Turning Employees Into Owners

Rebuilding the American Dream
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*Edited by Jack Moriarty, Founder & Executive Director of Ownership America*
Preface

The most successful movements for social change are grounded in the articulation of ambitious ideas. It is for this reason that I am so delighted to introduce Ownership America’s inaugural publication: *Turning Employees into Owners: Rebuilding the American Dream*. The publication is the culmination of a joint effort led by an experienced group of thought leaders and practitioners that first came together nearly four years ago to consider an elusive goal: How can we scale employee ownership in the United States?

Employee ownership may be the most unsung economic policy success story in America. Unlike many other proposals aimed at building a robust and inclusive economy, employee ownership is not theoretical—it boasts a proven track record at scale. Despite this successful history spanning several decades, thousands of high-performing companies, and over hundreds of billions of dollars in wealth creation for American workers, the United States has never adopted a comprehensive employee ownership strategy.

Perhaps the best way to introduce employee ownership is to first raise a series of questions:

- How do we repair the relationship between work and wealth?
- How can we better insulate our labor market from the shocks of economic downturns?
- How do we maximize retirement security for all Americans?
- How do we protect our workforce from offshoring and automation?
- How can we best position American workers and firms to outperform global competitors?
- How can we preserve and expand economic opportunity in rural America?
- How can we begin to reverse racial and gender wealth gaps?
- How can we strengthen families and communities by preserving the dignity of work?
- How can the labor movement expand its capabilities to protect American workers?
- How might we begin to restore trust in corporate institutions?
- How do we make shared prosperity an intrinsic feature of American capitalism?

Both evidence and experience tells us that employee ownership offers answers to each of these essential questions. The precarity of the American worker—accelerated and compounded by the pandemic—has ignited a renewed focus across the political spectrum to address the root causes of economic insecurity for working families, individuals, and their communities. Despite its impressive track record and long history of bipartisan support, employee ownership is too often conspicuously absent from the conversation on remedies and solutions.

The national project of post-pandemic recovery dictates that we cannot afford to ignore ownership any longer. At the same time, demographic urgency is fast approaching as the baby boomer generation of business owners prepares for retirement and business succession over the next two decades. This so-called “silver tsunami” represents the largest transfer of wealth in American history, and it begs the question: What will become of these businesses, which are irreplaceable sources of jobs, innovation, social capital, and community identity? Will they shutter their doors for good or be sold for parts to an absentee buyer who is
indifferent to local job and wealth creation? Or might we structure the right incentives for business owners to preserve their legacy by selling to the employees who played a role in building that business in the first place? The answer to this question is ultimately a policy choice.

We have all witnessed the consequences of American complacency in the face of departing jobs and industries. This time should be different. The fate of these businesses must be considered a fundamental economic and community development priority regardless of partisan affiliation. By anchoring jobs and wealth in communities across the country and offering a proven path to business resiliency and competitive advantage, employee ownership is a necessary component of any strategy to advance national development and equitable growth. It is a solution that is ready to meet the moment.

Employee ownership is not a new idea. But it is an idea in need of rediscovery if we hope to be successful in building a broadly prosperous, dynamic, resilient, and just post-pandemic economy. The policy proposals outlined in this publication represent the start of a conversation rather than its end point. At Ownership America we look forward to being a thought partner and facilitator in the dialogue on how to best structure public policy to turn Americans into owners—and to build the movement needed to make it happen.

Respectfully,

Jack Moriarty
Founder & Executive Director
Ownership America

October 2021
Executive Summary

THE CHALLENGE.
The United States economy has not been serving its citizens well. The experience of most Americans has been little to no economic cushion—and that was before COVID-19. Opportunities for good jobs and advancement have steadily declined alongside real incomes, particularly for the two-thirds of the adult population without a college degree. Increasingly, Americans’ sons and daughters will fare no better economically than their parents. The pandemic has only compounded an already precarious economic foundation for millions of Americans.

THE SOLUTION.
Find ways to broaden and deepen employee ownership. When employees own a significant stake in the companies they work for, policies that promote corporate growth also promote economic fairness.

Employee ownership is now firmly established in the US economy and has a proven track record of performance. Companies with significant employee ownership:

- Offer better pay and benefits
- Grow faster, innovate more, and enjoy higher productivity
- Survive longer, and are less likely to lay people off in a downturn
- Provide greater opportunity for young workers
- Provide an ownership stake that significantly supplements other retirement income

Since the first enabling legislation in 1974, employee ownership has grown steadily to include 9% of the private-sector workforce. As our recovery from the pandemic continues, the opportunity now is to expand the reach of employee ownership to a much larger segment of the workforce—20%, 30%, or more.

HOW TO GET THERE.
Employee ownership is a big idea, capable of transforming the US economy. Since 1974, Congress has passed many provisions to encourage it, all with widespread bipartisan support. Today’s leaders have an opportunity to broaden and deepen that support through education, advocacy, and new policies. For example, Congress could:

- **Level the playing field** for corporate divestitures and sales of companies by private equity firms, so that many more employees have an opportunity to buy the company they work for through an employee stock ownership plan (ESOP).
  - **Employee Equity Investment Companies**, modeled after the Small Business Investment Company (SBIC) program, could help provide capital for sales to an ESOP through a mix of private investment and federal loan guarantees with minimal to no budgetary impact.
  - **Tax incentives** would encourage corporate and private-equity sales to an ESOP.
  - **Opportunity-zone regulations** can ensure that employee-owned companies are eligible for the full benefit of recent Opportunity Zone legislation.

- **Encourage publicly traded companies to offer stock to employees at a discount.**
- **Require companies that receive various forms of special treatment from the government to establish employee stock-ownership plans or broad-based equity sharing programs.**

The private sector, too, can continue to launch initiatives aimed at spreading employee ownership. One innovative move would be to establish a **revolving fund** that buys healthy companies and sells them over time to an ESOP, using the proceeds to buy more companies, and so on.

All such measures would go far toward revitalizing the middle class and assuring good jobs and opportunity for millions of American working people.
We Americans believe that ours is the land of opportunity. We celebrate business pioneers, from Thomas Edison to Estée Lauder. We admire men and women who rise from poverty through enterprise and diligence. Over the years, this has made America the preferred destination for millions of immigrants whose ambition and talents find their fullest expression here. Our high rates of entrepreneurship reflect this dynamism.

Today, however, our engine of opportunity is sputtering. New-business formations are flat or declining. For many, our economy isn’t delivering the income growth, job security, and middle-class standard of living that were once the reward for a lifetime of hard work. The American dream once promised that children would do better than their parents. The pandemic exposed the faults and fragilities of our labor market and laid bare the significant erosion of American job and retirement security. We are moving from a fluid land of opportunity into a stratified society characterized by growing disparities of wealth and income.

THE FOLLOWING TRENDS ARE CAUSE FOR CONCERN:

1. **A lack of good jobs.** About two-thirds of Americans still do not have a college degree.\(^1\) With the decline in manufacturing jobs, people without college educations or special skills have difficulty finding rewarding employment. Millions of jobs pay less than $15 an hour, provide few benefits, and offer little or no security. Walmart, the country’s biggest private employer, raised its starting wage in 2018 to just $11 and pays its hourly employees an average of $13.79, or not quite $29,000 a year for full-time work.\(^2\)\(^3\)

2. **Little or no economic cushion.** The median wealth of American families in 2016 was about $78,000.\(^4\) But wealth ownership is highly concentrated. The top 10% own 84% of all US-owned stock, including shares held in 401(k) accounts and pension funds. About half of Americans own no stock whatsoever.\(^5\) A Federal Reserve survey in 2018 found that four in ten US adults would have trouble coming up with $400 in an emergency.\(^6\) About half of Americans 55 and older have zero retirement savings.\(^7\) Among those who do, the median amount is enough to generate only about $400 a month. Bureau of Labor Statistics data show that just over half of full-time workers participate in any kind of retirement plan; the proportion decreases as

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**Ownership AMERICA**

**Turning Employees into Owners**

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**U.S. Household Stock Ownership**

*including shares held in 401(k) accounts and pension funds*

- 84% are owned by the top 10%
- 16% are owned by the bottom 90%

About half of Americans own no stock whatsoever.
you go down the wage scale. These startling figures demand a rethinking of our retirement infrastructure.

3. **Stagnant incomes.** Between 1979 and 2017, the US economy grew over 160% in real terms, and GDP per capita was up over 80%. According to the Congressional Budget Office’s conservative figures, people at the very top of the income scale—the famous one percent—increased their pretax income 233%. Meanwhile the lower four-fifths of the income distribution gained 32%. In short, the incomes of most American households rose less than half as much as GDP per capita.

4. **High returns to capital, low returns to labor.** Another set of figures illustrates a similar discrepancy: from 1973 to 2018, inflation-adjusted wages for nonsupervisory workers were essentially flat. Meanwhile, a dollar’s worth of stock grew (in real terms) to $14.09. Those working for a living have seen their incomes stagnate, while those with significant income from capital ownership have done very well. Put simply, the value of stock ownership was privileged by orders of magnitude over the value of work.

5. **Declining opportunities.** Migration from lower-income groups toward higher-income groups is becoming increasingly difficult, even for talented young people. Rates of social mobility, which regularly increased until around 1980, are now declining. More of the children of the poor are staying poor, while more of the offspring of the well-to-do are remaining well-to-do. Again, a recipe for discontent.

6. **Distant and disconnected ownership.** Too many companies—notably those controlled by financial owners such as private equity firms—are treated like pawns on a financial chessboard, not as pillars of local communities. They are acquired, divested, and moved from one absentee owner to another. They may be shut down even when profitable—if, for example, relocating their assets or brands to offshore production promises more profit. These are the companies that should be the economic bedrock of communities and the source of employment for millions of Americans,
TURNING EMPLOYEES INTO OWNERS

Fortunately, there is a solution to many of these ills that is both enterprise and worker-friendly—one that enjoys consistent bipartisan support. It’s called employee ownership.

especially in rural and small-town America.

7. Declining innovation. In 2018, the United States dropped out of Bloomberg’s list of the world’s ten most innovative economies. Increasing market dominance by supersized companies, especially in technology, has led to a broad slowdown in spending on innovation throughout the economy.

These are familiar indictments, and there is no lack of proposed solutions from both true-blue liberals and bright-red conservatives. Unfortunately, our political system seems to be in perpetual stalemate; both federal and state public policy measures have had little effect. Existing elements of the social safety net—including SNAP benefits, subsidized housing, and Medicaid—help many low-income people, but by themselves are wholly inadequate to take care of the estimated 80% of the population who live from paycheck to paycheck.

Fortunately, there is a solution to many of these ills that is both enterprise and worker-friendly—one that enjoys consistent bipartisan support. It’s called employee ownership.

REVITALIZING THE MIDDLE CLASS

At the moment, close to 7,000 US companies have an employee stock ownership plan, or ESOP, that owns anywhere from a small minority to 100% of the firm’s shares. An estimated 2,000 of these companies are wholly owned by their employees. The ESOP world includes giants such as Publix Super Markets (190,000 employees), midsize companies such as W.L. Gore & Associates (9,500 employees), and smaller firms such as King Arthur Flour (300 employees). Many other companies do not have an ESOP but provide their employees with significant numbers of shares through stock or option awards. A few hundred enterprises are wholly owned by their workers through a co-op structure.

Academics and other researchers have studied the effects of ESOP ownership over many years, and their findings are remarkably consistent. Employee ownership companies outperform similar companies with conventional ownership. They put more money in the hands of their workers. For example:

- Better corporate performance. Adjusting for changes in overall industry growth, ESOP companies grow about 2.5 percentage points per year faster in sales, employment, and productivity after they set up an ESOP than would have been expected if they had not set up an ESOP. Other studies have found productivity increases of up to 4-5%, on average, in the year an ESOP is adopted.
- Higher survival rates. A study tracking the entire population of ESOP companies over ten years found that privately held ESOP companies were only half as likely as non-ESOP firms to go bankrupt or close, and three-fifths as likely to disappear for any reason.
- Fewer layoffs. Nationally representative surveys consistently show employee-owners less likely to report being laid off in the previous year. In 2014, the layoff figure was 9.5% for all working adults compared to 1.3% for employee-owners. During COVID-19, ESOP firms were over 3x more likely than non-employee owned firms to retain staff, and were significantly less likely to reduce employee hours or pay.
- Better employee compensation and benefits.
One study found employee-owners earning between 5% and 12% more in median wages compared to employees in matching non-ESOP companies. The same study found that ESOP participants have 2.5 times as much in retirement plans and 20% more financial assets overall than employees of the comparison group of non-ESOP companies. Higher compensation and retirement benefits mean fewer demands on public social services.21

- **Greater opportunity for young workers.** A recent survey, which looked at workers’ economic circumstances over time, compared people age 28 to 34 with employee ownership to their peers without. The study found that those with employee ownership enjoyed 92% higher median household wealth, 33% higher income from wages, and 53% longer median job tenure. This also holds true for younger workers of color, who enjoy a 79% higher median household net worth and 30% higher income from wages.22

- **Higher levels of innovation.** Companies with broad-based employee-ownership programs are more likely than others to introduce high-engagement, team-based management practices. These practices create more opportunities for idea generation and internal entrepreneurship than conventional top-down management.23

Since the first ESOP legislation in 1974, employee ownership has grown steadily to include 9% of the private sector workforce. What if the proportion could grow to 20%, 30%, or more? That would be a big step toward boosting productivity, overcoming the stagnant-wage problem, building stronger
THE CHALLENGE—AND THE OPPORTUNITIES

Employee ownership is a big, bold idea, a market-tested concept that is capable of transforming the American economy. Political leaders who espouse it have a range of options. They can visit and celebrate employee-owned companies and the employee owners who work there. They can use their bully pulpit to educate voters about all the ways in which our economy is failing its citizens, and all the ways in which employee ownership can remedy the situation. Where policy is concerned, they have several choices: new investment institutions, new tax incentives, new regulations, and new agencies all designed to foster and support this form of ownership. In what follows, we will explore just a few of these possibilities. In the following sections, we look at how companies currently become employee-owned, how many more could become so, and the obstacles that get in the way of these transitions. We also propose some specific legal structures and incentives that could overcome these obstacles and thereby lead to a substantial increase in the number and influence of employee-owned firms.

Sale of a company to an ESOP. In the United States, ESOPs are by far the most common form of employee ownership. Legally, they are government-regulated retirement plans, and they have enjoyed broad bipartisan support in Congress. Thanks to previous legislation, individual company owners who sell their businesses to the employees through an ESOP gain certain tax advantages on the proceeds. An S corporation that is partly or wholly owned by an ESOP pays no current federal income tax on the corresponding portion of its earnings.

Most existing ESOPs were established when individual owners decided to sell part or all of their businesses to employees through this mechanism. Contrary to a common belief, employees almost always pay nothing for the stock they receive in their ESOP account. The transactions are typically funded by company cash or bank loans; often, the seller takes back a note for part of the selling price. If there are loans or notes, the debt is paid off from the future earnings of the company, as in an ordinary leveraged buyout. ESOPs without leverage are funded by annual contributions from the company.

As baby-boom entrepreneurs begin to retire in large numbers, more individually owned companies will come up for sale. According to estimates, at least 150,000 of these companies are candidates for ESOPs. But not all companies that are offered for sale are owned by individuals. Two other categories of sellers account for a large number of transactions and a great deal of economic value:

- **Corporate divestitures.** In 2016, public companies in the United States divested more than $75 billion worth of subsidiary divisions, most of that total bought by domestic acquirers. As far as we know, none of these companies were sold to employees. This shouldn’t be surprising: corporate divestiture teams are unlikely to be familiar with ESOPs, and there are no specific incentives that might induce them to consider this option.

- **Private equity sales.** U.S. private equity firms today actively manage more than $3 trillion in corporate assets. The usual goal of such firms is to turn over 100% of their assets every 5 to 7 years through the sale of portfolio companies to new owners. Few of these sales have resulted in employee ownership.
These numbers are a reminder: every business that doesn't close its doors will eventually be sold. It will be sold to public investors, to an investment firm, to another company, to a group of individuals such as a management team, or to its employees. The numbers are also a reminder that employee ownership could be scaled up quickly if the right institutions and incentives were in place.

The obstacles, and how to overcome them. There is a significant disparity between a prospective ESOP buyer and other buyers, such as private equity funds and corporate acquirers. For example:

- Corporate and other buyers typically have ready cash available for the purchase—an appealing factor for sellers. ESOPs, by contrast, must usually borrow much of the necessary capital from a bank. Because it is difficult to finance 100% of a deal, ESOPs typically must find other sources of capital, such as seller financing, or they must buy out an owner over time. Neither of these approaches is attractive to a corporate seller.

- Corporate and other buyers may have synergies that allow them to pay a relatively high price; ESOPs face legal constraints that may make it impossible for them to pay the same amount.

- Corporate and other buyers may be able to provide the management and functional resources that enable the new company to operate independently; ESOPs spinning off from a corporate parent may find that task more difficult.

New institutions, along with new tax and regulatory policies, could level this playing field. For example:

Proposal: The Employee Equity Investment Act. The Employee Equity Investment Act (EEIA) is a proposed federal loan guarantee and secondary market-making program modeled after the SBA Small Business Investment Company (SBIC) program. The mission of EEIA is to advance equity ownership across America by leveraging the full faith and credit of the United States government in partnership with private investment funds.

Like the existing SBIC program for small businesses, the Employee Equity Investment Act
would operate as a public-private partnership by licensing privately owned-and-operated Employee Equity Investment Companies (EEICs) that would deploy a combination of privately raised capital and federal loan guarantees to make a range of subordinated debt and equity-like investments in eligible businesses. EEICs would provide subordinated “first dollars in” to a deal—funds that serve the same function as equity in the eyes of other lenders. Program investment criteria would include transactions where a resulting ESOP owns at least 30% of the company’s stock, growth capital for existing employee-owned businesses, as well as recapitalizations of employee-owned companies to preserve and sustain the benefits of broad-based ownership while positioning the company for future growth.

EEIA would operate at a zero-subsidy cost to the federal government much like the SBIC program and other loan guarantee facilities. By substituting the traditional need for a seller note with subordinated debt backed by loan guarantees, EEIA aims to address a key obstacle to establishing ESOPs and worker co-ops by allowing the selling owner to fully “cash out” at closing. The program is well-suited to be administered by existing federal agencies such as the Economic Development Administration (EDA) of the Commerce Department or the Treasury Department’s Office of Domestic Finance.

Proposal: divestiture incentives. Grant an exemption in taxable gains, up to responsible fiscal limits per transaction, for corporations that divest operating units into employee ownership. Include provisions to ensure that employees receive a meaningful share of ownership in the ESOP, and regulations to prevent governance and financial abuse by market manipulators. Add a minimum holding period for the sold shares or assets and a clawback of avoided gains by the seller if the acquiring firm fails to retain a significant percentage of employee ownership over a meaningful period. Such measures would help compensate the seller for potentially lower sale prices. The welfare of employees is often a consideration in corporate divestitures, and many large companies might divest to ESOPs if appropriate incentives were in place.

Proposal: private equity incentives. Grant an exemption in taxable gains, up to responsible fiscal limits per transaction, for private equity and investment companies that sell portfolio companies to ESOPs. Include provisions to ensure that employees receive a meaningful share of ownership in the ESOP and to prevent governance and financial abuse. Add a minimum holding period for the sold shares or assets and a clawback of avoided gains by the seller if the new firm fails to retain a significant percentage of employee ownership over a meaningful period. Include a clawback provision if initial performance under the ESOP falters.

Proposal: ESOPs in Opportunity Zones. Opportunity Zones are a new policy designed to promote economic growth in distressed communities through tax incentives. Provisions implementing the idea were included in the Tax Cuts and Jobs Act of 2017. A conventional opportunity-zone investment involves acquiring equity in a business or building located in such a zone; an investor who holds the property for at least ten years and then sells it enjoys significant
tax relief on the proceeds. Private equity firms and other investors specializing in ESOPs have designed transactions where an employee stock ownership trust purchases a company in conjunction with private equity capital, typically reorganizing the company into a 100% ESOP-owned S corporation and structuring the investor’s interest as (for example) subordinated debt or warrants. We believe that the currently proposed Opportunity Zone regulations, when finalized, should make clear that such investments qualify for the full benefits of the legislation.

Employee ownership in publicly traded companies. The case of publicly traded companies is different. Some smaller ones could be sold to their employees through a buyout. But most will continue to be publicly traded, and many of these have already created a variety of methods to get shares into the hands of their employees. Procter & Gamble’s employees own an estimated 15% of the company’s shares. Southwest Airlines’ employees own a significant chunk of theirs. Many high-tech companies, including Google and Microsoft, distribute shares, stock options, or both to a broad base of employees. Simple changes to the tax laws could encourage more companies to spread the wealth in this manner.

Proposal: Support for employee stock purchase plans. Many public companies currently offer stock to employees at significantly discounted rates. Employees specify a payroll deduction over an offering period of three months to two years, at which point they can use that money to buy shares at a discount (normally 10% but sometimes considerably more). Because of the programs’ structure, employees have an opportunity to build significant equity stakes in addition to their pension or 401(k) benefits. Yet only about a third of eligible employees participate. Some may live paycheck to paycheck. Many may not understand the program. If companies seeded the first two years of participation in the fund by giving everyone a $1,000 grant to buy shares, employees would likely see the “guaranteed win” nature of the offering and participate at much higher rates. To encourage this, the government could provide a tax deduction for these grants.
TURNING EMPLOYEES INTO OWNERS

EMPLOYEE OWNERSHIP IN COMPANIES ENJOYING OTHER GOVERNMENT-FUNDED PRIVILEGES.

Every year, the U.S. government and the governments of the nation’s 50 states take measures that affect the American economy. They pass tax laws and regulations. They provide tax credits, incentives, and subsidies of various sorts. Every one of these measures can be used to encourage employee ownership and contribute to the public goods of building a stronger, more equitable economy. Consider the 2017 corporate tax cut, for example. Suppose that a reduction in corporate taxes had been linked to the creation of an ESOP or another broad-based plan to encourage ownership, which would have shared the benefits beyond current shareholders to millions of employees.

As Rutgers professor Joseph Blasi and his coauthors put it in a recent paper, “A Congress or Administration that wants to support broader employee share ownership and profit sharing in economic rewards could develop a checklist on any major program or legislation that is proposed to examine its likely effects on, and capacity to increase, financial participation and capital ownership and access to income on capital of employees and citizens in our economy.” That is the most reliable route to a stronger economy.

Proposal: Employee ownership requirements. Companies enjoying “corporate welfare” benefits should be required to adopt employee ownership programs through ESOPs, broad-based stock grants, options, or similar mechanisms so that over time a meaningful percentage of their equity is held by their employees.

Missed Opportunity: Employee ownership requirements for Paycheck Protection Program (PPP) recipients.

In late March of 2020, Congress passed the CARES Act that established the $669 billion PPP loan program to help certain businesses and other entities maintain their workforce; additional funding was provided by the American Rescue Plan Act in March of 2021. Companies receiving taxpayer assistance during COVID-19 could have been required to adopt employee ownership programs through ESOPs, broad-based stock grants, options, or similar mechanisms. Congress also could have provided grant assistance to these companies to facilitate the adoption of these employee ownership structures. This was a missed opportunity to enhance the structural foundation of the economy for workers and communities all while meeting the immediate needs of the crisis.

Private sector initiatives. Today, a wide variety of companies and nonprofit organizations have created a fertile ground for employee ownership initiatives. The National Center for Employee Ownership, the ESOP Association, and Employee-Owned S Corporations of America have built networks of employee ownership practitioners and advocates. State-level technical assistance centers in Ohio, Vermont, Pennsylvania, and other states educate local business leaders and policymakers about employee ownership opportunities. The Employee Ownership
Expansion Network (EOX) is seeding the creation of additional state-based centers throughout the country. The Institute for the Study of Employee Ownership and Profit Sharing (Rutgers University) and the Beyster Institute (University of California at San Diego) lead academic research and analysis in the field. Project Equity has demonstrated the economic risk posed by business succession demographics in every state of the country—an invaluable tool to educate policymakers and impact investors on the opportunities presented by employee ownership. Many financial institutions specialize in ESOP-related transactions. A large group of attorneys, bankers, consultants, and other experts help company owners establish and maintain successful ESOPs.

But there is much more that could be done by business leaders and philanthropists. They could engage at the state level to support policies removing barriers to employee ownership. They could finance marketing campaigns to broaden public awareness of employee ownership. Most dramatically, they could act directly to increase the number of large, successful employee-owned companies.

Proposal: Private revolving fund(s) to create ESOPs. Private philanthropy is a longstanding tradition in America; those who have benefited most from the system give back in ways that promote the general welfare. We can think of no more effective way to leverage the power of capitalism to spread prosperity than to create more employee ownership. High-net-worth individuals, for example, could establish a revolving fund whose sole purpose is to buy companies from private owners, corporations, or private equity firms and then sell these companies to the employees over time using an ESOP. The fund can use the proceeds from its sales to buy more companies and sell those, too, to an ESOP, and so on. This effort requires no act of government. It might work through a charitable trust set up for this purpose, thereby providing additional incentives for the funders.

Risk is moderated with ESOPs when, as is nearly always the case, employees are granted the shares and do not purchase them with wage cuts, savings, or retirement-plan funds.

A note on risk. All stock ownership involves some risk. ESOPs are often thought to increase the risk because employees have “all their eggs in one basket.” When employees hold shares in the company where they work, the risk does not go away, but they are usually well placed to make sure that the basket is in good shape. Indeed, many rank-and-file employees at successful ESOP companies have already acquired a surprising degree of financial security, some with more than a million dollars in their retirement accounts.

To be sure, a lack of diversification in an investment portfolio does entail risk. This risk is moderated with ESOPs when, as is nearly always the case, employees are granted the shares and do not purchase them with wage cuts, savings, or retirement-plan funds. Moreover, employees in an ESOP company may actually face less overall risk than employees of a non-ESOP company. The proper comparison is between employees with ESOP accounts and employees with either a conventional retirement plan, such as a 401(k), or no plan at all (a group that includes about 60% of US private-sector workers). Consider the following facts from the nonprofit National Center for Employee Ownership:29

- Based on Department of Labor filings, companies on average contribute 50% to 100% more to ESOPs annually than non-ESOP companies do to 401(k) plans.
- Most of the money in the typical 401(k) plan comes from the employee. With few exceptions, all the assets in an ESOP come from the
ESOP companies are somewhat more likely to offer secondary retirement plans than conventional companies are to offer any plan. The employees do not have their own money at risk.

- Research by the Department of Labor shows that ESOPs not only have higher rates of return than 401(k) plans, but are also less volatile.
- ESOP companies lay people off less frequently than non-ESOP companies.
- ESOPs cover more employees, especially younger and lower income employees, than 401(k) plans.
- ESOP companies are somewhat more likely to offer secondary retirement plans than conventional companies are to offer any plan.

To mitigate the remaining risk of ESOPs, future proposals can incorporate measures to reduce that risk without materially sacrificing the potential returns on the ESOP’s investment in employer stock. These measures could include public or private insurance, hedging arrangements, or other risk-pooling mechanisms.

In conclusion, we invite you to join us, and to imagine a new land of opportunity—an America transformed by more and more employee ownership. This would be a country where policies to promote corporate growth are automatically good for working people, because working people would own an ever-greater share of corporate stock. The solution to our problems is not less capitalism. It is more capitalists.

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Appendix A: Additional Forms of Employee Ownership

While ESOPs are the most significant form of broad-based employee ownership in the United States, there are other ways employees can become owners as well.

**EMPLOYEE STOCK PURCHASE PLANS (ESPPS)**

These plans are found mostly in companies traded on stock exchanges. There are about 3,000 such plans, and most are set up to qualify for a potential tax savings for employees. These plans allow employees to set aside a certain amount of money each paycheck over a period of time (the “offering period”), usually 6-12 months but potentially as long as 27. At the end of that time, the money is used to buy company stock. Most of the plans allow the employee to buy the stock at the lower of the price when they first started in the plan or the price when the offering period ends. So if the price is $20 on the first day when the employee starts in the plan, and $25 at the end, the employee could buy the $25 shares for $20. Even better, most plans provide for up to a 15% discount on the price. So these plans can be a very good deal for the employee. Still, only about a third of the employees offered these plans chose to participate. Almost all plans provide that all employees who meet a basic service requirement can be in the plan. The NCEO estimates that about 11 million employees participate in these plans.

ESPPs have low participation because so many employees live paycheck to paycheck and feel they cannot afford to put money aside even with a guaranteed significant return. With some tweaks to plan design, these plans could get higher participation, but companies would have to spend a considerable amount of time on education.

**STOCK OPTIONS AND STOCK GRANTS**

About 8 million employees get some form of stock grant from their company, and most of these are in companies that give grants to most of their employees. This is most common in the tech sector, but there are other companies that do it as well, most notably Starbucks. The grants usually are in the form of a stock option (the right to buy shares at the price when the award is granted for some number years into the future, no matter how much the price increases) or restricted grants of shares, meaning that the employee will get shares of stock only after working some number years. Like ESPPs, these plans are found mostly in companies traded on stock exchanges.

Both ESPPs and stock grants can provide employees with a substantial economic benefit, but generally not at the same level as ESOPs. The benefits also tend to be skewed more to more highly paid employees who can afford more easily to participate in the ESPPs or receive much larger grants of shares.

In the last few years, the private equity firm KKR has made grants of equity to all employees a substantial part of its industrials division, with employees at several companies receiving tens or even hundreds of thousands of dollars in stock as part of the deals. The brainchild of KKR Co-Head of Americas Private Equity Pete Stavros, these grants are coupled with an employee involvement program that Stavros said has made the companies more valuable. Stavros has committed $10 million to start a nonprofit called Ownership Works to spread the idea to other private equity firms and to large companies.

**WORKER COOPERATIVES**

It is not known just how many worker cooperatives there are, but the U.S. Federation of Worker Cooperatives conservatively estimates there are about 500 with about 8,000 employees. In a coop, the employees most
commonly become a member by paying a fee, usually of some hundreds of dollars or more, that can be deducted from their future paycheck. (This is the same kind of fee that you might pay to become a member of a consumer cooperative, such as REI). Coops are found mostly in retail (bakeries, restaurants, bike shops, etc.), home health care, and services.

Worker coops are premised on shared ownership coupled with democratic governance. Each member has one vote for the board of directors of the coop and employees usually participate in other areas of governance as well. Each year, if there is a profit, some portion is paid out to members or kept in an account where it earns interest until the employee leaves (or a combination of both). Workers generally do not share in the value of the company in the way shareholders do unless it is sold while they are working there, in which case they would get some percentage of the proceeds.

There is a very active current push in many cities to encourage work coop start-ups and conversions of very small companies in low-income communities. Worker coops are generally small businesses and may be a very important model for certain sectors, such as home health care. A similar idea—platform cooperatives—allows for independent contracts, like ride share drivers of house cleaners, to set up their own platform to allocate work rather than relying on a third party that takes a lot of what they earn in return. One such example is The Drivers Cooperative, a driver-owned ridehailing cooperative based in New York City that successfully raised over $1.3 million in crowdsourced investment in 2021.

EMPLOYEE OWNERSHIP TRUSTS

In the United Kingdom, employee ownership trusts are the closest equivalent to U.S. ESOPs. In the trust model (also called a permanent trust), some portion or all of the company is owned by a special trust. Employees are beneficiaries of the trust. They may have some role in its governance, but this is not required. The trust is established with the purpose of operating the company for the benefit of the employees. The goal is to be employee owned for the long term, not build the company for a sale. Unlike ESOPs, which may have to accept an offer to buy the company if the price is at a large premium over the current value, employee ownership trusts are designed not to have to sell.

In the typical trust model, the shares are held permanently by the trust. An owner or owners of a company will sell to the trust, most often by taking a note from the company to pay the seller back with interest over time. Employees get a dividend based on their share of the trust's ownership. That share is based on a formula the company creates, such as relative pay, tenure, merit, or some combination. Unlike ESOPs, the federal government does not set the rules. Also unlike ESOPs, the trusts have no special tax benefits (they do in the UK, however). There are only a handful of such trusts in the U.S. now, but there is growing interest. If provided with tax incentives, these trusts could become an important, if niche, player in the employee ownership market.
Appendix B: Checklist of proposals in this white paper:

☑ Policies that level the playing field for sales of companies to ESOPs by corporations or private equity firms, including:
  – Providing government-guaranteed loans for ESOP transactions through a new Employee Equity Investment Company (EEIC) program to provide “first dollars in” to an ESOP-related transaction, preferably with tax incentives for investors.

☑ Tax policies that encourage employee ownership, including:
  – Capital gains tax relief for corporate divestitures to an ESOP or similar structure
  – Capital gains tax relief for sale by private equity firms to an ESOP or similar structure
  – Clarification that ESOP-related transactions in an Opportunity Zone qualify for the full benefit of Opportunity Zone legislation

☑ In publicly traded companies, support for employee stock purchase plans, possibly through a tax deduction for companies that “seed” the programs

☑ Requirements for minimum levels of employee ownership in companies that enjoy government-funded privileges

☑ Private-sector initiatives, including the creation of revolving funds to buy companies and convert them to employee ownership
Appendix C: References


17. Research on Employee Ownership, Corporate Performance, and Employee Compensation. National Center for Employee Ownership, 11
TURNING EMPLOYEES INTO OWNERS


21 See supra note 18


