

Universalizing Capital Ownership

How Article 17 of the Universal Declaration of Human Rights Can Save the Economy

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Executive Summary.

America and the rest of the global community face a health and economic disaster on the scale of a world war. Unlike violent wars, the isolation policies needed in today's COVID-19 war have prevented millions of workers from leaving their homes and physically working together to produce essential services, medical technologies and medicines needed to defeat the coronavirus.

Small- and medium-size businesses have closed, laying off millions of workers, perhaps permanently. From mid-March through mid-April 2020, a record 22 million US workers filed for federal unemployment benefits. Farmers and other food producers were forced to destroy crops that couldn't be harvested and products that couldn't be shipped to grocery stores, restaurants or food banks.

While the economy is in a state of induced coma, the US and other governments are undertaking radical central banking interventions to keep their economies from total collapse and restart production once the pandemic is ended. Their present strategies will create trillions of dollars backed by nothing but massive government debt. None of these plans indicate how the trillions of "emergency money" created will be repaid, or how future production will be created in ways that generate the mass purchasing power needed to buy those future goods and services. This has posed an historic challenge to the wage-welfare systems of all nations.

Meanwhile, the US and China are competing for leadership in advanced 5G communications and energy systems, robotics, artificial intelligence and other technologies, which will soon power automated factories and hospitals, self-driving cars and more.

This paper proposes a fundamentally different strategy, suggesting immediate emergency measures, but focusing on structural changes to the monetary and tax system that can finance the building of a green economy that provides equal access to a new source of independent incomes for every person. It posits:

- Today's war cannot be won until the COVID-19 coronavirus is halted everywhere. Before millions of lives are lost world-wide, the speed required to defeat the novel coronavirus calls for coordinating the knowledge, research and production capabilities of all nations working together. Nations united should copy the World War II monetary policies that funded the "Manhattan Project," which created the atomic bomb to end that war.
- Rebuilding a collapsed global economy calls for a strategy like the post-war Marshall Plan, but requiring far more money. Such a plan must also prevent the unjust concentrations of money, capital ownership and economic power that followed the post-World War II reconstruction program that included the formation of the United Nations and its Universal Declaration of Human Rights.
- Article 17 of the Universal Declaration of Human Rights affirmed the fundamental human right of every person to own productive capital "alone as well as in association with others." To achieve economic revitalization, sustainability and justice for every person, all nations should reaffirm their support of Article 17, and look to a new monetary paradigm with financial tools that promote a more inclusive and non-monopolistic, free market-based approach to money, banking, and tax policies needed to win the war against the COVID-19 coronavirus.
- Along with effective emergency measures, leaders in the political, banking, insurance, business, union, spiritual and academic worlds should launch an aggressive program for universalizing citizen access to ownership of future productive capital assets and infrastructure. These new capital assets should include new green technologies, green energy systems and green production processes to protect the environment. This would revive the productive sector by democratizing future ownership power, work opportunities and sustainable purchasing power among every citizen, without threatening existing property rights of current capital owners.

The Unacknowledged Right. Among the 30 articles in the United Nations' Universal Declaration of Human Rights (UNDHR), ratified in 1948 by 48 countries, Article 17 states: "Everyone has the right to own property, alone as well as in association with others" and "No one shall be arbitrarily deprived of his property."

In other words, to secure one's life and liberty, every child, woman, and man should have the equal right to become an owner of productive capital assets. Since the date of the UNDHR's adoption, however, no country in the world has promoted this right. None have instituted policies providing every person equal future opportunity and access to the means to exercise it.

Article 17 embodies the principles of "economic personalism," starting with respect for the dignity, security, empowerment and fullest development of every human being. Solutions based on these principles would finance future economic growth throughout the world in ways that would create new work opportunities and unite all citizens as productive capital owners, without eroding the rights of existing owners. These solutions offer the potential efficiencies of a more participatory, non-monopolistic and just free market system, enabling a growing base of taxpayers to pay the budgeted costs of government and begin paying down accumulated government debt.

An Example of Universal Capital Ownership Financing. One micro-economic example for promoting new global monetary policies consistent with Article 17 is the world's first 100 percent bank-financed employee buyout of Mid South Building Supply, Inc. (Springfield, Virginia, USA) as described below. This successful model demonstrates the power of expanded capital ownership financing-

As a result of new laws adopted in 1974 by the US Congress, all Mid South workers were provided in 1985 with access to capital credit from the company's commercial bank to purchase 100% of outstanding shares of their company to be repaid with the full stream of future pre-tax corporate profits. No employee had to put up any money to become an owner.

In 1985, the company's tax-exempt Employee Stock Ownership Plan (ESOP) Trust purchased all 3,000 shares of company stock from the then-owners, for which it paid \$7,300,000, a price at the higher end of an independently appraised "fair market value." The plan was structured to avoid any deductions from wages or salaries, personal savings or personal loans.

This was made possible because under US law, an owner who sells a company to the employees through an ESOP is permitted to defer any taxes on the gain from the sale whose proceeds are used to purchase "qualified" shares (*i.e.*, shares meeting required standards) in other companies, unless those shares are sold during the life of the selling owner. In the case of the Mid South ESOP, the selling owner was able to make an asset-backed loan guarantee to serve as collateral (or substitute for loan default insurance) for the commercial bank loan the employees used to purchase the shares through the tax-sheltered ESOP Trust. The law allows a company to deduct from its taxable income any future profits used by the ESOP to pay for shares or distributed to employees through the ESOP.

The bank assessed the feasibility of Mid South's loan on the basis of the future stream of pre-tax profits, projected to be earned by the company within 20 years. The company's cash contributions and dividend payments to the ESOP repaid the acquisition loan 7 years ahead of schedule. By December 31, 2018, the appraised value of the shares of Mid South Building Supply had increased 536.93 percent above the original purchase price.

Since the workers became the owners, the company's workforce has increased 328.95 percent, and the company has expanded from two locations to eight locations in two states with over 125 full-time employees. Over the years, basic labor compensation of all employees has been paid competitively. \$4.5 million of profits have been distributed under Mid South's Bonus and Profit Sharing Plan and approximately

\$17 million of the company's annual ESOP contributions have been used to repurchase shares. No employee has ever put up any personal savings or taken payroll deductions to become an owner in Mid South.

A New Monetary Paradigm. The principles applied in the successful worker buyout of Mid South are based on a new monetary paradigm that recognizes money as a unique “social tool.” Individuals and businesses can and do create non-currency forms of money to facilitate their transactions, including the production, distribution and purchase of goods and services. However, it is within a sound system of central banking, local commercial and cooperative banks, and capital credit insurance that the full social potential of money can be realized. (See “A New Look at Prices and Money,” <https://www.cesj.org/wp-content/uploads/2013/11/pricesandmoney.pdf>)

ESOP inventor, financial lawyer and universal citizen ownership theorist Louis O. Kelso observed that money is a “yardstick,” i.e., a symbolic means for measuring “economic input, economic outtake and the relative values of the real goods and services of the economic world.” Money is *not* the physical things or services we need to produce and consume, but it is an essential social tool for enabling every person to measure value and engage in work, not only to provide for his or her economic needs and wants, but also for the common good. It allows for personal freedom to make sound family, educational, spiritual, health, social, and political choices that promote economic liberation, prosperity, and personal political independence for every human being.

Along these lines, a stable and uniform measure of monetary values for all economic transactions should be adopted for all global currencies. (A 21st century alternative to a monetary standard based on gold or a basket of commodities was proposed by world design science architect Buckminster Fuller in his 1982 book *Critical Path*. He conceived of a global monetary “yardstick” based on the price of a kilowatt-hour, which would reflect the growing contribution of advanced green energy technologies and infrastructure for lowering the cost of universally available and dependable electricity throughout the planet.)

The key issue in this economic crisis is not the lack of new money, but the lack of a global monetary system that achieves equal opportunities for every person to acquire and own the most advanced productive technologies, artificial intelligence, advanced communications and energy systems, using capital credit repayable with future profits. As new technologies replace the need for human labor in most facets of the economy, the democratization of future capital ownership will gradually reduce the need for government income assistance and redistribution.

Had previous stimulus packages been designed to create new owners along with new capital formation, world economies would have experienced sustainable and non-inflationary growth. More resources would have been available to deal with disasters such as the COVID-19 pandemic, not only in developed countries but in also in developing countries where citizens are especially vulnerable to this threat.

Collateralized by capital credit insurance, self-liquidating capital credit should, as a fundamental right, be made available on an equal basis to all citizens. This would turn today's non-owners into economically independent owners of productive capital. Such credit would finance the purchase of new or existing productive assets needed by businesses. Future earnings on the shares would pay off the acquisition loans — in other words, using “future savings” rather than “past savings” or reductions of current consumption income to repay the capital credit.

Once the acquisition loans are repaid, the asset-backed money created to purchase the capital would be canceled or reused to finance new economic growth, thus avoiding both inflation and deflation. The capital itself would continue to produce wealth and generate consumption income for its new owners.

Each increment of new capital added would pay for itself with its own future earnings. Consequently, normal market forces would synchronize supply and effective demand for economic growth. This would

continue as long as the new capital assets provide a source of capital-generated income for today's non-owning citizens, particularly the poor and others who do not have sufficient and secure incomes. In addition to reducing the need for government redistribution of income, workers and other current non-owners could help sustain economic growth, contribute to the tax needs of all levels of government, and secure their own financial and political independence by becoming owners of future increases in capital productiveness.

To achieve universal citizen access to future capital ownership opportunities will require moving beyond the ESOP mechanism, which is only one vehicle designed by Louis Kelso for corporate employees to participate in financing new capital formation. A national policy agenda, called in the U.S. the "Capital Homestead Act" (<https://www.cesj.org/learn/capital-homesteading/>), would extend the same means of acquiring new capital assets to every person.

Emergency Short-Term Measures. Government's first duty is to protect the lives, security and property of its citizens. In the short-term this may necessitate actions that are redistributive and that create added government debt. Such debt results when the government spends money created and regulated by the central bank that has nothing of value behind it other than the government's promise to pay in the future for its spending deficits via taxation. Those measures, however, should cease immediately after the crisis is over, making whole those people who had their property rights infringed upon, and collecting future taxes to repay the government's increasing debt from deficit spending.

Where the new "emergency money" can be channeled to private sector businesses to produce emergency medical and other supplies needed during the pandemic, such money should flow as loans through financing mechanisms such as Employee Stock Ownership Plans. ESOPs, which are already in the law, can create equal capital ownership opportunities for every employee in the companies producing the emergency supplies. The government would serve as the guarantor of those loans, and as the customer that purchases and distributes the emergency goods where needed.

System Reforms. To offer hope, maximize collaboration and inspire unity among all citizens during and following the current crisis, leaders of all nations should take immediate advantage of the current crisis to communicate a new vision and plan. Countries should immediately adopt laws promoting major reforms in monetary policy, central banking, tax, capital credit insurance and other institutions. These reforms would provide a solid foundation for a sustainable, resilient and just economy consistent with Article 17 of the Universal Declaration of Human Rights.

As a consequence of the world's current war to defeat the COVID-19 coronavirus, central banks are creating unlimited emergency money to help governments address the near total breakdown of world's production and consumption capabilities. When the pandemic ends, commercial and central banks in all countries should issue money for achieving full production linked to widespread purchasing power from future capital ownership incomes for all survivors.

Using the U.S. as an example for other governments and central banks, all money backed by US government debt (now exceeding \$24 trillion or almost \$74,000 per citizen) should be gradually retired and replaced with money backed by "green growth" productive assets needed by businesses for faster rates of growth in a more just global free market economy.

This new money would be made accessible through interest-free, fully insured new loans made annually by local banks to every person from birth to death. These loans would cover all costs of purchasing voting, full-dividend-payout shares of corporations and cooperatives that produce goods and services for potential national and global consumers. Each citizen's capital acquisition loans would be wholly repayable with the full stream of future profits earned on the shares. (To see how Capital Homesteading would finance universal citizen ownership of future green growth assets, see

<https://www.cesj.org/just-third-way-feature/graphic-overview-financing-green-infrastructure-with-capital-homesteading-for-every-citizen/>)

Central banks, which should no longer be controlled by government but by all citizen-owners, should use their “rediscount powers” as a substitute for charging interest for regulating the monetization process. In addition to the principal to be repaid on capital credit loans to citizens, would be a one-time premium to cover the risk of loan default as well as reasonable charges for the services of the central bank and bank lenders.

To meet the full costs of the government and start paying down past and future debt for legitimate government services, a single-rate tax should be imposed on all personal income above a per-citizen exemption sufficient to meet each citizen’s or family’s common domestic needs, including education, healthcare and shelter. Government and/or foundations would continue to provide a social safety net to take care of anyone whose income falls below the exemption.

To increase the role of a more free, just and non-monopolistic market system for economically empowering every citizen, all payroll taxes, property taxes, and all other personal taxes, *e.g.*, VAT and sales taxes, should be phased out. This would make government costs more transparent, and make politicians more accountable, to the citizens.

To encourage full payout of corporate earnings and finance new capital formation through the issuance of new shares, dividends should be tax-deductible at the corporate level, potentially reducing a corporation’s tax liability to zero. Dividends would then be taxed as personal consumption incomes of all shareholders, except when used to pay for qualified shares held within each citizen’s tax-sheltered ownership trust account.

Conclusion.

The depth and breadth of today’s global crisis creates a moment of unparalleled opportunity, where the minds of leaders and citizens may be most open to systemic change, particularly in our monetary and tax systems, so that money, ownership and economic power flow from the bottom up, not the top down.

If we muster our knowledge, resources and resolve, humanity can overcome the pandemic threatening our lives and economies. If we open our eyes to a new paradigm of economic personalism and justice, we can build for every person a more sustainable, environmentally sound economy and life-enhancing future.

For more information contact Norman G. Kurland, J.D., Center for Economic and Social Justice (www.cesj.org) at thirdway@cesj.org or 703-243-5155.