

Dinner at the Madison: Louis Kelso Meets Russell Long

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OWNERS AT WORK

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More than any other single event, Louis Kelso and Russell Long's dinner in November 1973 put Employee Stock Ownership Plans on the agenda. But what really happened that evening?

Owners at Work asked that question of Norm Kurland, who was there. Here is his account.

In the chronicles of the expanded ownership movement, the meeting on November 27, 1973, between "ESOP inventor" Louis Kelso and Senator Russell Long in the Montpelier Room of the Madison Hotel, was a watershed event. For the first time, a major political power became excited about Kelso's concept of how to expand ownership of productive assets and agreed to champion those ideas in legislation.

A tough sell on Capitol Hill

Behind the Kelso-Long meeting lay a major push to sell the Kelso message in Congress.

In the early 1970s, Kelso and I had begun to focus our efforts on Capitol Hill. Senator Fred Harris had become interested in Kelso's ideas. Through his aide Bill Maynes (who has recently left the Carnegie Endowment for Peace), Senator Harris published a number of Kelso's articles in the *Congressional Record*, as well as responses to economist Paul Samuelson's attack on Kelso.

In 1972 we began to score. Representatives of the National Maritime Union (NMU) had come to me to try to save the passenger vessel industry. The NMU had 5,000 of their members walking the streets after the taxpayers cut off operating and construction subsidies for the American cruise business. As a result, Tom Martinez, one of the leaders of the National Maritime Union, wanted to see whether the Kelso idea could help. The National Maritime Union hired Kelso and me to advise them on a plan to save the industry.

The president of the National Maritime Union, Joe Curran, testified on February 28, 1972, before the Senate Maritime Affairs Subcommittee, saying that his union was prepared to cut labor costs by 50% if the Congress would cooperate in helping them adopt the Kelso plan to save the industry. The committee studied the matter. As later proved ironic, the chairman of the committee, Senator Russell Long from Louisiana, listened to Curran's testimony and rejected the idea, commenting "sounds like one of my daddy's programs, 'make every man a king.' "

However, another Congressional avenue was opening up at the same time. Charlie Pillsbury from Minneapolis, who was working for the 1972 presidential campaign of George McGovern, contacted me. He had heard from someone who had listened to the grassroots leader from Harlem, Ennis Francis, give a presentation on ESOPs. Her audience, a group of Federal economic development officials, thought the ESOP idea sounded wonderful. Charlie became interested in the Kelso idea and, after reading Kelso's book, persuaded his father, George Pillsbury (who was a member of the board of the Pillsbury Corporation and a state senator in Minnesota) to become interested. George was a supporter of Richard Nixon and a major political figure in the Republican party in Minnesota.

Father and son discovered in Kelso an idea which could unify them and unite the supporters of George McGovern and Richard Nixon. Kelso and I became friends with George and Charlie Pillsbury. George arranged for Kelso to testify before one of the

state legislative committees on what the state could do to encourage ESOPs in Minnesota, particularly with respect to conversion of defense industries into peacetime manufacturers. Kelso testified and that deepened our relationship with the Pillsburys.

As the election of 1972 approached, I called George Pillsbury and mentioned that I was running into roadblocks in getting our message into offices on Capitol Hill. I felt that the conservatives could find in the Kelso idea a brand of politics that would strengthen their hand. They were still the minority and it appeared they would remain so for some time. So I called George and asked him if he could open some doors for me.

George gave me three names. We struck out with two: Senator Jake Javits of New York (with whom we were never able to have a meeting), and Senator Chuck Percy of Illinois (who phoned me but couldn't see the difference between Kelso's concepts and profit sharing). The third was Peter Dominic from Colorado who chaired the Republican National Campaign Committee. Senator Dominic called me and after a few minutes said, "I think you should meet with Senator Paul Fannin of Arizona who's on the Senate Finance Committee. Tell him I suggested you give him a call."

The next day I called and almost immediately got a meeting with Senator Fannin. Fannin quickly saw the political significance of Kelso's idea. I had shown him the statistics on the concentration of ownership among stockholders of US corporations, and pointed out that most Americans, because they didn't have significant equity interests, would be hostile to corporations and hostile to corporate profits. Propertyless citizens would also be easily swayed by people who were pushing an anti-corporation position in politics. I suggested to him that the only way for the free enterprise system to strengthen itself would be through a broadening of private ownership. Here I explained the Kelso financing method. Senator Fannin, who had come from a business background before he entered politics in Arizona, quickly understood.

Through Senator Fannin we were able to arrange for Kelso to come in and make a presentation to eight or nine of the most conservative members of the Senate Finance Committee. Russell Long, who chaired the committee, was not there. Senator Talmadge was the only Democrat present. Senator Bennett from Utah, the father of the present senator, was there. Senator Curtis and Senator Hansen -- very conservative Republican members of the Senate Finance Committee -- were there. As a result of Kelso's presentation, we were able to introduce our "wish list" legislation (called the "Accelerated Capital Formation Act") through the sponsorship of Senator Fannin.

Our 1972 expanded ownership legislation didn't go very far in the legislative process, but at least it gave us an opportunity to talk with members of both parties.

At that time it was clear that there were two "prime movers" in politics on Capitol Hill whose support was critical to passing tax laws encouraging Kelso's expanded ownership ideas. One was Russell Long. (I felt that Senator Long would not be the appropriate person because of the way he had reacted to the National Maritime Union proposal.) The other was Wilbur Mills, the head of the House Ways and Means Committee. We tried but could never get past their gatekeepers to meet either of them

face-to-face. I made efforts to reach out to as many other members as possible from both parties in both houses. The legislation from Fannin helped. Kelso and I figured that we would surround the leadership with such broad support that it would be difficult for Long or Mills to oppose us.

Senator Vance Hartke told Louis Kelso, "You know, these ideas are really interesting, they're provocative, they're positive. It isn't often that we hear good ideas. But you'll never sell this idea to the Congress. "

The railroad crisis

On February 28, 1973, Kelso and I testified on the legislation to save the eastern US freight rail system, then threatened by the near financial collapse of the Penn Central Railroad. The two basic legislative options being considered were (1) to nationalize (for which there was some support) or (2) to subsidize the reorganization of the railroad into what later became Conrail. These subsidies would clearly benefit the railroad's existing shareholders as well as its 16 labor unions.

Here was a crisis in which there seemed to be no satisfactory political solution. Seeing this as a political opportunity, Kelso and I testified that there was a third alternative. We proposed converting the railroad system into a 100% employee-owned railroad using an ESOP restructuring the labor deal so that the unions would now have a prototype labor arrangement (which today we call "Value-Based Management"). Under our proposal, workers would share ownership, profits and dividends over and above their negotiated wages. In effect we took what we had developed for the National Maritime Union and applied those ideas to the railroad.

When Kelso and I testified on February 28th, Senator Vance Hartke, who chaired the committee, told Kelso, "You know, these ideas are really interesting, they're provocative, they're positive. It isn't often that we hear good ideas. But you'll never sell this idea to the Congress." That statement underscored the deep cynicism that permeates Washington politics. Kelso and I accepted it as a challenge to try to move ahead despite this indifference on the part of the political leadership.

During 1973, after this testimony, we continued to promote the ideas with the committee staff, but met with very limited success. Then in August 1973 an article by Senator Mark Hatfield of Oregon appeared in the "Outlook" section of the *Washington Post*. It was entitled "Six New Directions for America." Lo and behold, one "new direction" was the Kelso idea -- expansion of capital ownership and employee stock ownership. Clearly someone had taken our ideas to Senator Hatfield. Our strategy had been to spread the seeds and let them take root. One seed, at least, was blossoming.

I went to Senator Hatfield's office and convinced Senator Hatfield to sponsor a proposal to convert the Eastern railroad into a 100% employee-owned company. With the agreement of one senator to sponsor the legislation which I had drafted, along with the package of support for the ideas, we then took the legislation to the political left and right. We met with Paul Weyrich, a leader within the political right (who is now the head of the Free Congress Foundation). He liked the ideas and got Senator Curtis to be one of our co-sponsors. We also took it to Senator Hansen of Wyoming. He already knew of the ideas and agreed to be one of the co-sponsors. We took it to friendly staff aides of Senator Metcalf and Senator Humphrey and the senators agreed to be co-sponsors. We had a broad bipartisan base of five co-sponsors. Everything was fine, except none of them were members of the right committee.

From August until November 1973, nothing seemed to happen.

The turning point

Wayne Thevenot, Russell Long's executive assistant, had been approached by an important constituent in Louisiana, Dr. Joe Beasley.

Beasley, who was the Chairman of National Planned Parenthood of America, had learned of Louis Kelso's ideas through Henry McIntyre who was a long-time advocate of Kelso and an investor in Kelso's first ESOP investment banking firm,

"None of us want the railroad to be owned by government, where taxpayers have to keep supporting it. And why should we be bailing out the stockholders from the old Penn Central? I've got the answer: let the workers become the owners."

Senator Russell Long

Bangert & Company, as well as one of the principal fundraisers for Planned Parenthood. Beasley read Kelso's 1968 book (co-authored with Patricia Hetter), *Two-Factor Theory: The Economics of Reality*, and became excited. Seeing in Kelso's ideas a solution to major problems, Beasley offered to cover Wayne Thevenot's costs to travel to San Francisco to meet with Kelso. Thevenot made the trip and, after putting many questions to Kelso, became convinced that Kelso was on the right track -- and that he had a major new idea.

Thevenot agreed to try to convince his boss, Russell Long, about Kelso's ideas. He took the book, plus the first book written by Kelso, *The Capitalist Manifesto*, and presented it to Long. As I recall the story from Wayne, Senator Long opened *The Capitalist Manifesto*, thumbed through it and said, "I want to meet these people."

Kelso called me and asked me to work with Wayne Thevenot. Thevenot and I met and arranged for Kelso to come into Washington to meet with Russell Long.

On November 26, 1973, I drove to the airport to pick Kelso up for our meeting with Senator Long. On the way back from the airport we were listening to the radio and heard Eric Severeid, the noted CBS commentator, ask, "Casey Jones, where are you?" Based on materials I had sent him, Severeid delivered an editorial supporting our proposal for the Conrail system. He didn't name us, but mentioned Senator Hatfield. This was the day before our meeting with Long. That event boded well for our meeting.

The next day around 6:00 p.m. we went to the Senate. Senator Long was tied up in the debate on campaign financing. Kelso and I went into the gallery to wait for him to finish. About 7:00 p.m. Senator Long came up to us in the gallery and announced, "Let's all go out to dinner."

Long compared Kelso's idea with those of father and made it clear that he himself was not a Robin Hood populist -- implying father was. But Russell Long liked the idea that every man should become a capital owner, what he called a "capitalist."

A meeting of minds

We went to the Montpelier Room (then one of Washington's most exclusive restaurants) at the Madison Hotel where Kelso was staying. Four people were at the dinner: Senator Long, Louis Kelso, Wayne Thevenot and myself. Now, normally, the only way you get legislation through Capitol Hill is either to have a lot of money or a lot of votes in your pocket -- and we had neither. To get five minutes of the time of someone like Russell Long is an incredible feat. We spent four hours with Senator Long that evening. And Russell Long picked up the bill!

The dinner began with Kelso devoting about 45 minutes to discussing his general theory, political theory, and the logic of binary economics with Russell Long. Long sat there and at first mainly listened. Then he began relating Kelso's idea to his father's "share the wealth" programs.

Huey Long was a charismatic populist who was assassinated about the time he was

becoming a serious critic of Roosevelt's New Deal. Huey Long was developing a populist base which Roosevelt supporters in the Democratic Party were worried about, because they felt Huey Long was one of the few who could challenge Roosevelt for political leadership. After Huey Long was assassinated, Russell Long became the youngest Senator ever elected. He was actually elected before he reached 30, the minimum age to qualify him to assume the office of US Senator.

Long compared Kelso's ideas with those of his father and made it clear that he himself was not a Robin Hood populist -- implying that his father was. But Russell Long liked the idea that every man should become a capital owner, what he called a "capitalist." There was an interesting exchange for close to two hours between Long and Kelso where Russell Long related his own philosophy

Long asked who opposed Kelso's ideas. Kelso answered that traditional economists opposed his economic theories -- that his ideas challenged their paradigms. Kelso mentioned Milton Friedman and Paul Samuelson by name. I remember Senator Long's response: "One of my basic principles that I had from the time I first entered politics is that I don't care who's right, I care what's right. This is right."

Then Long turned from Kelso to ask, "What are you people doing about it?" Until then, Wayne Thevenot and I had remained pretty much silent, letting the dialogue flow between Long and Kelso.

I said, "Senator, we have a bill before Congress dealing with the railroads. Senator Hatfield is the principal sponsor, and we have Senator Humphrey and Senator Metcalf from the Democrats, and Senators Curtis and Hansen from the Republicans, who are co-sponsors. But the bill is not going to go anywhere. We know that. We've talked to the staff and haven't got anywhere." I remember saying, "We know that anyone can introduce a bill, but we know that it's going to take more than that to get it passed. We need the right person who's a member of the Commerce Committee, somebody with the courage and the power to take our proposal and convert it into law."

Long looked at me and said, "You bring me something tomorrow morning."

"I don't care who's right, I care what's right. This is right. "

Senator Russell Long

An ESOP champion enters the fray

The next day we brought Senator Long the package we had prepared for Senator Hatfield. According to Wayne Thevenot, who was in the meeting of the Commerce Committee. Russell Long took the package and walked into the meeting. Senator Long started waving these papers around saying, "I've got the answer to this railroad problem. None of us want the railroads to be owned by government, where taxpayers have to keep supporting it. And why should we be bailing out the stockholders from the old Penn Central? I've got the answer: Let the workers become the owners. Let's design it so the workers will become the owners of the railroad, own a piece of the action."

Some of the senators said, "Russell, this sounds great!" Then the chairman of the committee, Warren Magnuson of Washington (smoking his stogie, according to Wayne) looked at Senator Long and exclaimed, "Russell, the meeting hasn't even been called to order!" And Senator Long answered, "Well, I'm really busy. I've got another meeting down the hall, and . . . this is the answer!"

Lynn Sutcliffe, the staff director of the Surface Transportation Subcommittee, objected: "You know, Senator, I've been hearing these ideas from Kelso and Kurland and really, there are a lot of problems."

At this point I should mention that we had been speaking to the unions involved with the railroads. The sixteen unions had invited me to speak before them at the AFL-CIO meetings in Miami Beach. We had one of the unions, the Brotherhood of Railway and Airline Clerks, supporting our idea but the other fifteen unions -- the Teamsters, Transportation Workers, etc. -- had worked out their deal with the railway executives, both sides collaborating to take the money from the taxpayers. So organized labor was not yet ready to support Kelso and had conveyed to Sutcliffe their opposition.

Senator Long cut Sutcliffe short, responding, "you're telling me about problems. Problems. That's all I deal with every day. Don't tell me about problems. This is the solution!" Sutcliffe became quiet after that.

It wasn't until December that the ESOP legislation got introduced into the Senate. Senator Long had to fight for it. Senator Javits, who didn't like the ESOP or Kelso's ideas, was ready to oppose the legislation. But before Javits could voice this on the floor of the Senate, Russell Long walked over to him (I could see Senator Long from the gallery) and put his hand on Senator Javits' shoulder and started whispering to him. Javits, not wanting to be viewed as an enemy of worker ownership, took the hint and remained silent.

Senator Long managed to get a watered down piece of our legislation into the law. It didn't call for 100% employee ownership. It merely called for a study to determine the extent to which the employees should be owners. We wrote the criteria for the study, figuring that the only conclusion any objective group could possibly have was that there should be 100% ownership by the workers.

In December the legislation calling for an ESOP study was passed. It was signed into law on January 1, 1974, by President Nixon.

While we succeeded in establishing a beachhead for the ESOP, the powerful forces of the status quo fought back. The Department of Transportation awarded the ESOP study to the investment banking firm E.F. Hutton; a leading firm on executive compensation, Towers, Perrin, Foster and Crosby; and a labor economist, Saul Gellerman. They wrote a report concluding that nothing positive would result from the use of an employee stock ownership plan for the railroads. Kelso and I later had an opportunity to provide a point-by-point rebuttal that was included in our testimony before the Joint Economic Committee in 1976, when Senator Hubert Humphrey held two days of hearings on ESOPs.

The rest is history. Today, because of Russell Long's championing of the ESOP and the ideas of Louis Kelso, we have over twenty US laws promoting ESOPs including the cornerstone Employee Retirement Income Security Act of 1974 (ERISA). There are over 10,000 ESOP companies and over 11 million employee-owners.

The meeting between Senator Russell Long and Louis Kelso, the events leading up to the meeting, and the events that followed, demonstrated that "prime mover" support is crucial for an idea that is as revolutionary as Kelso's, an idea that still lacks credibility among academics, particularly academic economists.

To move systemic change forward with any degree of speed takes authentic leaders -- people with power, people with courage, people with principle and vision. Such leaders must first be willing and able to challenge the forces of the status quo, to do what is morally right, to go over the heads of the opposition and communicate on moral grounds directly to the public. Russell Long became the prime mover behind the Kelso revolution.

We now need more prime movers like Russell Long to realize the full potential of Louis Kelso's remarkable vision to achieve economic empowerment for all through broad-based capital ownership.

In November 1973, Norm Kurland was Louis Kelso's Washington representative as the Executive Director of the Institute for the Study of Economic Systems, which promoted Kelso's economic ideas, and the Washington counsel for Bangert & Company, Kelso's first investment banking firm. He had previously worked in the civil rights and antipoverty movements. Today Kurland is President of the Center for Economic and Social Justice in Washington, D.C.

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