WHY OWNER-WORKERS ARE WINNERS

By Louis O. Kelso and Patricia Hetter Kelso

In 1967, five hooded robbers in Miami, Florida, relieved William M. du Pont and his wife of their $1.5 million Russian coin collection at gunpoint. One of the robbers paused long enough to ask Mr. du Pont: "Why don't you make your living like a normal person?" When Mr. du Pont asked what was normal, the gunman replied: "Working to earn a living like everyone else."

As a seventh or eighth generation of what we call "capital workers," Mr. du Pont must have smiled at this naïve view. But our national economic policy still revolves around the idea that every able-bodied person's income problems can be solved through jobs. Capital employment — ownership that is — remains unrecognized as an equally legitimate way to earn a living.

Capital workers have access to credit. Credit enables a borrower to buy a capital asset, like a company, and pay back the loan out of the purchased company's own earnings. Historically the rich have monopolized credit — and the rewards that go with it. The result: 5 percent of American families own nearly all of the economy's non-residential productive assets, with most ownership concentrated in the top 2 percent.

To become more competitive and maintain employment levels, the overall economy needs massive capital investment. But without a change in economy policy and philosophy, our high-tech future will not be owned by working people but by the same 5 percent of families that already own our existing low-tech capital.

Why can't American workers use credit to buy new and existing capital assets — especially those of companies in the process of automating production and eliminating jobs?

The reason is that economists and bankers still decree that capital ownership must be acquired only through heroic feats of under-consumption — which they call savings. Only by holding a pool of savings, these conventionally minded bankers say, can lenders be insured against the risk that a newly acquired company will fail to earn enough to repay its takeover cost. But who in America has unencumbered savings of the requisite magnitude to purchase those companies? Only the already well capitalized — the already rich.

In conventional finance, savings are put up as a kind of performance bond. If a new factory, say, does not produce enough income to pay off its debts, the lenders may foreclose and take the company's savings.

But protecting against a possible failure to repay is really a risk-management problem that should be handled with commercial insurance, not savings. Savings, after all, are only a type of self-insurance plan, which, in our view, is obsolete. It does not broaden

capital ownership as technological change transforms industry from labor intensive to capital intensive. Instead, it concentrates ownership.

The employee stock ownership plan — known as an ESOP — was invented to democratize access to capital credit. In human terms, it is a financing device that gradually transforms labor workers into capital workers. It does this by making a corporation's credit available to the employees who then use it to buy stock in the company. The earnings of the company itself are used to pay for the stock. The company's reward from an ESOP — in addition to a motivated work force of worker/owners — is the low-cost financing of its own capital needs.

But most economists have not caught up with this new economic reality. In fact, most economists still refer to the wages of capital as "unearned income." The inference is that only labor work is legitimately productive. Capital workers, in this view, are freeloaders on labor's work. This is, or course, the official Marxian socialist position. But, strangely, it is also endorsed by such capitalist enterprises as Citibank, which once even used that idea as the basis of an advertisement.

Labor workers and their unions could hardly fail to be confused — especially when they are asked to help finance modernization by accepting wage cuts. These wage cuts often help outsiders take over these companies.

Our economy is now well into an era of unprecedented technological change. Under such code names as "computer-integrated manufacturing," production is being reorganized around technologies designed specifically for automated processes.

Computer pioneer Adam Osborne calls it the "microelectronics industrial revolution." He predicts that its impact will rival that of the first industrial revolution, wiping out perhaps half of all jobs — blue and white collar alike — in the industrial world today. "Without adequate planning," he warned, "we could be heading for a time of anguish and chaos."

But the ESOP method of financing enables our nation to deal with technological change rationally and painlessly — person by person, corporation by corporation, industry by industry — as capital input displaces labor input across the board.

Moving from labor worker to combined labor worker and capital worker is a transition essential to a private-property, free-market economy whose destiny is inexorably bound to technological progress. This solves both the individual's problem of earning a good living and the economy's problem of maintaining mass production and purchasing power.

Relying upon a job to provide an income once worked for most Americans. It still does for many, at least until they reach retirement or are dismissed from those jobs. But to earn a good living as long as they live people must now supplement their labor employment with capital ownership. Bringing about this long overdue transition is government's most urgent task.

When F. Scott Fitzgerald observed that “the rich are different from us,” Ernest Hemingway retorted, “Yes, they have more money.”

But this celebrated riposte throws no light on the great divide between the very rich and even such extraordinarily talented middle class outsiders as Fitzgerald and Hemingway. Had the latter known the secret of wealth, he might have replied: “Yes, Scott, they have access to capital credit.”

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