

A Nation of Owners

By Norman A. Bailey

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Two developments in recent years have created dilemmas for the American polity. The first is the growing knowledge and capital asset disparities within the social structure of the United States, even as the economy has entered into its longest period of expansion in history.

The second is the conundrum of what to do if the budget surpluses continue, shrinking the sum total of the national debt. This is already creating one problem, namely the need to find a new benchmark security. At some point the shrinking national debt will create another problem: On what asset will the Federal Reserve currency and credit issuance be based? At the moment, it is based almost entirely on treasury obligations, leading to the *reductio ad absurdum* that if the quantum of treasury debt reached zero, there would be no money supply.

Additionally, the institutions that were established to promote home ownership among Americans — Fannie Mae, Freddie Mac, and the home loan banks — have come under much criticism lately as the increasingly saturated mortgage market has prompted them to attempt expanding their activities.

But a house lived in by the owner is not an income-producing asset. On the contrary, it is a substantial financial drain on the owner/occupant. There is, paradoxically, no lender of last resort and no liquidity backup for income-producing capital assets.

Suppose, however, Congress established a Fannie-Mae type institution to assist Americans in building capital estates. Imagine a Federal National Capital Credit Association (FNCCA), supplemented perhaps with a Federal Capital Credit Insurance Corporation (FCCIC), both federally-chartered with all the Fannie-Mae characteristics as to taxes, bonds, and so on. Such an institution could purchase (discount) loans to all kinds of expanded capital asset associations, such as employee stock ownership trusts, consumer stock ownership trusts, community real estate investment trusts, etc. These loans would reflect productive private sector investment rather than government debt. The FCCIC would insure (or reinsure) such loans, which would be repaid from the earnings of the stocks or bonds acquired by the trusts, unlike home mortgages that must be repaid from earnings from sources external to the asset being financed.

Such a program (which would also require legislation to eliminate double taxation of corporate profits through deductibility of dividend payouts and to require full dividend payout of profits on the part of any corporation wishing to participate) would also provide a more secure asset for the Federal Reserve system to purchase as backing for the money supply than securities backed by homes.

Indeed, the Federal Reserve could insure an FNCCA and an FCCIC were unnecessary by simply discounting capital ownership expansion loans directly from approved financial institutions. However, that may be too much to ask of the Federal Reserve, which has spent every decade since its inception not doing what its founders intended — acting as lender of last resort to the productive economy, not to the government. In the alternative, the Federal Reserve could discount member bank loans bundled by the FNCCA and insured by the FCCIC.

In this way, the country would address the problem of asset and knowledge disparities by spreading productive asset ownership to ever-greater numbers of people. Increasingly, more Americans would be able to live from asset earnings, supplementing or even replacing their labor-based wages or salaries. Thus, they would be able to devote time to acquiring knowledge of all kinds. In addition, the problems of Social Security and Medicare would be alleviated, and the Federal Reserve would be issuing a currency truly based on the productive capacity of the American economy, not on the ability of its politicians to spend money.

About the author:

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