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# PEOPLES' CAPITALISM
A PLAN FOR PROSPERITY AND ECONOMIC JUSTICE

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**ABSTRACT**

Peoples' Capitalism is a plan to remedy three fundamental defects of capitalism. These are:
1) Wages and salaries are primary source of income.
2) Access to credit for investment is available primarily to the rich.
3) Monetary restraint is a counterproductive mechanism for fighting inflation.

Peoples' Capitalism would provide access to credit to everyone for investment in capital assets. Earnings from investment would supplement wages and salaries. Peoples' Capitalism would also institute mandatory saving withholdings as an alternative tool for controlling inflation. This would enable capitalism to create enough wealth to provide economic security and prosperity for all.

Key words: Peoples' Capitalism, prosperity, elimination of poverty, economic growth

## I. INTRODUCTION

Why can't we use what we have to produce what we need? Why doesn't our economic system employ the industrial technology that is available to produce what is needed to eliminate poverty? Few people doubt that modern industry has the capacity to produce more goods and services than it does. To many it seems obvious that the world's industrial capacity could be expanded to produce enough wealth for everyone to have enough to eat, a safe and decent place to live, good sanitation, adequate medical care, and a basic education. Why does this technological capacity remain unutilized? Despite frequent calls for greater efforts to help the economically disadvantaged, there are no serious policies directed toward achieving this goal, and precious little consideration of whether such a goal is even possible. Why not? Why can't the world's industrial capacity be profitably expanded to meet the needs of all the world's people?

The modern capitalistic economic system has clearly demonstrated its ability to produce goods and services more efficiently and in greater quantity and better quality than any other type of economic system. Yet a large percentage of the population does not share in the benefits. 2,800,000,000 people in the world today live on less than $2 per day.[1] This is more than nine times the population of the United States. It is nearly half the population of the world. At the other end of the spectrum, a small percentage of the population receives income in excess of $100,000 per day. This degree of disparity suggests that the current capitalistic system is far from optimum in terms of the utilitarian ideal of providing the "greatest benefit for the greatest number of people."

The reason capitalism doesn't produce more is certainly NOT that it lacks productive capacity. Walk into any shopping mall or supermarket in the country and look around. What you see are shelves crammed with an abundance of goods, attractively packaged to entice consumers to spend money. Automobile show rooms are filled with cars for sale. Businesses compete fiercely for customers. There are plenty of goods available, and manufacturers could easily increase production if there were greater consumer demand. The reason capitalism doesn't produce more is because customers don't buy more. The most common cause of business failure is not an inability to produce, but an inability to sell, products or services at a profit.

Yet the world is filled with people in desperate need. People living on less than $2 per day need everything! 2.8 billion desperately poor people represent a vast untapped market for food, clothing, shelter, health care and other basic needs. These are potential customers. All they need to is an income. If poor people had money to spend, industry would happily expand to supply them with goods and services. Business profits would increase, jobs would be plentiful, the economy would grow, and the life of the poor would be vastly improved.

## II. WHY DOES POVERTY PERSIST?

When there is so much potential capacity for wealth production, and so many potential customers, why are so many still poor? Why don't the needs of the poor translate into consumer demand that stimulates production of goods and services? Why doesn't the capitalist economy expand to supply the needs of all the world's people?

The obvious answer is that the poor lack income. The poor can't afford to buy what is available on the market, and business won't produce goods and services for people with no money. Of course, this does not explain why the poor lack income, or suggest what might be done to remedy the situation. There are many reasons for poverty – corruption, crime, drug and alcohol abuse, social and political barriers to productivity growth, lack of education, violence, racism, and war. But these fail to explain the persistence of poverty in modern capitalistic societies.

A less obvious answer lies deep within the fundamental institutions of wealth distribution and monetary policy in capitalistic economies. There are three major structural defects that limit access to sources of income for a large percentage of the population.

## III. STRUCTURAL DEFECTS OF CAPITALISM

The first structural defect is that wages and salaries are the primary mode of wealth distribution for the vast majority of the population. Most people derive most of their income from the sale of their labor or their intellectual skills. Without a job, the average person has few legal sources of income other than welfare or charity. This policy made good sense during the industrial era when labor was the most important factor in production. However, this is no longer the case. Labor is becoming less and less important to the production process. (Albus 1976, Ashford and Shakespere 1999, Ashford 1990, Rifkin 2004) In today's economy, productivity improvements are making it possible to produce more goods and services with fewer workers. At the same time, the population of young people entering the labor pool around the world is growing exponentially.[2] This creates two major problems:

1. *Unemployment.* In the poorest regions of the world, unemployment is rampant. Most of the very poor have few marketable skills, and many have restricted access to the labor market. Even in advanced industrial nations, businesses seek to minimize their work force. To remain competitive, labor costs must be reduced and workers eliminated whenever possible.

2. *Falling wages.* For many in the middle class, incomes are stagnant or declining. Globalization and outsourcing are producing a race to the bottom for wages and salaries. Productivity enhancing technology is reducing the demand for human labor in both blue collar and white collar jobs. (Rifkin 2004) As a result, the average worker has little bargaining power in the labor market. Labor union strength is in decline. Wages and salaries account for a falling percentage of the wealth created by the modern industrial economy.

Throughout the world there are strong downward pressures on the value of human labor. In modern post-industrial economies, the practice of distributing most income through wages and salaries virtually assures that those who live by selling their labor will receive a declining percentage of the wealth created by industry. In the third world, it effectively guarantees that the poor will remain trapped in poverty. The ladder out of poverty has become a down-escalator that is moving downward faster than most people can climb up.

A second structural defect in the current capitalistic economy is that, for the less-than-rich, there is limited access to credit for investment in ownership of the means of production. Banks are eager to provide credit to the poor and middle class for consumption, but not for investment. As a result, it is very difficult for the non-rich to augment their income by acquiring ownership of wealth producing capital assets. Capitalism is largely the domain of the rich.

A third structural defect is that current monetary policy is largely counterproductive as a tool for controlling inflation. Investment is the primary engine of economic growth. But monetary policies designed to control inflation act by reducing investment. This is perverse. Raising interest rates to fight inflation discourages investment, reduces economic growth, and slows productivity growth. At best, monetary restraint has only an indirect and slow acting effect on inflation. The time delay between changes in interest rates and changes in consumer prices can be many months. Success in fighting inflation comes only after months of delay during which economic growth has been slowed to the point where inflationary pressures are "wrung out" of market expectations. This process often leads to recession. This is a hugely inefficient and costly procedure for controlling inflation. In many ways, the cure is worse than the disease.

The economy is an enormous dynamic system with multiple feedback loops. It is well known from control theory that feedback delay is a potent source of instability. (Jacobs 1974) This means that the rate of economic growth must be kept far below what is physically possible in order to prevent large fluctuations of boom and bust. Conventional wisdom has it that 3% is the maximum rate of economic growth that can be sustained without instability. This is far below what could be achieved if tools other than monetary restraint were developed for controlling inflation. It has been demonstrated in several countries over the past century that economic growth rates in excess of 6% can be sustained for a number of years.[3] It seems likely that economic growth in the United States could be sustained above 6% if only the Federal Reserve had an alternative to monetary restraint for controlling inflation, and could focus monetary policy exclusively on stimulating economic growth.[4]

The above three structural defects in the capitalist system are fundamental causes of the persistence of poverty. If not remedied, poverty will almost certainly continue to plague humankind for many decades, if not centuries. Yet, if remedies were found, poverty might be eliminated within a generation.

## IV. A PROPOSED SOLUTION

To remedy the first and second of the structural defects described above, Peoples' Capitalism would make credit available to every citizen for investment in productive enterprises. (Albus 1976) The ultimate goal would be to make everyone into a capitalist in the sense that everyone would accumulate a growing portfolio of investments in the means of production. Over time, everyone would receive a substantial income based on ownership of capital assets. Eventually, ownership of capital would become the primary source of income for all.

The amount of credit proposed would be sufficient to effectively double the current national investment rate. In the United States, this would amount to about $6000 per capita per year. The mechanism for accomplishing this would be for the Federal Reserve to open its discount window and issue credit to member banks for self-liquidating loans to individuals for investment in approved enterprises. Approval would be based on criteria similar to those routinely employed by the investment banking community. Examples include established mutual funds, IRAs, and investment plans such as the Thrift Savings plans available to government workers. Other investments might qualify, depending on approval criteria of the member banks. Collateral would be in the form of ownership shares of the enterprises in which the investments were made. Details of one possible mechanism for achieving this are described by Kurland et al. (2004) in the book *Capital Homesteading*. These loans would have a payback period of 30 years. Insurance against default would be financed by a service fee estimated at_3% of the outstanding balance per year.

To remedy the third of the above defects, Peoples' Capitalism would fight inflation by mandatory withholding of savings from consumer income in the amount required to achieve a desired effect on inflation. These savings could be held in personal accounts such as Certificates of Deposit or Individual Retirement Accounts. These would earn interest at market rates, but could not be redeemed for a period of at least five years. The amount of saving withheld would be adjusted automatically by formula every two weeks based on the latest measure of inflation. The savings withholding rate would be graduated based on income, similar to income tax rates.

Withholding savings from consumer disposable income would provide a powerful fast-acting mechanism for controlling inflation that would be completely separate from monetary policy. This would enable the Federal Reserve to focus monetary policy entirely on investment policies designed to maximize productivity and economic growth.

Doubling the nation's investment rate without inflation would dramatically increase the rate of economic growth. Estimates are that economic growth would increase to between 6% and 8% per year.[5]

### V. PREDICTED RESULTS

Figure 1 shows what could be expected to result from the Peoples' Capitalism plan. Assumptions are that loans from local banks to individuals for investment in approved enterprises would be issued at 3% interest, and would be repaid over a period of 30 years. Pretax return on investment is assumed to be 8%. This might be slightly optimistic under 3% growth conditions, but in an economy growing faster than 6% annually, 8% ROI is a conservative estimate.

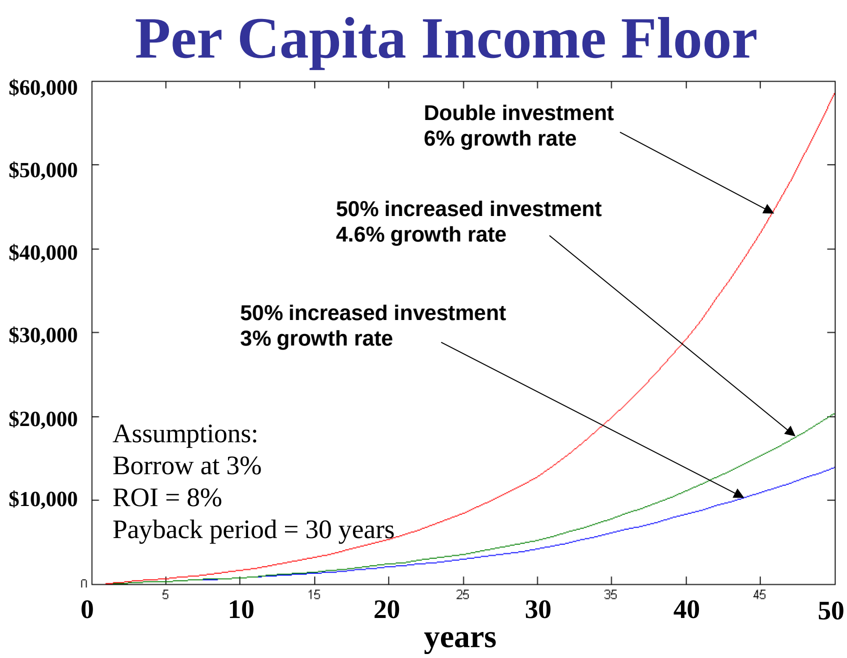


Figure 1. Pretax income floor provided to every citizen by Peoples' Capitalism under a variety of assumptions. (All numbers are in constant 2007 dollars.)

Figure 1 contains three curves. These correspond to three sets of assumptions. The most conservative set of assumptions is represented by the lowest curve. This assumes that the amount of investment capital made available to each citizen would be only $3000 per year. This amounts to a 50% increase over the current national investment rate. This curve further assumes that the Federal Reserve uses traditional monetary restraints to limit economic growth to 3%. Under these assumptions, at the end of forty years, the per capita income floor would rise to $8,000. In fifty years it would rise to $12,000.

The middle curve also assumes only $3000 per capita investment, but assumes that the Federal Reserve relies on savings withholdings to control inflation. Under this scenario the 50% increase in the investment rate would push the growth rate to 4.6%. Under these assumptions, the income floor would rise to $11,000 in four decades. In five decades it would rise to $20,000.

The top curve represents the scenario recommended by Peoples' Capitalism. It assumes that the Fed provides sufficient credit to double the investment rate (i.e., about $6000 per capita), and employs saving withholdings to control inflation in an economy growing at 6% annually. Under this scenario, the income floor would rise to $29,000 per annum within forty years, and to nearly $60,000 p.a. within fifty years.

Bear in mind that Figure 1 shows only the income floor that would result from capital investments by individuals financed by credit from the Federal Reserve. Normal economic activity in the remainder of the economy would continue as usual, except at an accelerated pace in the upper two curves. In the top two scenarios, economic growth would be robust, interest rates low, jobs plentiful, and incomes from wages and salaries would rise. The influx of investment capital would raise the market value of traditional stocks and bonds. Markets would expand and business profits would soar. Everyone would benefit, rich and poor alike.

Of course, the effect on the poor would be the most profound. Within a single generation, poverty would cease to exist. Under the top scenario, the income floor for every individual would reach $29,000 per year within 40 years. In 50 years, the income floor for a family of four would be well over $200,000 per year. Because of the resulting increased purchasing power, markets would expand and jobs would be plentiful. It would thus be easy for those with ambition to earn additional income.

## VI. DISCUSSION

It is important to emphasize that Peoples' Capitalism is not a socialistic scheme to take from the rich to give to the poor. It is a capitalistic plan to promote ownership of productive assets. Peoples' Capitalism does not redistribute wealth through taxes or transfer payments. It creates new wealth without the involvement of any taxpayer money. It simply provides access for all to the capitalistic mechanisms of wealth creation. It enables everyone, poor as well as rich, to acquire capital with the earnings of capital by way of credit for investment in credit-worthy wealth-producing capital assets. In the current economic system, these opportunities are available only to the rich.

Today almost all capital is acquired with the earnings of capital. Relatively little is acquired with the earnings of labor. (Brealey 2005) The rich become richer by optimizing the use of credit: i.e., by acquiring credit-worthy assets with borrowed money, and repaying the loans with the earnings of the capital acquired. Peoples' Capitalism would give everyone access to credit for investment in profit making enterprises. Current bank lending policies encourage people use credit to consume now and pay later – with interest. Peoples' Capitalism would give people the power to use credit to acquire capital now and pay for it later – with earnings of capital. In this way, the poor will become able to buy what the economy will be able to produce.

It is also important to emphasize that although Peoples' Capitalism would provide a rising income floor under everyone, it would impose no income ceiling on anyone. People with ambition, skill, intelligence, hard work, and luck would continue to grow rich. Under Peoples' Capitalism, a rapidly expanding economy would provide many opportunities to accumulate great wealth, more than today. Income from broadened capital ownership would increasingly supplement other sources of money. People would continue to derive income from wages and salaries, rent, interest on savings, pensions, Social Security, and capital ownership just as they do today. The only difference is that everyone would have access to credit for acquiring capital assets, and everyone would have an income floor based on ownership of capital. Poor and working people would prosper as the economy grows. Poverty as we know it would decline and eventually disappear. As income from capital ownership grows, the need for welfare would decline, and the need to redistribute wealth through taxes would fade away.

If the United States were to adopt Peoples' Capitalism, within a generation every citizen would possess a substantial and growing level of disposable income from ownership of capital assets. This would generate a growing consumer market for industry and business. Productivity growth would be rapid because of the high rate of investment made increasingly profitable by the broadening of capital ownership. The ready availability of investment capital would keep interest rates low and economic growth high. Everyone would benefit at all levels of the economic system – rich, middle class, and poor.

In the process, every citizen would become a capitalist. Everyone would own capital assets. Everyone would derive a substantial income from ownership of the means of production. Everyone would have a piece of the action. Under these conditions, capitalism would create enough wealth to provide economic security and prosperity for all. This is the promise of Peoples' Capitalism.

## VII. ACKNOWLEDGEMENTS

It should be noted that the basic concept of providing access to capital for investment is not unique to Peoples' Capitalism. Louis Kelso and Mortimer Adler (1958) issued a *Capitalist Manifesto*. Kelso and Hetter (1967) published the *Two Factor Theory*. Based on this theory, legislation enabling Employee Stock Ownership Programs (ESOPs) was enacted into law by the U. S. Congress. Peoples' Capitalism would extend this concept to every citizen, and would diversify the ownership portfolio from a single company to a broad range of investment opportunities.

Although it was advanced under several names including “Universal Capitalism,” “The Second Income Plan,” and “Two-Factor Theory,” in his later writings, Louis Kelso settled on the term “binary economics” as the name of his theory.

Over the past third of a century, Norman Kurland has been active in the promotion of binary economics. Kurland founded the *Center for Economic and Social Justice* to promote the notion of widespread capital ownership. A book *Capital Homesteading* published by the center suggests detailed mechanisms by which access to credit for capital investment can be made available to all. (Kurland et al 2004)

Scholarly support for the concept of access to investment capital for all is found in Ashford and Shakespeare. (1999), and in Ashford (1998, 1996, 1990) In academia, Professor Ashford has been the leading proponent and explicator of binary economics. In his writings, he has distilled the unique features of binary economics to three fundamental principles: (1) labor and capital are independent (or binary) variables in production; (2) the more broadly capital is acquired the greater the market incentives to profitably employ existing capacity and invest in additional productive capacity; and (3) everyone should have the right to acquire capital with the earnings of capital.

**END NOTES**

[1] World poverty statistics http://www.globalissues.org/TradeRelated/Facts.asp

[2] World population statistics https://www.cia.gov/cia/publications/factbook/print/xx.html

[3] During World War II, the U.S. economy grew at a rate in excess of 12% per year despite that fact that most of the output was destroyed in the conflict. During the 1960s, the Japanese economy grew at a rate in excess of 8% per year. Over the last decade, the Chinese economy has grown at nearly 13% per year.

[4] For an analysis that the U.S. economy could grow on at a non-inflationary rate in excess of 10% per year, see Treval C. Powers, Leakage: The Bleeding of the American Economy (1996)

[5] See “A Plan to Eliminate Poverty” at http://www.PeoplesCapitalism.org

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