Creating Money:
Supporting Rapid Economic Growth and Economic Democracy Without Inflation

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What is Money?

The money and credit creation process is not as mysterious as most people assume. To understand it, we must first ask the question, "What is money?" Economists have traditionally answered that it is: (1) a medium of exchange, (2) a store of value, (3) a standard of value, and (4) a common measure of value. As a lawyer-economist concerned with the impact of contracts and property on the economic system, Louis Kelso delved even further into the nature of money.

> Money is not a part of the visible sector of the economy; people do not consume money. Money is not a physical factor of production, but rather a yardstick for measuring economic input, economic outtake and the relative values of the real goods and services of the economic world. Money provides a method of measuring obligations, rights, powers and privileges. It provides a means whereby certain individuals can accumulate claims against others, or against the economy as a whole, or against many economies. It is a system of symbols that many economists substitute for the visible sector and its productive enterprises, goods and services, thereby losing sight of the fact that a monetary system is a part only of the invisible sector of the economy, and that its adequacy can **only** be measured by its effect upon the visible sector. (**Two-Factor Theory: The Economics of Reality,** Louis O. Kelso and Patricia Hetter, Random House, 1967, p. 54.)

The process of money creation using a central bank (such as our Federal Reserve System) is neither mysterious nor occult. The system was designed to allow the creation or destruction of money as needed by the economy, so that there would never be too little (resulting in deflation) or too much (causing inflation).

Credit is the Key to Empowerment

There is a way that people without accumulations of savings can acquire capital. They can use credit. However, they must use the right kind of credit. The rich have always used the right kind of credit, and gotten richer. The poor and the middle class have been left with the wrong kind of credit, and have gotten poorer. At the international level, many developing or transforming economies have gotten into financial trouble because of a reliance on the wrong kind of credit.

Productive (or "capital") credit is good credit. This is the way the rich use other peoples' money or newly-created money to create more wealth for themselves. Used properly, whatever is bought with capital credit pays for itself. It does this by using the earnings of the newly-created or purchased capital to repay the debt. When the debt is fully paid, the owner keeps the earnings of his capital.

Non-productive credit (*i.e.*, credit used for consumption or speculation) is bad credit. This kind of credit is expedient, but makes the user poorer. It reduces future income by the amount of the current purchase and the future interest charges. Capital credit can make you rich, consumer credit will keep you poor.

Yet, strangely, while virtually no one has trouble obtaining consumer credit, it is practically impossible for most people to obtain capital credit, even in the so-called "capitalist countries." This is because most people don't have collateral. Lack of collateral creates an effective barrier that prevents virtually anyone from acquiring capital assets. This is an especially serious problem in transforming or developing economies, where for many years people have not been able to save in order to acquire capital. A poor person or someone without special privileges is without the means to acquire an ownership stake in the future economy.

It has been acknowledged for thousands of years that everyone should have the right to acquire ownership of productive assets. This is the "right *to* property" (as opposed to the rights *of* property, which refer to what you can do with your possessions once you have them). The problem is that few people have the means to exercise the right to property when they lack past savings, sufficient current income, collateral, or access to capital credit. Since justice mandates that you can't simply confiscate the past savings of others or unilaterally raise wages without any increase in productivity, the only way left to acquire property is access to capital credit. Fortunately, capital credit can be made available to everyone **without taking wealth from anyone else.**

Contrast this with the approach advocated by Karl Marx. Marx's mistake was to assume that a wide and equitable distribution of wealth could only result by taking wealth from those who currently possessed, and making the state the owner. Marx's intentions may have been good, but he erroneously assumed that economic development was a "zero-sum game"; that the only way to acquire wealth was to take existing wealth from someone else. This assumption has seriously hampered equitable economic development in all countries. A better assumption is that, if there is not enough wealth to go around, create more; if not enough people own productive, wealth-generating assets, make certain that they have access to the means of acquiring those assets. The primary means of acquiring and possessing private, productive property is capital credit.

Capital credit is a "social good," arising from agreements between people. Credit can be extended for the purchase of capital assets without first having past savings accumulated in the system. This is called "pure credit," and, like money itself, is simply a promise to pay. (That is not all that money is, but it is enough to illustrate.)

Pure credit is a means of using future income to pay off a debt. While traditional economists say that "savings *always* equal investment," Louis Kelso added the observation that credit repaid with "future savings" also equals current investments. The new owner still has to deprive himself of the income from his new asset until the loan is repaid, but he doesn't have to save for years before obtaining it. The new capital pays for itself out of its own earnings.

Thus, capital credit that is made available in a truly democratic manner to everyone is a means that would allow many more people to have the opportunity to acquire productive property. Once property is acquired, economic power naturally and inevitably follows. Having been empowered with property, the life and liberty of the individual and his family can be protected against the vicissitudes of fortune and anyone who seeks to eliminate basic rights. George Mason, the "Father of the American Bill of Rights," hit the nail on the head when he drafted the Virginia Declaration of Rights, which pre-dated the American Declaration of Independence by almost a month. Section 1 of the Virginia Declaration stated:

That all men are by nature equally free and independent and have certain inherent rights, of which, when they enter into a state of society, they cannot, by any compact, deprive or divest their posterity; namely, the enjoyment of life and liberty, **with the means of acquiring and possessing property,** and pursuing and obtaining happiness and safety.

Access to capital credit would go a long way to restoring Mason's wisdom about the importance of access to property as a fundamental human right in a free and democratic society. Why the Declaration of Independence omitted this language has never been fully explained, but, in my opinion, is one of the most unfortunate omissions in American history. Transforming economies, with the unique opportunities in economic restructuring that now present themselves, have a chance to do Americans better at their own game.

Binary Economics: The Systems Logic for Structuring a National Ownership Strategy That Will Diffuse Capital Incomes to All Citizens

The model Kelsonian economy would distribute an ever-increasing portion of consumer incomes through capital ownership spread directly among all households. This is in sharp contrast to economies structured to distribute mass purchasing power exclusively through jobs and welfare redistribution, as is the case in both socialist and capitalist economies today. A Kelsonian economy would link increases in gross aggregate demand directly with productivity increases belonging to new owners by virtue of their equity holdings in new, expanded, or transferred capital. Existing owners with already large accumulations would not be allowed to monopolize access to the equity growth in the economy. However, the rich would be safeguarded against deprivation or erosion of their property rights in present assets. Only rights to acquire future equity opportunities would affected.

Long-range ownership planning in an economy built under the Kelsonian binary income distribution system - where free market dynamics would be allowed to determine labor and capital outtakes - would create directly the expanded market power for sustaining and justifying vastly accelerated growth rates. Instead of artificially stimulating aggregate demand through government tax, spending and monetary policies - as Keynesians advocate - the Kelsonian general theory focuses on stimulating aggregate supply.

This is particularly advantageous in transforming economies, where the need is to reform both the production (supply) and distribution (demand) structures. Kelso's policies, by properly structuring the production side of the equation, also provide ordinary people with "effective demand" - disposable income - thus automatically reforming the income distribution system.

Kelsonian policies focus on creating expanded private purchasing power needed to clear the market of future capital goods and consumer goods directly. This is done through market-oriented new jobs, and widespread ownership opportunities within the competitive corporate sector as a whole. Put another way, under a Kelsonian growth strategy, the source of mass production in society - the corporate sector - would become the direct source of irrigating private purchasing power among all consumers in society. This reduces radically the need for income redistribution through government- or politically-mandated jobs, or private charity.

This is of particular importance in a transforming economy such as in China or the former Soviet Union. Prior to reform, the only way to ensure that most people gained an adequate and secure income was for the government to mandate a certain number of workers for specific companies - whether or not they were required for efficient production. With a change to free market economic structures, many workers face the loss of jobs that they used to consider absolutely secure, as their lack of productive utility becomes obvious. A Kelsonian approach finds places for these newly-redundant workers by spurring economic growth which increases the demand for human labor.

What about new investment? As explained in more detail below, new investment would be financed on "pure-credit" or "future savings," thus breaking the growth-stifling dependence of investment and growth rates on past savings. The importance of this method of corporate finance and economic growth to a transforming economy cannot be overstated. In a communist economy, people had no need to accumulate savings. In many cases, there were penalties for saving. The problem arises when, in a changeover to a free market style economy, no one in the country has any savings to finance the desperately needed investment. A heavy reliance on foreign investors ensues. Kelso's approach removes the need for the foreign investor as the only source of finance, and opens up a way for all citizens to share in the economic development of their country.

Increases in productive capacity under a Kelsonian approach would create broadened ownership opportunities, and be synchronized directly with increase in effective market demand. Redistribution of income and governmental interventions with the price mechanism in determining wages, prices, and profit level would eventually wither away under the ideal Kelso model.

"Pure Credit": An Untapped Source of Low-Interest Credit to Build Market Power into Consumers Based on Broadened Ownership of New Capital

"Where will the money come from?" is a common reaction to those encountering the Kelsonian theories for the first time. For example, according to the Economic Report of the President, the United States economy adds about US $1 trillion annually in new productive assets, structures and infrastructure in both the private sector and the public sector. This amounts to about US $4,000 annually per man, woman and child in America. None of this need be owned by government. As things now stand, this economic growth is financed each year in ways that create no new owners. This is the ultimate in anti-democratic finance.

The temptation for a transforming economy, faced with the need for reform and restructuring, is simply to copy the economic structures and policies of the United States. While the economy of the United States has been very successful in comparison with many others in the world, merely copying America's current system would be a serious mistake. The United States is based on democratic **political** principles, yet the **economic** principles embodied in the American welfare state today have features that act un-democratically to exclude people from full participation in economic life.

The question transforming economies face is, "How can we finance our future capital needs through **inclusionary** techniques, that is, in ways that expand the role of the private sector, and enable ordinary citizens to accumulate enough savings to purchase growth capital and gain the right to share profits as owners?" The answer is "pure credit." "Pure credit" is a civilized society's ultimate weapon in the war against unjust concentrations of wealth and economic power. This power already exists, at least in principle, in the hands of the directors of any country's central bank. Pure credit is only waiting to be used for meeting the country's projected capital needs and for democratizing the ownership base of the new economy in the process.

"Pure credit" is based upon the legal concept of "promise" and the enforceability of contracts, two main ingredients of a free and orderly economy. Pure credit is nothing more than the power of people (including legal associations of people, like corporations) to contract freely with one another under a system of law which enables everyone affected by the contract to enforce his rights and claims over property under the contract. It involves elements of volition as well as control. It is limited only to the extent that people, their associations, and government itself make promises they cannot keep. Since promise is the "glue" that holds society together and determines how confidently people view the future, the making and breaking of promises determines whether that society is strong or weak, orderly or disorderly, growing or disintegrating.

Credit is a social phenomenon. Control over money and capital credit will determine the nature and quality of a country's future industrial frontier as well as its future ownership distribution patterns. Because credit is so essential to participation in a free market economy and to the acquisition of private property, a denial of capital credit amounts to a denial of one of the most fundamental of human rights, the right to own and accumulate private property.

In a society where the ownership of productive capital is so crucial to freedom and human happiness, discriminating among citizens as to who has access to capital credit constitutes as gross a violation of equal protection of the laws as discrimination in access to the ballot. Capitalist countries provide capital credit to the rich and ever more burdensome consumer credit to propertyless workers. Transforming and developing economies have the opportunity to reverse this situation and, in the process, become more democratic than the plutocratic Western "democracies"!

How credit is used, to whom it is made available, and the purposes for which it is used, are proper subjects of governmental policy. The "social costs" of maintaining an efficient credit system - for example, interest charges on commercial bank credit - and who will pay those costs, are also legitimate subjects of governmental regulation.

When the "full faith and credit" of a government stands behind the nation's currency and the demand deposits in the commercial banking system, this involves "pure credit" in the ultimate sense. The central bank, one of society's most important social technologies, by controlling the total volume of currency and commercial bank credit needed to facilitate economic transactions, controls the direction of private enterprise. The central bank also has the power to be "lender of last resort" in many situations, if that becomes necessary.

When the central bank, as an instrument of government, misuses its money-creating powers, inflation results, and there occurs a breach of one of government's most important "promises" to its citizens, that the value of the currency will remain constant. When government does not keep this basic promise to its people, debts are jeopardized, property is arbitrarily redistributed among debtors and creditors, and the other promises that hold society together become difficult to keep. "Trust" is gone. As one nineteenth century economist observed:

> Confidence and credit are only moral elements in society; they may be said to be, to a great extent, mere matters of opinion; yet their importance in the production and distribution of wealth is so great, that the whole machinery of material production is kept at work, disordered, or paralyzed, according as these principles act in a healthy manner, irregularly, or not at all. [I]f credit and confidence should be from any cause destroyed, all these resources seem to have lost their virtue, and general distress prevails. Let confidence and credit be restored, and the whole system is immediately set in motion again, and in a very short time general prosperity returns.

If they are the source of the problem, government and the central bank - government's main instrumentality for controlling the costs and volume of "pure credit" extended through the commercial banking system - are also the source of the solution to economic inequities. The central bank can play the central role in restructuring future ownership patterns of the economy, while leaving the actual allocation of credit in the hands of commercial bankers.

In **The Formation of Capital,** Harold G. Moulton, former president of The Brookings Institution in Washington, DC, laid the theoretical foundation for Kelsonian "pure credit" monetary policies. Dr. Moulton pointed out that economic growth did not have to depend exclusively on past accumulations of savings, and that there need not be a tradeoff between expanded consumption and expanded investment. Dr. Moulton pointed out that demand for capital goods is a derived demand, that it is derived from demand for consumer goods, and the latter depends on consumption incomes.

Hence, concluded Dr. Moulton, forcing people to reduce their consumption to purchase new capital assets was counter-productive - it reduced the viability of that investment and other investments, which ultimately depend on consumer demand. He then posed the question, "Where could funds be procured for capital purposes if consumption was expanding, and savings declining?" Most economists assert there can be no growth without savings, that is, unless consumption is reduced. Dr. Moulton answered his own question by stating that funds to finance the formation of capital could be obtained

> From commercial bank credit expansion. Such expansion relieves the possibility of shortage in the 'money market' and enables business enterprises to assemble the labor and materials necessary for the construction of additional plant and equipment.

The real limits to expanded bank credit, Dr. Moulton added, were physical ones: unused capital resources and raw materials, an unemployed work force, unutilized plant capacity, and ready markets for new capital goods and new consumer goods. His study of one of the fastest growth periods of American economic history, 1865 to 1895, revealed that bank reserve requirements remained relatively constant, while the volume of commercial bank credit outstanding rose substantially. At the same time, price levels actually **declined** for the period by about 65%.

Dr. Moulton also demonstrated that, even in periods of great business activity, productive energies are normally underutilized; there is always some slack in the system. Dr. Moulton proved that there can be rapid growth without inflation. Yet by keeping to established economic paradigms, an economy can experience rising prices alongside recession, as was graphically demonstrated in the American economy in 1974. Dr. Moulton's conclusion is worth noting:

> [T]he expansion of capital occurs only when the output of consumption goods is also expanding; andthis is made possible by the [simultaneous] expansion of credit for production purposes.

Unfortunately, Dr. Moulton failed to carry the connection between expanded bank credit and expanded capital creation to the next logical step: the expansion of the base of capital ownership and capital income distributions as a new, more direct, and more efficient source of mass buying power to absorb future outputs of final consumption goods. Louis Kelso fortunately picked up where Harold Moulton left off, giving transforming economies the opportunity to start their new structures off in the right direction from the very beginning.

The Discounting Mechanism

Supplying funds to the money market and controlling the cost of these funds - the discount rate - has long been recognized as the orthodox instrument of monetary policy. In **Lombard Street** (1873), Walter Bagehot outlined the principles of central banking, first developed beginning early in the fourteenth century, arguing that the main function of the Bank of England was to serve as the lender of last resort, mainly by supplying liquidity to a capital-deficient economy through the flexible use of its rediscount powers.

The House Banking and Currency Committee of the United States Congress, noted in **A Primer on Money** in reference to the Federal Reserve System, the central bank of the United States, that,

> When the Federal Reserve Act was passed, Congress intended [the purchase of "eligible paper"] to be the main way that the Federal Reserve System [the central bank of the United States] would create

> bank reserves.When this practice was followed, the banks in a particular area could obtain loanable funds in direct proportion to the community's needs for money. But in recent years, the Federal Reserve has purchased almost no eligible paper.

When the Federal Reserve System was set up in 1914,the money supply was expected to grow with the needs of the economy. It was hoped that by monetizing "eligible" short-term commercial paper, by providing liquidity to sound banks in periods of stress, and by restraining excessive credit expansion, the banking system could be guided automatically toward the provision of an adequate and stable money supply to meet the needs of industry and commerce. The system's needs made necessary. To safeguard their liquidity and provide a base for expansion, the member banks could obtain credit from the nearest Federal Reserve bank, usually by rediscounting their "eligible paper" at the bank - i.e., selling to the Reserve Bank certain loan paper representing loans which the member bank had made to its own customers (the requirements for eligibility being defined by law). If necessary, the member banks might also obtain reserves by getting "advances" from the Federal Reserve bank.

A Two-Tiered Interest Structure

Clearly, the interest policies of a central bank affect the rate of capital investments in a country. When an industry sees its after-tax earnings on invested capital decline to 3% or so, and the interest charges on capital expansion loans mount to 8% or higher, growth comes to a halt without massive government subsidies. The more the industry borrows, the greater the losses. On the other hand, if interest costs decline to 2 or 3% - the "raw cost" of money exclusive of any "inflation premium" - and if regulatory and labor handicaps on profit levels are removed, the industry would be profitable and government subsidies unnecessary. High interest charges are illogical when they shackle growth and economic development.

Today, few central banks make use of their power to rediscount "eligible paper" held by commercial banks, or to make direct loans to banks to meet their liquidity needs in fostering commercial and industrial development, especially in ways that create new owners of newly formed capital. Instead, the world's central banks control domestic money supply and interest rates through their other main money-creating powers: open market purchases of government securities, altering reserve requirement ratios, and changing interest rates to the advantage of special interest groups. Many central banks allocate nearly all of the money they create to support public sector growth or pure speculation. Virtually nothing is directed toward supporting productive private sector growth in which all citizens can have an equitable share.

Under the current monetary policy in many countries, newly created money, under both conservative or liberal approaches, is pumped indiscriminately into the economy through the economy's existing financial system. In most economies, the existing system channels a certain proportion of the newly-created financing toward expanding market-oriented production. However, a significant part of most existing systems channel money into non-productive, resource-wasting, and non-market-oriented purposes. Quality-control has not been factored into the strategies of either side of the debate on monetary policy.

Conservatives tend to favor lessening or eliminating the creation of money for non-productive purposes, but ignore the fact that this would channel even more credit into ownership-concentrating modes of capital creation. This would increase political pressure for redistribution which caused the creation of money for non-productive purposes in the first place. While favoring private property, conservatives offer no solutions to the dangers inherent in a society where the majority of citizens own no capital.

What is missing is a refinement in the present system of corporate finance. The system needs to permit increases in the money supply to be channeled more selectively into new private sector plants and equipment, but through routes that gradually and systematically create new capital owners. This would reduce the demands for forceful redistribution of existing wealth. Transforming or developing economies engaged in creating an entirely new system, have the opportunity to embody sound principles of corporate finance and expanded capital ownership in the system from the very beginning, as the system is constructed from the ground up.

Under a comprehensive, long-range national "expanded ownership" strategy, as in the proposed "Capital Homestead Act" advocated by some of the supporters of Louis Kelso's theories, the key to growth without inflation is the highly selective use of the central bank's rediscount powers and control over interest rates. Ideally, the central bank, in controlling and channeling monetary growth, would differentiate sharply between interest rates on whatever accumulated savings exist, and interest rates for pure credit loans used to stimulate private sector investment growth among new owners of capital. There would thus be a "two-tier" interest rate structure in the new economy.

Tier One Interest Rates

Yields on already existing investments ("past savings") should be permitted to rise to whatever levels the money market will permit. Interest rates on Tier One would, therefore, level off at yields on alternative investment opportunities. Since "pure credit" would gradually supplant conventional sources of the economy's expansion capital, existing savings (to the extent present owners do not convert them into funds for their own consumption) would be freed up and channeled into an expanded funding pool for consumer loans, housing loans, highly speculative ventures, loans for speculating in securities on the open market, small business loans, government bonds, and other risky or inflation-prone purposes. Since this separate reservoir would not increase the output of marketable goods and services to any appreciable degree, its interest rate would undoubtedly contain an "inflation premium" to offset inflationary pressures set off by the use of these funds as stimulants to consumer demand or for wasteful and speculative purposes.

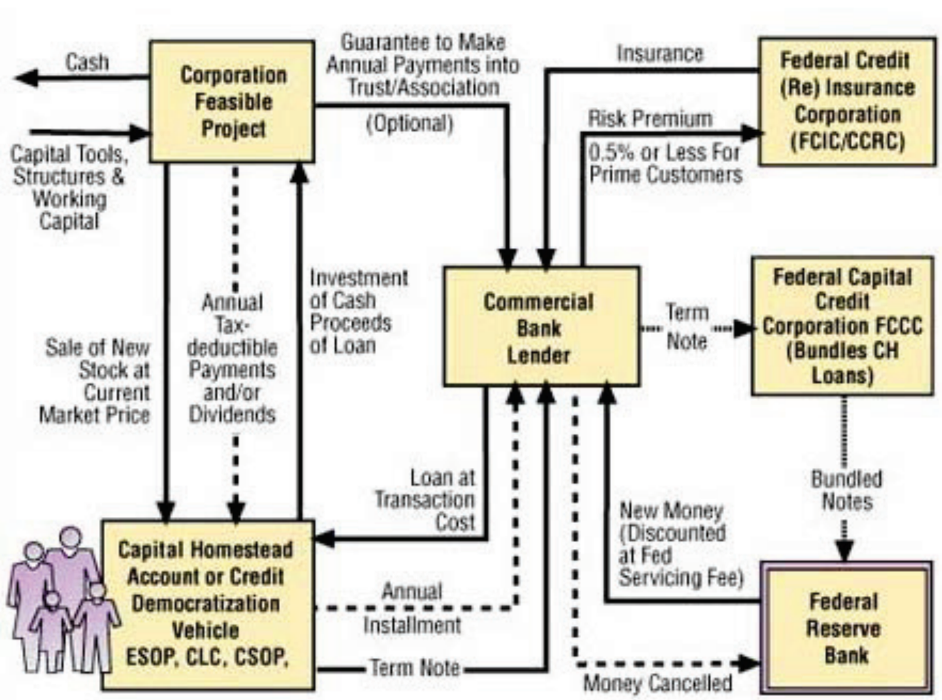
Tier Two Interest Rates (Pure Credit)

The newly developed "pure credit reservoir" would become the main source for financing new equity share issuances representing the growth capital required by the economy in the present transformation and for future economic growth. The replacement of existing capacity would continue to be met through standard provisions for sinking funds, so that the financing of growth would not deprive any present owners of property rights in their existing wealth accumulation of productive assets.

Pure Credit Vehicles for Economic Empowerment

Besides (1) the leveraged Employee Share Ownership Plan (ESOP) as the principal pure credit vehicle for people who work in the corporate sector, other such vehicles to expand access to ownership credit include: (2) Consumer Share Ownership Plans (CSOPs), for customers of regulated utilities and natural monopolies; (3) Community Investment Corporations (CICs), for residents of designated development zones or redevelopment areas to gain access to equity and real estate profits in locally-based for-profit land acquisition, planning and development corporations; and (4) Individual Share Ownership Plans (ISOPs), set up as a special kind of Individual Retirement Account (IRA) at local banks, to enable all citizens and families to acquire newly-issued corporate shares on credit repayable with future dividends, as a way to reduce the dependence of retired and disabled people on the government pension and social welfare system.

The following diagram illustrates how these four "pure credit" vehicles could reach out to all households and provide widespread access through their local banks to productive credit for funding the growth of locally-based enterprises or even divisions or subsidiaries of global corporations locating in their communities:



The Capital Diffusion Reinsurance Corporation (CDRC) and Commercial Capital Credit Insurance Companies

A Capital Diffusion Reinsurance Corporation would be established as a back-up insurer of last resort, **wholly on a self-financed basis,** with no taxpayer funds or government underwriting involved (except, possibly, for start-up organizational funds). Thereafter, its operational costs would be covered by premiums on the insurance programs CDRC would offer to commercial capital credit insurers of banks and other lenders to ESOPs and other pure credit vehicles.

The major insurance CDRC that would reinsure would be capital credit loan default insurance. It would charge an annual premium - 0.5% or higher - to protect the lending institutions up to 75% to 90% of any losses on credit offered to ESOP, CSOP, CIC and ISOP borrowers. This would cover the eventuality that companies issuing the shares against which the loans were made would not be profitable. The premium would be included in the annual interest charged by the lenders. Naturally, the sounder the share-issuing company, the lower the premium.

Differential risk categories, with adjustable premium rates, could be set up for grouping participating corporations, based on their maturity, earnings history, the quality of their management, the nature and special risks of their industry, *etc*. This would be similar to the bond rating services available to dealers in the securities exchanges of capitalist economies.

CDRC could also offer portfolio reinsurance issued by private insurers. For an additional premium charged to employees, commercial insurers would insure employee accounts in ESOPs against "downside risk." Upon retirement, a worker would thereby be guaranteed a high percentage - say 75% to 90% - of the initial values of all company shares purchased through his ESOP account.

This type of insurance is useful for offsetting the lack of diversification in most ESOPs. This is a common complaint raised against ESOPs, as opposed to the ordinary type of defined benefit plan or the proposed ISOPs. Then, if the company failed, the worker would not lose all his or her retirement assets before he had a chance to diversify. Commercial portfolio insurance could be kept at relatively low premiums if limited to shares in companies that had been profitable for at least three years.

Premium costs to cover shares in high-risk, start-up companies would be extremely high compared to those for mature companies with a solid track record of earnings. This is where a role exists for the foreign investor in a transforming or developing economy. Accumulations of past savings are ideal for financing enterprises where the pure credit approach is too risky or the enterprise is too unfamiliar. The foreign entrepreneur can come in and use his expertise and sources of financing in situations where the Kelsonian approach would be inadvisable or inappropriate.

Discounting of "Eligible Paper" at the Central Bank

Commercial lenders making loans to ESOPs, CSOPs, CICs and ISOPs, subject to guarantees of high pre-tax dividend payouts by companies issuing the new equity, would first arrange for CDRC loan default insurance on the loan paper. Once insured, the loan paper could be brought to the discount window of the central bank, where, for a discount fee covering the overhead in administering the "pure credit" system (0.5% or less), new currency would be issued or the bank's reserves would be correspondingly increased to cover its expanded liquidity needs. No taxpayer funds, interest subsidies, or government borrowing would be involved. As explained earlier, pure credit is wholly based on promise secured by the future profits anticipated from the new investments. Because it would be limited to self-liquidating capital formation, and would be cut off by the central bank whenever the economy operated at 100% of its capacity, "pure credit" would not be inflationary. Because it is geared to increasing production levels in a way that is designed to reduce costs, it is counter-inflationary. "Pure credit" should never be permitted for consumer financing, government deficits, or for the acquisition of securities on the open market. These would be financed through the expanded "past savings reservoir."

Bank Interest Rates Under "Pure Credit"

In lending "Tier Two" credit, banks would not be lending "other people's money." The "pure credit" interest charges for prime borrowers could therefore be set at 2% to 3%, reflecting the full real costs of expanded bank credit. The cost components for computing these interest rates would be:

- The risk of default, covered by an estimated 0.5% commercial capital credit insurance premium for acquiring full dividend payout shares of low-risk enterprises.
- The Federal Reserve discount rate (the service charge levied on loans to member banks), set at 0.5% or less.
- Lender administrative costs and profits, estimated at 1% to 2%.

Conclusion

Throughout every nation in the world there persists a largely unrecognized void in policies and programs to promote both sound economic development and the goal of expanded capital ownership. We need to bring a higher level of economic and social justice to the lives of all citizens, turning the people who currently own nothing in the way of productive assets into owners of capital. Since justice also mandates that government not simply confiscate past savings of others or unilaterally raise wages, the only way remaining for most people without capital to acquire property is through access to capital credit. Fortunately, capital credit can be made available to everyone **without taking wealth from anyone.**

Since capital credit is a "social good," arising from agreements between people, any nation in the world has the power to restructure its financial system to extend credit for the purchase of all domestically produced capital assets, radically reducing its dependency on foreign investors and accumulators of past wealth. Financial institutions are only tools, and as such, should promote fundamental human rights and the well-being of society as a whole.

Louis Kelso's proposal to use "pure credit" to convert "waste" into new and more productive technology would go a long way to restoring the perennial wisdom about the importance of access to property as a fundamental human right in a free and democratic society. The omission of this provision from the world's democracies and capitalist economies is one of the most unfortunate omissions in history.

Economic justice and empowerment for all was the essence of the American Revolution of 1776. Today every country, including America, has the opportunity to resurrect fundamental insights about broad distribution of property, and launch its own revolution for the world to emulate. This can be done by restructuring the central banking system and opening the discount window of the nation's central bank to provide every citizen a "capital homesteading" stake in the unlimited technological frontier.

Thus every nation in the world could achieve a true and equitable economic democracy, based on fundamental human rights as well as sound economic principles.