DEMOCRATISING THE WEALTH OF NATIONS

From new money sources and profit motives

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The Company Directors Association of Australia Limited

27 Macquarie Place, Sydney 2000

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Who has adopted his original title of *Democratising the wealth of nations* and suppressed the alternative title used by the publishes of

***New money sources and profit motives*.**

Note for re-published electronic edition

Although not stated in the text, this book was written in a "Cashflow paradigm" as explained in a paper: 'New Strategies for Structuring Society From a Cashflow Paradigm', presented to the Fourth Annual Conference of the *Society for the Advancement of Socio-Economics* held at the Graduate School of Management, University of California, Irvine, California, U.S.A. in a "track" on the Third Way, Friday, March 27, 1992. http://cog.kent.edu/lib/turnbull1/turnbull1.html

The novel ideas presented in this book were later developed and explained in greater detail in various articles. Some of these are listed in an updated selected bibliography at the end of the book. There are some other articles listed on the web page of the author at http://www.mpx.com.au/~sturnbull/index.html Over 100 articles are available from various web pages which can be located by inserting "Shann Turnbull" in leading search engines.

The book was launched on September 30th, 1975, in the presence of Louis Kelso and Patricia Hetter by Dr. Jim Cairns, MP. Dr. Cairns, is a PhD in economics and was a former economics lecturer at the University of Melbourne. As the Deputy Prime Minister in 1975 he was the most prominent socialist in Australia. His speech to launch the book was published in a "capitalist journal", *JASSA*, The Journal of the Securities Institute of Australia, 1976 No. 1, pp. 9-13, http://cog.kent.edu/lib/cairns.html

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Christopher Sören Shann Turnbulll was born in Melbourne, Australia, in 1934. Educated at the Hobard Technical Colege (Engineering), he then graduated from the Universities of Melbourne (B.Sc.) and Harvard (M.B.A.). His leisure activties include squash, skiing (represented Australia), flying (held the around Australia Record from 1966 to 1974) and, more generally 'thinking'. He started work as an electrical engineer and then established his own business as a management consultant. Later, he became a corporate 'doctor and promoter'; this developed into a career as financial entrepreneur and adviser. He has also taught both business management and flying. Shann describes his vocation as 'developing ideas, people and organisations', and his politics as 'Social Capitalism'.

To Louis O. Kelso, who developed the first capitalistic technique for distributing the wealth of nations and pioneered new thought patterns in economic philosophy. He has paved the way for the acceptance of the complementary techniques that are described in this book.

Foreword

The proposal to publish a book that included the ideas of Louis Kelso was first considered by the Company Directors Association of Australia in July 1975, when Mr. Kelso accepted our invitation to visit Australia on the 29th September.

The Production of the book within such a short period could not have been accomplished without the special effort and close co-operation of our printers, John Sands Pty Ltd. The pressure of time required long and unusual hours by the other workers involved. Our appreciation for these people must be recorded: Christine Boden for the editing; Bob Astley for the cover and graphics; Wendy McGirr for typing the manuscript; and our colleague, Shann Turnbull, the author.

Bruce Champion

(Chairman, Company Directors

Association of Australia).

Sydney, 1975

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Preface

The purpose of this book is to describe a new approach for democratising the wealth of nations. This approach has been made possible through the development of capitalistic techniques for distributing wealth.

The first capitalistic method for distributing wealth was developed only twenty years ago by American lawyer/economist Louis Kelso. His innovative economic structure is known as the Employee Share Ownership Plan (ESOP) or Kelso Plan. Kelso has written about his proposal in three books and a large number of articles and essays (with translations into French, Spanish, Greek, German and Japanese). Thousands of firms in the United States have set up Kelso Plans, as well as the government. Since 1974, the United States Government has introduced legislation to facilitate the general adoption of the Kelso Plan. Kelso describes the two-income economy created by the general adoption of his plan as 'Universal Capitalism'.

The three new capitalistic methods for distributing the value of enterprises, land and natural resources, described in this book, were developed by the author without knowledge of Kelso's work. Their similarity to Kelso's concepts led mutual friends, Eve and Frank Mahlab, to introduce the author to Kelso's writings in 1973. Quite coincidentally, the author found himself working professionally with Kelso on a corporate acquisition in the United States during 1974. The author's structures were not only symbiotic with Kelso's but complementary, in that they extended some of Kelso's concepts into the ownership and control of land and natural resources. With this extension of the Kelso approach in a non-American context, the author has taken the liberty of referring to the new economic order that would be created as 'Social Capitalism'.

Outside America, the Kelso name of Universal Capitalism may not communicate the social justice and collective benefits that the new system could provide to the have-nots and those whose needs are greatest in society. The diffusion of wealth through the socialisation of capitalism creates a participatory democracy, in which the economic power structure inherent in ownership and control of capital contributes to the checks and balances in the organisations of political power in society. The latent political mandate for Social Capitalism is based on the common feature of industrial or mineral resource-based societies of all political complexions — small minorities own or control a large majority of the nation's wealth.

This book has been written by a businessman for businessmen and, hopefully, also for the general reader. It has been based on a paper given at the Economics Section of the 46th Congress of the Australian and New Zealand Association for the Advancement of Science (ANZAAS), on 20 January 1975, in Canberra. The problem of communicating innovative technical topics in layman's language is that the ideas may be misunderstood by the specialist, or are sufficiently simplistic as to allow the technocrat to criticise the intellectual integrity or practicality of the proposals. As the purpose of this book is to introduce new ideas, a middle road has been attempted so that the proposals, which seek to change traditional orthodoxy, will not be too harshly criticised by the keepers of society's received wisdoms.

An attempt has been made to use layman's language and simplify the concepts accordingly, so the ideas maybe shared by the general public. Hopefully others will be more successful in democratising both the language and thought patterns, to achieve the objectives suggested by the title.

Shann Turnbull

Sydney, August 1975

1 Introduction (Link to Contents)

The new approach for democratising the wealth of nations is based on four novel ways in which people may acquire wealth. All four methods have a number of common features and they all reduce, in various ways, the manifold inequities and inefficiencies of conventional capitalism. The four capitalistic innovations in the way that people can own and control things are:

1. **Employee Share Ownership Plan (ESOP).** The logic of business cash-flow financing is used to allow directors, managers and other employees to acquire part-ownership in the growth of their enterprise.

2. **Ownership Transfer Corporation (OTC).** Corporate employees can be remunerated with part-ownership of the enterprise, according to their contribution to new values.

3. **Land Bank** (community-owned land or town co-operative). New wealth created in land values of the community can be shared by all residents in the region, according to their contribution to its creation.

4. **Producer-Consumer Co-operative (PCC).** Wealth created from the ownership of depletable natural resources can be pooled and so shared with the wealth created by regenerative consumer enterprises.

The novel methods for distributing new wealth create a capitalistic alternative for achieving some of the more idealistic objectives of Karl Marx.

(a) The introduction of change into society on a continuous basis — but without revolution.

(b) The democratising of industry — but avoiding the transitory phase of State ownership.

c. The withering away of the State — but by natural attrition, not anarchy.

The defects of capitalism, identified by Karl Marx over a century ago, have not decreased, they have increased. Private-property economies are slowly being poisoned by insidious long-term changes in the way that they operate. New insights are required to detect these subtle defects, which have been accepted and even defended as a part of the system. These defects reduce incentive and result in competition acting to increase prices; this encourages hoarding. One of the rationales of the capitalistic system is that competition decreases prices and allows more efficient allocation of resources.

Defects within the present system have developed from the rules created by society for owning machines and natural resources. These defects have become greater as machines and natural resources have become more important as sources of new wealth. Such defects result in, and are magnified by, wealth being more unequally shared than income. This results in very few individuals possessing any significant private wealth. A change from a system of private property to State ownership would thus only affect a privileged minority. As a result, there is no country in the world today where a government could be elected by advocating capitalism. Political mandates can be obtained against socialism but not for capitalism.

New initiatives are required, not only to spread the popularity of private-property economics, but also to further appreciation of their benefits in safeguarding individual freedoms. A new type of market economy is required, which can offer ideals with incentives, co-operation with competition, justice with efficiency, and man's fulfilment in work or leisure. Such a society would be the ultimate achievement of the four novel structures for distributing the wealth of nations. This society would distribute economic benefits according to the credo of:

From each according to his interest;

To each according to his contribution;

Provided the basic needs of all are fulfilled.

The four innovations permit wealth to be distributed according to social and political considerations of need, justice and efficiency — without involving government ownership and control, or even the necessity for governments to redistribute incomes through taxes and welfare payments. The distribution of income is achieved indirectly by democratising the ownership of assets that produce income and that can also generate other cash flows. The new economic co-operative structures would create a new form of capitalism, which promises to provide a far more powerful and effective means of distributing new wealth and managing affluent societies.

The traditional and largely ineffectual methods of western governments for managing their economies and redistributing wealth have been limited to measures involved with income or flow of money and benefits. These measures do not involve ownership and control of things that constitute wealth. Changes in the ownership and control of natural resources or "the means of production and exchange of goods and services" is not, however, a subject of economics. So economic theories cannot help. It is simply a matter of changing the rules and procedures, established by society, for how people own things.

There is no need and, indeed, no advantage for governments to become directly involved in either the ownership or transfer of wealth. The new rules proposed for owning things can be determined and implemented by those individuals in society who own or control resources and enterprises. However, it may be desirable, in practice, for governments to become in directly involved as agents. While the initiative for change rests with business communities and their leaders, government involvement would be desirable to provide an incentive for change and to orchestrate uniform adoption of the new rules and practices proposed for owning and controlling wealth. The government might also be needed as an umpire and to formulate rules of change.

Governments could provide leadership by transferring the ownership of public assets and services to their employees in negotiable form. This would increase the total value of negotiable wealth held by individuals in the community and increase the ability of citizens to live from their capital. Ownership of negotiable and/or income-producing assets would provide private social security, economic independence and greater freedom of lifestyle, choice of vocation and fulfilment.

This book and its proposals are based on the economic values arising from the ownership, control, operation, use and obligations of assets. These values are determined by:

(a) The rules established by society for obtaining claims and obligations in regard to property rights.

b. Man's possessions imperative — this is as real and motivational as the territorial imperative that it incorporates.

The behaviour aspects of property rights are not the prime concern of this book. However, they cannot be ignored. Man seeks and values property for its embodiment of power, status and influence. Property provides man with his toys, and his monuments for seeking immortality. The greatest benefits that may arise from the new rules proposed for owning property may be the modifications that they initiate in man's values and behaviour patterns.

2 The nature of wealth (Link to Contents)

Wealth is defined as the surplus value of assets over liabilities held by a person. Assets are created by a person having a legal claim over things that have economic value. Liabilities are created when a person has a legal obligation to provide economic value to another. Wealth then exists when the value of a person’s claims over property exceeds the value of his obligations.

Wealth may not only be held by persons but also by artificial bodies that are created by the laws and conventions of society. Important examples are bodies corporate (or companies) and bodies politic (or the government of a country, region, municipality or town).

Various types of assets that constitute wealth are classified in Table 1. The table has been constructed to illustrate the importance of a special class of man-made durable asset that is described as procreative. Although all other types of wealth are called passive, most of them may still provide its owner with income. The exceptions are money (when it is held in *specie* and not deposited at a bank) and most types of consumable assets, like food and fuel. However, consumable articles like clothing may be rented out and so still generate an income.

The ability of assets to be sold and converted into cash provides a very important practical use of wealth, as well as increasing its no-monetary value. The ability to transform real or financial assets into cash provides security for borrowing money. Bank managers and other money lenders commonly ask their potential borrowers to list their assets and liabilities, so they can assess the ability of the borrower to repay a loan without relying on his future income or cash flow.

The reliance on being able to obtain cash from assets to repay loans becomes particularly important when the borrower is a corporation. The concept of wealth, as defined at the beginning of this chapter, is thus found in commercial law. Personal bankruptcy or corporate insolvency is defined as occurring when liabilities exceed assets.

Businessmen may use different words to describe wealth: shareholder's funds, net assets, net worth, owner's equity, equity, and proprietor's interest. While each refers to the excess value of assets over liabilities, the basis of the valuation of assets may vary considerably. This needs to be taken into account when estimating the value of wealth in terms of a realistic net cash-equivalent value; especially by those who lend money on the security of wealth.

The ability of asset ownership to generate cash flows from income, sale or borrowing is of fundamental importance. Wealth may produce cash in three ways:

1. Exchanging assets for cash through a sale.

2. Transformation of the rules and rights of ownership when an asset is offered as security to borrow cash. (This could be called a contingent sale.)

3. Income arising from rent, fees, royalties or profits etc.

In modern affluent societies the cash flows generated by the first two methods, through the transformation and exchange of property rights and obligations, are of the same order of magnitude as the cash flows generated from the production and exchange of goods and services. Governments, however, only keep National Accounts of the latter cash flows.

The ability of wealth to produce cash flows is of fundamental economic, social and political importance for the structure and management of society. The ability of wealth to provide its owner with cash without work has profound importance for societies that wish to distribute economic benefits according to such social criteria as need, equity or justice. The distribution of wealth through the adoption of new rules for owning things provides a basis for redistributing cash benefits in society without government taxes and welfare.

While wealth may generate cash by way of income, sale or borrowing, it is important that the closely related concepts of income and wealth be differentiated. Wealth is determined by and is dependent upon the rules of owning things, income is determined by and is dependent upon the change in the ownership of things. Thus income is not wealth. It is the **net** flow of value (cash or other benefits) from one person, or legal entity, to another. The word net is important, for there can be a change in ownership without a change in value — as occurs with a borrowing or a sale. This creates a cash flow but not an income flow. Income can produce wealth and wealth can produce income, but they are different concepts.

Income provides but one way of increasing the value of wealth. However, wealth may be changed in a number of other ways. As wealth is determined by the rules of asset ownership, it can be changed through the adoption of new rules. To quote John Stuart Mill in 1891, "The distribution of wealth, therefore depends on the laws and customs of society. The rules by which it is determined are what the opinions and feelings of the community make them, and are very different in different ages and countries; and might be still more different if mankind so chose." The question is if mankind will choose through anarchy and revolution, or by design and evolution.

To further social equity and economic efficiency, the rules and procedures for owning wealth need to be designed and tailored to the characteristics of the form in which wealth is held. The crucial economic characteristics are the life of the asset and its ability to generate income and/or appreciation in value. These characteristics are summarised in Table 1, which also indicates the new rules proposed for owning the various types of assets. These rules allow wealth to be distributed both equitably and efficiently.

The rules and their uses are:

Employee Share Ownership Plan (ESOP).	Procreative or regenerative assets, whether or not they are held in corporate form.
Ownership Transfer Corporation (OTC).	All corporate assets, whether or not they are procreative.
Land Banks.	Residential or agricultural land.
Producer-Consumer Co-operatives (PCC).	Depletable natural resources with procreative consumer enterprises.

TABLE 1

THE NATURE OF WEALTH

CLASSIFICATION	WEALTH = value of ASSETS minus LIABILITIES								
Economic status	Passive Assets						Procreative Assets (Expected) Man-made real or know-how		
Type	Financial Assets			Real Assets			Man-made	(Actual)	
Class	Money	Debt	Equity	Natural			Non-viable	Degenerate	Viable
Time scale	Normally enduring	Normally limited to less than 50 years	Normally unlimited	Enduring	Regenerative (Periodic)	Depletable	Consum-able (transient)	Durable	Durable
Examples: SOURCES OF NEW VALUES	Coin, notes, bullion	Bank deposits, Debentures	Shares Life, assurance	Land Water-ways	Cattle Forests Crops	Minerals Oil Gas	Food Fuel Clothing	Houses Vehicles Machines Structuress	Tools/patents Machines Organisations Structures
Appreciation	No	No	Yes	Yes	Yes	Yes	No	Not usually	Yes
Income	No	Usually	Mostly	Yes	Yes	Yes	Rarely	Not nece-sarilly	In excess of cost
Income type	N.A.	Interest	Dividends	Rents	Sales Fees Royalties	Sales Royalties	Rents	Rents Profits	Sales
Ownership rules proposed for democratising wealth	**Same as now**	**Same as now**	**Basically the same with better controls**	**Land Bank**	**ESOP OTC**	**PCC**	**Same as now**	**Same as now with no land content**	**ESOP OTC**

3 The two-layer economic cake (Link to Contents)

Economists use the word wealth ambiguously and, more often than not, call income wealth. This confusion among economists has existed since 1776, when one of the founding fathers of their profession — Adam Smith — wrote a book called *The Wealth of Nations*. He was really discussing income. Economists and governments ever since have been concerning themselves with the distribution of National Income rather than National Wealth. Because so few economists study wealth, they can use the words wealth and income interchangeably with little danger of being misunderstood. It is only other people in government and those who elect governments that may be misled and confused.

When economists compile annual accounts of a country for its government, they only report on National Income and Expenditure, not on National Assets and Liabilities. Economic management without an accounting of assets and liabilities, as found in a balance sheet, would lead a businessman into financial mismanagement and insolvency. Businessmen find it difficult to accept that governments do not collect similar information for a country, until they consider the gross mismanagement of modern private-sector economies.

The conspiracy of silence among most economists, not to recognise and analyse asset ownership and the distribution of National Wealth, suits the political ambitions of the more extreme and opposing ideologies. These ideologies either oppose private ownership or oppose the more equitable sharing of private wealth. The distribution of wealth is more unequally shared in private-sector economies than the distribution of income. Indeed, in most countries the majority of citizens would have no significant wealth; with over 75% of private assets being owned by less than 20% of the people. As a result, wealth and the value of its benefits are beyond the practical experience of the majority of people. This permits socialists who wish to eliminate private wealth to obtain a political mandate, while the conspiracy of silence on the unequal distribution of wealth also suits the rich minority who do not wish to share their assets.

The small privileged minority of private-wealth holders who read this should not, however, be concerned that they will lose their assets by the adoption of the four proposals suggested in this book for distributing new wealth. The proposals are all concerned with the distribution of **new** wealth created in society — not the taking away of **old** wealth held privately at present. Society would, by this means, obtain a greater incentive to make the economic cake bigger.

Economists who confuse income with wealth can only offer a single-layer cake. When the difference between wealth and income is identified, society can offer a two-layer economic cake. The bottom or foundation layer is represented by wealth and the top layer by income, with money providing the filling.

Many societies in the world offer only a one-layer cake. This may occur by accident or design. Individual rights to most types of property are eliminated by State ownership (socialism) and collective ownership (traditional communism). In these societies the problem of unequal shares of asset ownership has been solved in a very negative fashion, by not permitting any individual to have a slice. The constructive solution is not to eliminate the bottom layer, but to share it properly according to the rules designed by society. This option did not readily exist in the days of Karl Marx, because the rules of property rights had not been diversified and finely developed. The ability of creating corporations without a royal charter, for example, was introduced at about the same time he wrote the Manifesto of the Communist Party in 1847.

The size of the economic cake for an individual country may be increased only in either of two ways:

1. The sale of its natural resources to other countries.
2. Increased output of goods and services by its workforce.

In a world economy there is only one way of increasing the share of the economic cake, or the material goods available to each person. This is through the increased productivity of the labour force. There are only two ways in which the productivity of labour can be increased:

1. Individuals working harder, longer, or with greater skill and efficiency.
2. The use of more productive tools, machines and structures; those items that the economists call "capital instruments" or "the means of production".

However, once a man has climbed the learning curve for his particular job, there is not much a conscientious workman can do to improve his daily output. The only way his output can be increased is by providing him with more productive tools or machines. Beyond a certain point — the point of becoming skilled at a particular operation — labour productivity is static. It is man-made instruments that increase productivity and enable more to be produced. Labour, because it is limited by man's physical capacity, cannot become more productive. Productive instruments, because they engage the limitless capacity of the mind, increase productivity exponentially.

The only way that the world can increase its standard of living, in terms of the value of material goods available to each person, is through the use of more productive instruments. They allow more goods to be produced with less human labour. It is because of this unique and fundamental attribute that they are called procreative assets. They are the tools, machines, vehicles, factories and structures, which by the definition of being a procreative asset, allow society to make nature yield its resources more abundantly. That is, they provide more material goods per person. In the flip language of economists, they provide free lunches — a possibility that practitioners of the dismal science like to deny.

Economists find it difficult to agree among themselves how such assets, that they call capital goods, should be defined or evaluated. The problem of recognising and measuring the value of such assets in practice has been avoided by not keeping National Accounts of asset ownership. Businessmen, on the other hand, are well practised in recognising and evaluating such assets as tools, machines and factories, which can make nature yield her resources more abundantly. Indeed, their skill in this regard is finely honed by competitive pressures to increase productivity and profits. Not only must businessmen recognise and evaluate procreative assets, but also design, build and operate them. To define and evaluate these assets, businessmen have developed techniques of cash-flow analysis.

In the language of the businessman, a procreative asset is one that produces sufficient income to become viable. The operation of a viable asset generates a value equal to its cost plus the interest earned by investing this cost (without risk) for the asset's expected life. In practice, the businessman will also require a suitable margin, to provide the incentive for accepting the risk of not having a guaranteed return. When there is no guaranteed return, a businessman calls the expenditure an equity investment and when there is a contractual return from the investment, he calls it a debt. A viable or procreative asset is one that is expected to return more cash from its operation than would be obtained from investing the same money for the same time in a debt investment without risk.

The expected return may not always be achieved. It could be more or less. For this reason, Table I shows a link between procreative assets and man-made durable assets. This indicates that, in practice, some assets that are constructed to meet the test of viability fail to do so. Unless there has been a gross miscalculation, the asset should still be income producing. In a diversified business, the whole enterprise could remain viable if its viable assets provided sufficient surplus to make up the shortfalls and/or the losses on the nonviable assets. Likewise, on a national scale a country could increase its standard of living if the values created by the viable enterprises provide sufficient surplus to make up the shortfalls and/or losses from the nonviable enterprises. A country also has the alternative of raising its living standard through international trade.

The classification of wealth into various types (in Table 1) does not make explicit the economic value of human knowledge— a value, which the economist refers to as human capital. This will be considered further in Chapter 6. At this stage, it is sufficient to note that the accumulated value of human knowledge is included in the values obtained by assets, especially those of a procreative nature.

4 Wealth ¾ its non-monetary value (Link to Contents)

Private wealth provides the only method for an individual to obtain economic independence. Economic independence is the ability of the individual to live without work or welfare — stealing is but a form of work. The privilege of living without work provides the basis for the ultimate personal freedom.

A society in which individuals do not have economic independence does not have a means for providing its citizens with either social or political independence. The non-monetary value of wealth is that it has the potential for giving greater personal freedom, social choice and political democracy. While these objectives may not be produced by wealth, they may not be obtained without it.

Work takes away the freedom of an individual to spend his time doing those things that he wishes. State welfare makes his freedom subservient to the government — if welfare is provided in goods and services, the freedom of choice is also lost; if it is provided in cash, resentments, disincentives and inequities, not to mention a bureaucracy, may be created. The acquisition of new wealth can also create problems if it is not acquired on a socially acceptable basis. These problems occur with the present rules of ownership. However, the inequities and injustices remain largely unnoticed because countries do not publish an account of wealth distribution.

The ownership of private wealth may not necessarily provide the holder with the means of obtaining cash without work or welfare. Wealth may be held in a form in which it does not provide income, or otherwise the owner is unable to raise cash from his wealth by selling or borrowing. These situations most commonly occur when assets are held by private corporations, trusts or governments. In these situations ownership may be completely separated from control. The controllers may not permit any income to be distributed to the owners nor allow them to sell or borrow against the value of their beneficial interest. Wealth holdings in life-assurance policies, publicly traded or listed corporations and trusts provide intermediate stages between absolute separation of ownership and access to the cash benefits of wealth.

Ownership without control or predetermined rights to distribution of profits and assets is an increasingly dominant feature of modern societies. It is occurring in both socialistic and capitalistic societies, which are thus beginning to share the same conflicts and inefficiencies that arise when ownership is separated from control. In affluent societies, it is the power, status and influence accruing from the control and use of assets, rather than their ownership, which provide the more persuasive incentive, reward and satisfactions.

Over the past hundred or so years there has developed a great multiplicity in the number of ways people may obtain property rights to things. Beside rights to ownership and control, there may be subjugated or separate rights to income, asset value, occupancy, naming, use etc. Each class of rights may have a separate identifiable value. The motivation for developing a multiplicity of rights is that different people value different things in different ways. By designing specific rights to meet the specific needs of different classes of people, the total value of all property rights to an asset (such as an office building) may exceed the total value of the building without such a multiplicity of rights. The ability to create more value from the same asset in such a manner is called financial synergy.

Both the monetary and non-monetary value of wealth is very much affected by the structure of the legal rules by which entitlements to assets are obtained. The structure of property rights may either increase or decrease the value of property. This is a vital factor that must be held in mind when evaluating alternative rules for holding wealth.

While value may be one criterion, more important criteria in designing new rules for holding assets are non-monetary considerations. These require that control be directly associated with ownership, to avoid conflicts and inefficiencies in the use and allocation of assets. If control becomes more closely associated with ownership, democratising the wealth of nations will also lead to democratising the control and management of their assets.

The ability of wealth to provide economic independence from the cash it can provide is dependent upon both its structure of ownership and its nature. A country may have great wealth in terms of assets, but its citizens will have little economic independence when the State controls most of the cash flows in the society. The situation may not be much better in some private-ownership economies, where the ownership and control of over 90% of the country's procreative assets is held by less than 5% of the population. This situation is the rule rather than the exception.

This is the most fundamental and damaging flaw in capitalistic societies; not only on the grounds of economic justice, but also those of efficiency and freedom. It has provided the justification and incentive for communism and socialism. Communist followers of Karl Marx believe that it provides the rationale for capitalism to destroy itself. They could be right.

However, the more assets that governments or their public institutions own or control, the fewer are the assets available for citizens to own privately. State ownership of private property thus reduces the economic, social and political independence of individuals. However, the converse need not be true, and usually is not. That is, private ownership of property need not produce greater economic and political freedom for the individual. The reason is that wealth may be highly concentrated in a small, privileged minority. This is the general rule in capitalistic societies.

Today, there is no country in the world where there is a popular political mandate for capitalism. Mandates can be obtained **against** socialism and communism, but not **for** capitalism. Capitalism has become a dirty word even among capitalists. This has arisen because of the basic injustices in contemporary private-property economic systems, a situation created by the heavy concentration of wealth and privilege in present-day market economies.

The self-destruct forces of market economies are being made increasingly obvious. They are rapidly spreading and growing in size. There is a growing sense of urgency to find new ways for managing advanced industrial societies. The need to remedy economic problems can be avoided by curing the cause. The cause of today's problems is the concentration of wealth. It has always been present in capitalistic societies, but rapidly growing affluence has greatly magnified the problems created by the inherent defects in the structure of present systems.

There are a number of intrinsic defects, many of them technical and some relatively superficial. The fundamental technical, social and political problem, from which many more superficial and induced problems flow, is the heavy concentration of wealth. As wealth can create income, wealth concentration creates an income concentration. The problem of income concentration is created by wealth concentration. It is a vicious self-perpetuating circle, which induces more and more government intervention. This increases transfer payments (taxes and welfare) and so also increases the bureaucracy associated with these programs.

Economists, governments and socialists concern themselves only with correcting the effect, not the cause. The problem with most economists is that they do not consider the ownership of wealth as being a subject of their profession. The problem with governments is that, up until the time Kelso developed the first capitalistic method for reducing the concentration of capital ownership, there was no non-socialist or democratic solution as an acceptable alternative.

There are now capitalistic evolutionary alternatives to the communistic revolutionary proposals of Karl Marx. The socialist solution to the inequality of wealth distribution was simply to eliminate all private wealth by vesting it with the State. By this means everybody became worse off! The new alternatives described in this book are complementary and symbiotic to Kelso's proposal. They offer a new capitalistic means to distribute wealth, not only within nations, but between nations.

The four novel capitalistic proposals for distributing wealth correct many of the structural defects of modern capitalism. The just and efficient distribution of income can then be achieved through the just and efficient distribution of asset ownership. This eliminates the need for the government to make transfer payments to redistribute income. It also substantially reduces the associated inflationary ineffiencies and disincentives of transfer taxes and welfare, and so reduces the need for government itself.

The advantages arising from distributing the National Income are, in themselves, sufficient reason for seeking the asset ownership. The greater sharing of asset ownership may also be sought for reasons of economic equity and efficiency. All these reasons provide complementary motives to the political appeal of spreading the non-monetary value of wealth. That is, to provide individual freedom and independence, and to democratise the control of society. Without private-property ownership and control, society also loses a means of checking and balancing political control by the State.

We may conclude that the State ownership of property has the following effects:

> (a) Citizens no longer have the facility of obtaining cash without work or welfare, and so individual economic, social and political freedom is eliminated.
>
> (b) Property rights are concentrated in the political system. This eliminates a counter-balancing nexus of political power, and reduces the degree and means of participatory democracy.

On the other hand, private -property ownership may offer little or no advantage if wealth is almost as highly concentrated as it would be in a socialist society. This situation is generally found in contemporary capitalistic societies — it is created by the inherent defects in the legal rules of modern market economies for how people should own assets. The means by which these defects operate and how they can be corrected is considered in later chapters.

5 Leisure production (Link to Contents)

As noted in Chapter 2, the potential for citizens of a country to live without work is dependent upon the exportability of their natural resources and upon their stock of procreative assets. On a global basis, the leisure hours per person can only be increased by increasing the value of procreative assets per person – this is the ultimate source of leisure production. Thus, leisure is produced as the result of productivity increases that create unemployment. A practical reason for democratising the wealth of nations is to allow more people to afford being unemployed and so enjoy their leisure.

If a country was sufficiently rich in exportable natural resources, it would be possible for all citizens to live without work. Such a possibility may seem far-fetched, but this situation has now existed for some years in some minor states like Nauru, which exports phosphate, and some of the less-populated Middle-East oil states. Nor is this phenomenon restricted to countries with small populations; some of the Middle-East oil countries with many millions of people are rapidly approaching the economic possibility of maintaining a comfortable living standard without work.

Leisure is one of the most important non-monetary values of wealth. One of the greatest ironies of the industrial revolution is that it reduced the total leisure hours per person in industrial societies. Economists and governments of all ideologies – be they capitalistic, socialistic or communistic – are all obsessed with the employment rate. Many of the individuals in such societies, however, are obsessed with the leisure rate, a statistic not collected. Such is the conditioning and acceptance of conventional wisdom in society that the fundamental objective for economic management is so little questioned. This is especially surprising when productivity increases can, in aggregate, only produce two results: more leisure and/or goods per person.

Pre-industrial and primitive societies had higher leisure rates than are now available in some industrial countries. For over 1,000 years during the middle ages, the working year in Europe was reduced by over 150 Saints days and 52 Sundays, leaving less than 160 working days. Agricultural communities were exempted from the religious holidays during sowing and harvesting; but their average economic activity over the year would be no greater. It was because primitive societies had so much time for non-economic activities that they could afford to build pyramids and temples, and frequently go to war.

The number of religious holidays gradually decreased during the dawn of the industrial revolution in the 17th century, until men and even children worked 12 hours a day, 6 days a week, 52 weeks a year. This resulted in 43% of the hours in the year being occupied in work, leaving a leisure rate of 57%. As about 30% of man's time is spent sleeping, the conscious leisure rate would be only 27%. The annual work rate of the employed in industrialised societies over the past 200 years has now dropped back from 43% to less than 20%. This has occurred due to the increased output of material goods per person, and has produced a far higher living standard. This has been achieved entirely through the use of more productive machines.

With the productivity of men's minds and machines increasing exponentially, it will soon be possible for industrial countries to reduce their work rate from 20% to 10%. Society should now be consciously deciding how this will be achieved. Two alternatives are possible:

1. All the workforce could work half the time.
2. The workforce could be decreased by 50%.

The latter choice would, in conventional terms, result in a 50% unemployment rate. There could be a combination of both alternatives but, either way, there will be greater leisure produced.

The enjoyment of high unemployment or leisure rates is, however, dependent upon heads of families obtaining cash without work. This can be achieved either through wealth or welfare. The first methods for distributing wealth rather than welfare are the four techniques described in this book. These techniques provide a new approach for structuring society and for giving individuals the access to wealth, leisure and personal fulfilment.

Most people select jobs that they like, so work is a satisfying occupation to many. Indeed, fulfilment from employment is more likely to be the rule than the exception. However, the option of fulfilment from unemployment could also be provided in many affluent societies, if there was an appropriate distribution of National Wealth. It is, of course, already possible in many of the more affluent societies for citizens to live on welfare without work or great hardship. More and more countries are reaching this level of affluence in providing welfare for their unemployed, old, sick and incapacitated.

Welfare benefits are also exploited by the lazy, or by those who already have other sources of income. Because the exploitation of welfare is possible in many affluent countries, it is now practical for people in these societies to live without working if they so choose. However, a substantial majority does choose to work; indeed, the available evidence indicates that the wealthiest people, who have no need to work at all, work all the more conscientiously. This behaviour is consistent with people in free societies selecting vocations that satisfy them most.

The value of the economic independence obtained from wealth is that it increases the choice of vocations and lifestyle. A problem of definition can then occur, when one man's work becomes another man's recreation or leisure activity. Leisure may be productive. Some people will spend their money to undertake activities that would provide employment for others. Wealth provides an added dimension of freedom and allows the organisation of society so that the vocational satisfaction of all its citizens may be increased. Universal private wealth allows society to replace the traditional objective of full employment with the objective of fulfilment (which can be either in employment or unemployment). The means by which economic equilibrium might be achieved, in terms of the production of adequate goods and services, in a society with this goal is considered in Chapter 13.

Individuals can only afford the luxury of unemployment or greater leisure through private wealth. This option is not available in societies that do not allow private wealth. There are several societies that could well afford to provide such a choice to many of their citizens, but do not do so for ideological reasons. Other societies prefer to avoid the social discontent that can occur when the privilege of private wealth is obtained in socially undesirable ways. The possibility of increasing one's wealth in such ways is shown to be the rule, rather than the exception, in private-property market economies (Chapters 7, 8 and 9).

The highly unequal distribution of private wealth in market economies results from the present defects in the rules of asset ownership, which create injustices, inequities and barriers. The concentration of wealth means that the majority of individuals in the affluent societies cannot afford the luxury of greater leisure and unemployment.

The present rules of asset ownership force people to work or live from welfare. As a result, governments are forced to provide welfare or work, and must levy taxes for this purpose. These taxes must be paid by the productive for the unproductive. Taxes thus create disincentives for production and incentives for non-production. Everybody becomes a loser, both in economic terms and in the non-economic terms of fulfilment and freedom.

Governments maintain soul-destroying programs to maintain employment. Yet at the same time they seek greater economic productivity which, by definition, must result in less human labour to produce the same amount of goods. Policies of full employment and increasing productivity produce an internal economic haemorrhage, which is conventionally doctored by bleeding the productive sector with more taxes, so as to provide more welfare for the additional people put out of work by the greater productivity.

An alternative remedy for avoiding leisure production, resulting from productivity increases, is to encourage everybody to acquire more and more goods. This generates more jobs and more pollution; also more environmental destruction, as nature is made to yield more of her resources.

A very effective, tried-and -tested method for generating more and more goods is to have a war. This doubles the destructive effects on the environment. Firstly, from the production of new materials and secondly, by the use to which the materials are put. On both counts, the best way (for the environment) to create employment is to explore space. Very few material goods are used, but extensive labour is required, of a type that is both intellectual and satisfying.

If the puritan work ethic of western societies cannot be transcended, then exploring space could provide a cultural cause for the future, that building pyramids, temples and churches provided in the past. This would give one way of distributing income, but it would not, in itself, be a way to distribute wealth and leisure. If the sharing of wealth and leisure is not matched with a change of values in western industrialised societies, then the non-monetary value of wealth may not be produced. The puritan work ethic must, therefore, be replaced with new values and new sources of fulfilment, such as those found in Eastern, Latin-American and ancient cultures. These new values could be both dependent upon and created by democratising the wealth of asset-rich nations.

6 Why employees and professionals stay poor

(Link to Contents)

A man may earn money by his own individual physical or intellectual efforts, but it is no longer possible for him to become relatively rich by his personal exertion in a modern private ownership society. This statement is also true for socialistic or communistic societies. Much of the incentive, for employees and the professional class of self-employed to support a capitalistic society, may be dependent upon their opportunity for becoming property owners. A political mandate for a free market economy is thus dependent upon democratising the wealth of nations.

The ability of an individual to accumulate wealth from the gross income generated by his personal efforts is limited by two factors:

1. The working hours in his life – determined by his annual work rate and by his working life.

2. The hourly value of his efforts.

Each factor places a limit on the potential for an individual to accumulate wealth. The most limiting factor is the hourly rate of earning income. Competition from other individuals to provide their services will always place an upper limit on income-earning rates. Certain individuals in entertainment and sport may earn relatively high incomes, but usually this is for relatively short time periods and so restricts their ability to accumulate wealth. However, even in the exceptional situations where high income-earning ability may be sustained, progressive personal taxes in societies that support such gifted individuals will substantially reduce their ability to accumulate wealth.

As will be discussed more fully in Chapter 11, there is no human limit to the wealth that can be accumulated from owning property. The accumulation of wealth from property is limited only by the total value of all the wealth in the world, and by the pre-emptive monopolistic claims to property by other property owners. In affluent market societies, it is the wealth owned by an individual that can make the most money for him, not his labour.

Property can make money more effectively than labour, because increases in wealth from property ownership are taxed at a lower rate than increases produced by an individual's labour. Countries that have a capital-gains tax generally levy it at a lower rate than personal-income tax. However, capital gains taxes provide, in themselves, a means and an incentive for property owners to get richer (discussed in Chapters 8 and 9). As the tax is only incurred on the transfer of property, it creates disincentive for transfers. This encourages hoarding and inefficiencies in the allocation of resources.

In some countries there may exist a wealth tax, to reduce the equities and inefficiencies of a capital-gains tax. Wealth taxes are expensive and difficult to apply and, at best, only provide a compromise solution for avoiding inequities and inefficiencies. The four methods for distributing new wealth by ownership sharing, described in this book, create new solutions. Both equity and economic efficiency are obtained from the superior ability of property, relative to labour, to create wealth.

Corporations provide one of the most subtle and pervasive mechanisms of employees staying poor and the rich getting richer. The influence of corporations is so general in modern industrialised societies that their private sectors might well be described as their corporate sectors. The pervasiveness of corporations extends not only within non-communist nations, but also between these nations. The ability of corporations to keep employees poor and make the rich richer thus extends on a global basis. The development, growth and spread of the transnational corporations has created a new means foe making rich individuals and the countries of their residence richer, while keeping the employees and the countries of their residence relatively poor.

There are many biases within the rules of owning property through corporations; they operate to concentrate wealth both within and between nations. Only the two most important ones will be discussed. One is the ability of the rules to attract, sort, filter, coalesce and so concentrate human knowledge in a form to create wealth. The other, which will be discussed more fully in the next chapter, is their ability to channel any windfall future cash flows to shareholders rather than employees.

The most difficult concept to identify, measure and commercially evaluate is the accumulated aggregate of intellectual human knowledge. Economists refer to this as human capital. It is with the input of human creativity, enthusiasm, enterprise, knowledge and skills that man-made assets are created. When these human inputs make the asset commercially viable, we call it procreative. The ability of an asset to become procreative depends upon various types of human inputs involved in its design, construction and management.

Man-made assets are the material coalescence and commercial manifestation of intangible human inputs. Such assets provide an empirical, objective currency for recognising the commercial value of human intellect. There is another means of recognition – individuals may be paid directly for their care, skill and knowledge as employees or professional workers. However, their payments represent income, not wealth. The embodiment of human inputs into material assets, which constitute wealth, are a means for aggregating, expanding, multiplying and preserving the commercial value of the intangible attributes of many separate individuals.

The income paid to individual employees and professionals is determined by the market value of their services. For instance, when their services are used to design, build and operate the world's first nuclear power station, they are paid according to the current market value of their services. They are not paid according to the long-term value of their contribution to society, which may exist for an indefinite time into the future. Only in exceptional cases will an individual obtain a continued share in the commercial value of his contribution. The design, construction and operation of subsequent devices will benefit by the human inputs of the pathfinders. This occurs in many technological and commercial developments.

Corporations provide a means for capturing, on a continuous basis or on a larger scale, some of the future value that arises from exploiting new knowledge. The employees obtain only transient benefit, from the income provided for their services, while the owners of the corporation obtain any additional values that accrue from the human inputs of the employees, managers and directors. But even corporations do not capture all the new values they create, since much of the new technology is dispersed and shared both within and between countries.

The degree by which corporations concentrate wealth within or between nations cannot be measured at any given point in time. A suitable analogy is that an instantaneous snapshot of a runner cannot determine his speed or the time period he requires to cover a given amount of ground. To determine the rate of acquiring wealth from cash flows, measurements must be taken over a time period.

However, as already noted in Chapter 3, there is much confusion among economists about the nature and measures of wealth. The few that are interested in measuring wealth in the commercial sense, as used in this book, do not appear to have made sufficiently accurate observations for identifying the contribution made by corporations in wealth concentration. In any event, if observations are made over a time period, it is difficult to isolate the contribution that one or more corporations may make in concentrating wealth. There are many other processes operating in affluent societies in this regard, as will be discussed in Chapters 8 and 9.

The process by which corporations concentrate wealth in the hands of the shareholders, not the employees, is hidden from business analysis. This is due to the limitations in the various methods used by accountants to estimate profits earned by labour and assets.

(Profits earned by assets must be an estimate, because there is no certain cash-flow return.) Accountants, and economists who use their data, are unable to either observe or measure the means or degree of this wealth concentration. just as the economist has many (and sometimes conflicting) notions concerning wealth, so the accountant has many (and sometimes conflicting) notions concerning profit. Accountants determine corporate profits according to many alternative conventions and practices. Very different levels of profit can be reported according to the set of accepted conventions and practices chosen.

The profit calculated for tax purposes in one country, by a subsidiary of a transnational corporation, may be quite different from that calculated in the same subsidiary by the parent company. This need not in any way suggest some undesirable manipulation by corporate management. Such inconsistencies are commonly forced upon transnational corporations, simply by different countries having different definitions of taxable profit. The host country of the parent corporation calculates tax on the profit of all subsidiaries integrated on a world basis. This underlines the point that there is no absolute agreement on how to determine profit.

The profit reported for management purposes of a subsidiary company could well be different again from the profit determined for tax purposes (for either the host country of the subsidiary, or the host country of its parent company). The parent company might, in turn, report a different profit of the subsidiary when making a report to its shareholders. This indicates that there can be a general agreement that profits will increase wealth, without there being a general agreement – either within or between the accountants and economists – on the precise nature of the relationship.

The more specific the sample and the shorter the time period of a profit analysis, then the greater become the disagreements. A similar phenomenon in the physical sciences is known as Hiensenberg's uncertainty principle. Differences decrease when the sample of enterprises being evaluated is enlarged and the time period is increased. The greatest agreements are obtained over long-term national totals, rather than over short-term analyses of specific enterprises. One reason for this is that modern techniques of financial analysis discount any differences in cash values received in the long-term future. Any value today of cash received in the long-term future approaches zero. In modern financial analysis, this is referred to as the time value of money. A dollar received today is worth more than a dollar received next year, because interest can be earned on the dollar received immediately. In corporate analysis the alternative use for cash may not be interest, but the cash flow available from some other investment. Such alternative investments would commonly provide a better investment than interest earned at 10%.

If 10% could be earned on money over fifty years, then a dollar received today would be worth less than one cent *(0.852* cent) in fifty years time. The man who has to wait fifty years to receive his dollar is losing the opportunity to earn interest at 10% over this period. He can determine the value of receiving a dollar in fifty years time by calculating the amount he needs to deposit at the bank today that will grow with certainty to a dollar during those fifty years.

By the definition of an equity investment, there is no guarantee of receiving a return in the future – nor is there any certainty that the bank, or other alternative investment opportunities, would continue to yield 10% per annum. Because of these uncertainties, the value of any cash that may be obtained in the distant future would be ignored – especially if some alternative investment may produce the same value sooner. Ignoring values in the long term results in all evaluations for future dollars having the same zero value. In practice, it is difficult to estimate, with much reliability, future cash flows of most equity investments for longer than fifteen to twenty years. Prices, costs, business conditions, technology, markets, governments and society are ever changing, making any distant projection to future cash flows hazardous at best.

The calculation of the value of cash received in the future is referred to by professional analysts as Present Value (PV) or Discounted Cash Flow (DCF) analysis. The test for determining a viable or procreative asset, described in Chapter 2, is based on the concept of the time value of money. This type of analysis, however, cannot show how corporations concentrate wealth over a time period, because the analysis is insensitive to different cash-flow values when their value in the more distant future approaches the same zero value. This will be discussed more fully in Chapter 7, which considers the bias in corporations that acts subtly over time to make the employees and their country of residence relatively poor and the shareholders and their country of residence richer.

7 Corporate wealth concentration (Link to Contents)

One way in which corporations favour asset formation by their shareholders, rather than by their employees, can be most clearly illustrated in international corporate investments. When a corporation sets up a subsidiary in another country, it will obtain rights to all future profits in the subsidiary, for as long as the subsidiary exists and creates profits. While the parent company may hope that the subsidiary will exist forever and always make a profit, the justification for making an equity investment is not made on such a basis. Indeed, because of the time value of money in equity investments and returns, any cash flow expected after fifteen to twenty years has very little, if any, significance in equity investment analysis.

Even if the expected returns in fifteen to twenty years can be estimated, the risk remains that no returns may be received at that time. The risks involved in obtaining returns from international investment are greater than those in domestic investment, because of the opportunity to lose value from foreign-exchange variations and political actions. In practice, fifteen years is the upper time horizon for equity investment analysis; although longer periods may be considered for strategic reasons, such as access to raw materials and markets.

The political, social and technological changes in many areas of the world mean that the basic criterion for investment is the time required to return cash flows. These cash flows must return the investment cost with a competitive profit to cover money costs and risks. The time horizon required for making an investment is, in practice, less than seven or eight years sometimes less than four years. However, the investment will be made, no matter what may happen after the chosen time horizon.

Some investments will, of course, not return cash flows as large as expected, with some not even meeting the test of being viable. This is the reason for equity investments requiring a cash-flow return margin for risk greater than that required for a viable investment. The premium sought and obtained on the successful investments provides a surplus, which compensates for those investments that do not perform to expectations. So long as a company obtains sufficient premium value from the successful investments to cover the shortfall in value from the nonviable investments, the whole company will remain viable.

The cash-flow premiums sought to cover the under-performance of some operations of the company are not, however, determined or sought for periods beyond the time horizon chosen. So any cash flow obtained after the time horizon desired to justify the investment will provide a surplus above expectations. By this means, uncalculated, unexpected and unnecessary surplus cash flows can accumulate for the shareholders, rather than for the employees.

When the company continues for an unlimited time, the value of the surplus cash flow accruing to the parent company can continue for an unlimited time, and accumulate to unknown and unlimited levels. By this means, the host country of any subsidiary company incurs an unlimited, and so unknown, foreign liability for both its foreign exchange and balance of payments. In actual practice, the surplus payments and liabilities of the subsidiary to the parent company can be hundreds of times greater than the value required by the parent company to justify making the original investment.

Since the host country of the subsidiary incurs foreign costs and liabilities in excess of those required to attract foreign cash and know-how, the host country is paying more than is needed. The basic premise of a competitive economic system is that one should not pay more than is required to obtain the goods and services desired. This fundamental rule is being neglected by countries that accept foreign investment without limits on the time during which the investor may obtain rights to profits.

Some countries now place time limits on the rights of foreigners to future profits. Provided that such limits are beyond the time horizons desired by the investor to provide him with sufficient incentive to make the investment, they will not introduce any economic disincentive for the foreign investor. There may be, however, non-economic inhibitions, such as those from the ego identification of those in management who wish to create a personal monument or power base for their executive initiatives and careers. Such non-commercial motives are another reason for corporations and their host countries gaining benefits from the discipline of limited time horizons, in which to perform to their mutual expectations. The acceptance of foreign investment without such time limits on cash-flow returns can categorically and unequivocally be described as undesirable. Indeed, it may be highly regressive to the economic development of the host country due to the unnecessarily greater liabilities of foreign exchange and balance of payments.

The unequivocal critical judgement that can be made on foreign investment is based on **the terms** of accepting investment – not on whether it should be accepted or not. The classical economic arguments, controversies and political actions about foreign investment are usually confined to the question of whether foreign investment should be accepted. The question is evaluated on costs and benefits, by using techniques that become increasingly insensitive for identifying differences in values over the long term, as referred to earlier. As a result, it becomes difficult to arrive at a decisive view when evaluating the costs and benefits of accepting foreign investment.

The uncertainties of analysis, introduced by traditional approaches for evaluating the acceptance of foreign investment, only add to the controversies and emotive opinion on the subject. These uncertainties can be avoided by the simple pragmatic approach of considering the time horizon required by the investors. There is no need to provide investors with a cash **flow after** this time horizon. This cash flow, that investors do not recognise when making their investments, can create a very excessive and unnecessary cost to the host country.

This point is illustrated in Table 2. The value to an investor of the right to receive one dollar dividend every year for the years nominated is tabulated. The investor has alternative investment opportunities of 10%, 15% and *20%, representing* the time value of money. The total dividend received over a time period is, in every case, simply the number of years for which the one dollar dividend is received. The time value of receiving future money today in the form of dividends has been divided by the total dividends to give the value fade-out.

Table 3 shows the cost in dollars today that makes good the rights of the foreign investor to all future dividends, after he has received 90% of his maximum expected value. It indicates the premium dividend that the investor needs to receive in the first year to compensate for missing the right to all future dividends (after he has received 90% of the maximum value expected with certainty). It will be noted that both the years and the premium required decrease as the time value of money increases.

Table 2

Value today of a future one dollar dividend

Years	10	20	30	40	50	Inf.
Total dividend	$10	$20	$30	$40	$50	Max.
Time value of dividends at 10%	$6.14	$8.51	$9.43	$9.78	$9.91	$10.00*
Value fade-out	61%	43%	31%	24%	20%	0%
Time value of dividends at 15%	$50.2	$6.26	$6.57	$6.64	$6.66	$6.67*
Value fade-out	50%	31%	22%	17%	13%	0%

Time value of dividends at 20%	$4.19	$4.87	$5.00	$5.00	$5.00	$5.00
Value fade-out	42%	24%	17%	12%	10%	0%

*Maximum possible expected value.

Table 3

Compensation for loss of long-term dividends after capturing 90% of maximum expected present value

Time value of money	Maximum value today of $1.00 dividend pa. for infinite time	Years to reach 90% of maximum value	Value today of 10% of maximum value
10% pa.	$10.00	$24.16	$1.00
15% pa.	$6.67	$16.48	$0.67
20% pa.	$5.00	$12.63	$0.50

A double dividend in the first year is worth more to the investor than all the dividends available after twenty-five years, when money can be invested elsewhere at 10%. As the time value of money increases, the time period to capture 90% of the maximum possible value decreases. The initial premium dividend required to capture the remaining 10% of value also decreases. With money valued at 20% per annum, a 50% bigger dividend in the first year is worth more to the investor than all the dividends available with certainty after thirteen years.

When considerations of risk and uncertainty are introduced, as they must be with equity expenditures, the rational investor will always prefer the dollar today, rather than the dollar in the future. Table 2 indicates how host countries can limit both their foreign payments and liabilities. They can arrange the acceptance of foreign investment so that the investor can make a bigger profit today in return for giving up an uncertain profit in the future. This will make no difference to today's value of the enterprise. A more detailed analysis is presented in the Appendix.

It is this principle that provides the rationale for two of the novel methods for distributing new wealth. Both the Ownership Transfer Corporation (OTC) and Producer-Consumer Cooperative (PCC) have property rights that change with time, and so eliminate excessive profits over time to those who contribute only cash. It is this principle that allows the OTC to attract new foreign investment to a country, while at the same time reducing foreign ownership. This facility, for allowing both investor and host country to have their cake and eat it, is available to either established foreign enterprises or new ones.

The concept of time-limited investment cash flows is the rule, rather than the exception in commerce, since most man-made, productive assets have a limited life. Patent rights have a limited life, as did the original form of the corporation that was developed under common law (for purely commercial reasons) in Europe during the 18th and 19th centuries. The English civil-law development of the corporation set the precedents for unlimited life. This commercially unnecessary attribute was created to further the imperial political ambitions of the English sovereign, who wished to colonise East India and the Hudson Bay by using corporate charters.

Mineral and oil exploitation is a commercial operation with a limited life, when the proven reserves are limited. The most widespread example of limited-life investments is real estate, because of the use of limited-life leases. Buildings and structures of very substantial value are built on leasehold land, so the investor has no rights to either cash flow or residual value of his development at the expiry of the lease.

The behaviour of equity investors is similar to that of a gambler. The chances of obtaining a return are evaluated and compared with the value of the return expected. If the value of the return expected is commensurate with the risk that can be accepted, then the investment is made. The gambler, like the business investor, requires that his original stake be returned with a margin for risk. Because a commercial investor may have to wait for some years to receive his return, he also requires a margin for the time value of money. This is to cover the interest he could have earned by placing his investment money in the bank to obtain a return with certainty.

A gambler betting on a horse race has to risk a new stake for each race. This is similar to a businessman who invests in a series of limited-life assets. The man who invests in a company with unlimited life is like the gambler who bets on one race and obtains a bet on every subsequent event without a new investment! In this way, corporations provide the means for shareholders to accumulate assets at rates greater than they require to provide them with sufficient initial incentive to invest.

As already noted, it is difficult, at any point in time, to detect these windfall profits accruing to shareholders. (These difficulties are compounded by the various accounting conventions for measuring profit.) While they might be detected over a time period, this becomes impractical when shares in corporations are publicly traded. The rights to the excessive windfall profits are passed on to different individuals. The accumulation of windfall wealth created by corporations is concentrated in the shareholding class of the community, rather than the managers and directors who were responsible for its creation. The problem is overcome by the new type of OTC proposed.

8 How the rich get richer (Link to Contents)

The rich get richer from the characteristics and nature of their asset holding, and also from the means by which they acquire ownership. The means for acquiring an asset may also require the incurring of a liability to pay for the purchase.

Take, for example, an individual who has no assets or liabilities and so no wealth. He purchases a block of land valued at $1 million with 100% vendor finance. The individual still has no wealth, as the value of his assets equals his liabilities. Let us suppose that the land is a parking lot in a choice downtown area, and the purchaser procures permission to build a high-rise office block. The new use of the land may now make it worth $5 million, so that the owner is now worth $4 million. It might take a man two or three centuries to earn the same value through the value of his own labour. Such is the power of property to make the rich richer. It also shows how those without wealth may create considerable wealth through financing themselves into asset ownership of the right type at the right time.

The manner in which the financing arrangements of purchasing an asset may greatly multiply an individual's wealth is illustrated in Table 4. This table shows that the most effective way to get rich is not by using one's own money, but Other People's Money (OPM). The more OPM that can be borrowed, the greater number of times one's wealth can be multiplied, if the right kind of asset is purchased at the right time. The process of borrowing to multiply increases in wealth is referred to by financiers as gearing or leverage.

Leverage also increases the risk of bankruptcy or insolvency, at the same exponentially increasing rate that it can multiply gains in new values and wealth. Bankruptcy or insolvency occurs when the value of liabilities exceeds assets, as discussed in Chapter 2. This situation can occur when the value of the asset decreases and/or the interest cost on OPM increases at a greater rate than the income produced by the asset. The odium of personal bankruptcy can be avoided by making highly levered purchases through limited-liability, closed or private companies.

Table 4

How the rich get richer without work

Purchase deposit	**0%**	**10%**	**20%**	**50%**	**100%**
Initial wealth of purchaser = deposit ($M)	0.00	0.10	0.20	0.50	1.00
Money borrowed to finance purchase ($M)	1.00	0.90	0.80	0.50	0.00
Purchase cost of land as car park ($M)	1.00	1.00	1.00	1.00	1.00

Value of land for High-rise office ($M)	5.00	5.00	5.00	5.00	5.00
Final wealth of purchaser ($M)	4.00	4.10	4.20	4.50	5.00
New wealth ($M)	4.00	4.00	4.00	4.00	4.00
Number of times wealth increased ($M)	Infinite	40	20	8	4

Insolvency of a company usually carries considerably less odium than personal bankruptcy and need not personally involve the shareholders. The problem of using a limited-liability private company is the ability to borrow large sums of money without personal guarantees and covenants. This problem is often overcome by the shareholders of the private company having some control or influence over public corporations and institutions that can provide or facilitate access to OPM.

Corporations are but a set of rules for owning assets. They can provide the means for an individual to create more wealth in one transaction than he could earn personally from working for two or three centuries. The opportunity and incentive for both inequities and malpractice are obvious, when the returns can be so high and the cost of failure so low. These problems are created by the rules of corporations and the rules and practices of land ownership. The problems can be eliminated by changing the rules for owning things. The challenge is to devise new rules which do not eliminate incentive, or reduce the economic independence of individuals and their socio-political freedom.

The opportunity for inequity and malpractice could be reduced by changing the use and rules of corporations. This would involve a mass of detailed and specific considerations, which will not be attempted in this discussion. The underlying opportunity and incentive for injustice and malpractice arises from the system of land tenure and the procedures for changing its use. These underlying problems could be considerably reduced by changing the tenure system to the Land Bank concept described in Chapter 12.

From Table 1 in Chapter 2, it will be noted that there are two ways in which new wealth can be obtained from owning property. The rich can become richer without work or welfare by:

(a) Appreciation in the market value of assets that they own.

b. Creation of income from an asset by either its use or by its production of goods and services. (However, income-producing assets need not necessarily be procreative, as discussed in Chapter 8.)

The appreciation in the value of ownership may or may not be related to the ability of the asset to generate an income. Whatever the reason for the appreciation in value, it will be dependent upon and created by two means:

1. The rules of ownership, as determined by society.

2. The interest or competition among the non-owners to purchase the asset.

New values may be created in other ways – for instance, when an individual simply desires ownership without competition. However, the important mechanism for the creation of new values is competition existing for ownership. Not only is this important because of the magnitude of the values created, but also because it can be a source of confusion in economic analyses. This confusion arises from the association of competition with a means for reducing prices, rather than a means for increasing prices. But, as any auctioneer knows, the more people who attend an auction, the greater the chance that a higher price will be obtained.

Competition will reduce prices when there are alternative suppliers of goods and services, who can produce them with less cost and/or are willing to dispose of them with less profit. Such opportunities may not be readily available with assets that have a quality of uniqueness and/or exclusiveness. The opportunity for increasing prices by competition commonly occurs through the rules by which society permits ownership of natural resources, such as land, minerals and forests.

Increase in prices may also occur to a greater or lesser extent with man-made objects, like houses, buildings, structures and machines. Except for the work of artists, most man-made objects in common use can be reproduced. This facility will place limits on the appreciation in their ownership value – any great increase in value will provide an incentive for others to make duplicates.

Both the appreciation in value and the incentive for the duplication of man-made objects are dependent upon the exclusiveness of possession, according to the rules of ownership created by society. Rules are required that provide incentive; not inequities, injustices and regressive economic consequences. The opportunity for such inefficiencies and consequences most commonly arises with the rules of owning natural resources that cannot be duplicated, such as land and minerals.

Appreciation in the value of man-made assets is limited by both the life of the asset and the ability of non-owners to make duplicates or copies that serve much the same purpose. With a procreative asset, man's inventiveness is likely to produce a more productive duplicate asset. As a result, the original or older procreative asset may no longer remain viable. This process is called technological obsolescence. Another reason for appreciation of procreative assets being unlikely is that, in carrying out their unique function of making nature yield its resources more abundantly, they wear out. Table I thus indicates that procreative assets only rarely enjoy appreciation in value.

Table 1 also shows that appreciation in value is not so rare for other man-made durable assets. The reason is that non-procreative and less productive assets may last for considerably longer periods. In some countries man-made durables, like houses and office buildings, may commonly enjoy substantial increases in value. However, most appreciation in value is either due to inflation increasing their replacement value or the underlying value of their land. Neither of these mechanisms for appreciation is inherent in the characteristics of the assets. For this reason they have been excluded from Table 1, where appreciation in value is not considered usual.

Appreciation in land values are discounted, because of the proposal to collect these in a redeemable form by using a new system of Land Bank tenure. The owner of any structures built on the land will obtain tenure only to the volume of space occupied by the structure, similar to a strata or *condominium* title (or perpetual lease). The appreciation from inflation presents both special opportunities for acquiring new wealth and for losing current wealth; this is considered in the following chapter.

9 Wealth from inflation (Link to Contents)

The traditional concern is that inflation affects absolute and relative income levels. This is consistent with the concern shown by most economists for only the **income** layer of the economic cake. The effect of inflation on the **asset** layer of the economic cake can be even more dramatic. These effects, however, go largely unnoticed, since little information is collected on the wealth holdings of individuals on a national basis.

The dramatic effect of inflation on changing and distributing the wealth of nations can be illustrated by considering the purchaser of a block of land valued at $1 million. Table 5 indicates that inflation, combined with financial leverage, can increase wealth measured in current dollars and constant dollars.

Table 5

How inflation increases wealth

Purchase deposit	**0%**	**10%**	**20%**	**50%**	**100%**
Initial wealth of purchaser = deposit ($M)	0.00	0.10	0.20	0.50	1.00
Borrowings ($M)	1.00	0.90	0.80	0.50	0.00
Value of land (year 0) ($M)	1.00	1.00	1.00	1.00	1.00
Value of land (year 5) after 15% inflation*($M)	2.00	2.00	2.00	2.00	2.00
Wealth in current $ of year 5 ($M)	1.00	1.10	1.20	1.50	2.00
Wealth in constant $ of year 0 ($M)	0.50	0.55	0.60	0.75	1.00

Wealth gain in constant $ (%)	Infinite	500	300	150	0
Initial leverage = borrowings/value (%)	100	90	80	50	0
Final leverage (%)	50	45	40	25	0

* A dollar approximately doubles its value over 5 years when appreciating at 15% per annum.

For simplicity, Table 5 assumes that the interest cost of the borrowings is exactly covered by the net rental produced by the land. Usually, it is nearly always possible to borrow up to 50% of OPM on income-producing property. So even if the land only yielded a net rental on its initial value of 5% it would cover a 10% -interest cost, on 50% of its value. With 80% borrowings and 10% -interest cost, the total interest payable per annum would be 8% of the initial value. The owner would then be making a loss of 3% per annum on the original value, unless his rents also increased.

Many people engineer their affairs to make a loss that provides them with a tax deduction for any other income that they may receive. One of the great advantages of asset ownership is that it can provide tax relief in many and varied ways.

Even if the owner did not have another income to make up the 3% per annum deficit, he would not be unduly perturbed. His wealth would still be increasing, in either current or constant dollars, by the combined effect of inflation and leverage illustrated in Table 5. In practice, a 15% -inflation rate would also increase his rental income - it could be expected to double in current dollars over the five years and maintain its equivalent real value. Also, in practice, the interest cost would most likely be fixed and not change as part of the contractual borrowing arrangements, so an additional advantage is thus obtained from inflation.

The significance of the last two lines of Table 5 may easily be overlooked. They indicate that inflation reduces leverage, or the ratio of liabilities to assets. The significance of this effect is that it allows the owner to replace an original loan of $0.5 million with a new loan five years later of $1 million, and still not exceed his initial leverage ratio of 50%. Our property owner is thus in a very privileged position - he obtains $0.5 million cash for spending on the luxuries of life. He can still expect further increases in real wealth and spending money when he refinances his property in another five years!

Not all people spend the cash they obtain by such means on luxuries. Some may have to use part of their cash surplus to cover any deficits between net income and interest. Others may use their new source of cash to buy new properties and other assets. This is called pyramiding - it provides the formula for accumulating immense wealth with OPM. Some people's greed for wealth, power, status and influence is so great that they will seek highly levered positions, which could cause the pyramid to collapse if asset values decrease and become equal or less than the liabilities.

The excess of liabilities over assets is referred to as negative wealth. Strangely enough, in modern market societies it does not necessarily mean that a financial collapse will result. The social and political repercussions may be so significant and awkward, that the leaders and controllers of the financial system may informally change the rules of insolvency. For the purpose of commercial law and to avoid any inference of a conspiracy, these informal changes are referred to as something less than a gentlemen's agreement or implicit understanding. Success in big business can become more an activity of establishing political obligations and involvements, than one of creating goods and services.

The inflation rate of 15% that is used in Table 5 may seem high for some countries. There are, however, mechanisms other than inflation that can result in land values sustaining such levels of appreciation. The increase in value may occur without any change in its use, as assumed in the example in Table 4. The value of land may increase by the improvement of community services (such as roads, transport, services, schools, water, sewerage and power).

Values may also increase from private developments, such as shopping and entertainment centres, new residential facilities and the like. The new values are created by nonowners of the land - yet under the present system of private ownership these values accrue to the owners, who may not make any contribution to the creation of new property values in the community. The Land Bank system of tenure, whereby new values are shared collectively, allows most of the new wealth created to accrue to those who contributed to its creation.

The inequity, injustices and regressive economic effects of present tenure systems on natural resources can become even greater for depletable deposits of minerals, oil and gas. Because of the enduring nature of such assets, as compared with forests, demand for their use can provide an incentive to withhold supply. At certain times for certain resources, there can exist the opportunity for enhancing asset values by withholding access to them from the market place. The incentive may exist for either individuals and/or countries to adopt such an approach.

One may question the practicality for an individual to withhold the sale of such assets. The argument is that he needs the cash flow to cover his living expenses and/or borrowing costs. But, as already noted, cash may still be obtained from increasing the borrowings secured by the asset. On the premise that scarcity creates value, it will be in the interest of many owners (at least in the short term) not to sell. The scarcity value so created provides a new increment of asset value, against which new borrowings can be secured. The present rules for owning assets can create a self-reinforcing rationale for creating and sustaining inflationary price increases in these situations.

There is also an incentive from taxation considerations for withholding an asset from sale. On the sale of the asset, capital-gains or income tax may become payable. This is avoided by not selling and it could well be that more cash becomes available. The cash available from borrowing against new increases in value could well produce more net cash to the owner than would be available from a sale. Indeed, it could well be possible in some situations for a sale to result in a net cash drain. This can occur when loans have been secured against newly acquired values of an asset. Consider the case of a block of land purchased for $1 million, against which $4 million was borrowed as 75% of its newly acquired value of $5 million. If the tax rate on the disposal of the asset was 50%, then the tax payable would be $2 million. As the $4 - million loan would need to be paid back on resale, the total cash pay out by the owner would be $6 million. This is $1 million more than the proceeds of the sale. In such circumstances the owner might not be able to afford either the sale or its profit! It is a lock-in situation.

In some situations the owner may have no choice but to withhold the asset from sale. Countries, however, may withhold natural resources for strategic purposes in order to maximise value or national security. In some very special situations, the withholding of vital assets (like oil) could well jeopardise national security. One of the objectives of the Producer-Consumer Co-operative (PCC) is to share the scarcity value of natural resources on an interdependent, international basis. Not only could this produce mutual political independence, but also economic interdependence. Economic interdependence could be achieved both in terms of continuity of cash flows and access to raw materials and markets.

The rapidly increasing exploitation of the world's accessible natural resources raises the possibility that price increases through scarcity will make inflation inevitable. The argument as to whether the resources are being depleted in an absolute sense or not, does not change the fact that the most easily accessible resources are being exhausted. As a result, the costs of extraction and/or recycling are increasing. Alternatively, greater expenditure on technology is required to create man-made substitutes. There would appear to be a number of ways of reducing the inflationary price increases that are induced by demand for natural resources. The possibilities include: stablising and/or reducing the world's population, reducing the demand per person for material goods, and increasing the productivity of procreative assets. These possibilities are dependent upon human values and skills, rather than upon economic management in the traditional sense.

If assets and liabilities of nations were more evenly distributed, then the human cost and inequities of inflation would be shared on a far more equitable basis. Indeed, inflation could prove a most effective and powerful means for redistributing wealth from the rich to the poor. This would occur if the poor borrowed from the rich. In countries with a large percentage of home ownership, this occurs to a large extent.

Unfortunately, not all the money used to finance poor people into home purchases is provided by the rich. Much is contributed by the savings and pension funds of the elderly, who are relatively poor and have no means to replenish their wealth with the present system of asset ownership. This could be rectified with the new systems proposed. New wealth would accrue to individuals not only from their contributions to the production of goods and services, but also according to their consumption of goods and services. The rationale for giving value to consumers is that new wealth can be created by demand for natural resources and some man-made durables. The novel methods for distributing new increments in wealth allow such increments to be shared by those who participated in the creation of these values by demand.

10 Wealth from production (Link to Contents)

The classical method for accumulating wealth was from income created by the employment of labour for the production of goods and services. The traditional concern of economic and political philosophers has been for the employment of people, rather than for the employment of machines, structures and other productive assets. Production was dependent upon employment and wealth was dependent upon income. Historically, human labour contributed the principal source of both energy and skill in the production of goods and services. The development and accumulation of machine power and skill in the production process is a relatively recent development over the past two centuries.

Before the industrial revolution, the availability of ownership value was not only inhibited by the lack of productive assets, but also by the primitive legal rules of ownership. Major assets, such as land and buildings, were owned by the sovereign, the church or the local lord. Unless wealth was due to an inheritance, changes in ownership of fixed assets were more likely to be accomplished by social force or by political fiat. The concept of a capital market, with ownership transfers negotiated between willing sellers and willing buyers, grew out of changes in ownership of trading ventures and their means of transport.

Trading ventures and activities concerned with the production and exchange of goods and services still provide the principal field of study for economists. They have left the theory and practice of obtaining wealth, from the transformation and exchange of assets and liabilities, to businessmen and financiers. This leaves a very major difficulty for economists in understanding the practical operation and management of asset-rich societies.

One problem, arising from governments limiting their interest to only the income layer of the economic cake, is that the analysis of both fiscal and monetary policies is restricted to their effects in this top layer. Not only is the bottom layer neglected, but its intimate interaction with the income layer through cash flows is ignored. The exchange of assets and liabilities in advanced industrial societies can generate cash flows of the same order of magnitude as those produced by the National Income. Thus, economic policy prescriptions that ignore these bottom-layer cash flows are unlikely to work according to plan.

Because of the lack of information and analysis of the bottom layer of the cake, modern economic analysis is most likely to work best in those societies where this layer is not very large. This situation exists in underdeveloped societies, socialistic and communistic societies, where this layer has been truncated or eliminated. In such societies there is only one way to accumulate wealth - from not spending all one's income. This process the economists call saving, which they then define to equal investment. These words create conceptual problems, and they inhibit the understanding and development of a most important alternative method for generating investment in procreative assets. One of the most vital practical arguments for a private ownership economy is that this alternative method, for financing the construction of viable assets to produce even greater leisure and freedom, is made possible.

The problem with associating investment with the word savings is that it implies to most people that investments in assets can only result from savings accrued from income **already received**. This is consistent with the practical experience of most individuals. It is the only way to acquire assets in primitive and socialistic societies. In societies with a developed commercial and investment banking system, an alternative mechanism and interpretation of the traditional definition of savings and investment is possible. That is, investment equals savings expected in the future from income **yet to be received**.

The alternative method of financing the construction or purchase of procreative assets from future savings, rather than from historical savings, eliminates the factor of availability of funds being a restriction for economic growth. This alternative or roundabout method for financing economic growth is generally ignored when economic aid or development is planned. Such an oversight is encouraged by most basic economic texts, which, at best, may explain only in footnote this valuable alternative for financing economic development. This alternative is unique to private-property market economies and is not available in socialistic and primitive societies.

The principle of financing investments today from future savings is familiar to all home owners who purchase their house on terms. Indeed, many people value such a system of payment, since it forces them to save and accumulate a real asset for security in their old age. However, this example does not directly increase productivity or increase leisure time. This is because it is the owner who has to generate the income to produce the future savings, rather than the income being generated by the asset itself. An example of this latter situation is the taxi or truck driver, who purchases his vehicle on a time-purchase basis. The asset is working for the owner and pays for itself. If the owner hired a driver, he could pay off his vehicle without working himself. Buying a house has the opposite result - it forces the owner to work to pay for it. So the truck or taxi can work for its owner, while the owner must work for his house.

The truck or other machine that generates cash flow to pay for its cost (including the interest of the time payments) is, of course, what we have called a viable or procreative asset. The aggregate effects of these assets on a national economy, in creating more material goods and/or more leisure per capita, have been discussed in Chapter 2. Increasing the accumulated value or stock of viable assets per capita has also an important effect on the supply of money in the economy. Viable assets will return a greater cash flow than their cost plus interest charges for the funds invested, thus they will allow any expansion in credit created for their purchase to be paid off from their own return cash flow. Since cash-flow returns are received in excess of that required for viability, the total credit available in the banking system could be reduced or contracted. The aggregate contraction of credit is deflationary and hardens the currency. This result is, of course, consistent with viable assets increasing productivity. Productivity increases provide a way to reduce employment and produce more leisure. If a country has excessive employment, then these pressures could be further reduced by importing more productive assets on credit. The alternative method of capital creation gives new options in economic management, that are so astutely utilised by the Japanese.

Assets that do not, in themselves, generate sufficient cash-flow returns to be viable would need an outside cash flow from their owner to repay their purchase cost and interest. Such outside cash contribution is of the nature of a subsidy and consumes the owner's cash flows. We could then call assets that result in nonviable cash-flow returns as consumption assets, and those that provide viable cash-flow returns as productive assets. Consumption assets may still produce goods and services, but the cash flows returned to their owners would not be sufficient to repay their cost with interest. Ownership of consumption assets requires a subsidy from the owner, in the form of a cost. This cost might only be the lost opportunity to earn interest. By using our previous example, houses would be called consumption assets and trucks or taxies would be production assets.

The practical problem of obtaining a loan to purchase a procreative asset is that there is no guarantee for expectations of its viability being realised. If a loan is obtained to buy a machine that does not meet the test of viability, then the owner will have to obtain cash from other sources to repay his lender. Besides the scrap value of the machine, the lender will look to the borrower's other assets and income, if any, and to his personal income-earning ability to make good any shortfalls. These shortfalls, which could be met over a time period by the borrower's personal exertion income, may not be large in relation to the total value of some machines, factories and enterprises. The value of a loan, which an individual may be able to borrow to purchase an asset that is expected to be viable, is likely to be limited to about the same order of magnitude as the value of his home.

A country can finance large-scale projects because of expectations of their viability allowing repayment of the expansion in credit required for their construction. This method for large-scale finance requires a special sort of commercial and investment banking system. The development of such a system in the late 19th century meant that the United States was able to change from a net importer of capital to a net exporter of capital. The United States followed the English in this regard. Japan and Germany have also now developed this alternative facility to a substantial degree.

Each country has different methods and emphases in its approach to achieve the same objective. The common feature is a close relationship between commercial banks and productive enterprises, either directly or indirectly through investment banks of one type or another. The role of the intermediaries is to convert the loans from commercial banks, with their contractual obligation for repayments, into equity finance for which there are no contractual obligations. This process requires professional speculators who have the ability to average risks, both over broad sectors of the economy and over a period of time. A well-developed stock market can be of considerable assistance.

Most advanced market economies have not, however, developed this alternative mechanism for financing major viable assets on a significant scale. One inhibiting factor is the need to develop the necessary financial infrastructures and skills. The need for these structures and skills could be very much reduced and simplified by using the Employee Share Ownership Plan (ESOP) developed by Louis Kelso.

The Kelso Plan provides a new means for financing procreative assets out of their future cash flows in countries with poorly developed financial systems. It could achieve this without the necessity for either investment banks or stock markets, though the presence of such facilities would be of considerable assistance. These facilities would develop, on their own accord, from the general adoption of ESOPs. The Kelso Plan is now being introduced in the United States, with government encouragement, and complements an already highly developed financial system. Besides providing the United States and its corporations with a new source of finance, ESOPs are being encouraged as a basis for sharing the bottom layer of the economic cake more equitably. This should make ESOPs popular for democratising the wealth of nations in other parts of the world.

The need for sharing income-producing assets on a democratic basis may be appealing on political and social grounds, but it can also make good, practical, economic sense. It puts money in the hands of many more consumers. Unless consumers obtain money to purchase the goods and services created by assets, there will be little incentive for producers to replace or build productive assets. The incentive to invest in these assets is thus the expected demand made by consumers for the goods that they produce. Investment in productive assets will rise and fall with the expected levels of consumption. The classical economic belief that increased investment requires less consumption is inconsistent with both the businessman's motives and the modern methods of financing new investments.

This belief, which is valid in primitive and socialistic societies, persists today. It is used as a serious rationale for not sharing the income cake more equitably. The argument is that economic growth would be slowed down by the greater sharing of income, since this would produce greater consumption and so less investment. In actual fact, the opposite occurs in societies that have developed the alternative method for financing new investment. The alternative is based on the expectation of future consumption and cash flows.

11 Other factors for determining wealth (Link to Contents)

All classes of assets, except cash and most consumable items, can produce income (as shown in Table 1, Chapter 2). Income provides the principal source of new wealth from the ownership of man-made assets. Property income can create wealth, both directly from its accumulation and indirectly from the appreciation in the value of asset ownership.

Appreciation in ownership value may arise from the income-producing characteristics of the asset. However, other considerations may have more importance in changing the value of ownership. There are three vital aspects to consider:

1. The life of the asset.
2. The rules and obligations of ownership.
3. The rules and costs of changing ownership.

The life of an asset affects its ability to directly or indirectly appreciate in ownership value. The income-generating life of an asset may be more important for making an individual richer than the viability of the asset. Viable assets must, by definition, produce a greater income over their initial productive life than nonviable assets. However, if the viable asset is only available to the owner for a limited time, he could well accumulate more wealth from nonviable assets in the long term.

In general, viable assets have a shorter operating life than nonviable assets. However, there are many exceptions, such as roads, bridges, viaducts, canals and building structures. Such man-made assets may have a useful life of hundreds of years. The cash flows that assets generate in the first twenty years or so determine whether they are viable. The residual value of such assets to their owner and the community is lost, due to the modern techniques of financial analysis, which use the concept of the time value of money. This is the way in which corporations can provide residual values of their productive assets to their shareholders (rather than to their management and employees), without the transfer of the additional benefit being detected (see Chapter 7).

However, people have motives and behaviour that are not restricted by the limited time horizons of financial and economic analysts. There are many instances when the time value of money is not relevant, even when a future money benefit is being sought (such as a pension). In addition, individuals and countries, who seek wealth, power and influence, may have aspirations beyond those that the financial analysts can evaluate. Individuals in both private and public life may seek immortality through the assets they own or construct. Such monuments, that generate long-term incomes, are of particular importance to those wishing to endow a family dynasty, for instance.

The continuity and security of property income can be a more valued attribute to an individual (or even some countries) than the ability of an asset to produce a viable income return. In extreme cases, the perceived security of a future cash flow from a sale is more important than the asset generating any income. Thus some individuals and countries keep their wealth in the form of gold, silver, diamonds and other valued items.

The more enduring assets can also generate appreciation in ownership value. Their income-generating ability may increase with time because of changes in:

(a) Their use - like the block of land described in Table 4.

(b) Their desirability from other factors - like improved community services discussed in Chapter 8.

c. Their scarcity - like accessible minerals.

The income of an asset could increase after twenty years, so although it may not have been viable when initially constructed or purchased, it may become so beyond the time horizon of investment analysis. Ownership value may also be increased from appreciation in replacement value, from inflation (see Chapter 9), and from other factors. The choice of asset holding could be affected by all these factors.

The preceding considerations show that there could be quite sound reasons for nonviable assets being preferred to viable assets. As there is no personal limit to the value of assets a man can own, there is no limit to the income he can obtain from his assets. Although viable assets will produce greater income per unit value in the short term, there could be disadvantages. One disadvantage is the management and supervisory involvement required. So while viable assets may provide higher incomes that are commensurate with their risks, they may also require greater supervision - especially if they have limited life and need replacement.

The more secure assets, like government bonds, have limited life (see Table 1). Wealth in long-term bonds, for example, can be lost when inflation is increasing or when domestic and international political actions may reduce or destroy their value. Equity financial assets, by their nature, present even greater uncertainties. These problems lead some individuals and countries to forego property income and to store value in precious metals and jewellery.

The rules and obligations of owning assets may also play a vital role in the selection of the type of wealth holding. The ownership of many types of assets may bring obligations that have social and political values, rather than financial ones. The nonfinancial obligations may affect the financial value of ownership. Assets of this nature are associated with people's education, health, safety and survival, such as schools, hospitals, aircraft and rockets, respectively.

There may also be unknown, unlimited and uncontrollable financial obligations associated with the ownership of assets. These could affect the value of wealth. For example, ownership and other property rights may involve obligations to repair, maintain and pay other costs and taxes. Other costs may arise from exploring for minerals or drilling for oil in order to maintain one's rights. There may also be unexpected costs from law suits, new taxes and levies. Even precious metals and jewels may cost I% to 2% of their value per year for storage and insurance.

Other vital aspects that may change ownership values are the rules and costs of changing ownership. These changes often require the services (and costs) of brokers, legal and other advisers. There may also be transfer taxes. The value of assets is also affected by their unit cost to a purchaser. The number of people capable of buying assets with a high unit cost, such as a downtown office building, is considerably less than that number who could afford to buy a house for investment purposes. Since fewer people can afford their benefits, high unit-cost assets yield higher income returns. The upper limit of this yield is determined, in many cases, by the cost of financial entrepreneurs, who construct new rules of ownership to permit smaller joint-investment units. A greater number of people can afford these smaller units. The total value of an asset can be increased by reducing the cost for individuals to become part-owners. This process of obtaining new values, by rearranging the rules and methods of ownership, is called financial synergy. Synergy increases the total value of an asset. It can also be obtained by increasing the negotiability of investment units. This could be achieved by stock-exchange listing, widespread holdings, or investment interest. These would all create 'depth' or 'liquidity' in the market.

Many of the factors affecting the value of wealth are non-monetary and are not quantifiable. Some factors may be less socially desirable than others. These would become less significant if wealth was not so highly concentrated. The high degree of wealth concentration creates very serious problems for the majority; while a privileged minority manage their wealth according to their nonmonetary personal needs. These needs may be man's possessions imperative, which is as real a motive as the popular territorial imperative that it incorporates. However, these needs may commit national resources to nonviable activities, consume capital and so depress the general standard of living. This could create further privilege, barriers, inequities and inefficiencies in the distribution of wealth and the income it produces.

Many of man's behavioural aspects, as regards his property, have undesirable characteristics. The greatest benefit that might ultimately arise from changing the legal structure of property rights could be the modification of man's behaviour patterns and values. This modification may be initiated by the novel structures of ownership, described in the following chapter.

12 Novel methods for sharing new wealth (Link to Contents)

The four novel methods for sharing new wealth are:

1. Employee Share Ownership Plan (ESOP).
2. Ownership Transfer Corporation (OTC).
3. Land Bank (town-owning co-operative).
4. Producer-Consumer Co-operative (PCC).

The ESOP was developed by Louis Kelso in the United States over twenty years ago. Since 1974, the United States Government has encouraged the adoption of the Kelso Plan by using a number of different legislative approaches. It is now being used by thousands of companies in the United States.

The OTC, Land Bank and PCC were developed by the author over the past three years. Like the ESOP, legislative changes are not required for their adoption, only government encouragement. The purpose of this book is to seek support for their practical implementation from commercial interests and obtain encouragement from governments.

(1) Employee Share Ownership Plan (ESOP)

An ESOP is an Employee Share Ownership Trust, which borrows money to purchase new shares issued by the enterprise that employs its beneficiaries. For any shares to be purchased by a rational investor, they must at least promise to be a viable investment. Investments may become viable without necessarily being procreative. This situation can arise from the way the asset is financed (see Chapter 9), or from its ownership values.

Investors in shares would need the expectation of obtaining an additional return that is commensurate with the perceived risk. Provided these expectations are realised, the Trust would be able to repay all the money that was borrowed to finance the new shares purchase. Directors, managers and other employees could then obtain shareholdings without the need to either contribute their own funds, or to become personally liable for the money borrowed by the Trust.

The employees avoid any personal liability by using the Trust as a common pool for their shares, so that all the shares can be offered together as security for the one loan.

Additional security may be initially required by the lender; this can be supplied by the guarantee of the company itself Security might also be supplied by other shares, collectively held by employees, that have been retained by the Trust from previous issues. The employees' pension fund could also provide security. Ideally, the security for the loan to the Trust would be provided by credit insurance (see Chapter 14). The insurance premium would be funded from the higher returns available from newly issued shares.

The procuring of a loan for a Trust can be considerably assisted by attracting supplementary cash contributions for repaying this loan. This can be achieved by setting up the ESOP in a form so that it qualifies as a pension fund under the tax legislation. The tax provisions in both the United States and Australia allow corporations and employees to claim payments made to pension funds as tax-deductable expenses.

If the Trust is established in this manner, with only the company making contributions, then the employees become shareholders without contributing their own income. They could, of course, purchase additional shares by making their own contribution. The entitlements to shares purchased in such a manner would be determined by the rules agreed upon by managers and other shareholders; and would be permitted by pension-fund tax legislation. The general principle for entitlements is based on salary level, length of service and age. As a result, entitlements are allocated according to the actual and expected contribution an employee makes to the company. In other words: 'To each according to his contributions' - the criterion for sharing new wealth, suggested in the Introduction.

The trustees and controllers of the votes associated with the new shares would be chosen by the directors and managers, and perhaps also by the lender of funds to the Trust. Provision could be made, if desired by all parties, for lower-level employees and unions to be represented. The Trust could then provide a basis for introducing the German system of workers participating in the election of directors. This does not mean however, that workers need to become directors or participate in management.

The real benefit to managers, workers and society could be the fundamental underlying financial partnership, created by the ESOP, between directors, outside shareholders and employees. By establishing a collective financial interest of these groups in the bottom asset layer of the economic cake, a tempering influence is introduced for any opposing interests in the top income layer. The ESOP introduces co-operative economic interests, in order to create a fundamental rationale for greater industrial communication, harmony, productivity and fulfilment of employment.

The ESOP also provides a mechanism for industry to provide private welfare for the unemployed, to replace government welfare that is paid for by the taxpayer. Through the ESOP, workers displaced from employment by the greater productivity of new machines would become part-owners of those machines. The new machines would be financed by the new shares issued to the Trust - these would provide dividends to both the employed and unemployed. The unemployed, displaced workers would obtain private welfare in the form of shares and dividend payments. By this means, private social security would be created by workers owning the machines (the means of production) that may displace them.

The ESOP not only creates unemployment benefits for the displaced worker, it also creates for the directors and managers a second income that is indexed to the productivity of the enterprise. Private-welfare benefits would thus also be indexed to industrial productivity. This would create a political mandate for a co-operative, industrial private-property economy. Directors, employees, displaced workers, shareholders, government and taxpayers would all have a common interest to further productivity. The rewards of productivity increases (either more income or leisure) would be shared by the community according to their individual choice, rather than by political decree or industrial confrontation.

Through the financial partnership between diverse interests in the community, a basis would be established for better working relationships, and so the risk in the financial returns from industry would become reduced. This, of course, would assist the Trust, and the enterprise, in seeking finance for expansion. A self reinforcing formula for the production of more money, income, leisure and fulfilment would thus be established.

(2) Ownership Transfer Corporation (OTC)

The Ownership Transfer Corporation operates in quite a different manner, but has very similar results. It also requires a trustee to hold ownership interests that accumulate with time for the benefit of the directors, managers and employees. An Employee Share Ownership Trust or a normal employee pension fund would provide a suitable trustee for an OTC; especially if the employees' entitlements to ownership were allocated according to the well-established, tried-and-tested procedures suggested for the ESOP. These procedures result in directors and employees receiving benefits according to their contribution to the creation of new values. This is a basic condition for maintaining incentive and equity.

The trustee for an OTC would need to hold only one special type of share. The rules of incorporation of an OTC could specify that all ownership rights by shareholders in the corporation would transfer to this one share, at a fixed predetermined rate over the years. The ownership rights of investors in any corporation are quite narrowly defined, and they are limited to five rights: capital, reserves, earnings, dividends and votes. All other shares issued to investors would lose rights to all five benefits *pro rata*, according to the number of shares issued. By this device, the ownership of the corporation is transferred, without transferring any shareholdings in the usual way.

The corporation could create various other classes of shares and issue new shares from time to time. These would be subject to the rights of the special share. The issue of the special ownership-transfer share, like any other corporation shares, could occur with the agreement of the shareholders, without the need to involve governments. The rules of owning wealth through corporations could be determined by the companies themselves. In a like manner, the Trust that holds the special share could determine the entitlements to it that are held or distributed to its beneficiaries.

The ownership of all corporate wealth in an OTC would transfer with time from the outside investors to the directors and employees, who were responsible for the creation of new wealth. Any windfall long-term gains beyond the investors' time horizon could transfer in a similar manner. As discussed in Chapter 6, one reason for employees and professionals remaining relatively poor is that the productive contribution of their work becomes embodied in procreative assets and the corporate organisation. Benefits arising in the future from the employees contribution accrue to the shareholders. These unexpected, uncalculable windfall gains provide investment returns far in excess of those required.

However, investors will not want to give up the possibility of such excessive returns for nothing. But, as Table 3 in Chapter 7 shows, a rational profit-maximising investor would give up all rights to profit after twenty-five years, so as to obtain a double dividend in only the first year. The extra initial dividend invested at 10% per annum would be worth more than all the dividends expected after twenty-five years. If that investor had the opportunity to earn 20% (instead of 10%) on money received today, he would give up rights to all future dividends after thirteen years and obtain only a 50% greater initial dividend.

The initial cost of seeking the agreement of investors to limit their rights voluntarily to future profits could be very small indeed. These costs furnish unlimited returns in current dollars to the individuals, regions, states and/or countries that provide such an incentive. National governments could offer incentives by reducing corporate taxes. State governments could reduce land taxes or royalties. City councils and planning authorities commonly provide incentives to encourage prescribed property developments on limited-life leasehold real estate.

A suitable time period for transferring the ownership of corporations (from their investors to their directors and employees, or other nominated parties) would be between twenty to fifty years. The Appendix considers examples of 10 years, 27.4 years and 50 years, and shows the additional short-term profit expectations the investor requires to provide him with a higher expected return in the long term. The higher profit expectation is provided to the investor by a reduction in corporate taxes or other levies. With such incentives, the investor (be he domestic or foreign) should voluntarily choose one of the three OTC fade-out options described in the Appendix.

The Appendix uses a 50% tax rate for conventional corporations, with the investors having the opportunity to obtain a 20% return in alternative investments. With both these conditions, the investors would obtain a greater return by converting their corporation to a 50-year OTC. The increase in their return would be dependent upon the government providing a reduced tax rate of 45% as an incentive. A reduction of corporate tax to 40% would provide sufficient incentive for adopting the 27.4-year OTC. The 27.4-year period represents a transfer of ownership at the rate of 0.01% per day, or 3.65% per annum. This rate would simplify the investors' calculations of their entitlements to capital, reserves, earnings, dividends and votes. The investors' entitlement is calculated in the normal way for the class of share held in a conventional corporation, and then this value is reduced by 0.01% for each day that the company has used the OTC plan.

The OTC plan is an ideal method for owner/managers of private enterprises to turn, gradually over the years, their operations into cash for their heirs. The advantage of adopting the OTC (without any special cost-saving incentive, as proposed in the Appendix) is that it should encourage the employees to safeguard and increase the value of the enterprise in the event of the incapacitation or death of an owner/manager. Managers and employees will, with time, become partners with his family and heirs. For the management, the incentive to maximise profits at all times with the OTC plan is that companies adopting the proposal would distribute all their profits each year as dividends. As a result, the dividends received by directors, managers and employees would increase each years as a percentage of the total dividends paid. Hopefully, the total value of profits, and so dividends paid, would also increase each year and be shared by employees and investors.

The decision to spend or invest corporate dividends (which represent all OTC profits) would become an individual decision of employees and investors. The investors might prefer to place their money in other assets or, if they do reinvest in the same company, to return their money in the form of debt rather than equity. The employees also would have the option of either spending their share of the profits or reinvesting their money in the company (as equity or debt), or investing in other assets. The introduction of these options for the use of profits in modern industrial societies would have profound beneficial effects. For the owner/managers of private enterprise, these new options give new possibilities for estate planning and for establishing a succession of owner/managers for the business. The ESOP can also offer new options for estate planning.

Because of the additional incentive from the OTC plan for employees, managers and directors to maximise profits, shareholders of public corporations may also accept the plan (with or without the advantage of tax reductions). Directors and employees could seek the agreement of shareholders to the adoption of the OTC plan by offering various inducements. The size of the additional cash-flows that they would need to provide for the investors could be considerably reduced by initiating the ownership transfer ten years after the additional benefits were provided. Directors and employees could then own all the corporation after thirty-eight years, for example. This period would be within the time horizon of management, but beyond that of equity investors. Equity investors in listed corporations rarely have a time horizon beyond five years in their analytical estimates of future profits or share value.

Institutions that plan to hold shares for a longer period may not have any special facility for evaluating long--erm future values. They simply may not expect to have the option of selling the shares they hold in a particular company. There are a number of reasons for this paralysis of modern capitalism (see Chapter 13). The OTC plan provides a way for institutional investors, like owner/managers, to liquidate their equity investment with greater profit and less risk, than they might otherwise expect. Exactly the same argument applies to investors in foreign countries. As indicated in Chapter 7, the OTC gives dramatic economic, social and political benefits to the host country of foreign investment by providing a method for attracting more foreign assets and know-how, while at the same time reducing foreign ownership. Advantages such as these could well make the introduction of the OTC plan mandatory for subsidiary or branch operations of foreign companies.

Because the OTC would provide a way of transferring new wealth to directors and managers, the community in which the productive workers reside would also be enriched accordingly. As a result, the quid pro quo required for obtaining the voluntary agreement of investors for a phase-out of ownership could well be justified by local or state governments. They could provide incentives by reducing or eliminating rates and taxes, or by providing various services. A three way agreement might then be negotiated between investors, employees and government bodies for sharing both the income and asset layer of the economic cake. In some communist countries, such three-way negotiations are made, but only the income layer is shared. In Hungary, the division of surplus cash flows from industrial enterprises is negotiated annually between employees, local government bodies and the central government.

In a private-property system, the local and/or central government bodies could be induced to give investors benefits by the new sources of cash that corporate management could provide to those bodies. Corporate management could offer the dividends that would accrue to them and increase each year through an OTC. Strangely enough, because of the different ways different people value money, everybody could end up with an advantage.

Investors have a time horizon limited to fifteen years or so, directors and managers have greater horizons, and government authorities have unlimited ones. From the Appendix, it may be observed or calculated that (whatever the total dollar cost of the advantage provided to the investor) any incentive will be more than paid back by the dividends foregone after four or five years. Thus, if directors and employees gave up the right to any dividends they received on the shares that accumulated over the first ten years to the government, then the government bodies would (in current dollar terms) gain more than they gave. In the initial two to three years the government bodies would suffer a cash drain, but they would obtain a 100% surplus over the ten-year period. By staggering and averaging such an arrangement over the many companies in its jurisdiction, the government would always gain 100% greater revenues than it lost. All ownership transfers and all dividends after ten years would be received by corporate management, so employees would also receive very considerable advantages. The investor obtains a greater profit sooner with less risk, so he also receives an advantage. Everyone is better off. Such financial synergy is possible because different people value money in different ways. Dollars wanted in the future (not available earlier, in any case), for consumption by government or employees, are not decreased in value by the effects of the time value of money.

A very vital feature of OTCs, which has profound implications for corporate capitalism (see Chapter 13), is that investors would want companies to distribute all their profits as dividends. The reason for this is that they would lose 2% to 4% (according to the ownership transfer rate) of any profits re-invested by the corporation. Indeed, investors could well seek to have the corporation return all its free cash flow. This would include depreciation cash flows (created by tax legislation) that would allow productive assets to be replaced when they wear out. As a result, corporations would have to seek new funds from the capital markets for any growth. If corporations distributed their free-cash flow, then they would also need to go to the capital markets to replace any assets that wore out. Thus corporate growth and/or survival would become dependent upon the enterprise limiting its investments to only those assets that can offer the expectation of a competitive viable return. Capitalistic economies are based on the assumption that such a market discipline exists to efficiently allocate corporate cash flows. This market discipline does not exist in modern corporations.

The growth and/or survival of OTCs would be dependent upon the continual willingness of their shareholders, or the capital markets, to contribute new share capital. However, the value (and so the attractiveness) of new shares would decrease with the fade-out rate over the years. To avoid such a loss in value, a new subsidiary (or associated companies) would need to be set up every two to three years to give an attractive return. In this way, growing enterprises would be formed by a group of corporations in different phases of their ownership transfer periods. The group of companies could have a common management and technology - like many conventional enterprises, that are formed by subsidiaries and associated companies grouped together. Such groups have diverse minority and majority outside interests, and this would also occur with OTCs.

Although no changes in corporate law would be required to introduce OTCs on a voluntary basis, minor legislative amendments might be required for corporations that were subject to a take-over. A problem could occur if legislation allowed the compulsory acquisition of shares that were held by minority shareholders, who opposed a take-over supported by the majority. In such cases, it might be possible for the employees in such a minority to be stripped forcibly of their interest. The minority interest that can be acquired forcibly is usually 10%, so this possibility would not represent a problem, after directors and employees had obtained a greater interest. The OTC could co-exist both within and between countries. It could operate for wholly owned, partially owned or listed subsidiary corporations, or affiliates.

(3) Land Bank (town-owning co-operative)

A Land Bank is created when all the land in a contiguous, common-interest region is owned by a single corporation or trust on behalf of all the residents. Each resident obtains shares (and so value) in the region, according to a socially desirable formula. The Land Bank both issues shares and buys them back, at prices based on the underlying average value of the whole region. Equity in each individual's share in land value is maintained, according to the formula by which the shares are allocated and repurchased, not according to where the individual resides. To preserve the formula, shares cannot be transferred between individuals, and only individuals may hold and vote shares.

The voting power of the Land Bank shares determines the election of the Bank's directors. Ideally, the region owned by the Bank would represent a local government area, or a political subdivision (such as a Ward or Borough). The Board of Directors of the Land Bank would then represent the local Town, Suburban or Shire Council.

A Land Bank could be described as the original concept of a corporation, which was developed in 16^{th}-century England as a body politic to further the administration of towns and municipalities. The Sovereign facilitated the development of local government by delegating his authority through a Royal Charter. The charter created a body corporate, through which the powers of local government could be exercised by a body politic. The Corporation of London was created by this means and for these reasons. Commercial enterprises developed from the charters granted for the management of trading colonies in East India and Hudson Bay. Although the commercial development of the body corporate introduced the concept of obtaining economic value through shares, this facility was not introduced into the modern development of local government bodies. The Land Bank concept would rectify this situation.

A Land Bank combines the features of a local government body with those of a co-operatively owned apartment building, or *condominium*. As with co-operatively owned apartments, each individual would have two claims (or titles) to property:

1. An individual specific claim (or title) to the particular volume of space and contents that is his apartment.

2. An undivided *pro rata* collective interest in the underlying value of the land and the common structure of the building (such as elevators and air-conditioning).

Home or apartment owners living in a Land Bank would all obtain individual title to the volume of space occupied by their residence. The title would be freely transferable to other individuals, at such prices that may be mutually agreed upon.

To obtain legal title to the residence or other improvement constructed on the land, the purchaser would be required to purchase shares in the Land Bank. This requirement is similar to that for obtaining a loan from money-ending co-operatives. The share price would be established on a similar basis to any unlisted land trust or investment (mutual) fund. The share price is the total value of all the land, and all the improvements obtained by the Bank, divided by the total number of shares issued.

The number of shares issued to each resident, and the price of their redemption when a resident left the region, could be determined according to a formula. The formula might be different in different Land Banks, according to local needs and to the criteria for obtaining social equity, efficiency and incentives. The formula could be devised to meet the credo for distributing economic values:

From each according to his interest;

To each according to his contribution;

Provided the basis needs of all are fulfilled.

For example, a simple formula could be the issue of shares according to the area (or *pro rata* area for apartments) of land occupied by the structure purchased. A different class of shares might be issued for the distribution of surplus values created, within the community, by the demand competition to live in the region. These shares could be acquired, without cost over the years (like life assurance bonuses), to long-term nonowner residents who contributed to wealth creation by adding to the demand competition for assets, goods and services.

Like a mutual fund, the Land Bank would publish a selling and buying price for its shares. Residents selling a house in one area of the Land Bank and buying one in another would only have to buy more shares or have some of their shares redeemed, according to the formula for issuing shares. The formula might require a discount on the price of redeeming shares from residents who leave the region owned by the Bank. This discount could decrease by 10% for every year over the ten years that shares were held. This would recognise that the longer a person resided in a region, the greater the contribution that person has made to the values created in that region. It would also discourage self re-inforcing decreases in Land Bank share values when the population decreased.

Market pressures would determine the share valuation. The valuation of the land is indirectly determined by the Land Bank - from the premiums received (over or below the replacement value of improvements) by individuals, who purchase specific title to improvements.

The surplus obtained by the Bank, from the discount on share redemptions, would be used to repay any money borrowed by the Bank for land acquisition or funding of community improvements (like roads, water, sewerage, schools and recreation facilities). The value of such facilities would be reflected in the Land Bank shares. Some of the surplus created by the Bank would need to be held in reserve to cover losses in community values.

Any windfall gains or wipe-outs in land values of the region would be shared by all residents, according to their shareholding. This would produce a collective community interest for preserving economic value in the region, which is determined by the design, management and facilities of the community. Every resident would thus have a vested economic interest in minimising pollution and the mismanagement of community transport, garbage and other services. All residents would have an economic incentive to exert social and political pressure for making their region a desirable and attractive place to live in, so as to appreciate its value and so their shareholding.

No organisations (including corporations) would be able to own or vote Land Bank shares. They would not be able to obtain negotiable interests or specific areas in the same manner as individuals. Organisations would only be able to lease land directly from the Land Bank for a limited period of time, fifty years, for example. After the expiry of the lease, ownership of any developments would revert to the Bank, and be available for rental to the original (or other) users on a competitive basis.

As a result of restricting ownership and control of negotiable assets to individuals, the Land Bank would accumulate, over the years, very substantial commercial developments (such as shopping centres, office blocks and factories). The rents received from these commercial facilities could well pay for all the operating costs of the Bank, and so relieve individuals of their rates and taxes. Individuals in some regions might prefer to minimise commercial development and establish garden-type areas. However, this would require the shareholders agreeing to pay more taxes for this luxury.

In other areas, the individuals may elect representatives to the Board of Management who will attract industry and commerce, and so reduce individual rates and taxes. Indeed, in highly developed industrial areas it is possible that the rents obtained from commercial activities would be sufficient, not only to pay for the operation of the Land Bank, but also to distribute a surplus to shareholders as a dividend. This possibility could, of course, be promoted by the Land Bank when it negotiates with either local (or outside) investors and their managers for the adoption of the OTC plan. As discussed in Section 2 of this chapter, such an arrangement would enrich the Land Bank, the directors and employees of the corporation, and the investors.

Land Banks need not require any special legislation or incentive for their establishment. For example, Land Banks could give sufficient incentive for their immediate adoption in three particular circumstances:

1. Urban renewal areas.

2. Areas where new urban values are being created by converting land from rural to urban use.

3. Isolated special-purpose project communities, like mining towns.

For urban renewal areas, there would be no need to use cash for the resumption and consolidation of property, if ownership claims in a specific area were exchanged for Land Bank shares. The vendor could then be given a share in the new values created in the community by urban renewal, since there would be an enhanced redemption price of the Bank's shares.

The appreciation in values when the use of land is redefined can be so great (see Table 4, Chapter 8) that the cost of land purchase may be considerably less than 50% of its final value. In such cases, the Land Bank could borrow sufficient money to pay for the purchase of its land, without requiring any funds from its members. If a Land Bank was used to develop rural land for urban use, the new home owners would not need to pay for the land content of their home. The Land Bank shares acquired by the home buyers would give them their *pro rata* share of the new wealth. This wealth they themselves create in the land, from their own needs and demand for land. In many new residential communities, the land cost may represent half the price of house plus land. In these situations, the practical effect of a Land Bank for home buyers would be half-price housing!

When a new town has to be created in an isolated area, to service a new mine, for example, the cost of the town could represent from 20% to 40% of the total cost of the project. The Land Bank system of tenure could provide a means for the mining company to lease the town, instead of providing funds for its construction. This would produce savings of 20% to 40% in the capital cost of the project - a very attractive advantage for the commercial enterprise. Such arrangements however, only become feasible when the physical reserves of the mine are sufficient to extend its expected working life (beyond the time horizon used to determine the viability of the project).

In addition to the direct financial advantage for the commercial enterprise, there could well be even greater, hidden advantages. These hidden financial advantages would arise from the social and political benefits of separating mine management from town management. A democratically elected Land Bank management committee or town council provides a basis for community affairs to be sorted out among the residents, without involving industrial relationships and corporate management. Cost savings would indirectly arise from the reduction of industrial unrest and union action. Community activities would no longer be the responsiblity of (nor a cost to) the company.

(4) Producer-Consumer Co-operative (PCC)

A PCC is a second--rder structure, since it is based upon other enterprises. Its purpose is to link together natural resource production and consumer operations, in order to achieve the following objectives:

> (a) To avoid excessive returns greater than those required to provide competitive incentive. (The PCC would still provide sufficient incentive for exploiting natural resources.)
>
> (b) To distribute economic value (created by those with property rights over scarce depletable resources) to the consumers who create the demand, and so the value of the resources.

c. To allow communities and nations with depletable resources to exchange their property rights over their fading resources, for property rights over regenerative procreative cash-flow sources that service consumers.

To achieve these objectives, the structure of the PCC would need to be designed and negotiated for each specific situation. Its structure would vary according to the characteristics of the resource and its consumption. Although PCCs could be established within nations (that include both producers and consumers), they could make an important contribution between such nations, since they could be used to eliminate cash transfers. Property rights to the products of resource economics could be exchanged for property rights to the enterprises of consumer economies.

The bartering of a product for rights to future profits in a consuming enterprise would reduce the need for money, as either a means of exchange or a store of value. This feature could be especially valuable in the international distribution of resources (for example, oil). Problems of foreign exchange and balance of payments (and of the international monetary system) would be reduced.

PCCs are based on the production -sharing concept, that has been used since time immemorial in agriculture. It is now used more and more frequently by governments of developing nations, as a form of 'tax' for the exploitation of their resources (especially oil) by foreign interests. A PCC would differ from this production -sharing concept in two important ways:

> I . Property rights in the PCC would not be held by the State, but by its citizens (directly or indirectly) in negotiable units.

2. The PCC's production share would increase with time at a predetermined rate.

A PCC could take an escalating share of production as a royalty, over a 25-year to 50-year period, from either conventional corporations or OTCs. This might be done with or without an incentive for the corporation, such as a reduction in the corporate tax. Since a product is obtained instead of cash as a royalty, a PCC established in a resource-owning country could (within its own economy) also create new sources of the product, in order to compete with that produced by the investors. This tactic occurs in oil-producing countries, and provides a means of supplying the domestic market with resources at a low price. Such a tactic could also be used by the PCC. However, with a PCC, the country's share of production increases with time, and so the competition for the investor would also increase with time.

A PCC would allow the new value (created in national resources by their increasing scarcity) to accrue to the citizens of the country. It would capture these new values at an increasing rate over the years. The unearned increments in value that would accrue to the investors without a PCC would become smaller due to a decrease with time in the investors' property rights to production. Any residual windfall gains for the investor could also be reduced by competition from the PCC. More importantly, the PCC could exchange all or some of its entitlements to product for entitlements to tenure of foreign consumer enterprises. The PCC could then obtain regenerative cash flows, even if its domestic resources were expended.

For example, a PCC could greatly benefit a resource-based economy with insignificant demand for internal consumption of its resources (such as Nauru or a small Middle-East oil-producing state). The PCC could contribute to a national social security fund, so that the country's finite resources would be converted into a nonfinite community dividend. A PCC could still be desirable for economic efficiency and justice, even if a domestic OTC was exploiting the country's resources. The objectives of such a PCC would be:

> (a) To avoid excessive or windfall benefits (greater than those required for competitive incentives) accruing to either capital or labour.
>
> (b) To capture the maximum residual values of the nation's depletable resources, for exchange into regenerative cash flows from foreign consumer enterprise. (This could perpetuate the income contributed to the community dividend after the country's resources were expended.)

a. To allow foreign consumers to share the increments in value that are created by their demands for the scarce resources. In turn, the exporting country would obtain maximum entitlements from foreign consumer enterprises.

The rights of the PCC to profits from consumer enterprises need not necessarily be obtained from profit sharing, or by the issue of shares. The PCC could obtain property rights in the consumer company from the re-definition of equity entitlements (in a similar way as those of an OTC). If the consumer enterprise participating in the PCC was an OTC, its investors would obtain labour and materials in part-exchange for equity. Once again, this decreases the role of money as a means of ex-change and store of value.

If a nation's resources are exploited by foreign capitalists, the need for both OTCs and PCCs becomes crucial. Only then can a country maximise the economic returns of its natural resources. Without an OTC, or some other phase-out arrangement, the resource economy does not obtain the best return. Without a PCC, it does not have a secure economic future should its resources become depleted, redundant or obsolete. The PCC provides a means for a resource exporter to obtain cash flows from consumer enterprises that are supplied by resources from other countries. The involvement of a national social security fund in a PCC is desirable:

> (a) To distribute the economic benefits of natural resources to all citizens of the economy.
>
> (b) To provide status and power, so that the parity of exchange rates between product and property rights can be determined fairly. The future integrity and negotiability of the rights obtained could also be ensured.
>
> (c) To allow property rights of consumer enterprises to be changed, according to changing patterns of consumption. If consumers demanded some resource other than that supplied by the exporting country, a cash flow would thus still be available.

13 Correcting the capitalistic system (Link to Contents)

The four novel methods for sharing new wealth can correct some of the basic defects of modern capitalism. New options are available for seeking social equity without taxation, and for economic efficiency without excessive incentives and windfall gains. All four methods involve co-operative ownership and control of natural and man-made assets, that are used for both production and consumption. As a result, ownership values from these assets may be pooled and shared, according to socially desirable formulas.

All four co-operative structures have a number of common features:

> (a) New methods are established for the ownership of, control of, and other entitlements to tenure over land, machines and enterprises (the non-human factors of production).
>
> (b) New ways are possible for transferring or distributing the increments of new wealth, without the need for money.
>
> (c) The structures are self-financing. They allow individuals to acquire entitlements to assets, without any reduction in their personal cash flow. (Land Banks may be an exception, if the increments in the new values are not sufficient for the distribution of their shares without cost.)

(d) The new systems are compatible with existing structures. They could be introduced, on a voluntary basis, into many market-economy countries. Little or no change in legislation would be necessary.

(e) Individual property rights are replaced by collective ownership. This gives a financial partnership between capital and labour, or natural resources and individuals.

(f) Voting entitlements for the control and management of resources are associated with property rights. They are distributed on a collective basis, that is consistent with participatory democracy.

(g) Each structure gives individuals an income, with or without work. This creates a second income, or community dividend, that can provide social security without state welfare.

(h) Although ownership claims are collective, each individual has rights to negotiability. The individual can thus obtain cash flows at will (from the sale of his interest or by borrowing against his entitlements of value) without work.

i. Increments in value, from either production or demand, will accrue to those individuals who have made a personal contribution to the new value, by either their labour or their demands.

j. All property rights are limited in time by the life or tenure of an individual in a Land Bank, or by the ownership-transfer period of corporations. This permits the re-allocation of resources, according to collective competitive pressures.

The common features give new options for correcting the defects of contemporary capitalism. They also provide the basis for a new social and political structure of society. Contemporary capitalism has intrinsic built-in defects. These defects make capitalism inequitable, inefficient, inflationary and insensitive to changes in ownership values. The inherent defects have their origin in the rules for owning assets. These rules are the legal system for property ownership, that has developed during many centuries. Since the defects are an integral part of the legal structure of property rights, they may escape the notice of the untrained observer. just as the integrity of a building's foundations may be hidden by its structure, so the integrity of capitalism's foundations is obscured by its legal structure. The problems caused by these inherent defects of contemporary capitalism have been widely and exhaustively analysed by specialists. However, economists and political scientists commonly accept the legal structure of the present system as inviolable. They diagnose its problems and only prescribe monetary and fiscal remedies; they do not correct structural defects.

The legal specialist, in turn, is not commonly concerned with an interdisciplinary view of the politico economic system. Those with interdisciplinary knowledge are often committed to the capitalistic system, or are conditioned to accept it without question.

This has inhibited many from perceiving the root causes of the deficiencies in contemporary market or mixed economies. The intellectual breakthrough necessary for an insight into the problem is far smaller than that needed in the past to accept that the sun did not go around the earth.

The problems of corporate economies and economies based on scarce natural resources (like land and minerals) are clearly evident (see Chapters 7, 8, and 9). The present legal system for owning assets can frustrate two of the three most fundamental assumptions that justify a private-property market economy. These two assumptions are:

1. Economic gains will accrue to those responsible.

2. Competition will control and/or limit economic gains.

Both assumptions are, in turn, based on a third fundamental assumption of capitalism:

3. Economic gains provide an incentive for production, efficiency and competition.

This assumption needs reconsideration in affluent societies, since the needs of the individual for material survival and personal security may be sufficiently satisfied.

The nonmaterial needs for power, status, influence and personal fulfilment can transcend the profit motive as a driving force and incentive (see Chapter 4). Nonmaterial motives may be harnessed and tempered by vocational co-operative interest for the community economy. The four new economic structures provide such interests. The drive for power will remain in any system that allows small minorities to have a great concentration of wealth. Many of the inequities and inefficiencies of modern capitalism stem from the highly concentrated distribution of wealth holdings.

The value of wealth holdings has multiplied hundreds of times over the past century in advanced societies. The available evidence, however, indicates that the concentration of wealth has declined only slightly. During this period a situation has developed that could rapidly reverse this trend. The population explosion saturates the world with people - these people not only require food, clothing and shelter - they also strive to achieve the material affluence of the industrialised countries.

The population explosion has led to a rapid increase in demand competition for natural resources, the most fundamental are land and minerals. Ownership of such resources provides individuals and countries with a source of new wealth that increases with time. Unlike production assets (the value of which decreases when goods and services are not produced), the value of these natural assets may be enhanced by hoarding and withholding supply. Wealth such as this can be obtained without personal effort or skill - it is created by the have-nots for the haves.

New wealth from demand competition for scarce resources may be produced without any cash flows. Solutions that involve cash flows generated by taxation or other fiscal measures become inappropriate and ineffectual. Indeed, in most situations such measures will compound the problems of a market economy and further paralyse the system. The traditional suggestion for correcting these defects has been to endow the State with all property rights; that is, nationalisation. Although this course of action may be practical within a **national** economy, it is unlikely that it would be accepted on an **international** basis.

Nationalisation is regressive, because it denies the right of individuals to obtain and exchange their tenure over resources for cash. The freedom of choice for individuals to live from their capital is substantially reduced. They cannot obtain wealth (created from demand pressures) from their national assets. Since the State owns all negotiable assets, citizens are deprived of property rights. These rights could otherwise produce cash flows at the citizens' discretion, without work. Since citizens have fewer sources of cash flow available at their discretion, their economic independence and political freedom are reduced. Nationalisation is thus economically and politically regressive.

The penalty of nationalisation may be preferred by those who believe that the inefficiencies and inequities of the present forms of capitalism create even greater costs. The regressive effects of State ownership become more significant with affluence, when the capital value of resources increases relative to the incremental values from production. Correction of the inherent defects of contemporary capitalistic systems should substantially change existent preferences for nationalisation as a solution. The novel economic structures proposed in this book could make private ownership a more attractive alternative to nationalisation, for those who seek efficiency and justice.

In order to maximise the economic independence and political freedom of individuals, private -property rights need to be maintained on a basis in which negotiability is at the discretion of the holder. This is a feature of all four structures, which releases, and so increases, the cash flows available to individuals at their discretion.

Nationalisation provides a negative solution, since it removes the cash flows that can become available from the private ownership of property. The Land Bank and the PCC allow new wealth to be more equitably distributed, and some of the windfall gains that emanate from the ownership of natural resources by consumers will flow back to them.

The ESOP and the OTC can correct the defects of corporate capitalism. The most important defect is the bias that gives wealth to the investors, rather than to the directors, managers and employees who created this new wealth. The ESOP and the OTC, either together or alone, can remedy corporate wealth concentration. In addition, each has its own particular means of correcting other problems in corporate societies.

A unique feature of the ESOP is that it can create a new source of finance for both the corporation and the country (see Chapter 10). It can also create a market for corporate shares, as an alternative to stock-exchange listing.

A very valuable feature of the OTC is that it can give countries the means for attracting foreign investment and technology - but at the same time, it reduces foreign ownership, dividends and liabilities (see Chapter 7). This feature is but one example of the correction of a fundamental problem of corporate capitalism - that is, the 'locking-up' of capital resources (by removing them from competitive pressure). This results in considerable inefficiencies in the use of productive plant and equipment, and is closely associated with the way corporations make the rich richer, and big corporations bigger.

As noted in Chapter 3, wealth is more highly concentrated than income - 75% of assets is generally owned by less than 20% of the people. But, as noted in Chapter 4, procreative wealth (such as that held by corporations) is even more concentrated - over 90% of a nation's viable assets is owned by less than 5% of the people. This situation arises because homes are not viable assets. The concentration of viable assets is accentuated even further, since control (as distinct from ownership) is held mostly by giant savings institutions. Their very size leads them to be conservative and so adopt a common approach to investment.

The greater concentration of ownership of viable assets, and the even greater concentration of their control, in capitalist societies, means that those societies have relatively ineffectual capital markets. The lack of liquidity of the world's leading stock markets is not only a universal problem, but is one that has been growing at an alarming rate. The alarm has been greatest in the United States, which has both the biggest and most sophisticated stock markets. In 1973, for the first time on record, the New York Stock Exchange reported an absolute decline in the number of individual shareholders in their listed corporations. The United States Senate Subcommittee that investigated these problems found the value of shares traded, between 1963 and 1973, by institutions on the New York Stock Exchange rose from 35% to over 70% (rising to 90% for some companies). The value of shares traded by individuals was very much smaller.

The concentration of money power is of considerable political concern in the United States, especially as it involves the interlocking relationships between corporations, banks and savings institutions. As noted in Chapter 4, capitalistic societies are beginning to experience the same conflicts as socialistic societies (where ownership is also separated from control). This separation leads to an indifference to both the monetary and nonmonetary values of ownership, and it encourages a situation in which power can corrupt either capitalistic or socialistic systems.

One technical problem arises from the concentration of ownership and control. This is a two-tier stock market. One tier involves those institutions that limit their investments to only the larger corporations. The second tier involves the vast majority of corporations (90% or more) that have little interest in either institutions or individuals. The herd instinct of the powerful United States financial institutions - that leads them to create a two-tier stock market - was explained to the United States Senate Subcommittee in the following way: 'There are strong structural reasons why institutions tend to go one way or the other massively and almost in unison. They talk together. They know what the others are thinking and doing. They know their fellows can dominate near-term market trends. Furthermore, if their mistakes are shared with the best people in the biggest institutions, they are not concerned as severely as if their mistakes arose from bucking a generally accepted opinion.'

The general adoption of the OTC plan could remedy the concentration of ownership or control of viable assets, the structural bias for size to beget size (irrespective of efficiency), and the lack of liquidity and competition in the stock markets (that prevents the allocation of resources according the will of the majority). The OTC would remedy the concentration and separation of ownership and control in a similar manner to ESOPs, but in a much more pervasive way. The OTCs would also give a far greater incentive to corporations for the distribution of all their profits, and even all their free cash flow, to their shareholders.

With the OTC plan, the total cash flows from corporations (in the form of dividends and other forms of capital returns) would at least double, and provide a far greater liquidity to the capital markets. The OTC plan would also unlock the captive cash flow. At present, this cash flow is re-invested by the corporate managers of a company, without the shareholders being aware of either what they intend to invest in or what returns they expect. Corporate law and stock-market regulatory authorities insist on receiving such information when corporations seek new funds from the public. Since the majority of new corporate investments are funded from internal cash flows (from depreciation and retained profits) these requirements are ineffectual. These captive cash flows amount to about 80% of new-risk capital and are not subjected to the test of free market competition. The opportunities for inefficiencies and size begetting size are both poisoning and strangling corporate capitalism.

Investors in OTCs, however, would not want to see their share in profits and other cash flows decreased by 2% to 4% each year, as suggested. They would demand that corporations return their maximum possible free cash flow each year. The corporations could, of course, invite their shareholders and the public to re-invest their cash in the corporations. The corporate managers, however, would be forced to justify all new investments and to compete with all other investment opportunities available in the capital markets. The decisions for investment and allocation of resources would thus revert to the owners of capital and their financial advisers, rather than to the corporate controllers (who are usually not the owners of any significant corporate wealth).

The professional manager must be subjectively involved with the assessment of investment opportunities and risks. The owner of corporate capital and his financial advisers can be completely objective in making evaluations, and they have a far greater spectrum of alternative opportunities to consider. Their pragmatic approach to investment performance and productivity is denied to the professional corporate manager. As a result, corporate capitalism is poisoned by the inefficient and subjective re-investment of about 80% of the cash flows that are generated by productive assets. The percentage of captive corporate cash flow has increased rapidly over the last fifty years, since industry has more money invested per employee (or has become more capital intensive), and the tax laws have encouraged corporations to re-invest, rather than to distribute. Tax legislation constitutes, in itself, a major defect of corporate capitalism and is crippling the system.

When corporate managers become part-owners of either ESOPs or OTCs, they obtain the right, as well as the opportunity, to apply corporate cash flows to assets thatprovide them with nonmonetary benefits. These assets could provide the managers with power, status, influence, fun, challenge and excitement, rather than with profits. There would be, however, two limiting factors:

1. The desirability of sharing these nonmonetary benefits and incentives with their colleagues.

2. The need to attract **new** capital for growth from disinterested professional investors.

Growth is not possible when a corporation distributes all its profits, or free cash flows, and does not attract new capital. If corporate managers desired growth only for reasons of personal profit or power, they would be disciplined by the need to offer a competitive financial return.

The restrictions in the growth of noncompetitive corporate enterprises would result in fewer excessively large companies. Excessively large companies have only developed because of the inertia inherent to their size. Corporations are now existent that are equivalent in size to some nations. In 1972, only twenty-five countries had Gross National Products that were greater than the sales turnover of the world's three largest corporations. The OTC plan leads to smaller corporations, and so to a greater number. As a result, greater competition would provide goods and services of better value and standard.

Since OTCs provide liquidity and realisation of assets (disinvestment) for either the private capitalist or the professional investor, they give advantages to economic management. The self-liquidating nature of OTCs can enable governments to initiate policies that restructure the economy. Tariffs could become much more effective for controlling the growth or decline of industries. The phasing-out of industries could be quite rapid, since the average life of all a nation's productive plant and equipment (for tax purposes) is only about six years. (The useful life is probably about 50% greater, representing investors' windfall gains.)

OTCs not only introduce new options and flexibility in the structure of corporate economies, but they also promote institutional change on a continuous basis. Without change, there can be no progress. Progress is urgently needed to correct modern market economies, so that they can become both economically and politically attractive.

A new economic order is required - not only to validate the basic economic assumptions of private-property economies, but also to provide an alternative source of motivation in affluent societies. The production of leisure (see Chapter 5) means that there is both the need and the opportunity to seek new solutions. Solutions are required that can harness man's greed or higher aspirations to further the collective interest of society. The nonmonetary value of wealth (see Chapter 4) means that the solutions will need to be integrated into the economic dimension of wealth holdings and wealth distribution.

14 Creating a community dividend (Link to Contents)

Kelso has proposed that the spreading of capital ownership and the income it produces, can be achieved solely by the general adoption of the ESOP. Not only would the ownership of wealth be more evenly distributed and give rise to 'Universal Capitalism'

(Kelso's term), a two-income economy could also be created. Each employee would obtain two incomes: one from his labour and one from the dividends of his capital.

For encouraging the widespread adoption of ESOPs, Kelso proposed the establishment of an insurance facility. This would guarantee loans made to finance purchase of new shares by Employee Share Ownership Trusts, so that cheaper bank credit becomes available. The direct involvement of the commercial banking system would also facilitate the creation of aggregate investments in the economy from credit expansion (see Chapter 10). The credit insurance for funds borrowed by the Trust would spread the risk of investments not being viable across the economy and through time. The same principle, of guaranteeing loans that are to be repaid out of future cash flows, is used for home mortgages. The extension of the mortgage insurance business to Trust loan insurance provides a diversification that could contribute to capital production; in contrast to the capital consumption in housing.

The OTC, Land Bank and PCC would all reinforce those plans proposed by Kelso for both the distribution of wealth and the creation of a second income. The word wealth is used, rather than capital, since the new structures could distribute values in assets that are not viable, or even productive. However, only productive asset holdings would produce a dividend or second income. The individual's second income could come from a number of different sources. The collective income from all sources will be referred to as the community dividend.

It is by using the community dividend that a country could meet the last requirement of the economic credo suggested: 'Provided the basic needs of all are fulfilled.' The community dividend could be used to replace all welfare payments, social subsidies or guaranteed minimum income (negative tax). Although the community dividend might be described by some as a negative tax, such taxes and social security incomes can only be determined and provided by a government. The community dividend, however, would be provided, and its aggregate value determined, by the private sector. As the productivity and/or aggregate output of the private sector changed, then so would the community dividend change.

The community dividend would provide a new mechanism of economic management, without the direct involvement of the government. The central, regional and local governments could become indirectly involved, and determine the composition of the dividend. It is by using the community dividend that a whole country could collectively and democratically determine its leisure rate (see Chapter 5) without government direction. As productivity increased, the community dividend would increase. The leisure (unemployment) that arises from greater productivity could produce an additional income. This would give citizens the necessary cash to purchase the extra goods and services that are created by the higher productivity. The additional income would also allow citizens to enjoy their leisure (unemployment) in comfort.

The community dividend might not be sufficient for all citizens to enjoy their leisure (unemployment), or even their work (employment). This would motivate some citizens to supplement their personal income by engaging in more productive activities - the community dividend would then be increased. An equilibrium position between those preferring economic work activities and those preferring leisure activities would be established. Leisure activities are taken to be non-productive in the economic sense. The possibility that one man's work can become another man's leisure (see Chapter 5) would remain, and quite possibly would increase to a surprising extent. The surprise may come when everybody suddenly realises that the community dividend can give them survival and security without work. Work in either economic or community affairs would be a matter of status, power, fun and interest, instead of economic necessity. The first part of the economic credo for distributing value would have been achieved: 'From each according to his interest.' Man's selfish interests could be harnessed to further the community's social interest if the new rules for owning assets (that allow community collectives or co-operatives) were used.

The total value of the community dividend received could be quite different for different people, since various components of this dividend could have a different value for each person. Some people might also receive dividends from more sources than others. These possibilities could mean that changes need to be made in the allocation of the community dividend; this would involve political action.

The collection and distribution of the community dividend could take place at three levels, each involving corresponding levels of government.

Source of Dividend	Structure	Government level
National resources	PCC	Central (foreign and domestic)
Productive assets	ESOP and/or OTC	Regional and central
Residential & agricultural land	Land Bank	Local and regional

The community dividend could cause profound changes in the nature and role of government, since it provides welfare payments **from** the private sector to the private sector. This eliminates the need for governments to collect and distribute such transfer payments, and also eliminates the need for much of the associated bureaucratic machinery and costs. The new economic structures can provide other subtle and more effective methods for reducing the need for governments. For example, the components of the community dividend for employees in the less productive government sector could be considerably less than those for individuals in the private sector.

All citizens could obtain regular cash from a community dividend. Thus it would be possible for many community facilities and services, that are now subsidised by government, to pay for their own costs by charging suitable prices. This would allow many State-run enterprises, such as health, education and transport, to become private-sector activities. As a result, a greater choice of service could become available.

There is yet another way in which government influence could be reduced. The role and nature of government would stay the same, but the balance of government between central, regional and local levels would change. There would be greater influence and power in local and regional government, consistent with a participatory democracy. However, this change in influence and power would only involve those activities that affect individuals. The central government could still have greater options, influences and power in matters affecting whole regions.

The changes in influence and power between the various levels of government need not involve any changes in the constitution or in the political structure. Changes could arise, quite naturally, from the new sources of income generated at all the various levels. The control of the distribution of these new sources of income (that are components of the community dividend) would give new sources of power to local and regional government. Control of these new income sources could be captured at the local level by the Land Bank system. Local, regional or central governments could capture new income sources from the OTC, by entering into exchanges between employees and investors of various benefits and costs (see Chapter 12). The PCC allows such exchanges to occur internationally, as well as nationally.

By using the PCCs, a central government could set up a national social-security fund, that would form part of the community dividend for all citizens. Central governments could augment the income needed for such a programme by obtainng a share in the dividends from OTCs. This is particularly desirable in capital-intensive industries, where a small number of people operate assets of great value. Employees in these industries would have a far greater opportunity for obtaining a second income and asset ownership, than those in service industries. In a similar way, certain regions in a country might be particularly well endowed with natural resources. PCCs would provide a means of averaging out the short-term benefits and any long-term costs of these resources to all the regions of the country.

A community dividend obtained from a multiplicity of sources and levels would create a new matrix for economic power. This power would check and balance individual negotiations between enterprises and their associated local, regional and central governments. These government levels, in themselves, create new checks and balances to economic power. The matrix of economic benefits would, in turn, produce checks and balances between and among the various levels of political power. The economic power of the local governments would be greatly increased by possessing a share capital, and by existing as an economic co-operative in the form of one or more Land Banks. The power in local government, however, would be diffused, since there would be a collective economic interest in the values of the community's land. This diffusion of power would eliminate the more obvious sources of corruption, where windfall gains could be created from particular parcels of land. The new structure of income, property ownership and political power creates a new socio-economic system. This system has values (not operations) that might best be described by the name 'Social Capitalism'.

15 Social Capitalism (Link to Contents)

The general adoption of the four novel economic structures in a country would further the objectives of both socialists and capitalists. For the socialist concerned with human needs and equality, every citizen would obtain a guaranteed minimum income from the community dividend. For the capitalist concerned with economic freedom and incentive, the distribution of values in either the income layer or the asset layer of the economic cake would provide economic incentive. Every citizen would have three sources of cash flow, without work or public-sector welfare. A fourth source of cash flow would be available, at an individual's discretion, from those engaged in economically productive activities.

Two sources of cash flow would arise from the top income layer of the economic cake, and two would arise from the bottom asset layer. The four sources of cash flow would be:

1. Personal exertion income - from the production and exchange of goods and services.

2. Community dividends (or second income) - from asset ownership in various co-operatives.

3. Sale of assets - exchange of ownership rights in private property, or in property held jointly in co-operatives.

4. Borrowings (or contingent sale) - from the transformation of property rights in private or in jointly owned assets.

The last two sources of cash flow are not taken into account by the social and political scientist. He limits his analysis to only the income layer of the economic cake. As a result, there has been very little academic study of the inefficiencies, inequities and structural defects of private-property economies. The identification of the defects of capitalism has been left to heuristic insights and intuitive feelings. These are not subject to reason and analysis, and have thus fuelled emotive rejection of capitalism, without the perception of the operation of the defects or their correction.

Academics have neglected the study of the economic values of private property. This means that the social scientist has no framework of analysis for perceiving (or evaluating) the defects of either socialism or capitalism. The study of economics is, at present, principally concerned with traditional concepts for the production and exchange of goods and services. This study needs to be enlarged to take into account other intimately connected changes in values and cash flows. These cash flows arise from the transformation and exchange of property rights (assets) and obligations (liabilities). In other words, both layers of the economic cake and their interrelationships need to be considered for managing or structuring a private-property market system.

Since the social scientist does not usually consider these economic values and cash flows that arise from the bottom layer of the cake, the serious economic disadvantages of socialism or communism (where there is State ownership of assets) have been hidden.

One vital technical short-coming is the inability of non-capitalistic societies to grow from the expectation of future savings, rather than from past savings (see Chapter 10). The more important social and political feature of private property (held in **negotiable form** at the **discretion** of the holder) is its ability to produce cash at will for the holder, without work or welfare. This feature provides economic independence for the individual. Private property can further political independence through economic independence, but it can also provide a basis for its holder to become involved directly in the management of his society. His direct involvement would arise from the control rights of private ownership. This aspect requires restructuring within modern corporate societies.

The recognition of the existence, operation and value of the bottom layer of the economic cake creates new options for managing both enterprises and society. The ability of individuals to receive economic benefits directly in the form of asset ownership is another method of remuneration. The ability to accumulate assets in an OTC or an ESOP could result in these enterprises paying lower salaries and wages. Both the users and suppliers of labour might exchange, to some extent, their toil for asset ownership. A barter system could emerge directly between capital and labour. Assets would become a means of exchange and a store of value, in a similar way to money. In the lexicon of Karl Marx, the bourgeoisie would become integrated and become partners with the proletariat, eliminating the compradore capitalist. Ideological class distinctions would then be extinguished, as desired by Marx.

The recognition of the asset layer of the economic cake, and the use of the new economic structures, would also provide new options for managing inflation. Inflation would be inhibited, to a large degree, by correcting the inflationary structural defects of corporate and natural-resource economies. The new structures would:

(a) Reduce incentive to hoard scarce natural resources, since their ownership time horizon would be limited.

(b) Reduce excessive payments over the years to corporate investors.

c. Realise corporate cash flows, and so reduce corporate ability to hoard capital inefficiently.

The positive contributions the new structures could make in controlling inflation would be:

(a) To allow a substantial reduction in government taxes, by substituting private welfare for public welfare.

(b) To allow higher levels of unemployment to be tolerated, by using the benefits of a community dividend.

c. To provide a firm basis for a realistic social contract between labour and capital. A direct financial partnership would be established between these two factors of production.

Much of the remuneration of the workforce would be automatically indexed to inflation and productivity. This would be related to their income and asset formation. But, far more importantly, the greater sharing of wealth would spread both the costs and benefits of inflation in society (see Chapter *9)*.

The indexing of the various components of the community dividend would vary, according to the source of the dividend. Some components would not be related to the personal exertion contributed by the individual to production. For example, they could relate to the contribution he makes by demanding goods and services. The components of the community dividend are:

(a) Dividends from shares (in the ESOP or OTC) received by individuals, from their employers (since the individual is productive).

(b) Cash distribution from social security funds and/or PCCs (since the individual is a consumer).

(c) Cash distribution from residential Land Banks.

(d) Dividends and rents from other assets that are acquired from income or capital.

The dividends received from employers would be dependent upon the collective productivity of labour and capital in the enterprise. This component would provide a reward for co-operative teamwork in production, and also provide an incentive for accepting increases in the productivity of capital. Increases in the productivity of capital could reduce the human inputs of production. The surplus, in resource-based economies, from social security funds and PCCs could be very substantial. For some of the oil-producing countries, the surplus would be sufficient to eliminate the need of citizens for any personal exertion income. The component of the community dividend (or second income) from Land Banks would depend upon the commercial development of urban living areas.

Like the community dividend, the accumulation of negotiable assets need not be dependent upon personal exertion. It could be dependent upon consumer demand for scarce resources of society. Assets could accumulate, without toil, from an individual's interest in his residential Land Bank. They could also accumulate from his equity in his community's social security fund and associated PCC. The property rights obtained could provide cash flow from exchange and transformation of asset ownership, rents and dividends.

The propensity for individuals to engage in economic activity would depend, to some degree, upon the actual (or contingent) cash flows available to each individual. The number of people making an economic contribution, and the value of their contribution, would change the equilibrium productivity level of the economy. If the citizen's dividend fell too low for the preference of an individual, then he would be induced to change his vocational interests, in order to complement his income by making a greater contribution. In doing so, he would increase the aggregate economic productivity of the community, and so also contribute to the increase of the community dividend for all members. The level of each citizen's dividend could automatically adjust to the acceptable collective productivity of the economy.

In contemporary industrialised economies the objective of full employment has always been the common goal, whether the political system is capitalist, socialist or communist. This objective is consistent with the puritan work ethic: that individuals need to work to obtain a living income. It is also consistent with the ambitions of nations seeking economic growth and power. The goal of full employment has always been the foundation of all modern political economies. This traditional objective needs to be reconsidered, in the light of the development of general affluence, technology and concern for increasing pollution and depleting resources. Contemporary capitalism will be locked in a degenerate spiral if it accepts less growth. Less growth produces less employment. Less employment requires more public welfare, when there is no private welfare. More welfare means more taxes, more government bureaucracy, and more inefficiency - this produces less growth.

A two-income economy in the more affluent resource-based and/or industrial societies would permit many citizens to obtain a living income without employment. They could still accrue reserves of negotiable assets. The Middle-East oil states provide examples of nations that could produce a large enough community dividend from the export of their natural resource. A similar situation is arising in capital-intensive industrial communities. General affluence could thus negate the traditional needs for many individuals to work. The need to engage in economic activity would then only depend upon the need for personal fulfilment. Economic work would increasingly interest only those who found satisfaction in their vocation. This is a self re-inforcing factor for creating even greater economic productivity, and asks only that each citizen contributes 'according to his own interest'. This is in accord with the credo.

The need for national political power (that can be provided by economic growth) is also declining, for a number of reasons. One of the most important is that wars are now based on the mobilisation of technology, rather than of armies. Economic growth is also questioned by the environmentalists, and by those concerned with the limits of the world's resources. For industrial cultures, the main obstacle in selecting the option of less growth with more leisure could be the remarkably well-entrenched work ethic, so persuasively expounded in the United States. There is an all-pervasive guilt of not working hard in such a culture. This insistence that the purpose of life is to perform economic work has little meaning in Latin America. A story in this regard is worth quoting:

> "An American businessman in Mexico passing by a leather store, noted the excellent craftsmanship of the wares. He asked the price of a wallet and was quoted $1.00. Asking whether he could purchase 100 wallets a week he assumed a lower cost - perhaps 80 cents each. He was wrong. The shopkeeper wanted $1.20 each. Business logic defied. Asked why a higher price for a volume, the shopkeeper replied: ‘I have enough income to live and life is simple. Why do I need the problems of finding help, renting a larger store and neglecting my wife?

> No, if you wish to occupy my time with such nonsense, you will have to pay for it.'"

The greatest opportunity and challenge of growing affluence is that it could provide purpose and fulfilment for human life. The greatest challenge (and problem) will be to make sure that this objective is achieved. This problem has been increased, rather than decreased, by industrialisation and general affluence. Since the beginnings of recorded history, highly organised, non-industrial societies have been able to sustain substantial portions of their population in non-economic activities, so as to provide a cultural cause. The activity has mostly been welfare, but spiritual activities provide some impressive examples - such as the construction of the pyramids of Egypt and the temples of South America and India. I n the 1960s, the United States sought fulfilment of its cultural cause by fighting communism in Vietnam and by exploring space. The termination of these activities without alternatives, resulted in the production of leisure, or unemployment. This occurred to a degree that was excessive in relation to wealth distribution. Unemployment without welfare is only acceptable when an individual can live from his capital.

The novel methods for distributing new wealth establish a financial partnership between capital and labour, so as to establish the interdependence of their economic returns. While this, in itself, need not produce industrial harmony, it does establish a fundamental interest for proprietorship by employees. This interest could provide a basis for increasing both productivity and satisfaction. Job satisfaction will become increasingly important, as employment become less essential as a means of obtaining discretionary cash flows.

In addition to the economic rewards, the novel capitalistic methods for distributing new wealth also provide a new basis and opportunity to influence the management of vocational organisations. This opportunity arises from the voting rights of ownership that are provided by an Employee Share Ownership Trust or OTC. The trustees could vote the shares of the Trust to elect employee representatives to the board, in a similar manner to practices in some European countries today.

Some unions and employee groups prefer not to have any influence in management, so as not to prostitute their bargaining and negotiating position. The Trust and OTC do not force employees to participate in the structure of management, but they do provide the facility if it is required. It is common practice for the directors of a company to be the trustee for employee retirement funds. Thus there is no need to have the trustee of an ESOP elected by and for the non-director employees. The director's main economic interest in modern corporations is most likely to be that of an employee, rather than that of a shareholder. This situation would be changed with the new structures, because they allow corporate executives to be true capitalists, and not *de facto* capitalists (who have control, but not ownership).

The value of the regular cash distributions (that an ESOP/OTC could make to its members) would be directly related to the profitability of the enterprise. The ESOP/OTC could provide a feed-back mechanism to the employees from the efficiency and competitive standing of the enterprise. This mechanism provides another basis for employee involvement in management meetings and in worker councils. The cash distributions would provide a means for measuring success, and would also be a reward. The evidence and recognition of success is often more important than the economic reward.

The general adoption of the four innovative methods, proposed for distributing the ownership of new wealth, would create a novel type of economy. This economy would have ideals of justice, but also provide incentive (arising from both wealth and fulfilment). The economy would be based on co-operative ownership, but would facilitate market competition. It would also improve social equity (by the way new money values could be distributed), but it would promote efficiency by making institutional changes in the organisation of society. This novel economy could provide the basic material goods and services for all citizens, so that they may seek their personal fulfilment in either work or leisure.

The new economic system is based on the formation of co-operative enterprises. Both the ESOP and OTC would, in effect, convert corporate enterprises into co-operatives. Both the Land Banks and PCCs are formed explicitly as co-operatives. Ironically, all the co-operatives would encourage both greater motives and better facilities for competition, than contemporary capitalism. Contemporary capitalism reduces the motives for competition and collective profit by separating ownership from control. This separation results in the 'locking-up of capital', and so concentrates great economic power in the hands of a minority.

The new economic system might be described as competitive collectivism, or co-operative capitalism. The dichotomy of words is necessary to describe the contradictory economic and political characteristics of the new system. The system would combine the more desirable political benefits of socialism and capitalism. For this reason, the political economy created by the general adoption of the novel methods for distributing new wealth will be referred to as Social Capitalism.

Kelso refers to the economic system created by the general adoption of ESOPs as Universal Capitalism. This description is politically acceptable in the United States, and is technically correct when the word capital is used to describe procreative assets. The word capitalism, however, is commonly associated with selfishness, greed and privilege. For many people, capitalism is as unacceptable as socialism. Both words have become symbols for conditioned emotive thought patterns and prejudices. These prejudices may blind even the most gifted intellects into unreason, un-knowledge and unreality. Any prejudiced conditioning might well be broken by the juxtaposition of capitalism and socialism - to conjugate contradictory emotive symbols - to form the new economic system of Social Capitalism.

The methods by which wealth is created and distributed in a national economy are fundamental to the character of its political system. Alternative political systems are assessed and advocated according to whether they are thought to promote social responsibility, social equity and economic efficiency. Although these objectives are commonly accepted, there is considerable disagreement as to the means by which they might best be achieved. Many of the differences could well arise from the misunderstanding that exists concerning the sources and nature of wealth.

Those in favour of market economies appear to be unaware, or incapable, of correcting its intrinsic injustices and inefficiencies. The socialist or communist, who is aware of these defects, will seek a solution that ignores the economic and political value of private property. Equality is sought by a negative approach - to eliminate cash flows that arise from the transformation and exchange of ownership claims (assets) and obligations (liabilities). The economic values of ownership are lost to all citizens and the nation. Individuals and the nation become dependent upon only those cash flows and increments in value that arise from the production and exchange of goods and services. Classical economics is concerned only with income distribution - this has, it seems, inhibited any major political doctrine that is based on asset distribution.

Over the past twenty years, Kelso has been rectifying this situation with the development and promotion of the world's first capitalistic method for distributing wealth. However, this method has only gained acceptance with professional economists since its practical adoption by businessmen and political leaders in the United States.

Economists have difficulty in appreciating capitalistic means for wealth distribution in the bottom layer of the economic cake. The problem arises from their traditional commitment to the top income layer. There is considerable dissension among economists concerning methods for analysing the creation of wealth and its distribution (the bottom asset layer). There was a double irony in the observation of one of their respected colleagues. He observed that the novel structures proposed in this book would increase the validity of many orthodox economic assumptions. Social Capitalism could increase the relevance of orthodox economic management, because of the release of more effective and rational market forces. Although Social Capitalism would provide many new options in economic management, its greatest value might be to improve the relevance of economic assumptions.

The three new structures developed by the author would increase the scope of Kelso's objectives. They would also bring to the forefront the interdependent relationships (within an economic system) between capital and labour, and between individuals and natural resources. The OTC is a productive collective between labour and capital. The Land Bank is formed simply by collecting together the property rights of land holders. The PCC collects together the property rights to natural resources, with and for both consumers and producers. The interdependent economic relationships, established by collecting together traditionally opposing interests, provide a financial basis for establishing social and political interdependence.

Social Capitalism can appear to be either socialistic or capitalistic, according to the way in which it is explained. It can thus attract support and criticism from both the left and the right. In Latin America, the Kelso proposals are described as El Tercer Camino (The Third Way). Social Capitalism represents a third way because it satisfies the fundamental democratic objective of diffusing the power of property rights, from either a socialist elite or a capitalist elite. The co-operative structures distribute the voting rights of democracy. With socialism or communism, the voting power of ownership is vested in the central political apparatus of the State. The new structures create competing centres of property rights. These provide checks and balances to political power structures (elected democratically or otherwise). The Land Bank could provide the formal political structure of local government. One of the great attractions is that significant windfall gains (available to individuals) are eliminated. At present, these can arise when local governments make decisions (such as to rezone an area) at their own discretion. The elimination of vested economic interest in local government politics would create a fundamental difference in the motives and opportunities of those seeking elective office.

The creation of the community dividend (by the OTCs and PCCs setting up a national social security fund) would reduce the role of a central government in the detailed management of the economy. The new structures could assist directly in the decentralisation of both the location and function of government. This should allow the economy to become more responsible and sensitive to the needs of various interests and individuals. The reduction of government activity and tenure over negotiable assets should also reduce vested economic interest in a central government, as well as increase government efficiency and justice.

The electoral appeal of a co-operative economic system is that it promises to provide a community dividend and to redistribute wealth in the form of assets. Wealth is far more highly concentrated than income. This has not become a populist political issue, because of the ambiguity of the concept of wealth, and the confusion of wealth with income. As a result, the general public without wealth (or those who do not recognise themselves as wealthy) are not aware of what they are missing. There is considerable political appeal for identifying the difference between wealth and income. It is worthwhile to recognise the considerable benefits of owning wealth and of sharing it more equally. To seek a structural correction of unequal wealth distribution would appear most compelling.

A consequence of adopting Social Capitalism should be the reduction of taxes and government. Private welfare would replace public welfare. Citizens would obtain part of their community dividend from their OTC (vocational collective) and/or from the national social security fund, and perhaps also a part from their Land Bank (residential collective). Central governments would no longer need to collect taxes to finance welfare and social security. The government would still be needed to orchestrate the exchange of benefits between the various sectors of the community. Governments could guide such exchanges between corporate tax rates and tenure transfer rates. They could also influence exchanges between ownership transfer beneficiaries (such as employees) and the community at large. They could also arbitrate in the design of PCCs and their exchanges of benefits between investors, employees and consumers. Governments could also influence the entitlements to consumer enterprises and production sharing, both within the economy and between the economy and other nations (or international PCCs).

For a government to maximise the economic and political freedoms of its citizens, it should divest itself of all its assets that may reasonably be made negotiable. The negotiability of many government enterprises might depend upon some form of implicit subsidy, like many private enterprises. Alternatively, because every citizen would obtain a community dividend, services that were previously free could be sold. However, if prices were increased, too much competition from the private sector could be expected.

Government enterprise in the fields of education, communication, transport, health and welfare might be proved to be inefficient, or to provide a service of unsatisfactory quality. The end result should be less government, less taxes and more efficient community services and facilities of better quality. There would be greater economic efficiency, justice, independence and political freedom. The democratising of wealth within and between nations provides a means for seeking the civilised fulfilment of society.

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APPENDIX

Ownership Transfer Corporations

Assumptions:

(i) Investors and employees obtain 100% of ownership

(ii) Profit after tax = dividend

(iii) Total corporate assets = A

Ownership Transfer Corporations (OTC's)		**Conventional Corporation**			
a	Ownership period of investors (years)	10	27.3785	50	Unlimited
b	Corporate income tax rate	0%	40%	45%	50%
c	Annual profit before tax ($)	0.4A	0.4A	0.4A	0.4A
d	Investor ownership transfer rate pa. [=100/a]	10%	3.6525%	2%	Nil
e	Total profit before tax pa. [=a x c] ($)	4A	10.95A	20A	0.4A unlimited
f	Annual profit after tax [=(1-b) x c] ($)	0.4A	0.24A	0.22A	0.2A
g	Total tax paid pa. [b x e] ($)	0	4.38A	9A	0.2A unlimited

h	Total profit after tax pa. [=e-g] ($)	4A	6.57A	11A	0.2A unlimited
i	Total investors profit* [h or 0.5 x h] ($)	2A	3.285A	5.50A	0.2A unlimited
j	Total employees profit [=0 or 0.5 x h] ($)	2A	3.285A	5.50A	Nil
k	Total government tax per total investors profit [=g/i]	0%	133%	164%	100%
Gross profit distribution					
Employees		50%	30%	27.5%	0%
Investors		50%	30%	27.5%	50%
Government		0%	40%	45%	50%
Ownership distribution					
Employees		100%	100%	100%	0%
Investors		0%	0%	0%	100%

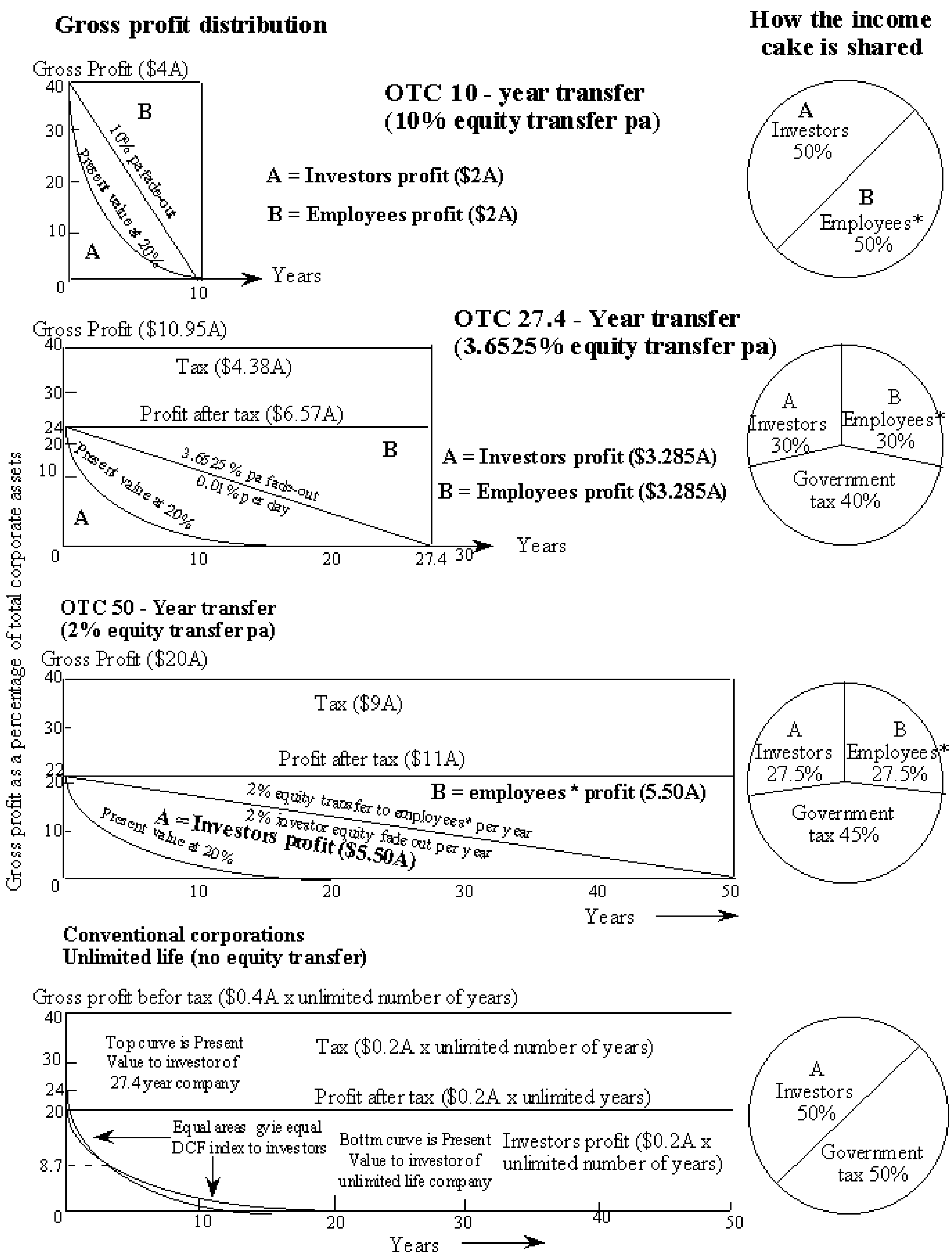
*Total investors profit = total profit after tax for conventional corporations. Total investors profit = 0.5 x total profit after tax for OTCs.

Note for next page:

Calculation of Discounted Cash Flow (DCF) index is sensitive (beyond meaningful practical assumptions) to the initial cash-flow configurations. These are taken to be those that produce the figures quoted. Precise determination of DCF index depends on the time taken to make the investment, to produce the first return, to produce the first dividends and indexing of the transfer cycle to these time periods. As a practical approach, it is proposed that the commencement of the transfer cycle be activated by the payment of a maiden dividend.

Comparative analysis providing a 20% DCF index for investors in all cases

(*As per footnote 1, employees could include other stakeholders0



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