ESOP could point way to economic recovery road

By ANDREA ROCK

This summer, senior White House officials scoured the country for suggested detours to the Reagan course which, while not straying not too far from that path, would provide more assurance that its destination would be reached.

In their search for the road to economic recovery, the high-level White House staffers came across one rather revolutionary idea.

The idea intrigued them so much that they requested a lengthy position paper from its originator, Norman Kurland, a Washington, D.C. - based consultant, whose proposal is said to still be under more than casual consideration.

Kurland's program—which he believes is the answer for steel and other declining basic industries—would require the Federal Reserve to lower its discount rate to one percent or less to banks which are extending capital credit to businesses for productive purposes.

There's a catch, however: that credit must be extended through broadened-ownership vehicles like employee stock ownership plans. So, to get the carrot of investment capital at interest rates of three percent or less, companies must respond to the ESOP stick.

Kurland views the "catch" as the key to the political viability of all elements of his program, which he calls the Industrial Homestead Act.

"The tax and monetary reforms proposed in the Industrial Homestead Act would have a positive effect on the economy, but, offered to Congress without broadened ownership linkages, would invite opposition on the ground that they are additional trickle-down types of incentives," Kurland said.

"ESOPs and expanded ownerships have probably enjoyed broader bipartisan support on Capital Hill than any free enterprise reform since the Homestead Act of 1862. ESOP comes as close to being a motherhood issue as the right to vote. What's more, it is equity in its purest sense," he added.

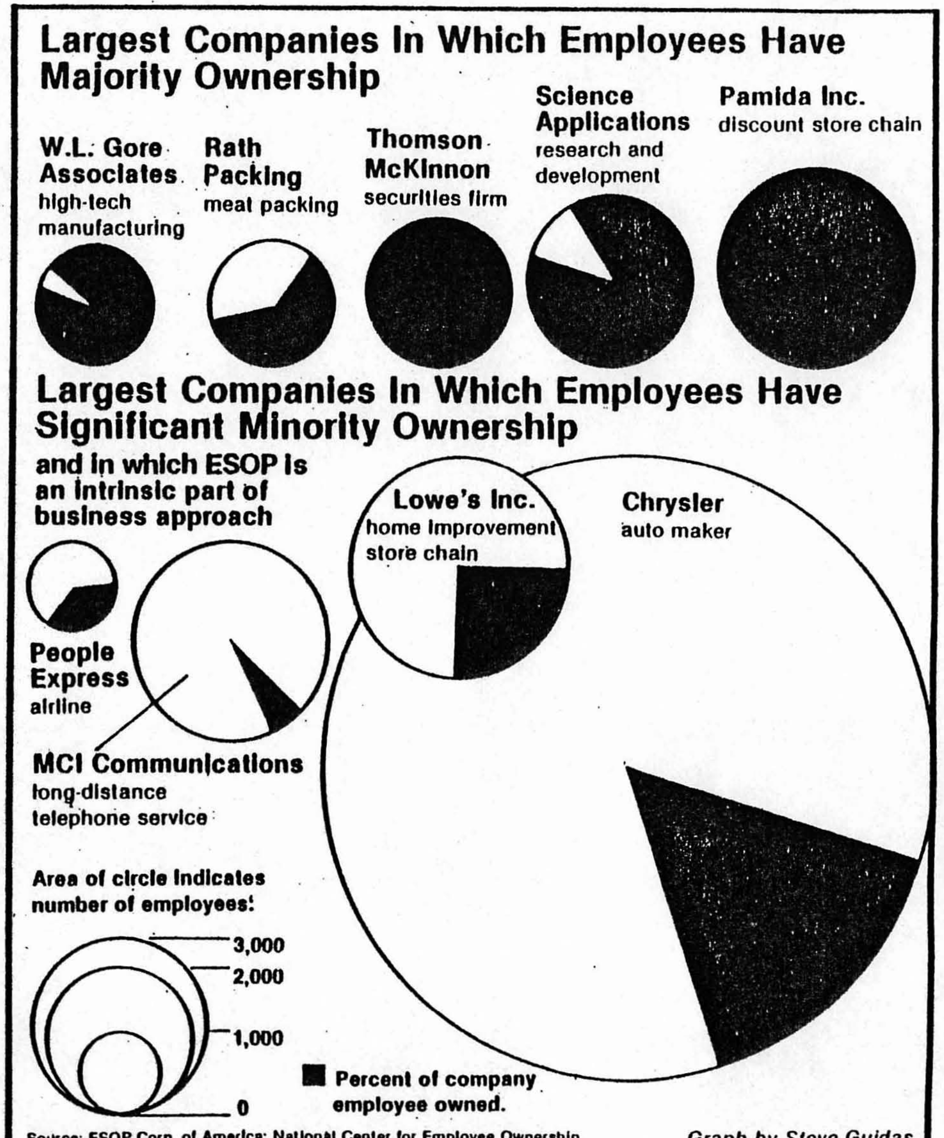
Among the heavyweight supporters of the ESOP concept is Ronald Reagan. When Delaware Governor Pierre Du Pont IV in June signed a bill making broadened capital ownership and ESOPs official policy to be encouraged by all state agencies, the president sent Du Pont a congratulatory letter expressing his ideological affinity for ESOPs.

"I have long believed that the widespread distribution of private property ownership is essential to the preservation of individual liberty, to the strength of our competitive free enterprise economy and to our republican form of government," Reagan said.

The president said Delaware's bill "will help awaken the people of the other states to the importance of this issue," and he ranked encouragement of ESOPs as an integral part of "our national task. . . to restore the conditions for economic recovery."

Of course, Kurland's proposal is just one of many "New Deals" for the 1980s which are getting more and more of the trial-balloon treatment. Democrats and Republicans alike have proposed some form of low-cost credit for basic industry. Locally, Pittsburgh Mayor Richard Caliguiri advocates creating a federal Steel Finance Corp. to accomplish that end, and Wheeling-Pittsburgh Steel Corp. Chairman Dennis Carney has borrowed directly from Franklin D. Roosevelt in calling for establishment of a Reconstruction Finance Corp.

However, in calling for federal involvement to provide low-cost capital, Carney underscores his reputation as a maverick in the steel industry. The only proposal behind which the industry has thrown its wholehearted support thus far is the five-cent per gallon hike in federal gasoline tax to fuel a major program to repair the nation's infrastructure—a program which would in-



Source: ESOP Corp. of America; National Center for Employee Ownership. Graph by Steve Guidas crease demand for steel.

The industry has not taken a formal position on any other ideas being floated because "they've never been detailed enough to be closely examined and analyzed," said an official at the American Iron and Steel Institute, the industry's lobbying group. "It'd be unwise for us to advocate anything until we see all the specifics, and we may be seeing some proposals in more detail when the new Congress comes in early next year."

A local steel industry source said the steelmakers would prefer to see a decline in overall interest rates rather than special deals for any one industry or group of industries.

"Allocating credit is damaging. There's always danger when you try to determine where growth should be. A strong economy would help like nothing else, and artificial solutions aren't the answer. That's playing games and avoiding the real problem," said the industry source.

Kurland maintains that his proposal is more than an artificial solution. It will, he contends, not only provide low-cost investment capital for industries like steel, but also result in lower interest rates for everyone. It will help reduce the federal deficit and provide a much-needed positive restructuring of labor-management relations. Such a Santa's bag of goodies, can understandably, inspire skepticism, but Kurland insists that it is politically feasible and, more important, that it will work.

Kurland wants the Federal Reserve to establish a two-tier interest rate policy. The higher tier would rise to market rates and would be the principal source for all future U.S. Treasury borrowings, loans for speculation and other conventional types of credit. The source of funds for this tier would be the nation's already accumulated savings.

The lower tier would be reserved exclusively for loans which promote real growth and which use ESOP as a vehicle. Under the Federal Reserve Act of 1913, the Fed was empowered to set the discount rate (the rate banks pay for funds) at the cost of printing and regulating the money supply, which he said is currently one-half of one percent, and to apply that low rate to "eligible" agricultural, commercial and industrial paper printed to its regional branches by local banks.

Kurland proposes that the Fed's power to discount such paper be restored and that "eligible" businesses be defined as those which have a credit-worthy project they wish to finance using ESOP as the vehicle. Banks then would charge those businesses a lower-tier prime rate of about three percent or enough to cover the risk of default and to turn a profit. Currently, the Federal Reserve discount rate is eight and one-half percent, while the prime rate at most banks is 11 and one-half percent, for a spread of three percent.

Under Kurland's plan, a steel company wanting to install a new continuous caster could approach a local bank which has access to the dicount windows of the regional Federal Reserve bank and apply for a loan at the lower-tier rate for the project. If the company planned to borrow the money through an ESOP, and if it convinced the bank that the caster would provide a good return on investment, the local bank could make the low-cost loan and discount that paper at the discount window of the regional Federal Reserve bank.

The only requirement the Fed would make of the bank is that the new money be asset-backed; a 100 percent reserve would be required. No borrowing by the Fed would be involved, and no loan funds or interest rate subsidies would come from the taxpayer. Therefore, the lower-tier rate would not be inflationary nor would it increase the federal debt, Kurland contends. And, because local banks would make all loans and set interest charges, the Fed would be insulated from political pressures to favor one borrower over another.

He said the differential in prime rates between conventional loans and the capital credit linked to ESOPs would free a portion of available accumulated savings, thus lowering market interest rates and synchronizing the supply of real money with real growth in the economy.

Kurland's plan for reform also is aimed at bringing about what he sees as much-needed changes in labor-management relations. Through wider use of ESOPs, organized labor and management could "finally exchange the outdated conflict theory of labor relations for a new theory based on mutual gain," he said.

Ben Fischer, who has 30 years' worth of hands-on negotiating experience with the USW and is now director of labor studies at Carnegie-Mellon University's School of Urban and Public Affairs, agrees that unions must change their approach in dealing with management and that employee stock arrangements will play a role in the new era of collective bargaining; however, he does not believe Kurland's program is needed to bring about those changes.

"It's inevitable that management will get its modernization capital from employees through diversion of cash payments to ownership paper," Fischer said. "But it's fully within the competence of management and unions to accomplish that through collective bargaining.

"Unions must become affirmative and non-hostile in their approach to employers. Both parties have to become dedicated, above all, to making things work. The new thrust of unions will have to be insisting on enterprises being strong and well run," he added.

Fischer also believes there is a more effective role for the federal government to play than providing adjustments in monetary policy.

"I'd much rather see the government go further in insuring pension funds and releasing those funds for use by companies. That question is a hell of a lot simpler for government to deal with," he said.

"Let companies go ahead and invest in a manner that is, in some broad context, beneficial to employees. Through collective bargaining, a way could be found whereby administrationof pension funds within certain limits would be subject to employee input," Fischer added.

Debate over what form reindustrialization incentives should take is likely to continue for some time, and no action is expected from the administration or Congress until the early part of next year.

The rest of this year really amounts to the trial-balloon period, when various proposals will have their chance to float successfully, to move on for more serious consideration or to be shot down for good. Support from steel and other basic industries is considered vital to the prospects of any plan. For now, industry is taking a conservative stance.

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