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From the Editor

Guest Opinion The final article in this issue is an opinion piece from Norman Kurland, who proposes that the Federal Reserve be used as a financing mechanism for ESOPs and similar plans. We at the NCEO do not take a position on this matter, and we invite responses from readers, to be published as "letters to the editor."

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Letters to the Editor

Letters should be e-mailed to Journal@nceo.org or mailed to Editor, *Journal of Employee Ownership Law and Finance*, National Center for Employee Ownership, 1201 Martin Luther King Jr. Way, Oakland, CA 94612. We will edit submissions for style and brevity as needed.

The Fed and Norman Kurland

I read with great interest Norman Kurland's article "The Federal Reserve Discount Window" in the winter 1998 issue of the *Journal*. Mr. Kurland is quite right—the Federal Reserve system was originally set up to assure a lender of last resort for the productive private economy, not for the government. That is the reason it was organized as a series of regional discount banks to be owned by the commercial banks in each district, and why they were specifically enjoined to finance, through bankers' acceptances, private commercial, industrial, and agricultural paper and forbidden to buy "financial" (unbacked) paper.

Unfortunately, shortly after the system was formed, the country got involved in World War I, and in two years the national debt went from \$5 billion to \$50 billion, part of which was monetized by the wonderful new money machine, the Fed. Subsequently, little funding went into the productive economy, including at the inception of the Great Depression, when the Fed could have headed off the crisis by so doing. Instead, it made the situation worse by contracting credit as the available amount of government paper declined.

Now, with the deficit eliminated, would be a perfect time to demand that the system do what it was originally set up to do, with the added element that only paper with an expanded capital ownership component would be qualified for Fed discounting.

Norman A. Bailey
*Former Special Assistant to President Reagan
for International Economic Affairs*

On behalf of the World Institute for Development & Peace, I congratulate you for the excellent article from Norman Kurland on "The Federal Reserve Discount Window" in the winter 1998 issue.

The only way the world can put a human face on the process of divesting, downsizing, privatization, and economic restructuring, whether it be

in Russia, China, Europe moving toward the Euro, and/or the developing world is this idea of opening a discount window of credit for productive purposes as stated in Norman Kurland's article.

That seems to be a formula that deserves a lot of attention. Changes at the Federal Reserve Board in the U.S. will trigger a positive domino effect in central banks around the world. This is the time to demand from the Fed discounting paper with an expanded capital ownership component to address the problems of poverty, especially in inner cities in America and around the world.

Antonio Betancourt

President, the World Institute for Development & Peace

The *Journal of Employee Ownership Law and Finance* has taken an important step by publishing Norman Kurland's article on "The Federal Reserve Discount Window" in the winter 1998 issue. People who would advance the interest of employee ownership in general and ESOPs in particular must return their focus to the paradigm-altering ideas of Louis Kelso that spawned the ESOP movement.

For Kelso, the unique essence of the ESOP is that it is a binary capital credit device. Its status as an employee benefit trust is not its unique essence. As a capital credit device, the ESOP vests its beneficiaries with capital acquisition rights; but those rights are not presently competitive with the capital acquisition rights of the richest people. After 30 years of study, I have discovered no practical way to make the capital acquisition rights of ESOP beneficiaries competitive over the long run with the acquisition rights of the wealthy except to understand and then adopt the simple system changes advocated by Kelso. Apart from widespread understanding of binary economics as a distinct paradigm, the most important elements presently lacking are (1) the availability of capital credit insurance, (2) sufficient tax relief so that the full pretax earnings of ESOP shares can be applied first to acquire capital and then to distribute earnings to the binary owners, and (3) such Federal Reserve discounting as necessary to realize the true open-market cost of capital for binary financing. These reforms would enjoy yet greater support, justification, and market power if the beneficiaries are expanded to include not only employees but also company consumers, neighbors, and other non-affluent citizens.

Robert Ashford

Professor of Law, Syracuse University College of Law