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China and the Question of Ownership: Is There a Third Way Forward?

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With the collapse of Communism and ensuing social transformation in the former Soviet Union and Eastern Europe, China faces an historic choice in charting the future for its more than one billion citizens. The most recent "reform hurricane" sweeping China indicates renewed interest in restructuring the economy along more productive and efficient lines.

A wide variety of options are available to carry out such an economic reform program, and China's leaders will have to consider the advantages and disadvantages of these various alternatives. China can follow the path taken by the former Soviet Union, or it can map out its own plan to avoid the pitfalls fallen into by the new Commonwealth of Independent States.

In the case of the former Soviet Union, Western academicians and investment bankers rushed headlong to fill the economic and ideological vacuum with traditional capitalist solutions. The blueprint: more foreign investment, a Wall Street-style stock market, and numerous tax breaks and special privileges to mirror the labyrinthine U.S. tax system. Unfortunately, one question was almost completely ignored.

Simply put: Is Capitalism the only logical alternative for rebuilding and transforming a moribund socialist economy?

In helping transforming economies move swiftly, with the least possible pain, toward a market economy, the West could surely have done better than to sell its own recession-ridden, class-divided model. While relatively more affluent and productive than their socialist counterparts, the economies of the U.S., Western Europe and Japan suffer from grossly concentrated ownership of corporate equity, over-dependence on foreign investment to fuel the economy, increasing marginalization of the labor force as technology replaces human inputs to production, and institutionalized gambling on a national stock exchange.

Perhaps, before their future is decided for them, the people of China should ask whether capitalist prescriptions will really build a more productive, affluent and liberating society for every citizen. Or will the "Western capitalist model," or one of its myriad variations, once again empower a small elite?

To escape the patterns of the past, perhaps it is time for China to ask a new question: Is there a free enterprise alternative to the wage/welfare systems of Capitalism and Socialism—a true "Third Way"?

Looking Beyond Socialism and Capitalism

Both Socialism and Capitalism concentrate economic power at the top. This strips the average citizen of most, if not all of his economic independence. To the disenfranchised citizen, it makes little difference that under Capitalism the concentration is in private hands and under Socialism the concentration is in the hands of the state.

Both systems are excessively materialistic in their basic principles and overall vision. Both, in their own ways, degrade the individual worker. Both bring forth economic systems which not only ignore, but hinder, intellectual and spiritual development.

Amalgams of the two systems, as in America's so-called "mixed economy" or the Scandinavian Welfare State model, differ only in their degree of social injustice, corruption, economic inefficiency, human insecurity and alienation which permeates each level of class-divided societies.

What then would be the true "Third Way" for moving toward a freer, more just and economically classless society?

What the Third Way is Not

Most of the schemes sold by Western experts do not approach the problem of transforming socialist, state-controlled economies from the logical framework of a Third Way, and thus repeat the mistakes of the past. One such proposal was touted as a kind of "Marshall Plan" for the former Soviet Union. It was geared toward pumping an estimated $30-$100 billion of foreign money each year into the transforming economy of the CIS, promoting a public-sector wage system that would ensure every worker a wage packet in return for his labor.

Another plan, coming out of Liberal American Academia, advocated a Capitalist brand of state Socialism, where confiscatory progressive income taxes would "rob from the rich and give to the poor," thus ensuring a handout for every citizen on the dole, regardless of his efforts or the demands of justice.

The Fatal Omission

Each of these approaches commits a fatal error. The "Marshall Plan Redux" implicitly limits the ownership of productive assets to a tiny elite of wealth accumulators—the nomenklatura of the old order, or faceless foreign owners of capital. Such a plan ensures that most, if not all, workers receive income only from selling their labor, in direct competition with advancing technology and an expanding global work force.

This ultimately reduces the worker to merely one more productive resource, disconnected from ownership rights in the labor-saving technology which accounts for most of the world's economic growth. The economically disenfranchised worker can then be purchased for as low a price as possible, and forced into unemployment whenever the owners decide to relocate their plants to places where labor rates are cheaper, or to replace people with machines. This approach also turns the country receiving such aid into a giant drug-addict, dependent upon regular infusions of foreign capital to keep the economy staggering forward.

Capitalism and Socialism, as they have operated historically, violate traditional moral rights that owners of productive property have in the fruits of production. This is done by treating property incomes as "unearned" and even "stolen from workers." Thus the

State morally justifies its intervention into the economy, taking from owners any "excess" income and redistributing it among non-productive non-owners, to whatever extent the redistributors think necessary to maintain social order. Such redistribution, unfortunately, tends to increase social conflict and leaves more economic power in the hands of the state than is healthy for achieving genuine social and economic justice for the many, not just the few.

However, simply saying that Capitalism and Socialism have violated the rights of owners of productive property says nothing until property itself is defined.

What is Property?*

Many people erroneously equate property with material objects, such as land, structures, machines, tools, things. In law, however, property is not the thing owned but rather the relationships an "owner" justly acquires (as a result of access to credit or previous creative activity) with respect to things. Private property is a set of rights, powers and privileges that an individual enjoys in his relationship to things. Under the law, these include the rights of (1) possessing, (2) excluding others, (3) disposing or transferring, (4) using, (5) enjoying the fruits, profits, product or increase, and (6) of destroying or injuring, if the owner so desires. These rights are only as effective as the laws which provide for their enforcement.

English common law, adopted into the fabric of American law, recognizes that the rights of property are subject to limitations that (1) things owned may not be so used as to injure others or the property of others, and (2) that they may not be used in ways contrary to the general welfare of the people as a whole. As a functional matter and in the final analysis, property in everyday life is the right of control.

Next to the State itself, the corporation is one of civilization's greatest social inventions. In the modern world, the most important instrument for organizing private property rights in the means of production takes the form of corporate equity, represented by shares of common stock. These shares allow many owners to share individually and "jointly," not collectively, in the ownership, risks and profits of a modern corporation. The corporation in turn is a convenient legal vehicle which owns "collectively" the land, machines and other assets it needs to produce and market goods and services in the global marketplace. While individuals may own shares in a corporation, no shareholder has any legal title to the machinery or other assets owned by the corporation itself.

Joint or share ownership provides each shareholder his own definable private property stake in the corporation, and thus decentralizes economic power. In contrast, collective ownership of an enterprise offers no definable stake for individual owners, and thus concentrates power in whoever controls the collective.

Property in the means of production is the primary social "link" between a particular human being—the owner, partner or shareholder—and the process of producing and distributing wealth. Property determines who has the right to share in profits (the "wages of ownership"), as well as the ultimate risks and responsibilities of ownership. Assuming that economic values are set democratically and freely in a competitive marketplace, and that unjust barriers to participation in work and ownership are lifted, property incomes become the key to distributive justice.

The Erosion of Private Property Rights

Examining the history of the corporation in the United States, we can see how shareholders have gradually been deprived of their full property rights. In 1919 Henry Ford, a patriarch of modern industry and the Capitalist system, was sued by some of the shareholders of the Ford Motor Company over the payment of dividends.* Mr. Ford had changed the dividend policy of the company, reducing dividend payouts in order to use the cash on hand to expand and improve plant facilities. The court ruled in Ford's favor, determining that the directors of a corporation alone have the power to declare a dividend of a corporation and to determine its amount.

This ruling effectively stated that shareholders did not have the right to receive their own property in a dividend payment, if directors decided otherwise. Since Henry Ford controlled the Board of Directors, payment of dividends at his personal discretion was a foregone conclusion, regardless of the property rights of the minority shareholders. Thus, one of the premier proponents of Capitalism struck a powerful blow against one of the most basic tenets of a free enterprise system: that owners are entitled to full control over their own property.

The usurpation of the private property rights of minority shareholders has helped to accelerate the concentration of economic power, which further undermines the private property structure of the corporation. The danger of this was foretold a decade and a half before the Ford Motor Company case by Peter S. Grosscup, judge of the United States Circuit Court of Appeals. In a February 1905 article in McClure's Magazine, Judge Grosscup warned that the strain placed on private property by the concentrated wealth and power of the modern corporation would result in ever-greater concentrations of wealth, and thus power, in fewer and fewer hands.

The narrowing base of ownership among the mass of the people also ensured that opportunities for ownership would be limited in the future, and that those with control of property would use it to their own advantage. Judge Grosscup stated that the only way to save the modern corporation was to devise some means whereby the ownership base of the nation would be broadened, with property rights secured and protected. That exactly the opposite has happened, to the detriment of society as a whole, has confirmed his darkest prophecies.

While there is a valid distinction in the modern corporation between management and ownership, as pointed out by Berle and Means,* the property nexus gives the owner, through his representatives on the corporate board of directors, the ultimate control over the affairs of the corporation. For the efficient operation of the enterprise, professional managers must have effective day-to-day control over corporate decisions. But by law, managers are supposed to be accountable to all the owners, and can be removed by the elected board of directors if they fail to perform effectively for the benefit of the shareholders.

What a voter represents to the machinery of governance in a political republic, a shareholder represents in a corporation's governance: the ultimate source of power, who can delegate his power to representatives to whom managers must report. The voting power of a single shareholder of a large corporation may seem insignificant. But when combined with the power of other shareholders, his power is the most effective check against non-accountable or corrupt management, and is the key to effective corporate democracy.*

Ownership Without the Full Rights of Private Property—

Socialism With a Different Face

Many schemes to restore to owners the rights of property and bring about economic justice have severe flaws. One seemingly attractive approach, the Scandinavian Plan (often erroneously billed as the "Third Way"), relies on forcing companies to issue shares to a collective ownership trust supposedly set up in the name of the workers. Paternalistically, workers are insulated from direct shareholder rights and are paid retirement or disability wages out of the earnings of the trust when they qualify. No worker has any access to the power or profits associated with property rights in any of the company shares held by the trust. The payments he receives are determined by a new aristocracy of ownership: the labor leaders and company managers who control the trust's shares as trustees for the workers. This perpetuates the dependency of workers on their leaders and invites new forms of corruption.

Because actual ownership is not vested in the worker who receives payments from the collectivized trust, the worker remains emasculated rather than empowered. Ownership, and thus power, remains concentrated. According to a five-volume Swedish report published from 1966 to 1968, seventeen families and owners' groups controlled 36 percent of all Swedish industry. These families were therefore the effective owners of the industrial might of the entire country of Sweden. There is no evidence that these statistics have changed significantly since when the report was published.

In addition to the Swedish model, other methods based on collective ownership have been tried. An offshoot of the former Soviet system, the Yugoslavian self-management model, may appear to embody the Third Way, but this is misleading. In one positive respect, the workers have more say over their own workplaces and jobs, and can make some input in decisions. However, this is simply joint management, not joint ownership. All property remains in the hands of the state or in some other form of politicized ("socialized") ownership. This self-management model sometimes deteriorates into "management by committee," a lack of checks and balances in corporate governance, and an inability to make long-term investment and operational decisions for meeting global competition.

Self-management offers some improvements over traditional autocratic management approaches—but the system is not nearly as successful as models which combine ownership, profit-sharing, participatory management at the workplace, and checks-and-balances in corporate governance. In the Yugoslavian model there is no basic move away from the wage system, nor any attempt to get ownership directly into the hands of the individual workers. The fragmentation of Yugoslavia demonstrates that very little economic stability or social justice was achieved under the old regime.

As can be seen, the separation of ownership and control is not a new concept. It has historically been used by a management elite (who have become increasingly answerable to no one but themselves) to truncate the property rights of owners and use the power of the corporation to their own advantage. This results in distorted ownership patterns and fosters the attitude of "why be an owner?" With a complete separation of ownership and control, that attitude makes perfect sense. It also breeds among the majority of working people a "wage slave" mentality which gradually rejects the risks and disciplines of ownership for the false security of higher and higher fixed wages.

The Basic Weakness of Any Wage System

What all of these approaches have in common is a reliance on the wage system. Whether the economy is Capitalist, Socialist, a variety of the Welfare State, or some combination thereof, they all depend on the worker receiving his sole income and support in the form of wages. A wage system, no matter how it is reworked or disguised, is just "more of the same." Some of the externals may change and the trappings may be different, but the end result is that the worker ends up receiving payment for the only thing he has to sell: his labor.

No plan or proposal based on a wage system can truly call itself "the Third Way." Whether the bosses are politicians or paid hirelings of a small ownership elite, the worker ends up as a wage-serf, a worker-for-hire. Even a collective bargaining organization such as a labor union, insofar as it confines itself to obtaining higher wages and greater fixed benefits, does nothing to empower the worker or gain him real liberty and justice. The worker may be well paid, but in the final analysis he is simply a slave who has been given a larger portion on his plate than the other slaves.

What the Third Way Is

Economic empowerment of each person through direct ownership—and not merely wages and welfare—is a distinguishing objective of the true Third Way. The hallmark of the Third Way is its systematic approach to balancing the demands of Participative and Distributive Justice by lifting institutional barriers which have historically separated owners from non-owners.* This involves removing the roadblocks which have prevented people from participating fully in the economic process as both workers and owners earning viable incomes from their labor and capital contributions to production.

The principal emphasis of the Third Way is thus not on redistribution of incomes (the inescapable consequence of Socialism and Capitalism), but on providing people with the social means and a legal system which will encourage them to create their own new wealth and to share in profits broadly and equitably.

A major flaw in most wage systems is that wages are given, granted or gained through government intervention or collective bargaining pressures, rather than by the free choice of people within a system of equal ownership opportunities. If the owners are the better wage system bargainers, wages will be low. If the workers can out-argue the owners or force them to implement minimum wages supported by the monopoly power of the state, wages will be high. Neither side can consider, except peripherally, the real productivity and value of the economic activity engaged in. And since capital is more mobile than labor in the global marketplace—being able to relocate to take advantage of lower wages in other areas—wage system workers remain at a permanent disadvantage.

Neither Capitalism nor Socialism—with or without a "human face"—provides a sufficiently moral economic system. The first institutionalizes greed and exploitation of the many by the few, and the second institutionalizes envy and hatred of those who accumulate wealth. Neither offers justice and freedom for all. What should be worked for is a new way which transcends and transforms both Capitalism and Socialism, providing mechanisms to accomplish what the two morally and logically flawed systems have only promised.

Replacing any entrenched system generates a certain amount of confusion while the new system is being introduced. What still needs to be considered is how best to minimize that confusion, and to prevent it from leading to outright conflict and, ultimately, chaos. During a sudden transformation of a socialist economy, the resultant power vacuum leads to a higher level of disorder and scarcity. When disorder becomes intolerable, it is only a matter of time before people welcome extraordinary and repressive economic measures or a military dictator to restore some order, even at the expense of freedom and other human rights.

Four Pillars for Building an Economically Just Society

All wage system "solutions" ignore one or more of the minimum essential principles for building a more just economy. Leaving out any one of these "four pillars" weakens the entire structure of the economy and leads to eventual collapse. The four pillars of a genuine "Third Way" consist of:

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

Limited Economic Power of the State

Even in the West, the temptation in the face of economic problems is simply to pass a law to force people to act in ways that the state views as desirable. This generally results in the exact opposite of what was intended. People become further encumbered with a greater and greater burden of complex and often contradictory laws and regulations.

It is the nature of the state to be a monopoly—a monopoly over society's instruments of coercion, wielded by the police at the local level and the armed forces at the national level. This monopoly makes government at any level an inherently dangerous social institution. Since the state is arguably the only legitimate monopoly, its power must be subject to checks-and-balances and democratic accountability when it rules "in the name of the people." In a democratic social order, real sovereignty is vested in the people. The state is the servant of the people and acquires its powers only as a grant from the people. Yet, the ultimate sovereignty of every citizen can be maintained only if power is kept directly in the hands of the people, both as an inherent right and as a safeguard and protection against their own rulers.

Many ways of limiting the power of the state and safeguarding the civil liberties of citizens have been tried. England's Magna Charta and America's Constitution and Bill of Rights guarantee certain inalienable rights to all citizens. What these measures do not address specifically, however, is an acknowledgement that power follows property. Without property and the full exercise of the rights of property, the individual remains essentially powerless, economically and otherwise, dependent on those who control his and his family's subsistence.

Limiting the economic power of the state ultimately involves the goal of shifting ownership and control over production and income distribution—from the public to the private sector, from the state to the people. However, simply saying that the power of the state should be limited really says nothing unless the limitations are specified. Otherwise, the tendency is to view "limiting the economic power of the state" as a limitation of magnitude, rather than of scope. In order to shift primary power over the economy from the state to the citizens themselves, the economic power of the state should be specifically limited to:

- Encouraging growth and policing abuses within the private sector;
- Ending economic monopolies and special privileges;
- Lifting barriers to equal ownership opportunities, especially access to productive or capital credit;
- Protecting property, enforcing contracts and settling disputes;
- Preventing inflation and providing a stable currency;
- Promoting democratic unions to bargain over worker and ownership rights;
- Protecting the environment; and
- Providing social safety nets for human emergencies.

Within these limits the state would promote economic justice for all citizens. Coincident with this objective would be the goal of reducing human conflict and waste and increasing economic efficiency and creation of new wealth. This would increase total revenues for legitimate public sector purposes, thus reducing the need for income redistribution through confiscatory income taxes and social welfare payments.

Free and Open Markets

The beauty of the free and open marketplace is that economic value judgements and choices are made by many people, not just a few. The greater the number of people who vote with their own money, the more objective and democratic the results. Where only a few have the power to determine prices, wages and profits, their judgements are necessarily more subjective and arbitrary. When the state, the capitalist, or even the labor union is in a position to dictate wages, prices and profits, the result is a tyranny over the marketplace.

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

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

Unless citizens, rather than bureaucrats, are given the power to make economic choices, economic decision-making will again be concentrated in the hands of the few. This would lead once again to corruption and abuses of power, and result in a reduction of other personal freedoms in the process. The history of civilization amply demonstrates the consequences to society where the economic marketplace is restricted and controlled by a few. Eventually the marketplace of ideas becomes controlled by those who control the economic marketplace. Economic and intellectual freedom seem to be indivisible.

Private Property

Owners' rights in private property are fundamental to any just economic order. Property secures personal choice, and, as John Locke observed, it is the key safeguard of all other human rights.

As stated earlier, "property" is not the thing which is owned, but the bundle of rights and powers that owners have in their relationships to the things owned. Where society wants to de-monopolize access to ownership and profits in the nation's productive enterprises and farms, it must also restore the original personal rights of property in the means of production.

The central premise of Socialism is that private property is evil, and the main objective of Socialism is to abolish private property in the means of production. Unfortunately, by destroying private property, justice is denied. Without private property there is no means to empower the individual economically. Private property is the individual's link to the economic process in the same way that the secret ballot is his link to the political process. When either is absent, the individual is disconnected or "alienated" from the process.

Restoring the idea as well as the fact of private property would involve the reform of laws which prohibit or inhibit acquisition and possession of private property. This would include ensuring that all owners, including shareholders, are vested with their full rights to participate in control of their productive property, to hold management accountable through shareholder representatives on the corporate board of directors, and to receive profits commensurate with their ownership stakes.

This is very different from the Yugoslavian self-management model where the individual workers own nothing and the state remains the ultimate owner of the means of production and ultimate regulator of all prices, wages and profits. Upon retirement, the worker is left with nothing but the shirt on his back, dependent upon whatever the state chooses to give him as a pension.

While free and open markets maximize choice, private property secures personal choices and economic self-determination. It links income distribution to economic participation—not only by present owners of existing assets, but also by new owners of future wealth.

The Moral Omission: Expanded Capital Ownership of Productive Assets

One of the most crucial problems that Marx addressed in his economic theories was that ownership of productive assets—"capital"—was limited to the very few. Unfortunately, Marx's solution—to abolish private property—concentrated wealth and power even more by mandating state and "collective" ownership of all productive assets. This "socialized" ownership resulted in enormous concentrations of wealth and power in the hands of a new elite, whom Yugoslavia's Milovan Djilas called "The New Class."

Had Marx seen that the real problem was not ownership of productive property, but concentration of ownership, he might have recognized the superior justice of widespread dispersion of private property stakes or "shares" in the means of production, instead of centering his entire philosophy and program on the "abolition of private property in the means of production."

The Democratization of Productive Credit: A New Right of Citizenship

The primary social means to bring about expanded ownership of productive assets involves the democratization of productive, self-liquidating credit, which, like the secret ballot in politics, is a uniquely "social good".

Anyone familiar with the overly consumption-oriented economy of the West will tell you that it is far easier for the bottom 90 percent who exist as wage serfs to obtain credit for non-productive purposes than it is for them to obtain credit to acquire productive property. Many of the Third World debtor nations have also fallen into the same trap as the individual European or American who has exhausted his consumer credit limit in order to purchase an automobile, new clothes or a refrigerator. Both have incurred huge burdens of debt and have spent the loan proceeds on projects and programs that do not generate any revenue that can be used to repay the loans. Consumer credit and other non-productive forms of credit entrap workers and nations further into dependency on those who own and control capital.

One way to unshackle workers from the slavery of the worker-for-hire system is to re-direct society's uses of credit from non-productive and consumer purchases to acquisition of ownership shares in productive enterprises. Productive capital assets, under professional management, are expected to pay for themselves out of future profits, and thus are inherently sounder credit risks. By making productive or "procreative" credit available on a truly democratic basis, the society moves people toward economic self-sufficiency and independence. Such a broad dispersion of wealth and power would serve as the ultimate check against the potential abuse of power by the state or by the majority against minorities or individual citizens.

Practical Applications

In judging the efficacy of any plan of economic reconstruction, certain criteria are clear. First, it must be practical, avoiding the concentrations of wealth and power embodied in the Capitalist and Communist systems. Second, it must be efficient, providing the greatest benefit for the lowest cost. Finally, the plan must be just for all the people, not only the few at the top, to ensure that the efforts of the Chinese people accrue to their benefit.

As the U.S. has one of the more successful economies in the world, the temptation is simply to copy the present American or Western model. From the standpoint of democratizing economic power, this would be a mistake. Today, most of the directly held corporate equity in the United States is concentrated in a few hands. (The top 1% of individuals own over 50% of all personally owned corporate shares, according to the Joint Economic Committee of Congress.) For China, such a change would merely be one of degree—from the mega-concentration of wealth and power under the Socialist system, to the super-concentration of wealth and power under the Capitalist system.

The Homestead Act—An Historical Precedent

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

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

The contemporary image of the typical American Homesteader conjures up a picture reminiscent of Grant Wood's American Gothic, the icon of a conservative or reactionary social and economic order. When first proposed in the early 1850's, however, the Homestead Act was viewed as radical and revolutionary. By its wealthy and powerful opponents, the advocates of the Homestead Act were thought to be "agrarians" and "levelers", the pre-Marxist equivalents of Socialists and Communists. On the other hand, since the Homestead Act advocated actual ownership of the means of production by the worker, its Socialist opponents attacked it as something akin to Capitalism. Then, as now, the idea of workers being owners was positioned in the middle as the synthesis, with both the thesis of Capitalism and antithesis of Socialism set against it.

In considering the Homestead Act, the government of the United States had first to divest itself of the notion that the public domain was merely a source of revenue for the government, either to be administered for profit by the government or sold to the highest bidder for immediate cash payment. The government then had to abandon the idea of creating a privileged class, whether of individuals or corporations, through grants and special licenses giving access to, or outright ownership of, the public land. Finally, after avoiding the pitfalls of either the paternalistic or elitist approach, the government had to devise a way for Americans to acquire the vast untapped wealth of the country in a manner truly democratic. This approach did not threaten the already wealthy except insofar as it diminished their monopoly on power.

Thus was born the Homestead Act. Ignoring, for the sake of the argument, the claims of the Native Americans (the "Indians") to the Great Plains, the Act took nothing from existing holders of wealth except for the Federal Government, which belonged to the public anyway. No corporation or individual was threatened in his existing accumulation. The only thing changed was that now anyone who met the minimum criteria of being the head of a family or 21 years of age, and was a citizen or had filed a declaration of becoming one, had the opportunity to acquire 160 acres of land.

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

But a land-based Homestead Act is not the only method that can be used by the average worker to accumulate income-producing wealth. Since most of the newly produced wealth in the world today comes from manufacturing, industry and trade, limiting everyone to ownership opportunities in the land would merely result in a growing population trying to divide up a static amount of wealth into ever smaller pieces, ensuring poverty for themselves and their descendants. There are, however, social technologies that can be used to democratize individual ownership of a type of wealth that has no limits save human creativity and ingenuity: the wealth created in the expanding industrial frontier.

A New Social Tool—The Employee Share Ownership Plan

One modern financial technology to enable the acquisition of companies by their employees is known as the Employee Share Ownership Plan (ESOP). The ESOP, invented by the late lawyer-economist Louis Kelso and first implemented by him in 1956, has been enacted into over twenty U.S. laws and being increasingly used in the U.S., the United Kingdom and a growing number of other countries.

Employee ownership sharing is not an end in itself, but it is one of the best means, and an important first step, for achieving the goal of empowering every individual instead of the leadership or any elite. Lord Acton's famous dictum that power corrupts, and that absolute power corrupts absolutely has become almost a cliché, but still holds fearfully true. Without a democratic distribution of power through widespread ownership of productive property, wealth and power will be concentrated and the economic, political and social system will inevitably be corrupted.

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

In the United States of America since 1974, through the use of ESOPs more than 11 million employees have become co-owners in over 10,000 companies, including some of the largest companies in the U.S.A. The experience of these companies has demonstrated that significant worker ownership, especially when combined with frequent profit sharing and participatory management, dramatically improves labor relations, promotes industrial peace, and increases the productivity and profitability of the enterprises.*

The innovation which made possible this success of the ESOP is that the employees obtain shares of the companies in which they work without having to invest their personal savings or suffer deductions from their pay. The workers purchase their shares out of current company profits, company contributions, or on credit, entirely repayable out of share dividends or future profits. Thus the workers pay for their shares not with personal cash, which they do not have, but from future profits which they can earn through the increased productivity of their company.

Growing World-Wide Interest in the ESOP Approach

ESOPs are at present the subject of great interest all over the world, and their introduction is being studied in over fifty countries, including Poland, Czechoslovakia, Hungary, Mexico and Argentina. The establishment of the world's first ESOP outside of the United States of America and the United Kingdom—the Alexandria Tire Company in Egypt (a $160 million international joint venture)—serves as an example of what is possible. The Alexandria Tire Company has several features which should be of particular interest to transforming economies:

- In this high-technology enterprise for the production of radial steel-belted truck tires, the workers as a group will be the largest shareowner, holding 25.8 percent of the shares;
- Share ownership by every worker will equal eight years of wages, and dividend incomes are expected to exceed wage income;
- This was achieved without any payment or deductions from wages by the workers;
- The shares will be paid for out of their own dividends;
- $16.5 million dollars in loan funds were obtained through the United States Agency of International Development (USAID) for the purchase of shares for the workers;
- The Italian government provided the bulk of the hard-currency financing on very convenient terms (1 percent interest);
- Pirelli, the world-famous Italian tire company, is providing the most advanced tire production technology to the new venture, while foreign ownership is limited to 10 percent of the shares of the enterprise.

Various countries outside the U.S. and United Kingdom—including Costa Rica, Guatemala, Egypt, Mexico and Argentina—are developing legislation which facilitates full worker ownership participation in the means of production. This approach stresses profit sharing and involvement of the workers and their unions from the earliest stages of any employee buyout initiative.

An initiative to study the ESOP and its related technologies could point the way for a restructuring of an entire economy, such as that of the former Soviet Union or the People's Republic of China. In promoting the economic and social stability of any country, the Third Way would ultimately contribute to world peace.

A Ten-Point Agenda for Building a More Just Economic Order

Within the framework of the four pillars of the Third Way—Limited Economic Power for the State, Expanded Capital Ownership, Free and Open Markets and Private Property—a ten-point program can be launched for transforming a moribund socialist economy into a dynamically new and just economic order. These ten points counter the list of ten measures presented by Marx and Engels in the second chapter of The Communist Manifesto, while striving for the same ultimate goal: social and economic justice for all.

A comparison of a ten-point transition program within the Third Way framework with the ten measures of Marx and Engels would show:

Ten Points of the Third Way for Building A Free and Just Economy Marx and Engels' Ten Measures for Building a New Social Order

1. Economic democratization through widespread citizen sharing in ownership and profits linked to productivity growth.

2. Monetary reform through democratization of capital credit.

3. Fiscal control through tax reform which balances budgets, creates opportunities for ownership and profit sharing, and de-monopolizes future rights of inheritance.

4. Currency convertibility to encourage national and international trade.

5. Deregulation of prices and wages to link them to real market costs.

6. Legal reforms to protect property and promote privatization and formation of new enterprises for wealth creation.

7. Trade reforms to attract foreign capital, technology transfers and gain access to expanded markets.

8. New social contract to lift workers from the wage system into a participatory ownership system.

9. Economic power of the state checked by decentralized economic power so people can afford to make their own educational and consumer choices.

10. A "Social Safety Net" to protect those deprived of incomes during the transformation process.

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1. Abolition of property in land and application of all rents of land to public purposes.

2. A heavy progressive or graduated income tax.

3. Abolition of all right of inheritance.

4. Confiscation of the property of all emigrants and rebels.

5. Centralization of credit in the hands of the State, by means of a national bank with State capital and an exclusive monopoly.

6. Centralization of the means of communication and transport in the hands of the State.

7. Extension of factories and instruments of production owned by the State.

8. Equal liability of all to labor. Establishment of industrial armies, especially for agriculture.

9. Combination of agriculture with manufacturing industries.

10. Free education for all children in public schools.

The Third Way approach clearly addresses key economic issues in a far different way than the proposals of Marx and Engels, and contradicts them in many respects. Marx's ten measures, while seeking justice, violate every one of the Four Pillars of the Third Way for building a more just economy, and thus commit not one, but four fatal errors.

Marx and Engels mistakenly predicted that the way to achieve economic justice was to create a society where everyone was equally propertyless, equally obligated to labor for a single employer (the state), and equally dependent for their subsistence on wealth redistributed by the state ("the dictatorship of the proletariat"). It envisioned a state monopoly of everything from cradle to grave. This was an attempt to bring about justice by destroying the structures that make justice possible.

Going beyond either Socialism or Capitalism by implementing the ten-point transition plan achieves a third way, not between, but transcending the fatal omissions of both discredited current systems. But what do these ten points entail?

Wider Ownership and Profit Sharing Linked to Productivity Growth

As discussed above, broadening share ownership of corporate productive capital would lead to a decentralization of future economic power and enable all citizens to earn future profits to meet their living needs and accumulate ownership. Since, in the words of Daniel Webster, "power naturally and inevitably follows the ownership of property," a society where all power is supposed to rest in its citizens must necessarily develop the means to keep property broadly diffused.

Monetary Reform through Democratization of Credit

A true economic democracy would require a shift of future bank credit and money supply away from monopolistic, inflationary and non-productive uses, and toward democratizing access to ownership opportunities for workers, consumers, entrepreneurs and others without savings.

Such a program achieves two immediate goals. First, it gives the average citizen access to the vast future wealth to be created out of current and new enterprises.

While the rich have always been able to borrow money to buy capital assets that pay for themselves, the average citizen has, at best, only been able to borrow money for non-productive purposes to be repaid out of his wages from other activities. This has resulted in access to capital credit being limited to an exclusive "club" where admission is gained only by those who have the entrance fee—namely, already accumulated past savings.

Second, democratization of capital credit would be linked to the creation of a stable, asset-backed currency by encouraging expansion of the money supply only when it results in increasing actual wealth, and discouraging expansion of the money supply to pay for non-productive purchases or government deficits. Increasing the money supply is only inflationary when the production of wealth does not keep pace. It is always a temptation for the state to turn to the printing press to get itself out of a current financial emergency or for covering budget deficits, with no thought of creating real wealth. Inflation brought about by such artificial increases in the money supply is a hidden form of theft by politicians and bureaucrats, which shifts wealth from creditors to debtors.

Conversely, when production of wealth outstrips money creation, deflation results, which can destroy an economy just as effectively as inflation. This was demonstrated in the 1930's in America while the country was on the gold standard—and there wasn't enough gold to supply the monetary needs of the nation. While not the major reason for the Great Depression, the shrunken supply of money and bank credit helped to stifle the economy, resulting in a 25 percent unemployment rate.

It is important to note that "asset backed" does not automatically mean "gold backed." A gold and silver circulating currency, or a paper currency backed with deposits of precious metals does not guarantee stability. When not linked to increases in productivity, even an increase in gold or silver is inflationary. This was amply demonstrated by the 400% inflation experienced by Spain as a result of the tremendous influx of bullion shipments from the New World in the sixteenth century. Virtually none of this vast wealth went to productive purposes or to improvements in the capital infrastructure of the Empire. Instead, the "King's Fifth" was spent largely on debt service as the result of wars, and the rest was spent on conspicuous consumption. It did not occur to anyone that gold and silver was not real wealth—it produced nothing but the illusion of wealth.

Fiscal Control

A complete reform of the tax system would be necessary in order to encourage accelerated rates of private sector growth and future savings, create wider ownership of the means of production and profit sharing opportunities, balance the national budget and avoid monetizing budget deficits should they arise.

The progressive or graduated tax system in place throughout the world is the second item advocated in Marx and Engels' ten measures to bring about a completely socialized economy. Strangely enough, it is the Capitalist countries that have adopted the idea of progressive taxation with the greatest alacrity, replacing the largely regressive tax systems of pre-industrial economies.

Neither a progressive nor a regressive tax system satisfies the basic and fundamental requirement of fairness, however. Both are unjust. A regressive tax system is unjust in that it takes more from those who have the least simply because they lack the wealth, and thus the power, to preserve what little they have against those who have the wealth (and thus the power) to take what they possess.

A progressive tax system is unjust in that it penalizes those who have wealth, simply because they are wealthy. It is an abuse of the right to private property because it singles out owners for special, punitive treatment, levying both a higher tax rate on higher incomes and a "double tax" on income from property. Progressive taxation discourages the creation and accumulation of new wealth and expanded profits.

Vastly more just is a flat rate tax on all labor and property incomes above a "poverty level," because it taxes every person on an equal percentage of total income generated from both his labor and capital. Only those earning less than the poverty income would pay no taxes.

Using a flat rate tax, it would be a relatively simple matter to balance the national budget, compared to the enforcement and administration of the current convoluted tax codes in place in most countries. It would only require that the budget be divided by the gross national income in order to arrive at the necessary rate of taxation. This rate would then be applied equally to all, with no exceptions, and no special treatment (other than to exempt the incomes of the very poor). Balancing the budget in this manner would also be non-inflationary, because a budget deficit would not be monetized by the government borrowing money to make up the shortfall. Monetizing deficits simply creates new money that is not backed by any increase in production, but only by the government's ability to pay it back—the worst form of a non-productive loan.

Currency Convertibility

Linking the domestic currency to real growth in assets, exports and productivity would result in a currency easily convertible into hard currencies, as the money would have real value instead of being simply a promissory note of the government. This would open the domestic economy to competitive international markets for trade, finance and technology transfers.

Price and Wage Deregulation

A free and open market absolutely mandates that there be no price supports, minimum wages, or other externally imposed structures on the market mechanism. Aside from the fact that artificial controls of any sort are automatically liable to manipulation by the unscrupulous, they distort the real value of goods and services available. Deregulation of wages and prices would link prices to costs set in the open market, and consumer incomes to productivity and profit sharing.

Profits would thus be regulated by the forces of global competition, not monopoly force. Consumers would be able to purchase goods and services which give them the highest value, no matter where the products were produced.

Legal Reforms

Basic to any genuine economic reform is that all "four pillars" of the Third Way would have to be embodied in the legal system. Most critical would be the restoration of private property and the rights of the owner. The legal system should be structured to facilitate the formation and ownership of new enterprises, both productive and financial, by workers and entrepreneurs. These new entities (including corporations, partnerships, joint ventures, cooperatives, commercial banks, investment banks, security dealers, investment companies, trading companies, and share and commodity exchanges), would become broadly owned through new credit democratization vehicles, such as Employee Share Ownership Plans, Utility Consumer Share Ownership Plans, Community Investment Corporations, and Individual Share Ownership Plans.

Trade Reforms

While the financial, industrial and productive wealth of a country should primarily be used for the benefit of that country's citizens, there is a role for the foreign investor, entrepreneur and consultant. The great industrial and agricultural expansion of the

United States of America in the middle of the nineteenth century, while largely fueled by bank credit, was also to some degree funded by investment of hard currency from Great Britain and other European countries. Once these foreign investors were bought out and America was free of foreign financial influence and could keep the profits at home, the United States took off completely on their own and accomplished the phenomenal growth in industry and agricultural development.

One of the keys to America's expansion and growth was that the foreign investor did not have a permanent stake in the country. He, of course, received a good return on his investment and fair value for his property, but once he was bought out, all the profits could be retained in America and used to benefit Americans. Transforming economies such as China's can use the same strategy: (1) use foreign investment to acquire technology and other inputs not available locally; (2) make certain that the foreign investor or consultant receives his fair share and value for what he supplies; and (3) create a legal and economic system which systematically reduces dependency on outside investors and consultants in the long run.

While keeping this in mind, reforms could be put in place to encourage foreign joint ventures and profit sharing arrangements with foreign suppliers of credit, management services, technology transfer, training, and global marketing access. It is important that the foreign investor be certain that his investment will not be "nationalized". Fear of losing all the invested property with no recompense has inhibited investment in many transforming economies.

New Social Contract for Workers

Traditionally under the wage systems of Capitalism, workers form themselves into associations (or try to), and bargain with owners to obtain as high an amount of fixed wages and benefits as possible in order to maximize their takings. They perceive that their efforts are largely responsible for the profitability of the company, and want what they consider to be their fair share. On the other hand, owners try to drive down the cost of production so that there will be profit to divide among themselves. Without the productive assets the owners supply, there would be no company, no profits, and no jobs for the workers. The owners consider profits their fair share and, naturally enough, want to maximize them.

Even where the capitalist tries to be fair to the workers and give them a larger package of fixed wages and benefits without considering the market price of labor, it ultimately works against both labor and capital. Henry Ford, the great automotive pioneer, thought he was treating his workers well when he raised their pay to five dollars a day—twice the going rate of two-and-a-half dollars a day. Having thus ignored the laws of supply and demand, Ford unwittingly set in motion a process which would ensure an ever-upward spiral of labor cost.

As a result, through pressure generated by competition for labor and government and union demands, total fixed labor costs of U.S. auto workers have today been escalated to twenty dollars or more per hour. The conflict between labor and capital was not eliminated or even diminished through increased wages. It actually increased as demands and expectations grew. And the American-produced automobile could no longer compete effectively with those cars produced in economies with lower unit labor costs.

As Marx observed, this conflict is built into the Capitalist system. But by turning workers into owners of the companies in which they labor, the class conflict between labor and capital largely disappears. Professional managers are still needed to make day-to-day decisions but are subject to a more democratic accountability system. There is also reduced conflict, because labor and capital now share a common interest in maximizing the returns to the new owners—the workers themselves.

With workers as owners, the companies for which they work would be able to maximize their competitive edge. Instead of demanding high fixed wages, which drive up costs and fuel inflation, it would be to the advantage of the workers and their unions to keep costs down. By keeping their own fixed wages at the lowest possible subsistence level, they could receive a far greater share of their income by dividing up—as owners—the higher profits that would result.

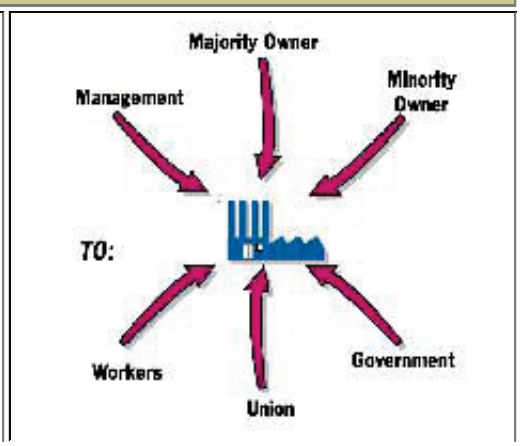
The ownership sharing approach enables workers in economies with low market wage rates, as in China, to capitalize on lower fixed labor costs as a comparative advantage in global trade, in exchange for significant opportunities to gain equity and share profits from economic growth.

Consumers would also be better off, as workers serving them would deliver higher value to the marketplace—higher quality at lower prices. Supply would generate its own demand, and demand, its own supply.

The role of the union would necessarily change under this scenario. Instead of being an adversary continually confronting management and owners with increasing fixed wage and benefit demands, the union would become part of a triumvirate, working with owners and management, while serving as a check on the power of capital concentrated in the hands of management. The union would now be protecting the ownership rights of non-management workers. By ensuring a fair ownership deal for workers, the union would deliver justice to society as a whole.

The Problem: Transforming the Corporation

The Conflict Model ("Zero Sum Game") of Industrial Relations



The Proprietary Interest Model ("Win-Win" Strategy) of Industrial Relations

The Objective: Value-Based Management

▪ Leader monopolizes power ▪ Leader commands through fear ▪ Ownership and control concentrated ▪ Paternalism ▪ Accountability upward only ▪ Trickle-down incentives ▪ Rewards disconnected from productivity ▪ Waste of time, materials, and human potential ▪ Short-term sense of income security ▪ Target of political attacks	▪ Leader serves by teaching and empowering others ▪ Leader guides through Justice ▪ Every worker an owner ▪ Management by shared values and customer satisfaction ▪ Governance by checks, balances and two-way accountability ▪ New labor deal: gain sharing, risk sharing, profit sharing ▪ Efficiency maximized by Justice ▪ Waste converted into production ▪ Shared interest in long-term survival ▪ Broadened political constituency

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Limited Economic Power of the State

Limiting the economic power of the state does not mean encouraging anarchy. Rather, it involves creating a positive environment for private sector investment and entrepreneurship, linking workers and entrepreneurs to incentives set by competitive market forces, protecting property rights, ending state monopolies, special privileges and trade barriers, policing fraud, protecting the environment, promoting broad participation in long-range planning, and lifting the barriers for full economic participation and empowerment among all citizens.

A "Social Safety Net"

While full employment and a living income should be the ideal for any economy, practically speaking there is always a small group either temporarily or permanently unable to earn their own livelihood. This group, while often smaller than advocates of the Welfare State tend to claim, consists of the truly unfortunate and helpless poor who must be assisted. Also, restructuring an economy will likely result in some degree of unemployment due to the fact that some jobs will be eliminated, and those workers who lost their jobs will require training and education to fill the new jobs that will be created.

In order to protect the most helpless poor and those who may become unemployed during the privatization and economic restructuring process, a minimal social welfare system, a "social safety net," must be in place, funded principally from the "dividends" from growth and greater efficiencies expected from economic transformation. Bilateral and multilateral financial assistance from wealthier nations could also supplement the safety net in the early stages of the transformation. While this safety net must be in place, the goal should always be to minimize it as much as possible, not extend it. As many people as possible should be motivated and given the means to derive their incomes from wages from new jobs in a rapidly growing economy, supplemented by ownership profits, not from public assistance.

The Capital Homestead Act—A Long-Range Plan

China now has the same opportunity with its governmental accumulation of industrial wealth that the United States Federal Government had with its vast holdings of land. The question is how best to take advantage of this historic, but quickly disappearing opportunity. The United States of America used the Homestead Act to attain widespread capital ownership. It is now up to the people of China to choose what method they will use.

The principles behind a Homestead Act are fundamentally different from the notions of creating "instant capitalists" by giving away ownership of state-owned enterprises, selling them to a small elite, or implementing some version of the Welfare State. The United States created owners by providing the opportunity to earn ownership of land, but then stopped short. China can take up where America left off and surpass it by establishing a policy of "Every Worker an Owner," and ultimately, "Every Citizen an Owner," opening ownership opportunities to agricultural, industrial and financial resources as well.

What is needed today is a "Capital Homestead Act" for transforming China's economy. This would give China's citizens access to the means to earn ownership of the current and future agricultural and industrial wealth of the nation, rather than having the ownership handed to them or sold out from under them. (Such reforms would also be a good idea for the United States, whose top 1% own the bulk of the country's industrial assets.) The Communist Party holds tremendous industrial resources which citizens need for creating a more just economy and political order.

There are obvious dangers in just selling to the financial elite. In the former Soviet Union, the only ones able to acquire sufficient wealth for purchasing state-owned enterprises were those who used their position in the Party to feather their own nests. Selling to the nomenklatura would continue the oppressive exploitation, mismanagement and inefficiency of the former Soviet regime. It would create a new management elite out of the old Party elite.

This is dangerously similar to the situation that prevails in America under Capitalism, where the management elite have granted themselves ever-greater compensation packages when the profitability of the companies they manage is actually falling. Chief executive officers of many large American corporations are paid between 85 to 100 times what the average worker makes, as opposed to between 17 to 35 times in Japan, Germany and Great Britain. At a time when the profits of United Airlines fell 71 percent, the chief executive officer received a total compensation package worth $18.3 million—1200 times what a new flight attendant made. Currently, the United Shareholders of America is trying to restore full shareholder rights, in order, among other reasons, to reduce such disparity and inequity by making management and directors more answerable to shareholders.*

One of the underpinnings of Democracy is the idea of "Fairness." A governing authority, whether economic or political, must constantly ask itself if what it proposes to do is fair for everyone. Giving every citizen the opportunity to purchase or earn ownership of what the state currently holds is democratic. Simply carving the state's holdings into equal shares and distributing it equally to all, or just selling it to the few is not democratic. Nor is it democratic for a small ruling elite to cut themselves ever-larger pieces when the size of the pie is static or shrinking.

The Problem

The question facing China is how to make a free enterprise economy work while building a broader political constituency for free enterprise growth. How can the Chinese people avoid the concentration of wealth in the hands of the few that inevitably accompanies Capitalism, and the predictable and even more destructive backlash of Socialism?

The Solution

A Capital Homestead Act* for China would approach the problem from both the macro- and micro-economic scale. Components of a Capital Homestead strategy are interdependent, supporting the total program like the legs of a tripod:

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

Simplification of the national tax system.

As explained above, the simplest income tax system for the modern industrial state is one where income from all sources, whether from labor or capital, is taxed at a single rate, while exempting incomes of the very poor. This would eliminate the unfairness of tax systems that exempt income derived in "special" ways or act punitively against income that exceeds a certain amount.

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

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

New policies would aim at immediate reduction in prime interest rates to an unsubsidized minimal level for industrial purposes. A two-tiered interest policy would allow substantially higher interest rates for non-productive purposes. The national banking authority would be restrained from monetization of national deficits or encouraging other forms of non-productive uses of credit, causing the demand-side credit to seek out already accumulated savings at market rates.

Any increase in the money supply would be linked to actual growth of the economy. This would be achieved by the national bank discounting at the lowest possible charges (but subject to a 100% reserve requirement) eligible industrial, agricultural and commercial paper financed through the banking system. The economy would thus gain an asset-backed currency reflected in more efficient instruments of production.

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

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

In contrast to standard state-controlled retirement and "social welfare" programs, this strategy would create for every citizen a "Capital Homestead Exemption" of an amount sufficient to acquire enough income-producing assets to provide a growing income from dividends. This personal estate, or "Capital Homestead," would be exempt from all taxes, and would be the modern equivalent of the quarter-section of land provided by the original American Homestead Act.

The Employee Share Ownership Plan (ESOP) and its variations such as the Consumer Share Ownership Plan (CSOP), the Individual Share Ownership Plan (ISOP) and the Community Investment Corporation (CIC), would serve as the basic capital credit vehicles for linking new monetary and tax incentives for productivity growth with the expanding base of owners under a Capital Homestead Act. Each of these vehicles would help accelerate rates of growth of private sector enterprises by providing their new shareholders easy access to low-cost bank credit for buying growth shares repayable out of future growth profits.

- The "ESOP", as already explained, channels low-cost bank credit which links private sector workers to ownership shares and dividend incomes in the companies they work for.

- A "CSOP" lets customers of utilities share in the governance and profitability of "natural monopolies," like telecommunications, water and power companies, mass-transit and cable television.

- A "CIC" allows residents of a community to share in the control and profits associated with land planning and development.

- An "ISOP" is a way for individuals who do not work for profit-making enterprises to accumulate wealth and receive dividend incomes from newly issued shares in new and growing companies without being taxed on the accumulations (including property and shares gained through inheritance, savings, and arrangements like ESOPs, CSOPs and CICs). People who would use an ISOP could include school teachers, civil servants, military personnel, police, and individuals who have no remunerative employment, such as the totally disabled.

The Goal of the Capital Homestead Act

As the productivity of technology increases, ever fewer workers will be needed to produce the necessities and even the luxuries of life. In the future offered by both Capitalism and Socialism, the worker will change from being a slave dependent for his subsistence on a wage system to a slave dependent on the politicians and bureaucrats of a social welfare system.

The crucial element for avoiding this bleak future is expanded capital ownership. In transforming state-owned enterprises and farms into effective competitors in the global marketplace, and in building the new enterprises of a successful growth economy, today's unemployed and underemployed can be lifted into a more dynamic productive sector. Connecting the worker through ownership to an ever-expanding pool of wealth created by more and more efficient robots and other forms of advanced technology, will ensure that each citizen can participate directly in that future wealth.

In its initial stages, a program of expanded capital ownership will primarily affect the workers—the people who will have to turn failing or unproductive companies and industries into successes. The ultimate goal of the Capital Homestead Act, however, is for every citizen to have access to sufficient credit to become an owner of productive capital assets. Each citizen's "industrial homestead" would ensure that he could attain a living income without having to rely on wages from his labor alone. Such a system would greatly reduce society's burden of supporting the unemployed and permanently incapacitated. By producing a living income, thereby reducing the burden of having to "toil for a living," ownership of productive assets could liberate human beings to enrich their lives materially, intellectually and spiritually.

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

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

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

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

Pursuing Economic Justice, Not Utopia

Mankind will probably never achieve the "perfect" economic system where all drudgery work is eliminated and everyone is free to do the work they love. However, as their window of opportunity closes, it becomes imperative for transforming economies like China, indeed all the nations of the world, to implement effective programs of expanded ownership of productive assets. The alternative is a pendulum swing between Capitalism and Socialism (or their various permutations), where any period of stability merely serves as preparation for the next violent overthrow.

This paper does not pretend to give all the answers and details, or a complete solution to what are very complex problems. What it does is raise new questions: How will capital credit—and thus access to wealth—be allocated? How will rapid growth be planned so as to avoid ecological disaster? Within an expanded ownership system, how can we best educate people to live fuller human lives?

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

In this rare moment in history, a true revolution of ideas stands within the grasp of every citizen of China. As they search for a better life, they can merely accept the outmoded and dehumanizing systems of the past, and turn once more down the road to poverty and serfdom. Or they can choose the third way forward.

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