

ECONOMIC REFORM or SOCIAL REVOLUTION
the solution to income inequality...

THE 3rd WAY

Building “Inclusive Capitalism”
through Employee Ownership

* HOW WEALTH IS CREATED *

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PREFACE

Pangaea: “a single supercontinent forming about 300 million years ago” and beginning to split apart and rift around 200 million years ago, before the component continents were separated into their current configurations.

Plate tectonics: a scientific theory describing the large-scale motions of Earth’s continental drift.¹

THE 3rd WAY is a very big idea. The Third Way was first popularized by lawyer and political thinker Norman Kurland of the Center for Economic and Social Justice (see www.CESJ.org). The world is changing! Much like plate tectonics, the earth is indeed shifting under our feet this very moment. It’s high time we realize that, like in geology, the massive forces in nature are also at work in the human spirit. People’s *human nature* will inexorably move them toward systems better designed to meet their needs. Indeed a political/economic/social movement of epic proportion is already underway. That movement is *employee ownership and economic democracy*.

HEADLINE:

The first ESOP (employee stock ownership plan) came into being in 1956. During the fifty-plus years since then, ESOPs have become popular enough that **there are now more employee owners—nearly 15 million of them—than union members in the private sector.**²

Did you know that before just reading it? It’s a fact. And folks, that was just the opening shot in an ongoing peaceful revolution you probably never heard about! With this book, we

are going to blow this important movement wide open. Can you feel the earth beneath your feet begin to rumble?

For the most part, politicians don't lead, they follow. Once "We the People" in great numbers are made aware of the economic democracy and the employee ownership concept, a hue and cry for it will come from every village and hamlet in this nation and indeed across the globe! Then each of the two parties will literally scramble to plant its flag and claim the movement as its own out of political expediency. The movement will soon reach critical mass, and there will be no turning back—the world's political/economic/social systems will never be the same.

This book champions the exciting and emerging concept of "economic democracy" and the average citizen's ability to finally take control of his or her own destiny. Citizens are extraordinarily disenchanted with the fruitless, unending back-and-forth between conservatives and liberals, between Republicans and Democrats. Before you are the ideas that offer the only truly bipartisan solution.

Instinctively we all sense in our gut there just *has* to be something better than what we have now. Instability, estrangement, and downright misery are conspicuous at all levels of society. Virtually everyone seems to be feeling it! Everywhere you hear the discouraged cries from people in all walks of life. From people in small companies with modest jobs to executives in major corporations you hear their complaints ranging from anxiety to despair.

Remember, this is from people lucky enough to *have* a job! What can be done about the ever growing unemployed both in our small town to our big cities? Most of all, what can be done that would finally have some real substance and effectiveness in our most distressed urban areas? What *real* hope and *real* change can we deliver to these unfortunate soles?

Both the problem and the solution must involve a powerful

dynamic that must successfully address all the political, economic, and social elements to get the enormous challenge solved.

The world and our nation are at a pivotal crossroad in history. The smoldering unease is obvious in far too many of our citizens today. We see this unease and downright anger displayed both on our TV screens and in our interpersonal relationships with all those close to us. The profound desperation is all around us. There just *has* to be a better way. Read on.

The solution represents a tectonic shift in the relationship between the two colossal economic forces of capitalism and socialism—which drive the social and political life of everyone in the United States and across the globe. Both economic systems have serious intrinsic flaws we have all come to recognize. Our book is a powerful mass-market fresh insight into the real solution to the ever-increasing anxiety and alienation permeating our entire social fabric. It is about the specific means and rationale for building an ownership society via ESOPs and the other half-dozen highly successful yet not well enough known methods for achieving such goals.

British Prime Minister Tony Blair, whose central theme was a “third way,” *won unprecedented overwhelming consecutive victories* in 1997, 2001, and 2005. Though different from what we propose, Blair’s version of the term “third way” refers to various political positions that try to reconcile and synthesize right-wing and left-wing policies.³ However, the concept clearly demonstrates that **the worldwide electorate has an overwhelming hunger for some way to productively resolve the differences between the two dominant political forces.**

Tony Blair claimed the socialism he advocated was different from the traditional conception of socialism.⁴ Blair’s effort at bridging the divide between the two dominant political forces was certainly commendable. Nevertheless, despite the initial overwhelming appeal of his “third way,” it is highly debatable whether, by the end of his term, he fully fulfilled the lofty expectations.

What we advocate in *THE 3rd WAY* (our version of this “third way”) is a much more substantive policy proposal. Moreover, the positive results of economic democracy and employee ownership have been consistently *proven* to work wherever tried.

The most important and effective step we need to take immediately is to create a corporate tax system incentive in exchange for a transformation in the measure of employees’ equity in their place of work. This is fundamental. And it will fundamentally correct the economic system we operate under for the better. The US corporate tax rate is currently the highest in the world. As leaders in both parties have expressed, to be more competitive in the global market, we need to cut corporate taxation. Yes, but *only* if it is offset with an *equivalent* move toward employee ownership. Only then can we obtain the greatest good for the greatest number. Only then can we unleash the *full* power of our nation’s people!

Though the contents are vastly different, this book is designed and written for the masses just as Mao’s *Little Red Book* was—one of the most printed books in history.

The palpable, serious, daily social unrest on both sides of our society, from the Tea Party to Occupy Wall Street, and the entire silent but gravely disenchanted majority in between, desperately needs a third voice of reason. We contend this new way forward is not simply a new ideology; it is the *only* effective long-term means of keeping the dream of widespread prosperity and social harmony.

Though the book is specifically written for everyone, its intellectual “centers of gravity” are such people and leading institutions as Professors Joseph Blasi and Douglas L. Kruse (Rutgers University, School of Management and Labor Relations) and Richard B. Freeman (professor of Economics, Harvard University; Faculty Fellow). They are intimately and actively behind this book because of their decades-long research on this topic.

Today far too many of our citizens barely make it from week to week living lives of worry and struggle in what is championed as the richest nation on earth. If things are bad for them now, what on

earth will they do when they reach retirement age? Is the American Dream now just fool's gold and a romanticized recollection of a bygone era? Why the heck is this happening and what can be done about it?

The answer, like most lessons can be learned from history if we have both the inclination to take the time to study it and have the wisdom to understand the lessons she is teaching us. It was Abraham Lincoln who in The Homestead Act, enacted during the Civil War in 1862, provided that any adult citizen, or intended citizen, who had never borne arms against the U.S. government could claim 160 acres of surveyed government land. Claimants were required to "improve" the plot by building a dwelling and cultivating the land. After 5 years on the land, the original filer was entitled to the property, free and clear. This decisive move by one of our most brilliant Presidents gave much needed opportunity to propertyless people of that age.

In the same way in this information age Americans and those seeking prosperity across the globe must create mechanisms for their people to gain some degree of an *ownership* share in the ever expanding *technological* advancement we witness all around us every day. Today technology drives capital. You must be part of it, or you will be left behind.

Today Americans must be granted a new wiser plan, a "just third way" opened up by the brilliant Louis Kelso decades before. It's a new, alternative version of government involvement and a business dynamic that surpasses both unfocused capitalism and all forms of socialism. With it we will create a more participatory, unified, and empowering "Second American Revolution" leading to the kind of both fair and prosperous society we all long for.

In 1776, we hoped to be an *economic democracy* for those with initial citizenship, which was thankfully expanded to exclude no one. We then took the first steps into *political democracy*. Had technology not advanced, Jeffersonian democracy would have, for the most part, produced a fair and equitable society. At that time, if measured by market forces, 95 percent of the inputs into production (goods and services) were produced by labor and 5

percent by capital, which was mostly land. Land was low in value. It was plentiful. And it took an inordinate amount of labor to be productive.

Make no mistake: the advancement of technology is indeed a much-welcomed, wonderful thing. Today's smart cell phones have more computing power than what put a man on the moon! *The problem is our political systems have not kept pace with the technology.*

In 1776 *everyone* with citizenship had potential economic power because *labor* was the main source and everyone was born with it. Therefore, economic power was *democratically diffused*.

Then, as you see from the chart below, as *technological change advanced*, capital workers grew at an exponential rate. The inputs of capital workers and labor workers have roughly *changed places!* Capital workers now produce at least 90 percent of the input to the economy, with only 10 percent coming from labor.

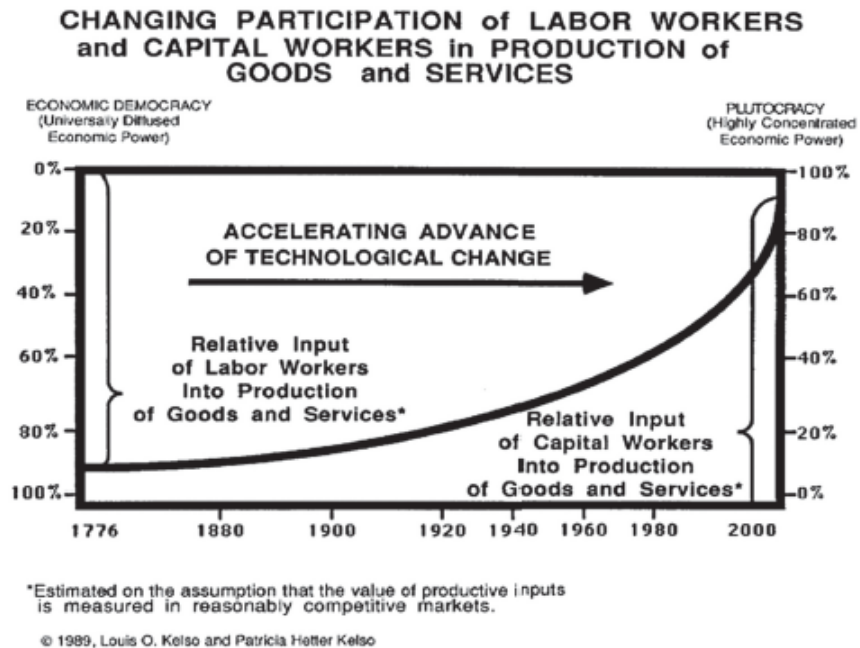


Figure 1. Changing participation of labor workers and capital workers (Graph

by Louis O. Kelso and Patricia Hetter Kelso)

Adam Smith said, “There is only one way to earn income—produce something.” If that is true, we are de facto in a real mess.

In today’s highly industrialized world, *wealth* has a close connection to both technology and capital formation. Technological power marches on, yet labor can only work so hard for so long. Tragically, for the most part, ***we have decoupled labor from capital***. The masses of labor *own no capital* and therefore *can’t possibly keep up*. Herein lies the root cause of the pervasive, precipitous decline in the standard of living for both the middle and lower classes. The blessings of technological advancement caused their ability to keep pace with income via just their labor *to be slashed over time*.

This is *why*, in this day and age, the poor stay poor and the rich get richer.

The end result is that our society has evolved into a *plutocracy* (from Ancient Greek, *ploutos* meaning “wealth” and *kratos* meaning “power, dominion, and rule”). It’s the rule by the wealthy, or the powerful supported by wealth.

In addition, of course, all the methods of finance now in law, which were written by those in power, support the perpetuation of the current system. Only an educated populace via the power of democracy (in lieu of violent revolution, which we do not endorse) can ultimately make the necessary changes and corrections to the system they live under to provide for a more equitable playing field.

Why the concentration of wealth happens must be fundamentally understood. Moreover, an equitable means for dealing with it without killing the golden goose of prosperity must be ascertained.

When you consistently have 5 percent of the people owning the capital that provides 90 percent of the input into production, *you have a recipe for revolution*. And we have reached the limits of redistribution. We have run out of money to paper over the problem! The nearly \$20 trillion national debt is now at an

unsustainable level. **We must modernize the underlying system to ramp up an employee-ownership economy and allow the vast majority of the populace to participate in the capitalist system—not from another failed state redistribution scheme, but via their place of employment.**

Of all the concepts presented in this book, the most critically preeminent is the pressing relationship between labor and technology. It is the singular concept deserving its paramount emphasis. We must understand this decisive relationship and how we must deal with it effectively in the modern age.

While a person has natural limits to the labor he or she can produce, technology continues relentlessly and to an infinite degree to stride on—ever expanding its capabilities. Technology and, more importantly, its fundamental connection to capital and by extension capitalism must be reconciled. Who *owns* the capital is the point. Unless we reconcile a bold new system to *re-couple* labor and capital and address this intensifying inequity in the modern world, we are on an inescapable collision course toward a calamity of epic scale.

It is imperative that our elected officials, the media, and most importantly the general public realize what must be done. Never forget, this was written by both a Democrat and a Republican.

The ever-widening gap between technology and labor is a cold reality. The central question for our age is how we resolve the two as it relates to public policy. We cannot rely on politicians only to drive this change; it must be an organic, newly educated movement from the populace! The decisions we make have massive social, economic, and political implications. We must get this right. And the time to act is now.

Dire consequences await all of us if we do not act appropriately and expeditiously! This book presents the understanding of a bold new paradigm before you. The employee ownership and economic democracy movement is already successfully underway. We must nurture and build on it in geometric proportions.

Capitalism works, but is not fair.

Socialism is fair in theory, but does not work.

Here is the solution:

THE 3rd WAY