

Binary Economics in a Nutshell

Many other writers on "worker ownership," "broad-based capital ownership," and "participatory economics" have trivialized and marginalized Louis Kelso as merely "the inventor of the ESOP" and as just another advocate of "the ownership solution" to the flaws of global capitalism. One notable exception is William Greider, who gives an undistorted description of Kelso's paradigm in his 1997 best-seller *One World, Ready or Not: The Manic Logic of Global Capitalism*.)

In Kelso's system "binary" means "consisting of two parts." Kelso divided the factors of production into two all-inclusive, interdependent and quantifiable categories -- the human ("labor"), and the non-human ("capital") inputs to the productive process. The central tenet of binary economics is that there are two components that can link marketable outputs from the labor-capital mix directly to incomes distributed according to market-quantified values of all inputs: (1) that generated by human labor inputs, and (2) that generated by capital inputs. Binary economics attributes most of the increases in the labor-capital mix of the modern world to capital assets in the form of ever-improving technologies, structures and system designs, and far less to any increased productiveness of human labor. Classical economic theory, on the other hand, regards all output and earnings derived from capital enhancements as if they were produced by "increased labor productivity," thus rationalizing higher and higher pay for less and less human effort.

Binary economics holds that broad-based affluence and economic freedom, as opposed to financial insecurity and economic dependency for the many, would be made possible through the widespread ownership of constantly improved capital assets, including system changes, that are added to produce more and more consumable goods with less and less human input and resources. In contrast to traditional schools of economics which assume that scarcity is inevitable, binary economics views shared abundance -- sustainable economic growth and the equitable distribution of future wealth and income throughout society -- as achievable by connecting every person through private ownership of property in ever-advancing technologies, institutional systems and structures.

Binary economists Robert Ashford and Rodney Shakespeare in their book *Binary Economics: The New Paradigm* identify three distinguishing concepts within binary theory -- binary productiveness, the binary property right, and binary growth. These components interact and reinforce one another, allowing for maximum rates of sustainable growth within a modern, globalized economy.

Binary economics recognizes a natural synergy, as opposed to an unavoidable trade-off, between economic justice and efficiency within a global free marketplace. Rejecting pure laissez-faire assumptions, binary economics is based on four pillars of a truly free and just global marketplace: (1) effective means for democratizing ownership of capital, including universal access to money and capital credit for financing growth and transfers of productive assets, (2) the restoration of and

universalized access to the full rights of private property, (3) limited economic power of the state (whose main role should be to promote justice by eliminating special privileges, monopolies and other barriers to equal participation) and (4) free and open markets for determining just wages, just prices, and just profits.

The theory of binary economics is underpinned by three interrelated principles of economic justice:

Participative justice, the input principle which demands as a fundamental human right, equal opportunity for every person to contribute to the production of society's marketable wealth both as a worker and as a fully empowered owner of productive assets.

Distributive justice, the outtake principle which holds that the contribution of labor to the economic process should be compensated at the market-determined rate (or "just wage") for each particular type of human contribution to the production of marketable wealth, with capital contributions compensated by the residuals (in the form of "profits" and "rentals") from the sales of marketable goods and services.

Harmony, the feedback principle that balances and restores participation and distribution within a market-based economic system to counter monopoly tendencies. This principle was referred to by Louis Kelso and Mortimer Adler as the "principle of limitation" and by others as "social justice" or "restorative justice."

Some of the Problems That Binary Economics Will Address

William Greider and the other serious observers of economic globalization make a persuasive case that all of us live in a global marketplace that seems to be running out of control. These observers suggest that mainstream economists cannot agree on how to address such problems as the increasing income insecurity of most workers in globalized markets due to what Greider calls "wage arbitrage" (i.e., outsourcing and shifting of jobs to cheaper labor markets) and how to overcome the widening gap in capital ownership and economic power between a small elite of capital owners and financiers and virtually 99% of the rest of humanity.

Binary economists contend that the real problem is not, as cynics suggest, an evil conspiracy of a governing elite or those who work on their behalf. Rather, the real problem is the system controlling access to money, credit and capital ownership. Once the flaws in any system created by humans are discovered, binary economists argue, that system can be corrected as citizens become more enlightened and demand new solutions.

Kelso's binary economic system combines the elegance of classical market theory with classical moral philosophy and the highest spiritual values. He pointed out precisely

where Adam Smith, Karl Marx, and John Maynard Keynes fell short theoretically by not recognizing the increasing productiveness of capital as the main source of economic growth and the most logical source of widespread income distribution. This conceptual omission by Smith, Marx and Keynes is embedded in all conventional schools of economic thought, from left to right. Consequently, economic theorists have been led down the path where few of them can ever make accurate predictions about the future or offer sound, long-range solutions to meet the dangers of economic globalization.

Binary economics states that in a genuinely free market economy, people should be able to contribute to and gain their incomes from the economic process, based on both their labor and their capital inputs. Most neo-classical and Keynesian economists would dismiss this postulate as absurd, asserting that this condition exists already under capitalism.

Because of artificial institutional barriers to broad-based ownership under current economic policies, however, most people can only expect to legitimate their incomes from their labor alone. Consequently the market system breaks down, as government is forced to interfere with the market mechanism and redistribute incomes to non-owning working people and the unemployed.

As pointed out by Robert Ashford and Rodney Shakespeare in their book *Binary Economics: The New Paradigm*, Kelso's theory offered:

- "a new understanding of the relationship between humans and things as they work together to produce goods and services";
- "a new explanation for industrial growth, poverty and affluence"; and
- "a new strategy for achieving general affluence for all people on free market principles."

For traditional economists, Ashford and Shakespeare offer clear definitions and examples of the Kelsonian concepts of "productiveness", "binary growth", and "binary property rights". They also address the fundamental flaw in today's dominant economic paradigms: an unrealistic, inefficient and blind reliance on "labor productivity" to justify mass redistributions of purchasing power.

Because of these blind spots in traditional economic theories, all existing systems are structured to concentrate economic power, one of the main causes of corruption, crime, exploitation and dehumanization of workers, and endemic poverty and powerlessness in our "global village." If we believe in democracy and empowering every person with rights and responsibilities to contribute to peace through justice in the world, then clearly something new is needed.