

THE REAL THIRD WAY

A NEW PARADIGM FOR COMBINING FREE MARKET GROWTH AND UNIVERSAL ECONOMIC
EMPOWERMENT FOR ALL FAMILIES AND COMMUNITIES
IN 21ST CENTURY AFRICA

By Norman G. Kurland, Michael D. Greaney
And Dawn K. Brohawn

Delivered at a Plenary Session of the Conference for Microentrepreneurs,
“Accessing Sub-Regional and International Markets: Opportunities for African Entrepreneurs”

Organized by AFRICARIBÉ Microenterprise Network

Sponsored by the African Development Bank

Abidjan, Côte d’Ivoire, West Africa

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Introduction

Let’s start by imagining that the global economy surrounding the African micro-entrepreneur is like an ocean. The micro-entrepreneur is a tiny fish in that ocean. If that fish is to survive and thrive, the ocean must be healthy and nourishing, not only for the small fish but also for the largest fish.

Now let’s look at the ocean in which entrepreneurs like you have to sink or swim. My presentation today is aimed at restoring a healthy environment for all the players in the emerging African common market. This includes ordinary workers, micro-entrepreneurs, and those who own and control giant national and global corporations who have something to contribute to the development of a just market economy throughout Africa. Within the appropriate legal and institutional environment, all businesses enjoy synergies and symbiotic relationships with each other. In a poisoned environment, they all perish.

What are the dangers of economic globalization, and how can African business leaders organize together to shape the future of the emerging African common market? The answers can be found in a new paradigm or world view — which I call the Real Third Way — for analyzing and solving problems of economic development.¹ The Real Third Way offers a different but highly principled development model. It also offers a very practical and innovative way that African countries can acquire the most advanced technologies of the wealthier nations, without re-introducing economic colonialism in the process. Let’s start by looking at family life in today’s world.

The Role of the Family in the Modern World

¹ See Robert Ashford and Rodney Shakespeare, *Binary Economics: The New Paradigm*. Lanham, Maryland: University Press of America, Inc., 1999; John H. Miller, ed., *Curing World Poverty: The New Role of Property*. Saint Louis, Missouri: Social Justice Review, 1994; Louis O. Kelso and Mortimer J. Adler, *The Capitalist Manifesto*. New York: Random House, 1958.

During the five days we will be gathered in Abidjan a hidden holocaust will be occurring: over 600 thousand children around the world will have had their lives terminated, either because their parents do not want them or because they cannot afford to raise them. They are among the 46 million pregnancies that are aborted annually, according to a recent report of the Alan Guttmacher Institute. These figures do not count the millions more children who die daily from infanticide, malnutrition, disease, and gross neglect and abuse.

Now let's examine the global economic root causes for this collapse of the moral order.

In his Letter to Families on February 22, 1994, Pope John Paul II warned us, "[V]arious programs backed by very powerful resources nowadays seem to aim at the breakdown of the family," the fundamental unit of any society. He then pointed out that "stable families require stable incomes."

Let us now examine the economic forces which systematically deprive most families in the world from ever acquiring adequate and secure incomes, despite the world's growing technological capacity to produce in abundance for all. We will then turn to a practical solution that can unite mankind, based on universal principles of economic and social justice.

A Different Perspective on Economic Globalization

Unless they reject traditional models of development and restructure their basic economic institutions along sounder principles, most people around the world will find themselves increasingly vulnerable to becoming the next victims of an uncontrollable force greater than any natural disaster the world has encountered in its recorded history.

"The economic firestorm that has been scorching economies around the globe is intensifying into one of the world's worst — and most baffling — currency crises since the system of fixed exchange rates crumbled a quarter of a century ago." That is how *The Wall Street Journal* characterized the latest round of global economic catastrophes.² The problem is that no one seems to have a workable solution. As the article states, "What makes the crisis so unnerving is that there is no clear solution in sight — no financial firebreak that governments or international financial institutions can construct to slow the spread."

This general pessimism is increased by a growing awareness of a force that is greater than the power of any nation state in the world, the force of economic globalization. This is the conclusion of best-selling author William Greider in his new book, *One World, Ready or Not: The Manic Logic of Global Capitalism*. Greider points out that economic globalization — driven by a financial elite with the power to shift billions of dollars almost instantaneously from one country to another — is a reality and will not go away. The ability of those who control money and finance to topple seemingly invulnerable heads of state was evidenced in the overthrow of Indonesia's President Suharto.

The subordination of world political leaders to the controllers of money was predictable at least a century ago when one of the world's earliest financial capitalists, Baron Mayer Anshel

² "As Currency Crisis Spreads, Need of a Cure Grows More Pressing," *The Wall Street Journal*, August 24, 1998.

Rothschild, was quoted as saying, “Give me control over money and credit, and I care not who makes the laws.”

But for most people economic globalization means a growing gap between rich and poor, technological alienation of the worker from the means of production, and the phenomenon of “wage arbitrage,” where global corporations and strategic alliances can force workers in high-cost wage markets to compete with labor-saving tools and foreign workers costing less to hire.

Even in the United States, which today seems to be enjoying relative economic prosperity in the midst of the world’s financial slide into depression, is showing similar symptoms. The USA has one of the widest gaps between the “haves” and “have-nots.” American business has the widest pay gap between CEOs and ordinary workers, and it is growing wider. Low unemployment masks an underlying displacement of workers by technology and cheaper foreign labor, resulting in greater economic uncertainty and shakier retirement incomes.

This lack of direction is reflected in growing demands that “something be done,” but with a conspicuous absence of anything substantive, other than the stale prescriptions of the past.

Is There a “Third Way”?

Media pundits are now talking about a “Third Way,” but none of them seems to know quite what it is. People on the left who are positive toward the idea describe it as socialism with a capitalist whitewash; people on the right claim it is capitalism with a socialist veneer. The European and US power elite, represented by Britain’s Prime Minister Tony Blair and America’s President Bill Clinton, have begun using the phrase, but have failed to define it in any meaningful way. On September 21, 1998 Clinton, Blair and Italy’s Romano Prodi headed a global forum at the New York University Law School to try to give content to “The Third Way.”

Many skeptics view this new summit meeting as an attempt to give moral legitimacy to the Wall Street capitalist approach to economic globalization. The Washington Post on August 30th editorialized that “there is in fact no third way”, adding to the confusion on what Clinton and Blair have in mind.

In contrast to the intellectual fuzziness now pervading high policy circles, this paper asserts that no Third Way is a genuine “Third Way” if it:

- Does not economically empower the people,
- Keeps economic and social power, especially over advanced technologies, concentrated in the hands of an elite,
- Keeps most people in a status of servile dependency on the state or other people,
- Lacks a coherent theory and principles of economic justice to guide policy makers,
- Lacks a structured system for closing the gap between the rich and the poor within the evolving global marketplace,

- Ties income security to vulnerable income redistribution schemes, instead of encouraging asset-backed systems that link future consumption incomes with future wealth production, and
- Ignores the central role of such “social tools” as money, capital credit and central banking in determining whether access to future growth assets and future economic power will remain monopolized by a wealthy elite or broadly diffused among all individuals and families.

Is there a solution? Yes. There is a real “Third Way” that addresses the fundamental structural weaknesses of traditional answers supplied by the right and left. It offers a new vision and a new model for development for countries of the world in which they can succeed to their fullest potential within the framework of a global marketplace.

The Real Third Way

Let’s examine more closely the Washington Post’s statement that no third way exists. On the one hand there is capitalism, an economic system governed by market forces but where economic power is concentrated in the hands of a few who own and control productive capital. An illustration of this system is Bill Gates, who without any extra effort on his part, went from US\$16 billion in assets to over US\$50 billion within a year — a greater accumulation of assets than those of 50% of the American people combined. Most workers-for-hire have great difficulty paying off their consumer debt, let alone accumulating any income-producing assets. Indeed, “capital breeds capital” but only for those who own most of it.

On the other hand, socialism, in all its forms, is an economic system governed centrally by a political elite, who enjoy even more highly concentrated ownership and economic power. And in practice, socialism doesn’t work. The world is full of examples of traditionally state-dominated economies which cannot meet their massive foreign debt obligations or compete effectively in the emerging global marketplace.

Logically, a “third way” would be a free market system which economically empowers all individuals and families through direct and effective ownership of the means of production — the ultimate check in any society against the potential for corruption and abuse of power.

A mistake made by many academics and economists today is to equate democracy and the market system with the top-down, Wall Street capitalist model, with its growing gap of wealth and power between the rich and the poor. That there is excessive corruption under capitalism and socialism, even where governments are democratically elected, should come as no surprise. Lord Acton warned us years ago about the inherent corruptibility of systems that concentrate power.

Capitalist theorists like Milton Friedman pay no attention to concentrated ownership of labor-displacing technology. Marxist theorists do, but conclude that the state should own and regulate all means of production. Keynesians offer a feeble synthesis between these two models of development based on the premise that maldistribution of ownership is acceptable. The so-called “Third Way” of Clinton and Blair follows the Keynesian model.

As recognized by Bill Greider in Chapter 18 of his new book previously cited, lawyer-economist Louis O. Kelso in 1958 fathered a real “Third Way.” Kelso conceived a comprehensive systems approach to solving the structural problems faced by Russia, Indonesia and many other economies that have become dependent on those who today control money and credit. Kelso’s 1958 book with renowned Aristotelian scholar Mortimer J. Adler centered on a profound theory of economic justice and clear vision of the impact of technology on human work, and how modern corporate finance has influenced the quality of work and thus the political and moral life of society.

Most scholars never got past the cover of the first Kelso-Adler book, which was unfortunately entitled *The Capitalist Manifesto*. Kelso, however, has gained international fame as the inventor of the Employee Stock Ownership Plan or “ESOP,” one of the tools he developed to democratize access to money and credit. Remarkably, however, his larger vision and general theory have been trivialized and virtually ignored by academia and the mainstream media. This largely explains why economists cannot understand or solve the problems arising from economic globalization.

Kelso’s revolutionary insights helped him to solve an economic enigma: How Say’s Law of Markets — rejected both by Marx and Keynes — can achieve sustainable and balanced growth in a modern global economy. His legal background enabled him to see how the structuring of basic laws and institutions creates a system that either concentrates or decentralizes ownership and economic power, that encourages participation by all or which creates barriers to participation. Focusing on the means by which ordinary people could become owners of productive assets and participate more fully in the economic process, Kelso provided the systems theory and practical mechanisms, like the ESOP, for implementing expanded ownership around the world.

Why Free Market Solutions Alone Fail

Encouraged in the 1980s by Ronald Reagan’s and Margaret Thatcher’s powerful advocacy of privatization initiatives to counter socialism and the Welfare State, academicians and investment bankers have rushed into advanced, transforming and developing economies to promote traditional Wall Street capitalist solutions. All these solutions, however, sound dismally the same: “shock therapy,” more foreign investment, a Wall Street-style stock exchange, top-down money and credit markets, and numerous tax breaks and special privileges to mirror the labyrinthine US tax system.

Surely these “privatization experts” can do better than to sell an already-failed and incomplete model. Why saddle the rest of the world with a tendency to recession and more class division? Why should experts promote grossly concentrated ownership of corporate equity, over-dependence on foreign investment to fuel the economy, increasing marginalization of the labor force, and institutionalized gambling on a national stock exchange?

Before their future is decided for them on a permanent basis, people should ask whether the prescriptions being touted will really build a better society for every citizen — or will the Wall Street capitalist model, once again, merely empower a small elite? Is capitalism the only logical alternative for rebuilding, transforming, or revitalizing an economy? Is it possible to conceive of

a globalized free enterprise alternative to the wage/welfare systems of capitalism and socialism, one consistent with the vision of America's founding fathers — a truly revolutionary and just "Third Way" for families everywhere?

Lessons from the First American Revolution

The connection between widespread distribution of property and political democracy was evident to America's founders. This understanding was reflected in the 1776 Virginia Declaration of Rights, the forerunner of America's Declaration of Independence and Bill of Rights. Following John Locke's triad of fundamental and inalienable rights, the Virginia Declaration of Rights declared that securing "Life, Liberty, with the means of acquiring and possessing Property" is the highest purpose for which any just government is formed.

Power exists in society whether or not particular individuals own property. However, if we accept Lord Acton's insight that "power tends to corrupt and absolute power corrupts absolutely," our best safeguard against the corruptibility of concentrated power is decentralized power, especially economic power. If Daniel Webster is also correct that "power naturally and necessarily follows property," then democratizing ownership is essential for democratizing power.

In the economic world, property performs the same power-diffusion function that the ballot does in politics. It does more. It makes the ballot-holder economically independent of those who wield political power.

With the abolition of slavery and feudalism, the United States insured that no person would ever again become the property of another. Through this and other limitations on the rights of private property, a just government transcends the weaknesses of a pure laissez-faire approach to ownership rights. However, by fulfilling its duty to all its citizens to lift barriers to private property in the means of production, government builds a permanent political constituency for a free market economy.

Looking Beyond Socialism and Capitalism

Both socialism and capitalism concentrate economic power at the top. It makes little difference that under capitalism the concentration is in private hands and under socialism the concentration is in the hands of the state. Both systems are excessively materialistic in their basic principles and overall vision. Both, in their own ways, degrade the individual worker. Both bring forth economic systems which ignore and inhibit intellectual and spiritual development.

Amalgams of the two systems, as in America's so-called "mixed economy" or the Scandinavian welfare state model, differ only in their degree of social injustice, corruption, economic inefficiency, human insecurity and alienation which permeate each level of class-divided societies. What then would be the true "Third Way" for moving toward a freer, more just and economically classless society?

Mistakes of the Left and the Right

Most schemes being promoted by experts keep repeating the mistakes of the past. From the academic right come proposals that assume that free markets alone will bring prosperity and justice to workers. However, the right never explains how the unrestrained forces of the market can ever match consumer production (i.e., aggregate supply) with consumption incomes (i.e., aggregate demand), where ownership of advanced labor-displacing technology is owned by a tiny fraction of the world's consumers, and old capital "breeds" (i.e., finances) new capital in ways that create few if any new owners. A systemic mismatch is inevitable, together with social conflicts, disorder and a growing gap between the rich and the rest of society. Bill Gates of Microsoft, with his US\$50 billion, cannot possibly spend all the consumption income earned by his productive assets.

From one side of the muddled middle come ideas to fight economic globalization by retreating behind defensive proposals to restore mercantilism, protectionism and economic balkanization. Others in the political middle react to the dangers of globalization with "Marshall Plan" proposals to pump billions in new foreign assistance money each year into transforming economies, promoting welfare state systems that would ensure every worker displaced by privatization some form of subsidy in return for his labor, also ignoring a worker's right to own and share profits from new and privatized enterprises.

And from the academic left, clinging to the cobwebs of socialism, come proposals to rectify imbalances from maldistribution of capital ownership, generally by fighting the immutable laws of supply and demand in favor of new forms of collectivism and confiscatory progressive income taxes aimed at "robbing the rich and giving to the poor." This would ensure a handout for all citizens on the dole, regardless of their efforts or the demands of justice.

The Fatal Omission

Each of these approaches commits a fatal error. The right remain blind to institutional barriers to broadened ownership, thus implicitly limiting the ownership of productive assets to a tiny elite. This ensures that most workers will receive income only from selling their labor, in direct competition with advancing technology and an expanding global work force. This view ultimately reduces the worker to an input of production. He can then be purchased cheaply and forced into unemployment if owners decide to relocate where labor rates are lower, or to replace people with machines. Exclusionary approaches to finance also make the recipient country dependent upon regular infusions of foreign capital to keep the economy going. Those in the middle and the left turn to government, not the market system, to solve the problems ignored by the right.

Historically, capitalism and socialism violate the rights that owners of productive property have in the fruits of production. Any excess is taken from owners and productive workers and redistributed among non-productive non-owners. This leaves more economic power in the hands of the state than is healthy for achieving genuine social and economic justice for all.

Ownership Without the Full Rights of Private Property: Socialism With a Different Face

Other schemes also have severe flaws. One seemingly attractive approach, the Scandinavian Plan (erroneously billed as the "Third Way"), relies on forcing companies to issue shares to a collective ownership trust set up in the name of the workers. Workers are insulated from direct shareholder rights, and are paid retirement or disability wages out of the earnings of the trust. No worker has any access to the power or profits associated with property rights in any of the company shares held by the trust. Payouts are determined by labor leaders and company managers who control the shares as trustees for the workers. This perpetuates the dependency of workers on their leaders, and invites new forms of elitism and corruption.

The Yugoslavian self-management model also falls short of embodying the Third Way. Self-management gives workers more say over their workplaces and jobs and some input into decisions. However, this is joint management, not joint ownership. All ownership remains collectivized in the hands of the state or in some other form of politicized ownership. The self-management model sometimes deteriorates into "management by committee," a lack of checks and balances in corporate governance, and an inability to make long term investment and operational decisions for meeting global competition.

The Basic Weakness of Any Wage System

What all of these approaches have in common is a reliance on the wage system, a Space Age form of feudalism. Whether the economy is capitalist, socialist, a variety of the welfare state, or some combination thereof, they all depend on the worker receiving his sole income and support in the form of wages for the only thing he has to sell: his labor.

No plan or proposal based on a wage system can truly call itself the Third Way. Whether the bosses are politicians or paid hirelings of a small ownership elite, the worker ends up being a wage-slave. Even a labor union, when it confines itself to obtaining higher wages and greater fixed "entitlements," does nothing to empower the worker or gain him real liberty and justice. The worker may be well paid, but in the end he is simply a wage-slave who gets more than the other wage-slaves. The owners of capital still have the power to shift their capital assets to areas of the world where market wage rates are cheapest.

Beyond the Wage System

Higher wages are not the focus of the real Third Way. The Third Way is a systematic approach, balancing the demands of participative and distributive justice by lifting institutional barriers which have historically separated owners from non-owners.³ This involves removing the roadblocks preventing people from participating fully in the economic process as both workers and owners. Then more people can then begin earning higher incomes from their own capital, as well as from their labor.

³The moral framework of the Third Way is discussed in greater detail in Chapter V of Louis Kelso and Mortimer Adler's profound book with the misleading title, *The Capitalist Manifesto* (New York: Random House, 1958). A further refinement of the specific principles can be found in *Toward Economic and Social Justice* and *Curing World Poverty: The New Role of Property* (1994) Center for Economic and Social Justice, P.O. Box 40711, Washington, DC, 20016.

The emphasis of the Third Way is not on redistribution of income, but on providing people with social means and a legal system which will encourage them to create their own new wealth and share in profits broadly and equitably.

A major flaw in most wage systems is that higher wages are obtained through government intervention or collective bargaining pressures, rather than by the free choice of people within a system of equal ownership opportunities. If owners are better bargainers, wages are low. If workers can out-argue owners or force them to implement minimum wages supported by the state, wages are high. Neither side considers, except indirectly, how to link workers to labor-saving technology. Since capital is more mobile than labor in the global marketplace — being able to relocate to take advantage of lower wages in other areas — wage system workers remain at a permanent disadvantage.

Four Pillars for Building an Economically Just Society

All wage systems ignore one or more of what can be called the "Four Pillars" of the Third Way, four essential and interdependent principles for building a more just market economy. During the perilous transition periods of economic reform, leaving out any one of these pillars weakens the entire fabric of the economy and leads to eventual collapse. These four pillars are:

- Expanded Ownership of Productive Assets
- Limited Economic Power of the State
- The Restoration of Free and Open Markets
- The Restoration of Private Property

Expanded Ownership of Productive Capital: The Moral Omission of All Existing Economies

One of the most crucial problems that Marx addressed in his economic theories was that ownership of productive assets — "capital" — was limited to the very few. As a result no high technology market system could possibly produce sustainable growth, since working people would have only their labor to sell in direct competition with labor-displacing technology and a growing world population of workers willing to work for lower wages. Marx was right, the system had the seeds of its own collapse. Unfortunately, Marx's solution to this mismatch between the rising productiveness of technology and market-based consumption incomes was to concentrate even more control over productive wealth and power by mandating state ownership of all productive assets. This resulted in enormous concentrations of wealth and power in the hands of a new political elite. The real problem that Marx faced in confronting capitalism, however, was not private ownership of productive property, but concentration of ownership. Turning Marx upside down, making every worker an owner of a growing stake of income-producing property would, on the other hand, achieve economic justice for all, while sustaining quality growth within the disciplines of a free and market-based economy.

Limited Economic Power of the State

Limiting the economic power of the state ultimately involves the goal of shifting ownership and control over production and income distribution from the state to the people. To do this, the economic power of the state should be specifically limited to:

- Encouraging sustainable and life-enhancing growth and policing abuses within the private sector;
- Ending economic monopolies and special privileges;
- Lifting barriers to equal ownership opportunities, especially by reforming the money-creating powers of the central bank to provide widespread access to low-cost capital credit as the key to spreading ownership and economic empowerment for workers;
- Preventing inflation and providing a stable currency for sustainable development;
- Protecting property, enforcing contracts and settling disputes;
- Promoting democratic unions to bargain over worker and ownership rights;
- Protecting the environment; and
- Providing social safety nets for human emergencies.

Within these limits the state would promote economic justice for all citizens. Coincident with this objective would be the goal of reducing human conflict and waste and erecting an institutional environment that will encourage people to increase economic efficiency and create new wealth for themselves and the global marketplace. Increased production would also increase

total revenues for legitimate public sector purposes, reducing the need for income redistribution through confiscatory income taxes and social welfare payments.

Restoration of Free and Open Markets

Artificial or coercive determinations of prices, wages and profits lead to inefficiencies in the uses of resources and scarcity for all but those who control the system. Those in power either have too little information or wisdom to know what is right, or will set wages and prices to suit their own advantage. Just prices, just wages, and just profits are best set in a free, open and democratic marketplace, where consumer sovereignty ultimately reigns. Assuming economic democratization in the future ownership of the means of production, everyone's economic choices or "votes" on prices and wages influence the setting of economic values in the marketplace.

Establishing a free and open market would be accomplished by gradually eliminating all special privileges and monopolies created by the state, reducing all subsidies except for the most needy members of society, lifting barriers to free trade and free labor, ending all non-voluntary, artificial methods of determining prices, wages and profits. This would result in decentralizing economic choice and empowering each person as a consumer, a worker and an owner.

Wealth distribution assumes wealth creation, and technological and systems advances, according to recent studies, account for almost 90% of productivity growth in the modern world.⁴ Thus, balanced growth in a market economy depends on incomes distributed through widespread individual ownership of the means of production. The technological sources of production growth would then be automatically linked with the ownership-based consumption incomes needed to purchase new wealth from the market. Thus, Say's Law of Markets — which both Marx and Keynes attempted to refute — would become a practical reality for the first time since the Industrial Revolution began.

Restoration of Private Property

Owners' rights in private property are fundamental to any just economic order. Property secures personal choice, and is the key safeguard of all other human rights. By destroying private property, justice is denied. Private property, contrary to Marx, is the individual's link to the economic process in the same way that the secret ballot is his link to the political process. When either is absent, the individual is disconnected or "alienated" from the process.

Restoring the idea as well as the fact of private property — especially in corporate equity — would involve the reform of laws which prohibit or inhibit acquisition and possession of private property. This would include ensuring that all owners, including shareholders, are vested with their full rights to participate in control of their productive property, to improve corporate

⁴John W. Kendrick, "Productivity Trends and Recent Slowdown: Historical Perspective, Causal Factors, and Policy Options," *Contemporary Economic Problems*, 1979, American Enterprise Institute; also R. M. Solow, in K. J. Arrow, S. Karlin, and P. Suppes, eds., *Mathematical Methods in the Social Sciences*, 1959, pp. 89-104, Stanford University Press, 1960. Also: Edward Denison, "Accounting for United States Economic Growth: 1929-69," Washington, DC: Brookings Institution, 1974, and *Accounting for Slower Economic Growth: The United States in the 1970s*, Washington, DC: Brookings Institution, 1979.

transparency, to hold management accountable through shareholder representatives on the corporate board of directors, and to receive profits commensurate with their ownership stakes. Private property links income distribution to economic participation — not only by owners of existing assets, but also by new owners of future wealth.

Money and Credit for Building a Just Market Economy

Control over money and credit (i.e., financial capital) largely determines who will own and control productive capital in the future. Indeed, Baron Rothschild was right, as noted earlier.

A central issue in discussing any third way is whether those who create money and control credit today will use money and credit in the future in ways that exclude most people from participation in ownership and profits. Or will the people wake up to demand restructuring of today's money and credit systems to liberate themselves from continued economic domination by the few who control old wealth?

When the subject of money and money creation comes up, we sometimes forget that money is a man-made thing, and it is morally neutral. Its goodness or badness depends solely on how it is created and how it is used. Like the secret ballot in politics, money is a uniquely "social good," an invention of modern civilization, a means for measuring economic values and enabling people to participate in a market economy.

And that is the crux of the matter. Money is created and credit extended these days in ways that keep the rich wealthy, and the poor in their place. Consumer credit, for example, is available virtually to everyone, while access to capital (or "productive") credit is restricted to use by those who meet the universal requirement for collateral, i.e., the rich. Thus, the poor and middle-class get the most risky and highest cost credit, while the rich get the lowest-cost and least risky kind of credit. It is more than an outworn truism that you need money to make money, or that lenders will only extend capital credit to people who don't need to borrow.

Let us focus on the US\$1 trillion of growth assets added each year in the US public and private sectors, consisting of new technology, plant and equipment, physical infrastructure and rentable space. Amounting to a growth increment of US\$4,000 for every man, woman and child, these productive assets will be financed in ways that add no new owners. If capital credit were to become as universally accessible as the political ballot, capital assets could become a growing source of independent capital incomes for all persons and their families.

What makes capital credit special is that by nature it is procreative or "self-liquidating." That is, capital credit is restricted to the purchase of assets that are expected to pay for themselves out of the revenues generated from the capital project which it financed, and thereafter these assets are expected to earn a continuing flow of profit for whoever owns the assets. Capital credit is inherently counter-inflationary. Consumer credit, on the other hand, does not generate its own repayment, is inflationary and any repayment must come out of the user's other resources. When used to any significant extent, consumer credit greatly reduces the purchasing power of the user.

The Democratization of Productive Credit: A New Right of Citizenship

The primary social means to bring about expanded ownership of productive assets involves the democratization of productive, self-liquidating credit.

Anyone familiar with the overly consumption-oriented economies of the so-called developed world knows that it is far easier for the average citizen to obtain credit for non-productive purposes than to acquire productive property. Many Third World debtor nations have fallen into the same trap, incurring huge burdens of debt and spending the loan proceeds on projects that do not generate revenue to repay the loans. Consumer credit and other non-productive forms of credit entrap workers and nations into dependency on those who own and control the world's capital.

One way to unshackle workers from the slavery of the worker-for-hire system and from dependency on the redistributive Welfare State is to redirect society's uses of credit from non-productive and consumer purchases to faster rates of wealth production and more universal participation in the ownership and profits from enterprises which produce that new wealth. Productive capital assets, under professional management, are expected to pay for themselves out of future profits, and thus are inherently better credit risks.

By making productive credit available on a truly democratic basis, society moves people toward economic self-sufficiency and independence. A broad dispersion of wealth and power serves as the ultimate check against abuse of power by the state or by the majority against minorities or individual citizens.

Practical Applications

In judging the efficacy of any plan of economic reconstruction or reform, certain criteria are clear. First, it must be practical, solving real problems while avoiding the concentrations of wealth and power embodied in capitalist and socialist systems. Second, it must be efficient, providing the greatest benefit for the lowest cost. Finally, the plan must be just for all the people, not only the few at the top, to ensure that the efforts of ordinary citizens accrue to their benefit.

As the United States has one of the more successful economies in the world, the temptation is simply to copy the present American model. From the standpoint of democratizing economic power, this would be a mistake. As things stand now, most of the directly held corporate equity in the United States is concentrated in a few hands. Going from a mega-concentration of wealth and power under socialism to a super-concentration of wealth and power under capitalism would result in only a minor lessening of injustice.

The Homestead Act: An Historical Precedent

However, there are experiences in the history of the United States which account for its current relative success in the world. One historical analogy would provide an effective approach for broadening the base of capital ownership in order to avoid the evils of capitalism, and would place ownership and power directly into the hands of the people.

In the 1860s, Abraham Lincoln's Homestead Act turned thousands of people into owners of land, the single most valuable productive asset at the time, by giving them the opportunity to earn ownership of one hundred and sixty acres. The land itself wasn't given away. Each homesteader had to develop the land and work it for five years. He was then granted title.

Today's vast corporate wealth in the United States was largely created after the Homestead Act had turned many Americans into owners of productive property, and consisted of a kind of productive property not addressed by the Act. That most of the corporate wealth in the United States is appallingly concentrated in the hands of a few is due to the monopolistic tendencies of capitalism itself.

But a land-based Homestead Act is not the only method that can be used by the average worker to accumulate income-producing wealth. Since ever-improving technology accounts for most of the newly produced wealth in the today's world, limiting everyone to ownership opportunities in the land would merely result in a growing population dividing up a static amount of wealth into ever smaller pieces, ensuring poverty for themselves and their descendants. There are, however, social technologies that can be used to democratize individual ownership of a type of wealth — new tools of production being added to the world's expanding technological frontier — that has no limits save human creativity and ingenuity.

One New Social Tool: The Employee Stock Ownership Plan

One modern financial technology to enable the acquisition of companies by their employees is known as the Employee Stock Ownership Plan (ESOP). The ESOP has been enacted into over twenty US laws and being increasingly used in the United States, the United Kingdom and a growing number of other countries. The finest model in the Third World is the Alexandria Tire Company of Egypt, where over 600 workers acquired the largest block of shares in a US\$160 million joint venture with Pirelli Tire of Italy. What makes it different from other ways for workers to purchase ownership shares is that the ESOP is a credit democratization vehicle designed specifically to attract capital credit to enable many workers with little or no assets to gain significant as opposed to token ownership opportunities, and to pay for their shares from corporate profits, not reduced take-home income.

The ESOP is a social technology which is totally different from collective ownership or the "Bolshevization of Capital," because it is based on the full restoration of private property in the means of production. The ESOP diffuses economic power by enabling workers who have no savings to purchase shares in the companies in which they are employed.

As Marx observed, conflict between owners and workers is built into the capitalist system. However, by turning workers into owners of the companies in which they labor, class conflict between labor and capital largely disappears. Professional managers are still needed to make day-to-day decisions, but are subject to a democratic accountability. Conflict is reduced because labor and capital now share a common interest in the success of an enterprise — measured by profits.

With workers as owners, companies would be able to maximize their competitive edge. It would be to the advantage of the workers to keep costs down by keeping their own fixed wages at the

lowest possible subsistence level, and then receive most of their money by dividing up — as owners — the greater profits that would result.

The role of the union would change under this scenario. Instead of continually confronting management and owners with higher wage and benefit demands, the union would work with owners and management while serving as a check on the power of capital concentrated in the hands of management. The union would protect the ownership rights of non-management workers.

The Capital Homestead Program: A Long-Range Plan

The rest of the world now have the same opportunity with state-owned accumulations of industrial wealth that the United States had with its vast holdings of land. The question is how best to take advantage of this historic, but quickly disappearing opportunity. The United States used the Homestead Act to attain widespread capital ownership. It is now up to the people of the world to choose what method they will use.

What is needed today is an "Capital Homestead Program" for the transforming economies. This would give ordinary citizens access to the means to earn ownership of the current and future wealth of their nation, rather than having the ownership handed to them or sold out from under them. Many governments throughout the world hold tremendous capital resources which their own citizens need to transform their country into a more just economy and political order.

Essentially, the question is how to make a free enterprise economy work while building a broader political constituency for free enterprise growth. How can we avoid the concentration of wealth in the hands of the few that inevitably accompanies capitalism, and the predictable and even more destructive backlash of socialism?

A Capital Homestead Program⁵ would approach the problem on both the macro- and micro-economic scale. Components of a Capital Homesteading strategy are interdependent, supporting the total program like the legs of a tripod:

- Simplifying the national tax system,
- Conforming national monetary policy to supply-side economic goals, and
- Linking tax and monetary reforms to the goal of expanded capital ownership.

Simplification of the national tax system

The simplest income tax system for the modern industrial state is one where income from all sources, whether from labor or capital, is taxed at a single rate, while exempting incomes of the very poor and deferring incomes used to enable workers, the poor and citizens generally to

⁵For details, see "*Beyond ESOP: Steps Toward Tax Justice*" in *Curing World Poverty: The New Role of Property* (1994) and other publications of the Center for Economic and Social Justice, Washington, DC.

accumulate assets needed to supplement their wages and retirement incomes. This would eliminate the unfairness of tax systems that exempt income derived from capital or act punitively against income that exceeds a certain amount.

A simplified, flat-rate tax on all consumption incomes above the poverty level would provide the most direct means for balancing the national budget and restraining excessive government spending, including spending on unworkable social welfare programs. It would also eliminate the traditional double taxation of profits in ways that would maximize greater savings and investments in new plant and equipment, plus removing other features that discourage ownership. This would also force politicians to compete on who can provide the best government at the lowest cost.

Inheritance, gift and wealth taxes would be redesigned to spread broadly ownership of large aggregates of existing wealth, rather than passing monopolistic accumulations of wealth and economic power from one generation to the next.

Reforming national monetary policy to conform to supply-side economic goals

New policies would free economic growth from the slavery of past savings, while creating a domestic source of new money and expanded bank credit to finance new capital repayable out of "future savings." A two-tiered interest policy by the central bank would draw a sharp line between productive and non-productive uses of credit. The upper tier would allow substantially higher interest rates for non-productive purposes, for which "past savings" would remain available. The central bank would be restrained from future monetization of national deficits or encouraging other forms of non-productive uses of credit, causing upper-tier credit to seek out already accumulated savings at market rates.

Any future increase in the money supply would be linked to actual growth of the economy, creating new owners of new capital through widespread access to low-cost capital credit repayable with future profits. The lower tier would be achieved by requiring the central bank to discount at a low "service charge" (but subject to a 100% reserve requirement) "eligible" industrial, agricultural and commercial paper financed through the banking system. Thus, the central bank would create (i.e., "monetize") lower-tier credit. Lenders would add their normal markup above their cost of money, establishing an unsubsidized minimal rate for financing rapid technological growth. This would provide the public with an asset-backed currency reflected in more efficient instruments of production.

Besides monetizing the creation of new wealth in ways that create new owners, monetary policy makers should also encourage the establishment in the private sector of insurance and reinsurance pools to offset the risk that the enterprises issuing new shares on credit will fail to repay the loans. Such capital credit default insurance would substitute for "collateral" demanded by most lenders to cover the risk of non-payment, thus enabling the poor and others with few assets to overcome the classic collateral-ization barrier that excludes poor people from access to productive credit. Insurance is the rational way to deal with risk, as well as providing an additional check on the quality of loans being supported by the central bank.

Linking tax and monetary reforms to the goal of expanded capital ownership

It is important to encourage all citizens to accumulate a direct private property ownership stake in the country's growing technological frontier, and to ensure the broadest possible base of direct beneficiaries (and thus political supporters) of future market-oriented reforms and policies.

Past accumulations can become more widely diffused through reforms of inheritance and gift tax laws. Greater emphasis should be placed on more enlightened tax and credit policies to spread ownership of future accumulations resulting from technological advances.

Eliminating existing ownership barriers would eventually create for every citizen a personal estate or "Capital Homestead" large enough to provide a decent retirement income from enterprise dividends. This individualized accumulator of capital would be exempt from all taxes until distributed as consumption incomes, reducing much of the pressure of taxpayer-supported social security and welfare systems. In this way, each citizen's capital accumulation would be the modern equivalent of the quarter-section of land provided by the original Homestead Act in the United States. The Employee Share Ownership Plan (ESOP) and its variations such as the Consumer Share Ownership Plan (CSOP), the Individual Share Ownership Plan (ISOP) and the Community Investment Corporation (CIC), would serve as the basic capital credit vehicles for linking new monetized credit and a tax system friendly to productivity growth with the expanding base of owners under a Capital Homestead Program. Each of these Third Way vehicles would help accelerate rates of growth of private sector enterprises by providing their new shareholders easy access to low-cost bank credit for buying growth shares repayable out of future growth profits.

The Goal of the Capital Homestead Program

As productivity of technology increases, fewer workers will be needed to produce the necessities and even the luxuries of life. As capital displaces workers in the future, without the Third Way, the status of a worker under both capitalism and socialism will change from being a wage slave dependent for his subsistence on a wage system to a welfare slave dependent on the politicians and bureaucrats of a redistributive Welfare State.

The crucial element for avoiding this bleak future is expanded capital ownership. In transforming state-owned enterprises and farms into effective competitors in the global marketplace, in encouraging advanced technologies, and in launching the new enterprises for growing the economy, today's unemployed and under-employed would become absorbed and trained on-the-job within a vigorously dynamic and more just private sector. Connecting each worker through ownership to an expanding pool of wealth created by more and more efficient technology will ensure that each citizen can participate directly in how that wealth is produced.

In its initial stages, a program of expanded capital ownership will primarily affect the workers — the people who must become motivated to work together to turn failing or unproductive companies and industries into successes and to build a high-growth, technologically advanced market economy. The ultimate goal of a Capital Homestead Program, however, is for every citizen to have access to sufficient credit to become an owner of productive assets. Each citizen's "Capital Homestead" would ensure that he could attain a living income without having to rely on

wages from his labor alone. Such a system would greatly reduce society's burden of supporting the unemployed and permanently incapacitated. It would enable mothers to become owners while freeing them to stay home raising their children. It would provide retirement assets for civil servants, teachers, police, the military and others not working in the for-profit sector. By producing a living income for its owners, modern technology and other income-producing assets could eventually liberate all human beings to enrich their lives materially, intellectually and spiritually.

A New Vision of the Future: The Transformation of Human Work

A Capital Homestead Program represents one concrete proposal for moving toward the long-range vision of the Third Way. The Third Way itself embodies a moral philosophy and evolutionary process for transforming the institutional environment — legal, financial, cultural and moral systems — to democratize economic power and improve the quality of life for everyone.

In striving to "make every worker an owner," the Third Way recognizes that by nature every person is a worker. Under the wage system framework, the concept of "work" has been stripped of much of its dignity, consigned only to that portion of human endeavor dealing with "making a living." In its larger context, however, work involves physical, mental and spiritual forms of human activity, from manual labor to meditation.

The Third Way strives to liberate an increasing number of workers from work that can be done by machines. For those who continue to perform work within the market economy, the Third Way transforms the culture, enterprise by enterprise, from the conflict-ridden wage system culture to a permanent, more synergistic ownership culture. This new culture of work has been called "Value-Based Management (VBM)," reflecting the Kelso-Adler principles of economic justice.⁶ The following graphic compares the main features of a conventional "wage system" corporate culture with that of a ownership-sharing corporation. This reflects the radical differences in leadership philosophy between the two cultures.

⁶ See Dawn K. Brohawn, "Value-Based Management: A Framework for Equity and Justice in the Workplace"; and Norman G. Kurland, "Economic Justice in the Age of the Robot"; in *Curing World Poverty, Ibid.*

Within the paradigm of the Third Way, the highest form of work is not economic labor, but unpaid "leisure work" — the work of building a civilization, work which no machine can perform. Throughout history, creative work has mainly been engaged in by individuals with independent incomes, those who were supported by a patron or by someone else's labor. The Third Way provides a means whereby more people can engage in "leisure work" a growing part of their lives and be supported by an independent capital income produced by their own "technology slaves."

Pursuing Economic Justice, Not Utopia

Mankind will probably never achieve the "perfect" economic system where all drudgery is eliminated and everyone is free to do the work they prefer. However, before the opportunity passes, it becomes imperative for all economies of the world to continue to create new life-enhancing technologies and ensure that their ownership and control is systematically diffused among all individuals and their families. The alternative is a pendulum swing between capitalism and socialism, where any period of stability merely serves as preparation for the next violent overthrow.

Many aspects of the Third Way will be determined by reforming tax, banking and other laws that affect the process of democratizing productive credit. How this democratization is brought about — the timing, priorities and procedures — are social issues best discussed in an open and democratic fashion by people aspiring to build a free and just future for themselves.

For years the capitalist world has guarded against socialism. In this rare moment in history and to protect their citizens against the loss of economic sovereignty under the Wall Street capitalist model for economic globalization, all nations of the world have a chance to implement for their citizens a new and bloodless economic revolution, one consistent with the unrealized ownership vision and ideals of America's founding fathers. As they search for a better life, the citizens of developing and transforming economies — as well as those living in the developed countries themselves — need something better than the outmoded and dehumanizing systems of traditional socialism and capitalism. Nations now have the power to create new property for the poor, without taking existing property from the rich. There is another model for economic globalization, a true third way forward.

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