

"A PIECE OF THE ACTION"

With CBS News Correspondent Mike Wallace

Produced by Norman Gorin

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Mike Wallace:

Buried in the Senate version of the massive tax cut bill the Congress is putting together to aid our sick economy is a little known, little understood provision that could significantly change the relationship between you and the company you work for. That provision would make some of you part-owners, along with your employers.

The author of the plan is a maverick economist who has caught the imagination of the Chairman of the Senate Finance Committee, Russell Long. Long believes the plan might just be the way to break the boom-and-bust cycle that periodically produces a depression in the United States. Here's how the plan would work.

The men who work on this dock in Oakland, California, work for the Matson Lines and they earn a good wage here. But if they lose their jobs they'll earn nothing or they'll go on welfare because all they own is the sweat of their brow, their labor.

But the folks who own the equipment on these docks-that crane, these ships-the stockholders of the Matson Company-they don't have to show up here, and yet they earn a yearly income just the same, because they own capital instruments. They own this equipment.

Well, there's a fellow across the bay in San Francisco who says that all the workers on this dock-indeed, all wage earners everywhere should own a piece of the outfit that they work for; should own a piece of the action.

His name is Louis Kelso. He's a millionaire corporation lawyer who puts together multi-million dollar business deals. Kelso argues that if capitalism is good for the rich, then everyone should be able to play. Otherwise, warns Kelso, our society as we know it will wither and die.

Louis Kelso:

The death of the economy is the first step in the death of a civilization. This economy has stopped growing.

Mike Wallace:

For years, Kelso has been hopping around the country like an itinerant preacher delivering his sermon. He tells anyone who'll listen what he told the economic leaders assembled by President Ford: that proposals for more tax cuts and more welfare will never solve the economic mess we're in. They don't go to the root of the problem, he said.

Americans, says Kelso, are a nation of industrial sharecroppers who work for somebody

else and have no other source of income. If a man owns something that will produce a second income, says Kelso, he'll be a better customer for the things that American industry produces. But the problem is how to get the working man that second income.

Louis Kelso:

How do you use the logic of corporate finance, the logic that the corporation insists upon as minimal-that is, the logic of investing in things that will pay for themselves- how do you use it for the individual? How do you bring the economic gain down from the corporation to the human scale?

Mike Wallace:

Here is what **Kelso would do. He would have every company** set up something called an "Employee Stock Ownership Plan"-an ESOP, for short-an Employees' Trust. That trust would then go to a bank and **borrow money**, money to buy stock in the company the employees work for when that company wants to expand. And, says Kelso, it wouldn't cost the employees a penny out of their paychecks to buy the stock to build a **new plant, because** the loan would be paid back out of profits produced by that new plant. That's the way business always operates: borrow, and pay back out of profits.

Why would a company want to do this? Because it's a cheap way to finance its growth. Under our tax laws, you see, an Employee Stock Ownership Plan is a tax-exempt trust. With Uncle Sam getting no cut, if the new plant cost a million dollars to build, the company would only have to funnel a million dollars of its profits back through the ESOP to pay off the loan. If there were no tax-exempt ESOP, it would take more than twice as much of the profits to pay off the loan and the taxes.

Kelso says the government would make up those lost taxes because, as the employees start getting dividends from their stock, they'll all be in a higher personal income tax bracket-but more important, the cost of government, he says will shrink as fewer people need to get government handouts.

Louis Kelso:

We know how to build goods and **services, but we don't** know how to produce customers. You're attacking poverty by attacking its causes-that is, by making the average man more productive (because he not only has a job; he has a capital estate that's growing, a capital estate that will support him, whether he's too old to work, or sick or technologically unemployed, or whatever) and there isn't a single trace of labor power that isn't being targeted on by some piece of machinery.

Mike Wallace:

Here's an example of what Lou Kelso means. Just half a dozen years ago it took 600 men two weeks to unload and r-reload a ship like this. Well, today, with all this new equipment—cranes, straddle- carriers, containers-it takes 100 men just two,-and-a-half days to do the same job.

This kind of automation has been going on across America for twenty years. And Kelso has been arguing for ESOPs for nearly twenty years. But few businesses have seen fit to adopt his plan. The ones that have are mostly small.

This is the Los Angeles warehouse of Infants Specialties, one of the one-hundred-and-fifty-odd companies in America which have adopted ESOP, the Employee Stock Ownership Plan. A year ago the seventy-five employees of this company were told they were going to become part-owners, stockholders, in Infant Specialties-and without putting up a penny of their own money. The man who did it for them, the man who took over this company a year ago is John Carter.

How much did you pay for this company a year ago when you bought it?

John Carter:

Just a million dollars.

Mike Wallace:

How much of your own money did you put up?

John Carter:

I and some colleagues put up two hundred and fifty thousand.

Mike Wallace:

So you borrowed the other seven hundred and fifty.

John Carter:

That's right.

Mike Wallace:

You went to an ESOP. Why?

John Carter:

I wanted the employees to buy this company. I wanted them to pay off this loan, because I wanted to be sure that they were working on my side and make my investment a good investment.

Mike Wallace:

So they will own their stock? They'll own seventy-five percent of this company in eight years?

John Carter:

Even more! Right!

Mike Wallace:

Of course Carter's rosy predictions may not pan out. The business could go sour, but the employees wouldn't have any personal liability. As in any other bankruptcy, the creditors would just seize whatever assets the corporation has.

Russell Long, Chairman of the Senate Finance Committee, is Lou Kelso's most ardent supporter on Capitol Hill. He is pushing to make the ESOP a major form of corporate financing.

Sen. Russell Long:

Now, what you're trying to do here deserves a trial. It has been very successful where tried, but so far it hasn't been tried on a big scale that it ought to be tried on.

Louis Kelso:

In the "big world"-right, right.

Sen. Russell Long:

Yes. And I think we're going to get that.

Mike Wallace:

Getting ESOP into the big time means winning over big labor, and that's a formidable stumbling block. Kelso outlined his plan to the Executive Board of the National Maritime Union who looked at him with some suspicion.

National Maritime Union Executive:

When I first read your plan, I saw the whole thing as a union-busting plan. If we're going to be representing workers who are—now are going to be part of management, they're going to be stockholders in the company, why are they going to need us as union leaders?

Louis Kelso:

The union will represent the workers as workers in all of the aspects that it represents them today—wages, hours, working conditions. And it will represent them as stockholders, as owners. I can't believe, for example, that Penn Central could have gotten away with what it did if its employees had owned a significant piece of Penn Central.

Mike Wallace:

Labor is not alone in its hostility towards Kelso-ism. The traditional economists don't like him very much either.

Louis Kelso complains there is a conspiracy of silence about him in the economic fraternity. They won't talk about him, he says; but worse still, they won't argue with him.

Well, there is one economist who will-Nobel Prize winning Economics Professor here at the Massachusetts Institute of Technology, Paul Samuelson.

You consign Kelso to _____?

Paul Samuelson:

Oh, I have not met Mr. Kelso. I don't object to anyone pushing his thing. I'm sure he's sincere.

Mike Wallace:

He remains an amateur crank?

Paul Samuelson:

Your words.

Mike Wallace:

No, no! your words!

Paul Samuelson:

I think that Kelso-ism at this point of scientific knowledge has-is amateur crank, like other interesting forms of alchemy.

Mike Wallace:

Samuelson never made it clear just why he so disdainfully dismisses Kelso's ESOP plan. His main objection seems to be that the ESOP plan is predicated on loopholes in the tax laws.

Paul Samuelson:

It really has a Marie Antoinette ish ring to it "Let them own capital!"

"... Kelso-ism is not accepted by modern scientific economics as a valid and fruitful analysis of the distribution of income, but rather it is regarded as an amateurish and crankish fad. Although it has been put forth in more than one book and has been around for a long time, the principal learned journals of economic science—e.g., the American Economic Review, the Royal Economic Journal, the Harvard Quarterly Journal of Economics, the Chicago Journal of Political Economy—have steadfastly withheld recognition and approval from the doctrines of Kelso-ism."

Paul A. Samuelson
SAN JUAN STAR,
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(Puerto Rico)

Mike Wallace:

Paul Samuelson calls Louis Kelso an amateur crank. How come?

Louis Kelso:

I'm in the position of Pasteur (not a doctor) coming in and saying to the doctors, "If you'll do it a different way, the thing will work." And they said, "Pasteur's a crank. He's a chemist. He should stay the hell out of medicine and not mess around." This is exactly what this professional credentialism of the professional economist amounts to. When it comes to saving the society, which is in very grave danger, or saving their faces, they will never make the wrong decision. They will save their faces.

Mike Wallace:

All right. My understanding of Kelso-ism is that it's designed to enable men who are born without capital to buy it, to pay for it out of the income it produces, to own it and thereafter to receive income from that capital. Devoutly to be wished!

Paul Samuelson:

Oh, yes. And it would be nice to have lollipops grow on trees for the picking.

Mike Wallace:

The only thing that you object to, really, in Kelso-ism is the fact that it uses a tax loophole to give the workers stock in the company?

Paul Samuelson:

That is my primary criticism. Now, you tell me that Senator Long is interested in this. I'm distressed. I'm distressed because Senator Long is an influential Senator in connection with the closing of tax loopholes and the opening of them.

Sen. Russell Long:

What he calls a "tax loophole" is there already. It was there when I became a Senator, twenty-six years ago. There are all sorts of things like that in the Tax Code. I could dredge up a hundred of them for you very easily. The question is: Do they achieve a desirable social purpose? I think that the idea of encouraging the people who work for a company to own an interest in the company is sufficiently **socially desirable** to give it favorable tax treatment.

We're going to be asked to bail out a lot of companies like the Penn Central, the Lockheed and others. Right now we're being asked to help Pan American. And I'm telling Pan American Airways, if you fellows want us to put (government money behind your company and save your trig airline for you, I want you to have an Employee Stock Ownership Plan for those employees who right now are out lobbying to try to help save that company.

Mike Wallace:

Louis Kelso says that this will stimulate the economy. And what will it do to the current recession?

Sen. Russell Long:

It will bring more production to your economy-and therefore more wealth to your economy

Mike Wallace:

It's almost like Alice in Wonderland, sitting here, sitting here at a time when unemployment rates are rising, when inflation has been skyrocketing, when the economy is apparently in recession and conceivably going into depression. And you're talking as though?

Louis Kelso:

The problems are solvable.

Mike Wallace:

Right.

Louis Kelso:

Well, we've had forty years of Mr. Samuelson's brand of economics, and it brings us right back to where we started-another depression. It's perfectly obvious that something's missing. And I say that the thing that's missing is: we're pretending that you can solve the income distribution problems solely through employment. In the meanwhile, the scientist, the engineer and the manager is hell-bent on destroying employment. That's how he measures his success-how much employment he can destroy.

Mike Wallace:

By putting in machines?

Louis Kelso:

By substituting machines for men, right.

Mike Wallace:

So let the unemployed own machines and everybody's going to be happy.

Louis Kelso:

Right. Unemployment is not so bad if you can afford it.

Mike Wallace:

This week, the U.S. Senate will begin debate on the pros and cons of Louis Kelso's ESOP.