

The Classical Roots of Binary Economics

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This is a new version of a paper that was written 20 years ago for a law school seminar. The original was completed in Wordperfect and later transferred to Word. This is an attempt to get away from proprietary formats into a more universal format.

1 Introduction

In his writings on capitalism Louis Kelso puts forth a new and invigorating theory of economics. This new theory, building on classical roots, seeks to provide explanations of and solutions for today's most persistent economic problems. Kelso goes beyond the staid limits of classical economics, seeking to bring capitalism to its full fruition as a system that brings prosperity and justice to all. Louis Kelso's binary theory seems to present a new economic paradigm. Are Kelso's ideas new or is he simply re-cutting the same old economic pie along different lines? This paper intends to show that Kelso's Capitalism and the ideas and visions which it embraces are new ideas. This new theory is the result of a synthesis of social, economic and political concepts drawn from classical and modern sources. The resulting theory, called binary economics, is as revolutionary as any previous economic or social theory.

This paper examines specifically three major influences on the development of binary economics. Kelso draws from the Greek philosopher Aristotle notions of an ideal state, social justice, and the rights and privileges of an ideal citizen. From French political economist Jean Baptiste Say comes concepts of production, including the idea of capital as a productive agent, labor and property. Finally from American economist Harold Moulton comes a frame work for the creation of capital. Drawing from these disparate sources, Kelso linked key concepts creating binary economics.

The value of Kelso's work cannot be overstated. In essence, the elements of binary economics have been with us for years, yet the elements were not brought together until Kelso synthesized his theories. The theories resulting from this synthesis presents answers and viable solutions to many of the problems that have plagued society in the late Industrial Age.

If binary theory, as synthesized by Kelso, is implemented, it will result in a restructuring of society as we know it. Binary theory addresses the problems of persistent poverty, unemployment and underemployment of resources including human labor, and social injustice rooted in economic inequality. The answer to these problems is deceptively simple: each of these ills can be eliminated by providing a guarantee of equal access to capital ownership to all citizens in society. This is the goal of Kelso's Capitalism, to make each and every citizen a capital owner.

2 Binary Economics

2.1 Basic Theory

Traditional economic theory is firmly tied to the notion that labor is what drives an economy. It is only labor that produces wealth. Capital exists to make labor more productive. Capital is created with investment of wages saved by labor. It is through the full employment of labor that a society becomes affluent. Louis Kelso strongly disagrees with this view.

Kelso sees an economy driven by two factors that are equally capable of creating wealth: labor and capital. Capital and labor are both productive. The relationship between the two in terms of productivity is inverse; as the productivity of capital increases, the productivity of labor is reduced. Capital replaces labor as an economy advances through an industrial phase. Capital is created out of the income of existing capital. It is through equal availability of capital ownership that society will become affluent.

No one will argue that labor is not capable of creating wealth. Nor will anyone argue that a man does not own his own labor. A man is free to sell his labor and the fruits of his labor. Such a sale produces wages for the laborer. These wages are the wealth created by labor.

In binary theory, the wealth producing aspects of labor is matched by the wealth producing aspects of capital. Everyone in a free democratic society has the right to own capital. Capital is employed by its owner to generate profit. This profit is the wealth created by capital. Technological advancement has made it possible for capital to create an ever-increasing amount of wealth.

It is this assertion, of a two factor economy, that separates binary economics from traditional economics. Only when capital and labor are each recognized as wealth producing factors in the economy can the steps be taken toward a binary economy.

In order to achieve such an economy Kelso urges that the right to own capital be guaranteed in the same fashion as the right to one's own labor is guaranteed. Kelso sees this right as the right to own capital purchased with the income of the capital itself. Such purchases are achieved by the use of non-recourse credit, with the debt repaid with the pre-tax income of the capital. It

would work something like this: owner would borrow money from commercial lender to purchase capital in the form of stock; the capital would be pledged as security for the loan; the loan would be repaid from the income of the capital; once the debt is repaid, all future income from the capital goes to the owner. The goal is to create broader ownership of capital.

Currently, capital ownership tends to concentrate in the hands of a few, those who already own substantial amounts of capital. While in theory everyone has the opportunity to own capital, or to purchase capital, in reality this does not happen. In America today it is highly unlikely that an individual can accumulate enough in savings to purchase a significant capital estate. Certainly a member of the middle class can save enough to buy a few shares of a blue chip stock, but any income received from this stock is insignificant. Under a binary system, capital ownership will be expanded in such a way that the owners will derive significant incomes from capital ownership.

Providing expanded capital ownership will have a profound effect on the economy and the nation. On a purely economic level, a binary system will ignite unprecedented expansion of the economy. The first effect to be seen will be increased availability of capital to finance expansion of production. As this initial investment begins to pay off and income from the capital flows to the owners, consumer spending will increase. Increase in income and consumption will increase demand for consumer goods. This will trigger an increase in demand for capital to expand production capacity. This new demand will be met by binary financing, thereby increasing capital ownership and creating more wealth. This increase in wealth will trip greater consumer spending, increase demand, and cause greater expansion.

On a societal level, the impact of binary economics will be equally as great. The binary system will alter the concept of property as we understand it today. The new property right will be a stronger more secure right, guaranteeing to all who own property the full right to enjoy all income that the property produces. This new property right will also move society toward true democracy as economic democracy comes into being alongside political democracy. Under this system every person can own the property needed to provide an adequate standard of living.

2.2 Implementing the theory

In order to create millions of new capital owners, Kelso devised a system to insure everyone access to a piece of the new capitalist economy. This system is designed around the new right in capital that Kelso foresees. This aforementioned right is an acquisition right, the right to acquire capital purchased with the income of the capital, with the remaining income to go to the owner. This right is to be implemented in a voluntary system that will revolutionize the economy. Initially Louis Kelso saw each man as controlling his own capital estate, arranging financing and seeking advice from a commercial bank ¹. Over time, this evolved into a sophisticated plan to allow each worker the right to acquire capital according to his own input into production ². Finally, Kelso settled upon the stock ownership plan (SOP) in various incarnations ³ as the main tool for providing access to binary financing.

In essence, each of these SOP's is a trust set up to benefit a particular constituency. Once established, the SOP borrows money from commercial lenders or investment banks and uses the money to purchase new stock issues. These new issues are a special class of common stock used to finance new capital expansion. All corporate income derived from this new capital, less a reserve for depreciation and research and development, is paid to the stock as dividends; there are no retained earnings. The loans are non-recourse in nature, so in essence, the new stock purchased is used to secure the loan. The borrowed funds are repaid from the dividends on the stock. Once the loans have been settled, all income from the stock is paid directly to the constituency of the trust.

3 Key Concepts of Binary Theory

3.1 Property

Adaptation of a binary system will profoundly affect the way in which we view property and the rights associated. For Kelso, property is central to binary theory, a fundamental and inalienable human right ⁴. Property is "an aggregate of the rights, powers

¹See Louis Kelso and Mortimer Adler, *The Capitalist Manifesto*, 1958 & *The New Capitalist*, 1961

²See Stuart M. Speiser, *A Piece of the Action*, 93-125

³ESOP, MUSOP, CSOP, GSOP, ICOP, COMCOP, PUBCOP, and RECOP are the tools of binary financing laid out by Kelso in *Democracy and Economic Power*.

⁴Kelso and Kelso, *Democracy and Economic Power*, 24. As an historical aside, Kelso's belief in a strong right to property is not new. In the late twelfth and early thirteenth centuries, as jurists brought the law out of the Dark Ages, certain immutable, subjective rights were found to be held by all men. The first

and privilege, recognized by the laws of the nation, which any individual may possess with respect to various objects." ⁵ This indicates that property is not the physical object itself but the bundle of rights that are associated with the object. Generally this bundle includes 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." ⁶ These rights are not absolute, but are subject to limits that have become infused into the Anglo-American legal system. Property rights are limited in 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." ⁷

Later, Kelso drew upon these rights and limitations in property to provide a foundation for his concept of democratic capitalism. He forges his understanding of property into three "precepts" which will provide the necessary underpinnings for democratic capitalism. The three precepts are the property principle, the participation principle and the limitation principle. ⁸ Kelso notes that each of these principals builds upon the one preceding, that individually each is unable to be valid, and that all three are necessary for democratic capitalism to be realized. ⁹

The principle of property echoes the definition that Kelso had previously given to property. ¹⁰ Property is further defined in law and economics terms, as "the ownership by a person of a specific productive asset." ¹¹ This ownership is characterized as a composite of rights, with the right to "receive all that is produced by the thing owned" singled out as most important. ¹² The rights are subject to limitations, in that property cannot be used to injure the general welfare or injure another. In sum, the principle of property is the keystone of democratic capitalism. ¹³

The principle of participation refers to participation in production. Without the ability to participate in production, none of the rights considered so important by the Founding Fathers, the right to life, liberty and the pursuit of happiness, are of much value. ¹⁴ In essence the principle of participation involves a right to be productive. Production, in a binary system, is accomplished either through the use of labor or the use of capital. Restricting the production right to a right to the fruits of labor, as under traditional economic systems, violates the basic principle of participation and interferes with the inalienable rights contemplated by the founders of our country.

The principle of limitation may be the most difficult of the three principles to grasp. It refers to a limitation on the amount of capital that may be accumulated by an individual. Capital accumulation should be limited, according to Kelso, to the amount necessary to meet the owners consumptive needs and free him to enjoy the lifestyle of his choosing. ¹⁵ This principle is drawn from the historical limitations placed upon the rights of property, that it cannot be used to harm another or another's property nor can it be used to injure the general welfare. ¹⁶ Accumulation of capital beyond that needed for consumption and lifestyle choices is injurious to the general welfare in that such accumulation by its very nature indicates that others are being deprived of the right to be productive because they are unable to own this capital. Excessive accumulation of capital interferes with the property rights of others, and therefore, accumulation of capital should be subject to limitation.

The notion of limiting the right to own capital seems to be in conflict with the first two principles of democratic capitalism which generally provide for broad property rights. The principle of limitation is Kelso's key to solving the social injustice he perceives in the current system. The limits to be applied are broad and highly discretionary, and left to be decided by what society sees as reasonable. Everyone is entitled to the right to acquire a capital estate sufficient to live on and provide an enjoyable lifestyle. ¹⁷ Acquisition of this estate is not to be impaired by the actions of society's members who already possess capital in excess of their needs. The limit to be imposed by society through state and federal law should be such that it enables all to acquire a capital estate sufficient to pursue life, liberty, and happiness as they see fit.

Kelso also defines different types of property which build upon these general property principles. Acquired property is something

of these rights was the right to own and protect private property. This right was seen as being derived from natural right. Two thirteenth century jurists, Azo and Accursius, forcibly argued that because "God forbade stealing, He protected private property. Since divine law took precedence over natural law and since natural law could be thought of as having been promulgated by god, property rights could be logically considered a part of natural law." Pennington, *The Prince and the Law, 1200-1600: Sovereignty and Rights in the Western Legal Tradition*.

⁵Kelso, Karl Marx: The Almost Capitalist, 43 *American Bar Association Journal* 235, 238.

⁶*Id.*

⁷*Id.*

⁸Kelso and Kelso, *Democracy and Economic Power*, 23

⁹*Id.*

¹⁰See *supra*, 6,7.

¹¹Kelso and Kelso, 23

¹²*Id.*

¹³*Id.*, 24.

¹⁴*Id.*, 24.

¹⁵Kelso and Kelso, 24, 25

¹⁶Kelso, Marx, 238

¹⁷Kelso and Kelso, 27

external to man's own person, which he possesses and controls.¹⁸ Innate property is that which man is born with, in terms of production; innate property includes labor.¹⁹ Private property is understood to be that which is owned and controlled by individuals.²⁰ Public property is that property which is owned by the State and controlled by its officers or agencies.²¹

3.2 Capital/Capitalism

Capital is property in natural resources and in instruments of production.²² Capital represents all forms of acquired property in productive factors.²³ Kelso differentiates capital from labor by noting that labor is innate property in a productive factor.²⁴ Ownership of labor lies in each man and it cannot be taken away from him. It is important to note Kelso's assertion that capital is one of two productive factors in an economy (the other being labor). This idea runs contrary to traditional economics which sees labor as the sole factor of production. It is this simple but unique view of capital that provides the foundation for Kelso's ideas.

For Kelso capital is one of two factors of production. Capital works alongside labor to produce goods and these goods become the wealth of the owners of labor and capital. Currently capital tends to be concentrated in the hands of a wealthy few. A major goal of binary economics is to create a broader, more diffuse ownership of capital. This is to be done through a system that will guarantee the right of the individual to acquire capital. Creating universal capitalism will make for a more just and equitable society.

In a binary economy the creation of capital occurs through the use of credit and does not rely on savings of labor as it does now. Kelso's use of credit, secured by the income of the capital that it purchases, is unique. Financing under a binary system involves expanding the commercial credit system to supply more money to purchase new capital. Under the current system capital is created in one of three ways: by use of income saved by labor; through retained earnings; by reinvestment of earnings from capital. The latter two methods are used much more frequently than the former. The result is the concentration of capital in the hands of those who already own capital. The use of binary financing to purchase new capital will provide the opportunity for diffuse capital ownership. Under the binary system capital is created by using debt secured by the capital itself. The income from the capital is used to retire the debt and future income goes to the owners of the capital. Capitalism is generally the name which Kelso chose for the system that would arise following the implementation of a binary system.²⁵ While the terminology has changed over time,²⁶ the basic idea has stayed the same. For Louis Kelso, capitalism is the only way to achieve a true democracy, to heal society's ills, and provide for general prosperity to all. Capitalism is the mechanism by which all are guaranteed full participation in all facets of society limited only by the traditional limitations on property ownership. Capitalism is the embodiment of the full implementation of the free market system in a growing economy. Capitalism is the private ownership of capital with the widest possible diffusion of ownership and capitalistic distribution with full returns to owners of capital resulting in a high standard of living for all.²⁷

3.3 Economic Democracy

Economic democracy has been termed "democracy's missing half."²⁸ Economic democracy "confers on all individuals or families (consumer units) the right to participate in the *economic* process: the right to produce goods and services and to receive the income so earned."²⁹ (emphasis in original). A true democracy is made up of a union of two segments, political democracy and economic democracy. Political democracy "prescribes and requires that all citizens have the right to participate in the *political* process"³⁰ that is the exercise of political power, "the power to make, interpret, administer, and enforce the laws."³¹ To achieve

¹⁸Kelso and Adler 44

¹⁹Id.

²⁰Id.

²¹Kelso and Adler 46. The distinction the authors draw between their theory and that of Marx at this point is of interest: The Marxist program for the abolition of private property calls for the State ownership of capital (i.e., all means of production other than labor power). It does not call for the abolition of property or for the diffusion of the ownership of capital, but rather for the transformation of private capital into public property and for the abolition of private property in everything except labor power and consumable goods in the hands of the consumer.

²²Kelso and Adler, *The Capitalist Manifesto*, 45.

²³Id.

²⁴Id.

²⁵Kelso and Adler 11.

²⁶"pure capitalism" Kelso and Adler 11, "social capitalism", "democratic capitalism" Kelso and Kelso

²⁷Kelso and Adler 108.

²⁸See Kelso and Kelso, *Democracy and Economic Power*, 11 and Kelso and Kelso, *The Right to be Productive*, 11 *Financial Planner*, # 8, 53.

²⁹Kelso and Kelso, *Democracy* 11

³⁰Id.

³¹Id.

the full power contemplated by a true democracy the citizens of the democracy must be able to fully participate in the political and economic aspects of the system. Anything less than full participation can lead to tyranny.

The United States aspires to true democracy, but has failed to achieve it. The country has achieved political democracy. All citizens over the age of eighteen are eligible to participate in the political process.³² In terms of political power the U.S. has achieved equality, one man one vote. Economic democracy is only theoretically possible in the U.S. today. Everyone has the right to exercise economic power, but in reality the vast majority of citizens are precluded from exercising any appreciable economic power. This is due to the concentration of much of the nations' wealth in the hands of as few as five percent of the population. The majority have no access to the tools to acquire wealth in the manner of the wealthy. Therefore there is no economic democracy today, but rather an economic plutocracy and as a result true democracy remains elusive.³³

Economic democracy "exists when every citizen personally owns and possesses the *power to produce* the income he needs to support and enjoy the lifestyle he reasonably chooses for himself and his dependents."³⁴ (emphasis in original). Economic democracy is intended to protect property rights by assuring that everyone has equal access to the property necessary to support a reasonable lifestyle. The need to protect economic power is greater than the need to protect political power, indeed the authors of the Constitution felt this way.³⁵

The importance of economic democracy as an essential element of a true democracy cannot be overstated. By adopting a system such as binary economics which recognizes and strives for full participation in the economy based on free market principles, real economic power becomes more diffuse, resulting in economic democracy. Using Kelso's plans to increase capital ownership will result in a higher standard of living for more citizens. As people are freed from the grips of subsistence labor and welfare, they will be able to more fully participate in society. The new capitalist will have leisure time which can be devoted to the duties of citizenship or in any of myriad of activities that will better society.

4 Classical Roots of Binary Theory

4.1 Aristotle

Kelso looks to the ancient Greek philosopher Aristotle for the concepts upon which to ground binary theory's goals of a just and equal society. Aristotle lived and wrote in the fourth century B.C. He was a student of and successor to Plato and tutored the young Alexander of Macedonia. His work covered a diverse field of learning. Kelso is primarily concerned with Aristotle's *Politics*, especially Books I and VII. Book I deals with economy, which in the original Greek sense means management of the household,³⁶ and the *polis*,³⁷ or state. The book deals with the form of the household, status of members, acquisition and holding of property and slavery. Book VII, together with Book VIII, deals with political ideals. These books layout the framework for an ideal *polis*.

Citizens in Aristotle's ideal polis lived lives free from toil, free from the mundane need to labor physically for daily subsistence. The freedom provided by removal of toil from everyday life is spent in pursuit of philosophy and politics, to the betterment of society.³⁸ The freedom from toil provided leisure time to pursue statesmanship, the arts, science and knowledge. The price for this freedom of citizens is slavery and servitude for non-citizens, a price Aristotle sees as necessary for the ideal *polis*. He argues that slavery is just when properly conducted and necessary to properly run a household.

Aristotle describes two types of slavery. In one type men were owned as property of other men, totally deprived of any property rights, and servile slavery, such as that of artisans or mechanics who owned nothing but their special skills.³⁹ He notes that slaves are instruments of action, not instruments of production because they do not exist apart from the household which holds them. Both types of slaves are necessary unless "the shuttle could weave and the plectrum touch the lyre without the guidance of a hand".

The freedoms offered to citizens of Aristotle's *polis* are those long sought after by the people of the world. Kelso conceived his capitalism to provide these freedoms, as they are promised in the U.S. Constitution. While Aristotle saw slavery as necessary

³²It is worth noting that the level of political democracy achieved in the United States has been hard won by many segments of the population. Early in its history political power was held by white property owners. Slowly over time non-property owners, racial minorities, women and people between the ages of eighteen and twenty-one gained political power.

³³Kelso and Kelso The Right to be Productive 53.

³⁴Id. 54

³⁵Kelso and Kelso, Democracy and Economic Power, 13-15

³⁶Economy is derived from the Greek *οικονομία*, house, and *νόμος*, law, meaning together law that governs the household

³⁷from the Greek *πολις*, which meant city-state, especially an ideal city-state.

³⁸See Kelso and Adler The Capitalist Manifesto 16 n.2

³⁹id 13

to secure these freedoms, Kelso looks to capitalism and technology to lift society and reach the point where "the shuttle could weave and the plectrum touch the lyre without the guidance of a hand".

The reference in Kelso's work to this particular section of Aristotle's writings carries the implication that under the current economic system "servile slavery", as defined by Aristotle, continues to exist, especially to support the freedoms enjoyed by the owners of capital. The majority own only their labor which is analogous to the "special skills" of Aristotle's "servile slaves". In practice Kelso's theories will end any hint of "servile slavery" by allowing everyone equal access to capital. Increasing capital ownership will result in the wealth created by capital moving directly to those who own the capital. This increased access, coupled with increased wealth of owners, will result in the creation of a new society, that is closer to Aristotle's goal of a free society, free from toil, free to devote its time to greater things. A society finally free of any slavery.

Chapter VIII of Book I deals with property and what Aristotle terms the "art of acquisition". Property is the instruments necessary to successful household management, that is economy. Property also exists in another form, those instruments acquired to accumulate wealth only, with no purpose to the management of the household. Property in this form is but an end and such acquisition is unsound. Property acquired for the management of the household is natural and provides the means for the household. This property constitutes real wealth. Aristotle argues that property in the instruments of management is limited to that which is required by the household and that it is the nature of all true wealth to be so limited.

Book VII of Politics deals with the ideal life and the ideal state. The ideal life is one in which man strikes a balance among the goods of the soul, goods of the body, and external goods. Goods of the soul include knowledge, wisdom, temperance, justice, and fortitude. Aristotle holds that one can never possess too much of these, which he terms together as goodness. External goods and goods of the body are considered together as instruments and things of utility. There is a limit of how much of these goods a man can possess without any negative impact on his goodness. Aristotle completes this book by giving a detailed description of the ideal *polis*.

Aristotle's view of property and its acquisition influenced Kelso in his principle of limitation. Kelso felt that the accumulation of property should be limited to that necessary to insure a comfortable standard of living. Anything in excess of this is seen as injurious to society and non-productive. This principle of limitation runs directly parallel to Aristotle's reasoning that only property necessary to run a household should be acquired and anything beyond this is unsound.

4.2 Jean-Baptiste Say

Say's work, *A Treatise on Political Economy*, was published in Paris in 1803. He was seen by many as a successor to Adam Smith. His work has been reduced by economists to "Say's Law of Markets" which is often expressed by the aphorism "Supply creates its own demand."⁴⁰ This statement fails to recognize the importance of the work of Say. His work did not merely follow Smith, rather he pointed out a fundamental error in Smith's conclusions:

To the labour of man alone he [Smith] ascribes the power of producing values. This is an error. A more exact analysis demonstrates. . . that all values are derived from the operation of labour, or rather the industry of man, combined with the operation of those agents which nature and capital furnish him. Dr. Smith did not, therefore, obtain a thorough knowledge of the most important phenomenon in production; this has led him to some erroneous conclusions, such, for instance, as attributing a gigantic influence to the division of labor, or rather to the separation of employments. This influence, however, is by no means inappreciable or even inconsiderable; but the greatest wonders of this description are not so much owing to any peculiar property in human labour, as to the use we make of the powers of nature. His ignorance of this principle precluded him from establishing the true theory of machinery in relation to the production of wealth.⁴¹

— Jean-Baptiste Say *A Treatise on Political Economy*

In essence Say describes a three factor economy. The three factors, industry, capital, and natural agents work together to contribute to production. Each factor has its own productive capacity. This represents a marked departure from the theories of Adam Smith. Smith placed all added value of production in the effect of human labor, Say's industry. For Smith, there was only one factor involved in the production of value and that factor is human labor. Say saw this view as short sighted, failing to take into account the use of machinery to enhance industry and harness nature in production.

This provides a glimpse at the foundations of Kelso's binary theory. Kelso fully accepted the ideas put forth by Say, especially concerning the contribution of factors other than human labor to production. Unlike Smith, Kelso recognizes the role of capital

⁴⁰ Kelso and Kelso Democracy and Economic Power 31

⁴¹ Say, *A Treatise on Political Economy*, 6th American Edition, pg xl

in production and therefore is able to formulate an economy that establishes "the true theory of machinery in relation to the production of wealth." ⁴²

The first part of Say's treatise deals with production. Say refers to production of values and the production of wealth. Values are the equivalent of goods, the basic unit of an economy. Production of values leads to production of wealth. Production creates wealth by adding utility to a good or value. ⁴³ "[T]here is no actual production of wealth without a creation or augmentation of utility." ⁴⁴ Utility is defined as "the capability of certain things to satisfy various wants of mankind." ⁴⁵

Man cannot produce new matter because it exists in a finite amount. Using industry, that is, labor, in concert with capital and natural agents man can alter matter to create new values or goods. ⁴⁶ To the extent that production adds utility to the goods produced wealth is created. ⁴⁷

Say argues that there are three factors involved in production: industry, capital and natural agents. Industry is the skill and knowledge of man to use the other factors to produce. All men are endowed with some industry. Capital is the machines and devices to which man applies his industry to harness natural agents to produce. Natural agents are the resources that exist in nature independent of man that are harnessed by capital employed by industry. Industry, capital and natural agency work in concert to produce goods. ⁴⁸

Ownership of these factors can reside in different hands or all three may exist in the same hand. ⁴⁹ Say notes that in the case of a farmer, all three factors are owned by one person. In other situations the factors of industry, capital and natural agents are owned independent of each other and brought together to produce goods. Say states that ownership of factors other than industry are important to production. Even the most common laborer brings his own tools to work, employing his own capital, the tools, and industry in conjunction with the capital and industry of others to create goods. It is the owning of some of the capital involved that increases the laborers contribution of value to a good and results in more wealth for the laborer. He indicates "it is seldom we meet with adventurers ⁵⁰ so poor as not to own at least a share of the capital embarked in their concern." ⁵¹

Say considered widespread ownership of capital as almost a given in an increasingly capitalized society. Widespread ownership of capital was a way to insure the steady increase in the wealth of society and as a way to relieve the reliance upon human labor for sustenance. Kelso sees expanded capital as necessary to offset the declining level of input of human labor in production. As labor is supplanted by capital as the chief factor of production, spreading the ownership of capital through all levels of society becomes increasingly important in order to maintain the levels of wealth in society. Say felt that this spread would occur almost automatically. Kelso provides for binary financing to insure the spread.

Each factor in production supplies its own labor, resulting in the final production of goods and services. Say considers labor to be the continuous action exerted by and on the factors of production resulting in some final good. ⁵² Man applies labor to his industry bringing specialized skills and knowledge to bear on natural agents and capital to further production. It is the labor of industry that brings together the other two factors of production. ⁵³ Likewise capital and natural agents, such as land, provide labor, acting upon raw materials to further production. ⁵⁴ Say holds that it is the labor of all three factors in concert that results in production.

By assigning labor to each factor Say creates an interesting situation. He is extending, in a sense, Smith's labor theory. If Say's labor contributions of various factors are used collectively to replace Smith's reliance on human labor as the sole factor in production, then Smith's theory stands. It is labor that adds value in production, but not just the labor of men, but also the labor of machines and of nature. According to Say it is this point that is missing from Smith's theories and causes them to fall short.

⁴²Id.

⁴³Id at 63.

⁴⁴Id.

⁴⁵Id 62.

⁴⁶Say 73

⁴⁷Id 73, 77

⁴⁸Id 77

⁴⁹Say, 78

⁵⁰Following is a translators note on the use of *adventurer* in the this work. The term entrepreneur is difficult to render in English; the corresponding word, undertaker, being already appropriated in a limited sense. It signifies the master-manufacturer in manufacture, the farmer in agriculture, and the merchant in commerce; and generally in all three branches, the person who takes upon himself the immediate responsibility, risk, and conduct of a concern of industry, whether upon his own or a borrowed capital. For want of a better word it will be rendered into English by the term adventurer. At the time of the translation, (1821), there was apparently no concept of entrepreneur in the English language. Luckily we now know this concept well and it carries many of the same connotations that it did for Say so many years ago. If the term adventurer is again read as entrepreneur the ideas of Say are remarkable.

⁵¹Say, 78

⁵²Say, 85

⁵³Say, 85

⁵⁴Say notes that capital is essentially an extension of nature, being goods produced to harness the forces of nature for the benefit of mankind. *Treatise on Political Economy* 86

Say points out that with all three factors contributing labor to production, it is apparent that the labor of one factor can replace the labor of another factor. For example the labor of capital replaces the labor of man as use of machinery increases. "Whenever a new machine, or a new and more expeditious process is substituted in the place of human labour previously in activity, part of the industrious human agents whose service is thus ingeniously dispensed with, must needs be thrown out of employ." ⁵⁵

The result is displaced human industry, unemployment of working men. Say suggests that workers whose industry has been supplanted by the labor of capital be employed toward the public good and in the production of new capital goods. ⁵⁶ The shift from the use of the labor of human industry to the labor of capital is inevitable as technology advances and new machines are brought into existence.

With remarkable foresight, Say asserts that human labor will inevitably be replaced with the labor of capital. This is precisely the position taken by Kelso and ignored by others. As technology advances, the ability of capital to produce will outstrip the productive capacity of human labor. Of all of the implications arising from this observation, the most troubling is the increased unemployment of human labor.

To Say, the unemployment of human productive agents seemed as inevitable as the march of technology. His solution was to rechannel this human labor into public works and into the production of new capital goods. Kelso also views unemployment as inevitable. His solution is more subtle: provide a mechanism by which those human agents who are displaced by capital are provided the means by which to acquire ownership of the capital agents which displace them. To remedy the increasing imbalance between the contributions of capital and human labor in production, Kelso advocates expanding the ownership of capital. Such expansion will help to ease the imbalance, allowing the income earned by capital to go the owners of the capital, those individuals whose human labor has been replaced by the labor of capital.

In his writings, Say holds that capital is created through the use of savings. It is only through the savings of consumers that capital is formed. While it may seem that savings would result in less consumption, Say notes that "no act of saving subtracts from consumption provided the thing saved be re-invested or restored to productive employment." ⁵⁷ The point of savings should be the creation of productive capital.

In saving, consumers endeavor to purchase capital. All should save with an eye to the purchase of capital. Savings are defined as the excess value of production over consumption. The use of savings to purchase capital increases the amount of capital involved in production. This leads to an overall increase in production resulting in higher profits. Higher profits result in more saving. More saving, more capital. The system would seem to be self-perpetuating. In Say's own words :

Capital is swelled by savings, a larger quantity of industry ⁵⁸ is set in motion, and saving becomes more and more practicable, because the additional capital and industry are additional means of production. Every saving or increase of capital lays the groundwork of a perpetual annual profit, not only to the saver himself, but likewise to all those whose industry is set in motion by this new item of capital. ⁵⁹

— Jean-Baptiste Say *A Treatise on Political Economy*

For Say saving is equal to capital and all have the ability to save, therefore the ability to create and own capital. ⁶⁰ The adventurer ⁶¹ and the capitalist have the greatest access to capital. Individuals relying on their own industry for support have a more difficult time saving and thereby creating capital. ⁶² As a result "many savings are... consumed that might otherwise have swelled the capital of individuals and consequentially of the nation at large." ⁶³ Say suggests that banks provide access to capital by collecting savings and turning the combined savings of individuals into capital. ⁶⁴

Kelso and Say diverge on the creation of capital. Kelso prefers not to rely on savings as the means of financing new capital. Kelso and Say do agree on the importance of creating new capital, giving it broad ownership and using capital formation to stimulate a self-perpetuating system that will increase the wealth of society. It is the means of new capital creation that differ. Say's view assumes an almost altruistic stance that savings are accumulated and used for new productive capital creation. He does note that this is frequently not the case. Kelso adopts the view put forth by Harold Moulton, that capital creation exists independent of the consumer savings pool, and is generally funded on credit by the commercial banking industry.

⁵⁵Say, 86

⁵⁶Say, 87

⁵⁷Say 110

⁵⁸That is human industry, labor in traditional economic terms.

⁵⁹Say 113

⁶⁰Say 110

⁶¹Today's entrepreneur.

⁶²Say 112

⁶³Say 112

⁶⁴Say 112

Say places great emphasis on a strong property right. "Political economy recognizes the right of property solely as the most powerful of all encouragements to multiplication of wealth and is satisfied with its actual stability." ⁶⁵ For Say, no right is stronger than the unfettered right to property and it is to be invaded only at great peril. There can be no doubt that "the certainty of enjoying the fruits of one's land, capital, and [industry] is the most powerful inducement to render them productive." ⁶⁶

Say acknowledges that this right is not fully realized. It is invaded regularly in two ways, taxes and regulation. Both are necessary evils and should be used as little as possible by the state.

Taxes invade the property right when they are excessive, beyond the needs of the state. This is likely even in democracies as power accumulates in the ministers of government. ⁶⁷ Excessive taxing deprives the property owner of the full enjoyment of the property. His property right is infringed in that some of the benefit derived from the property is seized by the state for its own uses.

Regulation on the use of land, capital and industry invades the property right by obstructing the free and full employment of the means of production.

Landed property is violated by arbitrarily prescribing tillage or plantation; or by interdicting particular modes of cultivation; The property of the capitalist is violated by prohibiting particular ways of employing it; for instance by interdicting large purchases of corn, directing all bullion to be carried to the mint, forbidding the proprietor to build on his own soil[. . . The property a man has in his own industry, is violated, whenever he is forbidden the free exercise of his faculties and talents, except insomuch as they would interfere with the rights of third parties. ⁶⁸

— Jean-Baptiste Say *A Treatise on Political Economy*

Say recognizes the property right in a man's own industry as being more damaged by invasion than the other property rights. ⁶⁹ As with taxation, regulation should impinge upon the property right only when it is demanded by public safety and the good of society.

Say indicates that one of the greatest privileges of owning property is the right to fully enjoy the income derived from that property. This is accomplished through the distribution of wealth derived from production. Wealth in the form of profit is distributed throughout the community according to the ownership of the means of production.

In looking at the property right, we hear echoes of Say in the work of Kelso. Kelso agrees that the right to property and the full enjoyment of that right is paramount. There exists a strong parallel between the two in this area. Especially important is the notion that full enjoyment, including receiving all income generated by the property, is a powerful incentive to production. Kelso takes the strong property right one step further by calling for the guarantee of right to fully enjoy all income produced by property. Specifically, Kelso calls for a guarantee that all income generated by capital will go to the owners of the capital.

According to Say, "every product, when completed repays by its value the whole amount of" land, capital and industry "employed in its completion." ⁷⁰ The revenue generated by production is distributed to the community as rent to land, interest to capital and wages to industry. ⁷¹ When revenue exceeds the value of input, the result is profit for land, capital and industry and an increase in the wealth of the community as a whole. "Industry, capital and land all yield, ceteris paribus, the largest profits when general demand for products is most active, affluence most expanded, profits most widely diffused, and production most vigorous and prolific." ⁷² This indicates that the best way to increase the wealth of the community is to provide for broad distribution of profit and thus broad ownership of the means of production.

Kelso expands upon this notion by providing an outline for a system by which the goals sought by Say can be realized. Kelso recommends that the ownership of capital be expanded using binary financing. Coupled with this broad ownership is a guaranteed right to all profit generated by the capital. The result is broad distribution of profit and an increase in the wealth of society. The overall increase of the wealth in society will fuel higher demand and lead to more vigorous production. In turn there will be increased formation of capital, which when financed by binary means will broaden ownership and so on. Following Kelso's plan, Say's ideals are attainable.

In speaking to the manner in which capital contributes to increase of profit and the ultimate distribution of the profit to the community, Say notes that Smith came up short in his analysis of the ultimate contribution of human labor. Say acknowledges

⁶⁵Say 127

⁶⁶Say 128-9

⁶⁷Say 129

⁶⁸Say 129-30

⁶⁹Say 130, see author's footnote.

⁷⁰Say, 315

⁷¹Say, 316

⁷²Say, 324

that Smith held correctly "that human labour was the first price,—the original purchase money, paid for all things."⁷³ This falls short of the realization that there is a productive agency to capital and that the value of this agency is separate from the value of the capital itself. The position of Smith and his followers that capital is itself simply an accumulation of human labor is granted by Say.⁷⁴ Yet again, he states that this position misses the fact that there is a difference between the value of capital itself and the value that it generates as a productive agency. The industry used to create the capital has no relation to the profit generated by the employment of the capital, therefore capital is not merely an accumulation of human labor.⁷⁵

Wherefore when a product is ultimately completed by the aid of capital, one portion of its value must go to recompense the agency of capital, as well as another to reward that of the industry, that have concurred in its production. And the portion so applied is wholly distinct from the value of the capital itself, which is returned to the full amount, and emerges in a perfect state from its productive employment. Nor does this profit upon capital represent any part of the industry engaged in its original formation.

From all which it is impossible to avoid drawing this conclusion, that the profit of capital, like that of land and other natural sources, is the equivalent given for a productive service, which though distinct from that of human industry, is nevertheless its efficient ally in the production of wealth.⁷⁶

— Jean-Baptiste Say *A Treatise on Political Economy*

With this, Say draws a line between his work and that of Smith. Say acknowledges the foundation laid by Smith, but goes on to show how Smith did not go far enough, missing the fact that there are productive agents other than human labor. In making his assertion that capital generates profit that is distinct from its value, Say sets capital as a productive agent that is on par with human labor. This foreshadows the work of Kelso. Kelso's assertion that human labor and capital are the two factors of production is central to his theories and it is rooted in the work of Say.

4.3 Harold G. Moulton

One of the central features of Kelso's capitalism is the use of commercial credit to finance binary growth by providing access to commercial credit to finance new capital formation. Kelso holds that consumer savings are not necessary and indeed insufficient to finance new capital production. This idea runs counter to a central tenet of classical economics: new capital formation is triggered by the increase of consumer savings.

The idea of capital formation financed by the extensive use of commercial credit was proposed by Harold G. Moulton in his work *The Formation of Capital*, first published in 1935. Moulton was a founding member of the Brookings Institute and an eminent economist in the first third of this century. His ideas ran counter to the thinking of classical economists in that he felt that the economy of the United States was failing to live up to its potential, and that it was headed for even greater disaster than the great Depression. Moulton focused on the need to reform the system to provide more stable, less cyclical economic trends. His work fell into disuse after WWII as more mainstream classical economists took control.

In many ways, Moulton's *The Formation of Capital* was a revolutionary work, challenging the prevailing view of how the U.S. economy runs.⁷⁷ It is important to note here that *The Formation of Capital* was published in 1935, with most of the supporting research having been conducted in the previous years during the depths of the Great Depression. This work was the third volume in a four volume series that was intended to present the results of a study of the *Distribution of Wealth and Income in Relation to Economic Progress*. The purpose of this study was to examine the very basic nature of the American economy and to determine if the existing system actually impeded the real long term growth of the economy.⁷⁸ Moulton provides hard evidence that the notion of savings being necessary for capital production was untrue. He pointed out that commercial credit can provide for capital expansion.

In beginning his analysis, Moulton pointed out a perceived dilemma in the classical position. In order to accumulate money savings we must decrease expenditures for consumption, but in order to expand capital goods profitably we must increase expenditures for consumption. This points to a dilemma in classical reasoning that holds that savings are the source of increase of capital production. If an individual has a certain amount of income, it is used either to purchase consumer goods or it is saved, presumably with the expectation that it will be used to help purchase some increase in capital products. Accumulating sufficient

⁷³Say, 356

⁷⁴Id.

⁷⁵Id.

⁷⁶Say 356-7

⁷⁷For a contemporary view of Moulton's work see *New Directions in the New World* by Adolf Berle (1940) at page 99-100.

⁷⁸Moulton, *The Formation of Capital*, 1935, i; hereinafter Moulton.

savings to generate new capital requires that the amounts used for consumer goods be reduced. Yet if capital production reacts to demand, then it follows that capital will expand profitably only if consumer spending is increasing. This dilemma and a response to it form the core of Moulton's work.

In assessing this dilemma, Moulton points out the error of classical economists. These economists looked at individualistic effect, focused on individuals, rather than the complex organizations, institutional functions and problems that are inherent to the economy.⁷⁹ They held that capital formation followed automatically from individual savings.⁸⁰ Finally, they failed to consider the forces which determine whether it will be profitable to utilize money savings to form new capital.⁸¹

The fact of the matter, Moulton points out, is that the growth of capital does not take place unless the expansion of consumption is also occurring. He holds that the demand for capital goods is a derived demand, derived from the demand of consumption goods.⁸² The classical paradigm holds that consumers divert spending from consumptive channels to savings channels to signal an increased demand for capital goods. This would indicate the actual demand for consumptive goods decreases in order to allow for the expansion of capital production. To Moulton, there is no support for this notion. He shows that the growth of capital and the expansion of consumption are a virtually concurrent phenomena.⁸³ While the classical paradigm supports the idea that demand for capital goods and consumptive grow alternately, Moulton supplies evidence that they grow best together, fueling each other.⁸⁴ After examining business cycles from the previous half century, Moulton concludes that "growth of capital does not take place unless expansion of consumption is also occurring."⁸⁵ Further he states that

The motivating force in all economic activity, under a system of private initiative, is the wants and demands of people. The base of the economic pyramid is the production of consumption goods—first, primary necessities, and then comforts and luxuries. In the ascending scale of goods that relatively indispensable we find new plant and equipment at the top. This is simply because the demand for plant and equipment is derived from the demand for the consumption goods which such plant and equipment can produce.⁸⁶

— Harold G. Moulton *The Formation of Capital*

Moulton goes on to indicate that, again in contrast to classical theory, because it is a derived demand, the demand for capital goods is not the linchpin upon which the economy turns. If the demand for consumptive goods decreases, the demand for capital goods decreases also in greater proportion.⁸⁷ A lessening of demand for consumptive goods would result in an increase in unutilized capacity, which would make the creation of new capital goods unprofitable. With low demand for consumptive goods, capital formation will decline, even if the funds for the creation of the new capital are readily available.⁸⁸

This does not necessarily indicate that economic growth can be spurred only by firing up consumptive demand. Moulton argues that the stimulating the production of new capital will trigger the growth of consumptive demand.⁸⁹ While the notion of stimulating capital production to increase consumptive demand and thereby fueling further growth of demand for new capital goods seems contrary to Moulton's arguments to this point, it is important to realize that his view is long-term in nature. He is seeking to provide long-term answers to tough economic problems. With a long-term view toward long-term sustained growth of the American economy, the stimulation of capital formation in the short term will provide the catalyst for higher employment, which leads to greater demand for consumptive goods and greater demand for capital goods to produce the consumptive goods.⁹⁰

Kelso's notion of binary growth is in sync with Moulton's ideas on the relationship between consumptive demand and capital demand. Kelso sees binary growth as the key to long term growth in the economy. Binary growth occurs when new capital, created through binary means, produces wealth, and this wealth is passed on to the owners of the capital, increasing their disposable income. Increased disposable income causes a rise the demand for consumer goods which in turn fuels an increase in the demand for new capital to produce the goods being demanded. Under Kelso's plan, all of the capital used would be eligible for binary financing.

⁷⁹Moulton, 36.

⁸⁰Moulton 38.

⁸¹Moulton 40.

⁸²Moulton 42.

⁸³Moulton 43.

⁸⁴Moulton 47.

⁸⁵Moulton 71.

⁸⁶Moulton 71-72.

⁸⁷Moulton 72.

⁸⁸Moulton 72-73.

⁸⁹Moulton 73.

⁹⁰Moulton 72-74.

Having established the flaws in classical economic thinking concerning the demand for capital, Moulton turns to the actual mechanisms used to form capital in the American economy. Looking back to his previous conclusion that in order for there to be capital formation on an expansive scale, there must be a simultaneous expansion in the flow of funds through consumption and investment channels, he examines where the funds in the investment channel come from.⁹¹ Moulton sees commercial banks as the key to capital formation. Commercial banks play a fundamental role in the formation of productive capital, not just through the transference of accumulated savings, but more importantly in their capacity to create credit instruments.⁹²

Commercial banks are invaluable to the formation of capital because of their ability to create credit currency which increases the total volume of circulating media.⁹³ The commercial banking industry creates credit currency by loaning funds beyond the amount on deposit with the bank. This is possible because only a certain percentage of the credit is drawn as actual cash, the rest being transferred as bank instruments. The net result of this activity is an increase in the money supply.⁹⁴ This ability to create credit currency allows commercial banks to fund the formation of capital whose value exceeds the total value of accumulated savings. Indeed it is possible to continue the funding of new capital even as savings decline, as when more funds are diverted to consumptive channels.

Traditional theory, according to Moulton, is that a corporation finances its fixed capital needs through the issuance of stocks and bonds, while working capital needs are met by credit from commercial banks.⁹⁵ In practice, commercial banks extend credit on a regular basis for both long term investment in fixed capital goods and short term investment in working capital.⁹⁶ Fixed capital includes things such as plant and equipment, while working capital includes items such as payroll, materials, and supplies.⁹⁷ Moulton points out that commercial banks often invest in corporate securities directly or finance the underwriters who handle the offerings of these securities.⁹⁸

Because of their ability to create credit currency with which to finance the formation of capital, Moulton holds that commercial banks provide the escape from the dilemma created by the classical economic model.⁹⁹ By making full use of the credit creating capabilities of commercial banks, it is possible to have expansion of demand for consumption goods and demand for capital goods.¹⁰⁰ The attached chart is Moulton's depiction of how the commercial banking system fits into the economic system.¹⁰¹

Moulton states that "[f]unds with which to finance new capital formation may be procured from the expansion of commercial bank loans and investments."¹⁰² This is possible because commercial banks already finance underwriters of securities.

When securities are floated through regular investment channels, the underwriting houses agree to furnish the borrowing corporation on a given date the funds required whether or not the securities have been marketed by that time. This furnishing of funds in advance is made possible by loans from the commercial banks, which are "collaterally secured" by the very stocks or bonds which are being marketed. This process involves a flow of funds (see the chart) from commercial banks by way of investment institutions to business men engaged in capital operations. When in due course these securities are sold by the underwriters, the commercial bank loans will be paid off out of the proceeds. But for a time, it will be seen, the new capital operations of business corporations have been financed from an expansion of commercial bank credit.¹⁰³

— Harold G. Moulton *The Formation of Capital*

By extending credit, commercial banks solve the dilemma of increasing the flow of funds to capital formation in the face of declining savings. This allows for the simultaneous expansion of the consumption and capital markets, thereby strengthening the economy overall.

Kelso's binary financing relies heavily upon the very sort of commercial banking financing for which Moulton argues. Under Kelso's plan, everyone would have a right to acquire capital. The right would be exercised through the use of non-recourse loans provided by commercial banks. The loans would be used to purchase capital and repaid by the income earned by the

⁹¹Moulton 75.

⁹²Moulton 76.

⁹³Moulton 77.

⁹⁴Moulton 80-84.

⁹⁵Moulton 93

⁹⁶Moulton 92

⁹⁷Moulton 92-93

⁹⁸Moulton 92-99

⁹⁹Moulton 100

¹⁰⁰Moulton 102

¹⁰¹See also the attached graphic depiction of Kelso's economic system.

¹⁰²Moulton 104

¹⁰³Moulton 104-105

capital. Capital creation would be fueled not by consumer savings but by the expansion of commercial credit as was envisioned by Moulton.

Moulton asserts that the expansion of capital production made possible by the extension of commercial credit will lead to a corresponding increase in wages. The increase in wages provides more money for consumptive purchases and for savings, driving up the demand for the formation of new capital goods.¹⁰⁴ Following Moulton's projections to a logical conclusion, such a situation would create an economy that would fuel itself to perpetual growth.

Moulton acknowledges that certain limitations to sustained long term economic growth may exist. These include limitations of productive capacity, labor supply, and credit reserves. He indicates that the American economy has never reached the limits of any of the resources and it is not likely that it will. There has been unutilized productive capacity, unemployed labor, and unused credit reserve in the past, and most likely, this will continue into the future.¹⁰⁵ It should be noted that these limitations may hamper a binary economy as well.

Moulton continues his analysis on the formation of capital by returning to the classical model. According to the classical analysis there should be no disparity between the amount saved and the amount of new capital formation because the act of saving indicates a demand for capital goods.¹⁰⁶ This did not occur during the period preceding Moulton's study. Saving increased and new capital formation was held in check by decreased consumptive demand.¹⁰⁷ The excess savings were absorbed by the expansion of the value of existing securities. In a sense, savings were diverted from productive channels into speculative channels. As more savings were diverted through the securities markets, the wealth of the owners increased but this did not increase the amount of productive capital. The running up of the value of existing securities caused more individuals to divert funds from consumptive channels, lowering demand for these goods, to speculative channels. Therefore, although there was an increase in the amount flowing into the savings channel, there was no real or corresponding increase in the formation of new capital.¹⁰⁸ Moulton uses this to show that money saved, contrary to the classical analysis is not necessarily turned into productive capital.¹⁰⁹

Ultimately, Moulton reaches three major conclusions in this work. First, "regardless of the amount of money available for the construction of new plant and equipment, the growth of capital goods was adjusted to the rate at which consumptive demand was increasing."¹¹⁰ Second, "excess savings which entered the investment market served to inflate the prices of securities and to produce financial instability. A larger relative flow of funds through consumptive channels would have led not only to a larger utilization of existing productive capacity, but also to a more rapid growth of plant and equipment."¹¹¹ Third, "the primary need at this stage in our economic history is a larger flow of funds through consumptive channels rather than more abundant savings."¹¹²

Moulton's conclusions tend to show that the use of savings to finance new capital formation is unlikely. Contrary to conventional economics, savings does not indicate an increased demand for capital goods, and savings are rarely used for new capital formation. Savings are more often wasted on speculation in the secondary markets. New capital formation is financed through the use of commercial credit. Kelso would seek to expand the role of commercial banking by using its credit creating power to finance all new capital formation, and harnessing this credit potential to secure the economic rights of all.

5 Conclusion

This paper set out to answer the question of whether or not Louis Kelso's theories of binary economics are new ideas. To accomplish this, his basic ideas were examined. The ideas of Aristotle, Say, and Moulton were also examined and compared to Kelso. The analysis shows that Kelso achieved a synthesis, drawing concepts from the works of others and bringing them together to create binary economics.

Binary economics would bring economic democracy to America; it would free society from wage slavery; it would ignite unprecedented growth in the economy; it would guarantee the capital estate of every citizen; it would give ownership of the means of production to every citizen; it would increase the wealth of society; and it would guarantee the continued existence of the free market system. Individually each of these ideas has existed throughout history, but only Louis Kelso has formulated a single system to implement all of them.

¹⁰⁴Moulton 107-108

¹⁰⁵Moulton 109-112

¹⁰⁶Moulton 138

¹⁰⁷Moulton 139

¹⁰⁸Moulton 140-150

¹⁰⁹Moulton 153

¹¹⁰Moulton 158

¹¹¹Moulton 159

¹¹²Moulton 159

Louis Kelso's binary theory is a new and revolutionary idea. Kelso has achieved a synthesis of economic and democratic ideals drawn from the very roots of civilization. The ideas of thinkers as diverse as Aristotle, Say, and Moulton are forged together into a new economic system that, if implemented, would bring to fruition all of these ideas.

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