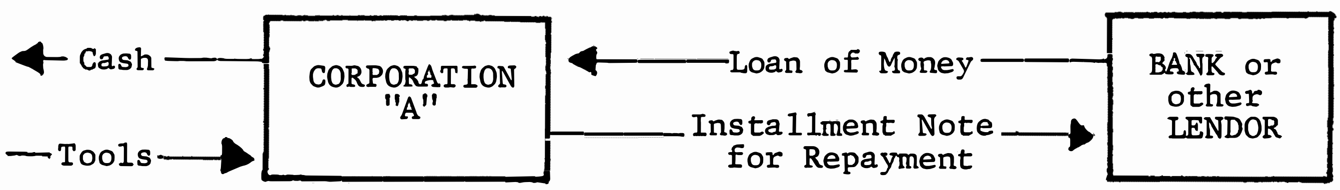
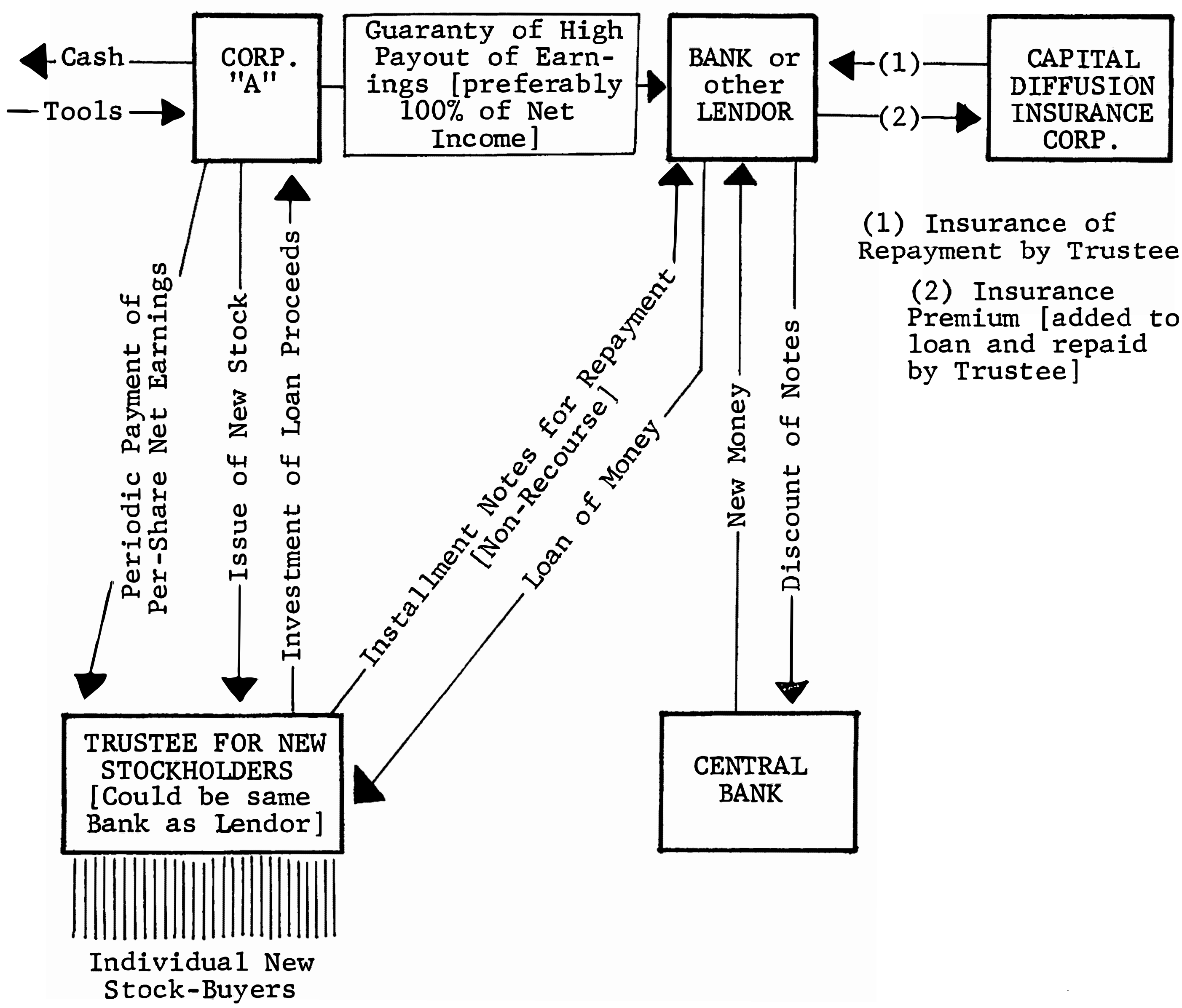
CHART 10

COMPARISON OF THE CONCENTRATING EFFECT
OF
CONVENTIONAL CORPORATE FINANCE
WITH
THE SECOND INCOME PLAN TECHNIQUE
OF SIMULTANEOUSLY FINANCING NEW CAPITAL FORMATION
AND CREATING NEW CAPITAL OWNERS
WITHOUT IMPAIRING THEIR SAVINGS OR INCOMES FROM OTHER SOURCES*

I. THE CONVENTIONAL METHOD:



II. THE FINANCED CAPITALIST or SECOND INCOME PLAN ALTERNATIVE:



EXPLANATION of CHART 10:

1. Method I above illustrates the economic effect of financing new corporate capital formation either through retained earnings or through borrowings repaid from retained earnings. In either case, when the loan is repaid, the productive power of a stationary body of stockholders is increased by the newly formed capital. No new shareholders are created.

2. Method II illustrates how, if corporate income taxes are eliminated, and corporate net earnings are fully paid out currently, so that the full income-producing power of real (i.e., physical) capital is made available to new stock purchasers, they can pay for their stock from the income produced by the underlying tools and assets, without diminishing their savings or reducing their consumption. The managements of large and stable corporations know that newly formed capital is self-financing, since a new expansion normally will not be undertaken unless it will quickly pay for itself -- usually in 3 to 5 years. But the conventional method of finance [Method I] makes this self-financeability available only to existing stockholders. Method II enables new stockholders to utilize it as well. By making the self-financeability of newly formed capital in well-managed businesses available to the propertyless majority, as well as to the capital-owning minority, Method II enables the many to raise their power to engage in production through capital ownership and thus to raise their consumer income. Thus, Method II is a method of building consumer power (i.e., markets) along with new productive power. To eliminate doubts of the bank or other lender, a loan insurance plan is proposed, similar to the Federal Housing Insurance Corporation home mortgage plan in the U.S. and other similar national housing mortgage insurance plans.

3. Finally, since a new valid corporate strategy that increases production and sales, and also raises the power of financially under-powered workers and the unemployed to consume by making them owners of productive capital, should increase national growth rates in most industrial economies by 3 or 4 times previous rates [even more for developing economies], it must be assumed that all available accumulations of financial savings would be exhausted at an early date. The financed-capitalist paper must then be made discountable at a nominal rate with the central bank. This, in effect, finances new capital formation out of pure credit and monetizes newly formed capital in central bank-approved, well-managed corporations, where newly formed capital only comes into existence if it will, in the judgment of corporate management, pay for itself quickly, and then continue to produce goods or services indefinitely thereafter, its productiveness constantly restored through depreciation policies which set aside sufficient funds for that purpose before net income is computed. Because newly formed capital will continue to throw off goods and services indefinitely after the credit (loan and interest) has been repaid, this technique has the virtue, if properly used, of making continuously and simultaneously possible:

(a) Expansion of production of goods and services with rising worker incomes and without increases in unit costs, free of any limitations imposed by unavailability of accumulated financial savings. Thus, this technique can free an economy without savings accumulations from dependence on foreign investors.

(b) Progressive deflation with expanding opportunities of the non-capital-owning majority to acquire rising incomes through capital ownership. This proposal is the exact reverse of the inflationary process of one-factor economic systems under which labor demands progressively more pay for less work, packing the wage bill with welfare and using the price system to tax the public. As labor discovers it is the public, it must again and again repeat the inflationary process.

4. For further discussion, see:

TWO-FACTOR THEORY: THE ECONOMICS OF REALITY (Random House and Vintage Books, New York, 1968), by Kelso and Hetter.

THE CAPITALIST MANIFESTO (Random House, 1958), by Kelso and Adler.

THE NEW CAPITALISTS (Random House 1961), by Kelso and Adler.

"Uprooting World Poverty: A Job for Business" from the Fall 1964 issue of BUSINESS HORIZONS, Indiana University Graduate School of Business.

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