

# THE FUTURE OF THE MULTINATIONAL CORPORATION: WHO WILL OWN IT?

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When ARAMCO was nationalized in the 1950's, a senior executive—an American—was asked how he felt about the change in employers. He replied, "What does it matter who signs my paycheck?"

Nothing more poignantly foreshadows the fate of the free enterprise system than this statement by a propertyless "wage serf" at the top level of one of the world's largest multinationals. This reaction was undoubtedly repeated when Chilean officials nationalized the Kennicott Copper Corporation, and when major banks were nationalized in France and Nicaragua. And it certainly will be repeated if the political pendulum sweeps to the left to support those American opinion leaders who have advocated nationalization of defense contractors and giant energy companies.

Despite its expanding presence and seemingly awesome powers within the developing economies, the multinational corporation faces a subtle, yet growing threat. By its nature, the multinational represents a powerful and ready-made carrier for the transfer of technology and experienced technical talent to the least developed economies within the Third World. Yet, its tremendous potential for creating widespread affluence in a global free market system has been all but forgotten.

The multinational is increasingly viewed as an instrument of exploitation and even as the enemy of democratic development by local businessmen, development consultants, politicians, labor leaders, and students in the developing countries. Remarkably, major U.S. corporations are also condemned by many politicians and intellectuals in the United States. This hostility is reflected in a survey conducted by pollster Peter Hart which revealed that 61% of the American public feel that there is a big-business conspiracy working against their economic interests.

The functional social weakness of the corporation results from its abdication to government of social responsibility for building buying power into potential customers. This social weakness grows out of the political "Achilles Heel" of the modern corporation: its highly concentrated ownership base, which is perpetuated by defective corporate finance practices and reinforced by equally faulty government tax and monetary policies.

Corporate ownership today relegates most consumers of corporate products to incomes derived from inflationary wage systems and dehumanizing welfare systems. It channels to only a tiny handful of mankind the profits, dignity and economic power derived from direct personal participation in the ownership of our business corporations. Even in the United States where corporate stock

ownership is most widespread, according to the Joint Economic Committee of Congress, the top 1% of wealth-holders own over 50% of all individually-owned corporate equity and receive about 50% of its dividend incomes. In short, the only permanent constituents of the corporation—its stockholders—are thus easy targets for political demagogues and economic redistributists.

What few defenders of the free enterprise system realize is that the institution of "private property", in terms of the historic right of owners to the full right to profits and control, has been whittled away almost completely with respect to the rights of owners in corporate equity. The discriminatory "double tax" on corporate profits and power of management to withhold dividends illustrate only two of the most flagrant erosions of the institution of "private property" in the means of production. And, though we seem to have forgotten, Marx and Engels summed up the entire program of socialism and communism in a single sentence: "Abolish private property in the means of production." An attack on private property would never be tolerated in a society that provided everyone, as one of the fundamental human rights called for in the Virginia Declaration of Rights, with "the means of acquiring and possessing property."

Redistribution and nationalization are the inevitable political responses to concentrated ownership of the annual increments of industrial capital, the growth frontiers of every high-technology society. In the global context, the multinational corporation has become the major focus of the ideological struggle between what is known as "capitalism" and "socialism." Under one system the multinational has been uncritically glorified as a source of wealth trickling down from a tiny ownership elite. Under the other, while vilified as the manifestation of institutionalized greed and exploitation, the corporation has become the target of institutionalized envy. Under neither system is the multinational corporation able to fulfill its destiny as an instrument of economic justice.

If we draw an analogy from the evolution of democratic governments, the modern corporation is today at the same primitive stage as the State was in Ancient Greece, where only 10 percent of the population had access to the right of the ballot. Just as the ballot connects citizens to political power, property connects owners to economic power. In either case, the ultimate check on the potential abuse of concentrated power is to keep it decentralized and widely accessible to as many members of society as possible. The wage systems of capitalism and socialism, however, are inherently incapable of producing a just economic order. When we recognize that today the top 1% of Americans own over 50% of all directly-held corporate wealth, we can see that the primitive ownership structure of today's corporation leads inevitably to conflict between the "haves" and "have-nots."

Still, the modern corporation is one of mankind's greatest inventions, a social tool that has evolved over centuries to serve man. Like the wheel, there is no reason to re-invent the corporation as an organizational form. The law treats it as an independent "legal person", thus insulating its shareowners from personal liability and risk. It is an excellent vehicle for financing advanced technology, for harnessing man-machine combinations into new forms, and for transcending anachronistic political frontiers. It is highly functional for the efficient production and distribution of goods and services. And it has the potential for

unifying mankind into a single global free enterprise system, provided it can find customers with effective buying power.

If the wage systems of capitalism and socialism fail to provide the moral framework necessary for the efficient operation of the multinational corporation, what is our alternative?

On his nationally broadcasted radio commentary in February 1975, then-Governor Ronald Reagan answered:

Over the next 10 years, there will probably be a \$500 billion worth of new investment for businesses and industrial expansion. It can also be \$500 billion worth of corporate ownership by employees. An ever-increasing number of citizens thus would have two sources of income—a pay check and share of the profits. Could there be a better answer to the stupidity of Karl Marx than millions of workers individually sharing in the ownership of the means of production?

By correcting flaws in our basic economic institutions and by encouraging corporate growth and ownership transfers through ownership-expanding techniques of finance, we could correct the monopolistic ownership features of modern corporations which, ironically, threaten their own existence. Assuming that political barriers to vigorous marketplace competition are removed, the corporation within an expanding ownership system could easily do directly what government has been forced to do indirectly through the many expedients of income redistribution. Competing corporations could synchronize the economic power of society to consume with its industrial power to produce. And just prices, just wages, and just profits would be set by the laws of supply and demand, rather than by superior clout and political privilege.

### **How Should We Finance the Future of the Multinational Corporation?**

Ownership is largely determined by access to capital credit. Just as society can structure its laws and institutions to concentrate ownership, society can reform its laws and institutions to decentralize ownership. Similarly, future corporate credit can be used to build more ownership into the same tiny group of present shareholders. Or it can be used to create new owners.

One powerful ownership-expanding technique, known as the Employee Stock Ownership Plan (ESOP) provides widespread access to capital credit to each employee in a company on a systematic basis. Technically, the ESOP uses a legal trust that is "qualified" under specific U.S. tax laws encouraging employee ownership. Thus, while it is closely policed by the Internal Revenue Service and the Department of Labor to insure that the ownership plan operates in ways beneficial to employee-owners, the ESOP provides special tax privileges and incentives for the company, existing owners, and the employees. Fortunately, the laws are extremely flexible, so that each plan can be tailored to fit the circumstances and needs of each enterprise, and deficiencies in the design of an ESOP can easily be corrected.

Nineteen laws have passed Congress since late 1973 to make ESOPs more attractive to workers and owners. More are on their way. While less than a dozen ESOP's existed in 1965, today close to 9,000 companies, mostly highly profitable small and medium-size firms, covering over 8 million workers, have already adopted the ESOP in one form or another. An estimated 100 companies are majority employee-owned. In 1986, on the INC. Magazine list of America's fastest growth companies, 43 had ESOPs. Some major corporations, such as ATT, GM, and EXXON, have given a few shares of stock to their employees through ESOPs, thus planting the seed for significant expansion of worker ownership within the giant multinationals.

What is an ESOP? An ESOP combines many elements into a single package. It is an employee benefit program. It is an incentive and productivity program for all employees. It is a retirement program. It is a reward system, working best when a modest base salary is supplemented with cash bonuses and equity shares, linked to the proceeds of the operation. It is a two-way accountability and communications system between management and non-management employees. It is a means for workers to participate both as workers and as stockholders in corporate direction. It is an in-house tax-exempt stock exchange, for both new equity issuances and repurchase of outstanding shares. It is a tax-deferred means for workers to accumulate equity. It can offer workers a source of current dividend incomes. An ESOP is all of these and more; but one of its most unique features is that it is a basic innovation in corporate finance.

An ESOP is the only tool in the world of investment finance that can generate new sources of capital credit for corporate growth or transfers of ownership, insulate its eventual owners from direct personal risk in the event of default, and allow repayment of its entire debt in pre-tax corporate dollars.

The leveraged ESOP operates in this way: it channels capital credit through a trust representing employees, from the same sources and subject to the same feasibility standards and corporate guarantees as direct loans to the corporation. The loan funds are used to buy stock for the workers, either from present owners or for financing expansion or modernization of the corporation. The loan of the trust is wholly secured by and repaid from future profits. Normally, the workers make no cash outlay from payroll deductions or their savings, and none of their present savings is at risk. Shares of stock are allocated to the individual accounts of workers only as blocks of shares are "earned"; i.e., the company contributes cash out of future pre-tax profits to the trust. The cash, which is treated as a tax-deductible employee benefit, is used to repay the stock acquisition loan. Whereas traditional uses of leveraged corporate credit work only for present owners, the ESOP uses corporate credit to convert its workers into stockholders. Thus, the magic of self-liquidating capital credit can be used to lift more individuals into an expanding ownership system.

A well-designed ESOP clarifies subtle distinctions between "ownership," "management," and "worker participation." Operationally under an ESOP, day-to-day control would remain in the hands of professional managers who, under a carefully designed system of checks and balances, would simply become accountable to a broader shareholder base, including other workers, and a more

broadly representative board of directors. Employee stock ownership, therefore, would involve balancing continuity and efficiency of the firm with justice and accountability for the workers.

The ESOP affords multinational corporations a new opportunity to participate in the industrialization of the world in ways that would end foreign domination and exploitation, by building private economic security and ownership power into new constituents and new customers everywhere. This alternative would reduce the role of governments everywhere in basic economic decision-making and income distribution. And it is the free enterprise system's cheapest insurance against nationalization and expropriation.

The corporations of today and tomorrow could become mankind's major social vehicles for building the base for a truly democratic and just market economy, accountable to many financially independent consumers, owners, and workers through expanded capital ownership. The private property of today's owners would be more secure. By creating more constituents of the corporate sector, the private corporation could then fulfill its ultimate social destiny for the good of all persons everywhere.

As Senator Russell Long reminds us in his statement of December 11, 1973, when he urged his Senate colleagues to consider converting the failing Northeast rail system into an employee-owned private corporation:

[T]here are but three political-economic roads from which we can choose . . .

We could take the first course and further exacerbate the already intensely concentrated ownership of productive capital in the American economy.

Or we could join the rest of the world by taking the second path, that of nationalization.

Or we can take the third road, establishing policies to diffuse capital ownership broadly, so that many individuals, particularly productive workers, can participate as owners of industrial capital.

[T]he choice is ours. There is no way to avoid this decision. Non-action is a political decision in favor of continued, and indeed increased, concentrated ownership of productive capital.