Policy innovations are new and creative approaches to addressing social issues – such as how to build wealth for low-wage workers while creating jobs in local communities – that have the potential to reach thousands or even millions of people. CFED is committed to advancing policy innovations through innovation@cfed. Visit http://innovation.cfed.org to learn more.

OVERVIEW

Business ownership is second only to home ownership as a source of wealth for Americans. Although entrepreneurship is not for everyone – the skills, financial resources and luck necessary mean that only a small percentage of new small businesses succeed – one does not have to be an entrepreneur to build business equity. Helping people build business equity through shared ownership can complement existing efforts to help people become entrepreneurs.

Two approaches to enabling workers to gain an ownership stake in the businesses where they work are Employee Stock Ownership Plans (ESOPs) and worker-owned cooperatives.1 In an ESOP, employees receive company stock as part of their benefits package. These plans are the most common form of employee ownership in the United States. According to the National Center for Employee Ownership, in 2009, 10,500 ESOP companies included over 12.5 million participants with assets valued at more than $900 billion.2 Worker-owned cooperatives are companies that are fully-owned by their workers and embody a democratic approach to management of one worker/one vote. These coops are a less, but increasingly, common form of employee ownership in this country. According to a recent federally-funded study, 223 worker cooperatives are owned by 2,300 full-time worker-owners and control $128 million in assets.3

Together, these approaches currently serve a small share of workers and an even smaller share of the lower-wage workforce – arguably those with the greatest need for assistance in building wealth. State policies, however, can facilitate shared equity business ownership and thus expand opportunities for employees to build wealth, while creating and retaining jobs in local communities.

WHAT STATES CAN DO

States can encourage shared equity business ownership by establishing a supportive legal environment; providing education, outreach, training and technical assistance; and creating incentives to encourage private-sector lending to new and existing employee-owned companies.

ELEMENTS OF A STRONG POLICY

A strong shared equity business ownership state policy should:

- Define worker-owned cooperatives in state statute. According to the U.S. Federation of Worker Cooperatives, the establishment of worker

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1 Strategies that make broad-based stock ownership more accessible to lower-wage workers are a burgeoning area of activity, but they are not covered in this brief.


cooperatives is facilitated by legal statutes that define them in a way that allows for shared ownership, democratic governance, distribution of patronage and maintenance of member internal capital accounts in accordance with cooperative principles.⁴

- **Provide direct state assistance for education, outreach, training and technical assistance to business owners to implement employee ownership strategies.** State funding of education, outreach, training and technical assistance is critical to enabling business owners to understand and implement employee ownership strategies in the process of startup, growth or succession planning. States can support a single approach or fund an employee ownership center that offers a range of services.

- **Encourage private sector lending to employee-owned businesses.** The formation of ESOPs and worker-owned coops is often limited by the dearth of financial resources. States can leverage public funds to provide incentives for financial institutions to lend to existing or emerging employee-owned companies.

### WHAT STATES HAVE DONE

Several states have at least a basic incorporation statute for worker-owned cooperatives on the books, but many do not include the elements described above.⁵ In many states such as California and Wisconsin, incorporation is more challenging: worker coops must adapt the structure created for consumer cooperatives or the general cooperative statute; or they must incorporate as an S corporation or Limited Liability Company because they have no other options.

Nineteen states provide some form of direct assistance to support employee ownership including education, outreach, technical assistance and training.⁶ Ohio and Vermont offer examples of how states can support employee ownership centers – both centers leverage public funds with other resources and offer a range of services for ESOPs and worker-owned cooperatives.⁷ Other states, such as Maine and Massachusetts, have supported centers in the past but are no longer providing funds to do so currently.⁸ The Ohio center assists retiring business owners to transfer ownership to their employees to preserve jobs and build wealth for state residents.⁹

In the 1980s and 1990s, several states supported employee ownership through interest rate subsidies, loan guarantees and other strategies. Most of these programs were eliminated over time due to state budget cuts. More recently, the Indiana State Treasurer created a “linked deposit” program that provides incentives to encourage bank lending to ESOP. The program allows participating banks to pay a reduced rate of interest on Certificates of Deposit purchased by the state, in return for the banks’ investment in ESOP companies.¹⁰

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⁴ ESOPs are defined, and tightly regulated, by federal law.

⁵ According to the NCBA Co-Op Law Database, Connecticut, Delaware, Maine, Massachusetts, New York, Pennsylvania and Vermont have a worker cooperative statute on the books.


⁷ Since 1987, the Ohio Employee Ownership Center has supported the creation of $300 million in equity by worker-owners or $60 in new employee-owners wealth per $1 spent by OEOF. Source: “OEOC Impact on the State’s Economy,” http://www.oeockent.org/index.php/home/about-oeoc/overview.

⁸ Federal legislation was recently introduced by Vermont Senator Bernard Sanders to support state employee ownership centers (S.2909) and an employee ownership bank (S.2914).


¹⁰ In two years, the program has resulted in $22 million in private sector investment to seven ESOPs, at a cost of $4,376 to the state.

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