



Capitalism for Everyone

Encouraging Companies to Adopt Employee Ownership Programs and Broad-Based Profit Sharing

By Karla Walter, David Madland, and Danielle Corley

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Introduction and summary

When a company does well, so should its workers. American workers have helped the economy grow by becoming more productive. Yet, even as productivity has increased, many middle- and working-class households have experienced stagnant wages and declining household incomes over the past few decades.¹ This means workers currently receive only a small share of the wealth they help create.

Broad-based sharing programs—such as granting workers an ownership stake or a share of profits based on workers’ collective performance—can help ensure that workers are rewarded for the wealth they generate. Advocates for these programs refer to this type of sharing by a number of names, including broad-based profit sharing and inclusive capitalism. Collectively, these programs hold the potential not only to benefit workers: Research shows that firms and investors also receive tangible benefits from sharing with their workers.²

Yet, too often, companies embrace a strategy that includes paying their workers the lowest possible wages; providing few benefits; and creating a work environment where turnover is high, worker knowledge is low, and profits are maximized by driving down labor costs.

As a result, workers are not reaping the full benefits of their increasing productivity or the country’s economic growth. A typical worker today is almost 60 percent more productive than a worker was 25 years ago but has seen only half of that productivity growth translate into higher compensation.³

Instead, the gains from economic growth in the United States have increasingly gone only to those at the very top. Among the top 20 percent of families by net worth, average wealth increased by 120 percent between 1983 and 2010, while the middle 20 percent of families only saw their wealth increase by 13 percent, and the bottom fifth of families saw their debt exceed their assets.⁴ Meanwhile, corporate profits are capturing a growing share of national income.⁵

A small but growing body of research shows that broad-based sharing programs can help reverse this trend and ensure that workers' wages and wealth increase as the economy grows. Studies measuring the benefits of various types of broad-based sharing programs find that—when compared to workers in similar companies without sharing programs—workers' wages are significantly higher, they are four times more likely to have defined benefit pension plans, and they are more than five times more likely to have 401(k) plans.⁶

Yet, far too few workers receive the significant benefits available from inclusive capitalism, and there are a number of issues that inhibit the growth of broad-based profit sharing programs. Business owners and executives are often unaware of inclusive capitalism programs and the mutual benefits they provide. In addition—while not born out by existing research—owners and executives often believe that company success is driven by a small number of “key” employees, particularly executives; this leads them to focus incentive pay on these individuals, not ordinary employees.⁷ Moreover, some government policies provide perverse incentives not to share; existing policies to encourage companies to share ownership with their employees are inadequate; and the federal government does not have a unified vision for how to encourage more sharing.

While the federal government has adopted a number of policies to support broad-based sharing programs⁸—such as tax advantages for companies and owners interested in selling to their employees—it can do more to ensure that more workers are able to participate in these programs.

First, the government should eliminate perverse incentives that encourage companies not to share with their employees. Reforming the tax code so that it no longer subsidizes narrow incentive programs that benefit only top executives would be a big start.⁹ In addition, policymakers should ensure that employee-owned companies are not barred from participating in contract set-aside programs.

Second, government leaders should adopt policies to incent more companies to implement broad-based sharing plans. It can do so by making it easier for companies that share with their workers to benefit from loan guarantees through the Small Business Administration. This would ensure that these businesses have access to the capital they need to sell to their employees—a good investment as these companies have lower rates of default than comparable companies without sharing programs.¹⁰ Policymakers should also encourage estates to sell to workers by providing partial estate tax relief.

Third, the federal government can begin to bridge knowledge gaps and thereby encourage more companies to adopt broad-based sharing programs for workers by creating an Office of Inclusive Capitalism. This office would promote outreach and provide technical assistance to private sector businesses, unions, and workers and improve government knowledge and support for inclusive capitalism.

These policies represent the Center for American Progress' plan for how to encourage greater adoption of inclusive capitalism programs throughout the economy. Some are new concepts, while other concepts build on policies included in the recent report of the Commission on Inclusive Prosperity,¹¹ as well as the good work of others. Academics, practitioners, and a bipartisan group of lawmakers—including Rep. Ron Kind (D-WI), Rep. Chaka Fattah (D-PA), Rep. Dana Rohrabacher (R-CA), Rep. Dave Reichert (R-WA), Rep. Brett Guthrie (R-KY), Rep. Randy Hultgren (R-IL), Rep. Ann McLane Kuster (D-NH), Sen. Ben Cardin (D-MD), Sen. Pat Roberts (R-KS), Sen. Bernie Sanders (I-VT), Sen. Kelly Ayotte (R-NH), and Sen. Amy Klobuchar (D-MN)—are increasingly discussing how government policy can be used to encourage more companies to adopt employee ownership programs and other types of profit sharing.¹² For example, the bipartisan Promotion and Expansion of Private Employee Ownership Act of 2015 would further support worker ownership in privately owned companies.¹³

This fall, CAP will release another related report that examines the question of risk to workers when employee ownership comes through retirement. Both papers build on CAP's 2013 report, "Growing the Wealth," which reviewed inclusive capitalism policies and identified tough questions advocates must answer.¹⁴

In addition, the Center for American Progress has released a number of reports in recent years that offer wide-ranging policy agendas to combat wage stagnation, reinvigorate the middle class, and reduce growing income inequality, including "The Middle-Class Squeeze" and the report from the Inclusive Prosperity Commission.¹⁵

Workers and companies succeed when the gains of growth are shared

American workers are helping the economy grow by becoming ever more productive, but they currently receive only a small share of the new wealth they help create. Over the past 40 years, the wages of American workers have stagnated despite significant growth in productivity and wealth creation in the U.S. economy. Moreover, about three-quarters of the growth of real income that has occurred since the Great Recession has gone to the richest 1 percent of Americans.¹⁶

The earnings of high-income Americans have grown at higher rates partly because they receive much of their income from incentive pay that is tied to company performance—rather than normal wages or salaries.¹⁷ The prevailing and flawed idea behind these narrowly targeted performance incentives is that only the actions of CEOs and top executives directly affect company performance, and they should therefore be rewarded when the firm does well.¹⁸

While focusing incentive pay exclusively on top executives based on company performance has a very mixed record,¹⁹ there is growing evidence that providing workers with a stake in firm performance—when coupled with good pay and benefits and a say on the job—leads to good results for the firm, its shareholders, and the workers.

Inclusive capitalism or broad-based profit sharing—granting workers ownership stakes in the company or a share of its profits based on workers' collective performance—includes everything from profit sharing and stock options that are sufficiently broad-based, to worker cooperatives, and employee stock ownership plans.

This sort of profit sharing often empowers workers by increasing their participation in decision making and trust in the company and management; it is associated with higher pay and benefits and greater long-term wealth accumulation.²⁰ Studies measuring the benefits of various types of broad-based inclusive capitalism programs find that—when compared to workers in similar companies without

sharing programs—workers’ wages are significantly higher, they are four times more likely to have defined benefit pension plans, and more than five times more likely to have 401(k) plans.²¹ Moreover, employee ownership does not replace other types of wealth; rather, research finds that it results in a substantial net gain in wealth.²² These results demonstrate the potential of these programs to help stem the tide of income stagnation and rising wealth inequality and ensure middle- and working-class American families see the benefits of economic growth.

For businesses, inclusive capitalism is often associated with increased productivity, profitability, and likelihood of survival, as well as greater worker loyalty and effort, lower turnover rates, and a greater willingness on the part of workers to suggest innovations.²³ For example, research shows that both public and private companies with broad-based sharing plans are less likely than their counterparts without employee ownership to go bankrupt or disappear for another reason.²⁴ And companies and investors that adopt partnership approaches make profits over and above the cost of sharing ownership with employees, according to a review of more than 70 empirical studies.²⁵

Companies, workers, and government also benefit from greater employment stability in employee ownership firms. Recent data show that employee owners were one-third to one-fourth as likely to be laid off in the period from 2002 to 2014, resulting in government savings of billions of dollars.²⁶ By reducing layoffs, employee ownership may play a role in decreasing the economic, social, and personal costs of unemployment and help stabilize the economy under recessionary pressures. Greater stability of employee ownership firms is linked to substantially lower government costs for unemployment compensation and foregone tax revenues.²⁷

The trouble is that while many American workers have some form of inclusive capitalism compensation, at most companies with these programs, the benefits do not provide a meaningful source of income or wealth to average workers. And more than half of all workers still have no access to inclusive capitalism programs at all.²⁸

There are a variety of reasons why more companies have not developed broad-based sharing programs. This report attempts to tackle a number of the largest challenges preventing adoption of these sorts of programs.

Policies to encourage companies to adopt broad-based profit sharing

While the federal government has adopted a number of policies to support broad-based sharing programs, more can be done to address the challenges that prevent further adoption. The policies below represent the Center for American Progress' plan for how to encourage greater sharing throughout the economy.

Eliminate perverse incentives that encourage companies not to share

The government should eliminate perverse incentives that encourage companies not to share with their employees. It can do so by reforming the tax code so that it no longer subsidizes narrow incentive programs that benefit only top executives, as well as by ensuring that employee-owned companies are not barred from participating in contract set-aside programs.²⁹

Stop encouraging sharing with only top executives

Currently, a corporation can deduct wages for all employees from its income tax liability, but the deduction for top officers of public companies is restricted to \$1 million per year. Yet, performance-based pay—such as grants of stock options, stock, forms of executive profit sharing and gain sharing, and bonuses—are not included in the cap for deductibility due to a tax loophole. Generally, these sharing programs for the top executives can be deducted from corporate taxes. Partly as a result, corporations have shifted compensation for top executives toward “performance pay” without commensurate increases in the pay or stock ownership for middle-income workers.³⁰

This current system of incentive pay for those at the top has a mixed record of improving overall company performance, and a growing number of studies show that such incentives lead to a gaming of the system.³¹ In comparison to these nar-

row sharing programs, research shows that broad-based sharing programs often are correlated with improved company performance in addition to their positive benefits for workers.³²

Policymakers should stop encouraging sharing with only top executives by limiting the deductibility of performance-based pay to only those plans that include all of a company's full-time workers and where the value expended on the top 5 percent of employees is equal to the amount spent on the bottom 80 percent of employees in the plan. The Center for American Progress previously published a detailed report by Richard Freeman, Joseph Blasi, and Douglas Kruse on this policy, titled "Inclusive Capitalism for the American Workforce."³³

While limiting the deductibility of executive compensation in this way will lead some companies to simply pay taxes on their narrowly based performance pay plans, other may reevaluate their plans to cover more workers. Already, a number of large, successful American companies—including Wegmans Food Markets, Southwest Airlines, and Google Inc.—have inclusive sharing plans that this policy seeks to replicate.

Moreover, this policy will help reduce federal tax expenditures. Completely eliminating the deductibility of performance-based pay above \$1 million would save the government about \$50 billion over 10 years.³⁴ This revenue gain would be reduced to the extent that companies have or are developing broad-based profit sharing plans.

Ensure government purchasing supports inclusive capitalism

The federal government spends hundreds of billions of dollars each year to purchase goods and services. It leverages this spending to support various types of businesses—such as small, minority- and women-owned businesses and businesses in disadvantaged areas—often by creating contracting set-aside programs. Frequently, the unique ownership structure of employee-owned companies precludes them from qualifying for these programs.

A company that is majority-owned by an employee stock ownership plan—even if most of its employee owners are people of color or women—would not qualify for federal contracting set-asides for minority-owned and women-owned businesses. This can force a small business to choose between doing business with the

government or becoming a majority-owned employee stock ownership plan, or ESOP, business. ESOPs are tax-qualified employee benefit plans that, with some exceptions, offer workers an ownership stake in their company without having to spend their own money to purchase stock.

The federal government, however, has enacted regulations to ensure that companies with shared-ownership structures are eligible to participate in competitions for one type of contracting set-aside. The Historically Underutilized Business Zone, or HUB Zone, program—a federal contracting set-aside program that benefits economically disadvantaged areas—includes regulations that allow ESOP participation. In order to be eligible for the HUB Zone program, a small business must be located in a historically underutilized business zone, owned and controlled by one or more U.S. citizens, and at least 35 percent of its employees must reside in a HUB Zone. In order to ensure that ESOP companies can qualify under the program’s citizenship requirements, regulations clarify that for ESOP-owned companies, each stock trustee and plan member is considered an owner.³⁵

Rules governing contracting set-asides for minority- and women-owned businesses should likewise be updated to ensure that employee-owned companies are able to access these programs by counting each stock trustee and plan member as an owner.³⁶

Policymakers could go a step further by considering how contracting rules could be used to encourage the adoption of inclusive capitalism programs. For example, the federal government frequently employs contracting procedures that evaluate bidders on a variety of criteria other than price—including past performance and technical capacity. The government should consider evaluating bidders on workplace quality, which could include a number of factors, such as wages and benefits, participation in broad-based sharing programs, and worker voice.

Adopt incentives for companies implementing broad-based sharing plans

Government leaders should adopt policies to incent more companies to implement broad-based sharing plans. It can do so by significantly expanding loan guarantees to companies that would otherwise not have the access to the capital they need to sell to their employees. Policymakers should also encourage estates to sell to workers by providing partial estate tax relief.

Expand lending to companies selling to their employees

Employee ownership structures are adopted most frequently by small businesses. According to the National Center for Employee Ownership, 58 percent of the nearly 7,000 ESOP plans nationwide include 100 or fewer employees.³⁷ There is potential for massive growth of shared capitalism among small- and medium-sized companies. For example, the SBA reports that small businesses employ slightly less than half of the private sector workforce.³⁸ Yet existing federal loan guarantee programs geared toward facilitating small business sales to workers contains requirements that exclude too many companies. The federal government should reform its loan guarantee program to ensure that companies that want to sell to their workers are able to do so.

The federal government successfully uses loan guarantees to incent homeownership, student loans, small business and economic development, rural development, and energy innovation.³⁹ Yet the Small Business Administration's loan guarantee program targeted at companies selling to employees through an ESOP significantly limits the number of companies that would be eligible or willing to participate. Limits on loan guarantee amounts and requirements on selling owners exclude many companies that may be interested in selling to their employees.⁴⁰ As a result, advisors to companies transitioning to ESOPs report that this program is rarely used.⁴¹

The federal government can encourage more lending to ESOPs by reforming the existing SBA loan guarantee program to increase the amount guaranteed by the loan and remove requirements that prevent participation.⁴²

Additionally, the federal government can accomplish this goal with a relatively small investment. The cost for the government to guarantee a loan is based on the size of the loan and the risk of default of a company. While the program should include guidelines to ensure that employee ownership is a good fit at companies receiving the guarantee, research shows that employee-owned companies are less likely to default on their loans than comparable companies.⁴³ The government could potentially offer billions of dollars in loan guarantees with an additional \$25 million to \$50 million investment. For example, the Small Business Administration guaranteed more than \$24 billion in business loan guarantees in fiscal year 2014 at a cost of \$230 million.⁴⁴

Ensure that aging owners are able to plan for sale to their employees

ESOPs are often formed when an owner of a privately held business retires and sells to employees in lieu of a traditional sale to a competitor or a private equity fund. While there are a number of tax incentives for living business owners to sell to their workers, estates do not enjoy similar benefits. This lack of continuity in the tax code can prevent an ESOP transition from being completed and impede owners who would like to sell to their workers gradually.

In addition, when a private equity fund or a competitor buys out a company from a retiring business owner, they often do so simply to access a new customer base and the businesses' machinery and equipment. This often results in the shuttering of a stable business—cutting jobs in a community and sometimes even moving production overseas.

Increasingly, as Baby Boomer business owners reach retirement, there is an opportunity for workers to purchase these companies. Approximately 70 percent of U.S. business owners are older than 45 and nearing the time when a succession decision must be made.⁴⁵

Tax advantages for companies and business owners agreeing to the sale of their stock are the federal government's most generous policy levers to stimulate the growth of inclusive capitalism practices. And they have led to significant increases in the number of businesses sharing ownership with their employees.⁴⁶ For example, the number of S corporation ESOPs grew to nearly 3,700 in 10 years after the federal government allowed these types of ESOPs to be formed.⁴⁷ However, there are currently no benefits to encourage estates to sell their private company stock to workers in an inclusive capitalism program.

The federal government should provide partial estate tax relief when an estate sells to its employees.⁴⁸ This would allow estates to be eligible to exclude 50 percent of the proceeds from the sale of employer stock to an ESOP or cooperative from the taxable value of an estate up to a total of \$1 million.

Currently, there are approximately 7,000 ESOPs nationwide.⁴⁹ A \$350 million annual investment could increase the number of ESOPs by up to 5 percent per year.⁵⁰ The program would be limited to only privately held companies.⁵¹

Create the Federal Office of Inclusive Capitalism

The federal government can begin to bridge knowledge gaps and thereby encourage more companies to adopt well-designed, broad-based sharing programs by creating an Office of Inclusive Capitalism. This office would promote outreach and provide technical assistance to private sector businesses, unions, and workers and serve to improve government knowledge and support for inclusive capitalism.

Promote outreach and provide technical assistance

Successful inclusive capitalism programs are not always well understood by the business community, unions, and workers. The benefits and mechanisms for sharing capital broadly with workers are largely absent from higher education curricula—even though business schools and student groups are increasingly focused on corporations' role in society.⁵² And companies often report that they were unaware of the benefits of empowering their workforce by sharing capital income and ownership broadly, and they lack the technical knowledge to evaluate whether to adopt these programs or how to do so.⁵³

Yet, broad-based profit sharing could provide important benefits to privately held businesses. For example, many business owners of the Baby Boom generation must soon decide what to do with their business when they retire; every year, the owners of 150,000 to 300,000 businesses reach retirement age.⁵⁴ Selling to employees, rather than a competitor or private equity fund, is one way for these owners to ensure that local jobs and the legacy of their company are preserved. But few owners know that employee ownership is an option. Additionally, companies are often unaware of how employee involvement programs paired with profit sharing or gain sharing can improve business performance.

The Office of Inclusive Capitalism should award grants, at a maximum value of \$500,000, to regional inclusive capitalism centers and universities to promote inclusive capitalism among existing business owners and to develop this knowledge among future leaders.

Regional centers would promote broad-based profit sharing and a democratic workplace culture that allows workers a stronger voice on the job by providing education and outreach, technical assistance, and training.⁵⁵ The federal office would also act as a clearinghouse of techniques used by regional centers—evaluat-

ing and disseminating best practices to assess which forms of worker ownership work best in different situations—and facilitate cross-office coordination in order to ensure that programs are implemented in workers’ best interests.

This concept builds on a successful model for increasing one type of sharing. Employee Ownership Centers in Vermont and Ohio have successfully increased awareness and facilitated the conversion of small and medium-sized businesses to employee ownership structure.⁵⁶ For example, the Ohio Employee Ownership Center has assisted about 15,000 employees in the purchase of all or part of their company, adding on average \$40,000 to their individual wealth.⁵⁷ On average, the cost to fund this work was \$772 per job.⁵⁸

The federal government also funds a number of programs that provide technical assistance to different types of businesses. For example, the Small Business Administration’s Management and Technical Assistance Program provides assistance—including training, executive education, and one-on-one consulting—to eligible small and disadvantaged businesses.⁵⁹ And the U.S. Department of Agriculture, or USDA, Rural Development program provides assistance to agricultural producers and rural residents to form new cooperatives and improve the operations of existing cooperatives.⁶⁰

Grants to universities would fund development of curricula, academic research, or the development of courses on the topic. Special consideration would be given to researchers that partner with regional inclusive capitalism centers. This approach has proven successful in other policy areas; for example, the National Science Foundation provides grants and awards to improve instruction and increase research in the sciences among higher educational institutions.⁶¹

Improve government knowledge of and support for inclusive capitalism

The Office of Inclusive Capitalism would also help improve government-wide support for employee ownership and broad-based profit sharing.

Currently, the federal government does not have a unified vision of how to encourage more sharing, and there is no federal agency that oversees government support for sharing programs. Moreover, the government does not evaluate the effects of the federal policies on the growth of these sharing programs or identify best practices among companies with these sorts of programs.

Government support for inclusive capitalism is distributed across agencies and varies tremendously by program type. For example, employee stock ownership plans enjoy significant tax advantages while immediate cash profit sharing programs enjoy virtually no special government support. Yet advocates for sharing programs complain that the responsibilities of government agencies are primarily focused on enforcing actions against bad actors, while there is little thinking about how to encourage the growth of sharing programs.⁶²

The Office of Inclusive Capitalism could serve as an advocate for improving government knowledge and support for well-designed, broad-based sharing. It would do so by cataloging current government policies and programs that affect the growth of inclusive capitalism; elevating best practices and sharing programs that merit greater support; and identifying policy mechanisms that are inhibiting the growth of inclusive capitalism, as well as which policies and programs are not achieving their intended results.

The office would work with agencies that oversee inclusive capitalism programs, including the Departments of Labor, Commerce, and Treasury, as well as the Small Business Administration and Department of Agriculture. The office would also increase awareness of how agency programs affect companies with sharing programs and promote the legislative or regulatory changes necessary to ensure that government policies are not discouraging the adoption of sharing programs.⁶³

In addition, the office should use existing data and identify new data collection opportunities to increase knowledge on the prevalence and growth of broad-based sharing programs, to evaluate the effect of the federal policies on the growth of these sharing programs, and to lift up best practices.

This effort should be informed by similar work underway in the United Kingdom. The Deputy Prime Minister Nick Clegg of the country's conservative-led government launched a "decade of employee ownership" in January 2012. As part of this program, the government is working to raise awareness of employee ownership in government, to improve data on employee ownership more broadly, and to identify unintended regulatory burdens.⁶⁴

Moreover, the Office of Inclusive Capitalism would encourage companies to adopt and expand sharing programs by creating a new process to evaluate companies based on worker ownership, profit sharing, and workplace democracy. The office should make company-specific evaluations publically available and consider

whether these evaluations could be used as a benchmark to qualify for government programs.⁶⁵ Similarly, at least 30 state governments have passed benefit corporation laws that require companies to report on their overall social and environmental performance using an independent and transparent third-party standard in exchange for broad legal protections to boards to look beyond short-term financial gains.⁶⁶

The Office of Inclusive Capitalism would be housed within the Department of Commerce or the White House. CAP estimates that it would require an annual budget of approximately \$20 million once fully operational. The office would produce biannual reports measuring programmatic success.

Conclusion

Workers, businesses, and investors do better when companies adopt broad-based sharing programs and implement them correctly. Yet a number of factors stymie expansion of these programs: a lack of awareness on the part of business owners and executives, and even the government; inadequate incentives to encourage large companies to share with their workers; and policy inconsistencies that may prevent companies from starting or continuing the transfer of ownership to workers. The federal government should do more to ensure that companies know about the benefits of sharing and are rewarded when they do so.

About the authors

Karla Walter is Associate Director of the American Worker Project at American Progress. Walter focuses primarily on improving the economic security of American workers by increasing workers' wages and benefits, promoting workplace protections, and advancing workers' rights at work. Prior to joining American Progress, Walter was a research analyst at Good Jobs First, providing support to officials, policy research organizations, and grassroots advocacy groups striving to make state and local economic development subsidies more accountable and effective. Previously, she worked as a legislative aide for Wisconsin State Rep. Jennifer Shilling. Walter earned a master's degree in urban planning and policy from the University of Illinois at Chicago.

David Madland is the Managing Director of the Economic Policy team and the Director of the American Worker Project at American Progress. He has written extensively about the economy and American politics on a range of topics, including the middle class, economic inequality, retirement policy, labor unions, and workplace standards such as the minimum wage. His book, *Hollowed Out: Why the Economy Doesn't Work without a Strong Middle Class*, was published by the University of California Press in July.

Madland has appeared frequently on television shows, including "PBS NewsHour" and CNN's "Crossfire"; has been cited in such publications as *The New York Times*, *The Wall Street Journal*, *The Washington Post*, and *The New Yorker*; and has been a guest on dozens of radio talk shows across the United States. He has testified before Congress on a number of occasions, as well as several state legislatures.

Madland has a doctorate in government from Georgetown University and received his bachelor's degree from the University of California, Berkeley. His dissertation about the decline of the U.S. pension system was honored as the best dissertation of the year by the Labor and Employment Relations Association. Madland is the co-author of *Interest Groups in American Campaigns*, a book about the role and influence of interest groups in American democracy, and is the author of several academic articles. He has worked on economic policy for Rep. George Miller (D-CA) and has consulted for several labor unions.

Danielle Corley is a Special Assistant for the Economic Policy team. Prior to joining American Progress, Corley worked for the Senate Health, Education, Labor, and Pensions, or HELP, Committee as a staff assistant in the Disability Policy and Oversight Office. She previously interned in the Education Office of the HELP Committee as a Bill Archer fellow and in the Texas State Senate. In May 2014, Corley graduated from The University of Texas at Austin with a degree in Plan II Honors, an interdisciplinary liberal arts program.

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- 10 Corey Rosen and Loren Rodgers, "Default Rates on Leveraged ESOPs, 2009-2013," National Center for Employee Ownership, July 2, 2014, available at <http://www.nceo.org/assets/pdf/Default-Study-full.pdf>. In an analysis of 1,232 leveraged ESOP transactions at three large banks, 1.3 percent of ESOP companies defaulted on their loans in a way that imposed losses on their creditors—an annual rate of 0.2 percent. Authors note that it is not possible to compare these data to defaults on leveraged buyouts of non-ESOP companies due to differences in risk assessments. Instead, "The best available comparison data comes from S&P's IQ Credit Pro report on default rates for mid-market companies borrowing less than \$200 million. ESOPs would all be in this range, although the median ESOP loan would no doubt still be much smaller than the median for the S&P sample (data for smaller loans is not available). These loans defaulted at 3.75% per year from 2010 to 2013 and 1.99% for the period 2003 to 2013. Defaults here are defined as those imposing losses on creditors."
- 11 Summers and Balls, "Report of the Commission on Inclusive Prosperity."
- 12 "Reducing Inequality in the 21st Century" In *The Citizen's Share*. Blasi, Freeman, and Kruse advocate for a set of reforms that include "policies to disseminate information widely about broad-based capitalist solutions and to provide benchmarks for the country to judge here it stands; tax expenditures policies to encourage broad-based capitalism; and policies to reduce capital constraints on broad-based capitalist firms." Sen. Bernie Sanders proposed two pieces of legislation last session to support employee ownership: *The Worker Ownership, Readiness and Knowledge Act*, S.B. 2412, 113th Congress (2014); *To Provide for the Establishment of the United States Employee Ownership Bank*, S.B. 2411, 113th Congress (2014). Rep. Fattah, Sen. Ayotte, Rep. Rohrabacher, Rep. Guthrie, and Rep. Hultgren have introduced inclusive capitalism legislation this session. They are respectively the authors of *Creating Jobs through Cooperatives Act*, H.R. 2437, 113th Congress (2013); *A Bill to Modify the Definition of Fiduciary Under the Employee Retirement Income Security Act of 1974 to Exclude Appraisers of Employee Stock Ownership Plans*, S.B. 273, 113th Congress (2013); *To Amend the Internal Revenue Code of 1986 to Exclude From Gross Income Compensation Received by Employees Consisting of Qualified Distributions of Employer Stock*, H.R. 4089, 113th Congress (2014); *To Modify the Definition of Fiduciary Under the Employee Retirement Income Security Act of 1974 to exclude appraisers of employee stock ownership*, H.R. 2041, 113th Congress (2014); To direct the Securities and Exchange Commission to revise its rules so as to increase the threshold amount for requiring issuers to provide certain disclosures relating to compensatory benefit plans.
- 13 Rep. Reichert and Rep. Kind, along with Sen. Cardin and Sen. Roberts, introduced the *Promotion and Expansion of Private Employee Ownership Act of 2015* in the House and Senate (H.R. 2096 and S. 1212) to expand the availability of ESOPs in S corporations.
- 14 Madland and Walter, "Growing the Wealth."
- 15 Erickson, "The Middle-Class Squeeze"; Summers and Balls, "Report of the Commission on Inclusive Prosperity."
- 16 American Worker Project, "Unions are Essential for a Strong Middle Class," Center for American Progress Action Fund, May 11, 2015, available at <https://www.americanprogressaction.org/issues/economy/news/2015/05/11/112412/infographic-unions-are-essential-for-a-strong-middle-class/>.

- 17 Freeman, Blasi, and Kruse, "Inclusive Capitalism for the American Workforce."
- 18 See, for example, Jensen and Murphy, "CEO Incentives –It's Not How Much You Pay, But How."
- 19 Franz Christian Ebert, Raymond Torres, and Konstantinos Papadakis, "Executive Compensation: Trends and Policy Issues" (Geneva: International Institute for Labour Studies, 2008), available at http://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_193236.pdf; See also James Surowiecki, "Why C.E.O. Pay Reform Failed," *The New Yorker*, April 20, 2015, available at <http://www.newyorker.com/magazine/2015/04/20/why-c-e-o-pay-reform-failed>.
- 20 Douglas Kruse, Richard Freeman, and Joseph Blasi, "Do Workers Gain by Sharing? Employee Outcomes under Employee Ownership, Profit Sharing and Broad Based Stock Options," In Douglas Kruse, Richard Freeman, and Joseph Blasi, *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad Based Stock Options* (Chicago and London: The University of Chicago Press, 2010); Robert Buchele and others, "Show Me the Money, Does Shared Capitalism Share the Wealth?" In Kruse, Freeman, and Blasi, *Shared Capitalism at Work*; Blasi, Conte, and Kruse, "Employee Stock Ownership and Corporate Performance among Public Companies"; Peter Kardas, Adria Scharf, and Jim Keogh, "Wealth and Income Consequences of ESOPs and Employee Ownership: A Comparative Study from Washington State," *Journal of Employee Ownership Law and Finance* 10 (4) (1998); Kim and Ouimet, "Employee Capitalism or Corporate Socialism?"; The research on employee ownership and profit sharing is summarized in *The Citizen's Share*, chapter 5, pp. 167–194.
- 21 Kim and Ouimet, "Employee Capitalism or Corporate Socialism?"; Sesil, Kroumova, Kruse, and Blasi, "Broad-based Employee Stock Options in the United States: Company Performance and Characteristics"; Blasi, Conte, and Kruse, "Employee Stock Ownership and Corporate Performance Among Public Companies"; Kruse and Blasi, "A Population Study of the Performance of ESOP and non-ESOP Privately-Held Firms."
- 22 Buchele and others, "Show Me the Money."
- 23 Ibid.; Douglas Kruse and Joseph Blasi, "Employee Ownership, Employee Attitudes and Firm Performance: A Review of the Evidence," In Daniel Mitchell, David Lewin, and Mahmood Zaidi *Handbook of Human Resources Management* (Greenwich, CN: JAI Press, 1997); Rhokeyun Park, Douglas Kruse, and James Sesil, "Does Employee Ownership Enhance Firm Survival?" In Virginie Perotin and Andrew Robinson, *Advances in the Economic Analysis of Participatory and Self-Managed Firms* (Greenwich, CN: JAI Press, 2004); Margaret Blair, Douglas Kruse, and Joseph Blasi, "Is Employee Ownership an Unstable Form? Or A Stabilizing Force?" In Thomas Kochan and Margaret Blair, *Corporation and Human Capital* (Washington: The Brookings Institution, 2000); Douglas Kruse, "Research Evidence on the Prevalence and Effects of Employee Ownership," Testimony before the Subcommittee on Employer-Employee Relations, Committee on Education and the Workforce, U.S. House of Representatives, 2002; Eric Kaarsemaker, "Employee Ownership and Human Resources Management: A Theoretical and Empirical Treatise with a Digression on the Dutch Context," Doctoral dissertation (Nijmegen, the Netherlands: Radboud University, 2006), available at <http://www.efesonline.org/LIBRARY/2006/Eric%20Kaarsemaker%20-%20Thesis%20EN.pdf>; Erika Harden, Douglas Kruse, and Joseph Blasi, "Who Has a Better Idea? Innovation, Shared Capitalism, and Human Resources Policies" In Kruse, Freeman, and Blasi, *Shared Capitalism at Work*; For example, Dr. Douglas Kruse of Rutgers University reviewed 30 studies on the effects of shared capitalism on firm performance, finding that most research found the effects to be positive or neutral.
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- 25 Aaron Bernstein, Joseph Blasi, and Douglas Kruse, *In the Company of Owners: The Truth about Stock Options (and Why Every Employee Should Have Them)* (New York: Basic Books, 2003); Authors found that, on average, companies and investors gave workers an 8 percent ownership stake and in return enjoyed an average of a 2 percentage point return on the diluted shares they still held. See also report by Oxera Consulting, "Tax advantaged employee share schemes: Analysis of productivity effects, Report 1: Productivity Measured Using Turnover" (2007); "Tax advantaged employee share schemes: Analysis of productivity effects, Report 2: Productivity Measured Using Gross Value Added" (2007), available at <http://www.oxera.com/getmedia/6cd32d14-e6d5-44cb-b84b-5522582e38c9/Tax-advantaged-employee-share-schemes%E2%80%9Aoverview.pdf.aspx>; HM Revenue and Customs Research Report 32 and 33. Authors found that of ESOP firms in Britain, productivity increased by 2.5 percent in the long-run from profit-sharing plans.
- 26 Corey Rosen, "The Impact of Employee Ownership and ESOPs on Layoffs and the Costs of Unemployment to the Federal Government" (Oakland, CA: National Center for Employee Ownership, 2013), available at https://www.nceo.org/assets/pdf/articles/EO_Costs_of_Unemployment.pdf; Update including 2014 data shows consistent results: <http://www.nceo.org/observations-employee-ownership/c/impact-employee-ownership-esops-layoffs-costs-unemployment-federal-government>. For evidence that shows that employee ownership firms had fewer layoffs than comparable firms over the two recessions in the 1999–2010 period, see Kurtulus, Fidan, and Douglas Kruse, "How Did Employee Ownership Firms Weather the Last Two Recessions? Employee Ownership, Employment Stability, and Firm Survival" (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, forthcoming).
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- 29 Freeman, Blasi, and Kruse, "Inclusive Capitalism for the American Workforce."
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- 32 Freeman, Blasi, and Kruse, "Inclusive Capitalism for the American Workforce."
- 33 Ibid.
- 34 Joint Committee on Taxation, "Reed-Blumenthal Introduce the Stop Subsidizing Multimillion Dollar Corporate Bonuses Act," Press release, August 2, 2013, available at <http://www.reed.senate.gov/news/releases/reed-blumenthal-introduce-the-stop-subsidizing-multimillion-dollar-corporate-bonuses-act>.
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- 36 Sen. Cardin's *Promotion and Expansion of Private Employee Ownership Act of 2015*, S. 1212, 114th Congress, would have established similar process to ensure that companies that minority-owned ESOPs that have benefited from contracting set-asides are able to continue to benefit from the government program when they transition to a majority employee-owned company. A similar measure was introduced in the House by Rep. Reichert, H.R. 2096, 114th Congress.
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- 38 Small Business Administration, "Frequently Asked Questions" (2014), available at https://www.sba.gov/sites/default/files/FAQ_March_2014_0.pdf.
- 39 James M. Bickley, "Budgetary Treatment of Federal Credit (Direct Loans and Loan Guarantees): Concepts, History, and Issues for the 112th Congress" (Washington: Congressional Research Service, 2012), available at <http://fas.org/sgp/crs/misc/R42632.pdf>.
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- 45 U.S. Bureau of the Census, "Statistics for Owners of Respondent Firms by Owner's Age by Gender, Ethnicity, Race, and Veteran Status for the U.S.: 2007," available at http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=SBO_2007_00CSCB008&prodType=table (last accessed July 2015); Gar Alperovitz, "The Legacy of the Boomer Boss," *The New York Times*, July 5, 2013, available at http://www.nytimes.com/2013/07/06/opinion/the-legacy-of-the-boomer-boss.html?_r=0.
- 46 Madland and Walter, "Growing the Wealth."
- 47 Steven F. Freeman and Michael Knoll, "S Corp ESOP Legislation Benefits and Costs: Public Policy and Tax Analysis" (Philadelphia: University of Pennsylvania, 2008), available at http://repository.upenn.edu/cgi/viewcontent.cgi?article=1003&context=od_working_papers. S corporations—which are nonpublic corporations that are taxed as pass-through entities—could not sponsor ESOPs until 1998. In 2008, there were 3,690 S corporations ESOPs, of 40 percent of all ESOPs.
- 48 Blasi, Freeman, Kruse, *The Citizen's Share*.
- 49 There were slightly more than 6,900 ESOPs in 2012, according to the National Center for Employee Ownership. See National Center for Employee Ownership, "A Statistical Profile of Employee Ownership," available at <http://www.nceo.org/articles/statistical-profile-employee-ownership> (last accessed July 2015).
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- 51 The 1986 Tax Reform Act similarly permitted the exclusion of 50 percent of the qualified proceeds from the sale of employer stock to an ESOP from the taxable value of an estate. However, the law included loopholes that allowed stock brokerage firms to sell publicly traded stock to estates, which would then contribute the stock to the company's ESOP or company stock plan and the estates would lower their tax bills. While IRS guidelines and the Omnibus Budget Reconciliation Act of 1987 closed these loopholes, the benefit was repealed in the Omnibus Budget Reconciliation Act of 1989. See Todd S. Snyder, "Employee Stock Ownership Plans (ESOPs): Legislative History" (Washington: Congressional Research Service, 2003), available at <http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1004&context=crs>.
- 52 Lisa Jones Christensen and others, "Ethics, CSR, and Sustainability Education in the *Financial Times* Top 50 Global Business Schools: Baseline Date and Future of Research Directions," *Journal of Business Ethics* 73 (2007).
- 53 Rosen, "Proud of Your Employee Ownership Plan? Let Other People Know"; See also National Center for Employee Ownership, "A Brief History of the NCEO," available at <http://www.nceo.org/National-Center-Employee-Ownership-history/id/10/> (last accessed July 2015).

- 54 U.S. Bureau of the Census, "Statistics for Owners of Respondent Firms by Owner's Age by Gender, Ethnicity, Race, and Veteran Status for the U.S.: 2007"; Alperovitz, "The Legacy of the Boomer Boss."
- 55 Currently, at least four such centers exist: the Ohio Employee Ownership Center, the Vermont Employee Ownership Center, the California Center for Employee Ownership, and the Rocky Mountain Employee Ownership Center. Sen. Bernie Sanders introduced the Worker Ownership, Readiness, and Knowledge Act (S. 2412) in 2014. The act would have created a similar program to encourage worker participation in business decision making and—more narrowly—encouraged firms to adopt employee ownership structures.
- 56 Several other states funded employee ownership programs—aimed primarily at encouraging ESOP development—to varying degrees of success starting in the mid-1980s. However, many of these programs were victims of budget cuts or the programs were allowed to sunset. The programs that continue to exist have become less reliant on government funding or are housed within state agencies.
- 57 Ohio Employee Ownership Center, "The Power of Employee Ownership" (2013), available at <http://www.oecokent.org/wp-content/uploads/2013/05/OEOC-FourPagerWeb.pdf>.
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- 59 U.S. Small Business Administration, "7(j) Management and Technical Assistance Services Program," available at <https://www.sba.gov/about-sba/sba-initiatives/7j-management-and-technical-assistance-services-program> (last accessed July 2015).
- 60 U.S. Department of Agriculture, Rural Development, "Technical Assistance," available at http://rurdev.sc.egov.usda.gov/Subject_RD_Technical_Assist.html (last accessed July 2015).
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- 62 Frank (Chip) Brown, "Q&A with Tim Hauser of the U.S. Department of Labor" (2015), available at http://www.willamette.com/insights_journal/15/spring_2015_8.pdf.
- 63 The federal government takes an active role in disseminating best practices to the states on a variety of issues areas. For example, the Federal Emergency Management Administration operates the "Lessons Learned Information Sharing website"—available at www.llis.gov—which provides federal, state, and local responders and emergency managers with information and front-line expertise on effective planning, training, and operational practices across homeland security functional areas; the Centers for Disease Control and Prevention has published guidance on how to establish and administer comprehensive statewide tobacco control programs. See Centers for Disease Control and Prevention, *Best Practices for Comprehensive Tobacco Control Programs* (Department of Health and Human Services, 2007).
- 64 Department for Business Innovation & Skill, "The Nuttall Review of Employee Ownership: One Year On Report" (2013), available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/258944/bis-13-1279_the_nuttall-review-of-employee-ownership.pdf.
- 65 In *The Citizen's Share*, Blasi, Freeman, and Kruse advocate for a company-specific score that would serve as a benchmark for evaluating whether a company could qualify for programs that support sharing. For example, if the government reformed tax exemptions for executive compensation, these data could be used to evaluate whether a company's performance pay system is sufficiently broad-based to qualify for the exemption. See Blasi, Freeman, and Kruse, *The Citizen's Share*, p. 213.
- 66 "State by State Legislative Status," available at <http://www.benefitcorp.net/state-by-state-legislative-status> (last accessed July 2015).

Our Mission

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