

Pegasus



A newsletter for the Caux Round Table Network
looking at business above the clutter and confetti

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Moral Capitalism At Work

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Pegasus

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INTRODUCTION

This issue of *Pegasus* brings you three inter-related items, but on different topics. We include a comment on the ethical implications of bureaucratic structures, a comment on employee ownership and a chart illustrating the basis for current fears over hoped-for, but not-to-be-seen-soon global economic growth.

The inter-relationship of these three different subjects to consider lies in the power of each to illuminate how to get responsible capitalism in our time.

The first comment, which I presented at a recent workshop at the Wittenberg Center for Ethics in Wittenberg, Germany, asks if our modern faith in rational/legal bureaucratic formalities is well deserved.

Our governments, corporations, financial institutions and NGOs have all formed themselves in alignment with the rational/legal requirements of efficient allocation of tasks and role responsibilities. The metaphors used for this way of organizing cooperative human activity are first, science and secondly, machinery.

The presumption of rational/legal orders is that they will constrain, restrain and minimize human emotions and dysfunctions of individual personalities by diverting human energies to prescribed channels of expression and work.

Given that all bureaucratic institutions are subject to repeated failures of purpose and delivery of responsible care, may it be that our optimism that they are a cure for bad ethics and bad judgment is wrongly held?

We speak of “red tape,” “office politics,” “silos,” “internecine rivalries” and much more to describe the daily realities of people who work in bureaucratic hierarchies.

The new “sciences” of behavioral economics and neuro-biology are revealing that we humans are, in fact, not reliable machines happy when we are most controlled and limited in our functions.

Secondly, we present a simple chart that points to a large failure of great institutions. The chart shows the disconnect between the amount of liquidity created for the global economy by public authorities and the amount of loans made to stimulate growth in the real economy.

The chart pushes us towards a discouraging conclusion that quantitative easing on the part of central banks, combined with government budget deficits, have failed to re-start economic growth since the end of the 2008 collapse of credit markets.

We are now living with systematic stagnation in many countries and low or even negative interest rates. The policymakers seem to have run out of tools to promote growth and, more worrisome yet, they may also have run out of ideas as to how to use their bureaucratic instruments to benefit the world.

Thirdly, a counterpoint to bureaucratic hierarchy is decentralization and engagements of workers through personal motivation and team collaboration. We, therefore, bring you a short reflection on the possibility of an “employee” capitalism.

I hope you find these intellectual interventions both stimulating and reassuring that good minds can overcome all obstacles.

Stephen B. Young
Global Executive Director
Caux Round Table

Rational/Legal Bureaucratism and the Corrosion of Moral Purpose

Stephen B. Young

When systemic failures of ethics occur in large organizations, one potential deep source of such shortcomings may indeed be the norms and practices of bureaucratic rationality. Recently in the private sector the case of Volkswagen drew forth anger and astonishment – anger at the intentionality of the fraud and astonishment that such a well-run and well-known company would take such risks with its reputation and the environment. Why did this happen many wanted to know.

But the Volkswagen manipulation of software to fool government regulators and customers in the United States was not an isolated happenstance. Similarly, General Motors knew internally for some 10 years of dangers to passengers arising from defective ignition switches and did nothing. Before that Toyota did not take care to confront possible defects in accelerator pedals in some of its automobiles sold in the United States. Years ago the Ford Company for very rational cost reasons did not re-design the Pinto automobile to better protect passengers from exploding gas tanks. The failure of the Macondo well in the Gulf of Mexico for BP was also ascribed to bureaucratic plodding on the part of the company. The fixing of LIBOR rates, the hubristic excesses of the London Whale working for JP Morgan Chase, and the narcissistic failure of AIG's London operation to reserve against its CDS guarantees, were other instances of bureaucratic formalities run amok to the loss of the business and the harm of the public.

Failures of bureaucracy are not limited to large private corporations. In the United States, the failure of government to provide safe drinking water for the city of Flint, Michigan, is blamed on myopic and unresponsive public officials. The Volcker Alliance for reform of public administration in the United States has just released a paper by Prof. Paul Light which draws attention to the inabilities of public servants to deliver quality results.

Of course, many failures of large entities – Enron, WorldCom, Bear Stearns, Lehman Brothers, the American war in Iraq to promote democracy – are driven by their chieftains who adopt wrong-headed missions out of misplaced intelligence or lack of integrity. The role of the bureaucracies over which they preside is to faithfully execute the inappropriate mission with determination and even gusto.

I want to draw a distinction between failures of leadership vision and mission and a different kind of failure which arises from inherent characteristics of rational/legalism. This second origin of intentional and negligent failure to perform ethically and even legally at times deserves its own study. It is institutional in nature and not so much pathological at the level of the individuals who are given senior management or equivalent board level responsibility.

If bureaucracy itself sits at the head of a cascade of irresponsibility, then we face a conundrum: the

institutional arrangement which has been touted as the driver of modern civilization is itself a flawed instrument with which to achieve humane purposes. In many ways the rational/legal ideal of bureaucracy has become the paradigm for modernity.

Notably Max Weber expounded the assumption that ideal types of authority structures came in three varieties—two old and one modern. The older patterns for legitimate collaboration were traditional inter-personal relationships and charismatic leaders. The modern modality was rational/legal specialization of function and division of labor according to a cause and effect linkage between necessary tasks and desired final outcomes.

The rational/legal requirement of bureaucracy flows from teleology; the rational/legal ideal functions according to its organic and holistic internal principle which is to follow without excuse or deviation the practical wisdom of attaining ends. All actions and relationships not necessary for producing the stated expected results are to be avoided. Efficiency of effort, minimum friction, low entropy/high order (maximizing the energy available for work), are said to optimize output and reduce costs. It is considered the height of rationality to seek such machine-like features in our human organizations. Laws, rules, and regulations, therefore, are put in place to create the desired machinery.

But this powerful internal dynamic of rational/legal systems and institutions can rather act as a black hole—turning all forces and energies inward to meet some self-referential privileging of maximum self-protection. Over time, what happens with bureaucratic dynamics is that what is external becomes ignorable while what is internal takes on nearly supreme importance for those working in the system, drawing benefits from the system and, in many cases, tying their personal identities to the system's stature and puissance.

Adam Smith famously drew our attention to the implications of rational ordering of production in his description of the pin factory. That initial veneration of the factory production line evolved into Taylorism and Fordism, the “I was only following orders” of Nazi Germany, the Organization Man psychology of the 1950's middle class in America, and the Salary Man working for a Japanese Keiretsu.

The axial principle of rational/legal authority structures, the golden rule around which such organizations and their employees revolve, is allocation of role responsibility divorced from individual personality. The person under rational/legal norms is to become a cog, a mechanical function without a soul. The ego and its partners—the superego or moral

sense and the libido or Id—are to be subordinated to role requirements.

To be sure, there were notable and early misgivings about rational/legal ideals.

Adam Smith in his study of the mechanisms of increasing production to enhance the wealth of nations worried that too much subservience to narrow role responsibilities in factory production lines would stunt cultural dispositions on the part of workers and hinder them from becoming well-educated citizens. Smith was therefore not fully approving of the application of rational/legal authority structures to economic activities. (*Wealth of Nations*, Article II, the Education of Youth)

With respect to Karl Marx's insights into the negative implications of rational/legal production modalities, an entry in Wikipedia says that:

In the *Economic and Philosophic Manuscripts of 1844* Karl Marx identified several types of worker alienation:

(I) Alienation of the worker from the work— from the product of his labor

Aside from the workers having no control over the design-and-production protocol, alienation (*Entfremdung*) broadly describes the conversion of labor (work as an activity), which is performed to generate a use value (the product) into a commodity, which—like products—can be assigned an exchange value. That is, the Capitalist gains control of the manual and intellectual workers, and the benefits of their labor, with a system of industrial production that converts said labor into concrete products (goods and services) that benefit the consumer. Moreover, the capitalist production system also reifies labor into the “concrete” concept of “work” (a job), for which the worker is paid wages— at the lowest-possible rate—that maintain a maximum rate of return on the Capitalist's investment capital; this is an aspect of exploitation.

(II) Alienation of the worker from working— from the act of producing

That division of labor, within the capitalist mode of production, further exploits the worker by limiting their *Gattungswesen* (species-essence)— the human being's power to determine the purpose to which the product (goods and services) shall be applied. The alienation of the worker from the act of producing renders the worker unable to specialize in a type of productive labor, which is a psychologically satisfying condition; within an industrial system of production, social alienation reduces the worker to an instrument, to an object, and thus cannot productively apply every aspect of one's human nature.

(III) Alienation of the worker from himself, as a producer — from his *Gattungswesen* (species-essence)

The *Gattungswesen* (species-essence), human nature of individuals is not discrete (separate and apart) from their activity as a worker; as such, *species-essence* also comprises all of innate human potential as a person. Conceptually, in the term “species-essence”, the word “species” describes the intrinsic human mental essence that is characterized by a “plurality of interests” and “psychological dynamism”, whereby every individual has the desire and the tendency to engage in the many activities that promote mutual human survival and psychological well-being, by means of emotional connections with other people, with society. The psychic value of a human consists in being able to conceive (think) of the ends of their actions as purposeful ideas, which are distinct from the actions required to realize a given idea. That is, humans are able to objectify their intentions, by means of an idea of themselves, as “the subject”, and an idea of the thing that they produce, “the object”. A person’s *Gattungswesen* is actualized when an individual — within their given historical circumstance — is free to sub-ordinate their will to the external demands they have imposed upon themselves by their imagination, and not the external demands imposed upon individuals by other people.

Even Max Weber worried about the “iron cage” effects on its subjects brought about by rational/legal discipline and limitations on the imagination. The metaphor (in German *stahlhartes Gehäuse*) brings up the image of imprisonment to convey the thought that important human freedoms and values and expression of personhood are lost when too much rational/legality is imposed on our undertakings. Weber also once described a rationalistic society as “the polar night of icy darkness”. (Weber, Max: *Political Writings* (Cambridge Texts in the History of Political Thought). Ed. Peter Lassman. Trans. Ronald Speirs. Cambridge UP, 1994. xvi.)

The argument from alienation posits something eternal and immutable about the impact of subjecting a person to role responsibility that leads to a separation of work from personal ethics. The ethic assigned to the role may not be sufficient to insure that the person in the role will successfully dedicate himself or herself to seeking instantiation of that ethic in the work product as contemplated by the rational/legal plan for that position.

In short, the worry is that something about rational/legal work environments when incorporating human nature into their processes and procedures tends to truncate that nature; to shut down the hearts and minds of those assigned roles; to turn off the light of their consciences; to close the windows of their

minds; to narrow their intellectual focus; to reinforce their presumption of self-seeking; and to raise their fears and resentments of others.

The conundrum, of course, with specialization of function is that an ethical demand is placed on the person given any specialized responsibility to be loyal to the mission to which the role is dedicated and to the vision behind that mission and, further, to use due care in achieving that mission. So it is wrong to demand of individuals insubordination to the demands made on them by their functional role. They must ethically subordinate themselves to role requirements yet that is not the end of the story of their ethics and the nature of their work.

Furthermore, in so subordinating themselves to the role, they open up themselves to psycho-social forces leading in the direction of unethical dysfunctionality.

The point of concern would seem to lie at the intersection of human nature and the demands of rational/legal role conformity. What does role conformity tend universally to trigger within the motivational dynamics of the persons who are assigned to perform within set specifications?

Inevitably in rational/legal role assignments, there is a separation of the self from the role. The self is to step into the role but that is an undertaking with varying degrees of success. In some cases, the self and role fuse perfectly for a vocation to be felt by the self and the mission behind the role is well served. In other cases, the self subsumes the role and perverts it for selfish exploitation. In still other cases, the self rebels against the demands of the role, becomes unhappy or recalcitrant and the outcomes needed from good role performance are not achieved.

In December 2014 Pope Francis made some relevant observations about the darker sides of this intersection of the personal and the institutional when he complained about “diseases” within his Curia. Some of the “diseases” he objected to which apply across bureaucratic environments are:

2. the “Martha complex”, excessive busy-ness. It is found in those who immerse themselves in work and inevitably neglect “*the better part*”: sitting at the feet of Jesus (cf. *Lk* 10:38-42). A time of rest, for those who have completed their work, is necessary, obligatory and should be taken seriously: by spending time with one’s family and respecting holidays as moments of spiritual and physical recharging.

3. Then too there is the disease of mental and spiritual “petrification”. It is found in those who have a heart of stone, the “stiff-necked” (*Acts* 7:51-60), in

those who in the course of time lose their interior serenity, alertness and daring, and hide under a pile of papers, turning into *paper pushers* and not *men of God* (cf. *Heb* 3:12).

4. The disease of excessive planning and of functionalism. When the apostle plans everything down to the last detail and believes that with perfect planning things will fall into place, he becomes an accountant or an office manager. Things need to be prepared well, but without ever falling into the temptation of trying to contain and direct the freedom of the Holy Spirit, which is always greater and more flexible than any human planning (cf. *Jn* 3:8). We contract this disease because “it is always more easy and comfortable to settle in our own sedentary and unchanging ways.

5. The disease of poor coordination. Once its members lose communion among themselves, the body loses its harmonious functioning and its equilibrium; it then becomes an orchestra which produces noise: its members do not work together and lose the spirit of fellowship and teamwork. When the foot says to the arm: “I don’t need you”, or the hand says to the head, “I’m in charge”, they create discomfort and scandal.

7. The disease of rivalry and vainglory.[11] When appearances, the colour of our clothes and our titles of honour become the primary object in life, we forget the words of Saint Paul: “*Do nothing from selfishness or conceit but in humility count others better than yourselves. Let each of you look not only to his own interests, but also to the interests of others*” (*Phil* 2:3-4).

8. The disease of existential schizophrenia. This is the disease of those who live a double life, the fruit of that hypocrisy typical of the mediocre and of a progressive spiritual emptiness which no doctorates or academic titles can fill. It is a disease which often strikes those who abandon pastoral service and restrict themselves to bureaucratic matters, thus losing contact with reality, with concrete people. In this way they create their own parallel world, where they set aside all that they teach with severity to others and begin to live a hidden and often dissolute life. For this most serious disease conversion is most urgent and indeed indispensable (cf. *Lk* 15:11-32).

9. The disease of gossiping, grumbling and back-biting. I have already spoken many times about this disease, but never enough. It is a grave illness which begins simply, perhaps even in small talk, and takes over a person, making him become a “*sower of weeds*” (like Satan) and in many cases, a cold-blooded killer of the good name of our colleagues and confrères. It is the disease of cowardly persons who lack the courage to speak out directly, but instead speak behind other people’s backs.

10. The disease of idolizing superiors. This is the disease of those who court their superiors in the hope of gaining their favour. They are victims of careerism and opportunism; they honour persons and not God (cf. *Mt* 23:8-12). They serve thinking only of what they can get and not of what they should give. Small-minded persons, unhappy and inspired only by their own lethal selfishness (cf. *Gal* 5:16-25). Superiors themselves could be affected by this disease, when they court their collaborators in order to obtain their submission, loyalty and psychological dependency, but the end result is a real complicity.

11. The disease of indifference to others. This is where each individual thinks only of himself and loses sincerity and warmth of human relationships. When the most knowledgeable person does not put that knowledge at the service of his less knowledgeable colleagues. When we learn something and then keep it to ourselves rather than sharing it in a helpful way with others. When out of jealousy or deceit we take joy in seeing others fall instead of helping them up and encouraging them.

12. The disease of a lugubrious face. Those glum and dour persons who think that to be serious we have to put on a face of melancholy and severity, and treat others – especially those we consider our inferiors – with rigour, brusqueness and arrogance.

14. The disease of closed circles, where belonging to a clique becomes more powerful than belonging to the Body and, in some circumstances, to Christ himself. This disease too always begins with good intentions, but with the passing of time it enslaves its members and becomes a cancer which threatens the harmony of the Body and causes immense evil – scandals – especially to our weaker brothers and sisters.

15. Lastly: the disease of worldly profit, of forms of self-exhibition.[17] When an apostle turns his service into power, and his power into a commodity in order to gain worldly profit or even greater power. This disease does great harm to the Body because it leads persons to justify the use of any means whatsoever to attain their goal, often in the name of justice and transparency!

In 2007 Michael Hammer published a relevant article in the *MITSLOAN Management Review* (Vol 49 No. 3) on the “7 Deadly Sins of Performance Management and How to Avoid Them”. Performance reviews are the enforcement mechanism for those assigned to deliver results for rational/legal structures of intentionally planned work. Hammer’s “sins” associated with the methodology of bureaucracy are: 1) vanity – making insiders look good; 2) provincialism – insiders set performance objectives;

3) narcissism – measuring according to the eye of the insider; 4) laziness – setting measures without thinking about them; 5) pettiness – measure less than you should; 6) inanity – creating metrics that have unintended consequences; and 7) frivolity – passing the buck for poor performance, finding excuses for poor performance, arguing about wording.

When rational/legal role requirements suffocate healthy personhood, ethics are compromised and morale suffers.

To avoid an excessive pull of rational/legal ethical suffocation, a powerful intra-personal counter-weight needs to be placed within each member of the structure. That counter-weight mostly likely is to be developed inside the moral sense of the person. It is most likely a strong sense of vocation over and above the technicalities of each person's role responsibility.

The aims of the rational/legal requirements need justification from a more transcendent source of meaning. The rational/legal structure must be placed in a higher context: who does it serve? what great ends does it further?

The entity itself must be contextualized as a public office with stewardship responsibilities.

The tendency of rational/legal structures is to bring out pettiness in persons through making available manifold selfish temptations as Pope Francis described. The role is a turf, a little fiefdom, available for our exploitation. In this sense we are exposed within the paradigm of rational/legal rigor to more traditional power functions of lordship and dominion vis-à-vis those who depend on our doing our task with loyalty to the common good and with becoming diligence.

Once tasks are specified and laboring is divided, mutual dependencies are created which in turn permits abuses of power to happen.

If the culture of the organization encourages or permits, if the character of the employee is so disposed, then what is called the “agency problem” in finance and what public administration professors call public choice theory asserts strongly that self-interest in carrying out role responsibilities breaks out in great strength to undermine collective achievement.

The “agency problem” is the assumption that people can't be trusted to be good stewards of their powers and authority. Public Choice theory holds that those in government service are easily swayed by interest to avoid diligent implementation of their stated goals and objectives.

Leadership and corporate culture as a counterweight

Chester Bernard wrote that “the creation of organizational morality is the spirit that overcomes the centrifugal forces of individual interests or motives.”

Chester Bernard understood well the dysfunctional features of bureaucratism. (Bernard, Chester, *The Functions of the Executive*, Harvard University Press 1976) But he pointed out a misperception in the theory of rational/legal organizations. He noted that, contrary to the assumption of top-down, command and control hierarchies of strict obedience, systems of collaboration are actually bottom-up, buy-in from below, accumulations of individual energies contributed to the whole. The key decision-maker for the quantity and quality of energy contributed to the system is the individual contributor, not the highmost executive. Bernard proposed that the function of the executive was to motivate members of the collaboration system to make optimum contributions. This, he said, was to be done through the use of values coupled with consistent remuneration of interests. Inspiration, not command, was for Bernard the core of the executive function well performed. Inspiration would fuel the individual with motivation to serve well, to fight off the temptation of the “agency problem”, and to be holistically ethical under the circumstances.

“Organizations endure, however, in proportion to the breadth of the morality by which they are governed. This is only to say that foresight, long purposes, high ideals, are the basis for the persistence of cooperation. Thus the endurance of organizations depends upon the quality of leadership; and that quality derives from the breadth of the morality upon which it rests.” (p.282)

Bernard predicted that “a low morality will not sustain leadership long,” (p. 283)

Persons in authority, therefore, who reinforce or otherwise emphasize the tendencies of rational/legal structures to position employees for unethical, self-centered behaviors are not leaders providing the executive function. They are not proper counter-weights to the drive of rational/legal systems to sink into low entropy stasis and self-absorption, losing sight of their larger purposes of redemptive service.

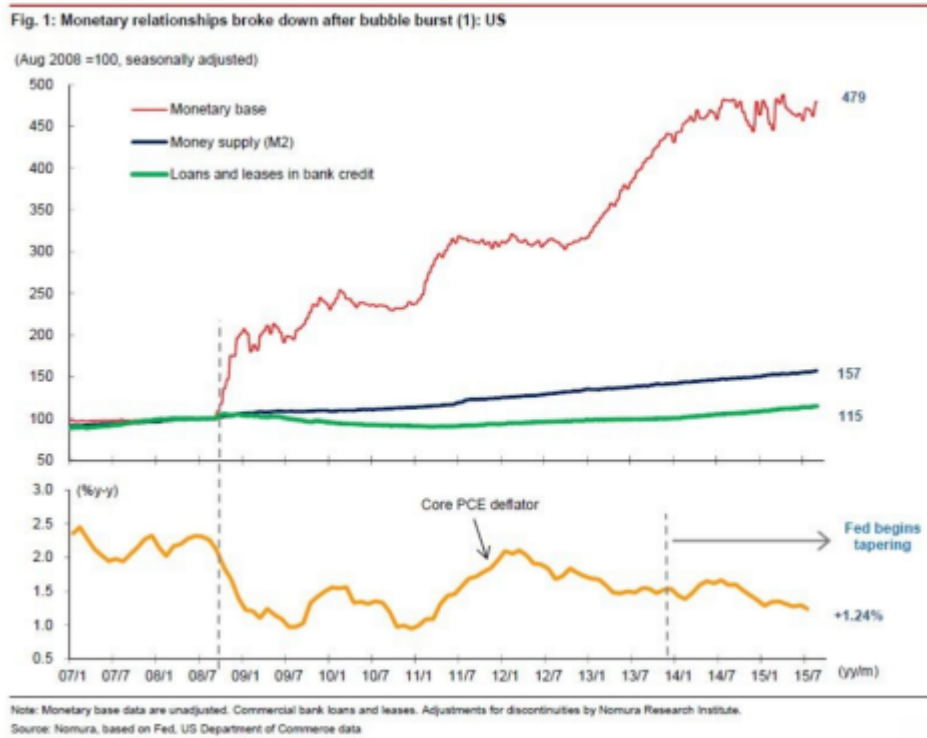
The antidote to the psycho-social diseases spread by rational/legal norms is thus to be found in the theory of office with the fiduciary standard of stewardship at the fore. Tasks can indeed be separated, authority rationally allocated as necessary to get all the sub-parts of the undertaking running in high gear, and yet the individuals responsible for each

task do not lose a sense of their personality being important to the outcome. They are thus empowered to be persons of moral character charged with more than mere subordination to their superiors. They are to – in a rational/legal manner – have the additional task of being an active neuron in the conscience of the collectivity.

To use a Weberian construct, within a rational/legal structure persons still need some charisma from which they align themselves with the transcendent and bring that higher purpose of right and good into the quotidian mechanics of their daily routines.

It is the old quip about the three men cutting stones: one thought he was cutting stones to fit as directed by the master mason; the second thought he was building a cathedral; the third understood that he was worshipping God.

Monetary Relationships



Restoring the American Dream: A Proposal for Employee Capitalism

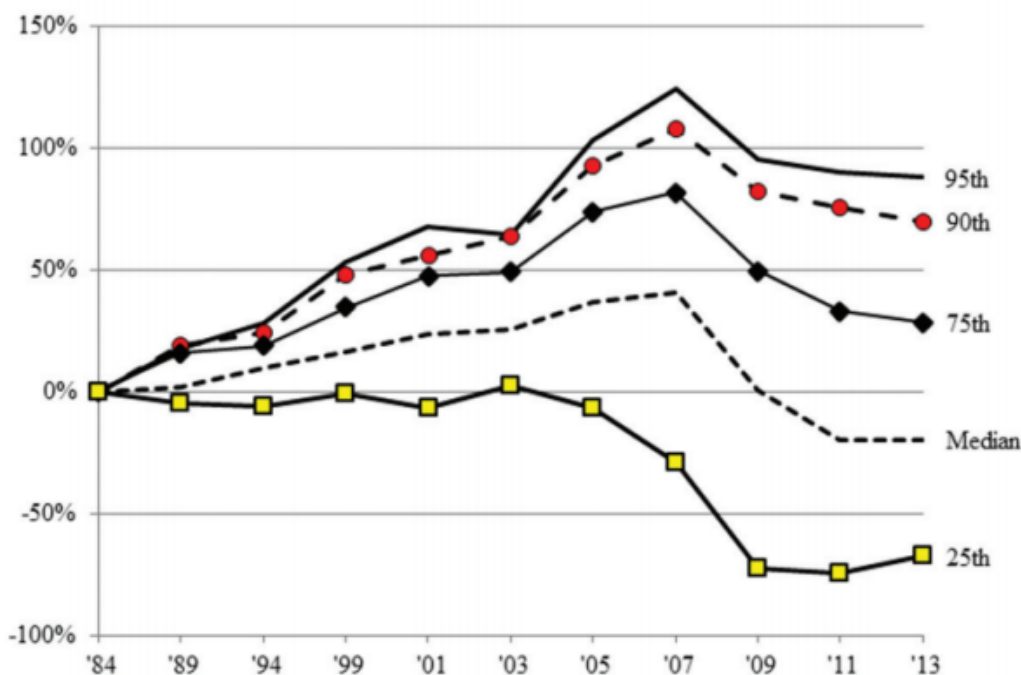
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From the beginning, the American Dream has been opportunity for individuals – freedom for individual spiritual fulfillment coupled with prosperity and well-being. It has been a middle class dream – neither promoting aristocratic privilege nor accepting the permanency of lower class hardships and dependencies.

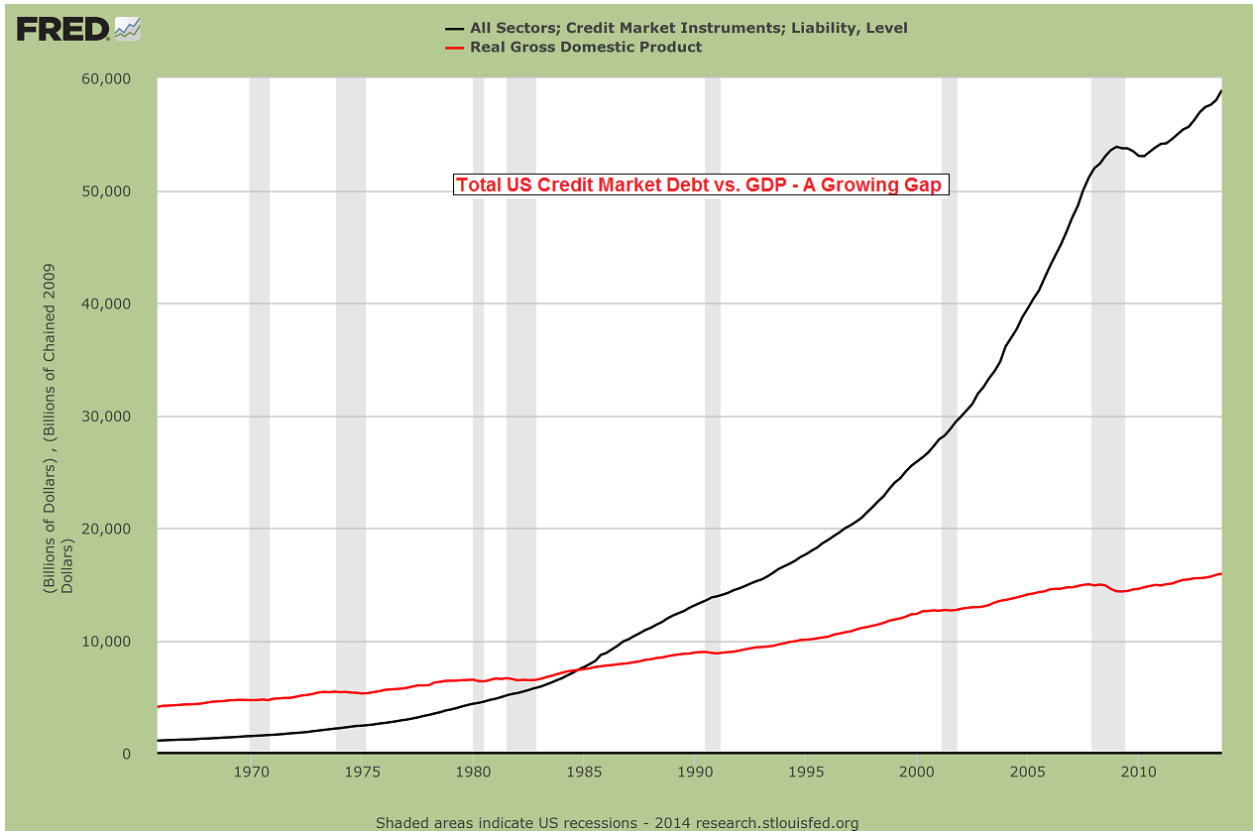
But in recent decades, with transformations of our economy and financial systems, the American middle class has suffered and shrunk. More income and wealth has gone to those already rich while government income transfers have provided safety nets for those at the bottom.

Figure 1. Change in wealth since 1984 for various percentiles (in 2013 dollars)



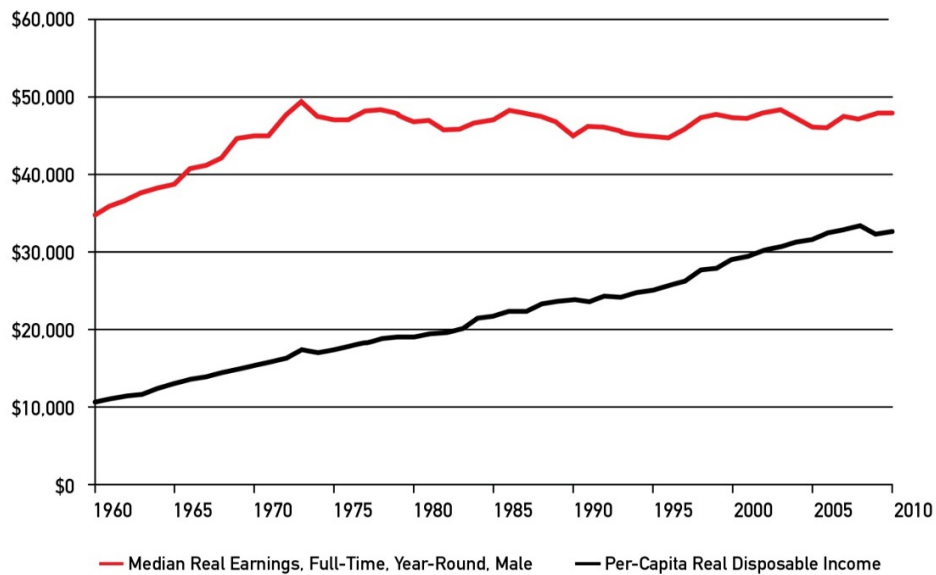
Source: Panel Study of Income Dynamics (based on 2013 early release data); calculations by the authors.

The weakness of the middle class has grown since 1980 when the economy took on unprecedented levels of debt.

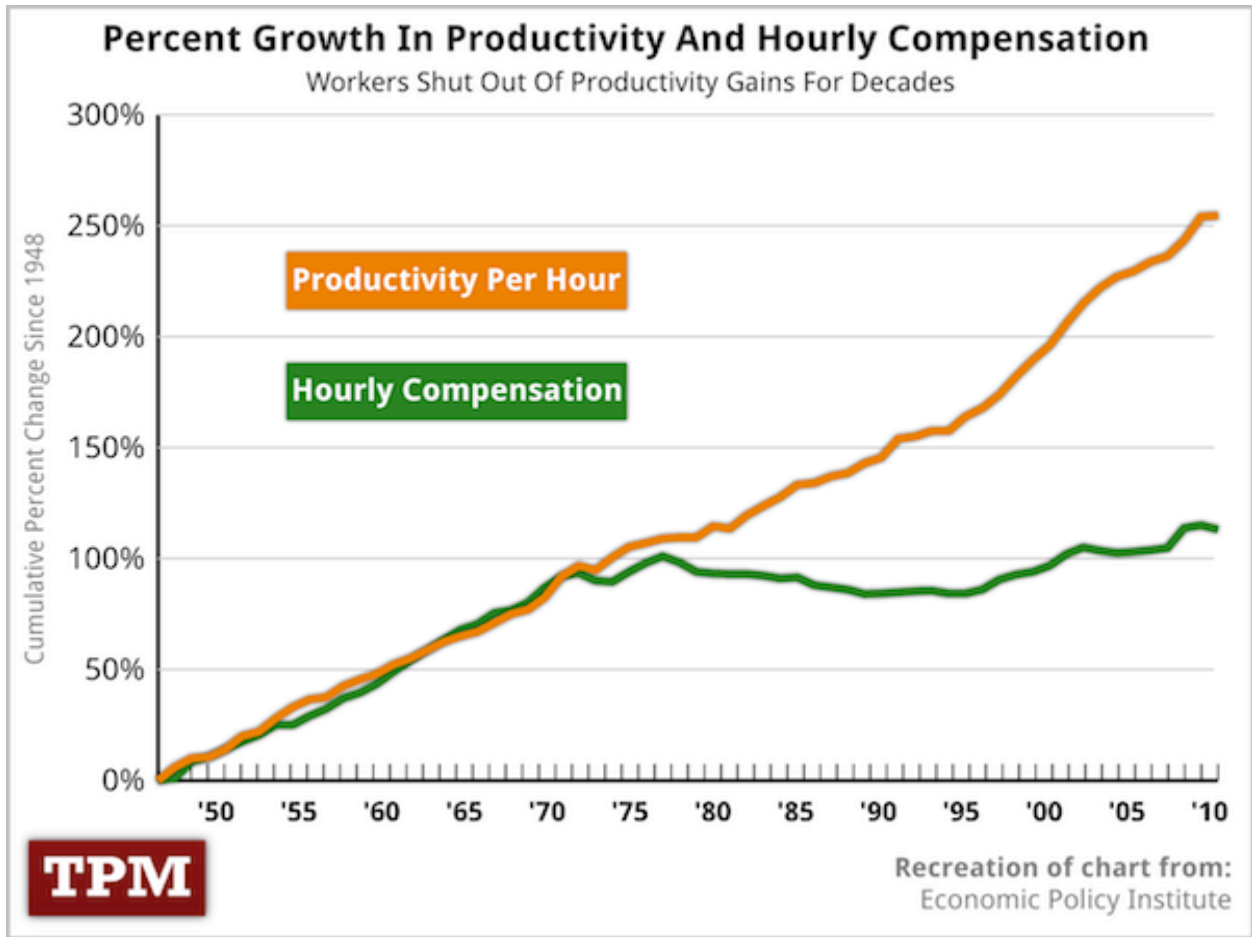


Simultaneously, real wages for full time working males, the traditional social base of the American middle class, have stagnated since 1973.

Per-Capita Disposable Income and Median Earnings



Wages have not kept pace with increases in productivity.



A new model of American capitalism is needed.

Ownership of many corporations should be transferred to their employees. America needs employee ownership as a major component of successful and sustainable free market capitalism. Workers should become capitalists.

Since the first decades of the industrial revolution and the birth of modernity, capitalism has directed higher returns to those who own capital assets than to those who merely provide their labor for a wage.

As capital assets have grown into the trillions of dollars, it is now possible to bring capital ownership to more and more workers.

Employees can buy the stock of their companies. Boards of Directors and CEOs will then refocus company strategies to take care of customers and employees first and foremost. Wealth will spread more widely as a result.

The advantages are illustrated by the remarkable history of Graybar.

Graybar is the 15th largest employee owned company in the United States (based on headcount). It is a \$6 billion company with more than 8,000 employees located across North America.

The company was originally founded in 1869 as Gray and Barton and later became Western Electric—one of the largest manufacturers of electrical and telephone equipment in its day. Western Electric also had a supply department that distributed products from other manufacturers, which grew to be a successful part of the business. In 1925, the supply department was spun off as an independent company and named Graybar in honor of the company's original founders, Elisha Gray and Enos Barton.

Western looked to find a buyer that would maintain the generous benefits that employees enjoyed under Western Electric, but when no outside buyers were found, the employees offered to purchase the company. On January 1, 1929, Graybar became the largest employee-owned company in the nation at that time.

Graybar is still completely owned by its employees and retirees today. Its unique model provides a structure that creates a sense of shared purpose and profit for its employees throughout the organization, whether they work in an entry-level or executive role. Graybar's strategic purpose statement summarizes it well:

As an employee-owned Company, Graybar strives to be a profitable, progressive business that provides employees with long-term career opportunities and the financial means to achieve a high quality of life, both while working and into retirement.

At Graybar, employee ownership shapes the company's values and culture in a way that works to the advantage of its stakeholders, including customers, employees, suppliers, shareholders and the community. Graybar is also an example of a company that has achieved business success for decades, while remaining true to its values and providing for its people.

Wall Street as it is today is no longer needed to support the middle class. Companies that take care of their employees, on the other hand, are so needed more than ever, as globalization moves jobs around the world with impunity and computers more and more reduce demand for human workers.

Wall Street is no longer seriously investing in company equity or providing large amounts of capital to grow the wealth of Main Street. Wall Street has transformed itself away from good stewardship of financial services into making money for itself from trading securities. Buying and selling financial instruments is the principal industry of Wall Street. This provides little social and economic value for most Americans.

Employee owned companies would retain ways of raising necessary capital for growth through retained earnings, commercial paper, and long-term debt.

Non-employee savers and investors would still have options to earn returns from companies which would not be employee owned.

The means of building employee capitalism has been proven by employee stock ownership plans: employees borrow money today to buy the shares of their companies and repay the loans with future company dividends.

Funds to loan to employees are readily available.

First, the trillions parked by US corporations in cash reserves could be loaned to employees so that they can buy company shares at market prices. Corporations could also use those funds to buy back their public shares and so reduce the outstanding number of their shares, which would make it easier for employees to become majority owners.

Companies could also guarantee loans to employees from other creditors so that employees could buy shares and become owners of the firms where they work.

Should employees owners want to change employers, they could sell their shares to other employees or retirees of their company, or sell their shares back to the company for re-sale to other employees or retirees.

Second, with permission with depositor banks, the excess reserves of US banks placed in the Federal Reserve, some \$2 trillion, could be loaned by the Federal Reserve under proper authorization to employees to buy shares in their employer corporations.

Employee shares would be placed in voting trusts to provide discipline in reaching acceptable ownership agreement on corporate business plans. Employee shares would be converted into restricted shares transferable only to the company or other employees.

Not only does employee ownership give workers a way to share in the success of a company, it can contribute to improved results. Studies conducted by the National Center for Employee Ownership show a positive link between employee ownership and company performance; however, it is clear that ownership alone does not directly impact performance. Research consistently shows that employee owned companies that provide opportunities for employees to participate in decisions affecting their jobs and that share information about company financial performance with employees perform far better than those who do not.

With this participative management approach, employee-owned companies may have an advantage in:

- Employee retention—employees who have a stake in the success of the company may be less likely to leave for other opportunities.
- Employee engagement—employee owners tend to feel connected to a broader purpose and believe they can make a difference.
- Productivity—as owners, employees go above and beyond to help the company succeed. They make decisions with the good of the company in mind.
- Sales—when customers do business with an employee-owned company, it is likely that the person answering the phone, presenting a solution or fulfilling an order is an owner. This can provide customers with a higher level of confidence and establish trust, which is vital to long-term growth and sustainability.

Recommendation: That the United States commence a public/private partnership to promote employee ownership of companies.

Outro:

A Submerged State

Bureaucracy is isolating, omnipresent, and submerged both in the business and in political spheres.

In August of 2009 in Simpsonville, South Carolina, at a political rally, an individual shouted at his elected representative, “Keep your government hands off my Medicare.” Medicare for those not familiar is a social insurance program run and funded by the U.S. government in collaboration with state governments and private insurance companies. The program provides health insurance to Americans over 65 and those that are younger but with disabilities.

The incident in South Carolina is striking and relevant for several reasons. Beyond making headlines for pointing out the apparently uninformed nature of the protester, it indicated something else altogether – the submerged nature of much of government and the bureaucracy that keeps it functioning. This line of thought is from work by Suzanne Mettler who wrote a book called, *The Submerged State*. As she outlined in her Introduction:

“Despite the usual travails of the legislative process, exacerbated in 2009 and 2010 by greater political polarization in Congress than at any other point in the post-World War II period, within fifteen months Obama had already achieved much of what he set out to do on these issues [health care reform, tax breaks, enhanced aid to college students]. Yet Americans generally seemed unimpressed and increasingly disillusioned. The problem was that most of what had been accomplished could not be seen: it remained invisible to average citizens.”

As Steve notes in his article, a vast bureaucracy, whether in business or elsewhere, can be isolating. It can also be nearly invisible, or submerged, and in

this way it can be a negative indicator for long-term success in business or government. If, for example, you have an issue with Medicare there is a huge process one must go through to attempt to get it resolved and the entire time you, as an individual dealing with the system, feel powerless. If, on the other hand, you have seamless experiences with Medicare, then it exists silently without you ever really noticing it was there causing the bureaucracy to never truly get the praise it deserves.

Besides attempting to better educate every recipient of a government program – a seemingly Herculean feat – the alternative would be something along the lines of the proposal laid out in the pages above. As in the case for business, if everyone is an engaged co-owner of the enterprise then it behooves you to be educated about policies and the decisions made and work ethic exhibited by those around you. In the case of government, of course, on some fundamental level this is already the case; through taxation and representation we are all already ‘co-owners.’ In the business world, however, a change could be instituted to have a greater impact on employees, profits, and overall sustainability. One of the main hurdles would no doubt be the calling card of any bureaucracy – entrenched interests.

Finally, as one review of *The Submerged State* noted, “It is difficult to have a real democratic debate about the role of government, Mettler argues, when so much of what government does is unknown and unseen.” In the world of business and business ownership, having more transparency and debate would certainly be a positive step in the right direction.

As always I welcome your thought,

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