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Democratic capitalism vs. binary economics

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Capitalism needs democracy as a counterweight because the capitalist system by itself shows no tendency toward equilibrium. . . . Financial markets are inherently unstable . . .
George Soros, 1998

Soros' arguments in support of this thesis are compelling.¹ They are an urgent reminder that maintenance of civilization requires vigilance and concerted effort. Soros fears that “political developments triggered by the financial crisis may eventually sweep away the global capitalist system itself. It has happened before.” Marx and Engels gave a very good analysis of the capitalist system 150 years ago, says Soros—“better in some ways than the equilibrium theory of classical economics.” We believe that the financial innovation created by Louis Kelso and expounded with Mortimer Adler in *The Capitalist Manifesto*² (with details in *The New Capitalists*) may be the best available instrument for preserving the open society that is essential to a stable and democratic capitalism.

1. Problem

The innovation has not been applied with the universality envisaged by Adler and Kelso. Even more surprising is that economic and political analysts appear to have made very little response to a technique which has major implications for their domains of interest. Why has it not been more widely discussed in the social disciplines?

2. Hypothesis

The communications strategy developed by Kelso and his closest allies does not address the relevant disciplinary communities in a language or at a point of entry that engages their

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stream of discourse. When Kelsonian meets economist they talk past each other, because they have not really met on the same playing field. A brilliant innovation in economic *policy*, backed up by expertise in financial and legal principles, has been side-tracked by promoting it as an innovation in economic *theory*.

3. Note on sources

Our principal motivation in preparing this paper was curiosity: why has the Kelso solution not attracted more prominence in its forty years of life? In particular, why have we not encountered it more directly in our work as economic policy analysts?³ Our interest was engaged by the efforts of Robert Ashford to bring Kelso's ideas into academic circulation through his role as a professor of law and an advocate of socio-economics in jurisprudence. Ashford's conference presentations, written works and personal communications are the focus of our attention.⁴ This seems appropriate because Ashford has made it clear on a number of occasions that his first objective is to be a faithful expositor of Kelso's core position. Furthermore, we have witnessed the apparent approval of his efforts and interpretation among others who were close acquaintances of Louis Kelso. Thus, by following Ashford's lead we expect to minimize our chances of misinterpreting Kelso, as well to participate in building a bridge between his writings and a wider community in the social disciplines.

4. Expansion of our hypothesis

Kelso misconceived the position of his innovation within "the great conversation"⁵ of political economy. The conjecture is reflected in our title: *democratic capitalism* is descriptive of a particular style of political economy; *binary economics*, on the other hand, suggests a method of analysis. One of Ashford's titles promises a description of Kelso's binary *economy*, from which we would expect a description of life and work if his policy prescriptions were applied. In other words, a work of political economy. On opening the text, however, we find primarily an exposition of binary *economics*. Kelso proposed a new way of doing economics, therefore, as well as a new species of financial instruments and a renewed vision of the political economic ideal. These innovations in technique and policy prescription are premised in a particular theory about *the economy*. There are four distinguishable aspects, therefore, to what Ashford calls *binary economics*—theory, technique, analytics and policy prescription. We have found it possible and useful to focus on each of these separately, and conclude that they are not woven into a tight web of mutual interdependence. That is, the technique and the policy prescription do not depend for their efficacy or desirability on the truthfulness or rationale of the theory and analytics. Even more important, application of the technique and policy prescription has probably been held back because of being embedded in the theory and analytical approach.

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