

The Role of the State in the Economic Transformation of Society
A Convocation of World Leaders
New York, New York
January 26-30, 2001

Introduction, Antonio L. Betancourt L.

Moral Principles in the State, Society, and Economic, Norman C. Kurland

The Role of the Central Bank in the Twenty-first Century, Norman Bailey

The Role of the State in the Economic Transformation, Walter E. Fauntroy

Introduction

Antonio L. Betancourt

President, World Institute for Development and Peace

For all of the efforts of governments, we see too little evidence that the modern nation-state assists the transformation of society economically and builds a culture of peace. There are good reasons for this ineffectiveness. Primary among them is a reluctance to admit the role of moral principle and sound theory in structuring approaches to social problems.

We first must consider the place that universal moral principles have in the state, in society, and in our economic and political relations with others. Moral absolutes have definite applications in the establishment of genuine democracy. Economic democratization—economically empowering each individual in society—is essential to building a culture of peace, if for no other reason than, as Daniel Webster said, “power naturally and necessarily follows property.”

If we truly wish to empower people politically and socially, then real democracy must include economic democracy. The right to be politically free must necessarily include the right to be economically free, and every citizen of every country has a natural right of access to the means of acquiring and possessing property. The key means is the use of the institutions of money and credit in our society. By this, we do not mean merely property in consumer goods, a right with which even Marx agreed, but property in productive assets. These are assets that, in addition to or in conjunction with the labor that people own, can generate an income for the owner.

The modern nation-state often exercises a great deal of control over the institutions of money and credit in our society. Such power by the state is rarely, if ever, used to democratize citizen access to productive property. Frequently the modern central bank is used to finance government deficits or manipulate the currency for the benefit of a financial or political elite by buying and selling its own government’s securities in direct contravention of classic central banking theory.

The result is that many poor and developing countries are forced to go, hat in hand, to international financial institutions like the World Bank and the International Monetary Fund, for development financing. They could, instead, handle the matter internally and use self-generated credit guaranteed by capital credit insurance and reinsurance, with the financial resources of the rich countries of the world as a backup to their own efforts. The nation-state can take effective control of its money and credit institutions for the benefit of all its citizens, not just an elite,

through the proper use of the central bank, an avenue of economic and social development open to every nation.

Local communities also have a role in achieving the goals set forth. A commitment at the community level can do more to reach desired ends than many state programs which promise much, cost a great deal of money, and deliver nothing other than jobs for bureaucrats. An effective program of state assistance which results in true community empowerment, not a superficial show for foreign observers or domestic voters at election time, is necessary. Finally, the principle of subsidiarity states that the people closest to the situation are the ones who should be empowered and charged with responsibility for maintaining the effectiveness of local institutions, or reforming them when they prove to be inadequate or harmful to the common good.

Moral Principles in the State, Society, and Economic Relations

Dr. Norman C. Kurland

Cofounder and President, Center of Economic and Social Justice; President and Managing Director, Equity Expansion International, Inc.

This is a great opportunity to address questions that are not really being discussed at top leadership levels—the role of the state, the notion of power, what is justice, what are the principles. The reason that they're so important is that there was a statement made after the last election in the United States which troubled me, and it should trouble you. The statement was that to take a stand on what is right is politically divisive. To take a stand on what is just is politically divisive.

Let us talk about power from a standpoint that Lord Acton, used when he talked about power. He said, "All power tends to corrupt, and absolute power corrupts absolutely." We know that we cannot eliminate power. The question is, what is the antidote to the inevitable corruption of concentrated power? Is it to put more power in the state, which is a natural monopoly of the instruments of coercion and violence, the only legitimate social monopoly? Or is it to see that power is broadly dispersed? Friends from Brazil use the term "pulverization of power." And if power follows property, do we eliminate property? Do we change the laws of property? Or do we preserve and conserve the laws of property, and make sure that property is accessible to every human being as a fundamental right? These are the questions we should be talking about. We can take a stand on what is right.

Let me look at the problem of economic globalization. There is a quote in the *Wall Street Journal* that read, "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." This is how the *Wall Street Journal* characterized the last round of global economic catastrophes.

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, whether it's the United States or the European Union. That is the force of economic globalization.

This happens to be the conclusion in a book by the best-selling writer, author William Greider, in a book called *One World, Ready or Not*. The subtitle is, *The Manic Logic of Global Capitalism*. Greider pointed 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 such leaders as President Suharto of Indonesia.

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, Meyer Amschel Rothschild,

was quoted as saying, “Let me issue and control a nation’s money, and I care not who makes the law.” That’s going to be a central theme of our presentation today.

But for most people economic globalization means a growing gap between the rich and the poor, technological alienation of the worker from the means of production, and the phenomenon of wage arbitrage. As a matter of fact, when I talk with my grandsons I say, “Fifty years from now we’ll be looking at the modern era and describing it as a space-age form of feudalism.” Norman Bailey will go into that to another extent.

Global corporations and strategic alliances can force workers in high-cost wage markets to compete with labor-saving tools and foreign workers willing to take less pay for the same work. This was an observation made by my teacher, my mentor, Louis Kelso. Even the United States, which today seems to be enjoying relative economic prosperity, it’s showing similar symptoms. The United States has one of the widest pay gaps between chief executive officers 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. To make ends meet, mothers are forced into the workforce, adding additional pressures to the well-being of many families. This lack of direction is reflected in the growing demand 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? In contrast to the intellectual fuzziness now pervading high policy circles, I would say that for every country of the world, this paper asserts that no third way is a genuine third way if it does not economically empower all citizens. If it keeps economic and social power, especially over advanced technologies, concentrated in the hands of an elite. If it keeps most people in the status of servile dependency on the state or on other people. If it lacks a coherent theory and principles of economic justice to guide policymakers. If it lacks a structured system for closing the gap between the rich and the poor within the evolving global marketplace. If it ties social security to income redistribution schemes, instead of encouraging asset-backed systems that link future consumption incomes to future wealth production, and if it ignores the central role of such social tools as money, capital credit, and central banking in determining whether access to future growth and future economic power will remain monopolized by a wealthy elite, or be broadly diffused.

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. And this is the ultimate check on the potential abuse of the centralized power of the state. This was recognized by the original American revolutionaries that political power and economic power, political democracy and economic democracy, could not be divided. You cannot have an effective political democracy—we can see this throughout every country in the world—unless you have an effective and principled form of economic democracy.

A mistake made by many academics today is to equate democracy and the market system with the top-down Wall Street capitalist bottom, with its growing gap of wealth and power between the rich and the poor. Capitalist theorists like Milton Friedman pay no attention to concentrated

ownership of labor-displacing technology. Marxist theorists do, but they conclude that the state should own, or at least regulate, the means of production in all processes of production. Then we have the mixed, or confused, middle of the Keynesians, who offer a feeble synthesis between the two models of development, based on the premise that the maldistribution of ownership is a given that cannot be changed. And the so-called third way of other world leaders, which I need not name, follows the Keynesian model.

The Kelso model was first introduced in a book with one of the worst titles, that anybody with any reading history would not open because of the title, called *The Capitalist Manifesto*. Written with the Aristotelian and Thomistic scholar Mortimer J. Adler, the only ones who were reading it were in the Soviet Union, and this happened to be the book that's full of intellectual gems and diamonds. I would commend it to any of you. When I talk about economic justice, it's based on what I'll call the Kelso-Adler theory of economic justice.

What is that theory? It's based on three interlocking principles that follow the reality of how an economic system works. One is an input principle, which is the most important. They call it the principle of participation, that most of the problems of the world are not problems in terms of how to distribute. It's the problem of making sure that people have access to participation, that there are legal, institutional, cultural barriers that deprive people of that fundamental right of access, to be owners of the land, the machines, the structures, and the infrastructure that humanity and civilization builds in order to elevate the quality of life. That's the most important, what I call the moral omission in the economic policies of all countries.

The second is the principle of distribution. You might call it distributive justice. If you go back to Aristotle's version of distributive justice, Aristotle said that distribution must be based on contribution. Distributive justice meant that if a number of people were working together, you divided up the pie based on what people contributed. However, what's happened in the world is that there's been a distortion as to what is meant by distributive justice because there's been an attempt to use a valid principle of distribution for charity, which is based on need, to be the equivalent of distributive justice. So that becomes the moral basis for the welfare state to redistribute from haves to havenots.

Kelso would object to that, saying that distributive justice need not be tampered with. The important thing is to lift those barriers so that everyone has access to ownership, access to power, access to participation, making sure that they could participate.

The third principle is the feedback principle, to keep an economy in harmony, in balance, in equilibrium. They called it the principle of limitation, which is an antimonopoly principle, the idea that policymakers must follow the principle of limitation. And it's also the social justice principle because it means that when you violate the principles of participation or the principles of distribution, you rectify the system through acts of social justice. What does that mean? Acts of social justice means that things that were made by human beings, institutions can be remade and rearchitected.

So to the extent that the system is unjust, to the extent that there is a gap between those at the bottom and those at the top, you don't pull down the top to lift up the bottom. You make sure the

same opportunities, the same power, the same status available to those at the top are now available to everyone. In that way you bring society together. Unity. Those are the three principles of justice. I think they make sense

Now, there are four pillars to what we would call a just market economy. What are the pillars of a just market economy? To restructure any economy, or the global economy, these four principles apply. The first is the principle of expanded capital ownership. That is, that everyone must have the same opportunity and means to become an owner, and have the power of an owner. The second principle, and this of course is the most important because that is missing—the second principle is the relationship of the nation-state to the system. And there we're back to the idea that the nation-state should play a role, but a limited role.

The major role of the nation-state is going to stop creating monopolies and special privileges for the benefit of an elite. And of course that goes out all over. And also for the nation-state to restructure its laws and policies to bring about economic justice in the way we defined it, because I think it's correct.

So the nation-state must lift the barriers. Just as in the United States, when there was injustice in politics, when millions of Americans were deprived of access to the political process because of the color of their skin, that was changed, and people like Walter Fauntroy, who will be speaking, were in the front lines. We were in the front lines in Mississippi to deal with the problem of exclusion from politics by one person-one vote. In places like Mississippi and the Deep South, things that for centuries people considered could not be done were done because of acts of social justice. People came together and organized and changed the system.

So the state must go back to its traditional role, not by controlling and regulating everyone's lives, but by making sure that power, sovereignty, is built under God in the human person, with the idea that the nation-state is only a tool, like any other tool, a specialized tool. And its sovereignty must be subordinate. That is, government sovereignty must be subordinate to the sovereignty of the human person, the sovereignty of the family, the sovereignty of the community.

The third pillar of a just world market economy is the restoration of the free and open market for determining what is the just price, what is the just wage, and what is the just profit. It's the most objective way to do it, it's the most democratic way. But it won't work the way the Wall Street propagandists tell you—just have a free market and everything will be just. Slavery was under the free market system. The free market system is an imperative, but it is not sufficient. It will not work, and Marx pointed out why a free market by itself will not work. For simple reasons. If ownership of capital is concentrated into a small elite, then the vast majority of human beings will be merely wage slaves competing against technology that the scientists and engineers will invent in order to displace human labor in the productive process. Or they'll be competing with workers willing to take less pay for the same work. So you have chaos and continued exploitation of people, and therefore the free market by itself is insufficient, but it is one of the four pillars.

A fourth pillar is the restoration of private property. So this turns Karl Marx 180 degrees upside down. What do we mean by private property? It's not the things, it's not the land, it's not the

tools, it's not the structures or the infrastructure. No, private property is what gives us power. It tells you who has power, who has responsibility, who has duties with respect to things. It's the relationships. If you own your body and you produce through your human talent, the fruits of your labor belong to you, or if somebody takes it away, they're taking away your freedom as a human being.

The same thing applies to nonhuman forms of capital. Private property tells you that you have the right to share in the control and you have the right to the profits. And if we have a world based on these four pillars, the world will come together.

Let me conclude with a new vision of the future. A transformation of human work—a just third way, as opposed to the third way that has been put into the media—embodies a moral philosophy and an evolutionary process for transforming the institutional environment, the legal, the financial, the cultural, and moral insistence, in order to democratize economic power and improve the quality of life for everyone.

Striving to make every worker—and each of us are workers—the just third way recognizes by nature that 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 the larger context, however, work involves physical, mental, and spiritual forms of human activity from manual labor to meditation. The just 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 just third way transforms the culture, enterprise by enterprise, from the conflict-ridden wage-system culture to a more permanent, more synergistic ownership culture.

This new cultural work has been called value-based management because we must not only transform the culture around the enterprise, but the entire culture. So we talk about within the culture of the work, in our writings we talk about changing the culture of the corporation. The highest form of work is not economic work, 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 just third way provides a means where more people can engage in leisure work a growing part of their lives in an evolutionary way, and be supported by independent incomes, capital incomes, supported by their own technology slaves.

Humanity will probably never achieve the perfect economic system, where all drudgery is eliminated and everyone is free to do all the work that 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.

I have offered the framework for thinking about the future of the world. It's not a utopian world, but it is a world that we can construct. The principles of reconstructing the world and the institutions and laws of the world require that we must always measure them in terms of their impact on the dignity, the power, and status of every human person. Thank you very much.

The Role of the Central Bank in the Twenty-first Century

Dr. Norman Bailey

Senior Consultant, Equity Expansion International, Inc.; Former Senior Director for International Economic Affairs for President Reagan

I have been asked to address generally the question of what is the proper role of the state as we enter the twenty-first century, and specifically the role of the central bank. It is a question without an obvious answer, and of great complexity. I believe we cannot begin to address the question without referring to some history. The nation-state has been the basic political structure in the world since the Treaty of Westphalia ended the Thirty Years' War in 1648. In that year the millennial ideal of a single empire and a single faith, which had informed mankind for thousands of years in its manifold Chinese, Indian, Persian, Babylonian, Chaldean, Egyptian, Roman, Arab, and Turkish manifestations, infused with Buddhism, Hinduism, Zoroastrianism, Islam, and Eastern and Western Christianity, finally came to an end with the formula "as the ruler, so the religion," and with the final dissolution of the last armies that the vestigial, so-called Holy Roman Empire could field.

The three and a half centuries since that time have seen increasing fragmentation and international anarchy interspersed with attempts at recreation of the imperial ideal—Napoleon and the religion of reason, Mussolini and Hitler and the secular religion of fascism and Nazism, the Soviet empire and the fanatical faith of communism. Since the end of the last of these experiments in 1991, the world has been ravaged by one of the most difficult paradoxes in its history. Hideous and squalid clan and tribal warfare, sometimes of a brutality hard to believe, coupled with economic and technological globalization, brings the world closer together so that we are all subjected to a constant diet of horror.

Blind ethnic and religious hatred sweeps through Europe, Africa, the Middle East, Eurasia, South Asia, the Far East, the Pacific, and North and South America, while the modern means of communication and transportation facilitate the feeding of these conflicts through a worldwide network of organized criminal empires. With all this, the age-old scourges of poverty and ignorance have not been overcome despite our having the means of doing so, and feed the ethnoreligious struggles.

In the midst of all this, to examine rationally the question of the proper role of the state, makes me feel like an explorer who has been struggling through thick jungle and dodging lurking horrors red in tooth and claw, to emerge in a clearing around a limpid pool of water, taking a long drink, and splashing his face. The purpose of government is to furnish an institutional framework within which the individual citizen can realize himself as fully as he is able. That includes the preservation and enhancement of life, thus, public security and public health, as well as preservation and enhancement of freedom, civil, religious, and political liberty, and the pursuit of material prosperity, since without command of a certain minimum level of resources other goals are difficult or impossible to achieve. The government must strive to prevent individuals and institutions within society from impeding access of others to life, liberty, and material resources. Above all, it must not itself prevent its own citizens from access to and enhancement of all these attributes.

The actual implementation of the proper role of government can and does give rise to conflict and controversy. However, unlike the principles themselves, techniques of implementation are subject to test by trial and error, a process which is constant in societies which are governed more or less democratically. Perfection in governing does not exist, any more than in any other human endeavor. But erosion, gradual loss of life and liberty in any society is rendered much more likely to the extent that the individual citizen is deprived of the resources with which to defend them in concert with his fellow citizens.

In philosophical theory, access to income-producing property is not as important as life and liberty. In actual practice, it is a condition antecedent which, if allowed to diminish, will lead to the decay of all the rest. History is full of examples of this, and this is not the place to review those examples. What must be said, however, is that just as violation of life and liberty by the government is even more dangerous and reprehensible than by private citizens, state deprivation of access to material resources is even more reprehensible than violation of civil liberties because it deprives the citizen of the ability to defend his own capacity for self-fulfillment.

Governments, including many politically democratic governments, engage in three kinds of activity that tend to restrict or destroy the economic autonomy of its citizens and their voluntary associations, and thus their ability to defend life and liberty. First, by absorbing itself some or most of the means of production, with or without compensation. This, as a great economist once proclaimed, is the road to serfdom. Second, by depriving the citizen of his resources through taxation above and beyond the needs of safeguarding life, liberty, and property. This is the road to pauperization. Third, by depriving the average citizen of access to affordable financial credit, the only way initiative, intelligence and hard work can be translated into reproductive resources to the ultimate benefit of society as a whole. This is the road to stagnation.

It is thus incumbent upon government to avoid seizing the means of production and to turn back to society those it already has. It is incumbent upon government to limit its taxation claims to that amount necessary to fulfill its role of guardian of life, liberty, and property, and it is incumbent upon the government to make sure that monetary credit is widely available to transform intangible assets into tangible assets.

It is to the third of these tasks that we turn our attention now. But it should be pointed out that correct monetary policy can greatly enhance the effectiveness of both fiscal and ownership policy as well. It is assumed in the following discussion that the goals of the government, now and in the future, are and will be to increase the prosperity and economic well-being of the people. This means reducing current levels of internal and external debt, privatizing most state enterprises, and spreading ownership of the means of production as widely as possible among the population.

The monetary segment of the policy mix decided upon by the government to achieve these goals will be carried out by the central bank. Unfortunately, unlike most other agencies of government, central bank functions and operations are widely misunderstood, not only by the public in general but also, and less excusably, by many financial and economic professionals. This is to some extent due to an intentional secretive mystique drawn about central banking, particularly by the US Federal Reserve, to safeguard and preserve its independence.

Central banks see their principal functions as being, first, to finance the government. The government thus has no theoretical limit on its ability to finance its activities, and thus most modern economies have a permanent bias toward inflationary finance and budget deficits. Second, regulation of the financial system and maintenance of its liquidity. Third, issuance of the currency. This is now a relatively minor function, since modern economies function primarily on various forms of credit, commonly, although confusingly, referred to collectively as “the money supply.”

The central bank’s liabilities thus are the money and credit it issues. Its assets are whatever it buys with its liabilities. It performs its financial and credit functions—that is, monetary policy proper—as opposed to its regulatory functions through three mechanisms. First, its asset purchase policy. This varies widely among central banks, from the Federal Reserve, whose assets, aside from some undervalued gold, are entirely government paper, to the Bank of England and the National Bank of Switzerland, the assets of which are primarily other than government paper.

Second, the interest rate which the central bank charges financial institutions when it funds them by purchasing their assets, usually referred to as the discount or re-discount rate. Third, the level of reserves the central bank forces financial institutions to maintain with it. There is nothing mysterious or esoteric about any of this, but there is no doubt that since the modern economy runs on credit, the asset management, discount, and reserve policies of the central bank have a greater influence on the prosperity and resource control of the citizen than any other aspect of government policy short of outright confiscation or expropriation.

Unfortunately, central banks operate in such a way that they make no contribution whatsoever to the spread of ownership of productive assets among the population. Indeed, the policies followed have tended to concentrate economic power by encouraging state ownership and deficit financing, and/or private monopolies and oligopolies, by restricting credit to those with an existing asset base, and by maintaining an interest rate structure designed to reward speculation and discourage productive entrepreneurship.

None of the above is necessary. Two principles should be kept in mind by those charged with safeguarding the life, liberty, and property of a particular group of citizens. First, the central bank is a government agency which cannot and should not stand aside from, much less impede, government policy designed to fulfill the function for which that government was elected. If it cannot be reformed, it should be privatized.

Second, monetary policy is not a mystery religion to be presided over by a caste of high priests. It is the basis of any monetary economy, and best managed by technicians in the service of the peoples’ representatives. Monetary policy is an extremely powerful tool which, coupled with appropriate fiscal measures, will be able to accompany those policies insuring life and liberty so strongly that nothing can shake the stability, present and future, of democratic society. To achieve these goals the central bank can and should adopt the following policies. First, limit the issuance of credit to the discounting of paper presented to it by the financial system representing the production, transportation, storage, import, or export of real goods and services or the

expansion of production facilities, with maturities corresponding to the economic nature of the transactions involved.

All such paper must be qualified as self-liquidating in principal, but need not be collateralized by existing physical assets. Speculative and government paper will be ineligible for central bank discounting. Thus, only the productive economy will have a lender of last resort. The central bank will not allocate credit but will only set criteria of eligibility for paper presented for discounting by the commercial private financial system, which will have the responsibility of assessing the economic feasibility and value of the underlying project or transaction.

Second, there is no reason for the central bank to make a profit in the United States. It is returned to the Treasury. Thus, eligible paper will be discounted at a rate only sufficient to cover the administrative costs of the central bank, perhaps 1 percent per annum, or less. The federal discount rate was kept at the level of 1 percent in the United States during World War II.

Third, to be eligible, all paper presented to the central bank for discounting representing past or future capital formation—that is, the purchase and employment of existing or prospective reproductive assets—must involve the existence or formation of an organized form of expanded capital ownership. This procedure will be applied, among others, in the expansion or modernization of privatized state enterprises, including banks and local subsidiaries of multinational corporations.

All other credit users, including the government, will have to finance their requirements through drawing upon the existing stock of capital, and paying the market rate for its use without recourse to a lender of last resort. Thus, a two-tier credit system will be established, with maximum incentive to productive uses involving the spread of capital ownership, as opposed to the present system, which rewards antieconomic activities and penalizes the productive economy. In this way, the question of availability of funding for productive purposes would be resolved without resort to additional external indebtedness.

The inflationary bias of direct or indirect monetarization of the public debt is eliminated, since increased money supply will be matched and exceeded by the value of the increased production of goods and services, and the country will again have an asset-backed monetary system, not sterile commodities such as gold or silver, but productive plants and equipment. In this way will monetary policy play its vital role in encouraging the development of a society where employees first, and eventually society as a whole, will gradually gain an ownership stake in the means of production, leading to a flourishing capital market and a country where prosperity is indeed limited only by the propensity of the individual citizen to work and to create. Thank you.

The Role of the State in the Economic Transformation of Society

Honorable Reverend Walter E. Fauntroy

Former Delegate to the U.S. House of Representatives from the District of Columbia

Let me first thank Dr. Antonio L. Betancourt for this opportunity to share with you my views on the role of the state in overcoming world poverty. My views have been shaped by three things: (1) my association with Dr. Martin Luther King Jr. in his now legendary struggle to end the barbarism of war, the decadence of racism, and the scourge of poverty in the United States and around the world; (2) my twenty-year tenure as a member of the US House of Representatives and its Committee on Banking, Finance and Urban Affairs; and (3) my association with two of my fellow panelists today, Attorney Norman G. Kurland and Dr. Norman A. Bailey, in the promotion of what we call “The Third Way.”

As you know by now, we seek a way to cure world poverty that avoids the pitfalls of giving the state a role that swallows and controls every aspect of the economy as in socialism on the one hand, and that gives a role to the state that favors the very rich, giving the rich all kinds of perks so that the rich can maintain their power as in the United States of America on the other. It is a way that gives the state the role of “democratizing access to productive capital” in a fashion that promotes private sector development without the need to spend *any* of the state’s tax resources whatsoever. I call it “Capital Homesteading,” and I believe it to be our only hope for rescuing a growing number of the poor of our world from what I call the “triple whammy.”

The Triple Whammy

Now what is this triple whammy? It is responsible for the basic problem confronting the people of our world today, one which poses the chief threat to world peace in the twenty-first century. The basic problem confronting the people of the world today is “*anxiety over a lack of adequate and secure income.*”

People in the United States—and increasingly around the world—are anxious because they fear that the income they now have is inadequate to meet their needs, and that even this meager income will not be there for them in the future. Whenever such “economics of scarcity” take hold, there is a tendency for human beings to turn *on* one another instead of *to* one another. This, in my view, is the chief threat to world peace in our times, these three forces at work to deny growing numbers of people access to an adequate and secure income. They are, one, the “flight of jobs” to cheaper labor markets abroad; two, the displacement of people from gainful employment by advancing technologies; and, three, the end of the “welfare state” by which we redistribute wealth *from* those who have adequate and secure income *to* those who do not have it. Let me quickly illustrate each of these forces at work before going on to outline how the “third way” or “capital homesteading,” addresses the problem.

Job Flight

On the question of wage-earning jobs in the labor-intensive, smokestack auto, rubber and steel industries, traditionally the means of upward mobility in America, we in this country have experienced in recent years the flight of millions of those jobs to “cheaper labor and markets abroad.” We don’t make a single radio or television set in America today. And believe me, every time a factory closes down in the United States and opens up in a cheaper labor market abroad,

people in this country get anxious. “I wonder if my job will be the next to go?” You see, it is the role of asset managers in the capitalist system to move capital to exploit cheaper labor, and there is not much that any state can do about that. Capital will always follow cheaper labor. Wage earners in the emerging developing countries of Southeast Asia are learning that every day in places like Japan and South Korea.

Advancing Technologies

In addition to job flight, advancing technologies are rapidly eliminating wage-earning jobs for millions of other people who have no other alternatives for gainful employment. Here in the United States, if you call 411 for information you get a robot that asks “What city, please?” You answer and the robot asks, “What listing please?” and before you can say “Jack be quick” you have your telephone number. Well, every time that robot speaks, understand that hundreds of thousands of communications workers who once had jobs saying, “Thank you for calling AT&T,” or “Bell Atlantic, may I help you” are now out of work!

This phenomenon is being repeated every day around the world and there is little that can be done to stop it, because you simply cannot halt the advancing technologies; man will always find ways to do more with less, the loss of adequate income to wage earners notwithstanding.

Time Is Running Out on the Welfare State

The third reason why people are increasingly anxious over a lack of adequate and secure income is that time is running out on the welfare state. The welfare state redistributes income through the tax system from those who are making money to those who are too old, too young, too sick, or too poor to engage in income-producing labor. And yet all over the world we are beginning to hear about “government downsizing.” Those who have jobs or access to income-producing capital are heard increasingly to say “it’s not fair to take *from* those of us who have income to give *to* those who are too old, too young, too sick, or too poor to have wage-earning jobs.” And brothers and sisters, given the greed and opportunism of the rich on the one hand, and the anxieties of the middle class today, time is indeed running out on the welfare state.

So the question now is, “What do we do about this triple whammy: job flight, advancing technologies, and government downsizing?” Again, I am fully prepared to answer.

Capital Homesteading: the Cure for World Poverty

The solution to our problem is to *enable those who are being displaced by job flight, advancing technologies, and by government downsizing to become part owners of the new technologies and companies that are displacing them.*

Let me give you an example of what I am talking about in a project that Norman G. Kurland, Norman A. Bailey, and Antonio Betancourt and I are determined to put in place in Washington, DC where the problems created by the triple whammy are being experienced most acutely. We want to make available to every registered voter in our nation’s capital access to productive capital for investment in new technologies that have been developed at government expense for our Defense and National Aeronautics and Space Administration (NASA). This will enable those being displaced by the triple whammy to earn dividend income on a regular basis to replace the

wages they have lost to job flight, advancing technologies, and government downsizing. We can do it if we put our minds to it.

Let me give you an example of two technologies developed at government expense, the commercial value of which has now been proven, and that we want to apply to our prison system in the District of Columbia in a fashion that we zero out the cost of incarceration to our government at the same time that we guarantee adequate and secure income to who will emerge from that prison, never to return again. We propose to build what we are calling our “New Birth Transformation Center” to achieve our purpose.

Scientists have developed for NASA technologies that enable us to convert toxic waste and human waste to pure water and energy that fuels the flight of spaceships for months in orbit around our planet. You see, we cannot send up enough water in a space vehicle to supply the crew for months or years in space, for that matter; and you cannot send up enough fuel in a space vehicle to fire its engines for months or years of space travel. So what did we do about that problem? We developed, first, what I call a “poo poo machine,” a mechanism that converts the human waste of the astronauts and the toxic waste of the meager fuel supply that we send up into “*pure water*” and “*energy cells*” that power the space vehicle by the light of the sun!

Well, can you imagine the commercial value of a poo poo machine deployed in the equatorial regions of the world in a drought? You could say to all of your population, Bring all of your poo poo to the machine, put it in one end of it, and then go around to the other end and pick up your pure water and some fuel cells that you can take home, put on the roof of your house, and use to generate enough energy to heat or cool your house and run your washing machine, your radio and television set, and your refrigerator!

Not only that, but governments could save hundreds of millions of dollars in capital outlays for sprawling hospital complexes to meet the health care needs of their citizens by acquiring one of the telemedicine centers that NASA created for space travel, that enables a physician to do anything in space in terms of surgery or treatment that he can do on earth at the Mayo Clinic.

Can you imagine the value of having one of those telemedicine capsules available to physicians in the underserved areas of the Third World where advanced health care is virtually nonexistent? Well, that, too, is possible now.

We propose that ordinary citizens in Washington, DC, be given access to productive capital to finance the construction of a prison facility where these and other new technologies may be commercialized in a private sector prison that will be owned by the individual citizens and prisoners who will, thereafter, receive dividend income that will replace wage income lost to the “triple whammy!” The process for doing that is one that Dr. Norman A. Bailey, former special assistant to the President and senior director of international economic affairs in the Reagan White House, has outlined to you regarding Section 13 of the Federal Reserve Act of 1913. It is a process with which I became thoroughly familiar during my six years as chairman of the House Banking Subcommittee on Domestic Monetary Policy, pursuant to my responsibility to my colleagues in the U.S. House of Representatives to oversee the activities of the Federal Reserve Board in America, the central bank and IMF of our nation.

This is the cure to world poverty. This is the solution to the triple whammy that is turning us against one another instead of to one another. This is the economic paradigm for the twenty-first century: the democratization of access to productive capital to ordinary citizens, particularly “the least of these, God’s little ones” for whom we who love the Lord are “anointed to declare good news to the poor, to bind up the broken hearted, and to set at liberty them that are bound.”