CHAPTER 4

Inclusive Capitalism

Robert Ashford

1 Introduction

John Tomer had great vision, courage, kindness, intellect, dedication, and social conscience. In the years that I was privileged to work with him, I discovered that we shared many positive views on three important, systemic approaches to economic analysis: behavioral economics, socio-economics, and inclusive capitalism.[1]

[1] The term "inclusive capitalism" has been used in various ways. The word "inclusive" raises the question: "Inclusive of whom with respect to what?" The approach to inclusive capitalism advanced in this chapter is "inclusion of all people in the competitive process of capital acquisition with the earnings of capital." It is based on original principles of "binary economics" first advanced by Louis Kelso. The authoritative source of Kelso's writings appears at http://www.kelsoinstitute.org. For the author's approach to binary economics, see Robert Ashford (1996, 2011, 2012 [co-authored with Ralph P. Hall and Nicholas A. Ashford], 2013–2014).

Valuable information on this approach to inclusive capitalism can be found by searching the terms "binary economics" and "inclusive capitalism." However, much misinformation is also presented under "binary economics" (e.g., the Wikipedia entry). The approach in this article is consistent with the original principles advanced by Louis Kelso but differs in several respects. Most notably, inclusive capitalism is advanced as a principle

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John's positive views on behavioral economics are convincingly presented in Tomer (2017a). His positive views on socio-economics and its relationship to behavioral economics are summarized in Chapter 8, pages 92–100 of that book. His positive views on inclusive capitalism are memorialized in writing in just one sentence. Based on conversations we had, on several of my presentations that he kindly attended, on several articles I authored or co-authored and shared with him, and on a news story article summarizing my work, Walls (2017), in one of his last communications to me John wrote "Thanks Robert. Put me down as favoring inclusive capitalism" (Tomer 2017b). This chapter presents the economic analysis underlying his support of my approach to a more inclusive capitalism.

John's expression of support places him in the company of a growing number of economists who have come to appreciate the importance of this approach to a more inclusive capitalism. In a letter, dated April 14, 2021, thirteen professors of economics wrote:

> With deep concern regarding (1) the eroding economic prospects of growing numbers of poor and middle-class people, (2) growing wealth concentration, and (3) the urgent need to promote environmentally sustainable, equitable growth, we undersigned economists are honored to write this letter in enthusiastic support for Professor Robert Ashford's ground-breaking work on Inclusive Capitalism. We do so in the belief that in his pioneering scholarship, Professor Ashford has made the most important contribution to economic theory in many decades: an idea with many practical, beneficial policy implications for both current and future generations.
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> Professor Ashford's remedy for the economic problems that left-wing stimulus and right-wing austerity approaches have failed to solve is to broaden the ongoing process of capital acquisition with non-recourse credit repaid with the future earnings of the capital acquired. Although this approach focuses on broadening capital acquisition rather than more jobs and higher wages as a remedy for the economic prospects of poor and

of fuller employment and per-capita growth. Perhaps the most publicized use of "inclusive capitalism" is by the "Coalition for Inclusive Capitalism" lead by Lady Lynn Forrester De Rothchild, its founder, and dedicated "to make capitalism more dynamic, sustainable, and inclusive" (https://www.inc-cap.com/). The Coalition has revealed no recognition for the importance of including all people in the competitive process of capital acquisition with the earnings of capital.

middle-class people, rigorous economic analysis reveals that this remedy may have the effect of increasing jobs and wages as well.

Remarkably, the foundational principle underlying Professor Ashford's innovative approach to a more inclusive capitalism, can be summarized in a single sentence: A broader distribution of capital acquisition with the future earnings of capital creates *the rational expectation of a broader distribution of discretionary capital income in future years (to people with a higher propensity to consume) and therefore greater incentive to employ more labor and capital in earlier years.* In other words, the more broadly capital is acquired with the earnings of capital, the more an economy will grow without redistribution.

Broadening the acquisition of financial capital with the future earnings of financial capital, is an idea originally proposed by Kelso and Adler (1958 and 1961), Kelso and Hetter (1967), and Kelso and Kelso (1986). The underlying logic was subsequently refined, transformed, and enriched by Ashford (1996, 1998, 2009, 2013–2014, and 2016). The idea has further been discussed by Ramady and Kantarelis (2009) as well as Ashford and Kantarelis (2008 and 2016). In light of the various, breakthrough, transformative modifications proposed by Professor Ashford over time in shaping this new model of capitalistic thinking, especially as it relates to real economic growth and distribution, it is appropriate to label it as Robert Ashford's Model of Inclusive Capitalism.

After thorough analysis, we find this principle to be elegant, productive, and very sound. If implemented, Professor Ashford's approach to inclusive capitalism would (without redistribution) enrich and empower millions of people (by enabling them to acquire capital with its future earnings and thereafter earn discretionary income from their ownership of capital) and also enhance the profitability of corporations that choose to implement it. It can be implemented in a sustainable, environmentally friendly way; and it would reduce rather than increase the federal budget.

Among the important economic implications that logically and plausibly flow from Professor Ashford's principle of fuller employment and growth is revealed in its crucial relevance to corporate finance. "[A]lthough business corporations have proven to be excellent means to acquire capital with the earnings of capital in industrialized economies, their benefits have not yet been made available to a substantial degree to poor and middle-class people. … [Professor Ashford's principle of fuller employment and growth] reveals how business corporations may voluntarily choose to broaden their share ownership to include poor and middle-class people, enhance the earning capacity of those people, improve corporate profitability as well as shareholder wealth, and lay the structural economic foundation for sustainable growth." [Quotation from "Enhancing Poor and Middle Class

Earning Capacity with Stock Acquisition Mortgage Loans" by Robert Ashford and Demetri Kantarelis" Economics, Management, and Financial Markets 11(2) 2016, pp. 11–26, ISSN 1842-3191, eISSN 1938-212X, p. 13.]

Significantly, this foundational principle of fuller employment and growth appears nowhere in the antecedent history of economic thought. It appears neither in Adam Smith's Wealth of Nations nor in any of the writings of any of the classical economists who build on its foundation. Yet it has implications that (1) alter the foundational, classical economic analysis of prices, production, and per-capita growth and (2) reveal how greater per-capital growth can be achieved by broadening capital acquisition with the earnings of capital.

It appears neither in the neoclassical economic analyses of efficiency advanced by Alfred Marshall, Leon Walras, and their contemporaries, nor in the analysis of later neoclassical economists, nor in the various contemporary neoclassical growth theories such as the approach advanced by Nobel Prize Laureate Robert Lucas. Yet its implications alter the neoclassical analysis of prices which are foundational to any measures of efficiency and productivity and to any modeling used in economic forecasting. Moreover, it reveals how greater benefits of efficiency and productivity can be achieved by broadening capital acquisition with the earnings of capital.

It appears neither in the fuller-employment analysis of John Maynard Keynes nor any of the economists that build on or modify his analysis. Significantly, it can be understood as transforming Keynesian general theory of fuller employment from a short-run analysis into a long-run analysis in which the distribution of capital acquisition is a fundamental variable. It fundamentally enriches the Keynesian analysis of how market economies can suffer substantial, chronic unemployment and reveals how corporate finance can be structured to achieve fuller employment voluntarily without redistribution. It appears neither in the creative construction analysis of Joseph Schumpeter, nor in the analyses Austrian economists such as Friedrich Hayek, nor in other analyses that focus on the important role of the entrepreneur, yet it significantly enriches those analyses and, if widely understood, would greatly enhance the growth predicted by advocates of those approaches.

We believe that Professor Ashford's transformative contributions to economic theory will eventually become widely recognized, taught, and celebrated throughout the world. The only question in our minds is how long poor and middle-class people and society as a whole will needlessly

be deprived of the great benefits that would voluntarily flow from their widespread acceptance and implementation. (Arestis et al. 2021)[2]

This chapter expands upon the substance of this letter and explains why teaching the principles of inclusive capitalism should be an essential part of the curriculum of higher education to enable people to achieve greater and more shared, sustainable prosperity without redistribution.

2 Principles of Inclusive Capitalism

This Part II presents foundational principles of inclusive capitalism that establish a distinct way to achieve per-capita growth, efficiency, and fuller employment not found in the antecedent history of economic thought. It then explains how these principles fundamentally alter other widely accepted economic principles.

2.1 Foundational Principles

1. Both labor capital and real capital (a) do work, (b) are equally fundamental factors of production, and (c) (via property rights) distribute income[3];
2. Although advancing technology may be understood to make labor more productive, advancing technology may also be understood to make capital more much productive than labor in task after task;
3. The prospect of a broader distribution of capital acquisition with the earnings of capital carries with it the prospect of more broadly distributed capital earning capacity and earnings in future years

[2] This letter is signed by professors of economics: Philip Arestis (Cambridge University), George Bitsakakis (Oxford University), Paul Davidson (University of Tennessee, Emeritus), Wolfram Elsner (University of Bremen), Fred Foldvary (Santa Clara, Emeritus), Shubha Ghosh (Syracuse University), Peter Hammerschmidt (Eckerd College), Jeffrey Harrison (University of Florida, Demetri Kantarelis (Assumption College), Peter Koveos (Syracuse University, Mark Lutz (University of Maine, Emeritus), Jan Ondrich (Syracuse University), and George Shepherd (Emory University).

[3] “Capital” (with or without the adjective “real” includes land, animals, structures, and machines-anything capable of being owned and employed in production. “Real capital” also includes “capital intangibles” like patents, trademarks, trade secrets, and labor contracts. It does not include “financial capital,” which is an ownership interest in real capital. According to inclusive capitalism, financial capital does not do work, but is a claim on the work done by (earnings of) real capital.

to people with a higher propensity to consume, which therefore provides the expectation of market incentives to profitably employ more labor and capital in earlier years (the principle of "binary economic growth"); and

4. Per-capita economic growth is primarily the result of the increasing "*productiveness*" of capital and the distribution of its acquisition (rather than the result of the increasing productivity of labor and/or capital).

As noted in the economists' letter, the growth principle of inclusive capitalism provides a distinct understanding of (1) per-capita growth (the fundamental question explored by Adam Smith in his *Wealth of Nations*), (2) the distributive wealth-enhancing consequences of allocating productive inputs according to their marginal productivity (a fundamental focus of neoclassical economics), (3) full employment as reflected in the analysis of John Maynard Keynes in the *General Theory* and Paul Samuelson's Neoclassical-Keynesian synthesis, and (4) exogenous and endogenous neoclassical growth theories. It also provides a distinct understanding regarding (1) the market relationship between value and price, and (2) the revenue generating and earning capacity of capital.

2.2 Productivity and Productiveness Compared

Inclusive capitalism distinguishes the concepts of productivity (pervasively important in conventional economic analysis) and productiveness. Productivity is a ratio of some measure of output divided by a denominator reflecting some factor input, usually labor. In contrast, productiveness retroactively means "work done" and prospectively "productive capacity."

Consider the work of sawing boards: 10 boards per hour with a hand saw and 100 boards per hour with a machine saw. Working with a machine saw rather than a hand saw, the worker can saw ten times as many boards in the same time and therefore has become ten times as productive and has ten times the productivity. But when sawing each board, with the machine saw, the worker is doing much less work. Per unit of production, the work done by the sawyer ("labor productiveness") has decreased and the work done by the saw ("capital productiveness") has increased. Given

the total production done in one hour, the machine saw is doing essentially all the extra work. Thus, in addition to the view that the primary role of capital is to increase labor productivity, there is another (binary) way to understand the primary role of capital in contributing to per-capita economic growth: namely, to do an increasing portion of the total work done. Although neither the hand saw nor the machine saw would saw any boards without the work of the sawyer, so too the sawyer would not any boards without the work of the saws.

The productiveness of capital is more clearly revealed in the work of hauling: in one hour (1) a person can haul one sack one mile and is exhausted; (2) with a horse, 10 sacks can be hauled four times as far (yielding a 40-fold increase in production); and (3) with a truck, 500 sacks can be hauled forty times as far (yielding a 20,000-fold increase in production). According to inclusive capitalism, the horse and truck (like the machine saw) do more than increase labor productivity; the horse and truck are doing essentially all the extra work. Although to be productive, the horse must be led and truck must be driven, the work of leading and driving is *not* the work of hauling done by the horse and truck.

Thus, inclusive capitalism distinguishes between:

1. "productivity" (a ratio of the output of all factors of production, divided by the input of one factor, usually labor) and
2. "productiveness" (a special focus of inclusive capitalism, which retrospectively means "work done" and prospectively means "productive capacity").

With technological advance, by definition labor productivity can rise while labor's share of the work done declines.

2.3 *The Meaning of "Equally Fundamental"*

Many people, including Adam Smith, share an anthropocentric vision that (1) premises economic activity on the work of people. In English and other languages, there is a special word for the work of humans ("labor"), but no special word for the work of capital and other nonhuman factors that contribute to production. Rather than viewing the productive contribution of labor and capital as distinct sources of production (just as two workers would constitute two sources of production

when both are needed to complete tasks), conventional thinking views the contribution of capital as amplifying labor productivity and considers the economic contributions of the non-human factors to be dependent on people. However, according to inclusive capitalism, labor is much more dependent on the work of non-human factors of production than the other way around. The sun shines and rain falls without human effort. With help from the sun, rain, and earth (and countless worms and other organisms), vegetation produces oxygen, food, and medicines; animals produce food and medicines, do other work, and provide other benefits. Physical structures and materials support and protect us. Humans make productive contributions, but their capacity is limited. From the dawn of civilization, beginning with rudimentary tool-making, the discovery of agriculture, and the domestication of animals, the great growth in productive capacity of society is not primarily the result of people working harder, longer, or more productively, but is rather mostly achieved by unleashing and guiding the far greater independently productive powers of the non-human contributions to production that are available by discovering and employing the materials, forces, and powers of nature.

The assertion that labor and capital each do work and are equally fundamental factors of production does not negate the fact that (1) both labor and capital are generally needed to do most kinds of work, and (2) labor is needed to invent, build, install, operate, maintain, store, repair, manage, and finance capital. But the work of labor needed to employ capital *is not* the work of the capital employed. And in a market system, people would not be compensated for the labor needed to employ capital if the employed capital did not do much more work than the labor needed to employ it.

2.4 Seven Growth Enhancing Powers of Capital

Capital reveals seven powers which contribute to per-capita economic growth distinct from the contributions of labor. Capital can

1. replace labor (doing what was formerly done by labor) (Such "growth" is reflected by an increase in leisure and potential unemployment depending on the distribution of capital acquisition, but no increase in physical production.);

2. vastly supplement the work of labor by employing capital to do much more of the kind of work that humans can do (e.g., by hauling that can be done employing horses or trucks rather than humans);
3. do work that labor alone can never do (e.g., elevators quickly lift tons thousands of feet; airplanes fly; scientific instruments unleash forces that create computer chips that cannot be made by hand; fruit trees make fruit while all farmers can do is assist in the process);
4. work without labor (e.g., washing machines, automated machines, robots, and wild fruit-bearing trees);
5. pay for itself with its future earnings (the basic rule of business investment);
6. distribute income needed to purchase its output (the logic of double-entry book-keeping); and
7. broaden the distribution of its ownership with its future earnings.

The first four powers are the "real economy" powers of capital; the latter three are financial powers revealed in a private property, market economy with a stable credit system protected by a reliable legal system. Only the first directly involves the *substitution* of capital for labor. Although marginal efficiency theory is widely employed as the foundation for theories of neoclassical growth, in fact, the capital/labor substitution process is only one component of wealth enhancement (operating *after* the creation of greatly increased productive capacity) and its wealth-enhancing contribution to efficient pricing and resource allocation is limited for reasons discussed below.

2.5 The Distributive Power of Capital

The sixth and seventh growth-enhancing capital powers reveal that capital works on both sides of the economic equation with vastly increased:

1. productive capacity and production, and
2. capacity to distribute income and leisure.

Although useful, the productivity concept can be somewhat confusing and misleading. Productivity ratios may inform decisions of whether and how much to invest in additional units of labor and capital; and the resultant allocation of resources may well enhance efficiency production,

profitability, and wealth. But ratios do not do work. People and things do work. Per unit of output, an increase in the labor productivity ratio occurs whether it is labor or capital component that is doing more or less of the per-unit production and therefore fails to fully comprehend the full distributional consequences of technological advance.

In light of these powers and of how production and productive capacity has changed since 1776, in countless aspects of work, the principles of inclusive capitalism hold that *increased production (growth) is primarily the result of increasing capital productiveness and the distribution of its acquisition rather than increasing labor and capital productivity*. According to inclusive capitalism, increasing productivity is much more an effect than a cause.

Although it is good to be able to earn by laboring, it is better to be able to *also* earn by owning, and an increasingly inclusive capitalism will more robustly empower everyone to earn increasingly by owning as well as by working. In a private property, market economy, it is the capacity of capital both to do much more work and to distribute much more income and leisure to people (even as they sleep) that explains how the broader distribution of its acquisition not only enriches and helps to liberate every individual who is able to acquire it, but also how it has an immense positive, systemic impact on capital accumulation and per-capita growth.

2.6 Economic Theories of Value and Price

Also central to understanding whether and how broader capital acquisition increases per-capita growth (and capital cost recovery) is the theory of value and competitive pricing. According to Smith, labor is not only the most fundamental source of production, but also the only fundamental source of value and determinant of price. Smith reasoned that the work to acquire anything is an expression of the value to the worker of the thing to be acquired. Conversely, things are worth some function of the work people are willing do to acquire them. Smith conceived of all value and prices of all production as ultimately a function of (1) the value of labor to produce it and (2) the value of labor commanded in exchange for it. "The real value of all the different component parts of price, it must be observed, is measured by the quantity of labour which they can, each of them purchase or command. Labour measures the value not only of that part of the price which resolves itself into labour, but of that which resolves itself into rent, and of that which resolves itself into

profit" (Smith 1937, p. 50). Thus, all prices and values are functions of the individual decision of whether to work or remain idle at an offered wage. According to logic Smith, the distribution of capital acquisition has no effect on prices. The same can be said for the marginal productivity approach of neoclassical economics and the Keynesian approach to fuller employment in which "apart from money and time…the unit of labor …[is] the sole physical unit" (Keynes 1936). In such analysis, the distribution of capital acquisition is as irrelevant to prices and values as it is to the supply of capital, fuller employment, and growth.

However, the recognition that capital does work and earns income for its owner belies the false notion that the decision to work or remain idle as the only source of value and measure of price.[4] The value of goods and services is not only a function of what work people are willing to do to pay for them, but also a function of what work they (as owners) are willing to employ their capital do. The person who has no capital and wants sacks hauled must either do the work herself or do the work necessary to pay someone (or something) else to do the hauling. In rationalizing a market system of free exchange, this logic (in essence, the labor theory of value) obscures and implicitly denies the fact that the person who owns capital (e.g., a horse or truck) and wants sacks hauled can do work and express value not only via labor but also as an owner by employing her capital to do the hauling.[5]

[4] Of the classical economists, apparently only Jean Baptiste Say identified in writing Smith's erroneous foundational assumption:

> 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 from 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 into 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 labor, 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. (Say 1830)

[5] Many economists claim that modern economics has extricated itself from the labor theory of value in favor of analysis based on the relation of prices to "revealed preferences." However. in present capitalist economies in which approximately 95% of the

According to inclusive capitalism, the willingness of a laborer to work at given wage depends on that person's competitive opportunity to acquire capital with its earnings and then receive its full return. Therefore:

1. the theory of marginal productivity that underlies conventional understanding of the relative employment of capital and labor in production and
2. the factor income shares derived from production

are significantly dependent on the market distribution income that flows from competitive access to capital acquisition. But that understanding is nowhere reflected in mainstream economics and econometrics.

Competitive market pricing requires no entry barriers. Without widespread understanding (among market participants) of the principle of binary economic growth, competitive access to the same government-supported financial infrastructure available to well-capitalized people to acquire capital with the earnings of capital (and thereby through ownership to produce goods and express value) is not open to most people as a practical matter.

From a conventional economic perspective, the distribution of competitive access to capital acquisition has no important impact on prices, capital/labor substitution, employment, and factor income shares. According to inclusive capitalism, if capital acquisition is limited as a practical matter to a small fraction of the population and primarily in proportion to their existing wealth, (1) markets cannot be efficient in their pricing of labor, capital, and the goods and services produced by them, and (2) available labor and capital can not be employed efficiently at its full potential.

people earn little or no current capital income, the prices of the vast array of consumer goods are significantly related to the compensated work people are willing to do to acquire them, somewhat augmented by redistributed income and consumer debt. It is only when one sees the prices of high-end goods (e.g., $50 million for a Rembrandt or a Mansion, or millions for paraphernalia of celebrities) that the earnings of capital have an appreciable effect on market prices.

2.7 *Inclusive Capitalism and Mainstream Theories of Growth, Efficiency, and Fuller Employment: The Importance of the Distribution of Capital Acquisition*

The asserted positive relationship between the distribution of capital acquisition and growth (i.e., the principle of binary economic growth) *is not* based on the behavioral premise that people will work more productively if they (1) own more capital, (2) own the land, tools, and/or businesses they work with, and/or (3) have an ownership stake in their employers' businesses. Such productivity gains are independent of binary economic growth. Although most advocates of inclusive capitalism accept this behavioral premise, this behavioral premise is neither unique to inclusive capitalism nor inconsistent with the growth theories of mainstream economics. Rather, the unique premise of inclusive capitalism is that the promise of broader capital acquisition with the earnings of capital *will, in itself*, produce the fuller employment of both labor and capital and greater growth by broadening the distribution of future discretionary capital income among people with a higher propersing to consume and thereby increasing their consumer demand.

A survey of growth, efficiency, and fuller-employment theories found in the history of economic thought reveals that means to enhance wealth can be understood as the result of (1) increasing labor specialization and trade and free trade (as Smith maintained), (2) decisions regarding the most efficient and productive employment of productive inputs based on their marginal productivity (as maintained by neoclassical efficiency theorists), (3) various theories of entrepreneurial and technological decision-making and "creative destruction" somewhat aided but not entirely dependent on employment of inputs based on their marginal productivity, (4) various so-called Keynesian theories of fuller employment based on the failure of market economies to distribute effective demand needed to employ more fully available productive inputs profitably at least in the short run, and (5) various neoclassical exogenous and endogenous growth theories. However, none of these approaches treats the market distribution of capital acquisition as a fundamental causal factor affecting per-capita growth, greater efficiency, and fuller employment. In contrast, according to inclusive capitalism, per-capita growth, efficiency, and fuller employment can also be understood as the result of capital doing an ever-increasing portion of the total work done and as being capable of distributing (via property rights) more or less demand

for employment of labor and capital depending on the distribution of its ownership.

Although differing significantly, the foregoing widely taught conventional approaches to per-capita growth, greater efficiency, and fuller employment reduce globally to a political/economic debate between the advocates of “austerity vs. stimulus,” and in the USA, to a debate between “too much government is the problem” and “more government is the solution”; and usually, these strategies are seen as competitive alternatives. In contrast, the principle of binary economic growth is an “add on” not an alternative. It does not compete with either approach; instead, it makes both approaches affordable and perhaps more politically achievable.

3 Applying the Principles of Inclusive Capitalism to the American Economy

In the time needed to read this chapter, the wealthiest 1% of people will have acquired more capital wealth with the earnings of capital (even as they sleep) than most people will earn in their lifetimes, no matter how long and hard they work. To do so, this 1% (along with other existing shareholders) are routinely aided in capital acquisition transactions by the institutions of corporate finance: corporations, investors, lenders, capital credit insurers and reinsurers, and the central bank.

Operating together, these institutions facilitate capital acquisition for shareholders primarily in proportion to their existing wealth. The principles of inclusive capitalism suggest that if those principles were as widely taught as the other aforementioned approaches to per-capita growth, efficiency, and fuller employment, then the same institutions could be voluntarily more fully employed more profitably and efficiently (without government mandate or redistribution) to produce more broadly shared, sustainable prosperity as more people are included in the capital acquisition process in ways not limited to their existing wealth.

Consider the three thousand largest, prime-credit-worthy publicly traded corporations in the USA (roughly, the Russell-3000 Index). These corporations rely on legislated default characteristics that include (1) perpetual existence, (2) centralized management (including control of revenues), (3) limited liability of investors and lenders for corporate liabilities, and (4) stable power to make contracts and hold property unaffected by changes in corporate share ownership. Working synergistically, these characteristics make the default corporate legal infrastructure

the preferred means to amass great wealth in all capitalist economies. They equip corporations with super-human powers that could not be privately negotiated. These powers greatly enhance their ability to function competitively in the capitalist economies that emerged with the great increase in productive capacity spawned by the industrial revolution. These legislated characteristics have been instrumental (if not essential) to (1) the accumulation and concentration of vast private wealth in hands of relatively few individuals (primarily less than 10% of the population) and (2) the exacerbation of unequal economic opportunity and poverty in virtually every capitalist nation.

Not so widely recognized is how using these same attributes, corporations could produce and distribute much more corporate wealth more broadly for their shareholders, other corporate stakeholders, and society. With a more broadly shared understanding of inclusive capitalism, rather than serving primarily as wealth-concentrating institutions such corporations may increasingly choose to enhance their profitability and their wealth by becoming capital ownership-broadening institutions.

Presently through these corporations, almost all new capital is acquired with the earnings of capital, and approximately 25% is acquired with borrowed money.[6] Thus, by way of the default, corporate legal infrastructure, operating with the aid of a government-maintained monetary system, a highly regulated credit system, in an economy in which government is the rule-maker, the empire, and a major player, people wealthy enough to be substantial shareholders are accorded an advantage that non-shareholders generally do not have: indirect access to non-recourse corporate credit to acquire an increasing shareholder interest in 25+% of the annual increase in corporate assets *before* the corporations whose shares they own have generated the revenues used to pay for them. And this shareholder benefit is highly concentrated: Recent data on wealth concentration indicates that in approximate terms, presently 1% of the people own 54.9% of the corporate wealth and 10% own over 93.5%, leaving 90% people owning little or none (less 6.8%) (Wolff 2019).

[6] For example, during the fifteen-year period from 1989 through 2003, in the case of major American companies, the sources of funds for capital acquisition, in approximate terms, reveal that annually retained earnings accounted for at least 70% and more usually 80% of the capital acquisition. Borrowing accounted for almost all the rest. Sale of stock as a source of funds never exceeded 5% and was negative in most years. See Brealey et al. (2004).

Proponents of inclusive capitalism believe that the exclusion of most poor and middle-class from substantial access to this advantage (operating 24/7 globally) is a primary, if not the primary, cause of suboptimal growth, wealth concentration, unequal economic opportunity, and poverty. If people who have little or no wealth could acquire a shareholder's interest in corporate capital with the future revenues of the capital acquired (as existing shareholders do presently even as they sleep), they too could become shareholders and thereafter participate in future corporate wealth creation along with other generally wealthier shareholders. If the techniques presently used to enable existing shareholders to acquire capital with the future earnings of capital primarily in proportion to their existing share ownership were opened competitively to all people, then the demand for the employment of labor and capital, corporate profitability, and more broadly shared, sustainable prosperity would increase as discretionary capital income is increasingly distributed to would-be consumers with unsatisfied needs and wants.

To explore how these benefits can be achieved voluntarily and without government mandate or redistribution, consider how a board of directors meeting of a typical Russell-3000 Index Corporation ("A-Co") might proceed both before and after inclusive capitalism is as widely taught as the other economic approaches mentioned above. As corporate fiduciaries, the duty of A-Co's directors is not to maximize share price at every point in time ("short-termism") or to maximize shareholder profits,[7] but rather to maximize corporate wealth throughout A-Co's perpetual (indefinite) existence.

Reflected in stock exchange prices, the main determinant of A-Co's value is not the profits that it distributes to shareholders (relatively few corporations regularly do so) but rather its long run, ability to generate "discretionary revenues" (revenues in excess of obligatory operating costs, interest expenses, other liabilities, and taxes). At the discretion of corporate management, protected from close judicial oversight by the highly deferential "business judgment rule," these revenues may be (1) appropriately used for depreciation, research, development, capital acquisition, and other corporate wealth-enhancing expenditures (including mergers and acquisitions), (2) held in cash, (3) distributed to shareholders, and/or (4)

[7] Generally, shareholders have no rights to profits except when dividends approved by the board of directors or when the corporation is "in dissolution" at which time the corporation no longer has credit to acquire capital with its future earnings.

misused and thereby reflected in illegitimate agency costs. Competitively maintaining and enhancing long-term, "discretionary revenue generating capacity" requires at least maintaining and preferably increasing market share compared to competitors. In the economic history of the USA in which growth is the rule and recession is the exception and in which advancing technology is a primary, if not the primary, cause of per-capita growth, this long-run capacity to produce discretionary revenues requires an ongoing annually administered real capital acquisition plan, which in turn requires long-term corporate creditworthiness, which in turn has usually been achieved by optimizing corporate debt (consistent with a competitive credit rating).

Accordingly, at its board meeting, A-Co's value directors would approve A-Co's capital acquisition spending for the next year and (subject to reconsideration) consider and perhaps approve long-term capital acquisition plans well into the future. A-Co plans to finance approximately 25% of next year's capital acquisition with borrowed money. Management believes it can profitably borrow at or near prime (say 5% and earn at least 8–10%) and the lenders agree.

Before the plan is approved, Bill Gates approaches A-Co and says, "Without changing your present plans in any way, I believe there is a synergy gain achievable via cooperation between A-Co. and Micro-Soft. However, the gain is sufficiently attractive to me only if I can gain as a stockholder in both companies. Instead of A-Co's borrowing money, if A-Co sells me stock at its present fair market value I will invest in A-Co the same amount as A-Co presently otherwise plans to borrow."

Corporate law does not allow A-Co's directors to reject this offer without a good faith consideration of its expected value. They have a corporate fiduciary duty of "due diligence" to determine whether Bill's offer is more wealth-enhancing to A-Co and its existing shareholders than the debt-financing alternative; and (considering all the risks) if Bill's offer seemed to be more wealth enhancing, A-Co's directors would need to have a sound reason for rejecting it. The same would be true in the case of competing offers from Warren Buffet, Jeff Bezos, or Mark Zuckerberg. And before the decision was made, if Bill, Warren, Jeff, and Mark were to say, "Instead of using cash or borrowing money secured by my assets, I plan to pay for X-Co's stock with borrowed money secured by third-party capital credit (i.e., loan default) insurance." Would A-Co care? The answer from A-Co's financial and legal advisors is: "No, as long as the loan to the investor does not materially, adversely affect the prospective

synergy gain." Thus, like the boards of all Russell-3000 companies, after a due diligence evaluation, A-Co's board would probably be obligated to choose the offer that maximized A-Co's wealth.

As long as inclusive capitalism is not taught along with the other economic approaches mentioned above, that would end our story. Corporations would be largely limited in ways to acquire additional capital by using discretionary revenue, retained earnings, borrowed money or sale of stock to investors wealthy enough to pay for it with cash, assets, or secured credit; and capital acquisition would accrue to the vast majority of people primarily in proportion to their existing wealth. However, after inclusive capitalism becomes as widely taught as the other approaches, people will have an additional understanding of how a more inclusive approach to capital acquisition might work and how a more broadly distributed prosperity might be more profitably achieved. And of course, the "people" would include not only the teachers and their current students, but also former students who have become the directors, officers, legal and financial advisors, trustees, etc., of the Russell-3000 corporations (including lenders, insurers, and mutual fund companies, and mainstream media companies), charitable foundations, think-tanks, policy institutes, labor unions, and public servants in all branches and levels of government having responsibilities related to economic prosperity, equal opportunity, and justice, pension funds, and private investors.

To explain how the principles of inclusive capitalism would (for the first in the history of capitalism) provide vast numbers of people entry into the board room (represented by financially sophisticated fiduciaries just as richer people are) to make competitive offers for shares of creditworthy corporations like A-Co (offers that must be evaluated with due diligence regarding their corporate wealth-enhancing potential), Section A explores the terms and wealth-enhancing potential of the ownership-broadening offer in the aggregate (i.e., economy-wide) as though (1) all Russell-3000 companies are presented with an ownership-broadening offer (described below), (2) every year, each individual corporation is free to employ the ownership-broadening approach to finance whatever (including no) portion of that corporation's capital wealth-maximizing acquisition requirements, and (3) some of those corporation are able to capture a sufficient portion of the potential increased gain in consumer demand for their products that results from their capital ownership broadening to make their ownership-broadening financing the most competitive alternative. Section B explores how on the

microeconomic level capital ownership-broadening corporations might capture a sufficient share the increased consumer demand caused by their ownership-broadening to render the offer competitive with other financing alternatives.

4 Aggregate Analysis

After inclusive capitalism is widely taught, so all the major decision-makers in the institutions mentioned above along with a substantial portion of the general public understand that broadening capital acquisition with the earnings of capital is an additional means of enhancing future consumer demand, per-capita growth, efficiency, and fuller employment, a mutual fund company like Vanguard, Fidelity, or TIAA-Cref (always eager and competing for more customers) might approach A-Co with a synergy gain perhaps greater than all of those mentioned above. For example, a representative of TIAA-Cref might make the following presentation to A-Co's board of directors:

> The potential synergy gain TIAA-Cref brings to A-Co is the pent-up appetite for A-Co's products and services that your (1) employees, (2) customers, (3) neighbors (those living in cities near A-Co facilities and in company towns in which A-Co is the, or one of the, major employers, and (4) welfare recipients living in areas where A-Co sells its products (welfare recipients that are presently being supported by taxes on the income of A-Co, its shareholders, and its employees). (The people included in these four categories will be referred to as the ownership-broadening beneficiaries, or simply the beneficiaries.) Just as A-Co, Bill, Warren and the others can borrow funds with secured capital credit to invest directly or indirectly in A-Co's creditworthy investments, acting as an investment trustee for A-Co's ownership-broadening beneficiaries, TIAA can arrange the same sort of financing. A-Co's prospective lender has already determined that A-Co's planned use of the loan funds is creditworthy; in light of the synergy gains offered by Bill and the others, the capital credit insurers apparently also agree; and if TIAA's synergy offer is yet more competitive, it will make A-Co's capital acquisitions yet more creditworthy.
>
> Presently in terms of their current consumer income, the vast majority of these potential A-Co beneficiaries are trying to survive economically on wages and welfare alone in a capitalist economy in which production is becoming increasingly more capital-intensive. Without a widely they are

aware with offers of consumer credit but benefit of competitive offers of capital credit shared understanding of inclusive capitalism, they have not had competitive access to credit for capital acquisition with the future revenues and earnings of capital the way that richer people routinely do (even as they sleep). TIAA can structure the capital acquisition financing in a way that would steadily increase the earnings of A-Co beneficiaries and also enhance the rate of return on A-Co's assets, discretionary revenues, and income and reduce its taxes.

Based on the assumptions specified below, Fig. 1 illustrates the potential wealth-enhancing, growth-sustaining features of an ownership-broadening economy and shows the increasing number of years of annual ownership-broadening acquisitions that will have paid for themselves over time so that additional income on those shares can be donated to the beneficiaries. Figure 1 assumes:

1. A seven-year cost recovery period for capital investment. (The same principles apply for a longer period.)
2. In every year, some number (N) of an economy's creditworthy companies have profitably utilized ownership-broadening financing to acquire some percentage (X) of their capital investments.

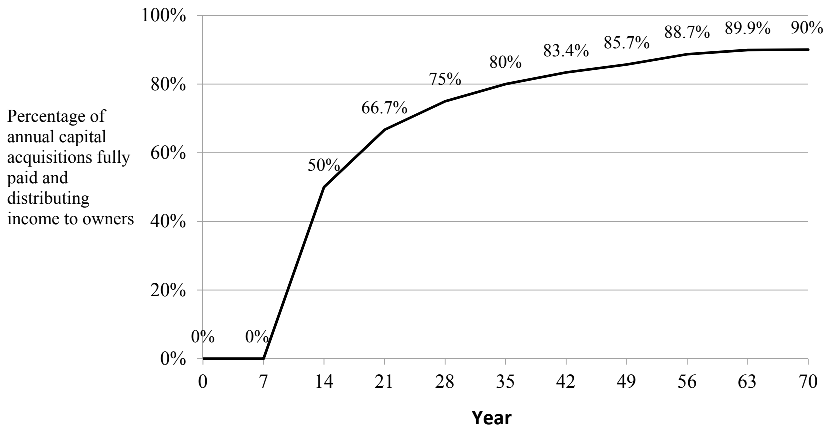

Fig. 1 Potential wealth-enhancing, growth-sustaining features of an ownership-broadening economy

3. The capital credit insurance is profitably priced to repay the lending banks for those financings that fail to repay their acquisition loans so that X is net of capital investment failures.
4. N, X, and the rate of return (R) on capital remain constant throughout the period (with growth, N, X and R would increase).
5. The shares issued are "full return" shares": the corporation is required to pay to the trustee (in this instance TIAA) the full return on those shares (net of depreciation and reserves for research and development).
6. Because the corporation has no use of that return, there is no federal or state corporate income tax on that full return.
7. The trustee is required to pay the dividends first to satisfy the acquisition debt obligations to the lender and then to distribute the (taxable) income to the beneficiaries.

The broadening distribution of capital acquisition and income will increase over the years and thereby provide the basis for binary economic growth. Each year after the initial cost recovery period, an additional year of binary capital will have paid for itself and will be distributing capital income to poor and middle-class people. Consistent with the assumption of a seven-year capital cost recovery period, Fig. 1 shows the steady growth in annual capital acquisitions. In the eighth year, the first annual acquisition of capital will have paid for itself and will begin paying its full return to the new owners. In the ninth year, the second annual capital acquisition will be fully paid for and will therefore begin paying its full return to the new owners. In fourteen years, 50%, and in the twenty-eighth year 75%, of the annual capital acquisitions will have paid for themselves and will be paying their full annual return to the new owners, and so on. In the long run, the linkage between supply (in the form of the incremental productiveness of capital) and demand (resulting from the widespread market distribution of capital income to consumers) approaches 100%. The more the binary financing that is undertaken, the greater the distributional growth effects. If the rate of return on capital investment increases (as the principles of inclusive capitalism predict would occur in an ownership-broadening economy), then the curve shown in Fig. 1 would rise more steeply and approach the specified percentages sooner.

5 Maintaining Market Share in a Growing Economy

To maintain market share in the projected growing economy, based on their capital investment planning horizon, producers will have to increase production and productive capacity *before* binary income begins to be distributed to its new owners. Because present demand for capital goods is positively affected by anticipated future demand for consumer goods, the broader distribution of capital acquisition and capital income should be reflected in increased employment of labor and capital within producers' capital investment planning horizon. With a capital cost recovery period of seven years, and a capital investment planning horizon of four years, market incentives for increased capital investment and labor employment by producers of consumer goods might materialize for some producers in the fourth year. Furthermore, the producers of capital goods needed by the producers of consumer goods to increase their productive capacity may experience market incentives for increased capital spending and labor employment as early as the first year.

6 Additional Benefits of Inclusive Captitalism Finanacing

Beyond increasing capital income for poor and middle-class people, some additional beneficial effects of a broader distribution of capital acquisition that will enhance the prospects of sustainable economic growth, and that may be immediately reflected in the prospects of a binary economy, are:

1. **Reduction in Welfare Dependence and Welfare Expense**: As capital income is more broadly distributed to welfare-dependent people, government transfer payments can be reduced.
2. **Increase in Tax Revenues**: As capital income is more broadly distributed to individual taxpayers, they will pay more in taxes thereby increasing government revenues.
3. **Reduction in Tax Rates**: With the reduction in welfare dependence and the widely experienced increase in taxable income, there is the basis for a reduction in tax rates while maintaining and even increasing government revenues.

4. **Tax benefits for Ownership-Broadening Corporations**: Participating corporations whose shares (1) provide binary beneficiaries with additional taxable income, or (2) allow for reduction in welfare payments, may be given a tax credit or deduction representing some portion of the increased government revenues and/or reduced government spending occasioned by the earnings distributed to binary beneficiaries as dividends on the binary stock of the participating corporations (e.g., every dollar dividend paid to a welfare beneficiary might reduce welfare payments by fifty cents and earn the corporation that distributed the dividend a twenty-five-cent tax credit).
5. **Enhanced Corporate Profitability**: With enhanced corporate profitability, wealth, and share-value, and with lower need for government spending, the financial soundness of private- and government-sponsored retirement plans (and therefore retirement security) will be enhanced.
6. **Enhanced Sovereign Credit Ratings**: Financial data used to assess sovereign creditworthiness will improve, including (1) government revenues, expenditures and debt and (2) GDP. In light of the sustained effect of ownership-broadening financing set forth above, the creditworthiness of the sovereign debt of countries that employ the binary approach will increase.
7. **More and cheaper financing for start-ups**: As poor and middle-class people are provided a more competitive means of acquiring the least risky, most insurable, capital acquisition, well-capitalized people will have incentive to move further out on the investment risk curve, thereby providing more financial capital for entrepreneurial activities, the development of new technologies, start-up and smaller companies.
8. **Less risky and expensive, more insurable, and profitable investment**: The growing capital-based consumer demand generated by binary financing will make more capital investment creditworthy and profitable and less risky, and therefore more insurable, less expensive, and more profitable.
9. **Reduced amplitude of boom and bust cycles**: With a broadening distribution of capital ownership and income—so that the supply generated by technological change and increased investment will be increasing and balanced by a corresponding increase in

demand—the amplitude of the booms and busts of business cycles will be reduced.

10. **Reduced systemic risk**

7 From Macro- to the Microeconomic, Individual Corporate Level: Solving the Free-Rider-First Actor-Coordination-Collection Problem

However, even with the prospect of these widely shared benefits, a problem that might be understood as a combined first-actor, free-rider, coordination, and/or collective-action problem (hereinafter, "free-riding" or "the free-rider problem") would remain that inhibits ownership-broadening binary financing because there is no guarantee (and good reason to doubt) that the projected aggregate benefits from ownership-broadening capital acquisition would be sufficiently captured by a capital ownership-broadening corporation to make ownership broadening the most wealth-enhancing compared to other financing techniques. For example, suppose A-Co. manufactured automobiles and would find the ownership-broadening technique the most corporate wealth-enhancing approach but only if it could capture sufficient gains from the consequences of doing so. If A-Co were "encapitalize" its employees, customers (who previously bought its autos), neighbors, and select welfare recipients, those beneficiaries would likely spend their discretionary capital income at least initially on immediate needs and wants of food, clothing, shelter, utilities, communication, health care, entertainment, and to the extent they bought autos—they might prefer autos made by A-Co competitors. Thus, companies that chose not to broaden or only minimally broaden their share ownership would "free ride" on benefits of more broadly distributed consumer demand created by other corporations engaged much more substantially in ownership-broadening.

Consider this problem from the perspective of four types of corporations: (1) producers that have an ongoing relationship to their customers either by contract or by convenience such as telephone, power, water, internet, airlines, insurance, and financial companies including banks; (2) producers of staples, household supplies, clothing, and other goods and services of the types typically bought by the corporation's employees, neighbors, and the general public (including welfare recipients) such

as national grocery stores, retail stores, restaurants, service stations; (3) specialty producers of more expensive products (e.g., A-Co's autos); and (4) producers of capital goods for industries, governments, and very wealthy people—goods that employees, neighbors, and welfare recipients are not likely to purchase (e.g., airplane manufacturers). There is reason to believe that with cooperative planning among all four types of major corporations, and some government assistance, free-riding can be effectively addressed.

The free-riding for all of the foregoing producer types would be mitigated by any tax credits (not subject to free-riding) given to ownership-broadening corporations whose dividends on binary shares yield increased government tax revenues and reduced welfare payments. There would also be a mitigating direct benefit (not subject to free-riding) resulting (1) from motivation, productiveness, loyalty, and gratitude that would likely be engendered among employees from being able to acquire dividend-paying shares of stock with non-recourse credit on the strength of their employer-company's earning capacity and (2) from the good will that might be engendered from the public toward corporations willing to broaden their share ownership by way of the ownership-broadening trusts. The free-riding would also be somewhat mitigated by the encapitalization of customers in proportion to their patronage of the goods and services produced by the participating corporation with dividends paid to the customers in the form of credits against future purchases. Such ownership-broadening might be reasonably expected to attract customers from competing producers that do not offer such inclusive benefits.[8] The free-riding would also be mitigated in company towns and city neighborhoods in which the greater wealth of "neighbor" beneficiaries results in benefits to the ownership-broadening, participating corporations such as (1) lower property and/or other local tax rates, (2) improved neighborhoods, schools, and hiring conditions, and (3) lower crime and insurance rates.

Another way of mitigating free-riding might be by way of cooperative coordination among "complementary producers." For example, because "frequent flier" miles earned on one airline become more valuable when

[8] Somewhat like many frequent-flier programs, the ownership-broadening trusts could include customers who have a continuing relationship with corporations like energy utilities, telephone, internet, and insurance companies, major retailers, and banks. Like credits for mileage flown, dividends can be paid in the form of credits against future purchases.

they may be used to travel to destinations not served by that airline, cooperating airlines have negotiated formulae for sharing the benefits and costs of patronage. Similar incentives for cooperation exist economy-wide among the complementary producers of food, clothing, shelter, health care, transportation, communication, entertainment, and other goods and services that poor and middle-class people would purchase more of if they had the capital earning capacity to do so. The expected benefits of an economy characterized by growing production-based consumer demand, tax credits, reduced welfare dependence and tax rates become greater as the ownership-broadening approach becomes more widely understood and implemented in a coordinated fashion. If the principle of binary economic growth is widely taught and given credence, then it would seem that many major corporations would benefit from its widespread implementation; and it would be in their rational interest to promote coordinated implementation. No major economy is without trade and business associations that regularly meet, plan, lobby, and act in concert to improve the business climate for their profit-seeking activities. Through existing channels of communication, A-Co may negotiate similar arrangements with the complementary producers mentioned above.

The most difficult cooperative challenge exists with respect to the type four producers like airplane manufacturers. Except for the gains from tax benefits and encapitalizing employees, such producers will not likely be aided by the techniques discussed above. However, an additional anti-free-riding technique may be employed to aid the type four producers and also the other three: Without any change in state or federal law, corporations have wide latitude in specifying the terms of the shares they issue. Thus, in addition to the full return features discussed above, ownership-broadening corporations could issue shares subject to the following terms: (1) The full return dividends will be paid in cash to satisfy the acouisition debt obligations the lender; (2) thereafter such dividends will be paid to the ownership-broadening trust in the form of transferable credits usable to purchase products of the issuing corporation or its designate(s); (3) at the election of the beneficiaries, (a) transferable certificates for the credits will be issued to the beneficiaries who could sell them in private- or government-sponsored exchanges and/or (b) acting as a fiduciary for the beneficiaries, the trust would use best efforts to sell those credits for cash to would-be customers of the issuing corporations or its designates. The producer-issuers, their designates, and their beneficiaries could together receive the benefit of ownership-broadening reduced by some negotiated

discount. In this way, the beneficiaries may receive less in value than the cash value of the increased demand they bring to the ownership broadening producer, but they will have acquired an ongoing share of the full return of corporate capital with no personal cash investment and no risk of personal liability for investment failure.

8 Binary Economic Growth and Environmental Sustainability

An in-depth consideration of the synergistic relationship between inclusive capitalism and environmental sustainability is beyond the scope of this chapter. A few observations follow:

1. Binary economic growth brings with it the potential for environmental degradation.
2. But it will also make greener technologies and environmental preservation more affordable, environmental regulation more politically feasible, and voluntary population control more likely.
3. The long-term solution to environmental sustainability generally requires technological advance to produce affordable greener technologies.
4. Systemically, such technological advance which generally reduces labor content per unit of production and requires therefore greater need for (1) more pay for less work, (2) redistributed income, and/or (3) broadening capital acquisition with the earnings of capital.
5. Environmental sustainability requires sustainable earning capacity (Hall et al. 2019).

9 Greater Growth Without Redistribution

Binary economic growth does not require redistribution. Having been taught that there is an additional plausible principle relevant to the analysis of per-capita growth, neoclassical efficiency, and fuller employment, market participants are free to include or disregard it in determining their economic behavior. All transactions faithful to the principles of inclusive capitalism are voluntary. The principles of inclusive capitalism merely

reveal plausible ways to render more equal and competitive the opportunities and benefits of capital acquisition that are (1) created, well-supported, and facilitated by government-maintained and protected financial legal and physical infrastructure and (2) routinely employed to facilitate to benefit a small percentage of people primarily in proportion to their existing wealth production people primarily in proportion to their existing wealth but (3) presently not open as a practical matter to most people. This deeper understanding of capitalism will enable market participants to price for themselves the value of broadening capital acquisition. When usually considering the various offers set forth above, A-Co's fiduciaries would be obligated to select the most wealth-maximizing (i.e., competitive) alternative. On that basis, if A-Co were to select Warren's offer, the other offerors could not complain of a redistribution of any of their property rights. A-Co would properly inform disappointed offerors that they simply did not make the most competitive offer. The same would be true if A-Co chose TIAA-Cref's ownership-broadening offer as the most competitive offer.

According to the law of private property, existing ownership does not include the absolute right to acquire additional ownership, but only *the right to compete* for additional acquisition via voluntary exchanges. This applies to all would-be purchasers, including corporate shareholders who might prefer that the corporation whose shares they own would acquire the capital assets with retained earnings or borrowed money even if it would be less profitable to the corporation than acquiring the same assets with the sale of shares at fair market value to investors who presently own no shares.

Regarding certain "extraordinary transactions," governing corporate law usually requires shareholder approval. If an ownership-broadening transaction approved by A-Co's directors is deemed extraordinary, shareholder approval sometimes requires a majority or super majority of the shares voted. If shareholder approval is required to complete a corporate transaction, shareholders can vote their selfish preferences (including for alternatives that do not maximize corporate wealth), but all shareholders would be required to abide by the required majority shareholder vote if required and by the decision of the directors if not required. (Many existing shareholders are institutional investors like the Ford Foundation, dedicated to eliminating inequality in all of its forms.) Charitable foundations an employee retirement system may come to favor ownership-broadening financing.

Thus, neither A-Co's existing shareholders nor other would-be purchasers may properly complain of redistribution if A-Co's board properly determined that the ownership-broadening sale to the constituency trust was the most competitive alternative. Real redistributions do occur when corporate shares are sold in contravention of specific property or contractual rights, or for less than fair value, but otherwise a sale of corporate shares to non-shareholders to serve a wealth-enhancing corporate purpose violates no rights of existing shareholders.

Accordingly, when duly approved by the governing corporate process, the promised benefits of ownership-broadening capital acquisitions for poor and middle-class people and the resultant binary economic growth are not achieved by taking anything away from others or by violating any existing property or contractual rights. All shares acquired by the constituency trusts for the binary beneficiaries are fully paid for at fair market value by the earnings of the capital acquired. Dividend income earned by the binary shares (used either to repay the share acquisition loan obligations and/or to provide capital income to the binary beneficiaries) will not be paid unless all antecedent costs. The earnings received by the binary beneficiaries are earnings of *their* shares; they are not the redistributed earnings of others.

10 Government Ownership-Broadening Policies

The basic logic underlying the binary benefits that plausibly flow from ownership-broadening binary financing springs from the confluence of (1) the principles of inclusive capitalism, (2) widely accepted principles of corporate finance, (3) the corporate wealth-maximizing duties of corporate fiduciaries, and (4) the economic self-interest of investors. Depending on the magnitude of binary growth, these principles alone might sufficiently incentivize substantial, profitable, ownership-broadening capital acquisition with the earnings of capital. Nevertheless, to facilitate such capital acquisition, several government facilitative policies actions would be helpful and desirable.

First, facilitative government action would be to eliminate the corporate tax on corporate income paid to the ownership-broadening trusts to enable the trustees first to repay the share acquisition loans and then to pay dividends to binary beneficiaries. This tax relief can be wholly justified on grounds of both economics and justice. Because the corporations have no use of the income that it is require to distribute to the trustees,

there is no reason to tax it on the corporate level. Moreover, taxing that corporate income would retard the repayment of the acquisition debt and reduce the growing capital income paid to the beneficiaries, and thereby reduce the benefits of ownership-broadening outlined above.

It is also noteworthy that there are many "second-round benefits" that existing capital owners receive that are denied to people who own no capital: e.g., access to the pre-tax (untaxed) earnings of capital by way of investment tax credits, deductions for research and development, depreciation (often accelerated), offshore (usually capital) income, executive compensation, and other strategies for "zeroing out" corporate income. These "second-round benefits" ways greatly assist existing shareholders to acquire, maintain, and preserve additional capital with pre-tax corporate revenues. They benefit people by way of capital ownership once they have acquired capital but are denied to people who presently have litle or no competitive access to the "first- round " of capital acquisition with the earnings of capital that would enable them to become owners. These substantial second-round accure to shareholders a largely in proportion to existing wealth. These many ways provide little or no direct benefit to people with little or no capital ownership. Taxing the corporate income on shares acquired by ownership-broadening financing would not only reduce competitive access of poor and middle-class people to the "first round" of pre-tax capital acquisition with the earnings of capital, but would also perpetuate the denial of the second-round benefits and thereby would have the effect of increasing the severe disparity that results from denying poor and middle-class people the competitive economic opportunity to acquire capital with the earnings of capital that richer people routinely enjoy.

Second, to help diversify the investment risk of ownership-broadening beneficiaries, the trustees could be allowed to diversify the investment risk of their beneficiaries by transferring some of the shares to a "mutualized" account in which beneficiaries from multiple ownership-broadening employers would own a diversified portfolio of such transferred shares.

Third, to facilitate the availability and reduce the cost of private capital credit insurance, the government might establish a national ownership-broadening capital credit reinsurance entity modeled after the FHA home loan reinsurance program. This reinsurance entity might or might not be backed by the full faith and credit of the government.

Fourth, to bring down the cost of credit for ownership-broadening financing, a nation's central bank might monetize ownership-broadening loans until they are retired.[9]

To benefit from the advantages of government reinsurance and monetization, qualified binary financing might be restricted to the economic basics (the essential needs) such as food, clothing, shelter, healthcare, education, and energy) and restrictions might also be based on ecological concerns.

Moreover, as with any government-facilitated program that extends opportunity to people, eligibility and antidiscrimination rules for determining beneficiary participation would be needed. Likewise, rules governing the qualification and duties of ownership-broadening trustees, lenders, and capital credit insurers would be seemingly desirable.

11 Conclusion: A New Role for Behavioral Economics

This chapter has presented a principle of per-capita growth, neoclassical efficiency, and fuller employment not found on these subjects in the widely shared scholarship on the history of economic thought:

> A broader distribution of capital acquisition with the future earnings of capital creates the rational expectation of a broader distribution of discretionary capital income in future years (to people with a higher propensity to consume) and therefore greater incentive to employ more labor and capital in earlier years.

[9] An in-depth discussion of monetization of ownership-broadening capital acquisition is beyond the scope of this chapter. With a default real growth rate of 2% for the US economy, to avoid deflation and too much inflation the Federal Reserve targets the money supply to produce a mild 2% inflation rate by purchasing (monetizing) US government bonds through its Open Market Committee, thereby adding to the money supply. It could reduce that monetization (of past government spending) and instead monetize capital ownership-broadening bank loans. This practice would liberate such financing from the past financial saving representing the value of antecedent work of labor and capital, and would likely reduce the financial cost of such finance to an effective interest rate in the range of somewhat below and slightly above prime. For a description of the financial and economic aspect of central bank monetization of ownership broadening-financing, see "Beyond Austerity," supra note 6, at 2002–2003, and "Unutilized Productive Capacity, Binary Economics, and the Case for Broadening Capital Ownership," supra note 6.

If widely taught along with the "received economic wisdom" regarding these subjects, and if given credence, this principle will change the economic behavior of market participants and the likely distribution of financial incentives, economic opportunities, and capital wealth. Just as experiments show that teaching the principles standard economics persuades economics majors to regard more selfishly (than non-economics majors) the propriety and efficacy of narrow monetized self-interest, so too will the teaching of inclusive capitalism promote a more rigorous and holistic perspective that comprehends the growth-enhancing economic efficacy, justice, and morality of inclusion that flow from this principle. It will provide the understanding to enable all people democratically (individually) to participate in the evaluation of the economic consequences of broadening capital acquisition with the earnings of capital.

A growing number of economists, academic in other disciplines, and members of the public have come to appreciate its foundational significance in that it:

> reveals how business corporations may voluntarily choose to broaden their share ownership to include poor and middle-class people, enhance the earning capacity of those people, improve corporate profitability as well as shareholder wealth, and lay the structural economic foundation for sustainable growth. (Arestis et al. 2021)

Thus, it provides competitive entry into the board rooms of the largest, creditworthy companies by sophisticated, well-capitalized financial fiduciaries (that presently represent people and entities primarily only in proportion to their existing wealth) empowered to also act for poor and middle-class people (not only as a matter of justice, morality, charity, and corporate social responsibility, but as a matter of competitive right). Precisely how this entry affects human and institutional behavior and its effect on values and prices presents a rich array of research opportunities for behavioral economists, social psychologist, political scientists, and others.

It is in fundamental harmony with systemically important principles favored and advanced by John Tomer regarding (1) behavioral economics, (2) socio-economics, and (3) the principles of the scientific method (which always require the questioning of fundamental assumptions and an openess to alternative theoritical approaches.

On September 29, 2017, John write, "Put me down as favoring inclusive capitalism." John would be pleased to have others join him.

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