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January 26, 1971

Mr. Norman G. Kurland  
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2027 Massachusetts Avenue, N. W.  
Washington, D. C. 20036

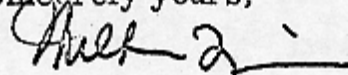
Dear Mr. Kurland:

I appreciate your sending the material on the Kelso Plan. I first came across the plan some eight or ten years ago and engaged at one point in a public debate with Mr. Adler and Mr. Kelso on their initial book in California. As a result, I have studied the plan in some detail.

My considered judgment is that it is an unwise, unsound plan that promises much and cannot conceivably achieve what it promises. It reflects a lack of understanding of the operation of the economic system and of the effect of changes in it. If the proposed reforms and miracles could be brought about through the governmental measures that Mr. Kelso proposes, they would also be entirely feasible by private measures that he could undertake on his own.

I recognize that I am stating conclusions and not the reasons for them, but I state them as dogmatically as I do to make it clear to you that the issue is not one of avoiding or not avoiding an open debate on the merits of Kelso's idea; the issue is one of whether it is worth the time and effort involved. My own answer is in the negative, but needless to say that is my own personal opinion, and those who feel otherwise should be encouraged to have the plan get as much attention as it possibly can.

Sincerely yours,



Milton Friedman

MF:fc

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February 1, 1971

Dr. Milton Friedman  
The University of Chicago  
Department of Economics  
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Dear Dr. Friedman:

I sincerely appreciate your taking the time to write to me, stating your personal opposition to Mr. Kelso's two-factor economic theory and to his programs for enabling every family to become capital owners without redistribution from present owners. I could understand your comments that it is "an unwise, unsound plan" and that it is not worth your time and effort to suggest even one specific reason for that negative conclusion, assuming that reasonably intelligent people who actually studied Mr. Kelso's proposals also agreed with you. On the contrary, I have yet to meet a single person familiar with modern economic systems or engaged in business and finance, who has taken the time to understand Mr. Kelso's terminology, his logic, and his programmatic reforms, who would agree with your admittedly dogmatic opinion.

Although academic economists and intellectuals have conspicuously ignored Mr. Kelso with pompous indifference since his ideas were first introduced in 1958, only in the last year or so have pressures mounted for a full, fair, and open public discussion of the merits of these ideas. (See TIME, BANKERS' MAGAZINE, FINANCE, NATIONAL OBSERVER, THE WHOLE EARTH CATALOG, BUSINESS TODAY, NATION, Nicholas von Hoffman of the WASHINGTON POST, William F. Buckley, VISION/EUROPE, MEXICO CITY NEWS, ILLUSTRATED LONDON NEWS, BUSINESS & SOCIETY, CANADA MONTH) Not unrelated is the escalating disenchantment among informed social observers in the administration's absurd, conflict-prone, and illogical "game plan" for restoring economic health.

I have always regarded you as a man of not inconsiderable integrity and courage, dedicated fervently to reason and to the highest human values, in fact, the same values that Mr. Kelso's reforms are designed to promote. I also recognize that basic economic errors, if perpetuated by a man of your stature among world decision-makers, can be ignored only at the peril of mankind. If I was not totally convinced that the survival of individual freedom, if not the very future of the human race, is at stake, I certainly would not be writing you again.



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Your letter has demonstrated conclusively, in my judgment, that although you might have read Mr. Kelso's first book, you have failed somehow to understand the ideas propounded. Most revealing is your comment:

If the proposed reforms and miracles could be brought about through the governmental measures that Mr. Kelso proposes, they would be entirely feasible by private measures that he could undertake on his own.

If you read Mr. Kelso's writings again, you will discover that among the main points in his argument is that concentrated ownership of the means of production (in the view of many, the underlying cause of modern class conflict and other social disorders under both monopoly capitalism and state capitalism) is structural in nature, a product of defective economic concepts and government-controlled monetary, tax, spending, and corporate finance policies shaped by those concepts. Kelso's system of universal capitalism could not be achieved without the strengthening and extension of "private property," an institution which government can either choose to defend or destroy. With 95 percent of our citizens systematically denied legitimate access to "private property" in our ever-expanding base of productive capital, with government and corporate managers now withholding arbitrarily about 75 percent of the stream of profits from capital, that institution has atrophied almost to the point of its extinction. If we allow government-controlled redistribution of corporate profits to reach 100 percent, a not improbable result under our present trends, Karl Marx will have won. Kelso offers a unique alternative program for preserving private ownership of the means of production.

Present "public" institutional barriers to Mr. Kelso's plan to create new capital owners in the process of fabricating a much-expanded industrial capital base include:

- \*Our 'absurd national "goal" of full employment, which has diverted public attention from the possibility of generating mass purchasing power through full ownership rather than "created" jobs and welfare doles;
- \*The discriminatory corporation income tax;
- \*Estate and gift tax and other tax laws that increase capital concentration;
- \*Outdated concepts of corporate finance, based on perpetuating class ownership through internal finance rather than adding new owners of newly added capital through guaranteed "pure credit" borrowings and full dividend payouts;

- \*Defective and inflation-producing Federal monetary and credit policies;
- \*Ineffective anti-trust and labor laws;
- \*An educational system geared to the pre-industrial "one-man, one-job" convention rather than the economically independent, leisure work possibilities under widespread ownership of productive capital;
- \*The increasing dependency of the private business corporation on big government for maintaining customer purchasing power;
- \*Other serious flaws too numerous to list here. (See TWO-FACTOR THEORY: THE ECONOMICS OF REALITY and other writings of Louis Kelso)

Yet, despite all these practical obstacles to reforming the economic system in general, Mr. Kelso, rather ingeniously, has been able to produce several highly successful corporate "models" of widespread capital ownership, such as those described in the attached New York Times article of January 18, 1971. More are on the drawing boards, including designs for financing new cities, anti-pollution technology, and rapid transit systems. Clearly, these demonstrations do not constitute the multi-faceted and comprehensive machinery needed for planned expansion of our national economic growth and capital ownership base, eventually by annual rates of 15 percent, and without inflation. The "Full Production Act", described in Mr. Kelso's latest book, TWO-FACTOR THEORY: THE ECONOMICS OF REALITY, would, however, supply such machinery.

You rightly deplore the confusion rampant in our major corporations today in trying to be "socially responsible," as they ignore their primary social mission of maximizing profits. But unless you also ask, "Whose profits?" and other questions relating to the inequitable distribution of wealth and power, you are leading right into the hands of desperate nihilists who naively seek to destroy the private business corporation. Kelso offers you new answers and practical machinery for addressing those questions, while rigorously protecting "private property" rights of existing shareholders. He also offers new hope and new directions to private multi-national corporations for helping to develop and implement a rational and unifying plan of global industrialization. And, interestingly enough, the "bible" of the so-called counter-culture, THE WHOLE EARTH CATALOG (Spring 1970), has bought the Kelso approach. (The reviewer is a drop-out Ph.D. economist, formerly with Stanford Research Institute.)

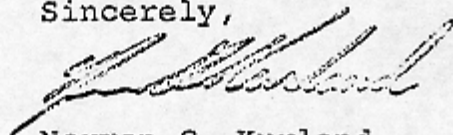
I have talked at great length with Leon Keyserling who, as author of the Employment Act of 1946 and such New Deal blueprints as the Freedom Budget, has an understandable "vested interest" in



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the programs upon which his model for the economy was based. He now understands two-factor theory but could hardly be expected to admit publicly that Kelso is right. On the other hand, as a proud alumnus of the University of Chicago, I would expect the author of CAPITALISM AND FREEDOM to take a closer look at the writings of the man described by Mortimer Adler as the father of the "original and basic theory of capitalism." You owe it to yourself, to the field of economics, to the survival of capitalism and freedom, and to history.

Sincerely,



Norman G. Kurland  
Executive Director

NGK:mtk

Enclosures sent under separate cover