

Capital Ownership, A Human Right (First in a Series of Three)

The cash flow business, no matter which segment you specialize in, is a business of providing capital. Capital is the economic lifeblood of every person, family, business and nation on the planet. At Cash Flow '98, in San Francisco, the Keynote Speaker, former Congressman Jack Kemp said, "Every Child of God, male and female, black and white, rich or poor has a God-given right to credit and capital." He went on to say that "These are the best of times and the worst of times, but times are always bad without capital."

Louis Kelso, the father of the Employee Stock Option Plan (ESOP) in America, which he invented more than 30 years ago, expanded on this thought in an interview with Bill Moyers, published in a book entitled, *A World of Ideas II* (Doubleday). He said, "Capital is the main source of productive input and... acquiring and owning it is a human right. The claim to capital ownership is one of the expressions of the law of private property."

"The right to life implies a right to earn a good living....you can't earn a good income without owning capital. Capital is man's invention to combat toil and poverty and ... every person needs to have it. There is only one cause of poverty in the modern world: failure to own an adequate holding of capital. Owning capital is the way to engage in production and earn income."

The role of capital in financial success. It seems most Americans today are ignorant of the role of capital in economic life. We memorize catchy phrases like, "It takes money to make money", but do we really know what that means to us individually? Put differently, if it truly takes capital to become financially secure, what is capital and how do we get it? I believe understanding the answer to these two, simple questions is fundamental to financial success. While some readers may regard that statement as blatantly obvious, I would guess that the majority of the people reading this article are uninformed about what exactly capital is and precisely how to acquire it. This article will point the way.

Capital in America. Concerning the acquisition of capital, Mr. Kelso went on in the same interview to say, "For two hundred years, two centuries, people have been coming to America in search of the American dream, to acquire capital holding that'll stand them in good stead. The Homestead Act, which offered free land out West to any settler who would work it for five years, was, in a sense, the first government tool recognizing that capital ownership is essential. But we were still an agrarian economy when Lincoln pushed it through. It made landowners of a lot of people who couldn't earn a good income without that capital. It was paid for by sweat equity, but it was paid for. It was bought with very dear labor. But the logic of the Homestead Act was never followed through into the industrial society." (*A World of Ideas II*, pp. 217)

Although there is no government-sponsored way to get capital like the Homestead Act of the mid 19th Century provided, it is important to remember the value of the infrastructure, both hard and soft, our predecessors left to us. It constitutes a small fortune in automatic capital to each citizen. In my seminars, I often ask, "How many of you are capitalists?"

Without fail, nearly every hand in the room will be raised. Then I ask, “How many of you have capital?” Thinking I am talking about large sums of liquid cash, most of the raised hands quickly drop. I find almost everyone has more capital than they realize.

What is capital? What might our individual capital accounts consist of? Mr. Kelso lists types of capital as: “Land, structures, machines, capital intangibles, processes, tools, [etc.]. Let’s look at each of these groups individually, while acknowledging this as an incomplete definition for any one category:

Land. Land obviously consists of soil, dirt, undeveloped real property. But it also includes the minerals in, on or under the ground, the timber or other crops growing on it, water rights running with the land, perhaps wildlife living on the land and anything the land can produce;

Structures. Buildings, including homes, offices, factories, barns, garages, aircraft hangars, shops, hotels, motels, commercial structures of all kinds, recreation facilities and virtually any other structure that serves a purpose of any kind (including outhouses);

Machines. Cars, trucks, trains, planes, boats, ships, manufacturing machines of all kinds, computers, electronics, furnaces, air conditioners, electric razors, clocks, watches, bicycles, pencil sharpeners and every other machine imaginable;

Tools. Any tool, every tool, including your fingernail clippers

Capital intangibles. I think this is the most fascinating and most frequently overlooked area of all. Capital intangibles consist of things that are not primarily material in form or function. For example, the computer I am using to write this article can be classified as a machine, or perhaps a tool, but the software program is a capital intangible. As Mr. Kemp reminded us in San Francisco, “Education is [intangible] capital. Capital is not [only] what is in the ground, it’s what’s in our hearts and minds.” Knowledge is a capital intangible. Processes used to create a specific result in any business or personal function are capital intangibles. Other capital intangibles might include air, wind, sunshine, gravity, mental and physical energy, health, fitness, keen eyesight, acute hearing, sense of smell, creative skills of all kinds, physical speed and agility (for athletes), valuable relationships (networking), personal labor, public infrastructures, time and the gift of life itself. Without well-organized capital intangibles, the other capital is just stuff. Understanding the role of this particular form of capital is fundamental to success in an information economy. As Paul Hawken pointed out in his book, *The Next Economy* (Balentine, 1983), today’s successful products consist of less “mass” and more “information.” Those who can make the most valuable information available to the largest number of people, will experience the greatest success. Look at Microsoft founder, Bill Gates, for example. His company sells tools to manage pure information. His success is self-evident.

Inventory Your Capital. Now that you have an expanded idea of what capital is, I challenge you to do the following:

1. Sit down in the next 24 hours and make a list of all of your personal capital, including intangibles.
2. Next, on a scale of 1-10, rank each item on your list as to how effectively it is being used.
3. Finally, find ways to put each item to better use. If you have stuff clogging your life you are not using and for which you can find no immediate use, give it away. Releasing it back into the flow, by letting someone else put it to beneficial use, will allow new, useable forms of capital to come to you.

How do I acquire capital? I believe the acquisition of capital is a principle-based activity. Although assembling your first business capital typically requires work, saving and/or credit, it is easier to do when one understands the underlying principles of capital accumulation.

Principle Number 1: Start where you are with what you have. This is where the inventory I challenged you to do comes into play. If you did a diligent inventory, you are probably amazed by how much capital you actually have. How can we be so rich and yet think we are so poor? The truth is, any healthy person in this country has everything they need to get started. If you had breakfast this morning and are in possession of sufficient physical energy to work until lunch time and you have good health, you have what it takes to become wealthy. Most jobs are simply a way of trading labor for money. Money is capital, but it isn't business capital unless you live on less than you make, thereby creating a reserve for investment. I recommend reading a book entitled *The Richest Man in Babylon* by George S. Clason. It provides a blueprint for accumulating capital, no matter how humble your point of beginning.

Principle Number 2: Put everything you have to maximum use. The parable of the talents found in the Holy Bible, Matthew, Chapter 25 teaches this principle. There are two opposing parts to it. The first is commonly stated as "Use it or lose it." This is the law of entropy. It says that anything that is not used wastes away and loses value. The second part of the principle assures us that if we put what we have to productive use, it will naturally increase. For example, paint up, fix up and clean up and you will see an immediate increase in the value of your property, if only to yourself. Even relationships respond to loving care and frequent maintenance. Sustain the outflow from your life by well directed work and service to others.

Principle Number 3: Leverage through capital intangibles. The items you find on your capital intangibles list are the keys to leverage. For example, time is a capital intangible. Everyone has use of the same 24 hours each day. If you find ways to make more productive use of your time, you will get more out of the 24 hours. Is there a piece of software you could buy that might make a task easier, or speed up some repetitive process you do daily? This would be double leverage, because you would be using software (a capital intangible) to leverage time (another capital intangible). Education is another powerful leverage tool. Each time you learn something worthwhile (Bart Simpson's date of birth doesn't count), you have more to give, which means the

marketplace will be willing to pay you more for each hour of your time or for each incremental service you render. Study your capital intangible list and determine how you can apply your intangibles to leverage your other assets. Your network of relationships may be the most powerful intangible on your list. Who knows what you don't or who has what you presently lack? Most of the time, it is as simple as asking for information, for help or to borrow something someone else isn't using. Think of all the ways to get from where you are to where you want to be. I would guess everything you require is hidden on your asset list already, if you simply put your capital to work in the proper combinations.

Now, on to Part Two: Capital Accumulation

###

I would love to hear your comments on this article, which originally appeared in the Continuing Education column of The American Cash Flow Journal. You can find my most current contact information on my website, www.waynepalmer.com. Please take a minute to let me know what you think!

Sincerely,



Wayne