for example, to help refinance the $26 billion in debt like that recently negotiated with the Polish Government by Western bankers. Today they use the savings of Western workers to supply the credit to build State-owned enterprises, at the expense of the capital-starved Western factories which are laying off their own workers.

No longer will Western capitalists give their own money to buy the rope to hang themselves. Instead, unsubsidized lower-tier credit would be used to denationalize some of the government-owned enterprises in communist countries and organize them into employee-owned stock corporations, using a "qualified ESOP." In this way, the "magic" of capital credit would become our most powerful weapon in pointing out the ideological contradictions of Marxism-Leninism.

Every dollar saved in interest costs could add a dollar to the bottom-line profits of the borrowing businesses and farms or save a dollar in prices to their customers. But it would also be a dollar for promoting economic justice for working people.

C. A Regional SDR to Establish Lower-Tiered Capital Credit

The third major component in the agenda for economic justice is to mobilize friendly countries in a development region like the Caribbean Basin in support of a new unit of international credit. The IMF cannot be expected to play this role. As mentioned earlier, the Central American Bank for Economic Integration might be the ideal place to start this new initiative. CABEI could, with the backing of the United States and countries which might respond positively to these ideas, issue a new currency, a Caribbean Basin SDR, to be used for regional economic development linked to expanded capital ownership and issued exclusively through the lower-tier discount window of the regional central bank as outlined below:

Eligibility for access to the lower-tier discount rate at the regional central bank should be based on the following criteria:

(1) The privilege of discounting "eligible" paper should be limited exclusively to commercial banks declared "eligible" by the regional central bank.

(2) "Eligible" loan paper should be:

- (a) Limited to private-sector productive credit instruments;
- (b) Issued for any commercial, industrial, or agricultural purposes or ventures determined to be economically feasible by the lending bank. (Credit for speculation in securities or commodities, unfriendly acquisitions, consumer or home purchase credit, public-sector programs, or for other non-productive purposes ***should be declared specifically ineligible for lower-tier interest rates***.);
- (c) Designed to be repaid on a self-liquidating basis, primarily through projected future pre-tax profits of the enterprise guaranteeing the loan's repayment;
- (d) Made the direct debt obligation of a capital credit mechanism that is "qualified" for ownership-expanding purposes by the regional bank or some expanded ownership authority approved by the cooperating countries in the region, including an ESOP trust for corporate employees; a general stock ownership corporation (GSOC), a professionally-managed real estate planning and development corporation for spreading equity ownership among residents of development communities; production and marketing cooperatives owned by workers and farmers; and small businesses and family farms which provide all their regular full-time workers with equitable opportunities to share in ownership and profits; consumer stock ownership plans (CSOPs) to spread equity ownership among customers of highly capital-intensive enterprises, like public utilities, cablevision, mass transit systems, etc.; and Village Corporations, for equity participation by rural workers in integrated agro-industrial enterprises;

(e) Collateralized by whatever tangible and intangible assets are to be acquired with the loan proceeds, plus shares of corporate stock to be acquired by an ESOP or other qualified capital diffusion mechanism;

(f) Guaranteed by the general credit of the sponsoring enterprise;

(g) Endorsed for negotiability by the member bank or banks discounting such paper;

(h) Insured to cover the risk of default, when appropriate, by a premium paid by the borrower or the lending banks to a regional central bank-approved public or private capital diffusion insurance company;

(i) Supported, when appropriate, by documented business plans and feasibility studies justifying the need for capital credit; and

(j) Endorsed by every collective bargaining unit representing employees of the sponsoring enterprise whose members are to receive ownership benefits as a result of the loan.

(3) All credit charges (including bank administrative charges and profits, the risk of default, etc.) above the fixed central bank discount rate of 1% or less, would be set by marketplace competition between qualified member banks. While higher-risk loans would naturally cost more, the normal bank mark-up on money to their best business customers would still keep the lower-tier prime rate at about 3%.

(4) The regional central bank could also require that all new currency issued through the lower-tier discount window be matched by "eligible paper," creating an asset-backed currency reflecting the economy's true increases in productive capacity. The central bank could add a 100% reserve requirement for lower-tier participation. This would eliminate the power of member banks under fractional reserve banking to leverage their lending capacity for "non-eligible" purposes with currency supplied at lower-tier rates. The supply of new money would thus be tied closely to real income-producing growth of the economy, thus keeping the region's overall money supply under tightened control of the regional central bank.

Other Advantages of a Two-Tiered System

The two-tiered interest system would not involve tax-payer dollars. No loan funds or interest rate subsidies would come from the taxpayers or in any way increase government borrowings. (In fact, this radical lowering of the cost of money to local banks and their business borrowers--by accelerating growth in private investment, jobs, and productivity should quickly begin to cut government deficits.)

Since the two-tiered interest strategy would strike directly at the underlying causes of inflation--by discouraging excessive demand with higher interest rates and by encouraging maximum production with 3% prime rates or lower--an "inflation premium" would not be justified for capital credit linked to broadened ownership.

"Eligible" commercial banks, not the regional central bank itself, would still scrutinize feasibility of each loan before it was made.

Approved local banks with access to the discount windows of the regional central bank would make all loans and set interest charges to eligible borrowers. Thus, bank lending practices could continue to insulate the central bank from political pressures to favor one borrower over another.

For both the upper and the lower tiers, the market would still determine the cost of money, including bank charges and profits. Bank markups and differential risk premiums which are normally included in interest rates would not be reduced. Both the volume of loans through the commercial and agricultural departments of local banks would greatly expand, along with bank profits. Once commercial loan officers fully understand their expanded role and new business opportunities under the two-tiered credit system, they can be expected to support it. (Today less than 20% of all U.S. new capital formation is financed through commercial banks.)

D. Multinationals Corporations as Primary Vehicles for Accelerating Private Sector Growth Linked to Expanded Ownership

American assistance to the developing countries could be vastly expanded, with reduced taxpayer support, if U.S.-based multinational corporations could be encouraged to link their investments overseas with the expanded ownership objectives called for under the Industrial Homestead Act. [See author's paper ***"The Future of the Multinational Corporation."***] For example, through use of ESOP financing the multinationals would not only convert their foreign employees into capital owners, but in so doing ***would automatically be creating a broadened political constituency for a global common market based on free enterprise principles.*** No troops or foreign aid could offer a more effective safeguard against future expropriations and nationalizations of U.S.-based companies around the world. This would also facilitate the transfer of U.S. know-how and technology in ways that would further peaceful growth and expanded U.S. markets.

THE INDUSTRIAL HOMESTEAD ACT:

NATIONAL INFRASTRUCTURAL REFORMS TO MAKE EVERY CITIZEN A SHAREHOLDER

THE INDUSTRIAL HOMESTEAD ACT:

NATIONAL INFRASTRUCTURAL REFORMS TO MAKE EVERY CITIZEN A SHAREOWNER

[Excerpted from a paper prepared by Norman G. Kurland at the request of the Chief Economist of the National Security Council, May 10, 1982.]

A New Vision for America's Future

Then-Governor Ronald Reagan's sense of justice and common-sense were perhaps best revealed in a July 1974 speech to Young Americans for Freedom:

> "Over one hundred years ago, Abraham Lincoln signed the Homestead Act. There was a wide distribution of land and they didn't confiscate anyone's already owned land. They did not take from those who owned and give to others who did not own. **We need an Industrial Homestead Act. . . .**"

> "[I]t is time to accelerate economic growth and production and at the same time broaden the ownership of productive capital. The American dream has always been to have a piece of the action."

In a February 1975 radio broadcast, Mr. Reagan gave a hint of the global implications of his expanded ownership strategy when he commented:

> "Could there be a better answer to . . . Karl Marx than millions of workers individually sharing in the ownership of the means of production?"

Within the last 8 years, Congress has passed 15 laws encouraging employee stock ownership plans (ESOPs) and over 5,000 companies are gradually spreading equity ownership among their several million workers. [*Editor: Figures cited are for 1982.*] In 1976 the Joint Economic Committee of Congress declared broadened ownership of new capital as a major new economic policy.

Political support for the ESOP has come from both parties and from all across the ideological spectrum. The chief proponent has been Sen. Russell Long, [former] chairman of the Senate Finance Committee. Others who have spoken out in favor of the ESOP concept include such diverse personalities as President Ronald Reagan, Sen. Gary Hart, Sen. Richard Lugar, Sen. Paul Laxalt, Cong. Jack Kemp, Cong. Charles Rangel, Cong. Stanley Lundine, Cong. Bill Frenzel, Cong. Michael Barnes, Cong. Phil Crane, and Cong. Parren Mitchell. While some academics and labor spokesmen have voiced skepticism, citing a few cases where ESOPs were abused, even this resistance is diminishing.

If this is an idea whose time has finally arrived, what's holding it back?

One answer is, it still lacks a comprehensive strategy to lift remaining institutional barriers to free enterprise growth, impediments that have been erected over the last century because of our neglect to link private sector growth with a more just distribution of future ownership opportunities. This is especially true in our capital credit policies.

The second answer is that when our economic decision-makers reform our laws to encourage supply-side growth, they, unfortunately, fail to encourage a direct linkage between new incentives for that growth and new ownership opportunities. This is why the $450 billion in tax incentives for new plant and equipment in the Economic Recovery Act of 1981 were labeled a "trickle-down" version of supply-side economics. ***Had the direct beneficiaries of those tax incentives been the workers, President Reagan's business tax reforms would have enjoyed a much broader base of voter support.***

If we are to rebuild the free enterprise system --from the ground up-- we must insure that more and more citizens have a viable private property stake in the virtually limitless industrial frontier. It is clear, we need an Industrial Homestead Act.

I. AN OVERVIEW

The basic interdependent components of the Industrial Homestead strategy are like the legs of a three-legged stool:

(1) **A simplification of tax systems**, centered around taxing incomes from all sources at a single rate (offering a universal yardstick for political hopefuls to compete against), as a direct means for:

- (a) Balancing national budgets and restraining overall spending, including social security programs;
- (b) Ending the use of the tax system to circumvent the appropriations process; and
- (c) Eliminating double taxation of profits in ways that maximize greater savings and investments in new plant and equipment, plus removing other features that discourage expanded capital ownership.

(2) **Democratization of productive credit**, by reforming monetary policy to conform to supply-side economic goals. The new policies would aim at an immediate reduction in prime interest rates to 3% (without subsidies) for private-sector investment, through a two-tiered base for interest rate policy. Central banks would:

- (a) Be restrained from further monetization of deficits or encouraging other forms of non-productive uses of credit (i.e., demand-side credit), which would then be forced to seek out already accumulated savings at market interest rates; and
- (b) Use the Fed discount mechanism exclusively for discounting, at low discount charges but subject to a 100% reserve requirement, "eligible" industrial, agricultural and commercial paper financed through its member commercial banks. This reform would synchronize the supply of real money with real growth of the econo-

my. It would provide an asset-backed currency reflected in more efficient instruments of production and keep basic economic decisions in local hands.

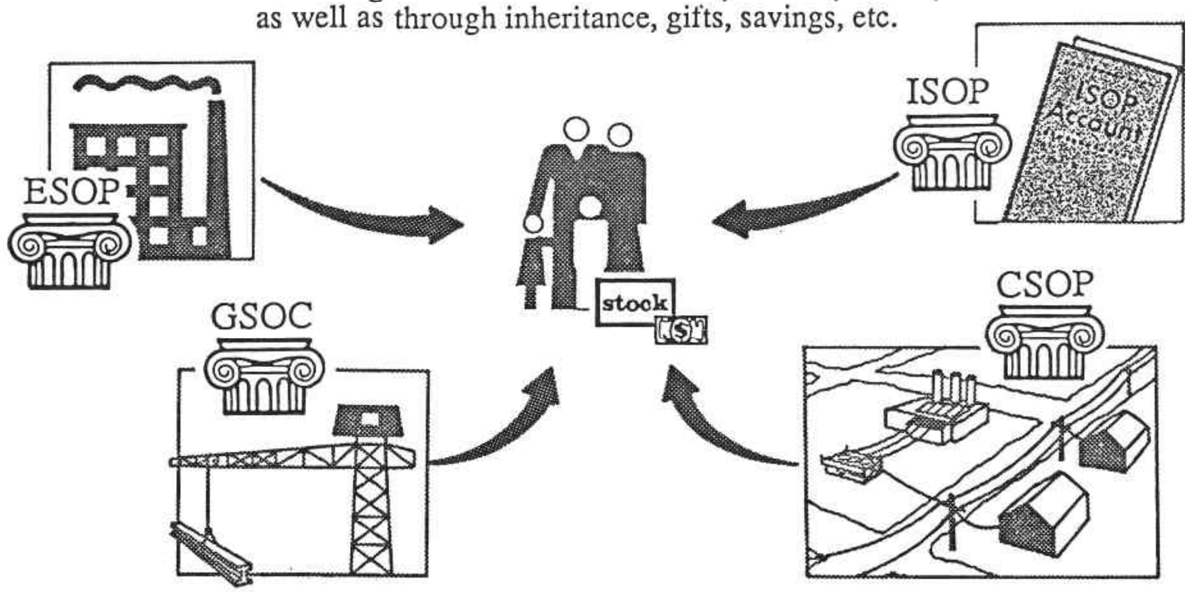
(3) **Linkage between all tax and monetary reforms to the goal of expanded capital ownership.** This would encourage all citizens to accumulate a direct private property stake in a growing industrial frontier and to insure the broadest possible base of direct beneficiaries (and thus political supporters) of all future tax and monetary reforms.

In contrast to social security, this strategy would create for every voter an "Industrial Homestead Exemption" for accumulating over his or her working lifetime a personal estate that would be exempt from income, capital gains, gift, estate and other taxes, a modern equivalent of the 160 acres of land that government made accessible to American pioneers.

Citizens would accumulate their Industrial Homestead shares in many ways, including such "credit democratization" vehicles as: Employee Stock Ownership Plans (ESOPs); Consumer Stock Ownership Plans (CSOPs); Individual Stock Ownership Plans (ISOPs); and General Stock Ownership Corporations (GSOCs, for stock ownership by residents of development areas). These high-powered financing vehicles would link the new monetary and tax incentives for productivity growth under the Industrial Homestead Act, with an ever-expanding base of citizen-shareholders.

Industrial Homesteading:

Through access to low-cost capital credit, citizens would build up their capital accumulations through such vehicles as ESOPs, CSOPs, ISOPs, GSOCs, as well as through inheritance, gifts, savings, etc.



II: DESIGN PRINCIPLES AND GUIDELINES

To shift the Federal Government's role from today's income redistribution policies to the more limited and healthier role of encouraging "economic justice" through free enterprise growth, an Industrial Homestead Act should begin establishing:

- **National Ownership Goals and Targets.** Set a realistic long-term target, based on the nation's industrial growth potential, to achieve a minimum Industrial Homestead Stake for every American family, perhaps $100,000 by the year 2000. [*Editor: Projection cited for 1982.*]

- **Industrial Homestead Exemption.** Establish a personal "Industrial Homestead Exemption" (perhaps $500,000 per individual), thus providing every American an opportunity to accumulate over his or her working lifetime an income-producing, space-age equivalent of the 160 acres of land offered to landless Americans under the original Homestead programs, free from capital gains, inheritance, and gift taxes.

- **Positive Policies for Private Sector Growth.** Re-create the conditions that resulted from the first Homestead Act of 1862; full employment and declining prices and a broad distribution of property ownership.

- **Planning for Maximum Growth, with a Balanced Budget and Zero Inflation Rate.** Implement a peacetime counterpart of World War II's War Industrialization Board to bring together America's finest minds and prime movers to recommend ways to achieve a balanced Federal budget and a zero inflation rate under the Industrial Homestead Act, including reasonable national ownership targets and priorities.

- **Anti-Monopoly Reforms.** Link all economic reforms to methods that discourage privileged access to or monopolistic accumulations of private property ownership of the means of production.

- **Democratization of Federal Reserve Credit.** Reform Federal Reserve monetary policy (especially its power to discount "eligible" commercial, industrial, and agricultural paper) to bring about a two-tiered, non-subsidized interest rate structure within member banks of the Fed. This reform would encourage more widespread individual access to lower-cost bank credit for ownership-expanding private-sector productivity growth, while continuing to allow savers to receive market interest rates for non-productive or ownership-concentrating uses of credit, including government deficits.

- **Liquidity for Local Banks.** Supply sufficient money and credit through local banks to meet the liquidity and broadened ownership needs of an expanding economy, subject to appropriate feasibility standards administered by the banks.

- **A Tax System More Accountable to Taxpayers.** Radically simplify the existing Federal tax system in ways that make Congress more directly accountable and responsive to all taxpayers.

- **Removal of Tax Obstacles to Broadened Ownership.** Eliminate tax provisions that unjustly discriminate against or discourage property accumulations and investments incomes.

- **Reduced Growth of Social Security System.** Supplement and reduce growth of the Social Security System, by enabling every American to accumulate (through inheritances, gifts, ESOPs, IRAs, and other expanded ownership vehicles sheltered from taxes under the "Industrial Homestead Exemption") sufficient wealth-producing assets to provide each person with a taxable property income, independent of Social Security benefits and incomes from other sources.

- **Pro-Competition Policies.** Remove economic bottlenecks to effective market competition so that just prices, just wages and just profits can be controlled by the laws of supply and demand, rather than by central planners, by fiat or regulation, by government-sanctioned monopolies, or by other coercive pressures.

- **A Market-Driven Wage and Price System.** Gradually eliminate rigid, artificially-protected wage and price levels and other restrictions on free trade, which afford special privileges to some industries, businesses and workers at the expense of American and foreign customers of U.S. products.

- **More Just Social Contract for Workers.** Focus top priority during the next decade on developing a more just "social contract" for persons employed in the private sector, geared to maximum ownership incentives, so that instead of inflationary "wage system" increases, all employees can begin to earn their future gains increasingly through production bonuses, equity accumulations, and profit earnings linked to their personal efforts and to the productivity and success of their work team and the enterprise for which they work.

- **Restoration of Property Rights in Corporate Equity.** Restore the original rights of "private property" to all owners of corporate equity, particularly with respect to the right to profits and in the sharing of control over corporate policies, while still safeguarding the traditional functions of professional managers.

- **More Harmonious Industrial Relations.** Promote the right of non-management employees to form democratic trade unions and other voluntary associations for negotiating and advancing their economic interests, including their ownership rights, vis-a-vis management.

- **Expanding Equity Opportunities for Farm Families.** Preserve the family-owned farm as a basic unit for maintaining self-sufficiency in meeting America's food supply, while discouraging the spread of conglomerate and foreign takeovers of prime agricultural lands. Equity sharing among dozens of farm families working together in large corporate agribusinesses would update the "family farm" concept.

- **Phasing-out of Agricultural Subsidies.** Assist farmers who wish to associate together voluntarily in cooperatives and in enterprises jointly owned by farmers and workers, including integrated agribusinesses, for supplementing their farm incomes and reducing the need for subsidies.

- **Incentives for Research and Development.** Encourage special ownership incentives for those engaged in research and development, especially in the search for new sources of energy and laborsaving technology.

- **Conservation of Resources.** Develop new methods of conserving and recycling non-replenishible and limited natural resources that are vital to society's long-term survival, until suitable substitutes can be discovered and developed.

- **Property Incomes for Public Servants.** Provide America's military, policemen and firemen, teachers, and other public employees with a growing and more direct equity stake in the free enterprise system, both as a supplement to their costly pension plans and so that they will better understand and defend the institution of private property.

- **Privatization of Public Sector.** Privatize government-owned enterprises and services, to the maximum feasible extent, by offering their employees (and customers in capital-intensive operations like TVA) opportunities to take over their ownership and control.

- **Prototype Policy Reforms for Local and Foreign Governments.** Set a model for State and local governments and other countries to promote widespread capital ownership as a major goal for their citizens.

- **Localized Free Enterprise Zones.** Launch several broadened ownership demonstrations, possibly in areas of high unemployment (like the proposed "free enterprise zones") to evaluate the proposed Federal Reserve reforms, innovative broadened ownership mechanisms and advanced concepts of worker participation in decision-making and self-management.

- **New Challenges for Multinationals.** Provide special encouragement to U.S.-based multi-national corporations to become instruments of peace and a more just world economic order, by broadening access to their ownership base to all citizens of the world community, especially for exploiting the resources of the sea and other planets.

III. BASIC VEHICLES FOR IMPLEMENTATION

Ownership is largely determined by access to capital credit. Just as society can structure its laws and institutions to concentrate ownership, society can reform its laws and institutions to decentralize ownership. Similarly, future corporate credit can be used to build more ownership into the same tiny group of present shareholders. Or access to corporate credit can become democratized to create new owners.

The Employee Stock Ownership Plan

One powerful ownership-expanding technique, known as the Employee Stock Ownership Plan (ESOP) provides widespread access to capital credit to each employee in a company on a systematic basis. Technically, the ESOP uses a legal trust that is "qualified" under specific U.S. tax laws encouraging employee ownership. Thus, while it is closely policed by the Internal Revenue Service and the Department of Labor to insure that the ownership plan operates in ways beneficial to employee-owners, the ESOP provides special tax privileges and incentives for the company, existing owners, and the employees. Fortunately, the laws are extremely flexible, so that each plan can be tailored to fit the circumstances and needs of each enterprise, and deficiencies in the design of an ESOP can easily be corrected.

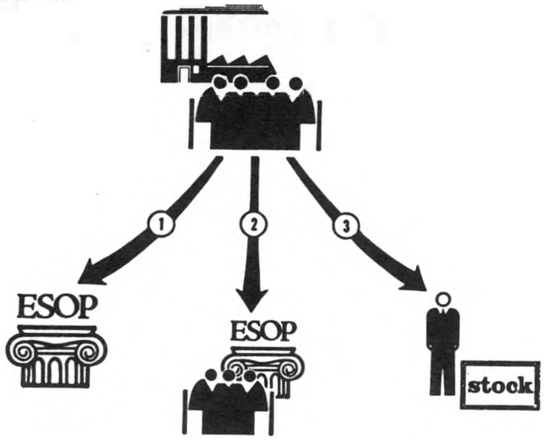
What is an ESOP? An ESOP may be designed to combine many elements into a single package. It is an employee benefit program. It is a tax-deferred means for workers to accumulate equity. It can be an incentive and productivity program for all employees. It can be a retirement program. It can be a new reward system, working best when a modest base salary is supplemented with cash bonuses and equity shares, linked to the proceeds of the operation. It can be a two-way accountability and communications system between management and non-management employees. It can be a means for workers to participate both as workers and as stock-holders in corporate direction. It can be an in-house tax-exempt stock exchange, for both new equity issuances and repurchase of outstanding shares. It can offer workers a source of current dividend incomes. An ESOP can be all of these and more; but ***one of its most unique features is that it is a basic innovation in corporate finance.***

An ESOP is the only tool in the world of investment finance that can create new owners and generate new sources of capital credit for corporate growth or transfers of ownership, while insulating these new owners from direct personal risk in the event of default and allowing repayment of the entire debt with pre-tax corporate dollars.

The leveraged ESOP operates in this way: it channels capital credit through a trust representing employees, from the ***same sources*** and subject to the ***same feasibility standards*** and corporate guarantees as direct loans to the corporation. The loan funds are used to buy stock for the workers, either from present owners or for financing expansion or modernization of the corporation. The loan to the trust is wholly secured by and repaid with future corporate earnings. Normally, the workers make no cash outlay from payroll deductions or their savings, and none of their present savings is at risk. Shares of stock are allocated to the individual accounts of workers only as blocks of shares are "earned;" i.e., the company contributes cash out of future pre-tax profits to the trust. The cash, which is treated as a tax-deductible employee benefit, is used to repay the stock acquisition loan. Whereas traditional uses of leveraged corporate credit work only for present owners, the ESOP uses corporate credit to convert its workers into stockholders. Thus, the magic of self-liquidating capital credit can be used to lift more individuals into an expanding ownership system.

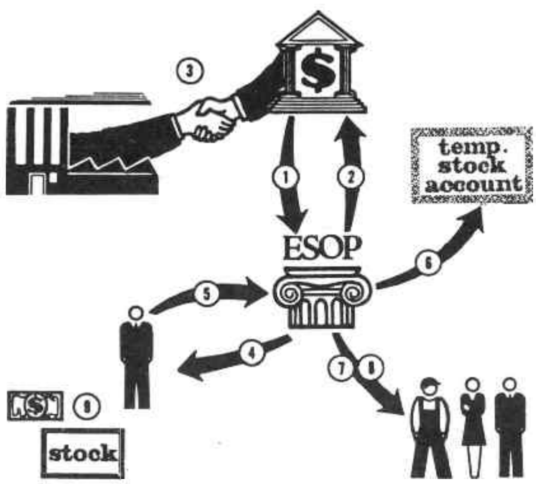
These charts show how the ESOP is used to enable workers to buy existing shares:

STAGE 1:
STOCK CORPORATION FORMS ESOP



1. Board approves ESOP.
2. Appoints ESOP trustees.
3. Approves purchase by ESOP of seller's shares.

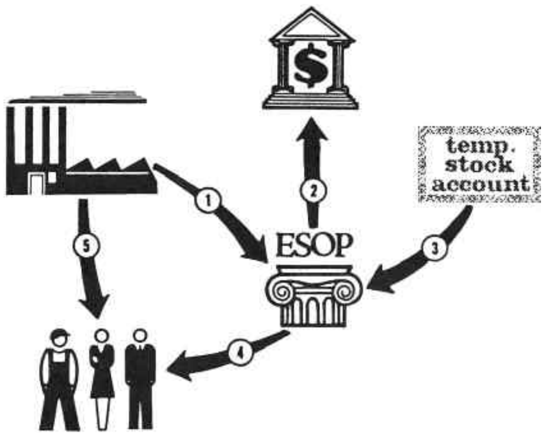
STAGE 2:
EXISTING STOCK PURCHASED WITH LOAN TO ESOP



1. Bank loans money to ESOP at reduced interest rates.
2. Trust signs note to bank.
3. Corporation guarantees to make contribution to ESOP to repay loans.
4. ESOP pays seller for shares.
5. Seller transfers shares to ESOP.
6. Shares pledged as collateral or held in suspense account.
7. ESOP accounts set up for each employee.
8. Credit purchase requires no cash or guaranty by employees.
9. Seller avoids capital gains taxes by buying new shares in another company

STAGE 3:

COMPANY PAYS OUT PROFITS FOR REPAYING BUYOUT LOAN, BONUSES, AND DIVIDENDS AS NEW EMPLOYEE BENEFITS



(1) Company makes annual contribution and dividends to ESOP for loan repayment (tax deductible).

(2) ESOP pays annual principal and interest due on loan.

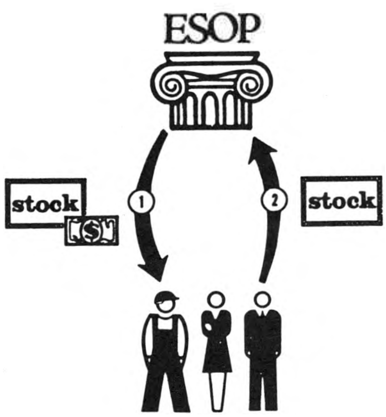
(3) Shares released for annual allocations.

(4) Released shares allocated and held in ESOP accounts of participants (non-taxable).

(5) Distribution of monthly and annual cash bonuses and dividends, if available.

STAGE 4:

DISTRIBUTION OF VESTED SHARES UPON RETIREMENT OR TERMINATION



(1) Distribution of cash and ESOP shares (taxable).

(2) Sale of distributed shares at appraised fair market value.

A well-designed ESOP clarifies subtle distinctions between "ownership," "management," and "worker participation." Operationally under an ESOP, day-to-day control remains in the hands of professional managers who, under a carefully designed system of checks and balances, simply become accountable to a broader shareholder base, including other workers, and a more broadly representative board of directors.

Employee stock ownership, therefore, involves a delicate balancing of the goal of efficiency with that of justice, and the goal of continuity of the firm with accountability of management to its new owners. It simply applies the genius of the republican form of government to the business world.

THE ADVANTAGES OF A SALE TO AN ESOP

FOR THE WORKER:

- ELEVATES THE DIGNITY AND STATUS OF EACH WORKER TO THAT OF AN OWNER.
- DIVERSIFIES WORKERS' INCOME BEYOND WAGES ALONE TO INCLUDE PROFIT SHARING BONUSES, STOCK ACCUMULATIONS, DIVIDEND INCOME AND THE PARTICIPATORY RIGHTS OF A SHAREHOLDER IN THE COMPANY.
- NO TAXES ON THE EQUITY ACCUMULATIONS UNTIL SHARES ARE DISTRIBUTED FROM THE ESOP TRUST, GENERALLY UPON RETIREMENT.
- PROVIDES WORKERS AS A GROUP WITH ACCESS TO PRODUCTIVE CREDIT FOR "LEVERAGED" PURCHASES OF UP TO 100% OF ALL SHARES OF THEIR COMPANY'S EQUITY, SECURED AND REPAYABLE OUT OF FUTURE PROFITS.
- JOB SECURITY CUSHIONED DURING BAD YEARS BY FLEXIBLE OWNERSHIP INCENTIVES LINKED TO PRODUCTIVITY AND PROFITS.
- GREATER HARMONY AND COOPERATION BETWEEN MANAGEMENT AND NONMANAGEMENT WORKERS.

THE ADVANTAGES OF A SALE TO AN ESOP

FOR THE SELLER:

- LEAVES CONTROL OF COMPANY IN FRIENDLY HANDS.
- REWARDS LOYAL WORKERS WHO CONTRIBUTED TO BUSINESS SUCCESS.
- CREATES AN IN-HOUSE MARKET FOR TOTAL OR PARTIAL EQUITY SALES.
- TAX-EXEMPT CAPITAL GAINS — TAX INCENTIVES PERMIT A TAX-FREE INVESTMENT ROLLOVER FOR OWNERS WHO SELL THEIR SHARES OF STOCK TO AN ESOP AND USE THE PROCEEDS TO INVEST IN OTHER SECURITIES.*

*SUBJECT TO FAVORABLE OPINION OF SELLER's TAX ADVISORS AND COUNSEL

THE ADVANTAGES OF A SALE TO AN ESOP

FOR THE COMPANY:

- DISCOUNTED INTEREST RATES — LENDERS CAN REDUCE CREDIT COSTS ON LOANS TO ESOPS WHICH RESULT IN LOWER INTEREST RATES FOR CAPITAL GROWTH AND EQUITY TRANSFERS.
- EASIER DEBT SERVICE — LOWER INTEREST PLUS THE FULL DEDUCTIBILITY OF LOAN PRINCIPAL AND INTEREST REPAYMENTS MAKES DEBT SERVICE EASIER.
- POSITIVE CASH FLOW — BOTH TAX SAVINGS AND REDUCED INTEREST COSTS PRODUCE ADDED CASH FOR THE COMPANY.

THE ADVANTAGES OF A SALE TO AN ESOP

FOR THE LENDER:

- LENDERS (BANKS, INSURANCE COMPANIES AND MUTUAL FUNDS) CAN CHARGE LOWER INTEREST COSTS ON LOANS TO ESOPS AND GAIN ADDED SECURITY FROM THE ABILITY OF THE ESOP TO SERVICE ITS ENTIRE DEBT, PRINCIPAL AND INTEREST, ON PRE-TAX CORPORATE DOLLARS.
- MORE HARMONIOUS LABOR-MANAGEMENT RELATIONS FURTHER ENHANCES SECURITY OF DEBT REPAYMENT.

THE ADVANTAGES OF A SALE TO AN ESOP

FOR THE GOVERNMENT:

- REDUCED POLITICAL PRESSURES FOR SUBSIDIES, PUBLIC SECTOR PAYROLLS AND FISCAL DEFICITS.
- EXPANDED PRIVATE SECTOR PRODUCTIVITY AND A BROADER BASE OF TAXATION FROM RISING PROPERTY AND JOB INCOMES AMONG WORKERS.
- A BROADER POLITICAL CONSTITUENCY AGAINST REDISTRIBUTIVE TAXATION AND OVER-REGULATION OF BUSINESS.

The Individual Stock Ownership Plan: A High-Powered IRA

Individual Retirement Accounts (IRAs) and Keogh Plans for the self-employed could be transformed into Individual Stock Ownership Plans (ISOPs). This would require amending tax and securities laws to provide each citizen with the same tax and credit treatment now provided to corporate employees through ESOPs. These tax-free accumulation devices could be structured to provide access to low-cost capital credit to all Americans through their local banks. Thus, individuals, including those not employed in the private sector, could purchase on non-recourse credit a diversified portfolio of new SEC-qualified equity issuances, as an alternative method for financing the growth of American industry. Like the ESOP, this stock acquisition credit would be secured and repayable wholly with pre-tax corporate earnings, assuming that higher dividend payouts were encouraged by making them deductible as proposed below.

The Consumer Stock Ownership Plan

Similarly, a Consumer Stock Ownership Plan (CSOP) could be structured for regular customers of such capital-intensive regulated enterprises as electric utilities, mass transit systems, cablevision systems, and other natural monopolies. Again, using low-cost capital credit, these companies would have new sources for financing their equity growth, while turning their customers into new stockholders. The stock acquisition credit for CSOP participants would be repayable with their share of future profits, in the form of tax-deductible patronage bonuses and/or dividend payouts. After paying for the stock, dividends and patronage bonuses earned by the customers would help to offset their utility bills.

The General Stock Ownership Plan

The General Stock Ownership Corporation (GSOC) was added as Subchapter U of the Internal Revenue Code by the Revenue Act of 1978. As enacted, all citizens of a State could become stockholders of such massive projects as an Alaskan gas pipeline. The present law is so unwieldy that no State has adopted a GSOC despite its many attractive ownership incentives. The GSOC mechanism, however, is extremely feasible if applied at a local community level, particularly if used as a real estate planning and development corporation, financed so that all present and future residents could become stockholders, as proposed below in connection with "free enterprise zones" initiatives (Paragraph 17, "Specific Tax Reforms Recommended").

IV. SPECIFIC RECOMMENDATIONS

A. THE TAX COMPONENT

Objectives of tax reform

1. To make Congress more directly accountable and responsive to all taxpayers.

2. To improve structural restraints within the

tax system on government growth and spending by creating a direct linkage between tax rates and budgetary changes.

3. To encourage savings and investment and otherwise favor growth in the competitive free enterprise system as the direct distributor of consumption incomes for American workers and retired citizens.

4. To reduce and gradually eliminate all redistribution features within the current tax system, including Social Security, except for income exemptions and an income "safety net" for the genuinely poor.

5. To simplify the overall tax system to improve taxpayer feedback and understanding and to make it less costly to administer.

6. To produce neutrality in the taxation of consumption incomes from all sources, and otherwise remove all distinctions between "earned" and "unearned" incomes.

7. To stimulate expanded opportunities for all Americans to acquire, accumulate, and receive incomes from direct equity participation in new and growing enterprises.

8. To abandon today's complicated mixture of tax penalties and discriminatory tax brackets, offset by special tax subsidies, credits and privileges affecting property, wealth accumulations, new productive investments, and so-called "unearned" income, and replacing these tax gimmicks with simple "escape hatches" designed to encourage expanded private sector investment and productivity incentives linked to broadened ownership participation.

9. To eliminate the inflationary impact of the tax system itself on the costs of American produced goods and services, and to remove artificial tax increases (e.g. "bracket creep," inventory adjustment profits) wholly due to inflation.

10. To integrate the corporation and personal income tax systems by:

    (a) eliminating the double and triple penalty tax on corporate profits;
    (b) encouraging fuller dividend payouts and
    (c) attributing non-reinvested corporate earnings as incomes taxable to shareholders.

11. To eliminate:

    (a) the tax penalty on married couples;
    (b) personal deductions (except for tax deferrals and exemptions for savings and investments);
    (c) tax credits;
    (d) tax-free interest on public-sector financing;
    (e) tariffs on imported goods;
    (f) tax shelters for speculative and non-productive investment;
    (g) all forms of indirect taxes not based on consumption incomes.

12. To eliminate the effect of inflation on gains from the sale or exchange of homes, farms and other productive assets.

13. To encourage home ownership as an investment by allowing deductions of mortgage payments on homes but treat "imputed rent" as a form of taxable consumption income.

14. To expand the use of Individual Retirement Accounts (IRAs) as a mechanism for enabling all individuals to accumulate income-producing assets on a tax-deferred and/or exempt basis and permit IRA's, like employee stock ownership plans, to be used for acquiring corporate shares on credit secured and repaid with tax-deductions from future earnings.

15. To relieve pressure on the Social Security System by establishing a lifetime personal "Industrial Homestead Exemption" to enable every American to accumulate (through ESOPs, IRAs, etc.) an adequate estate of wealth-producing assets to provide them with taxable property incomes to supplement incomes from other sources.

16. To move toward the deconcentration of capital ownership in private hands for future generations of Americans by replacing estate and gift taxes with a tax on the amount that the recipient does not keep in the form of an income-producing investment or on an amount in excess of the "Industrial Homestead Exemption" mentioned in (15) above.

Specific Tax Reforms Recommended

1. Replace the graduated tax on personal income with a **single flat rate** on income from all sources, whether "earned" or "unearned," including employment and property incomes, interest, dividends, inflation-indexed gains from sales and exchanges of property, unemployment compensation and welfare, social security and pension incomes, gifts and bequests [that are not reinvested or exempted by the "Industrial Homestead Exemption" described in paragraph (12) below], gambling, etc.

2. Eliminate all existing deductions and tax credits to businesses and individuals, except:

   a. Ordinary and necessary business expenses, including full and immediate deductions for current expenditures or full debt service payments to replace existing productive assets and otherwise to maintain current levels of profitability and productivity.
   b. All incomes channeled by businesses or individuals into the financing of business growth or transfers of equity ownership through employee stock ownership plans (ESOPs), individual retirement plans (IRAs), pension plans, Keogh plans, or other IRS-"qualified" expanded ownership investment vehicles, but in no case where such amounts cause the accumulations of individual beneficiaries to exceed the "Industrial Homestead Exemption" described in paragraph (12) below. These "savings" could be treated as tax deductible by either the businesses or individuals that make them.

3. Allow the full deduction of the purchase price or the current mortgage payment (principal as well as interest) for the purchase of a home. However, add the "imputed rent" of each dwelling of a taxpayer to his annual taxable earnings in order to provide neutrality between renters and owners.

4. Exempt all household incomes of the genuinely poor by excluding from the flat rate tax all incomes below $2,000 to $3,000 per household member.

5. Allow corporate dividends to be deductible at the corporate level to the extent they are paid out currently to stockholders or are used to repay loans for purchasing newly issued stock or stock ownership transfers through ESOPs, IRAs or similar "qualified" expanded ownership mechanisms.

6. Tax all dividends and interest income at the personal level without exclusions to the extent the taxpayer's total income from all sources exceeds the exemption levels for the poor.

7. Exempt all capital gains from taxable personal income to the extent that:

   a. The taxpayer's gains are reinvested within 60 days (or 18 months for a home) into income-generating investments held within an IRS-qualified capital accumulation mechanism (e.g. ESOP, IRA, etc.) but not exceeding the "Industrial Homestead Exemption" listed in paragraph (12) below.
   b. The taxpayer's spendable gains are equal to or less than the inflation-adjusted value of the assets during the period over which the assets were held before being sold.

8. Maintain a tax on corporate net earnings but only to the extent they are not paid out as dividends, cash productivity bonuses, ESOP and profit sharing contributions, purchases or debt service payments on replacement assets, etc.

9. Business expenses would remain deductible as under present laws.

10. Depreciation rules would be liberalized by allowing:

    a. Full first year deductions on all purchases of replacement assets (to maintain existing levels of productivity and profits).
    b. Full debt service deductions on credit to acquire replacement assets.
    c. Full dividend deductibility, thus permitting stockholders to purchase newly issued corporate shares with profits deductible both from corporate as well as personal earnings. In the alternative, stockholders as well as employees through ESOPs could use these tax-deductible dividends to repay loans for the acquisition of larger blocks of stock on a leveraged basis.
    d. Expanded use of tax-deductible contributions to a leveraged ESOP for financing new equity issuances representing growth capital of the company. This would effectively allow the current expensing of annual debt service payments for growth financing through the company's ESOP.

11. Allow the tax advantages of a leveraged ESOP to be extended to all taxpayers through IRS-qualified IRAs, to utility customers under consumer stock ownership plans (CSOPs), and to citizen-members of State and local General Stock Ownership Corporations (GSOCs).

12. Integrate with the Social Security System a tax-exempt "Industrial Homestead Exemption" to encourage every man, woman, and child to accumulate through ESOP rollovers, Keogh Plans, IRAs, gifts, bequests, savings, etc., a personal life-time estate of wealth-producing assets, aimed at providing all Americans with growing property incomes and direct ownership participation in the competitive free enterprise system. To establish a long-range target and to motivate working Americans to maximum rates of investment and productivity, this "minimum

floor of capital self-sufficiency" should be set high, perhaps $500,000 worth of accumulated investments per American during his lifetime, as the rough equivalent of the value of 160 acres of productive farmland today, the size of land granted under the original Homestead Acts.

13. Eliminate all contribution limits on "savings" through ESOPs, IRAs, Keogh Plans, etc., until individual accumulations exceed the proposed Industrial Homestead Exemption.

14. Provide for the tax-free rollover of the proceeds from the sale of a small business to an ESOP where the proceeds are reinvested in another small business within 18 months, thus encouraging employee participation in ownership as well as providing a new source of equity financing for new and growing businesses.

15. Allow an ESOP to assume the estate tax liability for the value of employer stock transferred to an ESOP by the executor of an estate, provided the company guarantees payment of the tax over a seven year period. (Contained in several bills before Congress.)

16. Permit an ESOP to be treated as a charitable organization for income, gift, and estate tax purposes provided the donated stock is not allocated to the donor, family members of the donor or 25 percent shareholders. (Contained in several bills before Congress.)

17. Amend Subchapter U of the Internal Revenue Code to allow the use of General Stock Ownership Corporations (GSOCs) for land planning, acquisition and development of "free enterprise zones" so as to encourage comprehensive, large-scale development of an area combined with widespread participation among residents in the ownership, profits, and appreciated real estate values that would otherwise flow exclusively to outside land speculators. (Several members of Congress are now seriously considering this and other "expanded ownership" linkages to the enterprise zone concept.)

18. Absorb the annual cost of the Social Security System entirely within the single flat rate income tax imposed on all taxpayers. As expanded growth and expanded ownership provide noninflationary property incomes for retiring Americans, social security benefits can become stabilized and perhaps reduced eventually.

19. Move toward a balanced budget by adjusting the flat rate income tax proposed in paragraph (1) to a single percentage rate that all taxpayers will pay on their non-exempt incomes anticipated for that year to cover all budgeted Federal expenditures for the same year. The single rate tax can be adjusted from year to year, but its very existence will create a highly focused pressure on Congress to keep the flat rate as low as possible.

Note: The tax-favored corporate payouts listed above ***should not be labeled "tax subsidies,"*** *any more than deductible wage costs are "subsidies" to employers. Tax-deductible profit distributions, as proposed here, represent structural reform of the tax system. These tax deductions are designed to eliminate the unjust "double tax" penalty on corporate profits, by integrating the corporate income tax with the personal income tax, while exempting reasonable property accumulations to meet the Nation's income security goals.*

B. THE MONETARY COMPONENT

The Logic of Corporate Finance: The Source of the Problem and the Key to Broadened Ownership of New Capital Formation

Self-liquidation is the logic of corporate finance. In general, newly formed industrial capital (improved land, new structures, advanced machines and tools) is never brought into existence unless the new investments will pay for themselves, generally 3 to 5 years as a rule of thumb. By projecting its future earnings or "future savings," as Simon Kuznets has pointed out in his book, ***Capital in the American Economy: Its Formation and Financing***, a business will incorporate financing methods that will enable it to acquire the ownership of capital instruments before it has saved the funds to buy and pay for them. This is the purpose of finance. It is the meaning of "feasibility" in the investment world.

After the initial cost of investment is paid, of course, its equity resides wholly in its owners and is expected to earn additional profits for them indefinitely. (Through depreciation accounting, a company sets aside enough funds out of its gross earnings before net profits are even computed, thus preserving through physical maintenance and replacement the property rights of owners in already accumulated capital assets.)

Once feasibility is established, corporations become eligible to attract external credit from commercial banks. The funds may come from other people's savings or, as will be explained below, from expanded bank credit.

In contrast to consumer credit, loans for investment purposes are secured by the general credit of the corporation itself and are non-recourse to the eventual equity owners of new capital.

In other words, the corporation is a "social tool" which affords legal insulation against personal liability to corporate stockholders in the event of default by the corporation on its loans or other obligations. This is its major function. It explains why society uses the corporations to produce most of our wealth. Stockholders benefit from corporate credit but at no personal risk to themselves or other investments.

Because the logic of corporate finance--self-liquidating credit--has never been extended to non-owners, it is self-evident why Karl Marx noted that "capital tends to breed capital," making the rich richer and keeping the workers propertyless throughout their lives. Traditional methods of corporate finance--basically retained earnings and external credit--are the root cause of the highly concentrated ownership patterns in all free enterprise economies. Roughly 95 percent of all American households have little or no direct ownership stake in U.S. enterprises of any income significance. Access to direct equity participation, for those who can afford it, comes mainly from the public market in already outstanding securities, whose values are highly-susceptible to manipulation by the rich and by large institutional investors.

Even worse, unless we develop alternative modes of corporate finance, today's ownership concentrations can only worsen. Virtually all future capital--from \$3 to \$5 trillion needed in this decade--will become owned automatically by the same ownership class. The political climate for forceful redistribution and nationalization of our largest enterprises will correspondingly increase.

Since access to corporate credit determines whether the few or the many will share directly in the ownership of our corporate sector's growth potential, Industrial Homestead reforms would promote innovative modes of corporate finance [described in Part III, "Basic Vehicles for Implementation"]. These vehicles would dramatically restructure future ownership opportunities within private sector corporations, while making new equity issuances more attractive as a source of expansion capital.

"Pure Credit": An Untapped Source of Low-Interest Credit to Build Market Power into Consumers Based on Broadened Capital Ownership of New Capital

"Where will the money come from?" is a common reaction to those encountering the expanded ownership theories for the first time. After all, the U.S. economy needs between \$3 to \$5 trillion during the next decade and it does not appear, according to the projections made by the Chase Manhattan Bank and other observers, that Americans will be able to accumulate enough savings to purchase all that new capital.

The answer is "pure credit," or newly-created credit. "Pure credit" is a civilized society's ultimate weapon in the war against unjust concentrations of wealth and economic power. And it already exists in the hands of the Federal Reserve Board of Governors, waiting to be used for meeting our projected capital shortfalls and for democratizing the ownership base of the U.S. economy in the process.

Paper money, such as Federal Reserve Notes, are "pure credit" instruments. Central bankers, such as the Board of Governors of the Fed, have the exclusive power to manufacture units of currency, which represent liabilities and promises made by the Fed. Properly issued, modern money is a lubricant (medium of exchange) for conducting transactions and is supposed to be a dependable yardstick for measuring economic values in the marketplace. Money facilitates credit transactions.

"Pure credit" is essentially based upon the legal concept of "promise" and the enforceability of contracts, two main ingredients of a free and orderly economy. Pure credit is nothing really more than the power of people (including legal associations of people, like corporations and the Fed itself), to contract freely with one another under a system of law which enables everyone affected by the contract to enforce their rights and claims over property under the contract. It involves elements of volition as well as control. It is limited only to the extent that people, their associations, and government itself makes promises they cannot keep. And since promise is the "glue" that holds any society together and determines how confidently people view the future, the making and breaking of promises determines whether that society is strong or weak, orderly or disorderly, growing or disintegrating.

Credit by its very nature is a social phenomenon. Control over productive credit will determine in large measure the nature and quality of America's future industrial frontier as well as its future ownership distribution patterns. Because credit is so essential to participation in a free enterprise market economy and to the acquisition of private property, ***a denial of credit amounts to a denial of one of the most fundamental of human rights,*** the right to own and accumulate property.

Moreover, in a society where the ownership of productive capital is so crucial to freedom and human happiness, unjust discrimination among citizens as to who has access to capital credit constitutes as gross a violation of equal protection of the laws as discrimination in access to the ballot.

What Americans are beginning to discover is that such a violation of our fundamental constitutional rights is taking place daily on a systematic basis and the culprit is no less than our present Federal Reserve System. It manufactures capital credit which flows to the already rich, and ever more burdensome consumer credit to propertyless workers. Little wonder that there is increasing political sentiment in Washington to bring the Nation's central banker under greater public scrutiny and control.

The way credit is used, the persons to whom it is made available, and the purposes for which it is used are proper subjects of governmental policy. The "social costs" of maintaining an efficient credit system and who will pay those costs can thus also be legitimate subjects of governmental regulation. In this light, the government can determine the appropriate Federal Reserve discount rate as a "service charge" for supplying new currency needed for expanding commercial bank credit to meet the growth needs of the economy.

When the "full faith and credit" of government stands behind the Nation's currency and the demand deposits in our commercial banking system, this involves "pure credit" in the ultimate sense. Government, by controlling the total volume of currency and commercial bank credit needed to facilitate economic transactions, controls the direction of private enterprise. Government also has the power to be "lender of last resort" under our Constitution, if that becomes necessary.

When the government abuses its money-creating powers, we have inflation and a breach of one of government's most important "promises" to its citizens, that the value of its currency will remain constant. And when government does not keep this basic promise to its people, all debts are jeopardized, property is arbitrarily redistributed to debtors from creditors, and all other promises that hold society together also become difficult to keep. "Trust" is gone.

Today, the Fed has no productive assets supporting the U.S. currency, only liabilities in the form of Treasury paper supporting liabilites in the form of paper currency. The Fed prints money hoping that still unborn generations will be able to support wasteful government spending of the past. It is only a matter of time before this bubble bursts.

If it is the source of the problem, the Federal Reserve System--government's main instrumentality for controlling the costs and volume of "pure credit" extended through the commercial banking system--is also the source of the cure for inflation. It can play the central role in restructuring the future ownership patterns of the economy, while leaving the actual allocation of credit in the hands of commercial bankers.

In his book, ***The Formation of Capital*** (1935), Harold G. Moulton, former president of the Brookings Institute, laid the theoretical foundation for the "pure credit" monetary policies first developed by Louis Kelso and refined by this author. [See ***"A New U.S. Monetary Policy for Fighting Inflaton and Financing Growth of U.S. Productivity Through the Private Sector,"*** Norman G. Kurland, August 2, 1974.] Moulton pointed out that ***economic growth did not depend exclusively on past accumulated savings***, that there need not be a tradeoff between expanded consumption and expanded investment. Growth could instead by based on transforming waste (in human and technological potential) into useful production, ***based on future saving and future profits.***

Moulton posed the question, "Where could funds be procured for capital purposes if consumption was expanding and savings declining?" Most economists assert there can be no growth without savings, unless we cut back on consumption. Moulton answered his own question:

> "From commercial bank credit expansion. Such expansion relieves the possibility of shortage in the 'money market' and enables business enterprises to assemble the labor and materials necessary for the construction of additional plant and equipment." (Page 107)

The real limits to expanded bank credit, Moulton added, were physical ones: unused capital resources and raw materials, an unemployed work force, unutilized plant capacity, and ready markets for new capital goods and new consumer goods. His study of one of the fastest growth periods of U.S. economic history, 1865 to 1895, revealed that while bank reserve requirements remained relatively constant, the volume of commercial bank credit outstanding rose substantially but price levels actually declined for the period by about 65 percent. (Pages 87, 116)

Moulton also demonstrated that even in periods of great business activity, our productive energies are normally underutilized; there is always some slack in the system. Adherents to the "Phillips Curve" to the contrary notwithstanding, Moulton proves that we can have rapid growth without inflation. And, on the opposite side of the coin, also to the chagrin of many economists, we can also have rising prices alongside recession, as we recently experienced for the first time in 1974.

Moulton's conclusion is worth noting:

> "[T]he expansion of capital occurs only when the output of consumption goods is also expanding; and . . . this is made possible by the [simultaneous] expansion of credit for production purposes." (Page 118)

Unfortunately, Moulton failed to carry the connection between expanded bank credit and expanded capital creation to the next logical step forward: the expansion of the base of capital ownership and capital income distributions as a new, more direct, and more efficient source of mass buying power to absorb future outputs of final consumption goods. But Louis Kelso fortunately picked up where Moulton left off.

The Discounting of "Eligible Paper": The Federal Reserve's Hidden Power to Stimulate Private Sector Productivity Increases and Broadened Ownership

Supplying funds to the money market and controlling the cost of these funds--the rediscount rate--has long been recognized as the orthodox instrument of monetary policy. In "*Lombard Street* " (1873), Walter Bagehot outlined the principles of central banking, arguing that the main function of the Bank of England was to serve as the lender of last resort, mainly by suppling liquidity to a capital-deficient economy through the flexible use of its rediscount powers.

The House Banking and Currency Committee, in its widely circulated publication, "*A Primer on Money* " (August 5, 1964) noted:

> "When the Federal Reserve Act was passed, Congress intended [the purchase of "eligible paper"] to be the main way that the Federal Reserve System would create bank reserves. . . . When this practice was followed, the banks in a particular area could obtain loanable funds in direct proportion to the community's needs for money. But in recent years, the Federal Reserve has purchased almost no eligible paper. . . ." (Page 42)
>
> "When the Federal Reserve System was set up in 1914 . . . the money supply was expected to grow with the needs of the economy. . . . It was hoped that by monetizing "eligible" short-term commercial paper, by providing liquidity to sound banks in periods of stress, and by restraining excessive credit expansion, the banking system could be guided automatically toward the provision of an adequate and stable money supply to meet the needs of industry and commerce. . . . The system's reserves would expand and contract via the discount window as cash and other needs made necessary. . . . To safeguard their liquidity and provide a base for expansion, the member banks... could obtain credit from the nearest Federal Reserve bank, usually by rediscounting their "eligible paper" at the bank--i.e., . . . selling to the Reserve Bank certain loan paper representing loans which the member bank had made to its own customers (the requirements for eligibility being defined by law). If necessary, the member banks might also obtain reserves by getting "advances" from the Federal Reserve bank. . . ." (Page 69)

The two-tiered interest rate policy was invented in 1974 by this author to resurrect the Fed's discount mechanism as the principal means for the democratization of productive credit, leading to accelerated rates of investment, broadened ownership, and an asset-backed currency. (See ***"Kelsonian Monetary Policies for Fighting Inflation"*** by this author; paper delivered to the Eastern Economics Association, panel on Kelsonian Economics, April 15, 1977 and reprinted in *Hearings on H.R. 3056, Small Businee Employee Ownership Act*, Subcommittee on Access to Equity Capital and Business Opportunities, Committee on Small Business, U.S. House of Representatives, May 8, 1979, pp. 15-29.)

Recommended Monetary Reforms

The specific monetary reforms to accelerate private sector growth linked to expanded capital ownership are as follows:

1. Declare a moratorium on any future purchases by the Federal Reserve System of U.S. Treasury bills or other public debt paper, thus forcing the Treasury to sell its paper on the open market and putting an end to further monetization of government deficits.

2. Simultaneously, the Fed should announce a ***two-tiered interest policy*** under which its discount rate would be set at 1% or less and its discount window would be exclusively available to member banks and members of the Farm Credit system for discounting "eligible" paper for feasible industrial, commercial, and agricultural projects. "Eligible" paper would be strictly limited to promissory notes issued by IRS-qualified ESOPs, GSOCs, IRAs, production and marketing cooperatives, family farmers, sole proprietorships, or other IRS-qualified expanded ownership mechanisms for the purpose of financing growth or acquisition of productive (i.e., income-producing) capital assets. All such credit would have to be supported by a business feasibility study reflecting the self-liquidating nature of the transaction. The loan paper would also be:

   (a) secured by the general credit of the business or farm;
   (b) collateralized by equity instruments, accounts receivable, land and other hard assets involved in the transaction; and
   (c) designed to be repayable principally from the future earnings of the business or farm.

(For other specific "eligibility" criteria for the lower-tier commercial bank lending policies, see Part IIB of "*Project Economic Justice*," pp. 111-119.)

3. Banks negotiating loan paper that is eligible for discount with the Fed would be free to allow market forces to determine the bank's mark-up for money, above the Fed's 1% discount rate ("Fed service charge"). Thus, commercial bank lenders could cover their administrative costs and profits, plus a premium to cover the anticipated risk of default on the specific investment being financed. Prime interest rates should drop to 3% or less under the two-tiered interest policy, without any tax subsidies.

4. All new currency issued by the Fed to meet the discount needs of its member banks under the Industrial Homestead Act should be subject to a special 100% reserve requirement, thus creating a 100% asset-backed currency. (This new money would be supported by promissory notes backed by business guarantees of repayment; collateralized by the new equity issuances and new business assets financed under the Act; and reinforced by highly-motivated borrowers disciplined by ownership incentives.) This would simplify the policing role of the Fed and help guard against misuse or abuse of their discount privileges by the member banks.

5. The Fed should be prohibited from purchasing or discounting paper representing any non-productive uses of credit (such

as U.S. Treasury Notes, consumer loans, home mortgage loans, loans for speculating in commodities or securities traded in the marketplace, local and State government debt, etc.) or other uses of credit that do not encourage broadened capital ownership. However, existing savings freed up by the lower tier of the new interest structure would be available at market rates to meet these needs, as well as future Federal deficits.

6. There are many options available to government in structuring accessibility to capital credit. For example, like the $10,000 home loans to World War II veterans, annual allotments of Industrial Homestead Act credit could be extended to eligible individuals for investments of their choice, as long as local banks (subject to Federal feasibility criteria) determine the venture to be feasible and the loan repayable with future pre-tax earnings. Entrepreneurs, farmers, professionals and workers could then aggregate their credit through ESOPs of existing or new corporations; or they could acquire diversified holdings through special IRAs or pension plans designed to invest in SEC-registered new equity issuances, GSOCs, consumer stock ownership plans, etc.; or they could launch their own new ventures. Corporations and farms needing expansion capital would have new lower-cost sources for meeting their funding requirements.

7. A Capital Diffusion Insurance Corporation could be established, on a self-financing basis, similar to MGIC or FHA home mortgage insurance, to offer insurance to bank lenders against the risk of default on Industrial Homestead Act capital credit and to offer, for a premium paid by the new owners, some "down-side risk" portfolio insurance.

8. The amount of annual credit to be discounted each year by the Fed under the Industrial Homestead Act could equal somewhat over 50% of U.S. needs for new capital formation, say $210 billion of Industrial Homestead credit for 1982. Spread equally among America's 105 million registered voters, each voter could be allotted $2,000 in Fed-discounted capital credit for 1982 to invest in the capital growth of the U.S. economy.

   In the alternative, such credit could be linked to relative employment incomes for incentive purposes and to encourage more honest disclosures for Federal tax purposes. (Thus, a voter earning $20,000 could get a low-cost capital loan of, say $10 per $100 of reported employment income, or $2,000. A "floor" could be set at $1,000 and a "ceiling" at an appropriate level geared to the balance of each year's annual U.S. productive capital to be financed through the Federal Reserve discount mechanism.) Each year the credit allotted to each voter could be adjusted to the nation's projected capital requirements for that year. Higher allotments of low-cost production credit might have to be provided to farmers, in order to keep America's agricultural lands in private hands, particularly younger farmers, and to maintain present high levels of productivity in food production.

C. OTHER POLICY REFORMS

Fiscal Policy Reforms

By restructuring the Federal monetary and tax system to promote accelerated rates of private sector investment linked to expanded ownership, unemployed people and resources would be put back into full production. This would not only reduce Federal spending for welfare and unemployment and increase the earnings base for Federal tax revenues, but it would also begin to transform today's inherently inflationary "wage system" by linking labor's increased gains to rising productivity and profits. Thus, many inflation-indexed costs would be eliminated, including the interest costs on the Federal debt. The proposed flat rate tax would also serve as a brake on runaway Federal spending.

Social Security System Reforms

By generating higher job and investment incomes for all Americans and shifting to a flat rate tax for covering Social Security costs, the Industrial Homestead Act would act as a "safety valve" on today's near-bankrupt system. Unlike the "pay-as-you-go" Social Security System, the Industrial Homestead Act would help finance America's productive growth and remove an oppressive future burden on our young workers.

Public and Private Retirement System Reforms

Instead of gaining a direct private property stake in our free enterprise system, civil servants at the State and local levels acquire through their pension plans an extremely remote and indirect ownership stake in the Nation's productive capital. The same holds for private pensions, which Peter Drucker has aptly described as "pension plan socialism." Such collective ownership of the means of production is hardly distinguishable from that of the workers in the Soviet Union.

As they now stand, these pension plans distort stock values, place enormous power in the hands of money managers, large institutional investors, and stock brokers, but do little to meet directly the financing needs of capital-starved industries. In fact, many vulnerable companies are threatened with bankruptcy because of their large and growing pension liabilities. And pension trustees have become willing allies for corporate raiders and unfriendly takeovers of major U.S. corporations, causings losses of millions of jobs in the process.

At the Federal level, whatever assets are held to pay for rising military and civilian pension benefits are mainly in Treasury paper, not in the productive assets the economy needs to generate taxable incomes. The Industrial Homestead Act would create a piece of the action in America's growth frontier for all public and private employees covered by today's defective retirement systems.

Privatizing Government Enterprises and Services

The Postal Service and the Air Traffic Control System are but two examples of enterprises that could probably be run more efficiently and more profitably if they were run as employee-owned operations. Waste, absenteeism, featherbedding, and resistance to automation are less tolerated by employee-owners than by those with no ownership stake in bottom-line profits. The TVA could also be re-organized as a stock corporation owned by its employees and customers. So could mass transit systems if they had access to low-cost credit from local banks under the monetary reforms proposed under the Industrial Homestead Act. In fact, even new local schools could be organized by parents and frustrated teachers as for-profit corporations if sufficient low-cost capital credit were available (reinforced by a voucher system) to enable them to enter into effective competition with the public school systems. The Scottsdale, Ariz. Fire Department and San Francisco's garbage collectors work very well as employee-owned operations.

Anti-Trust Reforms

A pro-competition approach to anti-trust problems involves a two-pronged approach: first, where courts have ordered that a violator divest itself of a subsidiary or a division, the Federal Government should advocate ESOP financing as a remedy, so that the divested operation could operate independently as an employee-owned company, with the violator even providing some of the buyout credit; and, second, to prevent excessive concentration from occurring in the first place, potential competitors should be provided with access to sufficient low-cost capital credit, as proposed in the Industrial Homestead Act, to enable them to meet economies of scale. In general, however, private monopolies never occur without some special privilege or power conferred on them by government.

Free Enterprise Zones

The proposed "free enterprise zones" offer a laboratory for converting economically depressed urban and rural areas into prototypes for free market policies linked to expanded ownership. So far, however, the ownership thrust has been muted to the point of virtual silence, offering critics another example to deride as "trickle-down" economics. By adding the ownership strategy outlined in paragraph #2 above under "Monetary Reforms" and paragraph #17 under "Tax Reforms," an enterprise zone would become a microcosm of a supply-side economy rebuilt from the bottom-up.

Environmental Protection Reforms

Another way of describing pollution is "resources out of place." Recapturing those resources and keeping them from harming innocent victims and other living things generally require expensive technology. Customers must be able to afford the additional costs involved, and the technology required to preserve the environment must be financed in the least expensive way. The Industrial Homestead Act provides that financing and also enables the ultimate customers of corporate products to gain rising property incomes so that they can better afford the extra costs of a healthier environment. A "special burden" tax on industrial polluters might also be considered to cover damages to victims and the environment and as an incentive to minimize pollution.

Multinationals and Foreign Assistance

American assistance to the developing countries could be vastly expanded, with reduced taxpayer support, if U.S.-based multinational corporations could be encouraged to link their investments overseas with the expanded ownership objectives called for under the Industrial Homestead Act. For example, through use of ESOP financing the multinationals would not only convert their foreign employees into capital owners, but in so doing would automatically be creating a broadened political constituency for a global common market based on free enterprise principles. No troops or foreign aid could offer a more effective safeguard against future expropriations and nationalizations of U.S.-based companies around the world. This would also facilitate the transfer of U.S. know-how and technology in ways that would further peaceful growth and expanded U.S. markets.

Law of the Seas Treaty

Through employee-owned subsidiaries of multinational corporations, the ocean beds could begin to be mined in ways that would simultaneously offer training, job and ownership opportunities to individuals from all parts of the world, thus enabling them to return home after 5-year tours of service as affluent individuals. The more efficient the operation, the faster affluence could be produced from the sea and injected into the developing economies. No international income redistribution scheme could conceivably do better.

Industrial Homestead Planning Commission

To refine the programs of the Industrial Homestead Act and chart its future, the President should convene a task force of action-intellectuals and prime movers from the business, labor and political world. It could outline targets and priorities to guide the program and help in communicating it to the media and the general public. Some of its members could be appointed to an Industrial Homestead Planning Commission to oversee and give continuing policy direction to the program.

U.S. Office of Expanded Capital Ownership

The Act should provide for a small permanent staff to administer and evaluate the progress of the President's expanded ownership programs. It should be given equal status with the Office of Management and Budget, whose tasks should be greatly simplified if the Industrial Homestead Act initiatives prove successful.

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About CESJ

The Center for Economic and Social Justice (CESJ) is an ecumenical, non-profit research and educational organization dedicated to those principles of private property and free enterprise that promote the sovereignty of every person.

The following are CESJ's core values:

- There is an Absolute Source of all creation and of all absolute values such as Truth, Love and Justice, which represent the ultimate ends of human actions. Most people call this Absolute Source, God.

- Nothing should stand between God and the human person.

- There is a hierarchy of human work: The highest form of work is perfecting the social order to elevate each person in his or her relationship to God. The lowest but most urgent form of work is for sheer personal survival.

- In interacting with nature to promote one's own perfection, every person must respect the rest of creation. Each human being, a steward of nature, remains responsible for conserving natural forms of existence, each of which is interdependent and shares the same divine origin with humanity.

- Under the highest sovereignty of God, all sovereignty begins with the human person--not social institutions such as the State, the business corporation or the labor union.

- The essential means to achieve the sovereignty of the person include such inalienable human rights as the right to life, liberty, and access to productive property and free markets, equality of opportunity, and the secret ballot. These rights-- including the rights of property--are not ultimate ends in themselves, but they are intermediate ends or fundamental means to enable each person to pursue Truth, Love and Justice.

- People create tools, shaped from the resources and energies of nature, to support the economic and social sovereignty of the person. Through private property ownership, each person can become master of the technology needed to realize his or her fullest human potential and dignity.

- People also create social institutions--including the State, the business corporation and the labor union--each as a highly specialized "invisible tool" designed to serve a highly specialized social function within a just social order. Institutions, as organized expressions of society's values and goals, largely determine the quality of each person's individual and social life. As historical creations of humanity carrying within themselves the wounds of history, institutions are continually in need of healing and perfecting.

- The highest responsibility of each person is to pursue absolute values and to promote economic and social justice in his or her personal life and all associations with others.

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