

Ownership Patterns -- Steps Toward a Conscious Capitalism

by Jeff Gates

There was a time when economic decisions were informed by conscience and made with sensitivity to a community's values. That was most obviously the case when elders were honored and when close-knit communities were the rule rather than the rarity. That richly textured, multiple-agenda decision-making has since given way to a detached, numbers-driven efficiency that grants deference, even dominance, to a narrow bandwidth of finance-denominated values.

Today's finance-myopic free enterprise operates on the basis of what I call "money on automatic." With some \$17 trillion (\$17,000,000,000,000) in the hands of U.S. money managers – mutual fund managers, pension fiduciaries, insurance companies, banks, foundations and the like, financial values have become a proxy for a broad range of human values.

This highly institutionalized, dramatically de-peopled form of free enterprise means that economic decision-making is now cut off from the foresight, the concern and even the simple common sense that reside uniquely with individuals and within their communities. Adam Smith, the father of free enterprise, would be appalled. That famous Scot envisioned a "self-designed" system informed by a complex range of overlapping values reflecting the purpose, aspiration and motivation that make humans so uniquely human. He recognized that the moral foundation of markets, like that of democracies, is grounded in the notion that they are systems of widely distributed control -- thus the deference granted consumers in the case of markets and constituents in the case of democracies, which are routinely seen as a marketplace of ideas.

Smith envisioned not financial markets but an engaged and concerned humanity as the animating force through which the pursuit of private gain becomes public virtue. While financial calculation is a part of who we are, it is only a part. Yet reliance on financial values as a surrogate for other values – economic, social, environmental – finds vigorous support in today's allegiance to an abstract and detached economic model that views financial returns and a steadily rising GDP as separate and apart from the larger concerns of communities and of nature.

While it's certainly true that global capital markets display an uncanny capacity to seek out financially denominated returns worldwide, that search has left in its wake grotesque social inequities and fast mounting environmental tragedies. For instance, the UN Development Program reported in 1998 that the assets of the world's richest 225 individuals equal the combined income of the world's 2.5 billion poorest people. The

three richest individuals have wealth greater than the combined GDP of the 48 poorest countries. Last year, the richest fifth of humankind had eighty-two times the combined income of the poorest fifth. That's up from sixty-one times just two years earlier. In the United States, the net worth of the richest one percent is now 2.4 times the combined net worth of the poorest 80 percent.

The sad truth is that present-day capitalism – both domestically and abroad -- does a remarkable job of creating new physical capital but a lousy job of creating new capitalists. Yet that is what it must do if ever we hope to inhabit a free enterprise fully informed by the concerns of those whose lives it impacts. As I show in my book, *The Ownership Solution* (1998), we can address concerns across these three inescapably interdependent domains -- economic, social, environmental -- by evoking ownership patterns that are consciously people-ized, localized and human-sized -- thereby empowering capitalism itself to become more community-wise. To do so requires that companies include as owners their employees, customers, local residents and others with a stake in the performance both of the enterprise and of the community in which it is located.

The encouragement of such "up-close capitalism" can enhance both motivation and mindfulness while better aligning self interest with the common interest. Indeed, much of today's violence – physical, psychic and ecological – stems from a pervasive sense of feeling apart from rather than a part of the free enterprise system and its impact on society and nature.

Happily, today's detached and concentrated ownership patterns are not some immutable trait inscribed in the DNA of free enterprise. Quite the contrary. Capitalism can be designed either for inclusion or, as now, for exclusion. It's an historic irony with potentially grave implications that the "self" is the element now most missing in this self-designed system. Over time, we've allowed free enterprise to become disconnected, detached, unconscious, unconcerned and uncaring. Yet with a policy environment that looks to ownership as a means for restoring human connectedness, economic policy can be redesigned to create a sense of community, to advance a feeling of civil cohesion and to evoke better collective foresight.

The very character of democratic free enterprise requires that it include notions of solidarity, mutuality and reciprocity. By turning to broad-based personal ownership as a means for deepening and enriching the relationship that people have with private enterprise, we can do much to ensure that decisions affecting peoples' lives and the environment are no longer resigned to the abstract realm of capital markets or left solely in the hands of a distant and detached financial and managerial elite. Neither left, right nor centrist, this strategy suggests instead the public encouragement of private property patterns that are decentralized, devolved and personalized.

Property is a "property" of free enterprise, much like wet is a property of water. Property patterns are an underutilized tool, a meta-tool if you will, that could be used to evoke a more conscious capitalism, one where a sense of interdependence is immediate, palpable

and real. That sense of connectedness, along with newly peoplized feedback loops, could have remarkable implications not only for enterprise performance but also for rebuilding social capital while advancing environmental sustainability.

A modest step in that direction has been taken with the federal encouragement of employee stock ownership plans ("ESOPs"), now in place in more than 11,000 U.S. firms and covering some 10 percent of the workforce. Incentives for related enterprise stock ownership plans ("RESOPs") could expand on that popular notion, providing a way for those working for a firm's suppliers or distributors to gain a stake in a larger enterprise. Similarly, customer stock ownership plans ("CSOPs") could provide a way for local residents to gain both a stake and a voice in investor-owned utilities. Things look far different for a company's stockholders when it's their family, not just their financial return that's at risk.

CSOP -- Imagine living in a utility district for 50 years where every month you have built into your bill a financial return for an absentee investor who may live in an entirely different country. Why do that? Over time, that cash flow could be used to grow capital for you instead. That's a CSOP.

RESOP -- Jamaica Broilers, a chicken processing company, has a broad range of owners. Some of them are traditional investors plus the managers. But they also used the company's buyback of a foreign investor's shares to create ownership not only for their direct employees (that's an ESOP) but also for those working for related enterprises, including those microenterprise employees who grow the chickens and those employed by trucking firms who transport the chickens to market. That's a RESOP.

GSOC -- Trinidad recently discovered what could be as much as 75 trillion cubic feet of natural gas. Who are the natural owners of that natural gas? That resource could be developed so that everyone on the island became a mini-capitalist, ensuring that everyone participates at least a little and none too much. That's a General Stock Ownership Corporation (GSOC).

In many disciplines outside the hard sciences it is said that we live within "fields" of thought and perception – nonmaterial, invisible forces that structure both space and behavior within it. The challenge facing free enterprise lies in creating an organizational field that engages the human conscience. It is in that context that ownership patterns, an invisible field, work their influence for good or ill.

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