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TOTAL CAPITALISM
Louis Kelso: Nut or Newton?
Robert G. Sherrill

FORESTS
The Habit of Waste
Malcolm Margolin

TALKS WITH CHINA
The Military Saboteurs
Joseph C. Goulden

Censorship **/ Peter Michelson**

Frank J. Donner *on* The Fund For The Republic

LOUIS KELSO: NUT OR NEWTON?

ROBERT G. SHERRILL

Washington

One chilly day not long ago Louis Kelso and David Rockefeller sat beside the fire at that watering hole of the wealthy, Bohemian Grove, outside San Francisco. Sipping Scotch, they talked the topic they enjoy most: economics.

"By the way, David," said Kelso, "why is it that in *Prospect for America* the Rockefeller panel said that the national goal is for everyone to participate in employment? Why didn't the panel say that the national goal should be for everyone to participate in ownership? Why mention full employment but not full ownership as a desirable goal?"

Rockefeller leaned back in his chair and stared at the fire and clinked the ice in his glass for several minutes before he mumbled, "I don't know."

Kelso looks back on that episode as one of the minor victories in his life, forcing from a Rockefeller the admission that while he might be willing to let everyone share toil, he hadn't thought of letting everyone share capital. Kelso also thinks that Rockefeller's denseness perfectly illustrates the problem that must be overcome before the Kelsonian system of economics is adopted, if it ever is.

If you have never before heard of the Kelsonian system of economics, don't feel ignorant. It is known only in a limited circle, and some of those who know of it think it nutty. For example, Henry Fairlie, the British journalist who has set himself up as a critic of life in America, calls Kelsonian economics "dangerous hogwash," and doubtless some Establishment economists would heartily agree. And in this at least they are joined by the Communist newspaper, *Pravda*, which has called Kelsonian economics "the wanderings of a madman" and "cannibalism."

Nevertheless, despite such disparagement, the chances are good that Louis Kelso will, during the next year or so, become as much of a fad in the world of economics as Marshall McLuhan has become in the world of communications. It is perhaps unfair to link Kelso, who is eminently lucid, with McLuhan, who is conspicuously murky. But unfair or not, it is safe to predict no more than a faddish response to Kelso's theory of capitalism, into which he has poured nearly three decades of thought and labor, and on which he is still spending one-fourth of his time (which, at his rate of $100 an hour for legal consultation, means he is contributing about $52,000 a year to promote his theory). Inasmuch as Kelso has no credentials as an economist, his chances for serious consideration—whatever the virtues of his theories—are not the best.

Kelso is one of San Francisco's half dozen most

successful corporate attorneys. From his office on the 14th floor of the Alcoa Building he stares out at a business community which pays him at least $250,000 a year. He is on the board of directors of some of the nation's biggest corporations; he belongs to the most exclusive clubs on the West Coast. By way of reminding himself of the success he has made, he likes to tell of getting a $66 scholarship to the University of Colorado; this gives him the opportunity to add, "and that's about the price I now pay for lunch for two at Trader Vic's."

But Kelso is not satisfied. He yearns to start a capitalistic revolution, to be a leader of what one of his admirers calls "the Keynes mutiny." For nearly three decades he has been pushing "two-factor economics," a dull title for his theory, which is much better described by the subtitle of his last book: *How to Turn Eighty Million Workers Into Capitalists on Borrowed Money*. The two factors Kelso is talking about are capital and labor. He claims that until he came along, economists based all their theories on one factor only—labor. In his usual modest style, Kelso compares his theory to his predecessors': "Look, economic policy in the entire world today is just about 10,000 years behind the state of the arts and the physical sciences. And I would say that my two-factor theory closes all but the last ten years of that gap."

When Kelso published his first book, *The Capitalist Manifesto*, co-authored by philosopher Mortimer J. Adler in 1958, it drew a flurry of attention. *The New York Times* reviewer, August Heckscher, called it impractical but "searching and profound." Henry Grunwald, now managing editor of *Time,* reviewed it seriously for that magazine, knocking the Kelso-Adler style as watery, but crediting the book with being "a reminder that capitalism is a revolutionary force in human affairs offering still unplumbed promise for the future." The book was briefly a best-seller.

Kelso admits that much of the attention received by the book was due to the fame of his co-author, but not even Adler's renown could win much review space in the nation's magazines and newspapers for their second book, *The New Capitalists,* in 1961. And when Kelso turned out his third book, *Two-Factor Theory*, with his young aide, Patricia Hetter, in 1968, scarcely a book reviewer anywhere bothered to open it.

But Kelso is a stubborn, as well as a wealthy, man. He set up a skeleton organization called Institute for the Study of Economic Systems (ISES), opened an office in Washington, and threw together a board of directors made up of people as wildly different as Shirley Temple Black and Floyd B. McKissick. The board also shines with the vests of such business leaders as William J. Bird, vice president of Kaiser Industries Corp., and Roger P. Sonnabend, president of Hotel Corporation of America. It is a respectable group, but thin and mostly obscure—like the attention that Kelso has got for most of his work: write-ups in respectable but not particularly influential magazines such as *Financial Executive*, *Challenge*, *Finance* and the *North Dakota Law Review*.

Kelso hungered after more glamorous publicity, and at last he seems about to get it. Nicholas von Hoffman, *The Washington Post*'s house radical, recently made Kelsonian economics the topic of four of his columns. Other columnists may have wider syndication and a larger readership, but none has a more fervent following than von Hoffman. To win his approval is immediately to become identified as shockingly different (as such things are measured on society pages, which is where von Hoffman's column appears) and brightly acceptable in the salons of the liberal intelligentsia. That is exactly the kind of acceptance that Kelso was looking for. *Playboy* is said to be gearing up one of its "in depth" interviews with Kelso. *Esquire* is floundering around on the assignment but trying to line up somebody to profile him. *Time* is said to have something in the works on Kelsonian economics. So the months ahead will probably produce many more magazine articles on the topic, as it becomes an "in" thing to talk about in the right circles.

I must now return to the theory itself; since like most economic theories it is rather dull, perhaps it will go down better if mixed with a bit of biography. Kelso, born fifty-seven years a[illegible] grew up in and around Denver. His father was a financially unsuccessful pianist and composer. During the depression his mother tried to help out by running a small grocery store, but the railroad tracks ran alongside the store and the hobos dropped off at night and robbed the place too regularly to permit profit. "It was a period," says Kelso, "that bugged me," proving only that he was no exception.

Meanwhile, like thousands of other depression youngsters, he was working his way through school. The head of the Department of Economics at the University of Colorado, after talking with Kelso a few minutes, decided he was too heretical, and wouldn't let him study in that field. So Kelso took a degree in finance instead, graduating *cum laude,* and then went on to law school, where he was the top man in his class every year and won every honor that could be won. Nothing of importance happened to him for the next seven years, until in 1945 he found himself sitting behind a naval counterintelligence desk in the Panama Canal Zone, assigned to keeping tabs on Communists, but actually spending most of his time writing an enormous manuscript outlining his own theory of capitalism. The working title for the manuscript was, "The Fallacy of Full Employment."

When he got back to the states, he found Congress in hot debate over the Full Employment Act of 1946; and, since full employment is what he believes in least:

> I realized that I couldn't have been more out of tune with everything that was going on. When the war started, the depression was ten years old and there were 13 million or so unemployed at the end of it. It was obvious to anybody who wasn't trying to swallow their own eyewash that nothing but that damn war brought about full employment. It was obvious that the guys who knew something about the production of wealth—the scientists, the engineers, the managers—were out to eliminate employment. That's how they survive, how they make a profit, and any attempt by the politicians and economists to build the success of our economy on the one factor that was shrinking in its input importance—the labor factor—was nonsense. It was insane. And yet here I come back to the United States and the whole society is hipped on full employment. Nothing else was being considered. I sensed that there was no point in attempting to discuss it or debate it with economists. So I made up my mind that I would simply fold up the manuscript, put it in a closet and put a string around it and let it sit there for twenty-five years, meanwhile engaging in the practice of law and business. If after twenty-five years I decided it still made sense, I would take it out and dust it off and publish it.

The manuscript would have emerged in 1970 if Kelso had held to that schedule, but he met Mortimer Adler, and Adler upset the schedule. Adler, having completed the Great Books project in Chicago, had moved to San Francisco in the early 1950s, set up his Institute for Philosophical Research and organized his "Fat Boys Class," aimed at wealthy businessmen who wanted to come in after work and do mental calisthenics. Kelso joined the class.

Some time later, at a ranch party, Adler and Kelso were sitting around having a drink and (Kelso recalls):

Mortimer said, "What the hell were you talking about last winter when you said my position was inconsistent with the theory of capitalism? If there's any branch of literature I know a damn thing about, this is it. I've been studying it before you were born. There *isn't* any theory of capitalism." And I said, "But Mortimer, I have writ one."

He almost dropped his pipe in the swimming pool. He said, "I don't want to get involved in a long discussion, this is not the place for it, but give me just a five-minute statement of what the theory of capitalism is." So I gave him a five-minute version of two-factor economics.

If I had swung on him with a baseball bat, I couldn't have left him more amazed. It wasn't something he tapered into gradually. He just saw it like that. He said, "Goddamn, I have been struggling with that precise question most of my academic life. That is the answer. I knew damn well that communism was not the answer, I knew damn well robber-baron capitalism is not the answer, and I thought some sort of benign socialism was the answer, although with socialism the bureaucrats are constantly threatening your freedom. But this is it—you've got the answer." And then ideas began to tumble in on him, and in spite of what he said he didn't want to do, we did really wreck the dinner party. The discussion just swept right through the afternoon and into the evening and about 4 o'clock in the morning we finally went to bed and he was still mumbling to himself.

Adler recalls that occasion even more dramatically—"I had a blinding flash of light [he says] and saw a single proposition that was quite revolutionary as a result of Mr. Kelso's asking me a question."

First Kelso got Adler to admit that human labor, in terms of manpower unit capabilities, has been relatively constant across the ages. Then he got Adler to admit that although manpower as such has been less and less productive, the real wages of labor have gone up sharply. Then, the question: why pay a laboring man more for less? And why give capital only 30 per cent of the profits when capital accounts for 70 per cent of the production?

"At that point I stopped," says Adler. "It seemed quite clear to me that something was wrong here. I said if this was right, and we put the wages of labor down where they belonged in terms of this theory, the economy would collapse."

Kelso's solution: emancipate wage earners from the false rewards of wages and give all of them a share of capital ownership. This is the way Kelso lays out his theory: 5 per cent of the population owns all the land, the structures and the machines that make up the nonhuman factor of production in the U.S. economy today. The other 95 per cent of the population is effectively blocked from ever participating in capitalism—unless the system is changed. He calls it a "sinister phenomenon" that General Motors can pump billions of dollars into its production and yet "not create a single new stockholder."

The system can be sensibly changed, says Kelso, not by redistributing the capital owned by the 5 per cent but by expanding the economy so radically that the 95 per cent of the population can also become owners. The capital to bring this about would come from the workers, who would float loans at the bank to purchase the stock that industry would use for expansion. The workers would pay for the stock through dividends—dividends of around 20 per cent because under Kelso's plan industry would be freed from corporate income taxes and would be able to pay out (indeed would be required to pay) all its earnings in dividends.

So at no cost to himself, the worker could own $20,000 in stock at the end of five years. And thereafter he would earn $4,000 from his stock each year as a second income. Kelso uses the $20,000 figure because, by his reckoning: "New capital formation in the American economy is taking place at a rate of about $60 billion a year, which is enough new capital to allocate about $4,000 worth to each of 15 million families each year, or $20,000 in five years. And incidentally, 15 million families are one-quarter of all the households in the United States, and almost *all* of the poorest ones."

By Kelso's timetable, the switch-over to full capitalism would take twenty-five or thirty years, and it would require an annual growth rate of 15 per cent to 20 per cent (instead of the present 3 per cent and less). "And you're going to achieve that with falling costs, because the phenomenon that brings about rising costs in today's economy—the worker demanding more paper and less work, packing his wage base with personal welfare, using the price system to charge the public and then discovering he is the public, and then going back and doing the same damn thing again—that sort of nonsense will stop," says Kelso.

With a start-up time of five years, Kelso figures that his scheme would take at least 1 million families off the welfare rolls each year (if they could live on $4,000 a year, plus whatever work they wanted to do); and after a second five-year period for building momentum, the rate of transfer from welfare to capitalism would hit a rate of 5 million families a year.

The questions brought into existence by Kelso's proposals are, of course, so numerous that not even a fraction of them can be handled here. Two of the more obvious ones will show Kelso's style of reply:

Q. When everyone owns a viable capital estate, who will do the unpleasant work?

Kelso: Most of the unpleasant jobs will be technologically eliminated already. Under the present economy we have been forced to create some 25 million phony jobs to maintain a façade of reality that one must hold a job to legitimate an income. Under my system, we can dispense with the hypocrisy of these meaningless jobs. In the universal capitalist society, when the capital plant has been built to the level necessary to produce general affluence, and population has been stabilized at socially determined levels (after all, we can't progress if we live under 50 feet of protoplasm), the number of economic jobs in the economy will be only a small fraction of the labor force. Perhaps we will need no more than 10 per cent of the present labor force. Many men and women may become the servants of interesting people, simply to be around them. Many will teach school without pay simply out of conviction that that is a satisfying thing to do, etc.

Q. In an advanced industrial society where all families and individuals own viable capital estates and only a small portion of the total labor force is required for economic work, is not the freedom of the individual impaired? Some men find great pleasure in business activities. When these men own sufficient capital to produce all the income they care to spend, would they be forced to leave their jobs, or to work for nothing? Would this be a "free society"? What about those who can be motivated only by yachts, race horses, fleets of Rolls-Royces, and museums full of art?

Kelso: Human greed is a vice, like the propensity to commit murder. A careful investigation would unquestionably show that an economy which makes it easier for Jean Paul Getty to get a third billion dollars than it does for two-thirds of the families in the country to get $500 ahead of their debts is buying a lot of hogwash about the value of Jean Paul Getty. The aggregate motivation in the millions of individuals that is destroyed and frustrated by such an insane arrangement is infinitely more productive than anything that one individual could contribute, irrespective of what that may be.

Since the borrowing would be done through banks, and since the system would put almost unlimited capital at the disposal of corporations, Kelso claims that his system makes bankers and big businessmen "excited as hell at the thought of all that damn business."

Kelso likes to tick off those who have seen the light: "Norman Bailey, who is a professor of economics at Queens College, New York, wrote an article some years ago in the *Yale Review* and said it's time to take another look at Kelso and Adler. Walter Hoadley—he's executive vice president for the Bank of America and a former economics adviser to Eisenhower—wrote recently in the *National Observer* that the Kelso system is the free enterprise way to solve the problem. Frank S. Capon, vice president of DuPont of Canada, has said my theory should be compulsory reading for all businessmen. One of the earliest people to recognize the significance of two-factor was a fellow by the name of William Chatlos, one of the senior partners of Georgeson & Co., the largest and most sophisticated proxy solicitation firm in the world. He recommends employee second-income-plan financing to create instant stockholders. It brings loyalty to the troops, puts voting power in the hands of management, and if necessary raises a war chest of free-tax dollars.

"One of the key vice presidents of King Resources Company in Denver—King is not only one of the top natural resources companies but it's one of the top resource mutual funds—has asked me to prepare a proposal to the Secretary of the Interior outlining how in fulfillment of the government's recognized obligations to the Indians and Eskimos of Alaska, the government could make oil leases only on condition that the Indians and Eskimos are given equity ownership in the oil producing, exploring, refining and transporting companies. Give them stock in the companies, let them pay for the stock out of what the companies produce. Donald Dunlop, science adviser to the Secretary of the Interior, is fascinated by the proposal and is now negotiating this with the key oil companies up there."

Kelso admits that the oil men can't see the virtues of the scheme as yet. "My friend, Bob Anderson, chairman of the board of Atlantic-Richfield, pretends he doesn't hear. In the long run, he'll hear—when there is pressure. What Donald Dunlop sees and what I see is this: that what made sense in the policy of the Homestead Act, namely to dispose of land in ways that create ownership in new people, should be applied at every step of the government's relationship with its people when it's granting anything of value, whether it's an FCC license for TV or radio or a license to drill for oil. Why grant those things to millionaires? Why not use the public domain to build productive power in reasonable size holdings with people who don't have capital?"

The sanity implicit in those questions can hardly be denied. Whether or not Kelso has the proper scheme for implementing the sanity is another matter. (Some of the supporters of his theory are men whose very support would raise this question.) Most orthodox economists feel that he does not. Most of them, in fact, ignore him altogether. Kelso sees it as something of a conspiracy. "Don't kid yourself," he says. "They don't laugh, although some of them scoff. Milton Friedman, Walter Heller—a few like that, scoff. The one-factor economists who are so wedded to the concepts of the past that they would rather save their faces than save their society, are all scoffing, I presume. Their technique in fighting me has been very shrewd and very good—avoid controversy. Controversy spreads ideas, so they just ignore me. They avoid controversy because they would lose, for they are so wrong, so totally wrong. It doesn't make any difference how good their answers are, they don't have the right questions." □