

WORKER'S CAPITALISM TRIUMPHS; KARL MARX WOULD BE PLEASED!

As reflected in literature and the popular media from Dickens & Marx to Studs Terkel and Jesse Jackson, people have always viewed themselves as workers. As workers, they think of themselves as being in direct competition with owners and managers for a share in the wealth created by business enterprise. They see the return for their efforts in the form of a weekly or semi-monthly paycheck and often conclude that their pay would be greater if only the owners took less. People naturally think in terms of net, "take home" pay money, which is then spent on the day-to-day necessities and luxuries of life. Yet "take home" pay is only a pail of the benefits received for work. Other items, whether deducted from gross such as taxes, or those not appearing on the pay stub at all, such as medical insurance or pension benefits, are much less tangible, and are often taken for granted or ignored by the worker. Yet, the least tangible part of the paycheck, the pension benefit, has resulted in American workers owning a major portion of the business assets of the United States. The growth in pension and retirement assets has been so great that Peter Drucker calls wage earners "the only true capitalists in developed countries today."

Today the workers are owners; they just don't know it yet. According to Pension & Investments Age, in late 1986 the 100 largest U.S. Pension Funds had assets exceeding \$845 billion. Of these 100 funds, only 48 were corporate related. The aggregate market value of the 48 sponsoring companies was \$583 billion. Thus the 100 largest pension funds could easily own all of the shares of the (48) companies. Individually, the pension funds of the employees of 14 of these companies exceeded the total market value of their respective stocks. Thus, the employees of General Motors, through their pension plan, could buy all of the stock of their company. So could the employees of AT&T, USX, Alcoa, Lockheed, Union Carbide, Delta Air Lines and others.

Of the 100 largest pension plans not company related, most are plans for public employees. The California Public Employees Retirement

Plan exceeded \$37 billion, an amount sufficient to buy all the stock of General Motors and Ford. Similarly, the Pennsylvania State Employees Retirement Plan could have bought out USX. The Pennsylvania School Employees Retirement Plan, at over \$10 billion, could have bought out USX plus Alcoa. The list goes on and on.

The point is that workers already own a huge chunk of America's capital assets, yet are largely unaware of it. A person retiring from USX with a \$20,000 per year pension and a life expectancy of 15-20 years thinks he's poor. But if he receives the same amount in a lump sum he thinks he's rich. Same data, different perceptions.

Though the workers seem unaware of their ownership status, managers are rapidly becoming aware. Directors and managers see huge blocks of "their" stock in the hands of (potentially nonfriendly) pension funds and mutual funds so they try to maintain their positions of power and influence with various "poison pills" and so-called "shareholder rights plans". Managers sometimes literally buy-off unfriendly holders through greenmail payments or the more subtle share repurchase. Some do both. When General Motors paid \$700 million in hush money to H. Ross Perot because Perot refused to keep quiet about GM's loss of market share, the firm was besieged by its other larger shareholders, including the Comptroller of the New York City Pension Funds. It seems these other shareholders were not happy with H. Ross being the only beneficiary of the firm's largess so they made noises about replacing Roger Smith as Chairman. A share repurchase was announced shortly thereafter. Other firms undermine the shareholder's say in management by creating separate classes of stock, one with the great majority of voting power, the other with very little. The trouble with this strategy is that the New York Stock Exchange has something called the "one share-one vote" rule, and firms opting for this strategy face delisting of their securities. Opposition to these and other corporate tactics is increasing as institutional shareholders come to recognize their collective power.

WHAT'S DEDUCTIBLE?

Previously in the fourth quarter of each year we asked our clients if they wished to prepay our investment management fee in order to claim it as a deductible expense on their tax returns. This year we won't be asking because the Tax Reform Act of 1986 changed the rules. In 1987, investment advisory fees are deductible only to the extent they, together with other income producing expenses and certain employee business expenses, exceed 2% of your adjusted gross income. In general, this floor works in the same way as the floor established for medical expenses.

Numerous other provisions that will affect investors are scattered throughout the new tax law. For those of you doing some year-end tax planning, here are some of the more significant ones:

- Convention Expenses – Deductions for convention expenses unrelated to the trade or business of a taxpayer are eliminated. For the typical individual, this means no more deductions for investment or tax shelter seminars.
- Life Insurance – Annual increases in a life insurance policy's cash value remain free of current income tax. Policies with an investment feature, including certain types of universal life and single premium life, are proving increasingly popular because of this provision.
- Personal Interest – Credit card interest and interest on personal loans is disallowed after January 1, 1987. Fortunately for heavy credit users the disallowance is phased in over the period 1987 to 1991.
- Dividend exclusion – The \$100 (\$200 on a joint return) exclusion for dividends received is eliminated.
- Income Averaging – After December 31, 1986, income averaging is repealed.