Introduction

Economic inequality is a topic that is host for two distinct but related conversations; the inequality of income and the inequality of wealth. Between these two starting points, public policy conversations tend to focus on income, on the exploration of possible interventions with employers and the state which might result in enhanced pay or transfer payments to citizens primarily at work. This paper acknowledges the importance of income enhancement but focuses on the second, more neglected conversation, on the topic of wealth inequality, on property not pay.

Wealth is a story as well as a fact. It is said to arise from the accumulation of income, from obeying legendary lessons regarding thrift and savings that map a step-wise path up the ladder of earned economic mobility. Wealth is also inherited. In those instances mobility is not necessary. Nor is exertion. The ratio of earned to inherited wealth in our society presents an interesting and often contentious debating point. A more practical question worth exploring is what can be done to ameliorate existing differences in wealth. Policy initiatives that seek to intervene and broaden access to the creation of wealth have been undertaken but are not well understood. Interventions at the workplace that extend ownership opportunities to managers and workers in private sector enterprises attract occasional interest but have been particularly out of reach of mainstream policy conversations. This paper attempts to build bridges. The workplace realm is the major focus of this investigation.

Wealth Inequality Measured

New York University economist Edward Wolff is the preeminent American scholar of property or asset ownership. In his forthcoming book *A Century of Wealth in America* Wolff (2017) highlights the extent to which asset ownership is skewed among American citizens. Table 1 below presents two pie charts that distinguish two categories of wealth. The chart on the left, labeled “Net Worth,” describes personal wealth holdings in assets such as housing, savings and pensions. It shows that the bottom 80% of the population owns only 11% of these assets, while 89% are held by the top 20% of the population.

The chart on the right, labeled “Financial Wealth,” refers to various commercial or institutional assets. It is substantially more unequal. Here the same 80% of the population hold only 5% of the total, with 95% held by the top 20% of the population.
Table 1

Table 2

Table 2, below, shows differentials in ownership of specific classes of the assets usually labeled “Financial Wealth.” It usefully fleshes out the identity of non-housing financial and commercial asset owners.

Table 2 clarifies an odd, if vaguely familiar, fact central to this discussion of wealth inequality. The bottom 90% of the population (in red) are largely excluded from the ownership of non-housing financial and commercial assets. At the same time, a significant percentage of this same population is employed by entities represented by several of the listed classes of the very same assets (e.g. Business equity, Financial securities, Stocks and mutual funds) depicted in this chart. The bottom 90% are employed by but do not own the institutions that generate wealth
in our economy. They are hired men and women mostly excluded from ownership and financially dependent upon paychecks.

**Asset Interventions**

Periodically, economists and policy makers of varying ideological stripes rediscover the virtues of asset ownership and contemplate how to democratize access to those assets.\(^3\) The targets of these initiatives have typically been modest however, and do little to address the divide between ordinary citizens and the wealthy.

In early 2003 the George W. Bush administration introduced with much fanfare its plans for promoting “The Ownership Society.” This was a society, we learned, that was to be characterized by greater citizen ownership and control of property with a focus on home ownership.

> We're creating... an ownership society in this country, where more Americans than ever will be able to open up their door where they live and say, welcome to my house, welcome to my piece of property. - President George W. Bush, October 2004

One frontier which President Bush’s program neglected to pursue is a particularly well-guarded but still accessible asset class, the ownership of businesses. More than a quarter of a century prior to the 2003 introduction of the Ownership Society, a significant public policy precedent for strategic conversations about a more inclusive approach to ownership of businesses had taken place.

**Sharing Wealth at Work – Structure and History**

The idea of employee ownership of businesses does not belong exclusively to the twentieth or the twenty first century. It has a long and colorful lineage tracing back to the dawn of industrialization. It is international in scope. It is organized according to more than one legal structure and has a discernible footprint in today’s economy. Some of the high points of history and legal structure follow.

First is the matter of legal structure. The cooperative form of ownership holds title to the earliest application of these ideas beginning in the early part of the 19th century. Though statistically less prominent than other structures prevalent today, cooperative legal structures embody several characteristics superior to more mainstream employee ownership forms.\(^4\) Mainstream forms of employee ownership include Employee Stock Ownership Plans (ESOPs), technically a benefit plan holding stock issued by corporations organized under either the familiar C corporation or S corporation legal form and employee stock purchase plans (ESPP’s) which sell stock to employees at a discount. They also include a range of restricted stock and stock option designs utilized by both privately held and publicly traded corporations. Partnerships, a form of joint ownership familiar in the professions of law and accounting, should also be included in any survey of shared ownership forms.
In the United States there is an early history to these ideas. Beginning in the 19th century, two distinct platforms advocated for worker ownership in the United States. The first was a grassroots, “bottom-up” movement led by the earliest American labor organizations, the National Labor Union and the Knights of Labor. At the other end of the social spectrum during this same 19th and early 20th century period we find advocacy of broad based ownership by a select group of patrician industrialists. Among their number are some legendary names, including William Procter, Leland Stanford and Robert Brookings.

**Achieving Scale: The ESOP Story**

Today, broad based employee ownership of private sector businesses is not an abstraction. It has arrived. Close to 7,000 companies in the United States presently make use of the most familiar ownership form, employee stock ownership plans or ESOPs. ESOPs collectively employ over 14 million workers, a number that some commentators stress now exceeds the number of workers represented by unionized collective bargaining. Though technically valid, those statistics do somewhat overstate the story. A small number of publicly traded companies with relatively modest ESOP plans complicate the data. Backing those companies out of the sample, about 6,000 companies that collectively employ approximately 3 million employees remain. These companies range in size from Publix Supermarkets with 183,000 employees to 50 person machine shops, with a median size of about 150 employees. They have been drawn to employee ownership for a variety of reasons, generally prompted by the succession needs of a founding entrepreneur who decides to sell the business to employees rather than to an outside buyer.

The arrival of these ideas came about through politics. An intriguing bi-partisan coalition ranging from libertarian leaning Representative Dana Rohrabacher (R-CA) of Orange County to Senator Bernie Sanders (I-VT) supports these ideas today. That coalition owes its achievements to the vision of a single man, Senator Russell B. Long of Louisiana (1918-2003).

Trained as an attorney, Russell Long was first elected to the United States Senate in 1948. He retired in 1987. During the period between 1965 and 1981, he served as chair of the Senate Finance Committee, a committee that exercises considerable influence over the tax code. Relatively late in his political career, beginning in 1974, Senator Long reached back to the themes concerning the redress of economic inequality that had inspired his controversial populist father, Huey B. Long (1893-1935), the legendary former governor and United States senator.

With the help of a visionary San Francisco attorney by the name of Louis Kelso, Russell Long constructed an alternative path forward. Where Huey Long saw the government as an agent of redistribution that exercised its power primarily through progressive taxation, Russell Long saw the government as an agent that could help bring about a form of ‘pre-distribution.’ His reasoning favored the idea of providing incentives for capitalists to share the wealth making machinery of capitalism, specifically stock ownership, with ordinary American workers through use of the tax code. Russell Long’s pre-distribution logic altered the inequality conversation. If
wealth is more equitably distributed as it is earned, the need for a divisive, after the fact struggle over redistribution is reduced if not eliminated.

Senator Long initiated that path through an amendment to the Employment Retirement Income Security Act (ERISA) of 1974. That amendment allowed for the creation of a new form of retirement plan, an employee stock ownership plan or ESOP. Long’s ESOP idea, inspired by concepts introduced by Kelso, did not begin to attract notice from employers until he was able to organize a bi-partisan coalition to attach a variety of tax incentive amendments to the original law. Those amendments encouraged American business owners to gradually sell large blocks of shares to tax favored employee stock ownership trusts as an exit mechanism. More than four decades later, ESOPs have arrived as a seemingly permanent if still modest feature of the private sector economy.

The ESOP Landscape

ESOPs exist as a “Main Street” more than a “Wall Street” phenomenon. As indicated, they are used primarily as a tax favored exit or succession mechanism for the owners of healthy and profitable privately held companies. Owners of those firms face a demographic imperative regarding a sale: If there are no family members available or interested in carrying on ownership, other options must be explored. Few companies of this kind go public; most are sold to competitors or, increasingly in recent years, to private equity firms. ESOPs represent an alternative to sell internally to management and employee groups.

The seemingly generous and culturally contrarian “share the wealth” story that ESOPs tell attracts considerable press attention. For example, craft brewers such as New Belgium Brewing of Fort Collins, Colorado, and Asheville, North Carolina (creator of Fat Tire beer) and Harpoon Brewing of Boston have earned print and television plaudits for their move to employee ownership. Often, press accounts exaggerate the beneficence of ESOP transactions, characterizing the sale of companies to employee stock ownership trusts (ESOTs) as “gifts.” The overwhelming majority of companies do not gift company stock to employees. Owners instead sell company assets and/or stock to those trusts at independently appraised market prices.

Statistics regarding the largest ESOP transactions in the country are regularly tracked by the National Center for Employee Ownership (NCEO) of Oakland, CA. Table 1 below, drawn directly from the NCEO, provides the top ten broad based employee ownership companies. The dominant, but not exclusively so, structure used in this list is the ESOP structure.5

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>City</th>
<th>State</th>
<th>Plan</th>
<th>Plan Start Date</th>
<th>Business</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Publix Super Markets</td>
<td>Lakeland</td>
<td>FL</td>
<td>ESOP &amp; Stock Purchase</td>
<td>1974</td>
<td>Supermarkets</td>
<td>182,500</td>
</tr>
<tr>
<td>2</td>
<td>Lifetouch*</td>
<td>Eden Prairie</td>
<td>MN</td>
<td>ESOP</td>
<td>1977</td>
<td>Photography</td>
<td>21,000</td>
</tr>
<tr>
<td>3</td>
<td>Penmac*</td>
<td>Springfield</td>
<td>MO</td>
<td>ESOP</td>
<td>2010</td>
<td>Staffing</td>
<td>20,420</td>
</tr>
</tbody>
</table>
The Secret Sauce of ESOPs

People are often incredulous when they learn that ordinary American employees are able to become owners of their firms, and their incredulity is not entirely misplaced. A very large obstacle to the democratization of ownership opportunities has, in fact, been overcome by American ESOP laws in a way that is unmatched in the other countries that have shown occasional interest in broad based ownership of companies by employees. In the United States it is possible for groups of employees to become owners of anywhere from 1% to 100% of their companies without having to risk a dollar of their own capital.

American ESOPs, it turns out, are a cousin to a longstanding technique used by mergers and acquisition professionals in the world of mainstream finance. ESOPs are a cousin of leveraged buyouts or LBOs, a tool by which small groups of senior managers or outside investors have been able to buy valuable enterprises with only a modest amount of their own capital at risk, borrowing the balance from commercial banks. ESOP transactions mirror LBO transactions.

Senator Long’s insight, that ordinary employees should not be expected to have the personal resources to put at risk to initiate these transactions, has been a significant driver of the ESOP field. Workers are not expected to risk modest life savings on the purchase of their companies. They are instead the beneficiaries of transaction structures initiated on their behalf making use of a legal trust, an employee stock ownership trust or ESOT, that “goes to the bank” on their behalf in much the same fashion as their LBO cousins. Senator Long’s use of the legal trust idea in effect recognizes the community of workers and managers in individual firms as a uniquely productive asset that merits the attention of both sellers and financing sources.

If and when the ESOT goes to the bank, workers are generally not orchestrating the visit. In the overwhelming majority of these cases, the seller—the majority shareholder of company stock and assets—initiates the loans. It is the collateral of the company that secures these loans. It therefore is self-evident that owners must accede to this form of transaction. It is their assets that are at risk if the loan does not perform. It must therefore be the affirmative choice of the seller to sell internally in this manner. The owner will eventually be the recipient of the proceeds of those loans. As the loans are paid down, employees assume ownership of the firm.
Results

Evaluation of the performance and long term viability of broad based employee ownership is pursued through two categories of investigation; empirical research and theoretical debate.

Empirical research treats six general topics;
1. The economic consequences for employee participants, i.e. the wealth and income effects
2. Comparative economic performance, i.e. the extent to which these firms can compete against more conventional legal forms,
3. Economic sustainability, i.e. the extent to which these firms are able to maintain acceptable levels of reinvestment over time
4. The motivational consequences for employee participants, i.e. job satisfaction
5. The salience of this idea to the general public, i.e. public opinion polling, and
6. The salience of this idea to customers; both
   a. business to business customers in the example of non-consumer facing businesses, and
   b. consumers

Theoretical debate covers a second category of investigation only partially accessible to empirical investigation. Among the topics debated in this realm are questions of organizational democracy, i.e. the ability of these firms to effectively balance employee governance and management and the related idea of making use of divisions of labor that recognize expertise.

This paper will not attempt to summarize the findings from each of these topics. Much of the research literature covering the full range of these topics is maintained by the National Center for Employee ownership (NCEO), an independent non-profit research organization based in Oakland, California. Two empirical topics of particular relevance to our discussion are summarized below, wealth and income effects and comparative economic performance.

Wealth and Income

With support from the Kellogg Foundation, the NCEO initiated a research project entitled Employee Ownership and Economic Well Being. The findings from that study were released in May of 2017.

This report uses data drawn from the National Longitudinal Surveys (NLS), a long term research initiative sponsored by the U.S. Bureau of Labor Statistics. NLS data use nationally representative surveys that follow the same sample of individuals from specific birth cohorts over time. This is the first study that has undertaken to track individual as opposed to aggregate wealth accumulation.

The analysis examines the characteristics of workers with employee ownership at their workplace (employee-owners) compared to workers without such benefits (non-employee-
owners). A sample of 5,504 women and men, including an oversample of African Americans and Latinos were first interviewed in 1997. All the respondents were ages 28 to 34 when interviewed most recently in 2013.

Figure 2 shows that there are no large pre-existing differences in wealth in the sample studied. The employee ownership advantage in household wealth emerges over time.\(^9\)

(NCEO Figure 2)

<table>
<thead>
<tr>
<th>MEDIAN HOUSEHOLD NET WORTH OVER TIME</th>
</tr>
</thead>
<tbody>
<tr>
<td>At age 20</td>
</tr>
<tr>
<td>Employee-owners</td>
</tr>
<tr>
<td>$4,750</td>
</tr>
<tr>
<td>At age 25</td>
</tr>
<tr>
<td>$9,250</td>
</tr>
<tr>
<td>At age 30</td>
</tr>
<tr>
<td>$28,500</td>
</tr>
</tbody>
</table>

The results span a range of measures and demographic groups:

- Median household net wealth among respondents is 92% higher for employee-owners than for non-employee-owners. This disparity holds true for the great majority of subgroups analyzed, including single women, parents raising young children, non-college graduates, and workers of color.
- In 2013, the median employee-owner had household income equal to 378% of the poverty line, compared with 293% of the poverty line for non-employee-owners. Most of this difference emerged over a period of years—the two groups had nearly the same median income-to-poverty ratios in 1997.
- Employee-owners in this dataset have 33% higher median income from wages overall. This holds true at all wage levels, ranging from a difference of $3,160 in annual wages for the lowest-paid employee-owners to an extra $5,000 for higher-wage workers.

(NCEO Table 6)\(^{10}\)

<table>
<thead>
<tr>
<th>MEDIAN HOUSEHOLD NET WORTH</th>
<th>EMPLOYEE-OWNERS</th>
<th>NON-EMPLOYEE-OWNERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>$28,500</td>
<td>$14,831</td>
</tr>
<tr>
<td>Single women</td>
<td>$9,089</td>
<td>$6,000</td>
</tr>
<tr>
<td>Single women of color</td>
<td>$7,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Workers of color</td>
<td>$16,450</td>
<td>$9,175</td>
</tr>
</tbody>
</table>
**Comparative Economic Performance**

A considerable research literature exists that compares performance in broad based employee owned firms to comparison firms without employee ownership. Performance indicators studied include sales, employment and productivity as well as firm survival over time. Three of the leading research programs that have pursued these questions include the Shared Capitalism Research Project of the National Bureau of Economic Research (NBER), a program that produced the 2010 book by Kruse, Freeman and Blasi called *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-Based Stock Options*, a 2016 research summary by Kaarsemaker and a 2016 meta-analysis of firm performance in employee ownership settings conducted by O’Boyle, Patel and Gonzales-Mule.
In a 2013 article *Firm Survival and Performance in Privately Held ESOP Companies*, Blasi, Kruse and Weltmann review research on company performance and employee ownership.\(^{13}\) They summarize the research performed as follows:

Productivity is much more commonly studied in the employee ownership literature. Contrary to negative predictions based on the free rider problem, studies have generally found that employee ownership is linked to higher performance. Two reviews concluded that “Two thirds of 129 studies [including both performance and attitude studies] on employee ownership and its consequences found favorable effects relating to employee ownership while one tenth found negative effects (Kaarsemaker, 2006) and research on ESOPs and employee ownership is overwhelmingly positive and largely credible (Freeman, 2007) Formal meta-analyses that combined the results of studies have found evidence of a positive association between employee ownership and performance (Doucouliagos, 1995; Kruse & Blasi, 1997).

One of the earliest comparative analyses was produced by Kruse and Blasi in 1996 and first published in 2013. Using three year prior and three year after adoption data they found statistically significant differences in employment (4.5% greater employment) and sales growth (3.9% greater sales) for ESOP companies. This comparison automatically controlled for industry and year effects.

**Challenges and Resistance**

Challenges to the idea of broad based employee ownership do not emanate solely from academic research circles. They also surface through the press and through the elaborate web of policy institutions and opinion that serve as gatekeepers regarding the implementation of new ideas.

Pursuing a program of economic change through ownership, through what we have described as an asset based or property approach to the economy, challenges long established models of thinking about economic policy primarily through an income lens. The habit of viewing economics and inequality through the income lens is entrenched, and alternative approaches are viewed with skepticism.

To have achieved the scale they have attained, ESOPs have had to attract and maintain bipartisan support in the United States Congress. As a respected centrist Democrat, Russell Long was able to appeal both to his more liberal Democratic colleagues in the Congress and to conservative Republicans. Fortunately, the idea of shared ownership is ideologically ambidextrous. Conservative Republicans admire the way in which ESOPs promote a property owning working class, which they judge will be less dependent upon government. Left leaning Democrats reply that ESOPs can be a route to a more inclusive and fair approach to capitalism within which ordinary people can gain a voice and a financial stake that would otherwise be unavailable to them. ESOP practice has been capacious enough to host both points of view.
In professional policy circles, however, ESOPs have suffered from the fact that they emerged outside the orbit of accepted policy conversation. Louis Kelso, the ESOP inventor who prevailed upon Senator Long to commence his legislative initiatives, was not a classically trained economist or policy professional. He was an attorney who contributed a number of key insights that had escaped every other thinker drawn to these ideas.

The first insight is that employee ownership prospers best when attached to a going concern. It is far easier to convert an existing profitable firm than to start shared ownership firms from scratch. The 7,000 ESOPs that mostly thrive today are partial or full conversions of established firms. Sellers have used the ESOP in the overwhelming majority of these cases as an exit or succession strategy.

The second insight was a compromise with reality. The most sacred assumption guarding the gate in every market economy is that everyone interested in acquiring ownership must put personal capital at risk. Kelso and Long were strong believers in the market economy and its disciplines, but they recognized that most working people do not have cash reserves to deploy to join it as investors or participants. They are largely spectators working for a wage. In order to enter the ownership arena, working people need a backer who can enter the transactional world on their behalf and extend incentives to owners to consider selling to cashless or at least cash poor workers.

The backer they introduced is the federal government - not as a direct lender or investor but as an agent representing workers in the establishment and administration of legal trusts (employee stock ownership trusts) that can borrow money on their behalf. As loans are repaid out of the current cash flows of the selling firm, workers become owners. Sellers enjoy tax benefits for selling to these trusts. The resulting employee owned firms also enjoy tax advantages commensurate with the percentage of ownership held for employees in those trusts. With the backing of federal legislation and the use of these trusts, the seemingly impossible became possible; cashless or at least cash poor workers become significant stock owning participants in their places of work.

There are an estimated 7,000 ESOP owned companies. Subtracting publicly traded companies with relatively small ownership stakes, there are perhaps 6,000 privately held ESOP companies with significant ownership stakes. Reference USA estimates that there is a total universe of close to 720,000 privately held companies with revenues of between $10 million and $500 million in sales that would generally be characterized as potential ESOP targets. The National Center for Employee Ownership backs out more than three quarters of that total by excluding companies such as law firms, medical practices and other industries that would not fit the usual ESOP profile or whose owners are under the age of 50, thus reducing the universe to 150,000 new targets for ESOP ownership. Their estimate therefore speculates that existing ESOPs amount to approximately 4% of the total population of prospects.

Recent developments in the formation of ESOP-friendly private-equity-like funds that can provide higher risk, mezzanine capital on top of the capital provided by senior lenders have
begun to address the challenge of growing the employee ownership sector. Family offices and foundation endowments focused on social impact investing have begun to take notice of this opportunity. These entities appreciate the philanthropic potential of broad based employee ownership to address perennial problems of economic inequality.

Given that participation in funds that specialize in this kind of investing offers the potential of market-related returns, the future prospects for this financing niche are strong. With access to favorable financing, broad based employee ownership should be able to compete with more conventional financing sources. The process of building this competition is very much in the early stages. As of this writing, three financial advisory firms that publicly represent their ability to do this kind of investing have combined assets of $400 million, a number that pales in comparison to the $3 trillion war chest of conventional private equity. The ratio of $400 million to $3 trillion suggests the need for some new, larger ideas to bridge the gap.

Next steps: A Broad Based Ownership Agenda

The original testimony that Senator Russell Long provided to Congress in support of the ideas outlined in this paper makes for interesting reading today. On the floor of the 97th Congress on May 12, 1981, Long decried the fact that “One percent (of our citizens) received 47% of all dividends and 55% of American households have a net worth of [in 1981 dollars] less than $10,000 … This concentration of wealth is not only unjust, it is also harmful to the successful operation of a market economy.” Turning to solutions, he stated that:

“We can begin to promote a type of capitalism that is true to its democratic roots and true to the American tradition of widespread participation … Our free enterprise system is not working well enough; its remarkable vitality and adaptability are declining. Yet there is no evidence of a better economic alternative. A primary problem, and a problem this bill addresses is that so few Americans share a personal ownership stake in the system.”

Nearly 40 years after their introduction, the incentives Senator Long introduced have resulted in a modest 4% penetration of the market of firms that could practically consider broad based employee ownership. Those results suggest that it is time to consider new ideas to grow this sector.

More Than Incremental Ideas

In a study entitled Employee Ownership, ESOPs, Wealth and Wages, Jared Bernstein, economist, Senior Fellow at the Center on Budget and Policy Priorities, and former advisor to Vice President Joseph Biden, concluded his analysis of federal government policy toward employee ownership with a provocative recommendation. Turning to a familiar list of tax incentives that the government routinely extends to private sector companies—including bonus depreciation, deduction of the interest costs from debt financing, and deferral of taxes of overseas earnings—Bernstein poses a question “… why not in the interest of both greater
revenue collection and incentivizing more employee ownership, make them [the tax incentives] contingent on offering ownership shares to workers? Given inequality findings ... this seems like a useful incentive to build into the tax code.” Making employee ownership a prerequisite, a condition for businesses to be able to enjoy federal tax incentives, would dramatically raise the visibility of employee ownership. For many, this visibility would be a target, and perhaps too aggressive a top-down stance for the government to take. The appetite to adopt it would likely require a bi-partisan agreement that ameliorating economic inequality was a primary, not a secondary, objective of tax policy.¹⁶

Tax incentives and tax conditionalities represent one approach. Another involves using the ability of the federal government to guarantee credit. The last time the government made a massive intervention in the American economy to stave off a crisis of the scale we see when examining wealth inequality data, we were a country recovering from an economic depression. Under the conservative Republican administration of Herbert Hoover, the Federal Home Loan Bank Act of 1932 (FMLB) created a network of savings and loan institutions. More importantly, this act provided insurance for depository institutions that would write home mortgages for citizens under favorable economic terms. Because of this federal insurance role, those ordinary citizens, soon to include sixteen million soldiers returning from World War II, were able to acquire a financial asset that would otherwise be well beyond their reach. The GI Bill and other federal legislation made important contributions, but the Federal Home Loan Bank Act of 1932 did more to foster ownership values and create the American middle class than any other piece of legislation passed by the United States Congress in the 20th century.

From the perspective of the early 21st century, various economists (Lazonick 2016, Galbraith, 2015, Hockett, 2015) have expressed concern not only about inequality but about the existence of systematic underinvestment in the American economy both in the sphere of private sector corporate research and development and in public infrastructure. These twin crises of inequality and underinvestment provide a pretext and a premise for an ambitious policy initiative for broad based employee ownership that is reminiscent of the Federal Home Loan Bank Act of 1932. Unlike the incentive or conditionality approach, it puts initiative in the hands of American workers and managers.

The brainchild of a private equity provider, Richard C. May of American Working Capital, the Employee Equity Loan Guarantee program (EELG) would re-enact in the private sector business economy the crucial role that US government guarantees perform to attract capital to the field of housing.¹⁷ Using the existing infrastructure of commercial banks and private equity funds to underwrite the terms of specific investments, the EELG would extend federal guarantees to back investment stakes for all individual employees in businesses over a predetermined size (estimated at 100 employees) to enable direct investment in their places of work. Over time, this investment would considerably expand equity stakes for workers in their workplaces while simultaneously addressing the systematic underinvestment of American corporations in new products and services.
The EELG would make use of existing employee stock ownership trust structures and the existing American banking infrastructure. It would operate according to the same premise we learned in the case of ESOPs, with federal guarantees making possible the investment participation of low net worth worker and managers in their places of work. Just as it would have been impossible in 1946 for returning soldiers to purchase homes and assume long term mortgages without federal guarantees, it is difficult to imagine how American workers and managers can achieve sizable equity stakes in American capitalism without analogous federal guarantees.

As a public policy idea, the EELG idea locates future investment activity where it should be, at the level of the firm and not the government. Federal guarantees of EELG funds enable direct worker and manager investment in their place of work without government steering mechanisms or government investment in firms. It will be up to the leadership of private corporations and not the government to persuade their workforces to apply their guaranteed equity funds toward compelling investment purposes. Those same workforces should be entitled to appropriate governance input and participation to insure that their investments are being responsibly managed.

There is evidence that after forty years ownership stakes in the workplace made possible by Senator Long’s ESOP legislation have begun to address the challenge of wealth inequality. The recognition by Senator Long and Louis Kelso that cashless workers required the intervention of employee stock ownership trusts that could secure borrowing on their behalf to make this idea possible opened the door to a new form of inclusive and participatory capitalism. That achievement requires similarly inspired federal programs to progress beyond the modest 4% platform it currently enjoys after thirty years of legislative assistance.

Conclusion

To the jaded public policy mind, large ideas such as Jared Bernstein’s framing of ESOPs as a condition to receive federal tax incentives and Richard May’s Employee Equity Loan Guarantee program (EELG) are quickly remanded to the utopian recycling bin. Ambitious ideas that push our thinking about how capitalism might be structured to include the people who contribute most to its value inevitably confront a steep inclined plane. Nevertheless, another contrarian from early in the 20th century serves to illustrate that these ideas have an uncanny and enduring appeal.

On July 4, 1927 the sitting CEO of the General Electric Corporation, Owen D. Young, addressed a crowd of over 1,000 at an outdoor dedication ceremony for the newly constructed Baker Library of the Harvard Business School. The ceremony included the president of Harvard, various deans and other prominent invited guests. What the audience heard that afternoon was not the usual self-congratulatory bromides that people of means come to expect from one another. Instead they heard a history lesson and a bold statement of vision. Young surveyed how the industrial age had created a tension which had not been entirely resolved.
“Into these [larger scale businesses] we have brought together larger amounts of capital and larger numbers of workers than existed in cities once thought great. We have been put to it, however, to discover the true principles which should govern their relations. From one point of view, they were partners in a common enterprise. From another they were enemies fighting for the spoils of their common achievement.”

He spoke hopefully that the Harvard Business School might be a place where his alternative vision could be fleshed out.

“Perhaps someday we may be able to organize human beings engaged in a particular undertaking so that they truly will be the employer buying capital as a commodity in the market at the lowest price … If that is realized, the human beings will then be entitled to all the profits over the cost of capital. I hope the day may come when these great business organizations will truly belong to the men who are giving their lives and their efforts to them, I care not in what capacity. Then they will use capital truly as a tool and they will be all interested in working it to the highest economic advantage … Then we shall dispose once and for all, of the charge that in industry organizations are autocratic and not democratic. Then we shall have all the opportunities for a cultural wage which the business can provide. Then, in a word, men will be as free in cooperative undertakings and subject only to the same limitations and chances as men in individual businesses. Then we shall have no hired men. That objective may be a long way off, but it is worthy to engage the research and efforts of the Harvard School of Business.”

In a 1982 biography of Young, the speech was referred to by observers as “a hot potato.” It was published in full in the New York Times.

The future trajectory of the idea of broad based employee ownership is hard to predict. It may continue to follow the incremental path originated by Russell Long, or it could ramp up to the more programmatic approaches proposed by Jared Bernstein and Richard May. To date the field has been hospitable to a “big tent” collection of thinkers and practitioners of very different political persuasions. That breadth of support that reaches back through American history as well as forward across contemporary ideological divides provides a distinct advantage looking toward the future. Fresh empirical evidence that these ideas make a material contribution to overcoming economic inequality indicate that a new path for “restoring the middle” may be at hand.

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2 Edward N. Wolff, A Century of Wealth in America, Harvard University Press 2017 (forthcoming) - link
5 National Center for Employee Ownership, The Employee Ownership 100: America’s Largest Majority Employee Owned Companies - link
6 Consumer Interest in Shopping Employee Owned, Certified EO Whitepapers, Ownership Alliance - link
7 National Center for Employee Ownership, Oakland, California - link
8 Employee Ownership and Economic Well-Being, National Center for Employee Ownership, May 15, 2017 – link
9 Ibid. Figure 2, p. 12 – at this link
10 Ibid., Table 6, Household Wealth, p. 12 – full study at this link
14 Firms engaged in ESOP ‘private equity’ investing include American Working Capital, LLC of Chicago, New York and Boston, Long Point Capital of New York and Mosaic Capital Partners of Charlotte, NC. The author is a partner in American Working Capital, LLC.
15 Jared Bernstein was first introduced to this idea in 2015 by Joseph Blasi, Richard Freeman and Doug Kruse. Their introduction of this idea – employee ownership as a 'predicate' - can be found on p. 201 of The Citizen’s Share: Reducing Inequality in the 21st Century, Joseph R. Blasi, Richard B. Freeman, Douglas L. Kruse, Yale University Press, 2014 The Citizen’s Share: Reducing Economic Inequality in the 21st Century
18 Dedication Address by Owen D. Young, Harvard Business Review, Volume V, No 4
19 Owen D. Young and American Enterprise: A Biography, Josephine Young Case, Everett Needham Case, David R. Godine, Boston 1982. Carter Glass, former Secretary of the Treasury in the Wilson administration and then senator from Virginia had listened carefully and publicly hailed the speaker “fit to be President.” On the Harvard campus, the reception was more muted. In the words of the biographers, “Nor is there anything to indicate that the faculty of the Harvard Business School found Young’s objective worthy of their sustained attention, much less of any systematic research.”