

Where Did They All Come From?

The Story of Employee Ownership, American-Style



For much of American history, employee-owned companies were rare. Countries such as Italy and Spain had a tradition of worker cooperatives, but co-ops never really caught on here. Nearly all of our businesses were owned by their founders, their founders' families, or other investors.

A lawyer and economist named Louis O. Kelso set out to change that situation.

Kelso grew up in Colorado, during the Great Depression. He was dismayed by the fact that stock ownership—capital—was concentrated among the wealthy, and that most Americans had nothing to sell except their labor. Kelso had a way with words, and he described the situation this way:

The Roman arena was technically a level playing field. But on one side were the lions with all the weapons, and on the other the Christians with all the blood. That's not a level playing field. That's a slaughter. And so is putting people into the economy without

equipping them with capital, while equipping a tiny handful of people with hundreds and thousands of times more than they can use.

Kelso was no socialist—he was a capitalist through and through. He just saw that free enterprise would work better if more people owned stock. They would then have two sources of income, from working and from ownership. They would have more of a stake in the system.

So he came up with a variety of ideas for encouraging wide distribution of stock. He wrote books. He gave speeches and interviews. He lobbied politicians. But Kelso wasn't just a thinker; he was also a doer. He created a way for employees to buy a company at no cost to themselves—a form of leveraged buyout, much like today's ESOPs—and helped companies implement several such plans.

It was slow going, however. Since there was no law to govern Kelso's plans, company owners, lawyers, and potential lenders were skeptical. Some even thought the plans might be illegal.



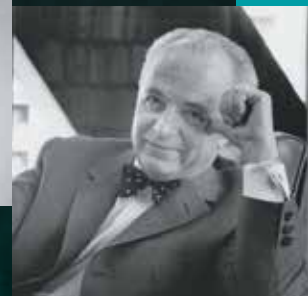
One night over dinner, Kelso explained the idea to Russell Long, a powerful senator from Louisiana. Unlike a lot of the politicians Kelso spoke to, Long was interested. Employee ownership of the sort that Kelso was proposing, he believed, could make “the have-nots into haves without taking anything away from the haves.” He inserted provisions relating to ESOPs in the Employee Retirement Income Security Act, or ERISA, which was passed by Congress in 1974. Later he helped persuade lawmakers to provide tax incentives for setting up ESOPs.

Since that time, Congress has passed (and sometimes removed) other measures supporting ESOPs. Many lawyers, bankers, and business advisors have become familiar with them, and now are able to provide companies considering an ESOP with expert advice. Both of those factors have contributed to the idea’s remarkable spread.

Kelso died in 1991, but he would be happy to see how his intellectual offspring have proliferated.



Russell Long



Louis Kelso