
A TURNING POINT IN HISTORY:

MORE THAN WHAT APPEARS ON THE SURFACE

Rev. William Ferree, S.M., Ph.D.
Center for Economic and Social Justice, April 1985

It is evident that the Employee Stock Ownership Plans or ESOP's are one of the more dynamic ideas on the contemporary economic scene. Not only do they seem to be an idea "whose time has come," but they reach far far more profoundly into the problem of human development than is generally recognized. Unless these more profound aspects are better attended to there is danger that their full potential will be unrealized.

Putting the Movement into Context

In order to grasp the full significance of the present movement toward widespread Employee Stock Ownership, therefore, it is necessary to place this movement in the broad currents of human history. Before doing this, however, it will be useful to note for how long its necessity has been clearly understood. Pope Leo XIII, in the first landmark document of what has come to be known as Catholic Social Teaching, clearly pointed out the way:

"This great labor question cannot be solved save by assuming as a principle that private property must be held sacred and inviolable. The law, therefore, should favor ownership, and it should be public policy to induce as many as possible of the workers to become owners. Many excellent results will follow from this, and, first of all, property will certainly become more equitably divided (than the present division) between the party which holds the power because it holds the wealth - and on the other side - the enormous masses of the needy and the powerless, the sick and the sore in spirit."

Subsistence and History

The first of the great historical currents is the passage from "subsistence" civilization to the present "developed" civilization. All through history the only economic system known was almost universal involvement in production with hand tools and hand labor for the subsistence of the workers themselves, plus a small amount of trade based on the superfluous product of this hand labor.

This was not a very efficient system of production and the whole human race was never very far from catastrophe. The average age of human life was in the upper twenties, or lower thirties, and population increased very little through centuries and even millennia. (see graph) Yet in the midst of this general want a few people, always and everywhere the same, managed to do very well indeed: the landlords (the nobility), the tax gatherers (the bureaucrats), the loan sharks (the bankers), and the professional military men who implemented their desires and supported them, managed to skim off the general scarcity enough to live very well, to put up monuments, to buy jewels, and to subsidize the arts. When we read history, we read about these Accumulators.

The factor that led to this monotony of economic system through all civilizations, all cultures and all nations, was the fundamental inefficiency of hand labor and hand tools. From this there was no escape as can be recognized by attempting to increase production

by giving forty rakes to a single worker. They must be given to forty workers, and the relative production remains exactly where it started.

The final breakout from this monotony was the invention of what we now call capital tools, and the use of fossil energy. These enabled production to be increased without limit by increasing the capitalization per worker; and finally made possible the immense riches of what we now call the developed world.

The worst feature of the subsistence economy, was the concentration of almost all existing wealth in the hands of the few Accumulators, with the resulting poverty of the mass of propertyless workers. One might have expected the new age of abundance to change this; but in effect it did not. The mass of humanity would indeed dispose of an increasing income, but the relative position in regard to the owners of the means of production remained roughly the same, though on a clearly higher level. The recent draft of the Bishops' letter on the American Economy is occupied almost entirely with an analysis of this situation.

The mechanism by which the worst feature of the old subsistence economy was preserved into the new developed economy was two-fold: First of all, when the new capital tools came along, there was only one group of human beings who had the resources to buy and put them to use. That group was of course the old Accumulators. Thus it was those who had profited most from the economy of scarcity who by default had to shape the new economy of abundance. Specifically they had to create a new corporate body to handle the new capital tools with their immense power of production. It was they who invented the new business corporation, (as opposed to the semi-governmental corporations of history) and they necessarily gave it the shape of their own conceptions.

Thus the corporation was legally defined as absentee stockholders only; the living and breathing enterprise which carried on the production was defined as all outside contractors; and these two intrinsically opposed forces were welded into a going concern only by massive interference of Governments with what became known as Labor Legislation or Social Legislation. The achievements of Management Theory have introduced some reason into this extraordinary monstrosity, but it is still the fundamental arrangement of our economy at the present day.

A second factor was the way in which the fruits of production were distributed to the owners and the workers of the new capital tools. The great engine of modern "developed" wealth is what came to be known as Equity Growth. New capitalization was paid back immediately to the Stockholders in assignment of their negotiable stock or to the Bank in repayment of its loan; but the machinery and productive capacity bought by this new capitalization remained after the Bank disappeared from the picture entirely, and produced indefinitely until it was replaced by new capitalization.

The old Accumulators, who were also the new Industrialists, misread this situation entirely. When they discovered the machinery still producing after all obligations on it were paid off, they came to the conclusion that this could not belong to the "outside contractors" since they had been already paid off as agreed. Therefore, they concluded it must belong entirely and exclusively to themselves as the "fruit of their ownership." The real truth was that they had not only paid off the "outside contractors," but they had also paid off themselves in the value of their negotiable stock and in their dividends. Thus the real status of the equity growth was that it was the fruit of collaboration of capital and labor from the beginning, and belonged somehow to both in distributive justice. It was only machines in their crate that the Accumulators owned in the absolute manner they envisioned.

As a matter of fact the Accumulators recognized this very clearly when they later went to professional management of their property, and immediately "cut in" the managers into ownership through stock options, bonuses, etc., in order to assure their loyalty to the corporation. It is obvious that this same problem had existed for all the "outside

contractors" from the beginning, but the old Accumulators did not recognize it until management loyalty became decisive and necessary to them.

What the new legislation favoring Employee Stock Ownership does is to permit new capitalization to follow a much more healthy pattern of equity distribution, and thus gradually arrive at a going concern which is synonymous with the legal corporation. The special virtue of this method is that there is no suggestion of expropriation, redistribution, or anything of that sort. It is concerned only with new capitalization and allows the present distribution of property to remain untouched but to be converted gradually over history into something much more just and much more effective.

The gradualness of this method of restructuring the corporation is an advantage in its own right. The Employee Ownership can start out in any proportion and in any degree of completeness desired, so that advances can later be made in the measure in which real advantages become evident. This is the ideal way to accomplish profound social change.

To sum up then, the Employee Stock Ownership Movement will:

- 1) Restructure the Corporation so that its legal definition and the going concern are identical; the Government can withdraw from its massive and inappropriate tasks of holding a fictitious Corporation together by Social Legislation.
- 2) End the monopolization of equity growth through the use of capital credit, which had been retained by the early successors to the old Accumulators. Capital credit would be opened up to the general population, and the Industrial Revolution would finally be completed.

Labor-Intensive to Capital-Intensive Production

Our second broad historical current into which the development of the Employee Stock Ownership Plans must be inserted, is that from the almost exclusive hand labor of subsistence civilization, to the ever increasing, and finally almost exclusive role of Capital in developed production. This progression from an almost exclusive predominance of labor in the productive process to an ever increasing predominance of capital almost to the exclusion of labor, is on the one hand a highly humanizing movement: humanity can progress from an almost exclusive preoccupation with physical and material subsistence, to a more and more intellectual and spiritual life of fully human proportions.

The difficulty is that no wage system can follow this progression through to its conclusion. As mechanization and automation give way to artificial intelligence and robotics, labor is rendered not only temporarily "more productive," but eventually superfluous. This can be handled up to a certain point by redistribution of income through public taxation, but there is an evident limit to such a procedure, based on the fact that redistribution is the most uneconomical of all forms of income generation. Sooner or later it must fail to support a universal system. The only alternative is that the wage system be supplemented by a system of ownership, so that each laborer will have two incomes, one from his contribution to the productive process, and one from the revenue of his ownership of productive capital. In this way the income from ownership can increase as that from wages decreases and the total income of the person can be maintained.

Thus the Employee Stock Ownership Movement is not only a very advantageous thing, but it is an absolutely necessary one as the course of industrialization develops to its logical conclusion.

International Development ("North-South Tension")

A third broad current into which the Employee Stock Ownership Movement must be inserted is that of the eventual progress of still underdeveloped countries. The economic

factors which permitted the development of one-third of humanity after the Industrial Revolution, are quite absent in the two-thirds of humanity which still suffer from the scarcities of subsistence living. Even those States which are now undergoing rapid development like Taiwan, Korea, Singapore, cannot be directly imitated by the less advanced States. Some way must be found to capitalize these still-subsistence economies without having everything controlled by the still active Accumulators who make up their Governmental and economic Institutions. The massive debts which increasingly threaten the world economy are the only possible result with the present techniques.

The only way out is a policy of extending foreign aid only within a plan of expanded capital ownership and a vigorous promotion of it in the underdeveloped countries with the assistance of international aid personnel, and the expertise of multinational Corporations.

East-West Tension (Collective Totalitarianism)

A final broad historical current into which the Employee Stock Ownership Plans must be inserted for full understanding is the enduring conflict between the free and collectivist societies. Collectivism rose to power when it was considered the only alternative to the supremacy of the Accumulators in the developing Capitalist society. As long as it is thus viewed as the only alternative there is no stopping this conflict, since collectivism by itself is such a tyranny of political power, military force, and economic monopoly that the groups which exercise such complete power will defend it to the death even though it is an economic failure; and thus there is no possibility of real dialogue or gradual change.

Widely extended Employee Ownership is a different pattern from both the present contestants, and thus allows new contacts and new efforts at a mutual understanding.

The same arguments that were used to convince peoples of the necessity of collectivism are even more valid for conviction concerning the utility of universal ownership in which each owner retains his rights instead of turning them over to a collective leadership which history has shown is not responsible to anyone.

Thus arguments for Employee Stock Ownership are not in any way a continuation of the present so-called dialogue between free enterprise and the collectivists, but it is a return to the original problem and research which presided over the origin of the present conflict. As such, it has a chance of success which no possible continuation of the present alleged dialogue could promise.

Human Dignity and Personal Development

There are many secondary advantages which make it desirable to promote Ownership by Workers. First of all, it is the owner/worker who best fits the description of human nature as outlined in the Biblical account of the Creation. Man is to "fill the earth and subdue it" and to "be sovereign over all the living creatures that move upon the earth." A wage system fits this description only because it permits the eventual purchase of ownership. As a matter of fact, such historical expressions as "the just wage" and "the family wage" specifically intended to imply the possibility of acquiring this ownership in addition to meeting the necessities of ongoing life. The promotion of Employee Stock Ownership Plans is a much more direct path to the ideal.

Each Will Guard His Own

A second advantage has to do with efficiency of production and of use. From the very nature of man as we have just seen it described in Genesis, man will always work better on something that he views as his own, and he will always take better care of something which he views as his own. Thus the just distribution of the things of Creation would be that one in which each one owns what he has to use. Another way of saying the same

Duty to the Common Good

Man is a social being and is bound to aid and support the Common Good of himself and his fellows. He can best discharge this obligation when he is owner of the things he administers and is thus free to direct them to the Common Good in his use. An agency responsibility is always narrower than the responsibility of ownership; so a full preoccupation for the Common Good can exist only in one who has the broad responsibility of ownership. The narrow responsibility of agency simply cannot always make room for this, and leads to eventual distortions of one's vision of the Common Good.

Social Justice

At the dawn of Western Moral Science, Aristotle, in the Fifth Chapter of his Nichomachean Ethics, concluded that he would not have to write a special treatise on Social (then called "Legal") Justice, because it included all virtues, and the treatises on all individual virtues could therefore adequately cover the ground.

This mistake - for it was a serious mistake - was partly corrected in the 13th Century by Thomas Aquinas; but had to wait till 1931 for a completed theory in the Encyclical Quadregesimo Anno of Pius XI.

There Social Justice is a definite and specific virtue which structures and continually restructures all the institutions of life into a Common Good perfective of all individuals within it.

Its judgment on the "legal" corporation created, as we have seen, at the beginning of the Industrial Revolution is serious:

"As the situation now stands, hiring and offering for hire in the so-called labor market separate men into two classes, as into battle lines, and the contest between them turns the labor market itself almost into a battlefield where face to face the opposing lines struggle bitterly. Everyone understands that this grave evil that is plunging all human society to destruction must be remedied as soon as possible."

"But complete cure will not come until this opposition has been abolished and well ordered members of the social body - Industries and Professions - are constituted in which men may have their place, not according to the position each has in the labor market ("classes") but according to the different social functions each performs."

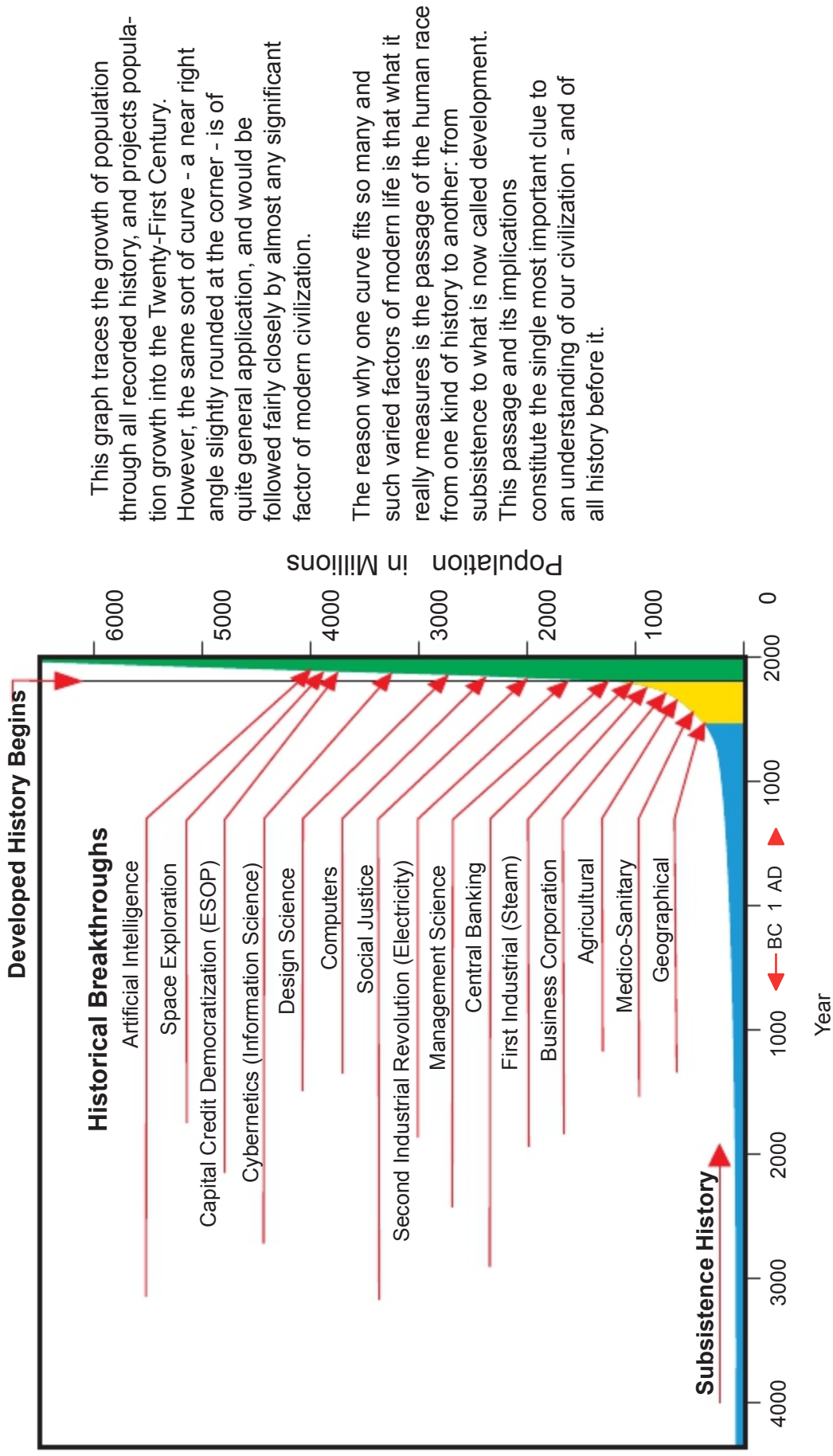
Six years later, in Divini Redemptoris Pius XI summed this up in one paragraph:

"If, therefore, we consider the whole structure of economic life, the reign of mutual collaboration between justice and charity in social-economic relations can only be achieved by a body of professional and interprofessional groupings, built on solidly Christian foundations, working together to effect, under forms adapted to different places and circumstances, what has been called the Corporation."

What a contrast to the old Accumulators' "Corporation" consisting exclusively of absentee stockholders locked in endless battle with "outside contractors" and held together in a going concern only by the massive interference of the State's "Social Legislation!"

Only generalized Employee Stock Ownership can bridge this contrast and create a built-in Social Justice.

The Development Curve



This graph traces the growth of population through all recorded history, and projects population growth into the Twenty-First Century. However, the same sort of curve - a near right angle slightly rounded at the corner - is of quite general application, and would be followed fairly closely by almost any significant factor of modern civilization.

The reason why one curve fits so many and such varied factors of modern life is that what it really measures is the passage of the human race from one kind of history to another: from subsistence to what is now called development. This passage and its implications constitute the single most important clue to an understanding of our civilization - and of all history before it.

Overall Guidance

The promotion and installation of Employee Stock Ownership Plans and their derivatives (Consumer Stock Ownership Plans, General Stock Ownership Plans, etc.) is fast creating a highly complex and technical profession of Consultants who can guide Corporations through the intricacies and pitfalls of ESOP implementation.

The issues and principles outlined in this paper have hardly been suspected by these new Professionals; but are more necessary than their technical expertise if this promising new movement is to live up to its really historical potential.

Appendix: Experimental Projects

There are certain political situations so tense and so complex that no political solution can be envisioned. An example is the Israeli-Palestinian relationship, and another perhaps is the labor-government relationship in Poland.

In such situations one side must "occupy" the other for life to continue at all.

There is a possibility of leaving the political question temporarily in an impasse while seeking accommodations in the economic order.

This would entail moving as much decision making power as possible to the personal level where it could be supported by personal contacts and personal interactions, not by hardened social pressures.

A general Personal Ownership Plan based on experience gained with ESOP management, could set up the conditions for such an experiment.

South Africa

A somewhat similar opportunity exists in South Africa where the political solution attempted by the Afrikaners has not only run into an interior impasse, but has also roused almost universal censure in the International Community.

At present there is almost no real contact outside of the naked use of force, and it would have to be discovered how economic promotion and self-sufficiency could be turned into an interim constructive program, leading the way to future political accommodations when both sides have something to lose, and when the track record of African rule can inspire more confidence.

In this field, therefore, the immediate task is one of research unless the present drive to eliminate the Multinationals can be reversed.

In this latter case, something could be done with creative divestiture in favor of the workers with methods already known, perhaps in communities built up immediately around the cooperating enterprises.

The Center for Economic and Social Justice - www.cesj.org
P.O. Box 40711, Washington, D.C. 20016 - Phone: 703-243-5155, Fax: 703-243-5935

CESJ is a non-profit 501(c)(3) educational and research organization,
contributions to which are tax-deductible under the U.S. Internal Revenue Code.