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The Case for a More Inclusive Capitalism by Democratizing the Institutions of Corporate Finance with the Future Earnings of Capital

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The Case for a More Inclusive Capitalism by Democratizing the Institutions of Corporate Finance with the *Future* Earnings of Capital

*By Robert Ashford**

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I. INTRODUCTION

In the time needed to read this article, the world's wealthiest 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, hard,

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and smart they work.[1] To do so, the wealthiest 1% (along with other existing corporate shareholders) are routinely aided in capital acquisition transactions by the legislated corporate default advantages and the institutions of corporate finance. This article explains how, without redistribution, publicly traded 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 and share value, and lay the structural economic foundation for sustainable growth.

Virtually all publicly traded corporations rely on the legislated corporate default advantages that include: (1) perpetual existence, (2) centralized management and control of revenues, (3) limited liability of investors and lenders for corporate liabilities, and (4) stable legal entity status unaffected by changes in share ownership. These characteristics work synergistically to make the default corporate legal infrastructure the preferred means to amass great wealth in virtually all capitalist economies. They equip corporations with super-human powers that greatly enhance their ability to function competitively in the national and world economies that evolved contemporaneously with the great rise in productive capacity spawned by the industrial revolution. They have been highly instrumental (if not essential) in the accumulation and concentration of vast private wealth in the hands of relatively few individuals (generally less than 10% of the population) and the exacerbation of unequal economic opportunity in virtually every nation.[2] Although there are a growing number of newly emerging multi-millionaires and multi-billionaires (including some instances of rags-to-riches), they are statistically an insignificant representation of the experience of the entire population.

A major effect of the present operation of the legislated default corporate infrastructure is to increase the future distribution of the ownership of corporate wealth roughly in proportion to the pre-existing ownership distribution of corporate wealth. What is not so widely recognized is *how* corporations could also use these attributes to increase and distribute much more corporate wealth more broadly for the benefit of their shareholders, other stakeholders, and society. Based on a more broadly shared understanding of the principles of inclusive capitalism,[3] rather than serving primarily as wealth-concentrating

1. *See* Hillary Hoffower & Sahayanne Gal, *How Much Money Billionaires and Celebrities Make Per Hour*, BUS. INSIDER (Oct. 15, 2018), https://www.businessinsider.com/how-much-money-billionaires-celebrities-make-per-hour-2018-8 (on file with the *University of the Pacific Law Review*) (estimating that some billionaires make in excess of over a million dollars per hour).

2. *See also* JOSEPH R. CONLIN, THE MORROW BOOK OF QUOTATIONS IN AMERICAN HISTORY 48 (1st ed. 1984) (quoting Louis D. Brandeis) ("We can have democracy in this country or we can have great wealth concentrated in the hands of a few, but we cannot have both.").

3. *See generally* Robert Ashford, *Why Working but Poor? The Need for Inclusive Capitalism*, 45 U. AKRON L. REV. 507 (2016). My approach to a more inclusive capitalism is based on principles of corporate finance and an understanding of economics, law, technology, and capitalism first advanced by Louis Kelso in LOUIS O. KELSO & MORTIMER J. ADLER, THE CAPITALIST MANIFESTO (1958); LOUIS O. KELSO & MORTIMER J. ADLER, THE NEW CAPITALISTS: A PROPOSAL TO FREE ECONOMIC GROWTH FROM THE SLAVERY OF SAVINGS

institutions, such corporations may increasingly choose to become capital ownership-broadening institutions.

The main determinant of the value of most publicly traded corporations is not the profits they distribute to shareholders (relatively few regularly do so) but rather their long run ability to generate "discretionary revenues" (revenues in excess of obligatory operating costs, interest expenses, short term liabilities, announced dividend policies, and taxes). At the discretion of corporate management, protected by the business judgment rule, these revenues may be: (1) appropriately used for research, development, capital maintenance and acquisition, and other corporate wealth-enhancing expenditures, (2) held in cash, (3) distributed to shareholders, and/or (4) 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 *vis a vis* competitors. In an economic history (like that 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 discretionary revenue-generating capacity requires ongoing annually administered real capital acquisition planning, which in turn requires long-term corporate credit-worthiness, which in turn has usually been achieved by optimizing corporate debt (consistent with the maintenance of a competitive credit rating).

Presently through these corporations, almost all new capital is acquired with the earnings of capital, and approximately 25% of it is acquired with borrowed money.[4] 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 both 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 advantage is highly concentrated: recent data 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% of the people (poor and middle-class people) owning less 6.4% of corporate wealth (i.e., little or none).[5]

(1961); LOUIS O. KELSO & PATRICIA HETTER, TWO FACTOR THEORY: THE ECONOMICS OF REALITY (1967); LOUIS O. ELSO & PATRICIA HETTER KELSO, DEMOCRACY AND ECONOMIC POWER: EXTENDING THE ESOP REVOLUTION THROUGH BINARY ECONOMICS (1991). The authoritative and most complete source of writings by Louis Kelso can be found on the website of the Kelso Institute. *See* THE KELSO INSTITUTE, http://kelsoinstitute.org/louiskelso/ (last visited October 3, 2021).

4. *See generally* Adam Hayes, *Shareholder Equity Ratio*, INVESTOPEDIA (updated Apr. 13, 2021), https://www.investopedia.com/terms/s/shareholderequityratio.asp (on file with the *University of the Pacific Law Review*) (noting that the "lower the ratio result, the more debt a company has used to pay for its assets").

5. Edward N. Wolff, *Household Wealth Trends in the United States, 1962 to 2019: Median Wealth*

"Thus, although 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."[6]

In contemporary corporate capitalism, this legislated advantage, limited primarily to wealthy people in proportion to their existing wealth (operating 24/7 globally), is a primary—if not *the* primary—cause of wealth concentration and unequal economic opportunity.

For the bottom 90% of the American people who experience virtually no direct benefit from corporate capital acquisition with the future earnings of capital, the economic experience is not a happy story. Figure 1 reveals the consequences of exclusion from substantial participation in the legislated corporate infrastructure that facilitates capital acquisition with its future earnings.

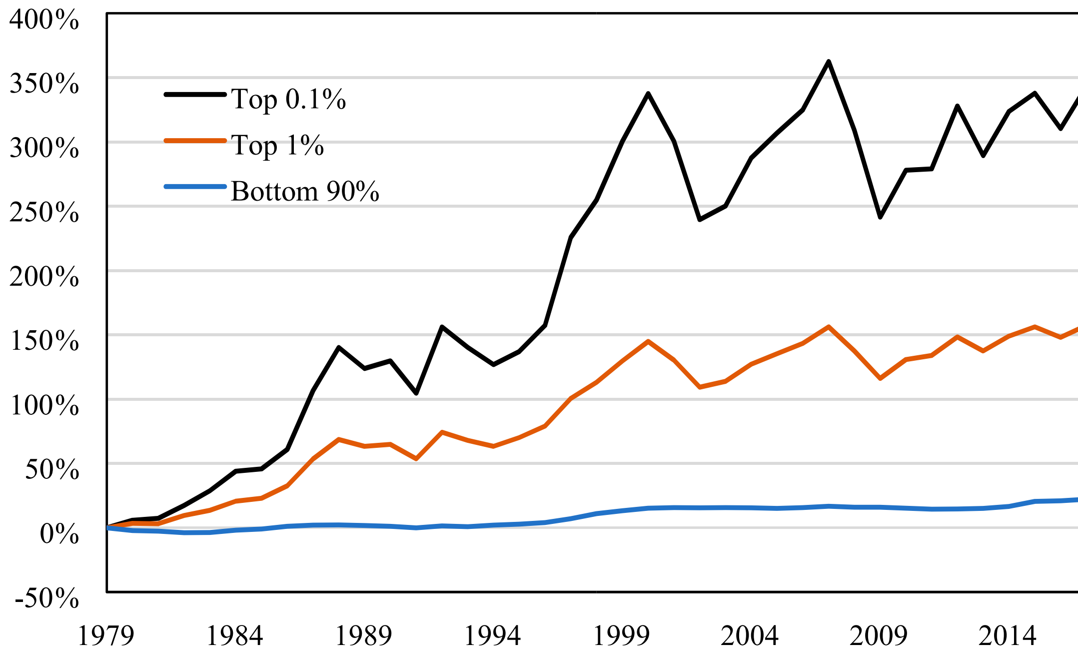

Figure 1. Cumulative percent change in real annual earnings (by earnings group), 1979–2017. Note: Index 1979 = 0%. Source: Hall et al. (2019).

Although from 1998 to 2014, the bottom 90% have experienced a tiny increase in real earnings, and although widely taught law-and-neoclassical economic analysis predicts lower prices from allocative efficiency gains, for

Rebounds . . . but Not Enough, 56 (Nat'l Bureau of Econ. Rsch., Working Paper No. 28383, Jan. 2021), http://www.nber.org/papers/w28383 (on file with the *University of the Pacific Law Review*).

6. ROBERT ASHFORD & DEMETRI KANTARELIS, ENHANCING POOR AND MIDDLE CLASS EARNING CAPACITY WITH STOCK ACQUISITION MORTGAGE LOANS 13 (Addleton Acad. Publishers 2016).

essential goods and services (such as health care, education, and child care), most people face a dramatic increase in prices (Figure 2).

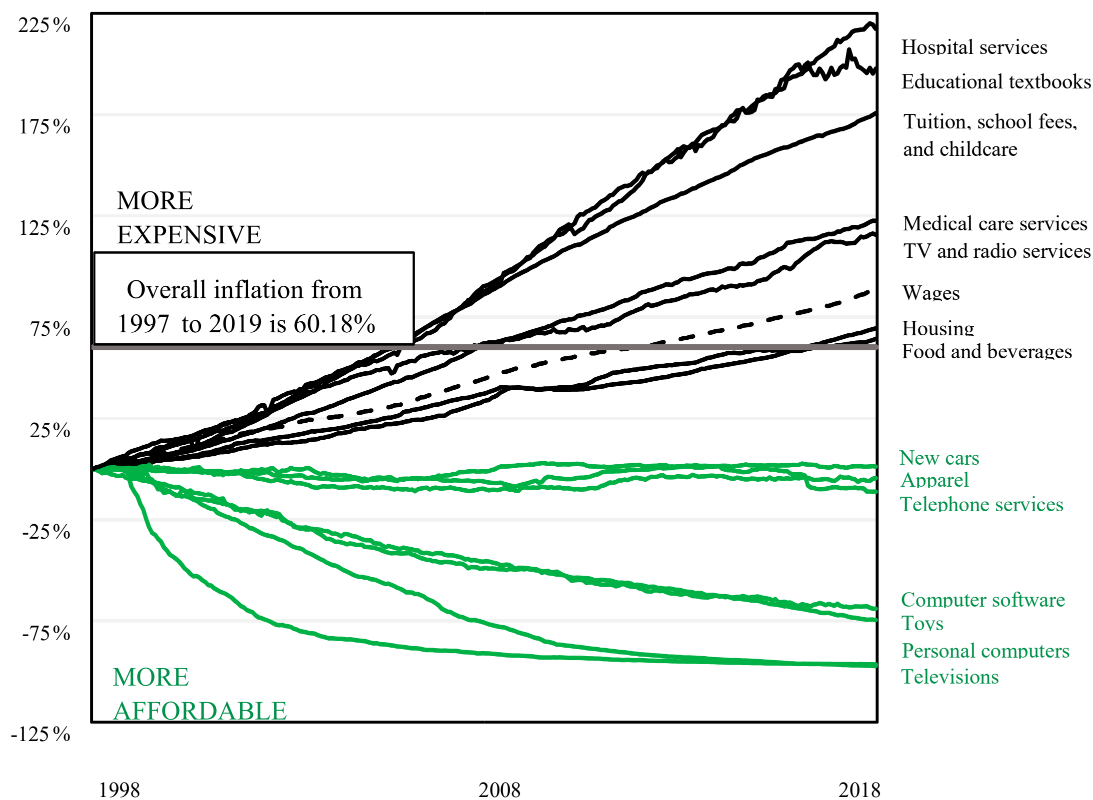

Figure 2. Price changes 1997 to 2018. Note: The black lines indicate prices (of non-tradeable goods and services) that are typically not subject to market forces. The green lines indicate the prices (of tradable goods and services) that are subject to competition/market forces. The dotted line represents wages. Source: Hall et al. (2019). Data from Federal Reserve Bank of St. Louis.

Of course, only approximately 25% of the huge income gains of the 0.1% and the 1% are the result of corporate wealth acquisition with the *future* earnings of capital. Much of the rest originate from earnings previously acquired and the better labor market opportunities available to wealthier people. But the legislated opportunity to acquire capital with the future earnings of capital is an important gateway to these latter advantages.

In light of the foregoing, the question posed in the title to this symposium, *For Whose Benefit Public Corporations?*, could be rephrased to raise as follows: "For whose benefit is the legislated practical, market opportunity to acquire corporate wealth with future capital earnings financed with non-recourse corporate credit?"

Further, should this legislated market opportunity be preferentially extended to people roughly in proportion to their existing wealth, which as a practical matter it is today, or is there a societally wealth-enhancing way to extend this legislated market opportunity more broadly, democratically, and competitively without redistribution? The principles of inclusive capitalism indicate that there is.

The major impediment to a more inclusive capitalism that would extend to all people the competitive market opportunity to acquire an interest in corporate capital acquisition with the *future* earnings of that capital in amounts that are not limited in proportion to their (meager or negative) existing wealth is not primarily a defect in the law but rather a defect in widely accepted economic theory. This defect prevents people from fully comprehending three major economic concerns: the dynamics of per-capita growth, optimal efficiency, and fuller employment (of both labor and capital) and, consequently, their relationship to credit-worthy real corporate capital acquisition.

The defect is a fundamentally important missing principle that appears nowhere in classical, neoclassical, Keynesian, and other approaches to micro and macroeconomics. The missing principle can be expressed as follows:

> A broader distribution of capital acquisition with the earnings of capital creates the rational expectation of more broadly distributed discretionary capital income in future years to people with a higher propensity to consume and therefore the rational incentive for more credit-worthy investment in labor and capital in earlier years.

This is a principle of fuller employment and per capita growth called "the principle of binary economic growth."

Based on extensive conversations with professors of economics and corporate finance and on much analysis, compared to all other approaches in response to the question "for whose benefit public corporations?" of which I am aware, I believe that a widespread understanding of the principle of binary economic growth could be reasonably expected (without redistribution) to produce for corporate stockholders, other stakeholders, and society substantially greater material benefits. These include: (1) enhanced earnings for poor and middle-class people; (2) enhanced corporate and shareholder wealth; (3) reduced need for welfare dependence, government spending, and borrowing, and reduced tax rates; (4) enhanced retirement security; (5) enhanced sovereign credit-worthiness; (6) reduced systemic risk; (7) enhanced sustainable fuller employment and per capita economic growth; and (8) greater efficiency.

A growing number of professional economists from prestigious schools have come to appreciate the importance of this corporate capital ownership-broadening approach to a more inclusive capitalism, and thirteen have signed a letter of support characterizing it as "the most important contribution to economic theory in many decades: an idea with many practical, beneficial policy

implications for both current and future generations." According to the letter, "without redistribution," this approach to a more inclusive capitalism "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."[7]

Attesting to the novelty of the principle of binary economic growth, the letter continues:

> 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 the Austrian economists such as Friedrich Hayek, nor in other analyses

7. Letter from Economists to Professor Robert Ashford (Apr. 14, 2021), http://law.syr.edu/uploads/docs/deans-faculty/Ashford_Economist_Letter_in_Support_of_Inclusive_Capitalism-041421.pdf (on file with the *University of the Pacific Law Review*).

> 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.[8]

Although the principle of binary economic growth appears nowhere (and is implicitly denied) in the economic approaches set forth above, it is based on a widely accepted principle of corporate finance: credit-worthy capital acquisition is always future-looking. In the case of corporations other than financial corporations, it can be understood as a four-stage process. In stage one, corporations receive cash or property in exchange for equity shares or debt obligations, or from revenues. In stage two, they employ real capital and labor to build productive capacity. In stage three, they employ that productive capacity (labor and capital) to produce goods and services. In stage four, they sell what they can of their production in exchange for additional revenues. Thus, it is the expected credit-worthy demand in stage four that provides the investment incentive in stage one.

As explained in Sections 2 and 3 below, one of the implications of the understanding of binary economic growth is that following retirement of the acquisition debt, if a corporation can capture a sufficient portion of the increased consumer demand resulting from the broader distribution of future capital income occasioned from broadening its capital ownership, then any corporate capital acquisition that can be financed with money borrowed directly by the corporation may be financed more profitably (to the corporation, pre-existing shareholders, and its "new shareholder" stakeholders) by way of ownership-broadening real capital acquisition financing.

II. Principles of Inclusive Capitalism

This section presents the foundational principles of inclusive capitalism. Taken together, they establish a distinct principle of per-capita growth, efficiency, and fuller employment not found in the antecedent history of economic thought. It then explains how these principles qualitatively fundamentally alter other widely accepted economic principles. Section 3 then (1) explores ways to implement this voluntary approach, (2) identifies impediments to its practical implementation, and (3) explores some ways that would help to overcome the impediments identified.

A. Foundational Principles

The following principles are helpful to understanding inclusive capitalism and its effect on other principles of economic theory:

8. *Id.*

(1) Both labor and real capital (a) do work, (b) are equally fundamental factors of production, and (c) (via property rights) distribute income;[9]

(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 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 (this is 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; (3) fuller 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. As explained in Section II.B below, 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.

B. Productivity vs. Productiveness

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

9. "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 residual claim on the work done by (earnings of) real capital. *See also* 26 U.S.C. § 1221 (West 2021).

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 essentially doing 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 saw any boards without the work of the saw.

The productiveness of capital is more clearly revealed in the work of hauling. In one hour, a person can haul one sack one mile and is exhausted. Using a horse, ten sacks can be hauled four times as far yielding a fortyfold increase in production. Using a truck, 500 sacks can be hauled 40 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 essentially doing all the extra work. Although to be productive, the horse must be led and the 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 advances, by definition, labor productivity can rise while labor's share of the work done declines.

C. The Meaning of "Equally Fundamental"

Many people, including Adam Smith, share an anthropocentric vision that 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 non-human 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. Since the dawn of civilization, beginning with rudimentary tool-making, the discovery of agriculture, and the domestication of animals, the great growth in per-capita productive capacity of society is not primarily the result of people working harder, longer, smarter, 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, design, 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.

D. Seven Growth Enhancing Powers of Capital

The recognition that capital does work just as labor does work reveals that capital has seven powers that contribute to per-capita economic growth, distinct from its effect on labor productivity, and the contribution of labor to economic growth. 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 the much greater hauling that can be done employing horses or trucks);

(3) Do work that labor 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, vending machines, automated bank tellers and toll takers, 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 general 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.

E. 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 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 a 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 and the distribution of capital acquisition.

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*.

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 has an immensely positive systemic impact on capital accumulation, fuller employment, and per-capita growth.

F. Economic Theories of Value and Price

Also central to understanding whether and how broader capital acquisition increases per-capita growth (and the earning capacity of capital and its rate of return and 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 the primary productive determinant of price. Smith conceived of all value and prices of all production as ultimately a function of (1) the cost of labor and capital to produce it, and (2) the cost of labor commanded in exchange for it. All of these costs (including the cost of capital) are functions of the individual decision of whether to work or remain idle at an offered wage. 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 to do to acquire them.[10] Thus, according to Smith, the distribution of capital acquisition, in itself, has no notable 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."[11] In such analyses, 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 is the only source of value and measure of price.[12] The value of goods and services is not

10. ADAM SMITH, WEALTH OF NATIONS 30–36, 56, 326, 344–345 (Edwin Cannan ed., Smith Random House 1937) (1776).

11. JOHN MAYNARD KEYNES, GENERAL THEORY OF EMPLOYMENT INTEREST AND MONEY 213–14 (Harcourt, Brace & World 1936).

12. JEAN-BAPTISTE SAY, A TREATISE ON POLITICAL ECONOMY OR THE PRODUCTION, DISTRIBUTION, AND CONSUMPTION OF WEALTH, xl-xli (Batoche Books, 6th Am. ed. 2000). 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."

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 to do. The people who have no capital and want sacks hauled must either do the work themselves 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 people who own horses (capital) and want sacks hauled can do work and express value not only via their labor but also as owners by employing their horses to do the hauling.[13]

According to inclusive capitalism, the willingness of a laborer to work at a 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 of 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 legislated and government-supported financial infrastructure routinely 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, markets cannot be efficient in their pricing of labor, capital, and the goods and services produced by them, and available labor and capital cannot be employed efficiently at its full potential.

13. Many economists claim that modern economics has extricated itself from the labor theory of value in favor of analysis based on "revealed preferences." However, in present capitalist economies in which approximately 95% of the 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 ($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. *See generally* ASHFORD & KANTARELIS, *supra* note 6.

G. 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, it is neither unique to inclusive capitalism nor inconsistent with the fuller employment 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* result in the fuller employment of both labor and capital because the broader distribution of *future* capital income among people who will spend a higher portion of their income on consumer goods will increase future consumer demand and thereby increase incentives for more employment of labor and capital in earlier years.

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 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 decision-making and "creative destruction"; (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 acquisition.

Although differing significantly, the foregoing widely taught approaches to per capita growth, greater efficiency, and fuller employment reduce globally to a political debate between "austerity vs. stimulus," and in the USA, to a debate between "too much government is the problem" and "more government is the solution." 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 more affordable and perhaps more politically achievable.

III. APPLYING THE PRINCIPLES OF INCLUSIVE CAPITALISM TO THE USA ECONOMY

To explore how publicly traded corporations can employ the principles of inclusive capitalism (voluntarily and without government mandate or redistribution) to increase corporate wealth and share value by including other stakeholders in the legislated advantages of corporate finance, consider the 3,000 largest, prime-credit-worthy publicly traded corporations in the USA (roughly, the Russell-3000 Index). 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,[14] but rather to maximize corporate wealth throughout A-Co's perpetual (indefinite) existence. Accordingly, at its board meeting, A-Co's directors would approve A-Co's capital acquisition spending for the next year and (subject to reconsideration) consider and perhaps approve annual 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 lender agrees.

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 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. The directors have a fiduciary obligation 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.

Before the decision is 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 A-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

14. 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.

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 of directors would probably be duty-bound obligated to choose the most competitive offer—i.e., the offer that maximizes A-Co's wealth and share value. And if supported by due diligence, the business judgment rule would protect the decision.

As long as inclusive capitalism is not taught along with the other economic approaches mentioned above, our story would end. 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. Capital acquisition would accrue to the vast majority of people primarily in proportion to their existing wealth. However, after the fuller employment principle of inclusive capitalism is as widely taught as the other widely taught fuller employment principles (i.e., per capita growth, optimal efficiency, and full employment), 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. Of course, the "people" would include not only the teachers and their current students, but also former students—i.e., 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.

Section A explains how the principles of inclusive capitalism would (after they become as widely taught as the other principles of fuller employment are taught) provide vast numbers of poor and middle-class people entry into the corporate board room (represented by financially sophisticated fiduciaries just as richer people are) to make competitive offers for shares of credit-worthy corporations like A-Co (offers that must be evaluated by corporate fiduciaries with due diligence regarding their corporate wealth-enhancing potential). Section A then explores the terms and wealth-enhancing potential of the new 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) each corporation is able to capture a sufficient portion of the potential increased gain in consumer demand for its products that results from its capital ownership-broadening to make the ownership-broadening financing the most competitive alternative. Section B then explores how, at the microeconomic level, capital ownership-broadening corporations may be able to capture a sufficient share of

the increased demand caused by their ownership-broadening to render the offer competitive with other financing alternatives.

A. Aggregate Analysis

After inclusive capitalism is widely taught, all the major decision-makers in the institutions mentioned above, along with a substantial portion of the general public, will 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 its (1) employees; (2) customers; (3) neighbors (those living in cities near A-Co facilities and in "company towns" in which A-Co is a, or the, major employer; 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 and its employees).
>
> This group of people 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 credit-worthy investments, acting as an investment trustee for A-Co's ownership-broadening beneficiaries, TIAA-Cref can establish a constituency trust for the benefit of corporation employees, customers, and neighbors, including welfare recipients. With the trust as the borrower, TIAA-Cref can arrange the same sort of financing for the beneficiaries. A-Co's prospective lender has already determined that A-Co's planned use of the loan funds is credit-worthy; in light of the synergy gains offered by Bill and the others, the capital credit insurers apparently also agree. If TIAA-Cref's synergy offer is yet more competitive, it will make A-Co's capital acquisitions yet more credit-worthy.
>
> 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 shared understanding of inclusive capitalism, they have not had competitive access to capital acquisition with the future revenues

and earnings of capital in the way that richer people routinely do (even as they sleep). TIAA-Cref 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.

Figure 3 illustrates the potential wealth-enhancing, growth-sustaining features of an ownership-broadening economy:

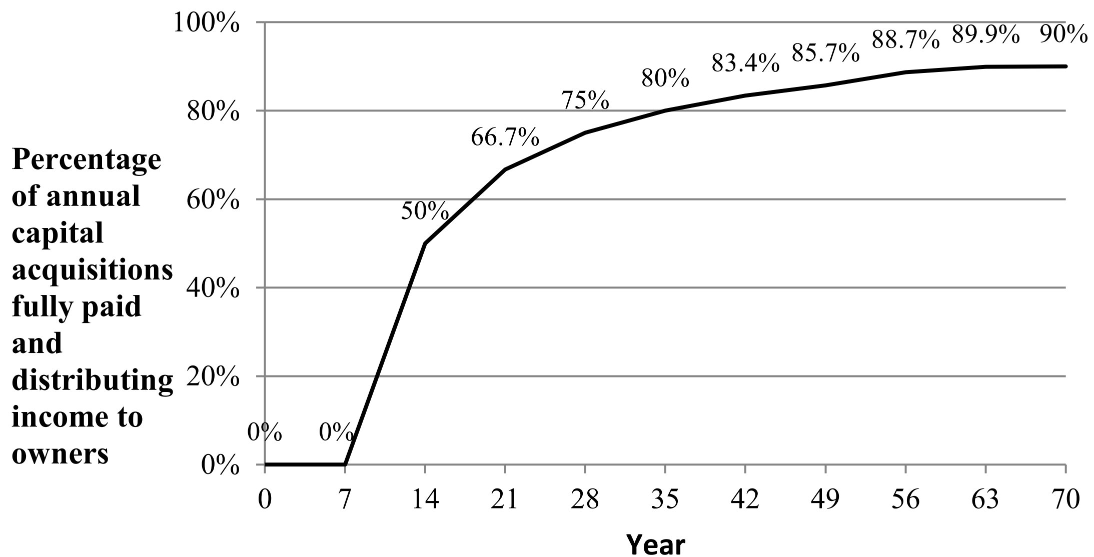

Figure 3. Projecting Binary Economic Growth

Based on the assumptions specified below, Figure 3 shows the number of years of annual ownership-broadening acquisitions that will have paid for themselves over time. It assumes:

(1) A seven-year cost recovery period for capital investment (The same principles apply for a ten-year period);

(2) In every year, some number (N) of an economy's credit-worthy companies have profitably utilized inclusive capitalism financing to acquire some percentage (X) of their capital investments;

(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" – i.e., the corporation is required to pay to the trustee (in this instance TIAA-Cref) 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; and

(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 ownership-broadening capital acquisition 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, Figure 3 shows the steady growth in annual capital acquisitions. In the eighth year, the first annual acquisition of capital will have paid for itself and begin paying its full return to the new owners. In the ninth year, the second annual capital acquisition will 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 ownership-broadening 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 Figure 3 would rise more steeply and approach the specified percentages sooner.

1. Maintaining Market Share in a Growing Economy

To maintain market share in the projected growing economy, producers will have to increase production and productive capacity based on their capital investment planning horizon *before* distributing capital income to its new owners. 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.

Some additional effects of broader capital acquisition that will enhance the prospects of sustainable fuller employment and economic growth and may be

immediately reflected in the prospects of an economy based on inclusive capital, 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 personal and corporate 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 beneficiaries with additional taxable income, or (2) allow for a 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 beneficiaries as dividends on the inclusive capitalism 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 Financial Soundness of Private and Government-Sponsored Retirement Plans (and Therefore, Greater Retirement Security):** These effects could reasonably be expected to result from enhanced corporate profitability, wealth, and share-value and a lower need for government spending.

(6) **Enhanced Sovereign Credit Ratings:** Financial data used to assess sovereign credit-worthiness will improve (1) government revenues, expenditures, and debt and (2) GDP. In light of the sustained effect of ownership-broadening financing set forth above, the credit-worthiness of the sovereign debt of countries that employ the inclusive capitalism approach will likely 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. This will provide more financial capital for entrepreneurial activities, the development of new technologies, start-ups, and smaller companies.

(8) **Less Risky and Expensive, More Insurable, and Profitable Investment:** The growing capital-based consumer demand generated by inclusive capitalism financing will make more capital investment

credit-worthy 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 increasingly balanced by a corresponding increase in consumer demand—the amplitude of the booms and busts of business cycles will be reduced.

(10) **Reduced Systemic Risk**. With greater source-of-income diversification from a growing portion of consumer income earned from the growing productiveness of capital, prospective consumer demand will be more stable and predictable as it grows more in sync with increasing productive capacity.

B. From Macro to the Microeconomic, Individual Corporate Level: Solving the First Actor, Free-Rider, and Coordination Problem

Even with the prospect of these widely shared benefits, a problem combining first-actor, free-rider, coordination, and/or collective-action problems (hereinafter, "free-riding" or "the free-rider problem") would remain. The free-rider problem inhibits ownership-broadening financing because there is no guarantee (and good reason to doubt) that a capital ownership-broadening corporation would capture a sufficient portion of the projected aggregate benefits from ownership-broadening capital to make ownership-broadening the most wealth-enhancing alternative compared to other financing techniques.

For example, suppose A-Co manufactures 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 to "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, healthcare, and entertainment. 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 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, and 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 most 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, a sufficient amount of free-riding can be effectively reduced to render ownership-broadening financing a competitive alternative to conventional financing for many publicly traded companies.[15]

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 inclusive capitalism shares yield increased government tax revenues and reduced welfare payments. A direct mitigating benefit (not subject to free-riding) would result (1) from motivation, allegiance, and gratitude that would likely engender among employees from the ability 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 goodwill 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.[16] The free-riding would also be mitigated in company towns and city neighborhoods in which the greater wealth of "neighbor" residents 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 they can be used to travel to destinations not served by that airline, cooperating airlines have negotiated formulae for apportioning the benefits and costs of sharing patronage.[17] 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

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15. Robert Ashford, *Beyond Austerity and Stimulus: Democratizing Capital Acquisition with the Earnings of Capital as a Means to Sustainable Growth*, 36 J. POST KEYNESIAN ECON. 179, 200–01 (2014).

16. For example, if Walmart were to encapitalize its employees, customers, and neighbors, it might attract customers from its competitors that declined to do so.

17. Ashford, *supra* note 15, at 201 n.12.

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 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 be substantially aided by the techniques discussed above. However, an additional anti-free-riding technique may be employed to aid the type-four producers and 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 obligations of the share acquisition debt provided by 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 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 than the cash value of the increased demand they bring to the table, but they will have acquired an ongoing share of the full return of corporate capital with no personal cash investment and no risk of investment failure.

1. 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 article. A few observations identify important points to consider:

(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 advances to produce affordable greener technologies. If the inclusive capitalism approach advanced in this article is focused on financing the creation of inherently sustainable goods and services, the capital income received from these investments could help create significant consumer demand for these new greener products/services.

(4) Systemically, such technological advance which generally reduces labor content per unit of production and, therefore, requires 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 long-run earning capacity (which is more characteristic of the capital earning capacity of a diversified portfolio of Russell-3000 corporations than wages or individual welfare redistribution).[18]

C. Greater Growth Without Redistribution

According to the law of private property and the principles of "free markets," existing ownership does not include the absolute right to acquire additional ownership, but only *the right to compete* for additional capital ownership acquisition via voluntary exchanges.[19] When considering the various offers set forth above, A-Co's fiduciaries would be duty-bound to select the most wealth-maximizing (i.e., competitive) alternative. 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 as the most competitive offer.

If a particular corporate capital acquisition were deemed to be "extraordinary," governing corporate law usually requires shareholder approval.[20] If an ownership-broadening transaction approved by A-Co's directors

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18. *See* Ralph P. Hall, Robert Ashford, Nicholas A. Ashford, & Johan Arango-Quiroga, *Universal Basic Income and Inclusive Capitalism: Consequences for Sustainability*, 11 SUSTAINABILITY no. 4481, at 1 (2019). This article explores two related issues relevant to universal basic income and environmental sustainability that are rarely discussed: (1) The need to harmonize environmental sustainability requirements with the need for sustainable of income for poor people and (2) the importance of including the principles of Inclusive Capitalism to supplement labor and redistributed income needed for ecological and economic sustainability. *See also* Robert Ashford, *Unutilized Productive Capacity, Binary Economics and the Case for Broadening Capital Ownership*, 10 ECON., MGMT., & FIN. MKTS. 11, 40 (2015) [hereinafter Ashford, *Unutilized Productive Capacity*].

19. Ashford, *Unutilized Productive Capacity*, *supra* note 17, at 42.

20. Robert Ashford, *Why Working But Poor? The Need for Inclusive Capitalism*, 49 AKRON L. REV. 507,

is deemed extraordinary, shareholder approval sometimes requires a majority or supermajority of the shares voted. If shareholder approval is required to approve a corporate transaction, shareholders can vote their selfish or altruistic preferences (including for alternatives that do not necessarily maximize corporate wealth),[21] 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.

Thus, 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) well-supported and promoted by government maintained and protected financial and physical infrastructure, and (2) routinely employed to facilitate capital acquisition for the benefit of a small percentage of 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 the value of broadening capital acquisition.

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

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530 (2016).

21. Many existing shareholders are charitable, institutional investors like the Ford Foundation, which broadly advertises that it is dedicated to "eliminating inequality in all of its forms." Such foundations as well as some wealthy individuals might prefer the ownership-broadening alternative based on the expectation of benefits not likely to be well-reflected in market prices. *See* Robert Ashford, *Why Working but Poor? The Need for Inclusive Capitalism*, 45 U. AKRON L. REV. 507, 537 n.56 (2016). *See generally Challenging Inequality*, FORD FOUND. (last visited July 16, 2021), https://www.fordfoundation.org/work/challenging-inequality/ (on file with the *University of the Pacific Law Review*) (identifying "five underlying drivers of inequality—common factors that, worldwide, contribute to inequality's many manifestations"). This Ford Foundation analysis of "underlying drivers of inequality" apparently has yet to identify the great inequality that results from denying poor and middleclass people competitive access to the same legislation-dependent institutions of corporate finance that enable richer people to routinely acquire capital acquisition with its future earnings roughly in proportion to their existing wealth even as they sleep.

beneficiaries are fully paid for at fair market value by the earnings of the capital acquired. Dividend income earned by inclusive capitalism shares (used either to repay the share acquisition loan that was made to the constituency trust or to provide capital income to the beneficiaries) will not be paid unless all antecedent costs and prior claims are paid. The earnings received by the beneficiaries are earnings of *their* shares; they are not the redistributed earnings of others.

1. Government Facilitative Policies

The basic logic underlying the benefits of inclusive capitalism that seemingly flow from ownership-broadening financing springs from the confluence of: (1) the principles of inclusive capitalism; (2) the legislated default advantages of the default corporate infrastructure; (3) widely accepted principles of finance; (4) the corporate-wealth-maximizing duties of corporate fiduciaries; and (5) the (whether or not enlightened) self-interest of investors. Depending on the magnitude of binary economic 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 actions would be helpful and desirable.

First, the foremost 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 loan obligations and then pay dividends to beneficiaries. This tax relief can be wholly justified on the grounds of both economics and justice. Because the corporations have no use of the income that it passes on to the trustees, there is no reason to tax it on the corporate level. Moreover, taxing that corporate income would impede the repayment of the acquisition debt and reduce the growing capital income paid to the beneficiaries, which is precisely the economic impetus for the benefits outlined above.

It is also noteworthy that there are many "second-round ways" that existing owners routinely receive 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 reducing taxable corporate income. These "second-round" ways greatly assist existing shareholders in acquiring additional capital with pre-tax corporate revenues. They benefit people by way of capital ownership once they have acquired capital but exclude people who presently have no competitive access to the "first round" of capital acquisition with the earnings of capital that would enable them to become owners. These second-round ways provide substantial benefits 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 Federal Housing Administration ("FHA") home loan reinsurance program.

Fourth, to reduce the cost of credit for ownership-broadening financing, a nation's central bank might monetize ownership-broadening loans until they are retired.[22]

To benefit from the advantages of government reinsurance and monetization, qualified inclusive capitalism 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.

IV. CONCLUSION

This article has advanced the following plausible principle of fuller employment and per capita growth that: (1) is consistent with widely shared understanding that real corporate capital investment is always forward looking; (2) requires no more than elementary school mathematics to comprehend, and (3)

22. An in-depth discussion of monetization 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 may adjust 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* Ashford, *supra* note 12, at 202–03, and Robert Ashford, *Unutilized Productive Capacity, Binary Economics and the Case for Broadening Capital Ownership*, 10 ECON., MGMT., & FIN. MKTS. 11, 35 (2015).

is found nowhere in the widely shared literature 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.

A growing number of economists, academics 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.[23]

Thus, it provides entry into the board rooms of the largest, credit-worthy, publicly traded corporations by poor and middle-class people represented by sophisticated, well-capitalized financial fiduciaries (that presently represent people and entities primarily in proportion to their existing wealth). Significantly, the principle provides this entry not as a matter of charity and corporate social responsibility but as a matter of competitive right.

Consistent with the fiduciary duties prescribed by existing corporate law, this principle can be used by corporate fiduciaries in particular instances to enhance corporate wealth and share value for existing shareholders by simultaneously enhancing the wealth of employees, customers, neighbors, and welfare recipients. Moreover, because the general applicability of this principle indicates that any corporate capital acquisition that can be financed with money borrowed directly by the corporation may be financed more profitably (to the corporation, pre-existing shareholders, and its "newly encapitalized stakeholder-shareholders") by way of ownership-broadening real capital acquisition financing, the principle suggests that corporate fiduciaries have a due-diligence obligation to explore the practical feasibility of pursuing the ownership-broadening financing alternative as a part of their ongoing, long-term capital acquisition planning.

Likewise, if (as discussed above) facilitative federal and state legislation might be helpful to (1) mitigate impediments to profitable ownership-broadening financing (such as the free-rider problem), (2) enhance investment diversification

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23. Letter from Economists to Professor Robert Ashford (Apr. 14, 2021), http://law.syr.edu/uploads/docs/deans-faculty/Ashford_Economist_Letter_in_Support_of_Inclusive_Capitalism-041421.pdf (on file with the *University of the Pacific Law Review*).

for the newly encapitalized stakeholder-shareholders, and/or (3) reduce the cost of capital credit insurance, reinsurance, and interest, then corporate fiduciaries would seemingly be obligated to work through their ongoing corporate lobbying programs and through existing trade associations to persuade governments to enact facilitative measures that would extend the legislated wealth-enhancing opportunities of corporate finance (generally enjoyed as a practical matter to no more than 10% of the people primarily in proportion to their existing wealth) to all people.

Should the opportunity to acquire shareholder interests in corporate capital with the future earnings of corporate capital made possible by the legislated corporate infrastructure be limited to existing shareholders primarily in proportion to their existing wealth or extended to all people in amounts not limited to their (generally, meager or negative) existing wealth? This question is but one of a set of questions explored under the broader question posed by this symposium: *For Whose Benefit the Public Corporation?* All of these questions are simultaneously economic, financial, legal/jurisprudential, social policy, moral, and political questions. If resolved by legislation, a majority of the people or at least their representatives will decide. If resolved by case law, the judges will decide. If left to the people, the market participants will decide.

In any case, the decision should be fully informed. The answers to the questions raised in this symposium depend significantly on the economic understanding of per-capita growth, efficiency, and fuller employment. The "received wisdom" on these subjects is widely taught. The fuller principles of inclusive capitalism are not. Before informed answers to these questions can be made (whether by legislation, caselaw, or market participants), the principles of inclusive capitalism must also be widely taught in higher and legal education. If widely taught along with the "received wisdom" regarding these subjects, and given credence, this principle will likely change the economic behavior of market participants and broaden the distribution of financial incentives, economic opportunities, and capital wealth. However, the principles of inclusive capitalism will not be widely taught in colleges and universities until teachers and administrators act responsibly to make it happen.