

CAN THE FED FIGHT AN EFFECTIVE WAR ON POVERTY?

Kelso's most radical proposition, however, was that the public's power of money creation be harnessed to the task of democratizing ownership. Without disturbing monetary policy's usual functions, the central bank could force-feed the development of universal ownership by providing low-interest credit directly to these citizen trusts -- buying their loans at discount as the preferred method for increasing the money supply, rather than buying government bonds as the Federal Reserve does now.

Every year, as it enlarges the nation's money supply to meet the needs of commerce in an expanding economy, the Federal Reserve creates \$30 billion to \$40 billion in new money -- literally "free money" that is created out of nothing more tangible than the public's shared faith in the currency and the economic system. This new money is now distributed through the private banking system, lent out by commercial banks to people and businesses at market interest rates and for private gain. If the newly created money was instead lent directly to citizen-ownership trusts, it would provide very cheap capital for a large public purpose. Economists who have grudgingly accepted Kelso's other ideas still choke on that proposition, though it is the core of his vision for achieving a synthesis of democracy and capitalism.

William Greider, *One World, Ready or Not*, p. 422

Imagine a rural community in the late 1800s made up of fifteen farming families. Between the fruits of their individual farms and the cooperative "barn raising" activities of all, each family finds its subsistence needs are met. As free and equal individuals, the adults of the community (at least those who care to) meet from time to time to establish mutually beneficial rules to govern their interactions.

One day, one of the farmers gets a bright idea. His farm is so large, it will support many more people than the number in his family. He invites a group of immigrants to become laborers on his farm. Eventually, he is able to dedicate his time to other creative activities while his subsistence is provided by the work of the laborers. He uses the surplus of their labor to purchase the unused land of the other farmers and invites more immigrants to come and work on his growing farm. Finally, a three-tiered system evolves. One farmer owns 50% of the land, the other 14 own the other 50% which is enough to maintain their standard of living. The population of laborers has grown by this time to 85 families.

Our large landowner pays a fair wage and sells his surplus back to the laborers, to his neighbors and exports some outside the community. Over time, the landowner invests in capital intensive power farming equipment which allows him to increase his production while cutting his workforce in half (which also allows him pay less as the workers compete for the opportunity to work). At first he is very pleased because his labor costs have been cut greatly, but after a while he finds that he is unable to sell his production, because 43% of the population has no source of income.

The government announces a national Homestead Act and opens up new lands for those landless people who want to become productive farmers. Everybody benefits. The unemployed now become self-sufficient and even have a little surplus which they can use to purchase the production of our large landowner.

Government economists begin worrying about the future. There is no more land to distribute. Some fear that leftists will rise to power by promising to nationalize the large landowner's land. Others fear that the liberals will get elected with the promise to build a welfare state to take care of the disenfranchised. Kelso proposes a third solution which will neither expropriate the wealth of the rich, nor build a class of disenfranchised dependent on the state. Kelso proposes to give everyone the opportunity to become owners of the new growth in productive assets, so that as production grows, the income will be spread

among a broad base of consumers -- so demand will grow along with supply and no one will become dependent on the welfare state.

The Kelsonian School of Political and Economic Thought

A school of political and economic thought distinct from both those of Adam Smith and Karl Marx accept the following assumptions:

Assumption 1: Democracy, defined as a system where individuals of relative equal power freely choose to mutually govern themselves through elected representatives, is good.

Assumption 2: Political freedom rests on the economic independence of individuals.

Assumption 3: Economic independence comes from ownership of capital, defined as productive assets, which generate enough income for the owner to subsist.

Assumption 4: Capital has displaced labor as the primary source of production. Income from labor cannot produce sufficient demand for the supply of which capital is capable of producing. Only by avoiding the concentration of capital, can a broad enough distribution of income from capital exist to create increasing demand to match increasing supply.

Assumption 5: The accumulation of capital sufficient to create economic independence cannot occur through savings alone; rather it requires access to *capital* credit.

Based on these assumptions, the argument is made that in order to preserve democracy, the state should provide access to capital credit for those citizens who lack a sufficient accumulation of capital to maintain their economic independence. Economist Louis Kelso proposed using the money-creation capacity of the Federal Reserve as the source of the necessary credit.

This paper will explain why capital credit is the most effective tool for capital accumulation, describe the citizen stock ownership trust proposed by Kelso as the mechanism for channeling credit to *undercapitalized* citizens, discuss the limitations of past attempts to use tax policy to encourage access to credit, explain how the Federal Reserve currently uses its money-creation capacity, and describe how Kelso would have the Fed use this capacity. Then we will examine this proposal with an eye towards its impact on inflation, and its effectiveness for achieving the goal of allowing every family to subsist on capital income.

Leverage Is the Source of Wealth

Ben Franklin said, "A penny saved is a penny earned." But anyone, other than entertainment and sports superstars, who has ever gotten wealthy knows that they did not do it by saving money. They got wealthy by letting *other* people save, borrowing *their* savings at the going interest rate, and investing this in productive assets which returned a higher rate.

For example, if I had \$1 million, I could buy a business worth \$1 million. If this business generated \$300,000 the first year, I would then have \$1.3 million. This would be a nice 30% return on my investment. What if I used leverage instead? What if I borrowed \$4 million at a 10% interest rate and bought five companies? At the end of the first year, I would have \$2.1 million [\$1 million (initial investment) + \$1.5 million (\$300,000 X 5 companies) - \$400,000 (\$4 million X 10% interest)]. In one year I have more than doubled my money with a 110% return! And I gained all of this new wealth

without sacrificing any consumption or increasing the sale of my labor. My productive assets paid for themselves.

So why doesn't everybody get in on this game? The answer is that not everybody has access to *capital* credit. To obtain credit, the borrower must demonstrate the 5 "C"s: Character, Conditions, Capacity, Collateral, and Capital. Individual undercapitalized people are not in a very good situation to meet these requirements. Kelso's solution is to create a *Citizen Stock Ownership Trust*, an investment club. Like a mutual fund, each club member has an account. The difference is that money is put into the account, not from the account holder's savings, but through a loan from a commercial lender. The CSOT is represented by a fiduciary who acts as the investment fund manager. The CSOT manager seeks out private companies in need of investment. Together, they approach a commercial lender for a loan to the CSOT which, in turn, is used to make an investment in the company. As with any request for a bank loan, the borrowers must demonstrate the viability of the project. The economic conditions must be right and the project must have the capacity to generate sufficient cash flow to cover the debt service. While the productive assets purchased with the loan proceeds will serve as collateral, the bank will require an additional guarantee, either that the company provide some of the funds to purchase the productive assets, or pledge the existing capital of the company as a guarantee. And finally, the character of the company will be judged.

Getting Companies to Play Along

But why should a private company capable of obtaining a commercial loan bother to go through a CSOT. We have already demonstrated that using leverage increases the return to the equity holder. An entrepreneur with unlimited capital would not have any strong financial incentive to involve a CSOT in his or her company's financial structure. Even with (as described below) the possibility that the CSOT could obtain its money at a low rate of interest, and even though the company could deduct dividends paid to the CSOT from taxable income, the fact that the earnings of the company would accrue to the CSOT's stock would simply reduce the beneficial effect that leverage would provide the entrepreneur (see Exhibit 1).

On the other hand, entrepreneur's without unlimited capital are often in need of gap financing. Suppose the investment needed for a company worth \$15 million to complete an expansion project is \$10 million (see Exhibit 2). The current owner will use the existing assets to complete the collateral for the expansion loan without contributing new equity, but the projected growth in sales is not expected to support the increased cash flow necessary to cover the additional debt service on a 5 year 10% commercial bank loan. Such a loan would require an annual debt service of \$2,637,975. However projected pre-tax cash flows are only \$3 million per year, and the bank wants 1.25 coverage or \$3,297,469. Furthermore, the company needs to reinvest at least 5% of total assets back into the company annually. The CSOT offers to invest the needed \$10,000,000 in new equity. The company must guarantee an annual dividend of 6% on the nominal value of the CSOT's investment. The original owners only see a 1.12% increase in the return on their equity in the first year, however the \$12 million in new assets have increased operating income by \$3 million, 25% of assets versus the previous 16.7%. Their company is not subject to the risks of being highly leveraged but they have modernized.

Taxpayers Cry "Foul!"

While the scenario described above would be made possible, if Kelso had his way, through government intervention, it would not increase government spending nor decrease tax revenues. Taxes in the CSOT scenario were actually \$400,000 higher than if the company had some how borrowed the money and

deducted \$1 million in interest from their pre-tax earnings. Employee Stock Ownership Plans are financed through government tax policy. When money is borrowed through an ESOP, both the principal and interest are deducted from the company's taxable income because the loan is repaid with tax deductible contributions to the ESOP. In the above scenario, the company paid a \$600,000 dividend in *after* tax dollars to the CSOT. If this had been an ESOP, it would have cost taxpayers \$240,000. While some of us believe these are tax dollars well spent, it leaves ESOPs vulnerable to government deficit worriers constantly looking to close tax loopholes. Furthermore, under current circumstances, an ESOP would have had to obtain credit through the same commercial bank at 10% with a 5 year term. The CSOT in our example was using credit made available through the US Federal Reserve.

The Fed to the Rescue

The Federal Reserve is the US Central Bank. It has the power to create money. According to William Greider, the Fed creates \$30 billion to \$40 billion in new money every year out of thin air. This money is added to the US money supply available to purchase existing products and services. As Milton Friedman teaches us, an increase in the money supply to purchase a fixed amount of products and services will result in inflation. Since more dollars are chasing the same amount of output, the price of that output naturally increases. But, as Friedman points out, if output increases and there is not increase to the money supply, the opposite will happen. Prices will drop. Deflation can be just as bad as inflation because it makes your property values drop and the value of your outstanding home mortgage increase. So Friedman supports the Fed's use of its money creating powers to increase the money supply as long as this is benchmarked to the annual increase in output.

How does the Fed currently use its power to increase supply. For the past several years, the Fed has done so by buying US Treasury financial instruments, bonds, notes and bills. When the Treasury issues bonds for example, it receives the savings of the bond buyers. This is existing money which the government proceeds to spend on existing output. However, when the Fed buys those bonds, either from the government directly, or from current bondholders, it is releasing new money into the economy. By increasing the demand for US bonds, the Fed is actually subsidizing government borrowing because this drives the interest rates and raises the price of the bonds. If the Fed did not buy the government's financial instruments, the government would be forced to rely solely on market rate capital markets to finance deficit spending. Deficit spending increases consumption (by the government) but does not increase output.

Kelso believes a better use of the Fed's money creating powers would be to increase the money supply by providing subsidized credit for the purpose of investment in productive assets which would increase output. The Fed would make new money available at its cost of producing it, say, 0.5% to commercial banks. The banks would continue to originate loans, bare the risk of default, and service the repayment, however the Fed would provide the funds. The banks would continue to tack on their 2% spread to cover costs and generate a profit, and where additional risk were involved they would add the additional percentage needed for default insurance.

Of course this public subsidy would be for a public purpose -- broadening the ownership of capital to *undercapitalized* citizens. The banks would lend the money to Citizen Stock Ownership Trusts managed by professional investment managers. These CSOTs would have to invest these funds in productive assets for projects which stood up to normal conservative bankers' scrutiny. The productive assets being purchased would serve as collateral, and the balance would be guaranteed by the company receiving the investment. The terms of the loans could be as long as necessary to make CSOT investment attractive. For example, in Exhibit 2 above, the CSOT had a 22 year, 2.5% interest loan. Its annual payments were \$596,466. This was paid with the proceeds from the annual dividends.

In a project where the CSOT purchased 100% of the stock, for example an employee-CSOT buying its own company, the dividend payments could be increase to support a shorter term loan. In the case of Exhibit 2, \$1,904,000 was available for debt service. This would allow the term to be reduced to 5.7 years.

What could the Fed achieve in the effort to increase the wealth of our country's *undercapitalized*. Let's make the following assumptions. The starting point for annual output is \$2 trillion. This will grow at a real rate of 2%. Let's assume zero inflation since the Fed will increase the money supply only by the growth in output plus the annual CSOT principal repayments. Why do we add these in to the equation? The Fed only lent enough money to the CSOTs to match the growth in the money supply required by growth in output. However when the CSOT repays the loan, this money is removed from the money supply without a corresponding decrease in output. So it can be recycled back in. As time goes on, the amount of money being recycled through this revolving loan fund will actually exceed the amount of new money issued to keep up with growth in output. Let's fix the term at 10 years, somewhere between the 5.7 and 22 years in our two examples. Furthermore, as the new capital accumulated, it would generate an additional return for its owners -- let's estimate this at 15%. Exhibit 3 illustrates that in 20 years, *undercapitalized* US families will have accumulated a collective \$6.382 trillion. Assuming a population of 300 million and an average family size of 4, we have 75 million families. Since we earlier pointed out that 85% [\[11\]](#) of the population only owns 5% of the wealth, let's allow those 63.75 million families to participate in CSOTs. These families will have accumulated \$100,110 providing them with an annual capital income of \$10,000 to supplement their wage income.

And It Gets Better

Kelso predicts, furthermore, that with the increase in income available to a broader population, rising consumer demand can support a growing real growth rate in output. Exhibit 4 assumes that the growth rate increases by 0.5% each year. With these new figures, the average *undercapitalized* family will have accumulated \$279,772 generating an annual capital income of \$28,000. If each citizen were allowed a tax free capital accumulation threshold, future generations would not have to begin at zero. Just like the family farm, the family capital would be passed on from generation to generation.

It is unlikely that the Fed will ever be used to eliminate poverty in the US. First of all, as the fourth branch of US government, the Fed is relatively independent of political pressures. It would be hesitant to give up the current lever which it uses to regulate the money supply. Money supply is not only affected by growth in output, but also by the habits of US citizens to hold money. Friedman estimates that national money holdings in the US are close to 9 months of national income. This money is effectively kept out of circulation. If people began spending more and reducing this figure to 8 months for example, an inflationary increase in the money supply could emerge. The Fed would want to reduce the money supply rather than increase it. When the vehicle is US government financial instruments, this is a relatively easy task. There is a liquid market for Treasury instruments and the Fed could soak up excess money by selling off part of its supply of such instruments. However, if the Fed were to deplete its supply of Treasury instruments, and replace these with CSOT loans at 2.5%, it would have a difficult time finding buyers, and its ability to regulate the money supply would be curtailed. On the other hand, it could sell CSOT loans at a discount from face value in order to stimulate a market for them.

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EXHIBITS

- 1. CSOT Equity Reduces Opportunity to Increase Return from Leverage**
- 2. Proposed Expansion Project**
- 3. Families Accumulate \$110,000 Capital**
- 4. Families Accumulate \$279,772 Capital**

EXHIBIT 1: CSOT Equity Reduces Opportunity to Increase Return from Leverage

	NO CSOT	Year 1	Year 2	Year 3	Year 4	Year 5
Working Capital Liabilities @ 0%		\$6,000,000	\$6,300,000	\$6,615,000	\$6,945,750	\$7,293,037
Debt @ 9%		\$6,500,000	\$6,500,000	\$6,500,000	\$6,500,000	\$6,500,000
Equity		\$6,500,000	\$6,500,000	\$6,500,000	\$6,500,000	\$6,500,000
Retained Earnings		\$0	\$950,000	\$1,962,500	\$3,041,375	\$4,190,731
Total Liabilities & Equity		\$19,000,000	\$20,250,000	\$21,577,500	\$22,987,125	\$24,483,769
Operating Income		\$2,600,000	\$2,730,000	\$2,866,500	\$3,009,825	\$3,160,316
Interest @ 9%		\$585,000	\$585,000	\$585,000	\$585,000	\$585,000
Earnings Before Income Tax		\$2,015,000	\$2,145,000	\$2,281,500	\$2,424,825	\$2,575,316
Tax		\$806,000	\$858,000	\$912,600	\$969,930	\$1,030,126
Profit After Tax		\$1,209,000	\$1,287,000	\$1,368,900	\$1,454,895	\$1,545,190
Dividend		\$259,000	\$274,500	\$290,025	\$305,539	\$321,001
Accumulated Dividends		\$259,000	\$559,400	\$905,365	\$1,301,440	\$1,752,586
Earnings on Dividends @ 10%		\$0	\$25,900	\$55,940	\$90,536	\$130,144
Return on Equity		18.60%	20.20%	21.92%	23.78%	25.77%

EXHIBIT 1: CSOT Equity Reduces Opportunity to Increase Return from Leverage (Continued)

WITH CSOT	Year 1	Year 2	Year 3	Year 4	Year 5
Working Capital Liabilities @ 0%	\$6,000,000	\$6,300,000	\$6,615,000	\$6,945,750	\$7,293,037
CSOT Equity	\$6,500,000	\$6,500,000	\$6,500,000	\$6,500,000	\$6,500,000
Equity	\$6,500,000	\$6,500,000	\$6,500,000	\$6,500,000	\$6,500,000
Retained Earnings	\$0	\$950,000	\$1,962,500	\$3,041,375	\$4,190,731
Total Liabilities & Equity	\$19,000,000	\$20,250,000	\$21,577,500	\$22,987,125	\$24,483,769
Operating Income	\$2,600,000	\$2,730,000	\$2,866,500	\$3,009,825	\$3,160,316
Interest	\$0	\$0	\$0	\$0	\$0
Earnings Before Income Tax	\$2,600,000	\$2,730,000	\$2,866,500	\$3,009,825	\$3,160,316
Tax	\$1,040,000	\$1,092,000	\$1,146,600	\$1,203,930	\$1,264,126
Profit After Tax	\$1,560,000	\$1,638,000	\$1,719,900	\$1,805,895	\$1,896,190
Dividend	\$305,000	\$312,750	\$320,512	\$328,269	\$336,001
Accumulated Dividends	\$305,000	\$648,250	\$1,033,588	\$1,465,216	\$1,947,738
Earnings on Dividends @ 10%	\$0	\$30,500	\$64,825	\$103,359	\$146,522
Return on Equity	12.00%	13.07%	14.23%	15.48%	16.84%
Dividend on CSOT	\$305,000	\$312,750	\$320,512	\$328,269	\$336,001

EXHIBIT 2: Proposed Expansion Project

	NO CSOT	No Change	Expansion	WITH CSOT	Year 1
Working Capital Liabilities @ 0%		\$5,000,000	\$7,000,000	Working Capital Liabilities @ 0%	\$7,000,000
Line of Credit @ 12%		\$10,000,000	\$10,000,000	Line of Credit @ 12%	\$10,000,000
Expansion Debt @ 10%, 5 Years		\$0	\$10,000,000	CSOT Equity	\$10,000,000
Equity		\$15,000,000	\$15,000,000	Equity	\$15,000,000
Retained Earnings		\$0	\$0	Retained Earnings	\$0
Total Liabilities & Equity		\$30,000,000	\$42,000,000	Total Liabilities & Equity	\$42,000,000
Operating Income		\$5,000,000	\$8,000,000	Operating Income	\$8,000,000
Interest @ 12%		\$1,200,000	\$1,200,000	Interest @ 12%	\$1,200,000
Interest @ 10%		\$0	\$1,000,000	Earnings Before Income Tax	\$6,800,000
Earnings Before Income Tax		\$3,800,000	\$5,800,000	Tax	\$2,720,000
Tax		\$1,520,000	\$2,320,000	Profit After Tax	\$4,080,000
Profit After Tax		\$2,280,000	\$3,480,000	Reinvestment @ 5% of Assets	\$2,100,000
Reinvestment @ 5% of Assets		\$1,500,000	\$2,100,000	Dividend to CSOT	\$600,000
Cash Available for Debt Service		\$780,000	\$2,380,000	Dividend to Other Shareholders	\$900,000
Bank's 1.25 Coverage Ratio		NA	\$1,904,000	Retained Earnings	\$2,580,000
Return on Equity		15.20%	23.20%	Total Earnings for Other Owners	\$2,448,000
				Return on Equity	16.32%

EXHIBIT 3: Families Accumulate \$100,110 Capital

Year	1	2	3	4	5	6	7	8	9	10
Growth Rate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Annual GNP (billions)	2040.00	2080.80	2122.42	2164.86	2208.16	2252.32	2297.37	2343.32	2390.19	2437.99
Increase to Money Supply	40.00	40.80	41.62	42.45	43.30	44.16	45.05	45.95	46.87	47.80
Pure Credit	40.00	44.80	49.70	54.69	59.78	64.98	70.28	75.68	81.20	86.82
Repayments	0.00	(4.00)	(8.08)	(12.24)	(16.49)	(20.82)	(25.23)	(29.74)	(34.33)	(39.02)
Accumulated Pure Credit	40.00	80.80	122.42	164.86	208.16	252.32	297.37	343.32	390.19	437.99
Accumulated New Capital	40.00	89.80	150.95	225.22	314.66	421.64	548.85	699.43	876.96	1085.57
Growth @ 15%		6.00	13.47	22.64	33.78	47.20	63.25	82.33	104.91	131.54
Less Interest @ 2.5%		(1.00)	(2.02)	(3.06)	(4.12)	(5.20)	(6.31)	(7.43)	(8.58)	(9.75)

Year	11	12	13	14	15	16	17	18	19	20
Growth Rate	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Annual GNP (billions)	2486.75	2536.48	2587.21	2638.96	2691.74	2745.57	2800.48	2856.49	2913.62	2971.89
Increase to Money Supply	48.76	49.73	50.73	51.74	52.78	53.83	54.91	56.01	57.13	58.27
Pure Credit	92.56	98.41	104.38	110.47	116.67	123.01	129.47	136.06	142.78	149.63
Repayments	(43.80)	(48.67)	(53.65)	(58.72)	(63.90)	(69.17)	(74.56)	(80.05)	(85.65)	(91.36)
Accumulated Pure Credit	486.75	536.48	587.21	638.96	691.74	745.57	800.48	856.49	913.62	971.89
Accumulated New Capital	1330.02	1615.76	1949.09	2337.24	2788.53	3312.52	3920.23	4624.31	5439.32	6382.02
Growth @ 15%	162.84	199.50	242.36	292.36	350.59	418.28	496.88	588.03	693.65	815.90
Less Interest @ 2.5%	(10.95)	(12.17)	(13.41)	(14.68)	(15.97)	(17.29)	(18.64)	(20.01)	(21.41)	(22.84)

Assumptions: Growth rate based on historical performance remains 2% consistently

Base GNP equals \$2 trillion

Increase in money supply equals increase in GNP

Increase in pure credit equals increase in money supply plus repayments on past credit

Repayments of principal are in equal amounts over ten years

Acquired productive assets grow in value at an annual rate of 15%

Interest rate on the pure credit equals 2.5%

EXHIBIT 4: Families Accumulate \$279,772 Capital

Year	1	2	3	4	5	6	7	8	9	10
Growth Rate	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%
Annual GNP (billions)	2040.00	2091.00	2153.73	2229.11	2318.27	2422.60	2543.73	2683.63	2844.65	3029.55
Increase to Money Supply	40.00	51.00	62.73	75.38	89.16	104.32	121.13	139.90	161.02	184.90
Pure Credit	40.00	55.00	71.83	90.75	112.08	136.15	163.39	194.28	229.38	269.37
Repayments	0.00	(4.00)	(9.10)	(15.37)	(22.91)	(31.83)	(42.26)	(54.37)	(68.36)	(84.47)
Accumulated Pure Credit	40.00	91.00	153.73	229.11	318.27	422.60	543.73	683.63	844.65	1029.55
Accumulated New Capital	40.00	100.00	184.56	299.15	450.37	646.12	895.86	1210.92	1604.85	2093.83
Growth @ 15%		6.00	15.00	27.68	44.87	67.56	96.92	134.38	181.64	240.73
Less Interest @ 2.5%		(1.00)	(2.28)	(3.84)	(5.73)	(7.96)	(10.56)	(13.59)	(17.09)	(21.12)

Year	11	12	13	14	15	16	17	18	19	20
Growth Rate	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
Annual GNP (billions)	3241.62	3484.74	3763.52	4083.42	4450.93	4873.77	5361.14	5924.06	6575.71	7331.92
Increase to Money Supply	212.07	243.12	278.78	319.90	367.51	422.84	487.38	562.92	651.65	756.21
Pure Credit	315.02	367.28	427.25	496.25	575.85	667.93	774.75	899.03	1044.05	1213.78
Repayments	(102.96)	(124.16)	(148.47)	(176.35)	(208.34)	(245.09)	(287.38)	(336.11)	(392.41)	(457.57)
Accumulated Pure Credit	1241.62	1484.74	1763.52	2083.42	2450.93	2873.77	3361.14	3924.06	4575.71	5331.92
Accumulated New Capital	2697.19	3438.01	4343.85	5447.59	6788.49	8413.42	10378.35	12750.10	15608.57	17835.46
Growth @ 15%	314.07	404.58	515.70	651.58	817.14	1018.27	1262.01	1556.75	1912.52	2341.29
Less Interest @ 2.5%	(25.74)	(31.04)	(37.12)	(44.09)	(52.09)	(61.27)	(71.84)	(84.03)	(98.10)	(114.39)

5331.92 Increase to Annual GNP
5331.92 Increase to Money
Supply
8143.44 Pure Credit Made
Available
5331.92 Outstanding Pure Credit
\$279,772 Capital Per Family
\$27,977 Annual
Capit.
Income @
10%

Assumptions: Growth rate increases by 0.5% annually as increasing ability to consume drives the economy

Base GNP equals \$2 trillion

Increase in money supply equals increase in GNP

Increase in pure credit equals increase in money supply plus repayments on past credit

Repayments of principal are in equal amounts over ten years

Acquired productive assets grow in value at an annual rate of 15%

Interest rate on the pure credit equals 2.5%

[\[1\]](#) The productive assets of the 20th century are owned through corporate stock. Since the wealthiest 15% of the population owns about 95% of corporate stock, the inverse is also true -- 85% of the population only owns 5% of corporate stock.