

Book Review

A CEO on the Theory and Practice of Employee Ownership

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Ray Carey, *Democratic Capitalism: The Way to a World of Peace and Plenty*. 2004.
AuthorHouse Press, 543 pp, \$33.50

Over a 33-year career in corporate management, including 18 years as CEO of ADT, the largest home and business security systems company in the country, Ray Carey became a "self-taught democratic capitalist." In order to change the work culture and to create a more cooperative environment between managers and wage earners at ADT, he implemented a profit-sharing and stock purchase plan for all company associates. That successful experience convinced him of the merits of broad-based participation in ownership and led to his search for a means of promoting a more democratic version of free enterprise through the theory and practice of democratic capitalism.

Starting with a review of economic theories from Adam Smith to Karl Marx, Carey notes that the antecedents of democratic capitalism and worker participation have been around practically from the advent of the development of capitalist thought. John Stuart Mill's effort to promote employee ownership at the turn of the 20th century was the first attempt to incorporate democratic capitalism as a systemic reform, although other prominent business leaders advocated similar ideas. A select few companies, such as Proctor & Gamble, have provided their employees with profit sharing and company stock incentives for well over half a century, and the first half of the 20th century included several efforts to promote broad-based stock ownership.

Despite the evidence of the practical effectiveness of democratic capitalism, companies implementing such a strategy have proved the exception to the rule. The dominant business culture has instead trended towards what Carey calls "ultra-capitalism," the modern system of finance-driven capitalism that Carey believes places too great an emphasis on speculation, individual greed and excess. This has led to a disconnect between ownership and control, a widening gap between the super-rich and the common working person, a shifting of the tax burden from capital to labor, and a deterioration of regulatory safeguards to protect workers and their companies.

In Carey's view, the lack of a strategic focus on integrating workers into the capital structure of the company makes it increasingly difficult to provide them with access to the wealth-creating power of private enterprise. Ultra-capitalism, with its inexorable logic of squeezing wage and labor costs, runs the risk of further accelerating economic dislocation and damaging efforts to provide stable jobs and productive workplace environments unless means are found to provide workers with compensatory access to capital income. Carey believes that a "synergistic coupling of democracy and capitalism" offers a superior vision of global commerce that will more effectively spread the economic benefits of the free enterprise system by ensuring more workers have direct access, through ownership, to the wealth-creating capacity of the corporation. His vision of democratic capitalism advocates a systemic application of ideas involving broad-based ownership, profit sharing, and employee involvement. He sees democratic capitalism as combining the free-market energies of competition and private property with the enormous productivity and innovation released in an environment of trust and cooperation.

Widespread worker ownership of capital could facilitate the use of a "second income" through dividends as advocated by Louis Kelso, and provide companies and workers greater flexibility in modulating profit-related pay over the course of the business cycle as suggested by economist Martin Weitzman. Given that employee pensions and mutual funds own a majority of the shares of companies on the public stock exchanges, Carey suggests that institutional investors could be the vanguard of efforts to advocate for a transition from ultra-capitalism to democratic capitalism. Pension fund investors can help promote greater economic stability and ultimately better investment returns by investing in companies that adopt the practices of democratic capitalism to support a rising standard of living and a sense of economic common purpose that will fuel greater long-term corporate productivity.

Carey points to positive evidence of a trend towards greater worker participation in ownership and profit-related pay, as well as greater involvement in the day-to-day decisions affecting their work life and

ultimately their ability to improve company operations. Yet the "ultra-capitalism" model most often associated with the free-wheeling version of U.S.-style capitalism is still very much dominant in global commerce. Whether democratic capitalism can address the excesses of modern capital markets remains to be seen. But *Democratic Capitalism* offers a vision for practical benefits at the level of the enterprise as well as a means of reshaping economic policies to ensure that capitalism directly benefits as many people as possible.

Democratic Capitalism: The Way to a World of Peace and Plenty can be ordered from the Carey Center for Democratic Capitalism at <http://www.democratic-capitalism.com>, amazon.com, Author House and many book stores.

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