

8 FINANCED-CAPITALIST PLAN AND ECONOMIC GROWTH

A. UNDERDEVELOPED ECONOMIES

The socialist theorists make much of what they regard as the questionable efficiency of the present mixed economy to “allocate” resources between current consumption and capital formation in such a way as to promote the growth and best interests of the economy as a whole. They would prefer to see, of course, the totalitarian control that necessarily exists in any socialist economy—for example that of Russia—where the “New Class” of ruling bureaucrats makes this determination. The fact of the matter is that the apparent necessity for “allocation” between present consumption and capital formation, except in those economies that suffer a shortage of labor, raw materials, or technical know-how, is the result of nothing more than an *institutional defect* in the capital-forming process.

The moment that financial savings cease to be the sole source of capital formation, and there is established instead the financed-capitalist program under which capital formation becomes a proc-

ess of organizing the construction and equipping of plants, buildings, transportation lines, farms, etc., and of channeling a portion of the wealth produced by new capital instruments to pay those who participated in “forming” them (or the reimbursing of credit advanced for this purpose), then the idea of “allocation” is eliminated from the picture.

There is no practical limitation under the financed-capitalist plan on the amount of credit available to finance the purchase of equity stocks in new or expanded enterprises, so long as the physical need exists for the wealth to be produced by newly formed capital. It is the function of governmental and private financing institutions to make certain that participation in production either through capital ownership or through labor ownership, is open to all households of the economy. Such participation in production, either through furnishing labor or through the ownership of productive capital, is the source of purchasing power for use in immediate consumption. Only where a shortage of labor, raw materials, or know-how exists would there be any reason to choose, under the financed-capitalist plan, between increased consumption and new capital formation. In all other instances, new capital formation and personal consumption would normally expand simultaneously.

While this realization is of momentous significance for economies like those of the United States, Canada or Great Britain, *it is of even greater importance to the economies of the underdeveloped countries.* The latter frequently do have an abundance of labor, resources, land, and access in the world market to sufficient know-how, but very little accumulated wealth or savings. Using capitalist principles, particularly the financed-capitalist program, these underdeveloped economies can, either with or without self-liquidating loans from more affluent nations, engage in steady and effective programs of capital expansion and at the same time experience a growth in the number of individual owners of capital who need have no guilt complex that they have been wards of foreign charity. As it is to-

day, the small amount of accumulated wealth in such economies operates as a close limitation upon industrialization, and forces them either to resort to international charity or to become industrialized in a socialist manner.

The recognition that entrepreneurial error can be adequately insured to promote capital formation without resort to accumulated wealth or savings is of the greatest significance to the under-industrialized economies of the world. From the political standpoint, we need have no doubt about the view of communism that will be taken by households which become new owners of viable capital estates in such economies.

The over-all importance, then, of a change from the traditional Western methods of financing capital formation to capital formation dependent increasingly upon the financed-capitalist program rests upon the fact that the extent of accumulated savings need never again constitute a limitation upon capital formation.

B. ELIMINATION OF RESTRICTIONS ON ECONOMIC GROWTH

Another limiting factor in the rate of new capital formation under the traditional private financing methods employed by Western nations is also directly connected with the existing relation between accumulated savings and new capital formation. This is the reluctance on the part of many owners of the largest holdings of accumulated wealth to permit their savings to be used in new enterprises, or even in any but the safest (and frequently most monopolistic) of existing enterprises, simply because their incentive to acquire further wealth is replaced by a supervening interest in protecting what they have, or because their capacity to supervise their

investments cannot be spread any thinner.³⁴ The financed-capitalist program would eliminate this drawback to new capital formation. It may be expected that it would also eliminate much of the frustration which new entrepreneurs experience today when they seek funds for their enterprises.

There is one further impediment to capital formation that would be eliminated by the financed-capitalist plan. Taking their cue from Adam Smith's observation that "capitals are increased by parsimony," bankers, economists, and even businessmen are sometimes heard to say that if people would spend less (*i.e.*, save part of their earnings) and invest more, we could have a growing capitalist class. The difficulty with this idea (part and parcel of the theory that capital formation must be only a "transporting" of existing wealth or savings) is that the only purpose of capital expansion is *increased* consumption, and it is increased consumption that is normally and properly the cause of capital expansion.³⁵ Unless capital formation is a response to actual or incipient increase in consumer demand, overproduction, idle plant capacity and the elements of a recession are introduced into the economy. Under the financed-capitalist program, the simultaneous expansion of capital equipment and of consumption are not only possible but also normal, just as through the use of credit financing of the war effort (unfortunately not self-liquidating except in the non-financial sense) an enormous expansion of capital outlays, consumption, and war destruction were simultaneously financed.

The significant thing to be noted here is that in the American economy, as in the Canadian and other economies where resources are adequate, neither land, nor resources, nor technological know-

³⁴ It must be acknowledged that this tendency is somewhat offset by high income taxation against which business losses may be offset. However reluctant taxpayers may be to risk their own wealth, they sometimes do not hesitate to take even unreasonable risks with "tax dollars."

³⁵ This was made clear by Harold G. Moulton, (see *op. cit.*, particularly pp. 157-158). The lesson seems largely forgotten.

how have generally been limiting factors to new capital formation. Rather, the limiting factor has been inadequate knowledge of the principles of a capitalist economy, and the consequent failure of financing institutions to perform their proper tasks. New capital formation—economic growth—has been artificially and needlessly limited by the availability of savings or existing capital ownership which could insure against entrepreneurial error in the traditional process of new capital formation. From time to time industry itself, in a narrow sense, has recognized the absurdity of this limitation. For example, Jones and Lamson, a major machine tool builder, argued in a full-page ad that its no-down-payment lease plan would jump over this obstacle and enable manufacturers to acquire 10 billion dollars' worth of new, highly productive machine tools which could be paid for out of increased output.³⁶

³⁶ *Wall Street Journal*, February 4, 1960, p. 10.