"THE THOUGHTFUL REBEL'S GUIDE TO ECONOMICS"

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by
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The institutions of the world are not working satisfactorily for a large -- and growing -- proportion of the world's population

-- particularly the young, the minorities, and the poor.

In particular, the old economic institutions, all over the world, are not working.

-- As is always the case with human institutions, entrenched interests that are, or think they are benefited by the established order have sprung up to protect it.

-- Only the growing proportion of those who are shut out from participation in these institutions, particularly participation in economic institutions, can dependably be expected to overcome the resistance of the old order.

-- It appears that most of the power and energy required to identify the defective institutions, and to bring about their reform, must come from youth today.

The instincts of the young that societies are mal-functioning are good, but these instincts are not matched by the unerring ability to identify the defects.

The negative case of youth for a new order, free of the profound deficiencies of the present order, is a good one

-- but youth's positive case for a new order is simply non-existent.

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It would be absurd to blame youth for this shortcoming.

-- The ability to state that positive case requires ingredients that cannot, by their very nature, be normally found in youth.

-- These include:

- Broad knowledge of the past and the present in literally dozens of complex fields of human endeavor;
- Knowledge of the competing philosophies and the life goals that each espouses;
- An understanding of education and the relevance of different kinds of education to alternative life goals;
- An understanding of the difference between the urgent and the important in life;
- Knowledge of the nature of wealth and its significance for particular life goals;
- Knowledge of how wealth is actually produced in the world -- the nature of technology and its meaning for man;
- An understanding of the significance of the chief institutions required in various kinds of successful societies, and how these institutions function in their day-to-day activities;
- Awareness of the relationship between the animal and the human sides of man's nature.
- Knowledge of the relationship between toil, leisure, and play in the good life;
- An understanding of a sound philosophy of the relationship between man and the physical globe upon which he dwells;
- etc., etc.

All these things, and many, many more things must be accurately comprehended by those who would change the world for the better rather than for worse.

I cannot give you wisdom, nor can anyone else.

-- Fiercely hard and disciplined study of the evidence of life as a whole, the acquisition and interpretation of experience, and the acquisition of grace itself, are required for that.

But I can, using my own attributes, the results of my own study and my own experience as a teacher, a businessman, a lawyer, an economist, and a man who is successful by most of the world's standards (but who can never be content until effective opportunity for equal or better success is open to all),

-- I can give you my analysis, my hypothesis, as to where the basic defect lies.

-- What I have to say is radically relevant.

-- What I have to suggest can be easily accomplished while preserving -- and even enhancing -- virtually all the institutions of our society, by merely orienting them towards a different economic goal.

-- What I have to say relates only to a single area of life's activities, but when you carefully reflect upon it, you will know that making the change I suggest will have both profound and beneficial immediate and long-range effects on almost every aspect of human life.

So let me state, in the simplest form, my hypothesis as to what is basically wrong with our society, and how we can readily cure its single, most pervasive defect:

-- What I will say is childishly simple; radically simple.

The world has structured its economies, and the business, labor, and financial institutions that form the operating units within its economies, as though only labor produces wealth.

-- As though holding and performing an economic job for money is synonymous with being affluent, being not-poor.

-- As though equality of economic opportunity consisted merely of equal opportunity to get a job.

-- As though only human toil could legitimate the receipt of income.

-- As though the function of new capital formation in any economy is to create jobs.

-- As though the "productivity of labor," with each advance in technology, is rising, thus legitimating ever-rising wages and salaries.

-- As though one who does not hold a job must be dependent upon a dole, or the voluntary efforts of others to help him. as the only possible alternative.

-- As though a job producing military overkill or napalm for natives is quite as good for the economy and the society as a job producing shoes, or housing, or food.

-- As though jobs "created" by setting the young of the world to slaughtering each other are quite as good for the economy as any other jobs.

-- As though engineers, managers, and scientists all were dedicated to the pursuit of the goal of creating more jobs.

-- As though the maximization of jobs to provide full employment is a sound goal, even though it must call mothers out of their homes where they're caring for their children, fathers away from their families in the evening so they can moonlight, the elderly away from their retirement and rest.

-- As though poverty is declining as long as the G.N.P. goes up, regardless of the kind of goods and services upon which that increase is based.

-- As though we could cure poverty by studying the hard-core structural poor, rather than by studying the hard-core structural rich.

The economy and the institutions of the economy of the United States, like the economy of every other country in the world (with the possible exception of France), is committed to the soundness of each of these propositions.

Our national economic policy, represented by the Employment Act of 1946 and a library full of implementing legislation, sets forth our policy of fighting poverty exclusively through full employment.

But each of these so-called basic and self-evident truths is a myth -- a lie.

It is my hypothesis that wealth is produced by two factors, not by one factor of production.

-- By the human factor, of course.

-- But also by the non-human factor.

That the real meaning of technological change, the major source of change throughout history, is that through it, man, using his brain, shifts the burden of production from himself to capital instruments: to land, structures, and machines.

-- That man is a toil-hating creature, not a full-employment-loving creature.

-- That man has two million years of experience with private property in the means of production, and he likes his world arranged through secure private property holdings.

-- Unfortunately, the only form of productive power with which nature equipped him in the first place was his labor power.

- Whenever he fought off enslavement, he was protecting that private property in <u>his</u> means of production: his labor power.

- But, by failing to understand the nature of technological change, man has in fact been increasingly deprived of private property in the means of production.

- The productiveness of his labor power is declining through technological change at an exponentially increasing rate.

At the same time, the long-established means of financing -- that is, organizing the creation -- of the other factor of production, productive capital, effectively deprives the economically dispossessed worker of access to the ownership of that other factor.

There is no effective way by which the man born without capital can buy it, <u>pay for it out of the wealth it produces</u>, and then own it for the stream of income it throws off.

-- i.e., there is no effective and legitimate way for the man born without capital to acquire it.

Yet -- in the business world of the largest and most productive corporations, where about 80% of the goods and services are produced in our economy -- new capital formation never comes into existence unless it will pay for itself in a short period: generally three to five years, and then continue to produce income indefinitely, its productiveness maintained by both physical maintenance procedures and by accounting procedures.

This is two-factor theory.

It holds that man is so created that his dignity and self-respect require him to produce, as a basis for consuming.

-- But this does not mean, as the pre-industrial understanding of the Puritan Ethic would have us believe, man must produce in a pre-industrial manner in order to enjoy the output of industry.

-- If the bulk of our wealth is produced by capital, and the ratio of capital input to labor input is constantly moving in that direction, then no industrial economy will function unless every man engages in production through his private ownership of capital -- irrespective of whether or not his employment is also required.

Our most pervasive problem in the modern world is that the young, the unemployed, the minorities, the middle class, indeed all but the top 5% who own virtually all our productive capital, are economically alienated.

-- The productive power of their labor is shrinking in the face of automation, and our institutions are designed to prevent it from being restored through legitimate access to the ownership of productive capital.

The tools of the Second Income Plan have been designed to correct this defect in ways that are beneficial to all concerned, and harmful to none.

-- They are designed to give every man in our economy, within a reasonable space of years, the power effectively to acquire a viable holding of productive capital, and in due course to make this possible for every man, everywhere.

Time does not permit me here to give you the details of these tools, but let me assure you that:

-- They are effective, and they are being proven so in action today.

-- They are consistent with the protection of the private property in capital for those who own all of it today, so long as they do not let their greed prevent us from building a vastly larger economy and structuring it so it becomes owned, legitimately, by those who do not own productive capital today.

-- Their essence is simply to make institutionally possible what we have known for decades to be physically possible: the production of affluence for every family and every individual, while extending to every man the gift of technology: increasing freedom from toil.

I now come to some of the main ingredients for a Thoughtful Rebel's Guide to Economics:

First, let's recapitulate to be sure we see the picture:

Two-factor theory holds that the human factor and the non-human factor each participate in production in the same sense:

-- That it is private property in a factor of production that entitles you to receive the value the thing owned produces.

-- Private property in your labor power entitles you to your wages or salary or professional fees.

-- Private property in capital entitles you to share in the wealth created by that productive capital.

-- If, technically, most of the productive input is by capital instruments, then most people must be owners of capital to make the system work.

-- In a market economy, outtake is based on input:

- The way to get more outtake is to furnish more input.
- And the only way to do that is to own productive capital.

I have listed for you some of the one-factor economic myths that are plaguing the economies of the world. Let me now correct these myths using realeconomics, or two-factor theory, and we now have some basic thoughtful rebel's guide rules to economic reality:

- Holding and performing an economic job for money is not synonymous with being affluent, for affluence is primarily the result of capital ownership.
- Equality of economic opportunity does not consist merely of equal opportunity to get a job, but also of equal, and equally effective opportunity to acquire and own productive capital.
- It is not true that only human toil can legitimate the receipt of income, for the ownership of productive capital, or an equity in productive capital, fully legitimates the receipt of income produced by that capital.
- The function of new capital formation in any economy is not to create jobs, but rather to create more wealth with less toil and with fewer jobs--a fact which one-factor mythologists of the establishment effectively conceal by subsidizing phoney jobs.
- The productivity of labor, with each advance in technology, is not rising, but rather is either unaffected or falls, thus forcing one-factor mythologists to resort to various kinds of coercion to redistribute ever more of the income produced by capital to the non-owners of capital: the workers and the unemployed.
- It is not true that one who does not hold a job must be dependent upon a dole, or the voluntary efforts of others to help him. The ownership of a viable holding of productive capital produces excellent and legitimate and dignified incomes for the few who have such holdings.

- A job producing military overkill or napalm for natives is obviously not as good for the economy or the society as a job producing shoes, or housing, or food. The problem here is that the one-factor mythologists must invent jobs that do not depend on consumer spending, for under one-factor concepts, the consumers, 95% of whom own no capital, never have enough income. So a combination of jobs producing humanly useless goods and emergencies to frighten legislators into appropriating funds to pay for such perilous products, is required.

- The proposition implicit in one-factor mythology that jobs "created" by setting the young of the world to slaughtering each other are quite as good for the economy as any other jobs is simply a desperate lie of the one-factor mythologists. We obviously cannot build general affluence on wasting resources and killing and crippling people.

- Engineers, managers, and scientists are not dedicated to the pursuit of the goal of creating more jobs. They are dedicated to the goal of producing more goods and services with fewer jobs -- as few as possible. Some recent attempts by the one-factor mythologists to organize top U.S. corporations to launch a vast governmentally sponsored campaign to "create jobs" is simply irrefutable evidence of the intellectual backruptcy of all one-factor mythologists.

- The maximization of jobs to provide full employment can never be a rational economic goal. The only defensible economic goal for any society is the production of general affluence and the general enjoyment of affluence through maximum participation in production (by broad private ownership of productive capital) and minimum economic toil. There is no human dignity in work that can be done by a machine.

- We can now see why poverty does not decline merely because the G.N.P. goes up, because eliminating poverty requires production of the kinds of goods and services upon which human affluence rests.

- Clearly we cannot cure poverty by studying the hard-core structural poor, for it is not general poverty we are trying to achieve, and people are not all that different -- as the hard-core, one-factor mythologists would have us believe. Rather, we must carefully study the hard-core structural rich, for they are the <u>only</u> affluent ones, and we should try to achieve general affluence -- affluence for every family and individual. And the affluence of the hard-core structural rich is built upon the ownership of productive capital.

Let me close with due apology to George Bernard Shaw, by using two-factor theory to define some words commonly used in the one-factor lexicons of our day. I think this may further help to demonstrate what a useful analytical tool two-factor theory is, not only to beneficially design the future, but to understand the chaos and frustrations of the present and of the past:

ONE-FACTOR WORD	DEFINITION IN THE LIGHT OF TWO-FACTOR THEORY
Conservative	One who favors the protection of private property -- either his own, or that of some owner to whom he has a master-serf relationship.
Liberal	One who favors the redistribution of private property -- the private property owned by others.
"Rising productivity of labor"	The rising productivity of capital, not owned by workers.
One hundred months of full employment achieved through Keynesian economics and "fine-tuning" of the economy...	One hundred months of recovery from war, rehabilitating enemies and allies destroyed in war, stockpiling for new wars, refilling obsolete war materiel stockpiles, fighting new wars, rehabilitating enemies and allies destroyed in new wars, stockpiling for further wars, etc. etc.
Guaranteed annual income.......	Guaranteed annual obligation of the economically productive to support those made economically unproductive by one-factor economic concepts.
Negative income tax...........	Positive income dole.
Toil state	An economy in which employment is contrived primarily to justify an income share, rather than to produce economic goods and services in response to consumer market demand.

Human resources	Work units of the total toil state chained to the process of production, to be utilized at all times whether they like it or not.
"Exit from poverty"	A synthesized job.
"A productive life"	A synthesized job.
"The full use of our human resources"	Everybody in synthesized jobs.
"Develop abilities"	Prepare for a job soon to be synthesized.
"Decent standard of living"	That minimum income necessary to keep poverty from offending the sensibilities of the affluent.

LOUIS ORTH KELSO

Biographical Background

Louis Orth Kelso is a lawyer-economist specializing in corporate design. He believes that in a technologically advanced economy, people cannot achieve an affluent level of income solely through employment. They must also own, as their private property, a viable share of the economy's productive capital, enjoying the wealth it produces as a "second income." Capital instruments, not labor, Kelso maintains, are the chief source of industrial affluence. As a lawyer, he uses his economic principles to design actual working models that demonstrate the feasibility of creating new capital formation simultaneously with new capital owners, and thus the feasibility of expanding the physical economy simultaneously with the proprietary base. This process reverses the trend toward concentration of economic power that has characterized western industrial economies since the beginning of the Industrial Revolution.

Acting on the accepted business tenet that soundly conceived, properly designed businesses will pay off their costs of formation and then continue to produce income for an indefinite period, Kelso designs the invisible structure of enterprise so that people hitherto dependent solely on their labor are connected to the productive power of capital and receive, via property relationships, the income produced, first to pay for their newly acquired capital, and then for their personal use. Many political leaders are urging the Nixon administration to make the Kelso capitalist-creating program official U.S. economic policy.

Kelso's books on economic theory have been widely read, discussed and translated. They include THE CAPITALIST MANIFESTO and THE NEW CAPITALISTS, co-authored with the philosopher Mortimer J. Adler and published in 1958 and 1961, respectively, by Random House. Kelso's latest book, TWO-FACTOR THEORY: THE ECONOMICS OF REALITY, co-authored with Patricia Hetter, was published by Random House in 1968, with Vintage Books issuing a paperback the same year. Kelso has published many articles in legal, business and economic journals in the United States, Canada, and elsewhere. In 1964, the business school faculty of Indiana University awarded the First Place McKinsey Foundation for Management Science Award to his article "Uprooting World Poverty: A Job for Business," which applied two-factor theory to the simultaneous industrialization and broadening of capital ownership in the developing nations.

Mr. Kelso speaks to corporate management and to labor on the necessity of reforming their defective strategies so as to enable a rapidly expanding part of the population to participate in production through capital ownership. He serves as economic consultant to a number of groups interested in advancing their economic well-being through capital ownership, and is a director of a number of business corporations and of several research and educational organizations.