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The Kelso-Hetter Plan: Not Good Enough [with respond]
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Source: *Challenge*, Vol. 16, No. 4 (SEPTEMBER/OCTOBER 1973), pp. 67-68
Published by: Taylor & Francis, Ltd.
Stable URL: https://www.jstor.org/stable/40719146
Accessed: 18-02-2022 00:52 UTC

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LETTERS

The editor cordially invites readers to send letters to Challenge, *901 North Broadway, White Plains, New York 10603.*

The Kelso-Hetter Plan: Not Good Enough

THE INGENIOUS KELSO-HETTER proposal (*Challenge*, July-August 1973) approximates a sophisticated scheme of profit sharing. Their projected expansion of the stock-owning constituency incorporates the typical benefits and limitations of profit sharing. During business-cycle expansions, there is no doubt that employees of well-managed corporations in growing industries will enjoy potential capital gains and additions to wage and salary income. Psychically they may also be happier for getting a piece of their employers' loot. But profits notoriously are cyclically the most sensitive component of national income. At times like 1960-1961 and 1969-1970, most employee members of the Kelso-Hetter stockholding democracy are all too likely to be chagrined by declining stock prices and shrinking dividends. The general instability of the benefits reasonably to be anticipated from ownership participation is inevitably accentuated in declining industries like textiles and shoes, erratic industries like aerospace, and geographically restless enterprises like the multinational corporations. Employees and co-owners of badly operated enterprises are in the worst situation of all. It is unlikely that a Penn Central trainman who had acquired a bit of worthless equity in the bankrupt line would find anything to celebrate in his "second income."

The Kelso-Hetter plan is further limited by its emphasis on corporate stock. In the United States, as in other advanced societies, the fastest growing sectors of activity and employment are government and other services that typically finance themselves out of the public purse, group insurance premiums, or partnership and entrepreneurial income.

At very best, then, co-ownership is calculated to improve the income situation of that minority of men and women who work for efficient corporations in growing industries during business cycle expansions. And for even these workers, the gains are limited.

When in the middle of the nineteenth century John Stuart Mill examined the future of the laboring class, he identified as capitalism's central flaw the mutual hostility of owners and laborers—the first always eager to extract maximum effort, and the second equally determined to do as little as possible. In Mill's view, profit sharing would somewhat diminish what would now be called worker alienation by encouraging employees to discipline themselves and punish the malingerers among their colleagues, in their own as well as their employers' interest. Nevertheless, Mill judged even profit sharing a merely transitional arrangement on the road to a better community in which "the relation of masters and workpeople will be generally superseded by partnership, in one of two forms: in some cases, association of the labourers with the capitalists; in others, and perhaps finally in all, associations of labourers among themselves."

Like recent writers on the blue-collar blues, Mill considered cramping and demeaning the central human relationships of the workplace, the hierarchical system of control which in our own time is no doubt less brutal but otherwise unchanged. A contingent share of the profits does nothing to diminish an individual's sense of powerlessness as an assembly-line operative or member of an insurance company clerical army. Co-ownership or no co-ownership, work is still subdivided into minute fragments; and blue- or white-collar factories still operate on managerial principles which suppress individual initiative.

There are much more direct and socially more equitable ways to diminish existing income and wealth maldistribution than wider dissemination of common stock. A policy of genuine full employment, buttressed by a permanent program of public jobs, is one. Another is heavier inheritance and gift taxation. A third is the expansion of free government health services, food distribution, and housing.

I do not assert that broader corporate ownership is a bad idea. However, plans like the Kelso-Hetter one contain many uncertainties and inequities. Their most serious defect is the marginal contribution they make to the redesign of work and the alleviation of the economic inequities of American plutocracy. I can't help thinking it a pity that Kelso and Hetter haven't devoted their considerable talents to either of these genuinely central issues.

ROBERT LEKACHMAN
Distinguished Professor of Economics
City University of New York

Louis O. Kelso and Patricia Hetter respond:

CALLING A COW'S TAIL A LEG does not make it a leg, as Lincoln said. Nor is an Employee Stock Ownership Plan a "sophisticated scheme of profit sharing" as Professor Lekachman contends. True, ESOP financing is the logical next step toward profit sharing's historical goals. But conventional profit-sharing trusts are used almost exclusively to buy "blue chip" stocks from market speculators. Profit-sharing funds almost never bring about new capital formation. This is precisely ESOP's function. It is a financing technique

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which expands productive power while creating a property relationship between employer and employee. It is anti-inflationary—unlike Professor Lekachman's suggestions for redistributing income through counterfeit jobs and welfare "financed" (his euphemism) by unwilling taxpayers and consumers.

Professor Lekachman does not see that the recessions and business-cycle gyrations from which he wishes to protect the employee-stockholder are caused primarily by the condition that ESOP financing, used on a wide enough scale, is specifically designed to correct—namely, concentrated ownership of the productive power of capital instruments, which causes a spiraling mismatch between purchasing power and economic needs and wants. Nor does he understand that the decline of domestic industries such as textiles and shoes is caused by packing the worker's welfare into the prices of goods and services, thus making them costly and noncompetitive. Penn Central might have avoided disaster; indeed, it might today have been a top profit producer. With significant employee ownership, would trainmen featherbed? Would they tolerate corrupt or incompetent management?

Professor Lekachman shares the Keynesian blindness to the functional significance of property. To him the income produced by capital exists only to be redistributed. The values and joys of private capital ownership are as meaningless to him as sex to a eunuch.

J. S. Mill rightly considered profit sharing a way station on the road to a better community. Profit sharing makes employees *feel* like owners. ESOP makes them owners. Thus it accomplishes the ultimate goal envisioned almost ninety years ago by John Bates Clark: "... productive property owned in undivided shares by laboring men, contention over the division of products replaced by general fraternity."

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