

March 6, 2012

**Broad-based Worker Ownership and Profit Sharing:
Can These Ideas Work in the Entire Economy?**

**Joseph R. Blasi and Douglas L. Kruse
Rutgers University School of Management and Labor Relations**

Joseph R. Blasi, a sociologist, is the J. Robert Beyster Professor of Employee Ownership at the Rutgers University School of Management and Labor Relations and a Research Associate of the National Bureau of Economic Research. He serves as director of the fellowship program on worker ownership at the School. From 1977-1981, he served as a Legislative Assistant in the U.S. House of Representatives with responsibility for worker ownership issues. Douglas L. Kruse, an economist, is a Professor at the Rutgers University School of Management and Labor Relations and a Research Associate of the National Bureau of Economic Research. He serves as director of the Ph.D. program at SMLR. He is also an associate editor of the British Journal of Industrial Relations. Both co-managed the National Bureau for Economic Research Shared Capitalism Research Project with Richard Freeman of Harvard University. The ideas contained in this article represent solely the views of the authors and do not reflect the views of either Rutgers University or the National Bureau of Economic Research.

Abstract

This paper examines whether broad-based worker ownership and profit sharing could be expanded to the entire economy. First, it provides a brief overview of the problem and the rationale for the solution proposed. The problem is that capital ownership and capital income are highly concentrated in a very small group in American society. This suggests that a solution broadening capital ownership and capital income, namely worker ownership and profit sharing, fits well and makes sense. Second, there is a discussion of some guiding principles. Worker ownership and profit sharing need to at least deliver comparable economic performance as the existing system and the plan to move towards them economy wide should be nonpartisan in nature and not involve mechanical redistribution of wealth but work in the context of the current market system. Third, following the overall purpose set by the ASA President, the paper examines current pockets of empirical cases that “embody these emancipatory aspirations and prefigure utopian alternatives“ will be considered “to see how these cases work, to diagnose their limitations, dilemmas and unintended consequences, to examine their transferability and scalability, and to understand ways of developing their potential.” Pockets of worker ownership and profit sharing are examined in large and small corporations and cooperatives, on the stock markets and in the small business sectors, and the suboptimal and excessively risky forms of worker ownership on which one would not want to base a public policy are identified. Fourth, there is a brief overview of some research evidence indicating that such a possible utopia can be within reach. Fifth, several realistic institutional designs for an enhancement to the corporation using more extensive worker ownership and profit sharing are presented. Sixth, following an evaluation of the failure of past policies, forward-looking policies to move society towards these designs are presented. The paper shows that the research suggests that much more worker ownership and profit sharing is possible and attainable but that a common explanation of why it is unattainable, that individuals and organizations find it hard to bring it about, is not really the major barrier. The major barrier is a favoritism by existing public policies and tax incentive regimes for corporations that concentrate capital ownership and capital income. If these barriers, largely thrown up by the Federal Government, cannot be removed, it is highly unlikely that worker ownership and profit sharing can support economic democracy in the entire economy.

Introduction

Modern society in the United States has many social problems that need to be understood related to addressing how the power, status, and reward pies are owned and controlled. While this Real Utopia Proposal focuses on how the rewards of economic activity are distributed, it does not seek in any way to minimize the stunning insensitivities and inequities and discriminations in modern society on many fronts. By addressing some of the conceptual, research, and policy issues relevant to extending broad-based worker ownership and profit sharing to the entire economy, the goals are to familiarize sociologists, who have had no reason to think about or been out of touch or unaware of these issues, with the topic, and to demonstrate that important issues about the distribution of status and power are bound to come up when new organizational designs for the ownership of the corporation and the workplace are considered. This analysis is done in the context of what is found on the ground in the United States at this moment in time.

First, there will be a brief overview of the problem and the rationale for the solution proposed. Second, there will be a discussion of some guiding principles. Third, following the overall purpose of these sessions set by the ASA President, some current pockets of empirical cases that “embody these emancipatory aspirations and prefigure utopian alternatives“ will be considered “to see how these cases work, to diagnose their limitations, dilemmas and unintended consequences, to examine their transferability and scalability, and to understand ways of developing their potential.”¹ Fourth, there will be a brief overview of some research evidence indicating that such a possible utopia can be within reach. Fifth, the principal institutional designs for a real utopia enhancement to the corporation will be presented. Sixth, following a nonpartisan evaluation of the failure of past policies, forward-looking policies to move society towards these designs will be considered. The analysis attempts to comprehensively identify Federal Government policies that encourage and policies that block broad-based worker ownership and profit

¹ Erik Olin Wright, *A Sketch of the Real Utopias Theme and Program for the 2012 Annual Meeting of the American Sociological Association* (Washington, D.C.: American Sociological Association, October 20, 2010 Revised).

sharing so that the reader can construct a social history of the policies and use it to envision an alternative future. Where there are surely many gaps and many more questions raised than answered, it is hoped that this synthesis will be at least initially useful in considering worker ownership and profit sharing as a *Real Utopia* during the American Sociological Association 2012 Annual Convention and that it will lead to further questions, discussion, research, and action.

The Problem and Rationale For the Solution

There is one principal reason for this discussion. The top five percent of households control over half of all wealth in the nation while the top ten percent control almost three quarters of all wealth and over eighty percent of all financial assets. Half of all households own no stock. Many households have meager financial holdings and a quarter of households have zero or negative net worth. The wealth of most middle class families has significantly declined since the 1980's. The wealth of only a very small proportion of American families is increasing. The preponderance of evidence shows that those citizens and those families whose income and wealth have expanded during these decades did better because they had another income source other than their wages, which have been generally flat, namely, capital income, in other words, shares of capital, namely, shares of property or profits in the economy beyond their salary. Because of this definition of the problem, the importance of exploring a solution based on broadening shares of ownership and profits in corporations in the economy should be readily apparent.

Capital ownership is ownership of shares of stock invested in property, plant, equipment, software, and intellectual property of the economy. Capital income is income from property, businesses or financial assets such as stock that take the form of dividends or other kinds of profit sharing. Because the composition of personal income has been shifting away from wage income and is increasingly made up of grants of capital ownership or capital income that has been growing faster than wage income, it is access to property and the sharing of income on it that is determining wealth. For example,

the share of capital income going to the top one percent of households has risen from about a third of all capital income in 1979 to about three fifths in 2005. There should be then no surprise that ninety percent of a major kind of capital ownership, namely, corporate stock, is held by the richest fifth of households. At the same time wage income adjusted for inflation has been essentially flat since 1980. The notion that significant real increases in wages will significantly increase wealth has given way to the reality that many of the mechanisms that accomplished such a result in the post-WWII era are now in decline while other mechanisms that shape socio-economic reality towards moderate wage increases are on the increase.²

The supportive mechanisms of wage growth that are on the decline are, for example: the long-lasting post-WWII domination of the U.S. industrial machine and its protective trade regime, unionization, an expanding manufacturing sector with the easy and regular production of high paying manufacturing jobs, generous worker health and retirement benefits that came on top of rising real wages, and, more generally, the commitment of the political system in reality to the idea of a broad-based middle class and a thriving working class headed towards the middle class. The mechanisms tending to deplete real wage growth that are on the rise are, for example, the expansion and dominance of emerging economies increasingly liberated from restrictive state-owned doldrums or worse, subsidized by only partially transformed state-owned economies, such as the BRIC (Brazil, Russia, India, and China), aggressively competitive globalization and “free trade” regimes, the very rapid growth of the generally low-paying

² See Lawrence Mishel, Jared Bernstein, and Heidi Shierholz, *The State of Working America, 2008-2009* (Ithaca: Cornell University Press, 2010) and Sylvia Allegretto, “The State of Working America’s Wealth, 2011,” *EPI (Economic Policy Institute) Briefing Paper* no. 292, March 23, 2011. Two-thirds of households have stock holdings worth less than \$6000 (Table 7, p. 13). These studies are based on analysis of the U.S. Federal Reserve Board’s Flow of Funds Accounts, the Survey of Consumer Finances of the Federal Reserve, the U.S. Census, and Congressional Budget Office information. See also, Mishel, Bernstein, and Shierholz, *The State of*, 81-85. Based on data from the Congressional Budget Office, “Whereas the top 1% received 34.2% of all capital income in 1979, their share rose to 58.6% by 2000 and rose further to 65.3% by 2005. Thus, the top 1% virtually doubled its share of capital income between 1979 and 2005, an astounding development. Correspondingly, all other income groups including remainder of the top 10th (the next 9%) received a much lower share of the economy’s capital income in 2005. For instance, the share of capital income going to the bottom 90% declined from 36.7% in 1970 to just 15.1% in 2005, a roughly 60% reduction in their receipt of capital income.” (p. 85) See also, Allegretto, *Economic*, 15 (Figure F).

service sector, the failure of many post-industrial economies to create credible jobs for a fifth of their population, and the expanding “religion” of cost minimization and increasing shareholder value with a concomitant deepening establishment of the notion in business schools and business circles and government policy circles that sharing the rewards of productivity is and should not be part of the social contract.

The American model of capitalism needs major institutional reforms in order to regain its economic health and do what has failed to do for the past three to four decades—spread the benefits of economic progress to the bulk of our citizens. Well before the recent housing and financial crises, the Great Recession of 2007-2009, and the ensuing jobless recovery, the US economy was not delivering the benefits of sustained economic growth to the vast bulk of workers. From the mid-1970’s through the 2000’s the earnings of most American workers increased more slowly than the rate of productivity growth. Real median earnings barely rose even as gross domestic product per employed worker grew substantially. This contrasts with the nearly equal rates of real earnings growth and productivity growth from the turn of the 20th century through the early 1970s, which created a large prosperous middle class. The disconnect between economic growth and earnings growth over the past four decades results today in the United States having an extremely high level of economic disparity. For example, in 2008 the level of income inequality was higher in our nation than in any other advanced industrial democracy in the Organization for Economic Cooperation and Development. Among the 135 countries with measured levels of inequality, the U.S. ranks 41st highest in inequality, with greater inequality than in over half of low-income developing countries, including China, where a large part of the population remain poor peasant farmers.³

³ See Richard Freeman, Joseph Blasi, and Douglas Kruse, *Inclusive Capitalism for the American Workforce* (Washington, D.C.: Center For American Progress, 2011). The median represents the inflation-adjusted earnings for the worker in the middle of the earnings distribution. The CIA Factbook, which gives Gini coefficients for inequality for 135 countries around the world in 2008, records the US as having the 41st highest of level inequality. See http://en.wikipedia.org/wiki/List_of_countries_by_income_equality Column listed as CIA Gini. According to the OECD, the US has the 27th highest Gini coefficient of the 30 OECD countries, surpassed only by Portugal, Mexico, and Turkey. See figure 1.1 Gini coefficients of income inequality in OECD countries, mid-2000s. See: http://www.oecd.org/document/53/0,3343,en_2649_33933_41460917_1_1_1_37419,00.html

The recent housing and financial crises, the ensuing recession, and the current jobless economic recovery exacerbate these long-term trends. Indeed, despair about the direction of the economy is overwhelming earlier hopes that the recent economic turmoil was a temporary breakdown from which our country would rapidly recover. The reason why most Americans have a pessimistic view about our economic future is clear. High unemployment will likely last through the end of the decade, which will depress wage growth for most workers and together with unemployment add to economic disparity. Even if U.S. macroeconomic policies somehow restore employment and economic growth in the next few years to the rates that preceded the implosion of Wall Street, few Americans would find satisfactory another decade in which economic growth benefited only a small proportion of Americans.

It is hard to envisage the economy attaining a sustainable growth path if most workers continue to be excluded from the benefits of growth as they have been in recent years. Despite the fact that capitalism and markets have won out over controlled economies in recent decades, there is no question that the American “variety of capitalism,” is having a hard time producing a broad and growing base of “capitalists” in the economy. The short-term rewards of capitalism, namely, inflation-adjusted wages are essentially flat and the long-term rewards of capitalism, namely, capital ownership and capital income are increasingly more concentrated. Capitalism without a broad base of capitalists and a thriving middle class, is, well, essentially, a form of feudalism.

When the American Revolution took place about eighty percent of England’s land was in the hands of its aristocracy and much of its population was reduced to being wage serfs without significant property ownership.⁴ The Revolution was partly a reaction to

Indicative of the pattern in the recession, the Bureau of Labor Statistics, Weekly and hourly earnings data from the Current Population Survey shows an increase in the ratio of earnings for full time workers at the ninth decile to earnings at the first decile from 4.87 in 3rd quarter 2007 to 5.03 in 3rd quarter 2010. <http://data.bls.gov/PDQ/servlet/SurveyOutputServlet>

⁴ See G. E. Mingay, *English Landed Society in the Eighteenth Century* (London: Taylor and Francis, 1963), 26 with special attention to estimates for 1790 in Table 1, F. M.L. Thompson, “The Social Distribution of Landed Property in England Since the Sixteenth Century,” *Economic History Review*, 19, no. 3 (1966):

the feudal value system that England tried to impose on the colonies where one aristocratic group tried to set the economic rules for a wider group of citizens across a huge ocean. Britain continually tried to restrict the development of business and trade in the colonial economy and interfere in the economic liberty of those citizens who were actually independent and free. Today, more than eighty percent of income growth, capital income, stock ownership and total wealth is concentrated in the richest tenth of the population. The United States is at risk of losing the economic liberty theme of the American Revolution by turning itself precisely back to the property distribution that England had at the time of the American Revolution and exacerbating that property distribution until it creates an economic system that threatens the very idea of a democratic republic.⁵

The American economic system is deeply unpopular after a crash and a Great Recession that has shriveled family wealth, pushed unemployment and underemployment to a new plateau, slowed job creation, depressed income and property values, wrecked pension savings, put many state and local budgets and pension systems in the hole, deepened the federal deficit, cut the revenue that states collect, and, as a result, created a series of cuts in basic services such as help for the neediest and most vulnerable, education for children and young adults, and police protection in states, cities, and towns nationwide that will cascade through the economy for years. Tax cuts can have some impact on middle class wealth but tax cuts cannot alone completely replace the thirty-year trend of stagnant wages and capital income concentrated at the top.

565-517 with a discussion of 1790 on pps. 513-514, and Lee Soltow, "The Distribution of Property Values in England and Wales in 1798," *Economic History Review*, 34, no. 1 (1981), 60-70 with an estimate the concentration land ownership in the top 10% may have been as high as 90%. Soltow analyzed 71,030 pages of land records in 121 volumes for his study.

⁵ Evidence on 90% of 1982-2008 income growth going to the top 10% is from Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913-1998," *Quarterly Journal of Economics* 118, no. 1 (2003): 1-39 updated to 2008 at: <http://www.econ.berkeley.edu/~saez/TabFig2008.xls> Evidence on more than 80% of capital income going to the top 10% is from Mishel, Bernstein, and Shierholz, *The State of*, 85. Evidence on 81.3% of stock ownership concentrated in the top 10% is from Allegretto, *Economic*, 11 (Table 6). The table also shows that the top 10% own 84.2% of non-equity financial assets, namely, both direct and indirect ownership of financial securities such as mutual funds, trusts, and retirement accounts and the net equity in unincorporated businesses. Evidence on 73.1% of wealth going to the top 10% is from Allegretto, *Economic*, 4 (Table 1). This table also shows that the top 10% also receive 47.2% of all household income.

No Presidency, neither the Democratic Party during the eight years of the Clinton Administration nor the Republican Party during the eight years of the Bush Administration -- and not the first three and one-half years of the Obama Administration -- has been able to substantially reverse the decline of the middle class. Information from the Internal Revenue Service by two of the world's leading experts on wealth, Emmanuel Saez and Thomas Piketty, makes the generally modest differences between the parties in their ability to sponsor equitable growth abundantly clear. During the Clinton Presidency average family incomes went up by four percent and the best-off one percent of families had their income go up by about ten percent. Under Clinton, the best-off one percent of families got forty-five percent of the total income growth for themselves. During the Bush Presidency average family incomes went up by three percent and the best-off one percent of families had their income go up by about ten percent. Under Bush the best-off one percent of families got fifty-seven percent of the total income growth for themselves. While there were certainly many strong differences between both Administrations, the amount of income growth going to the richest one percent of families was very high and quite significant for both.⁶ It is not apparent that the first Administration of President Obama has not meaningfully reversed these trends.

On the critical issue of the middle class, there exists a bipartisan lack of political imagination among the leaders of both political parties. This is because the platforms of both political parties have no specific viewpoint or policy on broad-based capital ownership and profit sharing of capital income. On the contrary, both parties sponsored a massive bailout of the financial sector based on transitional government ownership allowing massive infusion of capital and low or no interest loans that has resulted in subsidizing the capital ownership and income of the senior managers and others who own these sectors. The Democratic theory of the middle class problem has been middle class tax cuts, laws to reduce and control health care costs, expanding the social safety net, and more rights for unions in order to expand their power to increase wages. The Republican

⁶ See Emmanuel Saez, "Striking It Richer: The Evolution of Top Incomes in the United States," *Pathways Magazine*, Winter 2008: 1-8 especially Table 1 on p. 8.

theory of the middle class problem has been across the board tax cuts focused on the wealthy, a more private sector approach to reducing health care costs, reducing the social safety net, and a goal to cut the size of government. Neither party, however, has given serious consideration to expanding the property ownership of citizens so that they can be more independent and have more economic liberty and emancipation.

While the new source of wealth in America is the corporation, the public is extremely critical of corporations and suspicious of the incestuous relationship between big government and the big corporate sector. In a March 2010 survey, the Pew Research Center asked: Are large corporations having a positive or negative effect on the way things are going in the country these days? A stunning 64% said it was negative and only 25% were willing to call the effect positive. In fact, 69% of the public, almost 7 in 10 adult citizens, have a very dim view about major financial institutions and banks. Americans are suspicious of concentrated economic power. Indeed, 71% of citizens have a positive view of small business and 68% have a positive view of technology companies, which, by the way, like Google, tend to share profits and corporate ownership broadly with their workers. A large proportion of both Republicans and Democrats and Independents react negatively to the word “capitalism,” suggesting significant doubt about the economic system. Thus, there is even a crisis of confidence in the economic system brewing.⁷

It is no coincidence that these developments have occasioned nascent popular movements at both extremes. The largest and most recent grass-roots movement in America is the Tea Party phenomenon. A number of polls show that the supporters of the Tea Party -- estimated at its high point at perhaps close to a fifth of all Americans -- are angrier about the economy than the rest of the population. They worry about excessive government control of the economy and they are especially suspicious of the marriage of big government and big business occasioned by bailouts of Wall Street and industry. The Tea Party and many conservative Republicans and libertarians such as

⁷ Pew Center for the People and the Press, *A Political Rhetoric Test* (Washington, D.C.: Pew Research Center, May 4, 2010).

Representative Ron Paul have many questions about the role of the big corporation in society. The Tea Party stresses the importance of small government and low taxes but the Tea Party has largely downplayed the importance of broad-based property ownership, although it is a strong supporter of small business.⁸ Ironically, following on the heels of the Tea Party Movement was the Occupy Wall Street phenomenon that emerged on the public scene in September of 2011. While it has yet to develop the extensive national reach and demographic depth of the Tea Party, Occupy Wall Street is an example of another popular development that echoes related criticisms of the coziness of big government and the financial and corporate sectors.

Guiding Principles

Based on this analysis of the problem and the lack of a paradigm on either the left or the right to address the large inequities in capital ownership and capital income, what should the guiding principles of a Real Utopia for the economic system be? First, whatever other Real Utopia proposals are considered for the United States, the proposal needs to directly address the growing concentration of capital ownership and capital income. There need to be opportunities for capital ownership and capital income to be more broadly owned and distributed. Second, in order to be realistic, broad-based capital ownership and income must be structured in the context of the corporation. However, this does not mean that the future corporation would necessarily look like the archtypical model of the hierarchical corporation where power, prestige, and rewards are generally highly concentrated in the top 1% of workers. Third, a realistic Utopia for the corporation needs to address companies of different sizes and of different stages of their existence from multinationals to large public stock market companies to small businesses and high tech startups. Fourth, an emancipatory form of broad-based ownership and profit sharing, in order to be realistic, must have *at least* the level of economic

⁸ The New York Times and CBS News, “National Survey of Tea Party Supporters,” *The New York Times*, New York, New York, April 5-12, 2010. See also, Kate Zernike and Megan Three-Brenan, “Poll Finds Tea Party Backers Wealthier and More Educated,” *The New York Times*, April 14, 2010.

performance of the existing system if not the potential to be more economically efficient while also sharing the fruits more broadly. Fifth, the proposals should be nonpartisan, namely, they should avoid the redistribution of wealth and be based on market-based ideas that can be easily supported by anyone on the political spectrum. Broad-based worker ownership and profit sharing can meet these five guidelines. This is not to assert that many of the other Real Utopia proposals to address inequities in power and prestige are less important, but only that a direct focus on ownership and income in the corporation is essential, though surely not sufficient.

Pockets of Empirical Cases

While most of the economy is oriented away from a more economic-democratic form, there are some pockets that do in some ways prefigure the wider application of worker ownership and profit sharing within the entire economic system and can serve as a laboratory in order to understand the strengths and weaknesses of the idea.

Google's founders are a very interesting contemporary example of this kind of economic system. No one tells the story of how important employee ownership is to Google better than its two founders, Larry Page and Sergei Brin. Google won the first position on Fortune Magazine's Hundred Best Companies To Work For in America list in 2012 partly for its commitment to broad-based employee ownership.⁹ Together with equipment-oriented Intel and software-oriented Microsoft, that both have comparable commitments to employee ownership,¹⁰ web-oriented Google is one of the foremost leaders of the pocket of shared capitalism among high technology companies. At Google, employee ownership works well in an empowering corporate culture. When that

⁹ See Fortune Magazine, "The Hundred Best Companies To Work For," *Fortune*, February 6, 165, no. 2 (2012).

¹⁰ The founders of Intel virtually created the broad-based employee ownership culture that has thrived in part of Silicon Valley and innovative knowledge companies. Their story and the history of the idea in Silicon Valley and the area around Microsoft in Seattle is told in, Joseph Blasi, Douglas Kruse, and Aaron Bernstein, *In The Company of Owners* (New York: Basic Books, 2003): Chapter One.

happens, a company can expect workers to give more discretionary effort to the company, to be more innovative, to be more like to stay with the company, and to build the business. This is why Google told its investors this year that sharing stock equity with workers is “crucial to our ability to motivate employees to achieve our goals.” Google is one of the few corporations to go into a lot of detail in its annual reports to shareholders about corporate culture and trumpets their broad-based employee ownership.¹¹

Does Google really depend on a shared corporate vision. Google has 20,000 workers. It was created by Brin and Page in the late nineties at Stanford University. They owned a hundred percent of Google in the beginning as does any proprietor or small businessman or woman or inventor. They could have simply kept it at that. But they made a decision to add more and more products and services by having scores of worker teams pioneer ideas and functions that no one ever previously imagined. Ironically, Brin and Page gave away so many stock options that they diluted their own ownership of Google. Employee stock ownership allowed them to attract superior talent and make the pie bigger. Brin and Page begin granting stock options to workers as the number of workers grow. Then they decided to sell shares to the public in 2004. Little by little their 100% ownership went down to twenty percent. Now, they own just under 20% of a much larger pie than when they worked alone. Brin and Page wanted to take their company public but also protect it from the short-termism of the stock market. They instituted a controversial – but so far workable – plan where their shares have ten times more votes at the shareholder meeting than everyone else. At every annual Google shareholder meeting, as a result, they and the workers control over sixty percent of the votes. Google still gives the deserved credit to the original entrepreneurial founders but Google also recognizes the deep involvement in managing its value of the broad group of workers.¹²

¹¹ Google Inc., *Google December 31 2009 Annual Report* (Washington, D.C.: U.S. Securities and Exchange Commission, February 12, 2009 [date filed]), 18.

¹² Google Inc., *Google 2011 Proxy Statement* (Washington, D.C.: U.S. Securities and Exchange Commission, April 20, 2011 [date filed]), 23.

Google's commitment to employee ownership and profit sharing can be seen by how and with whom it shared ownership. As the company says, "All of Google's employees are also equity-holders, with significant collective employee ownership."¹³ Google has reserves about a tenth of its shares for future stock and stock options grants for its workers. Each year a big stock option pie is cut up at Google. Less than one percent goes to the top executives. The other 99% goes to the wider group of workers. In addition, Google rewards special individual and team accomplishments with shares. Google does not say what its total employee ownership is, however, with this commitment to doling out shares annually and the possibility that workers have bought some shares on their own, the co-authors conservatively estimate that the company is likely at least ten percent owned by its non-executive workers. If Google does well, the employees do well. As the company's sales and profits increase, Google employees can share in that success. Google is a corporation that is a kind of federation of its original entrepreneurs, a broad group of workers, and stock market investors. Google is not just one story because its combination of stock options and employee stock ownership represents one of the typical broad-based ownership formats used in the country today.¹⁴ What are the different pockets, the different shapes and sizes of a broad-based capital ownership economy in the United States?

ESOPs

¹³ Google Inc., *Google December 31 2009*...: 18.

¹⁴ Note that a stock option is different than a share of stock. A stock option entitles a worker to the right to buy a whole share of stock for ten years into the future at the price the share traded on the day it was originally given. So if a worker gets a stock option in August 2012 when the stock was trading at \$500, the worker could "exercise the option" and buy the stock, for example, in August of 2017 when the stock is trading at \$700 a share. If the worker instructs her or his broker to do so. The worker can buy a \$700 share of stock for \$500, sell the stock, and take the \$200 profit in one instantaneous transaction. Employee stock options are thus a form of profit sharing and equity ownership rights combined. Based on Google Inc., *Google December 31 2009*...: 90-91 and Google Inc., *Google Proxy Statement 2009* (Washington, D.C.: U.S. Securities and Exchange Commission, March 24, 2009): 37, 55-58. We computed: (1) the percent of Google's total stock and stock option grants to the top five executives as a percent of the total stock and stock option pie granted to all employees; (2) the total number of shares and stock options that Google had outstanding and available for future grants to employees as a percent of total shares held by investors.

The largest concentration of intensive employee stock ownership is hidden in plain sight across the country in closely-held smaller corporations, precisely in the small business sector that most of the population strongly supports. The most recent estimate based on U.S. Department of Labor records that there are 10,900 corporations with significant employee ownership in the country with almost 10.3 million workers organized as ESOPs with assets of almost \$1. Trillion. Thus, most of the meaningful employee ownership in the country is spread over many companies with smaller groups of workers than the giant corporations. It is insulated from public stock markets and the “maximizing shareholder value” debate. About three thousand of these firms are majority or 100% owned by their employees, about 3000 are a third to a half owned by their employees, and the rest have some employee stock ownership. *The principal feature of an ESOP is that the workers do not purchase the stock with their wages or their savings or their own assets.* If the company has projected sales and profits then a bank will loan the company money to buy the stock for the workers and allow the company to pay back the loan out of profits over, for example, a five to ten year period. ESOPs convert existing successful corporations that have concentrated ownership into new corporations that have broad-based ownership. The most intense part of the worker ownership sector of the country then is based on conversions of already functioning companies with management in place.

Many citizens come across some of these companies because they have national markets. For example, Herff Jones sells class rings and yearbooks nationally. Majority employee-owned Kinney Drugs operates pharmacies nationally. Majority employee-owned Parsons, an engineering and consulting company, has built some new Newark Public Schools, NASA’s Goddard Space Flight Center, the Sheraton Phoenix, and the Interstate 90 bridge over Biloxi Bay in Mississippi. These are the larger ESOPs.

Actually, most ESOP corporations have between 100-500 employees and are mainly known in their town or region. Reisbeck Food Markets operate supermarkets in St. Clairsville, Ohio. Kelly Moore Paint makes paint in San Carlos, California. Ebby Halliday is a realtor on Dallas. Osmose in Buffalo is the expert in repairing wood,

concrete, and metal railroad bridges. New Jersey's Okonite in Ramsey manufactures wire cable. All these are majority employee owned. Their stock is not traded on public stock exchanges so one does not hear about them unless one comes into contact with them locally. These companies have their own associations, the ESOP Association and the ESCA, the Employee-Owned S Corporation of America group. ESOPs were controversial in the seventies when they owned just 5-10% of stock in smaller companies. Now, most of the members of both associations are majority or 100% worker owned, a stark evolution of this sector since the 1970's when social scientists last looked in on it.

The main reason that ESOPs dominate employee ownership in the U. S. is because meaningful employee ownership or a mostly or totally employee-owned corporation can be set up without using the savings of workers. It is like an Industrial Homestead Act¹⁵ thanks to the inventiveness of their creator Louis Kelso who invented the leveraged buyout. It allows a company to set up a worker ownership trust which borrows money from a bank to buy all of the stock on behalf of the workers, while paying back the loan from company profits. In reviewing the bank loan, the bank certifies that the proposed management team has a good track record to successfully operate the company, which means that these companies start their lives with at least credible management in place. Under the leadership of the powerful former head of the Senate Finance Committee, Senator Russell Long of Louisiana, the U.S. Congress decided to recognize ESOPs as the preferred approach to employee stock ownership in 1974 by making it easy for a corporation to establish an ESOP and get tax deductions for setting up worker owned corporations. Briefly, because an ESOP is an employee benefit plan, contribution to pay back the loan to buy stock for the workers is deductible as a business expense. ESOPs became part of the Employee Retirement Income Security Act of 1974 during the Administration of President Richard Nixon and became a national format for worker ownership when President Gerald Ford signed ERISA into law on September 2, 1974.

¹⁵ This term was coined originally by Norman Kurland, founder of the Center for Economic and Social Justice, which explores the broader ethical and social and economic issues related to broad-based capital ownership. See <http://www.cesj.org/>

Typically, a group of managers and workers decide to purchase an already-existing company where they work from the existing owners, usually a family business where the owner wishes to retire and receive cash for the company that they built over many years. Most ESOPs have come about from purchases of stable profitable family businesses and ESOPs are a principal way that families cash out the value of businesses that they built over many decades in the last century and leave a sustainable jobs and wealth producing organization back in their community. Family members can get an additional tax incentive for themselves if they sell at least 30% to an ESOP. Typically, the workers slowly expand this stake to majority or 100% status as the family totally cashes out of the firm. Thus, ironically, one of the most conservative sectors of the U.S. economy, the small business sector, is responsible for the birth of the majority worker ownership sector. The desire of these family founders to leave the result of their hard entrepreneurial handiwork intact in the community and to cash out the capital wealth is the major incentive for the transfer to worker ownership. Another scenario is that managers and workers buy a specific factory or subsidiary from a larger corporation or buy all of the stock of a large public company and take it private. Sometimes, the existing owners will set up a modest 5-15% ESOP in order to give workers the opportunity to become owners and then move to expand it later. More often than not, ESOPs owning ten or twenty percent of the company eventually buy all the stock. Another tax incentive involves buying an ESOP as an S corporation, a type of corporation that pays no taxes as a company and passes all of its tax liabilities onto the individual partners, in this case, the workers, who pay taxes.¹⁶ ESOP's are tending towards majority and full worker ownership in the country as a result of these many trends.

Having workers buy stable companies with the Kelso invented leveraged buyout has been the key to a large employee owned sector in the U.S. The average ESOP has about \$60,000 of company stock for each worker, has a second retirement plan not

¹⁶ On S corporation ESOPs, now the most common way for workers to buy a company and establish 100% worker ownership, see <http://www.nceo.org/S-Corporation-ESOPs/pub.php/id/25/>

invested in company stock, has retirement assets twice that of workers without ESOPs, and contributes far more to the employee ownership plan annually than a corporation without an ESOP contributes to its retirement plans. The evidence shows that ESOP companies pay good wages so that there is no evidence that workers are paid low wages that the company hopes to make up with stock later. Because these companies are not traded on stock markets they are somewhat insulated from large market crashes.¹⁷ The United Airlines failed majority employee-owned ESOP gave ESOPs a black eye. Most scholars do not realize that it was not a standard ESOP because individual worker's wage and benefit and work rule concessions were traded for stock in a deal with management as opposed to the dynamic that governs virtually every majority employee-owned ESOP, where the workers do not put their personal savings or wages at work and the company is bought with a bank loan that is paid for out of future profits. ESOPs are not generally

¹⁷ On the better retirement benefits of ESOPs, see Douglas Kruse, *Research Evidence on Prevalence and Effects of Employee Ownership, Testimony Before the U.S. House of Representatives* (New Brunswick, N.J.: Rutgers University School of Management and Labor Relations, 2002). The general information on ESOPs is from the National Center for Employee Ownership's Statistical Profile of Employee Ownership available at <http://www.nceo.org/main/article.php/id/2/> (Accessed January 24, 2012.) For background on various aspects of ESOPs and a brief history of ESOP scams see <http://www.nceo.org/main/articles.php/id/1>. One of the criticisms of ESOPs is that workers in many ESOPs do not have full voting rights on their stock. Actually, Federal law on ESOPs requires that workers in ESOPs have voting rights on major corporate transactions such as the ability to vote confidentially on the sale or merger of the company or its dissolution. Based on the chart "Basic Characteristics of ESOPs," only 17% of ESOPs pass through full voting rights on all other issues. This mainly refers to voting for members of the board of directors, while a quarter of majority employee-owned firms pass through full voting rights. The number of ESOPs electing rank-and-file board members to the board of directors is on the rise. See Merri Ash, Kelly Q. Driscoll, Michael Falk, Colleen Helmer, Brian Ippensen, Alex W. Kirby, Anthony Mathews, Helen Morrison, Corey Rosen, James Steiker, Cecil Ursprung, *ESOPs and Corporate Governance* (Oakland: National Center for Employee Ownership, 2009). The many small ESOPs were criticized for their lack of participatory management in the 1980's. On this see, Blasi, *Employee Ownership: Revolution or Ripoff*. With the increased interest in participative management and team and employee empowerment, the research on the importance of corporate culture to increased efficiency, and the fact that more ESOP companies tend to be substantially employee-owned over time, it is now accepted that a successful ESOP company needs to have employee participation in management at the job and department level. On this see, Corey Rosen and Loren Rodgers, *Fundamentals of Ownership Culture* (Oakland: National Center for Employee Ownership, 2011). The administration of the stock ownership itself is typically handled by a representative employee committee called an ESOP committee. For case studies on how these worker committees are run by workers, see Jim Bado, Stephen Clifford, Dave Fitzgerald, Brian A. Inniger, Camille Kerr, Kellee Kroll, Linshuang Lu, Christopher Mackin, Liz McKeever, Alexander Moss, Tracey Myers, The Phelps County Bank ESOP Committee, Loren Rodgers, Corey Rosen, Virginia Vanderslice, and Jack Veale, *The ESOP Committee Guide* (Oakland: National Center for Employee Ownership, 2011). For a description of the sale of a family business to an ESOP, see Corey Rosen, Donald Davis, Ronald J. Gilbert, Joseph V. Rafferty, Scott Rodrick, David R. Johanson, Robert F. Schatz, Bruce F. Bickley, James G. Steiker, Douglas Jaques, Brian Snarr, James H. Willis, and Michael A. Coffey, *Selling to an ESOP* (Oakland: National Center for Employee Ownership, 2011).

funded with worker savings. The Ohio Employee Ownership Center, based at Kent State University, has nurtured a state-wide network of worker owned firms, mainly ESOPs, that engage in a number of supportive cooperative activities and joint research.¹⁸

Large Private Corporations¹⁹

Several of the largest corporations in the country whose stock is not traded on public stock markets have significant sharing of capital ownership and capital income. They range across a number of industries. Just to provide an illustration of some of the cases, Cargill, the country's largest privately-held corporation, an international producer and marketer of food with 127,000 workers, has broad-based employee ownership as a result of the founding family selling a large stake to an ESOP. Mars, the country's fifth largest privately-held corporation, the producer of chocolate, candy and other foods, with 65,000 employees, has profit –sharing. Publix, the country's sixth largest privately-held corporation with 148,000 employees, is a 100% broad-based employee-owned supermarket chain. Fidelity Investments, the country's twentieth largest privately-held corporation with 38,000 employees, international provider of financial services, has broad-based profit-sharing. S.C. Johnson & Sons, the country's twenty-ninth largest privately-held corporation with 12,000 employees, maker of household, storage, pest control, and auto care products, has broad-based profit sharing. Bloomberg, the country's forty-fourth largest privately-held corporation with 13,000 employees, supplier of business and financial news information, has a broad-based form of profit and gain sharing. Wawa, the country's forty-seventh largest privately-held corporation with 18,000 employees, operator of convenience stores and gas stations in the Middle Atlantic States, is about a third employee-owned.

¹⁸ See www.oeockent.org

¹⁹ America's Largest Private Companies was developed by Forbes Magazine and is published online at http://www.forbes.com/lists/2011/21/private-companies-11_rank.html (Accessed on January 24, 2012) Information on the companies is from the company web sites and The National Center for Employee Ownership's *Employee Ownership One Hundred: America's Largest Majority Employee-Owned Companies* at <http://www.nceo.org/main/article.php/id/11/printable/y/> (Accessed on January 24, 2012.) Specific references for individual companies are available upon request.

The large private corporations include many regional companies with many branches and some national brand names. Hy-Vee, the country's forty-eighth largest privately-held corporation with 56,000 employees, a mid-west supermarket and retail store chain with 55,000 employees, is majority employee-owned and was an early innovator with employee bonuses and profit sharing in the country. Wegmans Food Markets, the country's fifty-fifth largest privately-held corporation with 42,000 employees, a regional supermarket chain, has broad-based profit sharing and is regularly ranked as one of Fortune Magazine's 100 Best Companies to Work for in America. CH2M Hill Companies, the country's fifty-sixth largest privately-held corporation with 23,000 employees, a full service engineering, constructions and operation firm, is majority employee-owned. Sheetz, the country's fifty-eighth largest privately-held corporation with 14,000 employees, has a broad-based employee ownership plan. WinCo Foods, the country's sixty-sixth largest privately-held corporation with 14,000 employees, a supermarket chain in the Western part of the United State, is majority employee-owned. Graybar Electric, the country's sixth-ninth largest privately-held corporation with 7,000 employees, an electrical equipment wholesaler, is majority employee-owned. Edward Jones, the country's eighty-third largest privately-held corporation with 37,000 employees, is a partnership a third of the employees are partners. Hallmark Cards, the country's ninety-fifth largest privately-held corporation with 13,000 employees, a maker of greeting cards, paper, and party supplies, has broad-based profit sharing. Because these firms are not traded on public stock markets, they also tend to be more insulated from large market-driven disasters. There are many more like them and they tend to have more national name recognition.

Small Entrepreneurial Start-ups

Another sphere of shared capital ownership is the entrepreneurial start-up. This is when an inventor or innovator or businessperson comes up with a new idea and starts a business from scratch. Typically, an entrepreneur using savings, loans from family and friends, and some small bank and government loans to get started until the product of service can start throwing off enough profit in order to hire employees and start growing.

Martin Ruef of Princeton University has done the definitive and exhaustive study on the early stages of this business form in his recent book *The Entrepreneurial Group*.²⁰ Apple and Google started in a garage in Silicon Valley in this way. George Eastman of Kodak started in his mother's basement. The Proctors and the Gambles stumbled upon the recipe for Ivory Soap by accident and started in their home. Start-ups involve a unique form. Typically, they try to pay little or no wages in the beginning. The risk of failure is enormous. When the founder of a start-up turns to shared ownership it involves the complete opposite of the experience of a worker at a large firm like a General Mills which gives stock options to all of its workers.

The start-up typically begins as a sole proprietorship or a partnership of two or three people with friends and family. For example, Bill Gates got interested in computer programming. His first product was the invention of a tic-tac-toe game that could be played between a computer and a person. When he went to Harvard he wrote a solution to something called the pancake sorting problem which is actually a way to think of one of the classic math problems. He later published it with one of his professors and his solution stood as the fastest answer to the problem for thirty years. When Gates dropped out of Harvard he started a software programming company, actually, a partnership with one friend, Paul Allen in New Mexico, so together they pretty much owned all of what was then Microsoft. Originally, wages were low but Gates moved towards annual profit sharing bonuses at first. When he incorporated the company in 1975 Gates owned 53% and Paul Allen owned 31% with the rest split among Steve Ballmer -- now the current CEO with 8% -- and a few others. As Gates brought others into the company they asked for a share of the company and he decided that employee ownership represented an important piece of a good culture for building the company. As he gave away grants of stock options, his ownership stake kept going down and down. But the company kept growing in sales and products and employees. Gates faced the classic entrepreneur's problem: Shall I own and control everything myself and stay small or shall I grow and see my ownership and control diluted with the possibility of owning a smaller percentage of a much bigger pie? Gates chose to grow and to share the capital ownership and capital

²⁰ Martin Ruef, *The Entrepreneurial Group* (Princeton: Princeton University Press, 2010).

income pie with others to help the growth. The discussion over how to share the property pie is very common in young companies and has been carefully studied by Ruef who shows that shared ownership comes up early in these firms.

Bill Gates explained his feelings about spreading employee ownership this way, “We never thought that offering stock options to all of our employees – instead of just to executives, like other companies did --- was really that innovative. It seemed totally natural to us. Even back then I felt that great programmers were just as important as great management. If we gave all the options to management, we couldn’t hire the best developers.” In the end, Gates and Allen and Ballmer threw their support behind Microsoft thirty-five year program of broad-based employee ownership. Each year the company grants well over ninety percent of its stock options and stock to its *non-executive employees*. Gates’ ownership is down from 100% to only 7% in 2011 and Ballmer, the new head of the company, owns 5%. In the meantime, they believed that by diluting their own equity stakes and significant holdings that they would own a smaller amount of a much larger valuable pie. In February of 2012, the total market value of the company was over \$270. Billion. It is unlikely that Bill Gates and Steve Ballmer consider this redistribution of wealth. Rather Ballmer told one of the co-authors as part of a case study visit to Microsoft that it “has been a successful practice for our company” and he added, “It’s clear that a sense of ownership seems to be strongly linked to corporate success in many industries.” Microsoft now shares whole shares of stock, called restricted stock, rather than stock options broadly with its workers. The dilution of 100% or majority ownership by the founder is common in most of the hundred companies that launched the Internet.²¹

²¹ On sharing ownership and control in the entrepreneurial group, see Ruef, *The Entrepreneurial*, 113-137. On Gates and Ballmer, see Joseph Blasi, Douglas Kruse, and Aaron Bernstein, *In The Company Of Owners* (New York: Basic Books, 2003): 24-26 with footnotes on 259-9 and 223 with footnotes on 293. On how common founder dilution is in Internet companies, see 91. See also, Thomas A. Stewart, *Intellectual Capital: The New Wealth of Organizations* (New York: Random House, Crown Business, 1998): 104-106. Gates now regrets using stock options because of the expensing issues associated with them so now Microsoft gives grants of whole shares of restricted stock to the workers. See Martin Wolk, “Gates Regrets Using Stock Options: Microsoft More Sophisticated Now,” MSNBC Online May 5, 2005 at http://www.msnbc.msn.com/id/7713133/ns/business-eye_on_the_economy/t/gates-regrets-ever-using-stock-options/#.TybXe5hWYso (Accessed January 30, 2012). Restricted stock requires the workers to stay a certain number of years in order to actually get ownership rights to the stock, typically on a prorated

Giving workers a piece of the pie remains central to the culture of start-ups even after the early phase. Dow Jones VentureOne is the best national source of information on such small firms. It keeps track of about 10,000 entrepreneurial start-up firms that have some form of venture capital investment. A venture capitalist collects funds from investors who are willing to take the risk of finding the next Microsoft by buying stock in these companies early before they go public. A recent academic study indicates that about three quarters of these firms, an astonishing number, give stock options to about ninety percent of their workers while a large segment of the start-ups say that all of the workers receive stock options. Another more recent survey finds that non-founder employees own about fifteen percent of the companies and gain ownership in about half of start-ups. Others give grants of stock rather than stock options broadly. Why? Noted management thinker Peter Drucker put it succinctly:

...the true investment in a knowledge society is not in machines and tools but in the knowledge of the knowledge worker. The industrial worker needed the capitalist infinitely more than knowledge workers need them.

If these companies find a product or service that attracts a market, they are likely to continue to practice shared capitalism and they may eventually go public and turn into a Google or a Microsoft. One study by the co-authors in 2003 of the 100 corporations that originally invented, write software for, and sell on the Internet found that the Bill Gates story held true many decades later. Non-executive employees had about a fifth of the equity of these companies. Many fail, some of the companies are bought by other companies with the workers turn their stock into wealth, and about a tenth actually go public. Once they are less risky they may institute cash or deferred profit sharing or even grant or sell company stock to the workers. Three of the best known examples of a such

basis over five years. In a company whose shares are growing less rapidly, restricted stock may make more sense than stock options. As it has entered the stage of a “mature company” Microsoft is in this stage.

start-ups that have rapidly grown are Facebook and Twitter and Zynga, the online video game company.²²

Worker Coops

An important sector constituting pure worker ownership and theoretically pure worker control is the worker coop where workers own the entire business rather than stock or options representing only part of the ownership and elect the management and participate in the running of the business on a one worker one vote basis. The U.S. Federation of Worker Coops says that studies estimate there are about 300 democratic worker cooperatives in the United States employing 3500 workers with about \$400. Million in annual sales. They are concentrated in the Northwest, the Upper Midwest, and the West Coast, mainly in smaller workplaces, with a focus on retail and service sectors, including many natural food stores and bakeries.²³ For decades there has been a dream of expanding worker coops by creating a large economic infrastructure that could help provide them with the capital to expand and enter more capital intensive businesses. This has been done quite successfully by the Mondragon Federation in the Basque region of Spain with about 84,000 workers in 256 industrial, high tech, and service worker cooperatives supported by a large bank which uses the local region's deposits to capitalize the cooperative federation. It was founded by a Catholic priest. Mondragon has been the basis of a lot of research by social scientists. Dr. Mike Leung, a recent Ph.D. in physics from Princeton University is now in the midst of founding a credit union in the San Francisco area that will bank deposits from the supporters of cooperative values and make credit available in order to develop and expand worker coops in the

²² On VentureOne see, John R.N. Hand, "Give Everyone a Prize: Employee Stock Options in Private Venture-backed Firms," *Journal of Business Venturing*, 23, no. 4 (2008): 385-404. The recent survey is, NCEO, "Equity Compensation in Private Companies," Employee Ownership Report, 32m no. 1 (2012): 1, 7. For Drucker, see Stewart, *Intellectual Capital*, 104-106. On the Internet one hundred, see Blasi, Kruse, and Bernstein, *In The Company of Owners*, 79-104, especially the tables on p. 87 and p. 91.

²³ See www.usworker.coop/about (Accessed February 21, 2012). The Oslo Declaration or the World Declaration on Cooperative Worker Ownership governs the definition of a worker coop. For an analysis of the social and economic structure, see David Ellerman, *Property and Contract in Economics: The Case for Economic Democracy* (Oxford and Boston: Blackwell, 1993). See also: <http://www.ellerman.org/Davids-Stuff/AboutDavidEllerman.htm>

United States along the Mondragon private-sector model. The United Steel Workers of America union has also announced a collaboration with Mondragon to develop worker cooperatives in the United States.²⁴

Large Corporations

A few of America's largest companies are strongly committed to broad or broader capital ownership. While they are not pure examples of either worker ownership or democratic decision-making, where the corporation actually speaks about the worker ownership and profit sharing and it is clearly intentional and part of the corporate culture, namely, publicly identifies, or even trumpets these formats, these firms do prefigure a model of extending worker ownership to the largest corporations and multinationals based in the U.S. Here some are considered that publicly identify themselves with an interest in broad-based capital ownership.

The Fortune 100 are the hundred largest corporations in the country. Fifteen of these corporations are publicly known for emphasizing extensive shared ownership in their work cultures. Case studies, histories, and corporate biographies will frequently mention the worker ownership and profit sharing ideas in these firms. These include leading firms in technology, finance, transportation, and the massive consumer products firm, Procter & Gamble with factories spread throughout the United States. Many are household names such as Costco, Microsoft, Goldman Sachs, Intel, and Morgan Stanley. Most have global broad-based equity plans. There is an entire organization, called the Global Equity Organization (GEO) based in the U.S. that is devoted to multi-national corporations, such as Germany-based Siemens, that make a strong effort to create fully broad-based equity sharing with their workforces worldwide. GEO's members and related accounting and consulting firms help multinationals offer broad-based worker ownership programs in many countries and cultures simultaneously, a not inconsiderable

²⁴ On Mondragon, see the Mondragon Corporation at www.mondragon-corporation.com (Accessed February 21, 2012). On Dr. Mike Leung's project for the Worker Cooperative Credit Union, <http://www.workercoopfcu.org/> (Accessed March 6, 2012) On the Steelworkers, see http://www.usw.org/media_center/releases_advisories?id=0234 (Accessed February 28, 2012)

legal and social challenge. Because of space limitations, data on broad-based employee ownership among the Fortune 500, the Fortune 5000, and the other 4000 publicly traded companies will not be presented here. Suffice it to say that a few interesting models exist in each of these categories.

*The Fortune 100*²⁵

Exxon Mobil, the country's second largest corporation, in oil and energy, has had broad-based employee ownership plans for decades since John D. Rockefeller established one of the earliest plans in 1919 and it was actually quarter owned by the workers before the 1929 market crash

GM, the country's eighth largest corporation, the restructured automaker, now has cash profit sharing representing a high proportion of a worker's average annual income and broad-based stock options for all workers

Ford, the country's tenth largest corporation, the automaker that did not participate in the bailout, has broad-based profit sharing representing a high proportion of workers' annual income

Procter & Gamble, the country's twenty-sixth largest corporation, making consumer products, pioneered many of the forms of shared ownership during the late 1880's as Big

²⁵ The Fortune 500 was developed by Fortune Magazine and is published on line at http://money.cnn.com/magazines/fortune/fortune500/2011/full_list/
Accessed on January 24, 2012

Information on the companies is from company web sites, U.S. Securities and Commission documents filed by the company, and media reports on Factiva, which is a news service of the Dow Jones Corporation accessed at the Rutgers University Libraries. Specific references on individual companies are available upon request.

Business was first emerging in the Gilded Age and has profit sharing, very broad stock options and is about 20% owned by its employees

Walgreen, the country's thirty-second largest corporation, operating drug stores, has a broad-based profit sharing plan and an employee stock purchase plan

Costco, the country's twenty-eighth largest corporation, running large warehouse stores, stresses broad-based profit sharing and employee ownership

Microsoft, the country's thirty-eighth largest corporation, a leader in software and the Internet, beginning in 1986, aggressively used broad-based employee ownership, stock options and profit sharing, and has continually updated these benefits with its worker ownership now based on grants of whole shares of restricted stock

United Parcel Service, the country's forty-eighth largest corporation, the delivery and logistics company, has substantial broad-based employee ownership by full-time workers although the role of the part-time workers is unclear

Goldman Sachs, the country's fifty-fourth largest corporation, the major investment bank, has substantial broad-based employee ownership and a gain sharing plan

Intel, the country's fifty-sixth largest corporation, making the chips that power computers, has broad-based employee ownership and profit sharing

Cisco Systems, the country's sixty-second largest corporation, maker of the technology that runs the Internet, has broad-based profit sharing, gain-sharing, and employee ownership

Morgan Stanley, the country's sixty third largest corporation, in financial services and investment banking, has broad-based employee ownership and is significantly owned by its employees

Abbott Laboratories, the country's sixty ninth largest corporation, maker of pharmaceutical and nutritional products, has broad-based profit sharing and encourages employee stock ownership

Amazon.com, the country's seventy-eighth largest corporation, online retailer and information and hardware seller, has had broad-based employee ownership since its founding and gives restricted stock to most employees. Its spokesman says, "Employee ownership is part of our DNA. We're not going to do anything to subtract from that."²⁶

Google, the country's ninety-second largest corporation, as noted, has broad employee ownership and broad-based stock options and restricted stock

For the purpose of discussion, consider Procter & Gamble as one example of how a large national and multinational corporation could apply the ideas of worker ownership and profit sharing. The grandson of the founder, William Cooper Procter took a course in Political Economy at Princeton University in 1883 in which his professor, Lyman Atwater, discussed the importance of resolving the conflict between labor and capital. In 1887, Procter implemented significant cash profit sharing followed by a plan that allowed workers to buy stock at a discount with some of their profit sharing. Today, Procter & Gamble is estimated to be almost a quarter worker-owned by all of its employees who participate in the worker ownership plan worldwide. Like many other large corporations Procter & Gamble is mostly owned by mutual funds, pension funds, 401k plans, and insurance company investment funds managed for the benefit of millions of American workers. P&G is an interesting model for the future. It would not be hard to imagine a future in which many major corporations are 25% worker owned with substantial ownership by these citizen funds, in effect, a future where most publicly-traded

²⁶ Quoting Amazon.com spokesman Bill Currey in: Jeff D. Opdyke and Michelle Higgins, "What The New Option Rules Mean for Your Pay," *The Wall Street Journal*, August 7, 2002.

corporations become combinations of significant worker ownership, mutual or pension fund-based citizen ownership, with 10-20% ownership by individual citizens.

Hundred Best Companies To Work For in America

One of the most respected measures of a company's reputation in the U.S. is winning the designation as one of the 100 Best Places to Work for in America from Fortune Magazine in its annual competition. Many of those that won the competition in 2012 have broad-based employee ownership or profit sharing. More than half of those corporation named to the 100 Best list annually since 2000 have had broad-based employee ownership or profit-sharing plans, suggesting a level of viability for broad-based employee ownership that is certainly worthy of note. Most of these corporations have stock that is traded on the New York Stock Exchange or the NASDAQ Exchange. Some of those companies are even majority owned by all of their managers and workers. In 2012, Burns & McDonnell, an engineering consulting corporation in Kansas City with 3,200 workers, PCL Construction of Denver, a builder of roads, bridges, and parking garages with 1300 employees, W. L. Gore, the maker of Gore-Tex in Newark, Delaware with 6000 employees, and Publix Supermarkets with 148,000 employees in Lakeland, Florida, were all mostly or totally owned by their employees and appeared on the 100 Best list. These few are not traded on a public stock market. The large corporations with significant employee ownership and profit sharing are becoming so numerous that some day one may be able to buy a mutual fund made up only of these corporations. The corporation that appear on the list are selected by a national competition of hundreds of companies with the results based on a random sample of employee surveys in each company conducted by the third-party Great Place to Work Institute, with an accompanying Culture Audit filled out by top managers.²⁷

²⁷ The National Center for Employee Ownership tabulates each year those companies on Fortune's Hundred Best Company To Work For in America list that have broad-based employee ownership or profit sharing. For example, according to reports on their web site it was:

-at least half in 2003: <http://www.nceo.org/main/column.php/id/132>
-more than half in 2006: <http://www.nceo.org/main/column.php/id/198/printable/y/>
-more than half in 2007: <http://www.nceo.org/main/column.php/id/223/printable/y/>
-over half in 2008: <http://www.nceo.org/main/column.php/id/223/printable/y/>

One of the ironies is that most citizens are not even aware that the broad and broad-based capital ownership sector is even this large. These corporations often work hard to communicate with the public their goods and services but they generally fail to consider the meaning and importance to the entire society. They have been largely ignored by social scientists who are so focused on studying the general inequities of society that possible alternatives or sources of alternative ideas get very little attention.

Getting Employee Stock Ownership Very Wrong

There are some segments of shared capital ownership that have gone too far, loading too much risk on workers by basing the ownership on increasing worker dependence and risk rather independence. Citizens want ownership and a piece of the economic system in order to be independent. But they do not want dependence and excessive risk.²⁸ Profit sharing and gain sharing are less risky because they come in cash and can be an add-on based on performance, that is, if workers are paid a fair wage. ESOPs and stock options and grants of whole shares of restricted stock because they are usually not purchased with worker savings are also less risky. Receiving a match in stock for buying a share of stock, say in a 401k plan, is also less risky if a worker is allowed to diversify her or his shares when they become too large a portion of their wealth portfolio.

The wrong type of employee ownership is using a workers' wages to fund large purchases of stock. The National Center for Employee Ownership estimates that there are eight hundred 401k plans with assets mainly invested in company stock with 5

-over half in 2009: <http://www.nceo.org/main/column.php/id/223/printable/y/>

For a list of employee-owned companies that have been recognized by the 100 Best Companies to Work For competition and the Winning Workplaces competition, see <http://www.nceo.org/great-employee-owned-places-work/id/34/>

On the Great Place to Work Institute, see www.greatplacetowork.com

²⁸ For evidence on how much risk workers at different income levels want and their views on worker ownership and profit sharing, see Douglas Kruse, Richard Freeman, and Joseph Blasi, *Shared Capitalism at Work: Profit and Gain Sharing, and Broad-based Stock Options* (Chicago: University of Chicago Press, 2010): 60-66 especially Tables 1.7 and 1.8 and 105-138.

million worker participants and \$200. Billion in assets. The associations of ESOP firms and non-profits studying worker ownership do not recognize this phenomenon as a major part of the worker ownership sector because of the risk and because many of the companies do not fit the worker ownership into a corporate culture. The big name horror stories of employee ownership have the following names in big lights: Enron (using a 401k plan), Worldcom (using a 401k plan), Lehman Brothers (using direct shares of stock), United Airlines (using trading stock for a non-standard ESOP). What do these cases have to say about getting broad-based capital ownership wrong? What they all have in common is that workers were pushed, encouraged, pressured, or even forced by circumstances to buy employee stock ownership with their wages and concessions. Enron was named the Most Innovative Company by Fortune Magazine when it was actually cooking its books unbeknownst to most of its 22,000 employees. Management, meanwhile, encouraged employees to buy company stock in their 401k plan. Every time an employee contributed to the plan the company also matched in company stock. Just as Enron was going down hill management encouraged employees to buy more shares in an all-employee public meeting. One can actually see a video of this meeting in the documentary called *Enron: The Smartest Guys in The Room*. The company made it impossible for employees to sell their company stock during a certain critical period as the company was entering its final chapter of life as many top managers were unloading their shares. When the firm went bankrupt in 2001 many employees had so much of their retirement savings invested in company stock and they lost a large chunk of their retirement.

Worldcom, the large communications company that merged with phone giant MCI filed for bankruptcy in 2002, had virtually the same story. By some accounts over half of the entire 401k retirement plan was in company stock. Worldcom employees were urged to buy more company stock, and, just like Enron, apparently discouraged from selling as the company went downhill. Many employees had huge proportions of their retirement savings that they bought with company stock with their wages and they lost most of it. Lehman Brothers was about a third employee-owned when it filed for bankruptcy on September 15, 2008 as a result of the Great Recession. Enron, Worldcom,

and Lehman had in common severe problems that increased the risk for their worker owners. There were allegations of accounting irregularities, the boards of directors were excessively passive, the auditors and audit committees of the boards did not do their job, the executives were wildly overpaid, and regular workers were kept in the dark about the dangers while having no independent board representation of their own. None of the companies had even the minimally recognizable worker committees or “employee shareholder associations” that companies with worker ownership cultures tend to encourage.

Initially, 401k plans were set up mainly to allow more highly paid workers create supplemental retirement plans. As an unintended consequence, many corporations disbanded defined benefit plans and created 401k plans where workers mainly would fund their own retirement with company matches in cash or stock for worker contributions. Reasonable worker ownership holdings involve bearable risk but many companies never educated workers to understand what reasonable was. By 1999 the amount of worker assets in company stock accounts that were not diversified reached imprudent proportions in many corporations. As noted, worker ownership financed by worker wages and savings is extremely risky. Workers lost a lot of wealth from such plans in the 1987 crash, the 2000 crash, and the recent Great Recession, following severe losses in the 1929 stock market crash after employee stock purchase plans were aggressively introduced by Wall Street.

Several studies by behavioural economists following on the insights of psychologist Daniel Kahneman, winner of the 2000 Nobel Prize in Economics, have found that workers developed an inordinate interest and loyalty in their own firms and were willing to overinvest in company stock in 401k plans, often wildly violating the recommendations of portfolio theory for a widely diversified wealth portfolio for which Harry Markowitz won the 1990 Nobel Prize in Economics. Some estimates put the number of workers in 401k plans with substantial worker ownership as 5 million in 800 plans with \$200. Billion in assets. Our 2010 study based on 41,000 workers in the National Bureau of Economic Research Shared Capitalism Project found that 1% of workers had 100% of their net worth in their company’s stock, about 5% had more than

half, and about 15% had almost a third. Moreover, both ironically and perversely, workers in the most progressive companies in terms of worker-management relations were more willing to take on undue risks. Working jointly with Markowitz, it was determined that 10-15% of an otherwise diversified portfolio could be in company stock for a reasonable level of work. Any national policy on worker ownership must come to terms with extremes to which some workers and companies will go with self-purchases of company stock with wages and savings. Ironically, the criticism of excessive worker ownership in some 401k plans has led to a demeaning of a good form of worker ownership, namely, where the company gives workers stock as a match for their contributions to the plan. Where the overall worker ownership is kept in a prudent range and workers overall wealth portfolios are thoroughly diversified, these company matches can be a less risky gradual way to build worker ownership in publicly-traded corporations and 10-15% of company stock in a worker's 401k plan does not appear to be unreasonable.²⁹ It is the view of the co-authors that for responsible worker ownership to be expanded in the U.S., there needs to be a Federally imposed cap under ERISA of 10% as the limit any worker can invest in company stock with his or her own savings in a 401k plan and a limit of 10% of the assets of any 401k plan that can be in company stock.

In the case of United Airlines, the company needed wage concessions from its workers in order to compete with younger airlines like Southwest Airlines so the employees traded such concessions for over half of the company's stock in 1994. Southwest, the only profitable U.S. airline for many years, has significant employee

²⁹ For estimates of workers with 401k plans with substantial assets in company stock, see <http://www.nceo.org/main/article.php/id/2/> (Accessed February 24, 2012). The share of all 401k plan assets invested in company stock continues to shrink since 1999 as a reaction to these market disasters according to the Employee Benefits Research Institute which serves as the main data source: http://www.ebri.org/pdf/briefspdf/EBRI_IB_011-2010_No350_401k_Update-092.pdf (Accessed February 24, 2012). On the research, see Shlomo Benartzi, "Excessive Extrapolation and the Allocation of Company Stock to Retirement Accounts," *Journal of Finance*, 56, no. 5 (2001): 1747-1764 and Shlomo Benartzi and Richard Thaler, "Naïve Diversification Strategies in Defined Contribution Savings Plans," *American Economic Review*, 91, no. 1 (2001): 79-98. See also, Joseph Blasi, Douglas L. Kruse, and Harry M. Markowitz, "Risk and Lack of Diversification under Employee Ownership and Shared Capitalism," in Kruse, Freeman, and Blasi, *Shared Capitalism*, 105-138, especially, 120-121. Losses in company stock investments in 401k plans led to a series of lawsuits that are reviewed in: Corey Rosen, *ESOP and 401k Plan Employer Stock Litigation Review* (Oakland: National Center for Employee Ownership, 2011).

ownership and cash profit sharing with all of its union and non-union workers and managers. United pilots, mechanics, ticket agents, and other employees – with the exception of the flight attendants -- took concessions equal to about 15-25% of their compensation and also got three seats on the new board of directors for the pilots and machinists union and the non-union workers. United was one of the very small number of ESOPs in the airline, trucking, and steel industries mainly where wage, benefit, and work rule concessions bought the stock.³⁰ The co-authors were initially hopeful about the United ESOP if it could develop cash profit sharing and employee involvement and good labor-management relations but grew increasingly critical of the deal. Technically, this is not a standard ESOP in the way founder Louis Kelso defined it. The company and the union had a history of fiery relations and many of United's managers did not get behind creating a more participatory corporate culture or creating a cash profit sharing plan that might soften the blow of the large wage reductions. Initially United started to turn around and the stock increased in value as public shareholders made money. The workers who had paid for their stock with concessions saw that they had to wait until they retired to sell their stock. They were unable to enjoy the increases in value that shareholders enjoyed. Since United's management short-sightedly established no cash profit sharing to reward workers for the productivity improvements, the unions also short-sightedly engaged in very aggressive bargaining with the management of their own company for wage increases that the company's management believed it could not afford. The co-authors publicly criticized many of these shortcomings before, during, and after the transaction. Finally, the tragic event of 9/11/2001 also led to a slowdown of the airline industry and United weakened until it filed for bankruptcy in 2002. In this case workers had 401k plans not invested in company stock, but they lost all of the stock they bought with their wage concessions. United broke all the rules of doing employee ownership

³⁰ For an overview of these cases which mainly took place before 1990, see Joseph Blasi and Douglas Kruse. *The New Owners: The Mass Emergence of Employee Ownership in Public Companies and What It Means for American Business*. (New York: Harper Collins, 1991): 88-138, 320-329. In this volume the co-authors warned about the large accumulating 401k stakes and the related risk (245-249) and made a series of recommendations to address it that were ignored. The United Steelworkers Union had the most responsible approach to using worker ownership as part of collective bargaining and restructuring. In retrospect, many unions used the concept in stressed industries rather than as a way to expand capital ownership and capital income broadly in the society.

successfully: the ownership was based on concessions that workers resented, management ran from any participatory corporate culture, and when the stock rose workers had no profit sharing or stock options or dividends to enjoy the benefits. The other major ESOP scandal, the use of a concessionary ESOP to purchase the Tribune Company, involved a transaction that was widely criticized by the ESOP community and had many of the aspects of the United Airlines failure.³¹ It is the view of the co-authors that unions need to be very wary of transactions such as United where the “software” of the restructuring is ignored when the deal is put together and approved. It is the view of the co-authors that straight-out manipulative uses of the ESOP as in the Tribune deal should have never taken place.

Assessing Worker Ownership’s Problems

What can be learned from an initial analysis of the “limitations, dilemmas and unintended consequences” and the ability of social scientists “to examine their transferability and scalability, and to understand ways of developing their potential” of these pockets of cases that actually exist?³² Let’s consider each pocket briefly in order. On the negative side, ESOPs or Employee Stock Ownership Plans sometimes do not have

³¹ For the estimates on company stock in 401k plans, see <http://www.nceo.org/main/article.php/id/2/> (accessed February 24, 2012) On Enron, see Bethany McLean and Peter Elkind, *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron* (New York, Penguin Portfolio Trade, 2004). On Worldcom, see Walter Pavlo Jr. and Neil Weinberg, *Stolen Without a Gun: Confessions From Inside History’s Biggest Accounting Fraud – The Collapse of MCI Worldcom* (Encino, Ca.: Etika Books, 2007). On Lehman, see Lawrence G. McDonald and Patrick Robinson, *A Colossal Failure of Common Sense: The Inside Story of the Collapse of Lehman Brothers* (New York: Crown Business, 2010), Vicky Ward, *The Devil’s Casino: Friendship, Betrayal, and the High Stakes Games Played Inside Lehman Brothers* (New York: John Wiley & Sons, 2011), Jared Dillian, *Street Freak: Money and Madness at Lehman Brothers* (New York: Touchstone, 2011), and, Mark Williams, *Uncontrolled Risk: Lessons of Lehman Brothers and How Systemic Risk Can Still Bring Down the World Financial System* (New York: McGraw Hill, 2010). On United Airlines, see Jeffrey Gordon, Employee Ownership in Economic Transitions: The Case of United Airlines, *Bank of America Journal of Applied Corporate Finance*, 62, no. 3 (1998): 39-62; Susan Chaplinsky, *United Airlines: Employee Buyout* (Charlottesville: University of Virginia Darden Graduate School of Business Administration, 1998), and Adam Bryant, “Labor Rifts Return to Employee-Owned United Airlines,” *The New York Times*, January 16, 1997: n.p.

³² These questions are asked in: Erik Olin Wright, *A Sketch of the Real Utopias Theme and Program for the 2012 Annual Meeting of the American Sociological Association* (Washington, D.C.: American Sociological Association, October 20, 2010 Revised)

enough worker participation in management while only a small number have worker-elected representatives to their boards of directors. There is no question that many ESOPs need more worker participation and formal worker roles at the board level. According to one study, the ESOPs that have elected boards of directors find that they function well so this appears to be a figment of a hierarchical attitude.³³ On the positive side, as will be seen below, it appears from evidence from the 2002 and 2006 General Social Survey that employee owners in the U.S. are significantly and often disproportionately involved in employee participation efforts and even self-managed teams. The goal of a culture of employee participation is now the public policy of the associations of ESOP companies, many of which, as noted, comprise majority or 100% worker owned firms.³⁴ It is not widely understood that because ESOPs fall under the Employee Retirement Income Security Act of 1974, the Federal Government actually mandates certain minimum standards of financial participation and decision-making. For example, most employees must participate in ownership according to as minimum fair standard and the ownership cannot be concentrated in a “top heavy” manner in highly paid employees, typically meaning executives. Moreover, while voting for board members is not mandated, any board decisions in ESOPs on major corporate transactions (such as mergers, acquisitions, liquidation, recapitalization, consolidation and so forth) does under Federal law now require a pass through of voting rights to workers and direct vote by the them. Unlike the case with worker coops that have no external enforcement mechanism, for example, attorneys in the Department of Labor aggressively investigate and prosecute rogue ESOPs.³⁵ Thus, the ESOP “governance issue” is often over-stated and misunderstood. Some participatory ESOPs with worker elected ESOP Committees and worker-elected board members may be as participative as some worker coops. Sociologists might consider studying these organizational conundrums. Because real ESOPs are not funded with worker savings, are exist mainly outside of the public stock markets, and are often majority worker-owned, they are more insulated from the extremes of the “shareholder

³³ Merri Ash, Driscoll, Falk, Helmer, Ippensen, Kirby, Mathews, Morrison, Rosen, Steiker, Ursprung, *ESOPs and Corporate*.

³⁴ See Kruse, Freeman, and Blasi, *Shared*: 52, 58.

³⁵ See <http://www.nceo.org/main/article.php/id/36/>

value culture” in public stock markets and less risky for workers than worker coops that require individual investments. Thousands of ESOPs received bank loans and by all accounts have no problem getting access to capital credit, and, as noted, most of them were bought with bank loans. A longitudinal study suggests that ESOPs have a lower bankruptcy rate and a higher survival rate than comparable closely-held firms.³⁶ Among the largest privately-held corporations in the country with significant profit sharing and employee stock ownership, the negative is that many of these firms are understudied and virtually totally ignored by social scientists who probably have them in their communities nationwide.

The main negative feature of start-ups is that their form of worker ownership is often extremely risky. Workers *do* get stock and stock options in lieu of lower wages. If the firm makes it big, they can gain a lot of wealth, however, many firms fail at this stage. They are mainly relevant to persons who have the ability to tolerate this risk until it is obvious that a worthwhile income can be built. If that happens, there is often substantial capital ownership and capital income available to those who stuck it out. For example, the 100,000 or so workers who began with the 100 start-ups that evolved in the later stage as the 100 Internet firms dominating the public stock markets in 2000, shared tens and tens of billions in stock option profits before the tech stock market crashed in 2000 and controlled a fifth of the equity of those companies.³⁷ While scholars have explored the early stage of these firms and the later stages, a lot more needs to be learned about how and when the initial stage of riskiness is passed and what percent of the firms actually become working examples of broad-based capital ownership. Studies have taken place at the very beginning and at the very epitome of these firms’ lifecycles (e.g. Google, Microsoft, Intel) but not in the middle stages. On the positive side, start-ups have the

³⁶ See the study by the authors at: <http://www.nceo.org/main/article.php/id/25/>

³⁷ See Blasi, Kruse, and Bernstein, *In the Company of Owners*, 79-104 especially Table 4.1 on p. 84 showing how much stock option profits were made by the workers and p. 84 showing how much equity the non-executive workers ended up owning (in this industry, surprisingly, more than the founders and more than the venture capitalists who initially funded it!), and, especially, in light of the risk discussion, that most of the stock ownership was a result of stock options and was not purchased with wages. For example, a leading Internet leader, Cisco, prohibited its workers completely from any purchases of company stock in their 401k retirement plan in order to be sure the retirement plan was separately diversified from the stock options in the company.

capacity to create many innovative examples of worker ownership in the society as the founding of the next generation of social network, energy sustainability, and science-based companies may testify.

For large Fortune 100, 100 Best Companies to Work For corporations, Silicon Valley high tech successes such as Google and Cisco, and multinationals with worldwide commitments to broad-based employee ownership, the positive is that, despite their small number, these cases do suggest that large corporate models are possible, are admired by the society, can be successful at least on a case-by-case basis, can be supported by senior managers and can recruit senior managers, and can even overcome the large administrative problems of offering worker ownership plans globally across many different legal and political regimes. Many of these firms grant stock options or restricted stock or other forms of equity to workers that the workers do not have to buy with their savings, this minimizing the risk. Many use a worker ownership format to supplement their capital ownership programs called the Employee Stock Purchase Plan which allows workers to buy stock at a 15% discount to the market price, providing some insulation against moderate market corrections. Many have separate defined benefit or defined contribution plans. However, one has to consider that in the 8 market crashes since 1900, the average drop was 41%, so forms of direct worker shareholding in public stock market companies need to be carefully considered in light of the overall worker portfolio if they are funded with worker wages and savings.³⁸

The main negative for worker cooperatives is that there are so few of them, their population is so small, and their capacity for a national voice is so limited that it is hard for them to achieve their potential. There is absolutely no question that the evidence on the performance of worker ownership and worker participation in decision-making (to be cited below) should, in principle, serve as a strong argument for advancing the worker cooperative agenda nationally. For sure, the extremely small footprint of worker

³⁸ See Robert J. Barro and Jose Ursua, *Stock Market Crashes and Depressions* (Cambridge: National Bureau of Economic Research, Working Paper 14760, 2009): Table 1.

cooperatives is largely a function of the fact that they do not have the level of significant access to capital and credit markets in order to bring about larger transactions where they acquire and transform non-worker owned businesses, significantly expand their existing businesses, and make large capital investments in hiring talented workers, managers, and financial planners. At one point in the development of ESOP legislation, the drafters of the Small Business Employee Ownership Act in the Senate, appreciating this point, wrote into the law something called an EWOC, namely, an Eligible Worker Owned Cooperative. To the great dismay of many of the legislative assistants who worked on this legislation at the time, including the first author, the worker cooperative community did not use it very much or at all to raise capital and expand. Some forward-looking academics such as Mike Leung are rethinking the entire worker cooperative concept in order to address these issues.³⁹

A National Overview: The General Social Survey (GSS)

While looking at several important pockets provides a focused and nuanced view of worker ownership, an objective national overview of U.S. worker ownership and profit sharing comes from a supplement to the 2002, 2006, and 2010 General Social Survey. The rationale for approaching the GSS was that the pockets of worker ownership and profit sharing and broad stock options had finally reached meaningful levels in American society that had a possible bearing on social and economic well-being and social and economic policy. Supplemental questions on worker ownership and profit sharing were based on an application to the GSS Board of Overseers that was approved for each year at the National Opinion Research Center at the University of Chicago. These publicly-available data are collected and made available for analysis by the GSS. The purpose of the questions was to establish a third-party source of data that would make possible an objective national metric on worker ownership and profit sharing that could potentially be repeated every four years, while providing, given the wide range of other interesting

³⁹ See Mike Leung, *The Worker Cooperative Capital Structure* (San Francisco: Unpublished working paper, 2011) and Mike Leung, *Worker Cooperative Start-ups: Capital and Cooperative Values* (San Francisco: Unpublished working paper, 2011).

variables in the GSS, the opportunity for a range of social scientists to include worker ownership and profit sharing in a number of potential studies on a variety of social and economic issues. Because of limitations of space, only a few major trends will be noted from these surveys. A fuller report on these data appears in Appendix I and the data remain open to much further analysis by social scientists.⁴⁰

The GSS indicates that there is a very thin layer of capital ownership and sharing of capital income in the U.S. economy. Looking at the 2010 GSS, the percent of the adult working population that own stock in their companies is quite high at 17.5% numbering 18.7 million workers, while 8.7% of workers hold stock options, numbering 9.3 million workers and about 39 million workers or 36% are estimated to have some form of cash profit sharing. With only about 6000 corporations traded on the NYSE and the NASDAQ with only 30,000 top five executives, it is easy to see that, in spite of the strong national debate on executive compensation, that stock options are fairly broadly spread in the nation. (Appendix I, Table 1) With 18.7 million workers owning stock in firms in the U.S., it is easy to see from the U.S. Department of Labor figures on ESOPs quoted above that with an estimated 10.3 million workers in ESOPs, the ESOP format appears to represent more than half of the individual worker ownership in the country. In ESOPs and worker coops, worker ownership is more concentrated and tends to include most if not all employees. From the GSS, the median value of the *entire worker ownership stake (accumulated from past years)* in 2010 was 47.9% of a worker's annual salary while the mean was 70.4% indicating that some workers had more meaningful stakes. The median value of *annual profit sharing* was 7.6% while the mean was 9.7% indicating that many U.S. workers were getting access to capital income annually that

⁴⁰ The application every four years has been prepared by Joseph Blasi, Douglas Kruse and Richard Freeman. We would like to especially thank sociologists Tom Smith, the Director of the GSS at NORC and the University of Chicago and Principal Investigator of the GSS, Peter Marsden of Harvard, Co-principal Investigator who have generously and patiently advised our research team on question construction, pretests of the variables, and other scholarly questions throughout the entire process. We are also grateful to Co-Principal Investigator Michael Hout of the University of California at Berkeley and Senior Research Scientist Jibum Kim for their support. The GSS is mainly funded by the National Science Foundation although the Board of Overseers entertains proposals for supplemental questions. The funding for the "shared capitalism" supplement is made available by a group of mainly non-profit associations and foundations associated with worker ownership and profit sharing identified in the tables in Appendix I.

was potentially meaningful. (Appendix I, Table 2) In light of the stark contrast this review has drawn between less risky worker ownership purchased by the worker with her or his own wages versus worker ownership that was financed through leverage or company contributions (as in most ESOPs) or with cash profit sharing (as in deferred profit sharing plans), the GSS shows that at the median about half of all worker ownership in the country was bought by the employee with the mean being close at 44.6% (Appendix I, Table 2). Certainly, the goal of a responsible social policy should be to have most worker ownership be the result of grants of stock or stock options or restricted stock or ESOP financed by company profits, not by worker savings or wages.

An key national question about this worker ownership and profit sharing is whether these millions of workers are being somehow short-changed of a fair fixed wage because they are partly compensated in “stock” or “equity” or “capital ownership” or “capital income” or whatever worker-friendly term suggesting capital wealth that one might want to use. An extreme skeptic would ask, is it possible that the most regressive employment sectors in the economy are paying low wages and supplementing with worker ownership and profit sharing? It is not only a fair question and a necessary one to ask. While the overview of the pockets does not suggest this is the case, the GSS is the proper instrument to view the trend. The 2006 shared capitalism supplement to the GSS asked workers to evaluate their fixed annual pay relative to the market wage for their job in their region. All told, about a third of the adult citizens with worker ownership in the GSS reported that their fixed pay was lower but 69.1% reported it was the same or higher. (Appendix I, Table 3) For cash profit sharing, 24.1% reported their fixed pay was lower, for workers holding stock options the number was 30.9%. Therefore, with the only national estimates that can be attempted, it does appear that existing systems of worker ownership and profit sharing do not generally represent an attempt to manipulate workers to take lower fixed pay, while making the variable part of the then reduced pay at risk and capable of being made up through either worker stock ownership, or stock options or profit sharing.

The issue of wage and benefit substitution is a major research question. Finding those pockets in the society where there is wage and benefit substitution and studying

them would be a worthwhile research project. Indeed, a principal finding of the NBER Shared Capitalism study was that virtually all of the positive and beneficial outcomes of worker ownership are simply wiped out when workers are paid less than a fair fixed wage for their job and region. Many studies of ESOPs have provided evidence that the worker ownership stake comes on top of fair wages and benefits. In fact, ESOP firms are more likely to have defined benefit pension plans or a second defined contribution plan in addition to the ESOP and there is no systematic evidence that worker ownership nationally substitutes for fair wages and benefits. Some scholars suggest that the better firm performance engendered by doing worker ownership well is then shared with the workers. However, there clearly are corporations that have substitution as a policy and they need to be identified and researched.⁴¹

Another issue of deep importance to sociologists has to do with social stratification under worker ownership and profit sharing. Looking nationwide using the 2010 GSS, 38.1% of workers making above \$75,000 a year own company stock, 28.4% of workers making \$50-75,000 a year own company stock, 21.1% of workers making \$30-50,000 a year own company stock, while only 11.2% of workers making \$15,000-30,000 a year hold company stock. The distribution for broad-based stock options are more stark. Nationally, management and management-related and professional workers have more access to worker ownership than blue collar workers and much more than service workers although almost as many union workers have worker ownership as non-union workers. (Appendix I, Table 4) It is very likely that this reflects the fact that higher paid employees who buy stock with wages through Employee Stock Purchase Plans and 401k plans have more money to consider purchasing stock ownership. It is not a reflection of stratification in the ESOP sector because, again Federal law intervenes, and requires that ESOP worker ownership benefits be distributed at least as fairly as in proportion to fixed pay and that each plan must meet a strict statistical test that it does not distribute worker ownership in a “top heavy” manner.

⁴¹ On the importance of fair fixed wages, see Kruse, Freeman, and Blasi, *Shared Capitalism*, 154-155 (Table 4.3), 94-6 (Table 2.8) . For a review of the evidence that ESOP companies pay better, see Kruse, Freeman, and Blasi, *Shared Capitalism*, 362-365.

The best study on stratification issues is by University of Massachusetts sociologist Edward Carberry. He finds in the NBER sample of 41,000 workers that African-Americans are less likely to participate in profit sharing plans, that women, African-Americans, and Hispanics have less valuable worker ownership accounts in ESOPs, and these groups plus Asian Americans receive less value in Employee Stock Purchase Plans and Broad-Based Stock Option Plans. Carberry says that most of this can be accounted for by the fact that existing occupational segregation regarding income and management roles in the society lead to disparate incomes. So even if ESOPs have rules against “top heavy” distributions and require fair distribution at least according to salary, if society has some groups inordinately in better salary positions, the ESOP fairness rules help reproduce this stratification. When Carberry controlled for education, occupation, fixed pay, and tenure, most of these disparities disappeared, but African Americans and women still have some disparity after the controls. Employee involvement and empowerment tend to attenuate the disparity. There is a lot of potential for sociologists to look more at these issues.⁴²

Another issue elucidated by the GSS has to do with the industries in which worker ownership is prominent. On the face of it, one would expect that 47.3% of all the employees in the communications and utilities industry, 23.5% of all the employees in the finance and insurance industry, and 20.6% of all the employees in the computer services industry would have company stock. Large numbers of workers in these industries, consistent with the Google story, have broad-based stock options. It may, however, come as a surprise that 30.5% of workers in the entire non-durable manufacturing industry, 23.7% of all employees in durable manufacturing, and 20.8% of all employees in retail have some form of worker ownership with comparable distributions though lower for broad-based stock options. (Appendix I, Table 4). Other evidence from work organization suggests that these industries are using forms of team-based management, self-directed and autonomous work teams and high performance work practices that make them more open to group incentive-based practices.

⁴² See Edward Carberry, “Who Benefits from Shared Capitalism: The Social Stratification of Wealth and Power of Companies with Employee Ownership?” in Kruse, Freeman and Blasi, *Shared Capitalism*, 314-349.

One surprising finding from the GSS is that worker ownership, broad-stock options and profit sharing/gain sharing are not separate formats in the U.S. They tend to occur in bundles and they tend to cover a broad spectrum of the population, at least in their minimal forms. Thus, the 2002 and 2006 GSS showed that about half of the citizens with these shared rewards had various combinations of the three while 6% of citizens were in companies with all three. This suggests that the balkanization one clearly observes in the real world between the workers, the companies, the scholars, the non-profit associations, the research literatures, the surveys, the policy-making, the tax incentives etc. of profit sharing vs worker ownership vs broad-based stock options is close to sheer fantasy. The NBER Shared Capitalism Project has showed the longer-term forms of worker ownership like stock and option holding actually work hand-in-hand with the shorter term forms of profit sharing and gain sharing to create capital ownership and income systems that balance risk for workers and seem to better activate an interest in company performance.⁴³

A major insight from the GSS is that the “thin” versions of worker ownership and profit sharing are close to dominating the economy, at least numerically. While one would not want to make too much of it, since 2006 almost half of adult working citizens (46.7%) have had one or more of these capital ownership/capital income practices in the place where they work. The number was 62.6% in companies with stock. This is an interesting take on the common harsh criticism that researchers in this field have heard for decades from many economists, “If it was so good why isn’t everyone else doing it?” (Appendix I, Table 5) It does suggest that if properly structured and meaningful in terms of delivering a meaningful amount of capital ownership and capital income to a broad group of citizens, that at least the mechanisms of worker ownership and profit sharing are already widely diffused and disseminated in corporations and that a lot of the corporate sector has experience with these practices. This is certainly a plus for discussing policies for expanding these ideas later in this essay.

⁴³ See Kruse, Freeman, and Blasi, *Shared Capitalism*, 46-51, especially Table 1.1 on p. 47.

What are the implications of the current GSS data for a futuristic plan to see substantial worker ownership and profit sharing in the entire U.S. economy? First, while much of the thin layer of worker ownership and profit sharing in U.S. society is to be discounted as not very meaningful when it is not concentrated, intentional, and broad-based in the same firm, as noted, one clear advantage of the thin layer is that a surprisingly large segment of the American population is at least familiar with the concept. If it were close to zero it would be harder to comprehend moving it forward. Second, unbeknownst to most social scientists, most of the major Wall Street firms and many medium-sized financial services institutions across the nation – not on the face of it considered major proponents of a worker ownership economy – have businesses, typically called “XYZ Employee Share Plan Services,” that manage the employee stock ownership accounts of many of these 18.7 million worker owners. These businesses are today run by massive international computer systems over the World Wide Web and they are profit centers for the firms and their managers are often very interested in seeing worker ownership expand to many more Americans.

Many of the firms themselves, especially the medium sized ones have substantial employee ownership, and some of them are strong proponents, for example of, majority worker-owned ESOPs. Sociologists know nothing of this world, but its existence at the minimum demonstrates that there is an infrastructure for widespread national worker ownership and there is at least the potential that many financial services firms could have some incentive to help design and deliver an expanding form of popular capitalism in the United States. For example, if worker cooperatives ever overcame their inability to raise large amounts of capital and acquire other businesses, there is no doubt that their millions of members accounts would be managed by these financial services firms. Recently, all these firms have created a body called the American Council of Stock Plan Administrators that want to see worker ownership grow and expand.⁴⁴ These phenomena could very well be supportive of a wider worker ownership economy in some re-imagined future economy and society.

⁴⁴ See <http://www.acspa.info/index.html>

Evidence

There are over 100 studies of the relationship between worker ownership and profit sharing and related workplace practices and firm and worker performance. Most of the studies compare firm performance of firms with and without these forms of pay in cross-section data. Some studies examine firms before and after their adoption of a group incentive compensation scheme, or control in other ways for selection bias. Meta-analyses analyzing the combined results of studies show statistically significant positive associations of employee ownership and profit-sharing with firm performance.⁴⁵

There is also a wide dispersion in the magnitude of estimated effects within and across studies. Many analysts and practitioners interpret this dispersion as indicating that

⁴⁵ For reviews of the employee ownership literature, see Joseph Blasi, *Employee Ownership: Revolution or Ripoff?* (New York: HarperCollins, Ballinger Books, 1988); C. Doucouliagos, "Worker Participation and Productivity in Labor-managed and Participatory Capitalist Firms: A Meta-analysis," *Industrial and Labor Relations Review*, 49(1), 58-77; Douglas, Kruse and Joseph Blasi, "Employee Ownership, Employee Attitudes, and Firm Performance: A Review of the Evidence," in David Lewin, Daniel J.B. Mitchell, and Mahmood A. Zaidi, eds., *Human Resources Management Handbook, Part 1*. (Greenwich, CT.: JAI Press, 1997); Eric C.A. Kaarsemaker, "Employee Ownership and Its Consequences: Synthesis-generated Evidence for the Effects of Employee Ownership and Gaps in the Research Literature," (York, UK: University of York, 2006); Steven F. Freeman, *Effects of ESOP Adoption and Employee Ownership: Thirty years of Research and Experience* (Philadelphia: Organizational Dynamics Programs, University of Pennsylvania, 2007 Working Paper #07-01_. For a review of the broad-based stock option literature see Blasi, Kruse, and Bernstein, *In The Company of*. For reviews of the profit sharing and gain-sharing literatures see Martin L. Weitzman and Douglas Kruse, "Profit Sharing and Productivity," in Alan Blinder, ed., *Paying For Productivity: A Look at the Evidence* (Washington, D.C.: Brookings Institution, 1990); R. J. Bullock, and Mark E. Tubbs, "A Case Meta-Analysis of Gainsharing Plans as Organization Development Interventions," *Journal of Applied Behavioral Science*, 26, no. 3 (1990): 383-404; Douglas L. Kruse, *Profit Sharing: Does It Make A Difference?* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 1993); Organization for Economic Cooperation and Development (OECD), "Profit Sharing in OECD Countries," *OECD Employment Outlook*, 139- 69, 1995. T. M. Welbourne, L. R. G. Mejia, "Gainsharing: A Critical Review and a Future Research Agenda," *Journal of Management*, 21, no. 3 (1995): 559- 610. One field study implemented random assignment of profit sharing at 3 of 21 establishments within a firm, finding that the performance of those establishments improved relative to the control group (See Suzanne J Peterson and Fred Luthans, "The Impact of Financial and Nonfinancial Incentives on Business-Unit Outcomes Over Time," *Journal of Applied Psychology*, 91, no. 1 (2006): 156- 165. A laboratory experiment among subjects organized into employee-owned "firms" found higher productivity (See N. J. Frohlich, J. A. Godard, J. A. Oppenheimer, and F. A. Starke, "Employee Versus Conventionally-owned and Controlled Firms: An Experimental Analysis," *Managerial and Decision Economics* 19, no. 4/5 (1998): 311- 26. Our study using an employee survey before and after the introduction of a profit sharing plan found an increase of anti-shirking behaviors. (Freeman, Kruse, and Blasi, *Shared Capitalism*, 31). Two studies find that average worker quality based on observables did not change as compensation changed from individual to group incentives, while average worker performance improved (Andrew Weiss, "Incentives and Worker Behavior," in Haig Nalbantian, ed., *Incentives, Cooperation, and Risk Sharing* (Totowa, N.J.: Rowman and Littlefield, 1987): 137-150; D. G. Hansen, 1997. "Worker Performance and Group Incentives: A Case Study," *Industrial and Labor Relations Review* 51, no. 1 (1997): 37- 49.

the context in which management establishes a shared reward system affects its success. Firms cannot simply institute a program that links worker pay to the firm performance and expect the firm to do better as if the method of pay was a technological fix to some engineering problem. “To get the productivity-enhancing effects, something more (our emphasis) may be needed—something akin to developing a corporate culture that emphasizes company spirit, promotes group cooperation, encourages social enforcement mechanisms, and so forth” (Weitzman and Kruse, 1990: 100). Bundling equity and profit sharing with financial information and participation in decision-making can enhance worker contributions to the firm by creating employment relationships based on congruent psychological contracts. Such a bundle can form the basis of trust and aligned interests between workers and the employer.

Recently, the National Bureau of Economic Research in Cambridge, Massachusetts hosted a wide-ranging research program to evaluate the evidence on worker ownership and profit sharing. The NBER Shared Capitalism Research Project received about a million dollars in funding from the Russell Sage Foundation, the Rockefeller Foundation and other smaller foundations which supported the related General Social Survey work in 2002 and 2006. This ten year project involved professors and graduate students from a number of universities. The detailed results have recently appeared in a book entitled, *Shared Capitalism at Work* published by the University of Chicago Press and NBER. Most of the chapters also appeared as NBER Working Papers.⁴⁶ This study focused on examining precisely the big questions left over from decades of previous empirical work: How does the context and the organizational culture effect the performance of the individual worker under worker ownership and profit sharing? What is the “something more” required to insure that these practices worked effectively if such a factor exists? What might be in the “black box” linking worker ownership and profit sharing to firm performance? This study looked at 41,000 employee

⁴⁶ See Kruse, Freeman, and Blasi, *Shared Capitalism* and, specifically, on firm performance, see Blasi Joseph, Richard Freeman, Christopher Mackin, and Douglas Kruse. “Creating a Bigger Pie? The Effects of Employee Ownership, Profit Sharing, and Stock Options on Workplace Performance,” in Douglas Kruse, Richard Freeman, and Joseph Blasi (Editors), *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options* (Chicago: University of Chicago Press, 2010).

surveys in fourteen companies with shared capital ownership and capital income by exploring every aspect of their worker ownership and profit sharing, their workplace practices, and their attitudes and behaviors in great detail. The nationally representative General Social Surveys in 2002 and 2006 were used as the “control group” in order to assess whether the results found in the more detailed employee surveys in these firms were reflected in results for the nation as a whole. While limitations of space prevent a detailed review of the evidence, the main results will be summarized taking into account results that meet statistical significance tests.

The evidence from the NBER Shared Capitalism project and the GSS control groups strongly reflects the review of decades of earlier research. In the NBER study, each worker was given a “shared capitalism score” based on how much ownership she or he had in the company where they worked, how much they shared in profits and stock options. The score means how many of the types of broad-based capitalism a worker has and how much in terms of dollars it affects their income. Since one would not want to compare the willingness to work hard of a group of workers with broad-based worker ownership in a growing company to the willingness to work hard of a group of workers without broad-based employee ownership in a more mature company and mistakenly conclude that it was the worker ownership rather than the company’s strong economic position that explained its success, a fixed effects model was used where workers with various levels of the “shared capitalism score” were compared to each other within the same firm.

Workers with more shared capital ownership and capital income are less likely to want to leave the company where they work, they are more loyal, they are more willing to work harder for the corporation, they are more likely to work with an irresponsible co-worker in order to help that worker improve their performance. They make more suggestions and they are also more capable of coming up with innovative ideas. These workers are simply better organizational citizens. The effects of worker ownership and profit sharing on performance-related attitudes and behaviors worked best in firms that also trusted employees to work well without close supervision, paid base wages at or above market, and offered good job security, training, and employee involvement in

decisions. This suggests that the dispersion in results around the positive average in the literature may actually be due in part to policies that accompany the worker ownership and profit sharing. In fact, where workers did not have a supportive culture, worker ownership and profit sharing could involve negative outcomes. Many of these findings were separately independently confirmed with the GSS data where possible. Obviously, the NBER surveys included more questions and variables than the GSS but a substantial amount of confirmation was possible.

One of the most powerful objections to broad-based sharing of capital ownership and capital income by some economists over the years has been that some workers in a corporation that shares rewards will become slackers and enjoy the profit sharing or stock ownership while others carry the load and work harder.⁴⁷ If this is true it certainly presents a very serious problem for broadening property ownership and profit sharing in the corporation that could challenge many of the conclusions discussed so far. A series of special questions were designed for the NBER study and also for the GSS that assessed what a worker would do and actually did when confronted with the behavior of a irresponsible fellow worker. This issue was too important to be left off of the GSS control study. For example, did the worker talk to the irresponsible co-worker, the supervisor or the work team or were they not willing to do anything, to just let it go and look the other way. If mutual financial participation actually engenders more cooperation and mutual monitoring, economists' major objection to worker ownership and profit sharing would have to be significantly revised. The results were that a worker was far more likely to get involved with an irresponsible co-worker when the worker taking the initiative has the combination of shared rewards, a high performance work

⁴⁷ In an incentive plan with N workers, the payoff to the individual from his or her effort is diluted because each individual receives only 1/Nth of the reward from their work. It is rational to free ride on the effort of others, but if most workers do that, the group incentive system fails. In theory, workers can solve the free rider problem by establishing and enforcing work norms for high effort (Robert M Axelrod, *The Evolution of Cooperation* (New York: Basic Books, 1984); Drew Fudenberg and Eric Maskin, "The Folk Theorem in Repeated Games with Discounting or with Incomplete Information," *Econometrica*, 54, no. 3 (1986), 533-54) but neither theory nor empirical studies specify what it takes to overcome the 1/N problem in different settings. On the employers' side, one interpretation of successful programs is that they work like a "gift exchange" (George Akerlof, "Labor Contracts as Partial Gift Exchange," *Quarterly Journal of Economics*, 97 (1983), 543-569.) from the employer to employees in which the plans draw on feelings of reciprocity that help establish norms for greater effort and cooperation. On the workers' side, some workers may step up and monitor fellow employee efforts to enforce the work norm.

culture, low supervision, and pay at or above the market rate for that region. Workers are willing to exercise a lot more responsibility and be solid organizational citizens when they are confident that the gains will be shared with workers as whole and when they perceive that management invests in them. Again, a supportive corporate culture, enhanced these effects.

In order to check these results, an actual “before and after” experiment was designed. One of the corporations, a publicly-traded company that had broad-based worker ownership, initially participated in the study. By coincidence, this company on their own decided to subsequently add broad-based cash profit sharing to their practice of broad-based worker ownership about a year after the initial survey was done. This company’s workers were surveyed a second time, namely, after the implementation of the cash profit sharing in order to measure what happened to the willingness of the workers to get involved with irresponsible co-workers. The company in question expanded the number of workers who had cash profit sharing from sixty percent to ninety percent, a not insignificant move. There was only one meaningful change. The percent of workers who said that they would talk to an irresponsible co-worker significantly increased from forty-two to fifty-five percent. The percent of workers who gave the reason that they would do something with an irresponsible co-worker because their profit share would suffer, went up from thirty-nine to fifty-six percent. The percent of workers who said that that their reason for inserting themselves in a situation with a co-worker had to do with the fact that their co-worker’s poor performance would hurt their share of the pie also increased enormously, by almost twenty percent.

The conclusions from this study suggest that the entire economy could be organized according to this “variety of capitalism” as a review of decades of studies confirms with no loss of economic performance on average and perhaps some improvement in economic performance. The findings on mutual monitoring and shirking significantly reverse one of the strongly held views of many economists of worker ownership and profit sharing. One economist, a respondent at the conference summarizing the NBER and GSS results, Eric Maskin, then at the Institute for Advanced Study and now at Harvard, who later was to win the Nobel Prize in Economics,

challenged the research team to see if the results could be replicated with hundreds of companies, many more thousands of employee surveys, and outcome variables that were more objective, namely, supplied by the employer (such as turnover and worker compensation claims) or by publicly-available financial performance measures. This led to a new and very recent study using a very unique dataset prepared by the Great Place to Work Institute (GPTW).

Every year the Institute evaluates the approximate 400 U.S. corporations who apply for the 100 Best Company to Work For competition announced by Fortune Magazine by administering employee surveys to a random sample of the firms' workers and evaluating a detailed "Culture Audit" of workplace practices and objective company measures, such as turnover and workers compensation claims. Data were assembled from three years of the competition, 2005-2007, involving 305,339 worker surveys and 1312 corporations and then linked to Standard & Poors Compustat which aggregates financial performance data from official company filings to the U.S. Securities and Exchange Commission. Data were also linked to the Form 5500, the ERISA records of employee benefit plans of the U.S. Department of Labor, with Federal records on ERISA-based worker ownership such as ESOPs. Approximately one-sixth of applicants (17.6%) reported that they have an Employee Stock Ownership Plan (ESOPs), 18.1% report cash profit/gain-sharing plans, 22.3% report deferred profit sharing plans. Regarding the companies with stock options, three quarters of the firms gave options to less than 25% of employees while 16.4% of the companies were broad-based in that they granted stock options to more than half of their employees. This represents the largest study ever attempted of worker ownership and profit sharing. The corporations on the New York Stock Exchange and the NASDAQ represent a substantial proportion of U.S. public company activity, namely, 10% of total sales, 10% of total employment, and 20% of the market value of all the corporations on those stock exchanges. The co-authors will only briefly summarize the results since this study will be soon submitted for review to a major social science journal.

An overview of the results of the new Great Place to Work study again strongly reflect the earlier conclusions about decades of research literature and the NBER Shared

Capitalism study. A similar “shared capitalism score” was used for the workers in the Great Place to Work study as in the NBER study. At the firm level, shared ownership and capital income are associated with lower voluntary turnover (whether the outcome is worker provided or company provided, a key finding) and higher Return on Equity. It is the interaction between the mode of compensation and work practices and workplace culture that dominates the impact of shared capitalism on turnover and Return on Equity. Moreover, majority worker-owned companies had significantly lower workers compensation costs.

This study also helped resolve a critical point as yet not fully unaddressed by previous research. Pure worker cooperatives in the U.S. if they meet the strict definition determined for them include both financial participation *and* decision-making participation. Real world research on worker cooperatives does indicate that actual participation in decision-making varies widely in spite of the form structure of one worker one vote on major corporate issues. This is in fact one reason why the criticism of the lack of far-reaching decision-making participation in ESOPs needs to be put in perspective. There may be many organization barriers to participation in cooperatives too.⁴⁸ In fact, it is the inverse of the issue that comes up in the critique of ESOPs. While their formal legal structure is not one-worker one vote, they have Federally prescribed decision-making participation on major corporate issues and are often majority or 100% worker-owned with the possibility of significant informal participation. But, the overwhelming research evidence indicates that it is the informal workplace participation and empowerment that makes the most important difference for employee attitudes, behaviors, and firm performance. This however raises a major policy question: How can one recommend worker ownership and profit sharing as an economy-wide system if one can only realistically legislate (either by Federal law or strict definitions of “worker cooperative” enforced by private associations) the formal structure rather than the informal decision-making that is so important? If, however, by the beginning of the 22nd

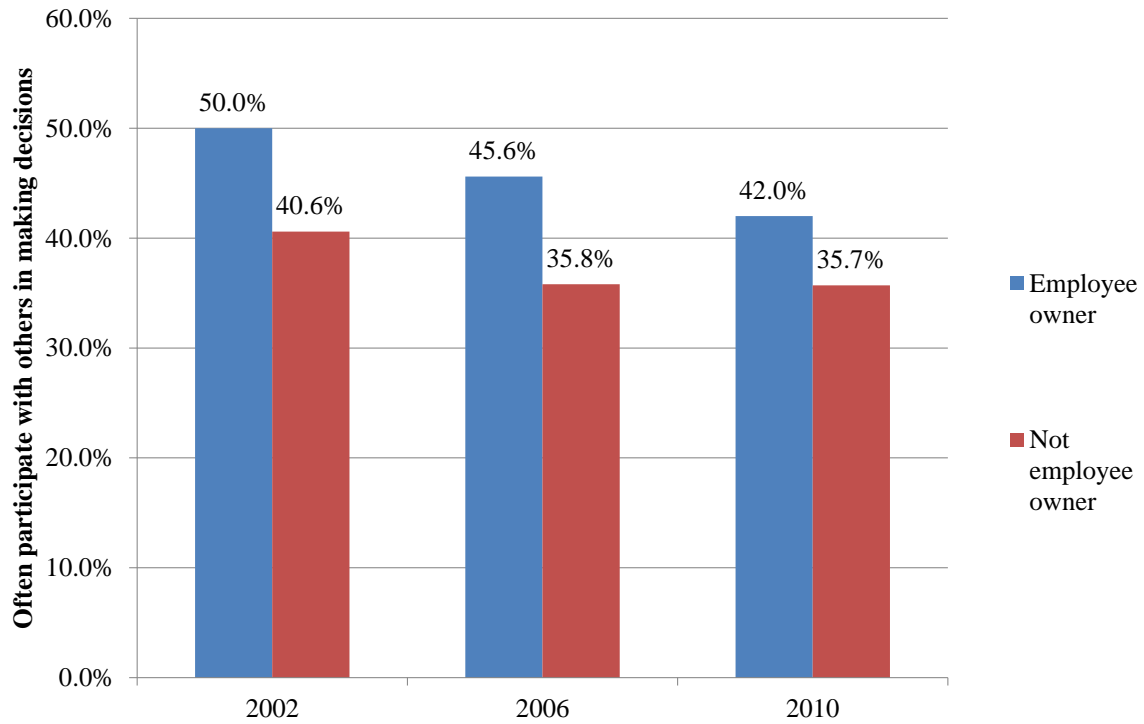
⁴⁸ Joan S. M. Meyers, “Employee Ownership, Democratic Control, and Working-Class Empowerment,” in Edward J. Carberry, ed., *Employee Ownership and Shared Capitalism: New Directions and Debates for the 21st Century* (Ithaca, NY: Cornell University Press, Labor and Employment Relations Association Volume, 2011).

century managers had figured out what researchers now know, namely, that financial and social participation go together, this is less of a problem for a society-wide policy of implementation? Now, there is evidence that this is the case.

The first inklings of a credible response to this dilemma came from evidence in the 2002 and 2006 General Social Surveys shared capitalism supplement. A combined analysis of the 2002 and 2006 cross-sections shows that citizens with worker ownership or profit sharing or stock options diverge from other citizens in a statistically significant manner by how much they report that they have “A lot of say about what happens on the job,” “Often help set the way things are done on the job,” and “Often make decisions with others.” Worker owners individually report significantly more that I “See myself working here a long time.” For the 2006 GSS, worker owners and holders of broad stock options report they are more likely to be in employee involvement teams and receive training from the firm in the past year. (Appendix I, Table 3). When an index of participation was constructed to measure individual employee empowerment for those interviewed for the 2002 and 2006 GSS, it was highly significant for worker owners and stock option holders. The also analysis compared the percent of employee owners vs non-employee owners who report on another GSS variable that they “Often participate with others in making decisions.” and found that the worker owners were more participatory.⁴⁹ Recently, the 2010 GSS has made possible a more recent estimate on this point and the results are similar. These results are based on *individuals* and not firms or establishments and show that worker owners have more participation, they bode well for a policy based on spreading worker ownership. They also show that there is a lot of room for social scientists to study participation in decision-making in organizations a lot more closely in these pockets in order to figure out how to expand it and what blocks or enhances it.

⁴⁹ On employee involvement teams and training, see Kruse, Freeman, and Blasi, *Shared Capitalism at Work*, 59 (Table 1.5). On the participation index, see p. 61 (Table 1.6).

Figure 1: Employee Involvement and Employee Ownership



This issue received more definitive attention in the 100 Best Company to Work For in America study. Unlike the GSS which in 2010 surveyed only 2044 working adults, while it is not a representative sample, the Great Place to Work dataset included, as noted, almost 400,000 random sample worker surveys at 1200 corporations on the New York Stock Exchange and the NASDAQ that, as noted, represent a substantial proportion of U.S. public company activity, namely, 10% of total sales, 10% of total employment, and 20% of the market value of all the corporations on those stock exchanges. Briefly, this study found that workers with higher “shared capitalism scores” report significantly higher participation in decisions, information sharing, high trust supervision by managers, and team feeling. These workers report significantly higher scores on Great Place to Work Trust Index© which is an overall measure of an empowered corporate

culture used to create the Fortune rankings. Notably, citizens with greater worker ownership report the greater participation. Thus, workers in ESOPs report significantly more of these participatory corporate culture evaluations as do workers in deferred profit sharing plans, where, as was done at Procter & Gamble in the 1880's, workers often use cash profit sharing to invest in company stock.

It appears then that managers in the United States in the 21st century tend to develop supportive and participatory corporate cultures when worker ownership is present. This is very encouraging since it suggests that in order to extend worker ownership to the entire economy, the challenge is to build on the already slow and gradual depletion of the hierarchical model that is taking place in some workplaces through the education of workers and managers on alternative forms of workplace organization, the dissemination of the evidence on the impact of expanded ownership and participation on firm performance and worker wealth, and the encouragement of what appears to be a significant undercurrent of managers of non-participatory workplaces networking with and imitating managers of non-participatory workplaces. Part of this is apparently driven by a response to globalization and the need to update organizations and their work cultures for higher performance.⁵⁰

Institutional Designs

Given this understanding of the problem of concentrated capital ownership and capital income in American society and the principles for designing an alternative, and what can be learned from existing pockets of cases, and what decades of research says about researchers' ability to understand "how these cases work, to diagnose their limitations, dilemmas and unintended consequences, to examine their transferability and scalability, and to understand ways of developing their potential," what institutional designs can be realistically envisioned to transform the entire economy to worker

⁵⁰ The Great Place to Work evidence is in Douglas Kruse, Joseph Blasi, and Richard Freeman, *Does Linking Worker Pay to Firm Performance Help the Best Firms Do Even Better?* (Cambridge: National Bureau for Economic Research, 2012, Working Paper 17745): 10-11, 24 (Table 4), and 28-29 (Appendix Table A). The working paper is being revised and submitted to a major social science journal for review.

ownership and profit sharing? Oftentimes, when asked about the optimal and just desired organization of business, many sociologists will articulate some version of “worker ownership.” Sometimes the answer is akin to a “totally self-managed producer cooperative.” What is within reach? A vision of “Real Utopias” requires sociologists “giving up” on a certain unrealistic perfectionism about institutional designs. It involves answering the question, “Would you rather have a business world that looked meaningfully different and spread capital ownership and capital income far more broadly or would you rather hold out for some distant less-likely to achieve utopia where all differences of power, prestige and rewards are theoretically eliminated?” These designs are not based on some unrealistic vision of a totally homogeneous utopia. Rather, the following institutional designs are based on what the existing pockets and decades of research suggest can be implemented, albeit with a lot of work and encouragement and support from the society. There is no question that more research by social scientists and education and training of managers and workers could perhaps “stretch” the capabilities of these organizations to come even closer to a more satisfactory version of economic democracy and economic liberty for many citizens.

First, it is possible to achieve pure worker cooperatives far more numerous than a few thousand workers and a small number of firms. That does not mean that they need to be so large that they lose their distinct character. Cases such as the Mondragon Cooperatives suggest that the “largeness” and “economic power” can come in the *associations* of many *smaller and medium-size* worker cooperatives not necessarily within each cooperative. The associations of worker cooperatives need to be stronger economically and combined with consumer and commercial banks like the newly envisioned San Francisco credit union so that a way can be found to achieve access to significant pools of capital and credit and management expertise. Worker cooperatives need to start merging with other firms and acquiring other businesses. A concept of a worker cooperative start up business needs to be developed and implemented. Citizens who support a more democratic economy need to switch their capital to banking institutions such as democratic credit unions that are willing to figure out ways to nurture such worker cooperatives. The “unrealistic perfectionism” sociologists need to give up is the notion that efficient strong managers will not be needed to grow the worker

cooperative sector. The ESOP sector has gotten so large because this problem has been largely overcome. As soon above, ESOPs have longer survival and a lower death rate than comparable firms in their industry and size group. In the 1880's the first University to offer social science doctorates in the United States, Johns Hopkins University, divided the country up into six sectors so that forms of worker ownership and profit sharing could be comprehensively studied. These theses led to several articles that appeared in the first few issues of the journal of the newly founded American Economic Association. One clear finding cutting across all of the studies was that the lack of well-trained and efficient managers limited the organizational success of this alternative economy with a high failure rate as a result of inefficient management.⁵¹ Contemporary research has not reversed this basic social science finding. Workers electing inefficient managers is not the success of economic democracy. Figuring out how to have efficient managers who are answerable to active and responsible owners is a corporate governance problem that worker cooperatives need to address. On one hand, while worker cooperatives are good about demanding the formal one worker-one vote general assembly at the top of the organization, many worker coops may be far "behind" many existing businesses in their use of democratic work organization at the department and job level of forms of high performance work organization, such as self-directed work teams, extensive worker training, open book management and extensive sharing of financial information a day-to-day basis, and careful attention to selecting and educating workers who can function with democratic institutions.⁵² Moreover, many existing worker cooperatives may be stunted because they pay poorly as a result of not having the management that can achieve more

⁵¹ See H. B. Adams, *History of Cooperation in the United States* (Baltimore: Johns Hopkins University and N. Murray, 1888) that surveyed the city of Minneapolis, New England, the Middle States, the Pacific Coast and Maryland and the South. See also, A. Shaw, "Cooperation in a Western City," *Publications of the American Economic Association* (later *The American Economic Review*) 1 no. 4 (1887): 129-228; A. Bemis, "Cooperation in New England," *Publications of the American Economic Association* (later *The American Economic Review*) 1 no. 5 (1887): 335-464; and, Amos G. Warner, "Three Phases of Cooperation in the West," *Publications of the American Economic Association* (later *The American Economic Review*) 2 no. 1 (1888): 1-119.

⁵² For a review of the diffusion of high performance work practices and more democratic forms of work organization, see Joseph Blasi and Douglas Kruse, "U.S. High Performance Work Practices at Century's End," *Industrial Relations*, 45 (4), 2006: 547-578. It is entirely possible, as noted, that worker cooperatives have a lower incidence of many of these practices. This needs to be studied by social scientists so that realities get analyzed not ideological constructs.

economic success within their value system. There is no question that worker cooperatives can be a sector in the U.S. economy as large as ESOPs if they address these issues. There are currently 890,000 small businesses in the 20-99 employee range in the country with 36 million workers in total.⁵³ With the proper education and technical assistance, given this is the sector where worker cooperatives have been quite successful to date, there is no reason why many of the more successful of these businesses should not be bought by existing worker cooperatives, merge with existing worker cooperatives, or be transformed into worker cooperatives by something like the ESOP worker buyout customized for cooperative purchases. In fact, there is no reason why in several decades ESOPs and worker cooperatives might be largely indistinguishable and with the proper support worker cooperatives can become common in small businesses with much larger sizes as ESOPs have done. Finally, there is little evidence that worker cooperatives have been able to deliver quite significant wages and benefits and capital ownership (given their concentration in very low capital intensive industries). Worker cooperatives will never grow if they cannot become examples of prosperous economic democracy for families with rising wealth and incomes.

Second, at the same time, the fastest growing format for 30%, majority and 100% worker ownership, the existing 11 million worker strong sector of closely-held ESOPs, can be rapidly expanded by making it easier for groups of workers to purchase thousands of other successful ongoing small and medium-sized businesses in the country and expanding the education and technical assistance to do this. In the case of closely-held ESOPS, the access to efficient management and capital and the banking system has been long resolved as has their ability to deliver meaningful capital ownership to workers on top of fair wages, so the attention of education and technical assistance needs to be on helping ESOPs continue to expand democratic participation at the board level and at the job and department level, an area where they already have made some strides. Currently, there are about 175,000 small businesses in the country with more than 100 and under 1000 employees and a total of about 40 million workers. ESOPs have now spread

⁵³ U.S. Census Bureau, *Statistical Abstract of the United States* (Washington, D.C.: Government Printing Office, 2012): 501 (Table 759. Establishments, Employees, and Payroll by Employment-Size Class and Industry, 2000 to 2008).

roughly to about 5% of the companies in this sector and, quite notably, 20% of the workers.⁵⁴ This is a real achievement. *Thus, the notion that 50% of the workers of medium-sized businesses would be mostly owned by their workers is not unrealistic so that it would be common to encounter worker-owned businesses in communities nationwide.* The “perfectionism” that limits this happening is the attachment to the notion that these must be “worker cooperatives” from the start. If one accepts the notion that there is a range of actual democratic participation in the general assembly of worker cooperatives and that pure worker cooperatives often have weak job level and department level democratic participation, the reason for the “perfectionism” argument against ESOPs begins to look more ideological than real. Research suggests that more and more ESOPs can be even more participatory at the board and department and job levels without compromising their economic efficiency, rather, it is likely, this would expand their economic efficiency. Rather, the focus of social scientific research need to be on how both worker cooperatives and ESOPs can expand democratic participation with efficient management as much as possible. This is not an easy task. Many current businesses are not hierarchical manufacturing firms where instituting fewer levels of management and implementing training for self-directed work teams and electing a few workers to the board can quickly transform the organization. Many current businesses are retail or service operations or project-based engineering companies or science-based business where the specific formats and detailed maps of “participation in decision-making” and the limits and realistic “stretch” goals are not readily apparent or easily to visualize.

Given how well the ESOP model has functioned, there is no reason why ESOPs should not be able to bid for many of the largest privately-held firms in the country going forward. Many sociologists critical of the corporate governance problems of companies traded on the public stock markets do not realize that some of the largest privately-held ESOPs are of the size of many publicly-traded corporations and already represent a non-stock market alternative for the large corporation.

Third, a form of worker ownership needs to be defined and developed for large

⁵⁴ U.S. Census Bureau, *Statistical Abstract*, 501 (Table 759. Establishments, Employees, and Payroll by Employment-Size Class and Industry, 2000 to 2008).

and medium-sized public stock market companies. Overall, the New York Stock Exchange and the NASDAQ currently have about 5,000 public companies with a market value of about \$17. Trillion. Worker ownership will never become a national phenomenon unless it becomes also identified with large public corporations. While they do not totally overlap, a good estimate of the employment of this sector would be all establishments with more than 1,000 workers, which number 7,100 and have only 16.4 million workers in total.⁵⁵ Large companies of this kind are often on stock markets in order to have ready access to stock and bond markets internationally and secure the investments of institutional investors such as public and private pension funds, mutual funds, hedge funds, private equity funds, and pools of capital controlled by insurance companies, trusts of wealthy families, and non-profit endowments such as Universities. By the end of 2008, these institutional investors owned 76.4% of the thousand largest corporations and likely represented a very large proportion of the ownership of both the NASDAQ and the NYSE. With the assets of only public and private pension funds coming to \$10.4 trillion in 2008, one can readily see, roughly, that with a total value of the public stock markets of about \$16. Trillion, workers already own a large chunk of the stock market through a very intermediate form of indirect worker ownership with very little democratic participation in decision-making whatsoever.⁵⁶

A meaningful worker ownership format must be developed for this sector. Unless the pension system did not exist, which is both undesirable and unlikely, some format of worker ownership needs to be envisioned for these 5000 corporations. Corporations such as software-oriented Google and manufacturing-oriented Procter & Gamble offer some clues. The model should be a public companies with approximately 20-25% worker (including management) ownership, 50-75% institutional ownership, and 5-15% individual citizen stock ownership (that is, not through institutional funds). What is

⁵⁵ On the total number of corporations on the New York Stock Exchange and the NASDAQ, see the World Federation of Stock Exchanges at <http://www.world-exchanges.org/statistics/ytd-monthly> U.S. Census Bureau, *Statistical Abstract of the United States* (Washington, D.C.: Government Printing Office, 2012): 501 (Table 759. Establishments, Employees, and Payroll by Employment-Size Class and Industry, 2000 to 2008).

⁵⁶ Carolyn Kay Brancato and Stephan Rabimov, *The 2008 Institutional Investment Report: Trends in Institutional Investor Assets and Equity Ownership of U.S. Corporations* (New York: The Conference Board, 2008).

needed is public policies that encourage worker ownership in these large publicly-traded corporations without basing that worker ownership on the investment of worker savings and wages, namely worker ownership based on grants of stock options, grants of restricted stock, stock matches for contributions to 401k plans, and so forth. Researchers will need to identify the companies among the 5000 companies with different types of worker ownership (as was done above for the Fortune 100) and define the workable models.

One attempt at this focused recently on the hundred corporations on the NYSE and the NASDAQ that created the software, equipment, sales markets, search engines, and knowledge centers of the Internet. The book, *In The Company of Owners* demonstrated that these firms have essentially about 20% employee equity, meaning direct worker ownership and the value of stock options. This book also demonstrated that many of these firms were embracing a culture of teams, high performance work practices, and employee empowerment as also seen in the Great Place to Work study.⁵⁷ The two-fold problem with viewing these firms as models of worker ownership is that it is often not publicly identifiable (although that is not the case in Google and P&G) and there are no formal governance features of the worker ownership. With some modest corporate governance reforms, discussed below in the policy section, these could be addressed. The model then would be of large public companies as associations of meaningful worker ownership, institutional ownership as an indirect form of citizen ownership that it is, and individual citizen ownership. However, the real challenge with stock market companies is one of corporate governance raised by sociologists who have examined this sector closely such as Gerald F. Davis in his recent book *Managed by the Markets: How Finance Shaped America*.⁵⁸ On one hand large stock market companies need more objective and independent boards of directors to represent all shareholders. On the the hand, the short-termism of the extreme “maximizing shareholder value” ethic that has overcome public stock market companies needs to be rethought in a way that stable ongoing public corporations with approximately 20-25% worker (including management)

⁵⁷ Blasi, Kruse, and Bernstein, *In The Company*, 79-104, especially, p. 87.

⁵⁸ Gerald F. Davis, *Managed by the Markets: How Finance Re-Shaped America* (New York: Oxford University Press, 2009).

ownership, 50-75% institutional ownership, and 5-15% individual citizen stock ownership are viable over the long-term. Economic sociologists have a lot of work to figure these issues out. The number of public corporations on stock markets are going down in the U.S. and it is entirely possible that a future with more worker ownership and profit sharing will have smaller public stock markets.

Fourth, worker ownership cannot be a major part of the economy unless it takes a major role in private equity. Private equity has become a household word since a debate about its role in the American economy between right and left emerged in the 2012 Presidential campaign. Private equity refers to investment firms that collect capital from rich individuals and institutional investors, mostly pension funds and endowments, and use these to buy medium and large corporations that a small group of partners manage in order to improve their management, market share, and efficiency away from the public stock markets. While, many sociologists are critical of the large public stock markets in the country, the specific way in which private equity partnerships keep corporations “private,” that is, out of the public stock markets, raises profound issues for expanding the economy to more worker ownership. Private equity firms buy many companies with troubled or operations whose potential is underappreciated and try to turn them around and then sell them at some enormous profit. Private equity has become very controversial in the U.S. economy because hundreds of corporations are now entering and existing this “pipeline,” the partners often load these firms up with debt, charge 2% of the value each year as a management fee, and then pay only 15% capital gains taxes on the enormous gains when the corporations in their “portfolio” are sold. One view is that private equity can potentially raid firms and create a “low road” of employment systems with worse wages and benefits and middle class wealth. Getting access to substantial amounts of capital income and capital ownership at very low tax rates and the impact of the restructuring of these corporate operations on workers, communities, and unions when they fail has become very controversial in this sector.

There is no evidence that private equity firms do much to share ownership with the workers of portfolio companies, although data on cash profit sharing is unavailable. It is estimated that U.S. private equity firms have just over \$1 trillion in capital to buy

and sell companies and that they sell corporations worth over \$100. Billion each year that exit the “pipeline.” One can readily see that this emerging sector is on its way to comprising close to 10% of the value of all corporations on the public stock markets (which have \$16. Trillion in value) and it is expected to grow.⁵⁹ The private equity sector is particularly challenging for expanding worker ownership because it has come to represent a sector where substantial amounts of capital ownership and capital income get directed to the partners of the private equity firms themselves and then back to the institutional investors, often pension funds owned by a broad group of the population. Worker ownership cannot play a major role in the U.S. economy in the future unless the concept or some form of broad-based profit sharing have a place in this sector. The “perfectionism” challenge with private equity is the penchant by those critical of private equity to see it as totally inimical to economic democracy. The perspective offered here is that this may reflect only the current version of private equity. Since private equity firms, in theory, are set up to make the portfolio corporations strong and profitable, they might have some interest in the far-reaching evidence that worker equity and profit sharing can play a large role in accomplishing this and they could potentially become incubators of these ideas, which, after all, their own partnerships are based on.

Fifth, cash profit sharing needs to play a much larger role in the future U.S. economy if citizens are to gain more access to capital ownership and capital income. This is important for several reasons. Cash profit sharing still remains the most common historical form of shared capitalism in American history. In the late 1800’s and the first half of the 1900’s many corporations shared 10-20% of their profits with their workers on a regular basis. The scholarly evidence on the efficiency of cash profit sharing is quite strong especially with a supportive corporate culture. Throughout American history, cash profit sharing has been a way to fund gradual accumulations of worker ownership in corporations and the economy as a whole that often become quite meaningful. (For example, before a series of professional managers disbanded it, Sears had for the many

⁵⁹ These are very rough estimates based on a recent study of global private equity by a British firm that identifies 45% of private equity as based in the United States. These figures mainly give some perspective on the structure of this market for business ownership rather than precise statistics on the U.S. sector. See TheCityUK, *Financial Markets Series: Private Equity*, August 2011 (London: TheCityUk, 2011). For an explanation of the 15% tax by the non-partisan Tax Policy Center, see <http://www.taxpolicycenter.org/briefing-book/key-elements/business/carried-interest.cfm>

decades of its prominence in American retail, very high annual cash profit sharing and worker ownership estimated to be as high as 30% of the firm's shares.) The research evidence from the National Bureau for Economic Research Shared Capitalism Project suggests that combining short-term cash profit sharing with long-term worker ownership is quite an optimal "bundle" in order to engender worker loyalty and commitment and effort and long-term improvements in firm performance. Moreover, with those segments of the population whose wealth is increasing gaining a lot of their inflation-adjusted increases in wealth from taking a portion of the profits of corporations, cash profit sharing represents an important economic practice for expanding economic democracy. It is also true that the combination of worker ownership not funded mainly by worker wages and savings with cash profit sharing provides a less risky form of economic democracy. Thus, cash profit sharing can play an important role in each of the preceding four models of expanding worker ownership.⁶⁰ The "perfectionism" challenge with profit sharing is to see it as "not worker ownership" so that it is not viewed as serious. Rather, cash profit sharing needs to be viewed as generally a format that needs to be combined with long term worker ownership so that worker ownership, as in the mistaken case of United Airlines, is not some "far off" possibility of getting wealth but represents a stream of short-term capital income to workers. Even worker cooperatives have the difficult problem that worker cooperators only get their coop wealth when they leave. Cash profit sharing has a lot to offer.

To the extent that these five institutional designs can be promoted, it is likely that there can be substantial expansion of a private sector-based form of economic democracy with extensive broad-based capital ownership and capital income in the U.S. The question is what are the main levers to do this. A common assumption of why substantial meaningful and broad-based worker ownership and profit sharing is unattainable is that individuals and organizations find it hard to bring it about. The discussion of the currently existing pockets in American society and the research evidence makes clear that is not really the major barrier. Rather the assertion by the co-authors in this essay is that the major barrier is a favoritism by existing public policies

⁶⁰ On Sears, see Sanford Jacoby, *Modern Manors: Welfare Capitalism Since the New Deal* (Princeton: Princeton University Press, 1997): 95-142.

and tax incentive regimes for corporations that concentrate capital ownership and capital income. Before enumerating the policies, one note on political economy in order. While presenting the evidence requires more space than this essay can spare, the historical evidence indicates that worker ownership and profit sharing have been a nonpartisan issue in American economic history. The policy discussion will demonstrate that the barriers thrown up and the supports encouraged for these concepts do not necessarily fall on either the Democratic or Republican side of the aisle and one of the biases that social scientists need to let go is the notion that these ideas are anathema to one or other side of the political spectrum or only supported by one or other side of the political spectrum.

Government Barriers

In the late 1800's when five social science Ph.D.'s from Johns Hopkins University and their advisor divided up the United States to study forms of worker ownership and profit sharing, the principal way to encourage the dissemination of these institutional designs was through example, imitation, education, and networking among corporate leaders, managers, and workers interested in the idea. While the networking story is still the case today, something has profoundly changed in American society. In fact, as the size and power of the Federal Government has expanded into every form of economic life, the Federal government now has the capacity to control, restrict, and throw up barriers to the expansion of the worker ownership and profit sharing sector through a number of far-reaching and powerful tax policies, accounting policies, and corporate governance policies. This in fact is the part of this narrative that the conservative, Republican, right-leaning, less government perspective side of the aisle has to bring to the worker ownership and profit sharing discussion. It may not be immediately apparent but it is unmistakable true. This is because the Federal government spends trillions of dollars in tax expenditures advancing certain types of business. One can persuasively argue, the co-authors hold, that to some extent part of what it takes to advance these institutional designs can be accomplished by removing barriers thrown up by the Federal government. Understanding these problems will help scholars assess the "immediate

issues of achievability” and the “strong political achievability constraints” that underlie some of the institutional designs versus the commonly held notion, that the co-authors reject, that the main limits on expanding worker ownership and profit sharing are the inabilities of individuals and organizations to implement the ideas. Let’s consider briefly some of the potential barriers at the Federal level before finally listing the main efforts that both the public and private sector can do to advance these institutional designs for spreading worker ownership and profit sharing to the entire economy.

Here are some brief examples of some quite large Federal barriers.

Stock Options. During the Administration of President George W. Bush, progressives in the Democratic Party and on the left and those deeply critical of business in American society argued for the expensing of stock options in order to “control” executive pay. (“Expensing” means that corporations would have to deduct an estimate of the current value of a stock option as a compensation expense, thus reducing corporate profits accountants report and in the view of the proponents communicating to investors a more realistic view of the actual profit of the company.) While stock options were definitely being abused, broad-based stock options had expanded to their height in American history in high tech knowledge firms in Silicon Valley and several other high tech corridors nationally at the same time this debate took place. Expensing became the law of the land and was imposed by the SEC and the Financial Accounting Standards Board with strong support from Congress and the Bush Administration and many in the Democratic Party. The reaction to expensing was a major set back for broad-based worker ownership in the U.S. In order to keep their expense down and their profits up, and instead of reforming executive pay, many corporations just moved to push mid-level managers, professionals, middle class and working class workers *out of their option programs*, thus reducing the expense, keeping their reported profits up and eliminating the stock option-based form of broad worker ownership for millions in the middle class. The Bush Administration could have allowed expensing to proceed with a special tax credit for corporations that awarded stock options to most or all of their workers. Progressives from the Democratic Party could have defended worker owners. But neither group acted. By not taking that approach, the result has been a 34% drop in broad-based

stock options at publicly-traded corporations nationwide and a 70% decline in the computer services industry which is a proxy for Silicon Valley. This reversal of a major form of worker ownership was induced by the Federal Government and the political leadership of the country.

ESOPs.

During the Administration of President George H. W. Bush Sr. and President Bill Clinton, there were a number of tax incentives and accounting policies that gave large publicly-traded corporations a strong incentive to spread large amounts of ownership to their workers. They had been implemented during the Administration of President Ronald Reagan. For example, banks could get a tax benefit for part of the interest income they made on loans to an ESOP if they immediately granted worker ownership to their workforce which often led to lower interest rates to ESOPs and large increases in worker ownership in publicly-traded corporation on the stock markets. In combination with policies on dividends used to pay for the stock workers were accumulating and other policies, this led to something that is hard to appreciate today: the major Wall Street banks set up “employee stock ownership” teams in order to sell such transactions to major corporations. During this period, *it was not uncommon for deals selling 5%, 10%, 15% of large corporations to the workers, without, as has been noted ESOPS make possible, workers having to put up their wages or savings to pay for the stock which was paid for out of future profits.* In some cases, majority or 100% worker owned firms were created too. Worker ownership had Wall Street’s attention. Initially, the Bush Administration eliminated the tax incentive for the banks to do this with large public companies but left the tax incentive to do this when an ESOP was buying a corporation to create a majority worker-owned firm. As part of its deficit cutting program early in the Administration, Clinton’s Treasury Department reversed the incentive for purchases of companies that created majority worker owned firms. The bipartisan damage was done and the Wall Street banks’ worker ownership departments disbanded and the percent of worker ownership among major corporations started declining rather than substantially increasing. This reversal of a major form of worker ownership was induced by the Federal Government. Meanwhile, the Federal Government in a weekend during the Bush

Administration and throughout the entire Obama Administration extended low interest or no interest loans to the county's largest financial institutions.

401k Plans

During the Administration of President Jimmy Carter, the Internal Revenue Code was amended to allow the existence of 401k plans. The intention was to give mainly higher paid employees a place to tax shelter income that could be invested in stocks or bonds or related mutual funds for their retirement. This was not intended as a worker ownership vehicle by anyone associated with worker ownership policy. As noted earlier, many corporations encouraged workers to invest their wages in company stock funds so that from the 1980s to 2000, workers had a lot of wages tied up in the riskiest form of worker ownership when the 1987, 2000, and Great Recession hit. Thus, a Federal government that had mainly created a law to encourage the less risky ESOPs – not funded by worker wages – now created the framework for a major new form of worker ownership that was the riskiest possible. This was induced by the Federal Government. It probably was initially an unintended consequence but it has not been corrected over several Republican and Democratic Administrations. It is the view of the co-authors that no more than 10-15% of a worker's retirement portfolio in a 401k plan should be invested in company stock by regulation of the U.S. Department of Labor.

Private Equity

During the Administration of President Bill Clinton, the Treasury Department clarified that the money made by the partners in private equity firms could get a 15% tax rate rather than the higher ordinary income tax rate. The pedigree of this policy however goes back further. This led to a controversial part of American tax law that has been popularized by Warren Buffett saying he pays less tax than his secretary. It means that the partners who sell a portfolio company of a private equity firm pay 15% on the capital gain (their profit on the increase in the value of the capital investment over what the private equity firm initially paid for the portfolio company) while an average worker who gets cash profit sharing pays a much higher ordinary income tax rate, today as high as 35% in the highest bracket. While controversial with arguments on both sides of the

issue, it is a fact that successive Republican and Democratic Administrations and Congresses have kept the policy intact while doing nothing to advance individual and company based worker profit sharing. This is viewed as a form of reverse economic democracy where the Federal Government actually implemented more favorable rates for profit sharing and the increase in the value of “worker ownership” of partners of private equity firms than for average workers. This was induced by the Federal Government.⁶¹

Cash and Deferred Profit Sharing

With the advent of a stable ongoing corporate income tax as part of the American economy in the U.S. in 1909, the offering of cash profit sharing to workers came under the control of the Federal Government in the sense that all wage compensation could ultimately be subtracted from corporate income before the tax rate was applied to it. With the introduction of the 401k plan a form of deferred profit sharing also became common and in this case the Federal government was responsible for putting limits on the tax deductions allowed to firms. Without getting too technical, the views of the Federal Government on the deductibility of cash and deferred profit sharing payments to regular workers and the limits on these deductions play an important role in the future of profit sharing in the country and any attempt to expand the access of workers to capital income. By varying different technical elements regarding these deductions, the Federal Government encourages or discourages profit sharing of both types.

Special Deductions for Worker Ownership and Profit Sharing – Only For Executives

When President Bill Clinton and Vice President Al Gore ran for office in 1992, their book, *Putting People First*, argued that they would control executive pay by capping the ability of corporations to deduct more than \$1. Million in fixed salary for the top five executives. Once the Clinton Administration started, work began to implement this idea. As implemented by the Congress in an amendment to the Internal Revenue Code called Section 162(m), briefly, the policy was that a corporation could not deduct more than \$1 million to pay the fixed salary of one of the top five executives (typically, the CEO, CFO,

⁶¹ For a thorough review, see Victor Fleischer, “Two and Twenty: Taxing Partnership Profits in Private Equity Funds,” *New York University Law Review*, 83 (1) 2008: 1-59.

EVP, etc.) but that “performance-related” payments could be unlimited and the subject of unlimited tax deductions. Ironically, this attempt to control executive compensation resulted in corporations switching their compensation of top five executives precisely to “performance-related” payments such as grants of stock and stock options, and forms of profit sharing and gain sharing for top executives, namely, all forms of worker ownership and profit sharing for the top executives in the firm. The result has been tens of billions of dollars a year in tax deductions for shared capital ownership and capital income for top five executives for their worker ownership and profit sharing as both Democratic and Republic administrations have often, as has been seen, cut back on the tax incentives for broad-based worker ownership and profit sharing plans. The unintended consequence of the Clinton reforms has been to create a system in the U.S. where worker ownership and profit and gain sharing for top executives is subsidized by all other tax payers with massive tax expenditures in the billions and billions of dollars while Congress regularly spends its time arguing over the fiscal responsibility of far less expensive tax incentives that benefit a broad group of workers. This favoritism of narrowly-based “worker ownership and profit sharing plans” has been completely induced by the Federal government and has led to tens and tens of billions of dollars of subsidies for these plans from the early nineties to today. The following chart, based on the reports to the U.S. Securities and Exchange Commission of only the largest 2000 corporations in the country give a sense of how extensive these deductions have been from 1992-2009. With the corporate tax rate ranging from 15% to 35% one can readily see that simply deductions from the largest 2000 corporations for narrow based “worker ownership and profit sharing” created tens of billions of dollars of subsidies and tax expenditures for the narrowest kind of shared capitalism.⁶² The Administration of President George Bush and President Barack Obama continued these tax expenditures. The Obama Administration recently refused to consider changing them and they have been excluded from most discussions of overhauling the tax code. The Obama Administration is now starting down the road of reversing important tax incentives for majority and 100%

⁶² For a detailed study of Section 162(m), the history of the policy gone wrong and the level of the tax expenditures, see Richard Freeman, Joseph Blasi, and Douglas Kruse, *Inclusive Capitalism...* For a copy of the report, see http://www.americanprogress.org/issues/2011/03/worker_productivity.html For a video of the CAP seminar on the issue, see <http://www.americanprogress.org/events/2011/03/wages.html>

worker owned corporations organized as an S corporation. Briefly, an S corporation does not pay corporate tax but rather it's the tax is paid by individual stockholders, in the case of an ESOP, the worker-owners. At the present time an increasing number of majority and 100% worker owned firms in the country have moved to the S corporation format. The Administration is proposing to reverse this policy for "large" S corporations without having defined "large". The theme of the so-called "reforms" is to treat each kind of business equally. It is interesting that this comes after decades of basically favoring non-worker owned entities with trillions of dollars of subsidies. Observers should note that the Administration's proposals have nothing to say about eliminating the Federal Government's tax subsidy for unlimited "worker ownership and profit sharing payments" of the top five executives of public companies.⁶³

Shared Capitalism For The Top: Profit Sharing, Gain Sharing, and Employee Stock Ownership For The Top Five Executives of The Two Thousand Largest Corporations, 1992-2009.

Shared Capitalism For The Top 10,000 Executives:

Bonuses	\$54 b
Restricted Stock	\$29 b
Long-term Incentive Plans	\$11 b
Profits Made on Stock Options	\$167 b
TOTAL	\$241 b

Special Corporate Tax Benefits

The general system of corporate taxation in the U.S. provides far-reaching subsidies to most corporations. If one simply looks at estimates for the cost to citizens in tax expenditures of the three largest tax subsidies to corporations only for the period 2008-2014, one can readily see that the revenue lost in this short period is over one

⁶³ The proposal is part of the Treasury and White House report at: <http://www.treasury.gov/resource-center/tax-policy/Documents/The-Presidents-Framework-for-Business-Tax-Reform-02-22-2012.pdf>

trillion dollars. The total tax expenditure is several trillions of dollars since these various incentives and others like them were implemented after WWII.

Revenue Lost To The Citizens of the United States from Major Business Tax Provisions, 2008-2014.

Accelerated Depreciation/Expensing Provision.....\$662. Billion

WHAT IT IS: When determining their taxes, businesses can deduct from their income the cost of new plant or equipment but they are allowed to do it at a faster rate. This reduces corporate taxes by the amount shown.

Deduction for U.S. Production/Manufacturing Activities.....\$258. Billion

WHAT IT IS: When determining their taxes, businesses can deduct from their income part of their earnings on products they create in the U.S. but “products” include fast food hamburgers and even software. This reduces corporate taxes by the amount shown.

Research and Experimentation (R&E) Tax Credit.....\$133. Billion

WHAT IT IS: When determining their taxes, businesses receive a tax credit for the cost of research and development of new and improved goods or services. This costs the other taxpayers the amount shown.

Total \$1.053
Trillion

Source: *The Report on Tax Reform Options*, Table 9, Special Tax Provisions Substantially Narrow The Business Tax Base, p. 77, The White House, 2010.

To the extent that the stock held by high wealth individuals in the country is highly concentrated at the top and that compensation plans for capital ownership and capital income (that is, narrow based worker ownership and profit sharing plans) are, as research as shown, generally concentrated in the top 5% of managerial jobs, then these corporate subsidies are in effect subsidies of those narrow plans. There may be reasons

for these corporate subsidies, namely, reasons to give tax incentives so corporations can deduct the cost of equipment faster or their earnings on products produced in the U.S. or their expenses for research and experimentation, or to encourage them to buy capital equipment with beneficial depreciation but there is not a good argument for spending trillions of dollars in public tax expenditures to subsidize an economic system where capital income and capital ownership is so concentrated. Businesses should have the right to employ their capital as they wish and they should have the right to compensate workers as they see fit. However, the public tax expenditures of the entire United States citizenry should not be used to subsidize concentration of capital ownership and capital income and to actually create disincentives for worker ownership and profit sharing.

As one can see from these examples, many of the key policies on corporations that impact worker ownership and profit sharing in the country are far from neutral. In fact, many of them are focused on exacerbating the concentration of capital ownership and capital income in the country at the cost of tax expenditures funded by all citizens. Once one realizes the implications of just these few examples of Federal policy, it becomes obvious that the reason that there is not more worker ownership and profit sharing nationwide is partly a function of the political economy of the actions of various White House Administrations and Congresses and not because individuals and organizations cannot figure out how to implement broad-based worker ownership and profit sharing.

Policies

How then could private sector actions and Federal policy be changed in order to encourage more broad-based worker ownership and profit sharing? It is important to restate the rationale for this entire discussion that was articulated at the beginning of this proposal: capital ownership and capital income are highly concentrated in American society in a way that does not necessarily reflect individual performance and ways must be found to give more citizens access to an ownership stake in the economy for their benefit, for the benefit of society, and for the benefit of democracy. Here are some ideas

that would encourage the institutional designs suggested and change some of the disincentives. These ideas are ranked in terms of the importance that the co-authors attach to them in moving towards a more democratic economy.

First, the entire area of worker ownership and profit sharing needs to enjoy a level of legitimacy at least equal to the pockets that currently exist in American society and the research evidence of its workability. The field of ideas is the most important field if these concepts are to receive economy-wide implementation. Sociologists can play an important role by exploring these ideas and realities in their classes, in liberal arts institutions and in Business and Management Schools, by initiating more graduate and post-graduate research in the area, and by understanding the policy barriers at the Federal and state levels in a lot more detail. Students who will implement these ideas and realities or confront them in their lives need to understand these phenomena more. An important responsibility for expanding this legitimacy falls on social scientists who are professors in business or management schools where the education of future managers, policy makers, and corporate leaders takes place. Worker ownership and profit sharing at all levels of the business sector should be thought and analyzed at least in proportion to their appearance in the society. Recently, several initiatives have been developed as resources for faculty. One is the Curriculum Library on Employee Ownership of the Aspen Institute's Center for Business Education at <http://www.caseplace.org/d.asp?d=4665> that is the Internet home for college teaching on these subjects with useful cases, research, and videos.

Second, individual citizens need to have a strong incentive to support worker ownership and profit sharing. They will do this if they personally see the benefit for them and their families of the idea. Thus, the barriers to individual workers receiving capital ownership and capital income should be substantially removed by the Federal Government. It makes little sense to create economy-wide worker ownership and profit sharing if the fruits are heavily taxed so that substantial capital ownership and capital income do not flow into the hands of workers. Regarding worker ownership, the Obama Administration's plans to substantially increase the tax on capital gains and dividends from stock ownership should be reversed and these taxes should be very small for

citizens making less than \$200,000 per year. This will meaningfully reduce the Federal Government's taking of the fruits of all forms of worker ownership that grant workers shares or options. The beneficial treatment of dividends will make it possible for corporations to develop worker ownership plans that can be financed with dividend payments if workers elected to do that. Profit sharing payments to individuals making under \$200,000 per year should be at a very low capital gains rate not at the income tax rate for ordinary income. Knowing that workers will receive a greater amount of the fruits of their labor will make workers more interested in these ideas and supporting their introduction and make corporations and managers more likely to consider them.

Third, individual workers and groups of workers need to be educated about the fact that the major approaches to building wealth in American society are now capital income and capital ownership. Workers and groups of workers should request worker ownership and profit sharing and take an interest in such programs. In most firms this will mean meetings between management and individual workers, ad hoc group of workers, or Employee Ownership Associations to discuss ways to increase the levels of worker ownership in as least a risky way as possible. It is not widely understood that some large corporations in the last century (especially in the defense sector) have had worker shareholder associations that have played a constructive role. In the small proportion of the labor force that is organized by unions, worker ownership and profit sharing should be a regular issue brought up during collective bargaining. Capital ownership and capital income should be on the agenda of every worker and group of workers at every company in the nation.

Fourth, the Federal subsidies to corporations – the top three of which constitute a trillion dollars in redistribution of the taxes of citizens to corporations – should all be conditioned on corporations having a broad based worker ownership or profit sharing plan as part of a three-pronged effort to cut the U.S. deficit, lower the corporate tax rate, and, quite importantly, to encourage broad-based capital ownership and capital income (worker ownership and profit sharing) in the United States. Thus, corporations should only have access to special corporate privileges such as the tax deduction for accelerated depreciation, the tax deduction for U.S. manufacturing/production activities, and the

research and experimentation tax credit, and others, if these corporations have broad-based worker ownership or profit sharing programs for all their employees. The elimination of these tax breaks has already been called for by the bipartisan National Commission on Fiscal Responsibility and Reform (called The Deficit Commission) set up by President Obama and nominally supported by both parties. The White House's own internal Report on Tax Reform Options by the President's Economic Advisory Board also recommended that the elimination of these corporate subsidies also be considered in combination with the reduction of corporate taxes. If interest payments on debt for mergers, deferral of active income of foreign controlled corporations, deferral of gain on installment sales, special inventory-related deductions, and exclusion of investment income on life insurance contracts are added, the amount of these tax expenditures would be much larger than a trillion dollars over the next ten years. It is also proposed that this idea include tax incentives for the repatriation of foreign profits by U.S. corporations which is a major policy priority for the corporate sector. It is expected that this change will give every corporation an incentive to consider establishing broad-based worker ownership and profit sharing. It is not the intention that the Federal government "regulate" these programs so there should be only a few general guidelines, namely, that the programs must include all workers and the benefits must be assigned at least in proportion to salary and at the minimum the benefits going to the top 5% of workers in the company should go to the other 95%, and that the worker ownership programs not be based on having workers buy stock with their savings or wages but be based, as are virtually all worker ownership programs for executives, on grants of stock or stock options or similar equities. This follows the general norm established by the Employee Retirement Income Security Act of 1974 that substantial tax expenditures should be offered to corporations when the benefits (in that case retirement plans) are broadly based. Beyond that, as the research has shown, there are enough models in the private sector and research to motivate the design of the plans. The corporate sector has been asking for a lower corporate tax rate to make American corporations more competitive. If corporations are meaningfully owned by their workers and profit sharing is widely practiced, then this makes a lot of sense as a characteristic of a economic democracy. This one change to the corporate tax code will make major publicly-traded

corporations and the Wall Street banks that advise them turn again to the ideas of worker ownership and profit sharing and encourage all businesses to consider the concepts.

Fifth, the special unlimited deductions for compensation of the top five executives in publicly-traded corporations under Section 162(m) of the Internal Revenue Code that allow corporations that result in the American public essentially subsidizing narrow based “worker ownership and profit sharing plans” will be available only to publicly-traded companies establishing broad-based worker ownership and profit sharing plans as noted above. The intent here is not to regulate how corporations compensate their executives. They should be able to pay whatever they want consistent with shareholder approval, however when Federal tax deductions funded by national citizen-wide tax expenditures are used, the subsidies must be for broad-based capital ownership and profit sharing plans. Once corporations have the incentives to spread these program widely, they will continue the spreading efforts in American society to figure out what forms of work organization and worker involvement will maximize the chance that these programs improve corporate performance.

Sixth, the legal and policy status of worker cooperatives needs to be fundamentally transformed. The extant research on worker ownership and profit sharing suggests that worker cooperatives could and should have a much larger footprint in American society than they do. Part of the problem is that the worker cooperative sector has been very “inward focused” on making very small cooperatives work. Worker cooperatives today are using 19th century legal and policy structures to confront a 21st century economy. Lawyers need to design a legal format for a worker coop that, for the purpose of U.S. law, looks and acts like an ESOP, so that the coop-ESOP can use all the existing tax benefits of ESOPs, especially, the ability to use leverage to acquire other businesses. Some technical amendments to ESOP legislation may be necessary to accomplish this and they would likely garner quick bipartisan support.

Seventh, there is need for a more sweeping form of legislation to encourage every corporate employer to consider a broad-based employee stock ownership plan that can be implemented quickly and easily and fairly with minimal cost and regulation. This bill focuses on the least risky form of worker ownership, namely, outright grants of stock to

workers that the workers do not purchase with wages or savings in any way. A interesting bill has been introduced into the House of Representatives on February 17, 1011 (H.R. 786) by Representative Dana Rohrabacher (R-CA) that was earlier co-sponsored by Rep. Ron Paul (R-TX). This bill is a good illustration of the non-partisan nature of the broad-based worker ownership concept. The bill says that if any corporation grants stock to all their workers that the worker does not have to pay any ordinary income tax on the capital gain in the shares if the worker holds them for at least ten years. This applies only to the lowest amount of worker ownership that any worker received in the company, in other words, a highly paid worker can only get the benefit if they get a grant equal to the lowest grant to any worker. The bill does not apply to the top five executives of the company in order to maintain its focus on regular workers. Another To encourage many corporations to adopt annual gradual increasing worker ownership in the economy, the corporation will get a deduction from its corporate income for tax purposes of the fair market value of the stock granted each year. The bill would encourage all corporations in the United States to establish small and gradually building amounts of worker ownership each year. Both Representatives have said that they consider broad-based worker ownership to be a true example of what the economic system should be like in a democracy and they have both spoken out strongly in favor of majority worker-owned firms. Paul, for example, introduced the Employee Ownership Act of 1999, to create a new type of majority worker-controlled corporation that would be exempt from most Federal income taxes. The 1999 bill cited the research evidence by saying in the Finding action of the proposed act: “There is considerable evidence that employee-owned and employee-controlled corporations are more productive and provide more wealth to their employees than corporations not so owned.”⁶⁴ The legislation should be expanded to include grants of stock options.

Eighth, cash profit sharing and deferred profit sharing needs to be aggressively promoted so that corporations have a strong incentive to design profit sharing programs that allow the companies to perform better and profit sharing can be to some extent used

⁶⁴ For a copy of the bill, see http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=112_cong_bills&docid=f:h786ih.txt.pdf For a copy of the bill on majority employee-owned corporations introduced by the two Representatives that then included some Democratic support, see [http://thomas.loc.gov/cgi-bin/query/z?c106:H.R.1462.IH:](http://thomas.loc.gov/cgi-bin/query/z?c106:H.R.1462.IH)

to fund limited purchases of company stock in order to gradually increase the amount of worker ownership in the country. The mechanism to do this is that profit sharing payments to workers will be deductible at 125% of the amount for corporations as long as most of the workers are receiving at least the average of their salary for the last three years. This is to prevent companies from reducing workers' wages and shifting it to profit sharing. Individual workers and corporations should be excused from the 6.2% Social Security tax (called FICA) on broad-based cash profit sharing. Interviews conducted by the co-authors with a range of investment bankers, merchant bankers, and private equity professionals suggest that every transaction would consider broad-based profit sharing if this incentive were adopted.

Ninth, the tax incentives to encourage broad-based employee ownership plans implemented first in the Reagan Administration and later eliminated by the Bush and Clinton Administration should be re-introduced. Thus, banks should be able to deduct half of their interest income on loans to worker trusts to buy stock to be immediately allocated and distributed to workers and there should be generous tax incentives to use dividends on this stock to help repay the loan. The goal here is to bring back that period of time in the 1990's when all the major Wall Street banks were selling worker ownership products to major corporations.

Tenth, regarding private equity firms, the partners of private equity firms would be able to continue to have the special 15% tax on their profits and capital appreciation on private equity deals, if they had broad-based worker ownership or profit sharing plans in the private equity firm as a whole and in all of their portfolio companies. There is no question that the private equity phenomenon has become a major wealth producer in the economy. Last year a leader of one of the major private equity firms in Europe proposed that all private equity firms be required by law to share broad-based stock options with the workers of portfolio companies. Interviews by the co-authors with some private equity professionals in the United States confirm that with minimal incentives private equity firms could easily move towards considering equity and profit sharing programs for all their portfolio companies. These discussions have gone even further. Many of these professionals, who themselves are mainly compensated by equity and profit

sharing, suggest that the democratic capitalism programs might actually improve performance and this, ironically, “pay for themselves” and increase their own wealth. Some private equity professionals believe that the firms are more likely to distribute broad-based stock options, and the next proposal will address that and make it more likely.

Eleventh, the stunning decrease of broad-based worker ownership through stock options that has taken place in the high tech and science-based sector of the economy needs to be reversed by a realization that the expensing of stock options reform of the Bush Administration basically punished mid and lower level managers and supervisors, professionals, middle and working class workers in those firms. The policy debate over stock options expensing need not be restarted, however, the White House and Congress, should move immediately to grant a tax credit to companies of all sizes that grant stock options to more than 50% of their workers with an increased incentive if 100% of workers are included. This will reintroduce the more extensive levels of a less risky form of worker ownership to the high tech sector and make stock options an ongoing possibility for the myriad of science-based and other business start-ups.

Twelfth, while worker ownership has spread most in the small business sector of firms from 100-500 workers and the tax incentives are well developed in this area, the very successful model of the U.S. where successful family-owned firms increasingly transition to worker ownership needs to be aggressively encouraged. Many successful small businesses face a serious crisis when the founder or entrepreneur wishes to retire. Because the businesses are closely-held the founder or his or her family cannot “cash out” his or her equity using the public stock market. In this situation, sometimes competitors buy the company in order to shut it down. In general, this idea is good for family businesses who have the option to cash out of the business they built, pass the firm they helped built to the workers who helped build it, and receive some tax benefits as a result. Currently, under Federal law, a small business owner who sells 30% or more of his or her firm to a broad-group of workers is excused from capital gains taxes on the sale if the proceeds are invested in other securities after the sale. The S corporation ESOP is also used to buy such businesses. How can this be expanded as successive generations of

small and family-owned business owners look to cash out and consider who the next owner will be? Existing ESOP tax incentives should not be rolled back as some Republicans and Democratic plans to reform the tax code envision. Rather, some expansions need to take place.

Applications from minority-owned and women-owned businesses with broad-based employee ownership and profit sharing plans would be given special preference. Loans by banks to closely-held small businesses that are corporations or limited liability partnerships or worker cooperatives in order to establish Employee Stock Ownership Plans or similar broad-based worker share ownership plans would receive lower interest rates through a financing incentive. Banks that loan money to these businesses to establish broad-based employee ownership would be able to deduct half of their interest income on the loan. This would encourage the banks to offer lower interest rates to the small businesses. The loans would be to worker trusts or entities that established broad-based worker ownership with the capital being used to develop the businesses. The Federal Government should do a review of how the Small Business Administration could encourage broad-based profit sharing and employee ownership not funded with worker savings at every level of its organization. A wide variety of formats of shared equity should qualify including ESOPs, worker cooperatives, partnerships and others. SBA needs to provide some additional funding to train its staff and make information available to the public. The Small Business Administration's staff is not adequately trained to make available information on broad-based shared capitalism to prospective entrepreneurs.

Other policy changes would substantially increase the chances that successful small businesses will be sold to the workers or owned by the workers. When a small business of more than 50 workers is going to be sold, there should be a requirement that the company issue a letter (similar to the requirement that employees must be notified by letter of a plant shutdown) providing the workers with a right of first refusal to make an offer to purchase the firm for sixty days. The sixty days will provide a group of workers and professional managers time to explore the feasibility of the workers buying the firm and closing the transaction. The company would get a \$50,000 tax credit to explore the

feasibility when the letter is issued. This would apply to sole proprietorships and limited liability partnerships and limited liability partnerships that are a more and more common ownership format in the country. If a publicly-traded corporation sold one of its divisions to a broad-based employee ownership plan, that corporation would have its corporate tax on the gains from the sale cut in half if a broad group of workers ended up owning more than 30% of the business. All U.S. Department of Energy loans and related programs to encourage alternative energy development would be made available only to firms that could demonstrate meaningful broad-based profit sharing or equity participation plans by their workers.

The Federal Government should adopt a federal regulation to the effect that firms that are substantially employee-owned will receive first priority in bidding on any and all defense contracts, and any and all federally-funded infrastructure contracts whether funded directly by the federal government or indirectly through state and local agencies, including construction projects, energy projects and/or health care projects.

Thirteen, in order to decentralize business information and education on broad-based capitalism to the states and put more power on these issues at the local level, Congress should initially establish state centers in each of the states with a one-time Federal grant of \$5. Million seed money each that could be used for the first three years of support. These state centers would help educate local bankers, lawyers, investment bankers, and accountants in their states on the private sector skills necessary to develop inclusive capitalism. After three years the centers would have to become self-sufficient. These private sector actors are the front line for identifying businesses that could benefit from the establishment of a variety of broad-based profit sharing and employee ownership plans or are available for sale to the employees and a professional management team. They would be available to do quick feasibility studies of small and medium businesses that were available for sale. Two states, Ohio and Vermont, have such centers, the Ohio Employee Ownership Center and the Vermont Employee Ownership Center, which has quietly behind the scenes helped develop a network of stable employee-owned firms in Ohio. The state centers would also advise state and local

government officials on policies to encourage shared capitalism in their regions. The effect of these policy changes would be to encourage every small business to at least think about considering a form of employee stock ownership not based on worker savings or to examine the feasibility of an ESOP sale to workers if the business were to be sold.

Fourteen, state and local governments that are closer to the people need to become more involved in encouraging broad-based worker ownership and profit sharing. Two states have centers to promote worker ownership that mainly do outreach to legal and financial professionals and small business owners and network groups of worker-owned companies and firms considering the idea. They are Ohio and Vermont. They play a similar role that the non-profit National Center for Employee Ownership and the regional chapters of the ESOP Association and the Employee Ownership S Corporation of America play nationally. Recently, two states have implemented more far-reaching policies to promote worker ownership. Under Republican Governor Mitchell Daniels, the Treasurer of the State of Indiana now deposits state funds in banks that agree to give worker-owned firms lower interest loans. In his January 10, 2012 Condition of the State Speech, Iowa Republican Governor Terry Branstad said that advancing employee ownership would be one of his state goals. He announced a proposed state-wide law to promote worker ownership involving no capital gains taxes on business owners who sell to ESOPs, technical assistance for conversions to worker ownership by the Economic Development Authority, and more education of citizens on worker ownership by the EDA. The bill recently passed the State House by 92-3 with strong bipartisan support and is expected to pass the State Senate soon. The time is ripe for other state and local initiatives. To start, when a state or local government extends tax abatements to new industries a broad-based capital ownership or income plan offered to all workers should be required.⁶⁵ Social scientists need to focus their research on identifying state and local policies. For starters, every sitting Governor and Mayor of a large city should be asked

⁶⁵ For the organizations mentioned see: www.nceo.org , www.esopassociation.org/, www.esca.us , www.oeockent.org/, www.veoc.org/pt360. On the state initiatives, see, on Indiana, <http://www.in.gov/tos/2343.htm> and on Iowa, see <http://www.timesrepublican.com/page/content.detail/id/158501/Iowa-House-approves-new-worker-stock-ownership-plan.html?isap=1&nav=5013>

by a coalition of economic democratic firms to name an advisor on expanding these ideas.

Fifteen, these reforms also require some reforms in corporate governance. The easiest place to start is with publicly-traded corporations since the U.S. Securities and Exchange Commission can require corporate governance regulations nationally for such corporations. Currently, the SEC is discussing certain blockholders and large holders of corporate stock to add nominees to the slate of directors chosen for the annual shareholder meeting. At the minimum, every 10% of worker ownership in a publicly-traded corporation should entitle the workers to nominate a director to run for a board seat at the shareholder meeting. Changing this at the state level is more complicated because there are 50 different state corporate laws. There are a wider variety of broader reforms that could potentially support the move towards greater worker ownership and profit sharing. One expert on democratic capitalism, Ray Carey, a former executive, has proposed that the tremendous capital in 401k plans and pension plans be harnessed to economic development by having infrastructure bond funds with credible dividend yields. A related idea might be to have funds that invest in a diversified portfolio of worker-owned and profit-sharing corporations.⁶⁶

Sixteen, more must be done to encourage wide-ranging study of worker ownership and profit sharing in academia. Higher education and the various disciplines of the social sciences and the humanities have an important role to play in understanding how worker ownership and profit sharing can work economy-wide. It would certainly appear from a review of the concepts, the existing pockets, and the research evidence that worker ownership and profit sharing have a lot of potential to help reverse some of the trends in the distribution of capital ownership and capital income in the society that appear to have no rational relationship to organizational efficiencies. Unfortunately, for a variety of reasons, these phenomena continue to be extremely understudied.

⁶⁶ For more on Carey's society-wide proposals, see the Carey Center for Democratic Capitalism at <http://www.democratic-capitalism.com/> and Ray Carey, *Democratic Capitalism* (Bloomington: Author House, 2004). Carey connects these ideas to many of the classical social and economic philosophers.

A recent audit by the co-authors of Ph.D.'s working in these areas in the last two decades suggests that the level of new scholars and scholarship has been small compared to the diffusion of these ideas in the country. Most of these scholars did not attain tenured positions or even any positions in Universities and many left the field. It is possible that a different more conventional model of the business world is favored by many academic departments and business and management schools. Many disciplines have made very little room for these ideas. Some scholars are stuck in a perfectionistic attitude about how they expect worker ownership and profit sharing to look so that if it does not look that way, they wish to have nothing to do with it. Meanwhile, decades of research suggest some real potential for flotation of these ideas, certainly, enough to expect they can represent a Real Utopia.

In order to help develop research on a different paradigm, the Fellowship Program at the Rutgers University School of Management and Labor Relations was established five years ago. The fellowship program, patterned after the Andrew W. Mellon Fellowships in the Humanities awards about twenty fellowships a year to young and seasoned graduate students and post-doctoral scholars who have serious research questions related to worker ownership, profit sharing, and the idea of economic democracy in American society. From year to year the program invites all current and past fellows to participate in the Mid-Year Fellows Workshop in honor of Louis O. Kelso and a Summer Beyster Symposium in order to share research and ideas and develop the area of study. There are now over 80 fellows and the program will now continue into its sixth year. The co-authors would like to invite scholars from all disciplines to consider applying for this program. (<http://smlr.rutgers.edu/research-and-centers/fellowship-programs>) Many more questions need to be answered in order to figure out when these ideas work and how and why they might function in the different sectors of society.

Conclusion

There are several big issues about moving the entire economy towards broad-based worker ownership and profit sharing to consider as one looks forward. Do

Americans want it? Can these ideas really play a role in the coming discussion of general tax reform? What does this do to the future of the corporation? How does this impact “identify sociology” that has been historically so concerned with the disparate treatment of many groups in American society?

Do Americans want it? In 1975 Peter Hart Associates surveyed the American population on this question. When given the choice between a investor-controlled company, a worker-controlled company, and a government-controlled company, 66% preferred a worker-controlled company, only 20% preferred an investor-controlled company, and 8% preferred a government-controlled company. Support for the worker-controlled company cut across political affiliation, age, region of the country, income, occupation, and political conservatism or liberalism. Half of all groups approximately projected that the performance of the economy would improve if there was a move in this direction and most citizens would prefer to work for such a company.⁶⁷

Can these ideas really play a role in the coming discussion of general tax reform? Public intellectuals and social scientists now need to realize that the coming discussion within both the Democratic Party and the Republican Party and within the next Administration and the next Congress has a major role to play in the future of economic democracy in the United States. As has been demonstrated, many issues in the Federal tax code deeply impact whether corporations with concentrated capital ownership and capital income get supported or whether the public’s tax expenditures are used to encourage broad-based capital ownership and capital income. If conservatives and liberals and independents who agree on broad-based worker ownership and profit sharing do not surface these issues with politicians then the chapter on expanding economic democracy will largely be closed in American history. Research evidence that they are good ideas is not enough in the face of determined Federal government barriers to transform the entire economy. One critical argument has to do with whether tax benefits for broad-based worker ownership and profit sharing are just another “special interest” and must give way to a “level playing field.” The co-author’s view on this question is

⁶⁷ See Jeremy Rifkin, *Own Your Own Job: Economic Democracy for Working Americans* (New York: Bantam Books, 1977): 145-148

very close to the view of many of the Founders of the American Republic: it was thought then by a bipartisan cross-section of the Founders that broad-based property ownership was necessary for a democracy to exist and that citizen participation in a democracy required sufficient individual ownership (at the time thought of as land ownership and self-reliance) so that citizens could not be manipulated by political parties. It is also unlikely that general tax reform will actually take place. If that is the case, it would be a shame if the barriers to broad-based worker ownership and profit sharing are allowed to continue to exist, and worse, that tax incentives for the opposite continue to flourish,

What does this do to the future of the corporation? The move towards broad-based worker ownership and profit sharing addresses many of the criteria that Jerry Davis laid out in his book *Managed by the Markets* for the reform of the corporation and the American financial system. The reforms were to encourage “long-term attachments between employees and firms” where corporations have “obligations to their employees and their broader communities as well.” He envisioned a more stable version of the “ownership society” and a focus on the work organization within the firms. Davis worried about the impact of the evolution of the corporation on inequality, the onset of “educational insecurity” that meant the “loss of career ladders” for improving income and wealth inside firms and the end of the “corporate safety net.” Broad-based worker ownership and profit sharing in a participatory corporate culture are deeply relevant to all of these points. Davis quoted James Madison in *The Federalist* #10 “where he argued that different kinds of property ownership lead to different “sentiments” and perceptions of political interests.”⁶⁸ Indeed, economic democracy is more friendly to political democracy and it creates the “variety of capitalism” that is most distant from both feudalism and the state ownership versions of state socialism and dictatorial communism. This leads to the last point.

How does this impact “identity sociology” that has been historically so concerned with the disparate treatment of many groups in American society? In their book, The

⁶⁸ See Davis, *Managed by the Markets*, 237-41, 249-250, 251. On Madison, see p. 23.

*Spirit Level: Why Greater Equality Makes Societies Stronger?*⁶⁹ Richard Wilkinson and Kate Pickett argue that greater economic equality is likely to short-circuit the passions in society that lead to inter-group conflict. The co-authors hope that greater economic democracy has the potential to lead to a better civil society.

⁶⁹ Richard Wilkinson and Kate Pickett, *The Spirit Level: Why Greater Equality Makes Societies Stronger?* (New York: Bloomsbury Press, 2009).

Bibliography

- Adams, H.B. *History of Cooperation in the United States* (Baltimore: Johns Hopkins University and N. Murray, 1988).
- Akerlof, George. "Labor Contracts as Partial Gift Exchange," *Quarterly Journal of Economics*, 97 (1983), 543-569.
- Allegretto, Sylvia. "The State of Working America's Wealth, 2011," *EPI (Economic Policy Institute) Briefing Paper* no. 292, March 23, 2011.
- Ash, Merri, Kelly Q. Driscoll, Michael Falk, Colleen Helmer, Brian Ippensen, Alex W. Kirby, Anthony Mathews, Helen Morrison, Corey Rosen, James Steiker, Cecil Ursprung. *ESOPs and Corporate Governance* (Oakland: National Center for Employee Ownership, 2009).
- Axelrod, Robert M. *The Evolution of Cooperation* (New York: Basic Books, 1984).
- Bado, Jim, Stephen Clifford, Dave Fitz-Gerald, Brian A. Inniger, Camille Kerr, Kellee Kroll, Linshuang Lu, Christopher Mackin, Liz McKeever, Alexander Moss, Tracey Myers, The Phelps County Bank ESOP Committee, Loren Rodgers, Corey Rosen, Virginia Vanderslice, and Jack Veale. *The ESOP Committee Guide* (Oakland: National Center for Employee Ownership, 2011).
- Barro, Robert, and Jose Ursua. *Stock Market Crashes and Depressions* (Cambridge: National Bureau of Economic Research, Working Paper 14760, 2009).
- Bemis, Albert. "Cooperation in New England," *Publications of the American Economic Association* (later *The American Economic Review*) 1 no. 5 (1887): 335-464.
- Benartzi, Shlomo. "Excessive Extrapolation and the Allocation of Company Stock to Retirement Accounts," *Journal of Finance*, 56, no. 5 (2001): 1747-1764.
- Benartzi, Sholmo, and Richard Thaler. "Naïve Diversification Strategies in Defined Contribution Savings Plans," *American Economic Review*, 91, no. 1 (2001): 79-98.
- Blasi, Joseph R. *Employee Ownership: Revolution or Ripoff?* (New York: HarperCollins, Ballinger Books, 1988).
- Blasi, Joseph and Douglas Kruse. "U.S. High Performance Work Practices at Century's End," *Industrial Relations*, 45 (4), 2006: 547-578.
- Blasi, Joseph and Douglas Kruse. *The New Owners: The Mass Emergence of Employee Ownership in Public Companies and What It Means for American Business*. (New York: Harper Collins, 1991).

Blasi, Joseph, Douglas Kruse, and Aaron Bernstein. *In The Company Of Owners* (New York: Basic Books, 2003).

Blasi Joseph, Richard Freeman, Christopher Mackin, and Douglas Kruse. "Creasting a Bigger Pie? The Effects of Employee Ownership, Profit Sharing, and Stock Options on Workplace Performance," in Douglas Kruse, Richard Freeman, and Joseph Blasi (Editors), *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options* (Chicago: University of Chicago Press, 2010).

Brancato, Caroyln Kay and Stephan Rabimov. *The 2008 Institutional Investment Report: Trends in Institutional Investor Assets and Equity Ownership of U.S. Corporations* (New York: The Conference Board, 2008).

Bryant, Adam. "Labor Rifts Return to Employee-Owned United Airlines," *The New York Times*, January 16, 1997: n.p.

Bullock, R.J. and Mark E. Tubbs. "A Case Meta-Analysis of Gainsharing Plans as Organization Development Interventions," *Journal of Applied Behavioral Science*, 26, no. 3 (1990): 383-404.

Carberry, Edward. "Who Benefits from Shared Capitalism: The Social Stratification of Wealth and Power of Companies with Employee Ownership?" in Douglas Kruse, Richard Freeman, and Joseph Blasi (Editors), *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options* (Chicago: University of Chicago Press, 2010).

Carey, Ray. *Democratic Capitalism* (Bloomington: Author House, 2004).

Chaplinsky, Susan. *United Airlines: Employee Buyout* (Charlottesville: University of Virginia Darden Graduate School of Business Administration, 1998).

Davis, Gerald F. *Managed by the Markets: How Finance Re-shaped America*. (New York: Oxford University Press, 2009).

Dillian, Jared. *Street Freak: Money and Madness at Lehman Brothers* (New York: Touchstone, 2011).

Doucouliaagos, C. "Worker participation and productivity in labor-managed and participatory capitalist firms: a meta-analysis," *Industrial and Labor Relations Review*, 49, no. 1 (1995), 58-77.

Economic Advisory Board of the President of the United States. *The Report on Tax Reform Options* (Washington, D.C.: The White House, 2010.)

Ellerman, David. *Property and Contract in Economics: The Case for Economic Democracy* (Oxford and Boston: Blackwell, 1993).

Fleischer, Victor. "Two and Twenty: Taxing Partnership Profits in Private Equity Funds," *New York University Law Review*, 83, no. 1 (2008): 1-59.

Freeman, Steven F. *Effects of ESOP Adoption and Employee Ownership: Thirty years of Research and Experience* (Philadelphia: Organizational Dynamics Programs, University of Pennsylvania, 2007 Working Paper #07-01).

Freeman, Richard, Joseph Blasi, and Douglas Kruse. *Inclusive Capitalism for the American Workforce* (Washington, D.C.: Center For American Progress, 2011).

Frohlich, N., J. Godard, J. A. Oppenheimer, and F. A. Starke. "Employee Versus Conventionally-owned and Controlled Firms: An Experimental Analysis," *Managerial and Decision Economics* 19, no. 4/5 (1998): 311– 26.

Fudenberg, Drew, and Eric Maskin. "The Folk Theorem in Repeated Games with Discounting or with Incomplete Information," *Econometrica*, 54, no. 3 (1986), 533-54

Hand, John R.N. "Give Everyone a Prize: Employee Stock Options in Private Venture-backed Firms," *Journal of Business Venturing*, 23, no. 4 (2008): 385-404.

Hansen, D. G. "Worker Performance and Group Incentives: A Case Study," *Industrial and Labor Relations Review* 51, no. 1 (1997): 37– 49.

Google Inc., *Google December 31 2009 Annual Report* (Washington, D.C.: U.S. Securities and Exchange Commission, February 12, 2009 [date filed]).

Google Inc., *Google 2011 Proxy Statement* (Washington, D.C.: U.S. Securities and Exchange Commission, April 20, 2011 [date filed]).

Gordon, Jeffrey. Employee Ownership in Economic Transitions: The Case of United Airlines, *Bank of America Journal of Applied Corporate Finance*, 62, no. 3 (1998): 39-62.

Jacoby, Sanford. *Modern Manors: Welfare Capitalism Since the New Deal* (Princeton: Princeton University Press, 1997).

Kaarsemaker, Eric C.A. "Employee ownership and its consequences: Synthesis-generated evidence for the effects of employee ownership and gaps in the research literature." York, UK: University of York, 2006.

Kruse, Douglas. 1993. *Profit Sharing: Does It Make A Difference?* (Kalamazoo: W.E. Upjohn Institute for Employment Research, 1993).

Kruse, Douglas, and Joseph Blasi. "Employee Ownership, Employee Attitudes,

and Firm Performance: A Review of the Evidence." In David Lewin, Daniel J.B. Mitchell, and Mahmood A. Zaidi, eds., Human Resources Management Handbook, Part 1. (Greenwich, CT.: JAI Press, 1997).

Kruse, Douglas, Richard Freeman, and Joseph Blasi (Editors). *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options* (Chicago: University of Chicago Press, 2010).

Kruse, Douglas, Joseph Blasi, and Richard Freeman. *Does Linking Worker Pay to Firm Performance Help the Best Firms Do Even Better?* (Cambridge: National Bureau for Economic Research, 2012, Working Paper 17745).

Kruse, Douglas. *Research Evidence on Prevalence and Effects of Employee Ownership, Testimony Before the U.S. House of Representatives* (New Brunswick, N.J.: Rutgers University School of Management and Labor Relations, 2002).

Leung, Mike. *The Worker Cooperative Capital Structure* (San Francisco: Unpublished working paper, 2011).

Leung, Leung. *Worker Cooperative Start-ups: Capital and Cooperative Values* (San Francisco: Unpublished working paper, 2011).

McDonald, Lawrence G. and Patrick Robinson. *A Colossal Failure of Common Sense: The Inside Story of the Collapse of Lehman Brothers* (New York: Crown Business, 2010).

McLean, Bethany ,and Peter Elkind. *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron* (New York, Penguin Portfolio Trade, 2004).

Meyers, Joan S. M. "Employee Ownership, Democratic Control, and Working-Class Empowerment," in Edward J. Carberry, ed., *Employee Ownership and Shared Capitalism: New Directions and Debates for the 21st Century* (Ithaca, NY: Cornell University Press, Labor and Employment Relations Association Volume, 2011).

Mingay, G. E. *English Landed Society in the Eighteenth Century* (London: Taylor and Francis, 1963).

Mishel, Lawrence, Jared Bernstein, and Heidi Shierholz. *The State of Working America, 2008-2009* (Ithaca: Cornell University Press, 2010).

National Center for Employee Ownership. "Equity Compensation in Private Companies," *Employee Ownership Report*, 32, no. 1 (2012): 1, 7.

National Commission on Fiscal Responsibility and Reform. *The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform* (Washington, D.C. , National Commission on Fiscal Responsibility and Reform, 2010).

The New York Times and CBS New., “National Survey of Tea Party Supporters,” *The New York Times*, New York, New York, April 5-12, 2010.

Organization for Economic Cooperation and Development (OECD). “Profit Sharing in OECD Countries,” *OECD Employment Outlook*, 139–69, 1995.

Opdyke, Jeff D. , and Michelle Higgins. “What The New Option Rules Mean for Your Pay,” *The Wall Street Journal*, August 7, 2002.

Pavlo, Walter Jr., and Neil Weinberg. *Stolen Without a Gun: Confessions From Inside History’s Biggest Accounting Fraud – The Collapse of MCI Worldcom* (Encino, Ca.: Etika Books, 2007).

Peterson, Suzanne J., and Fred Luthans. “The Impact of Financial and Nonfinancial Incentives on Business-Unit Outcomes Over Time,” *Journal of Applied Psychology*, 91, no. 1 (2006): 156–165.

Pew Center for the People and the Press. *A Political Rhetoric Test* (Washington, D.C.: Pew Research Center, May 4, 2010).

Piketty, Thomas, and Emmanuel Saez. “Income Inequality in the United States, 1913-1998,” *Quarterly Journal of Economics* 118, no. 1 (2003): 1-39.

Rifkin, Jeremy. *Own Your Own Job: Economic Democracy for Working Americans* (New York: Bantam Books, 1977):

Rosen, Corey, and Loren Rodger., *Fundamentals of Ownership Culture* (Oakland: National Center for Employee Ownership, 2011).

Rosen, Corey. *ESOP and 401k Plan Employer Stock Litigation Review* (Oakland: National Center for Employee Ownership, 2011).

Rosen, Corey, Donald Davis, Ronald J. Gilbert, Joseph V. Rafferty, Scott Rodrick, David R. Johanson, Robert F. Schatz, Bruce F. Bickley, James G. Steiker, Douglas Jaques, Brian Snarr, James H. Willis, and Michael A. Coffey. *Selling to an ESOP* (Oakland: National Center for Employee Ownership, 2011).

Ruef, Martin. *The Entrepreneurial Group* (Princeton: Princeton University Press, 2010).

Saez, Emmanuel. “Striking It Richer: The Evolution of Top Incomes in the United States,” *Pathways Magazine*, Winter 2008: 1-8.

Shaw, Albert. “Cooperation in a Western City,” *Publications of the American Economic Association* (later *The American Economic Review*) 1 no. 4 (1887): 129-228

Lee Soltow, "The Distribution of Property Values in England and Wales in 1798," *Economic History Review*, 34, no. 1 (1981), 60-70.

Stewart, Thomas A. . *Intellectual Capital: The New Wealth of Organizations* (New York: Random House, Crown Business, 1998).

TheCityUK, *Financial Markets Series: Private Equity*, August 2011 (London: TheCityUk, 2011).

Thompson, F. M.L. "The Social Distribution of Landed Property in England Since the Sixteenth Century," *Economic History Review*, 19, no. 3 (1966): 565-517.

Census Bureau, U.S. *Statistical Abstract of the United States* (Washington, D.C.: Government Printing Office, 2012).

Ward, Vicky. *The Devil's Casino: Friendship, Betrayal, and the High Stakes Games Played Inside Lehman Brothers* (New York: John Wiley & Sons, 2011).

Warner, Amos G. "Three Phases of Cooperation in the West," *Publications of the American Economic Association* (later *The American Economic Review*) 2 no. 1 (1888): 1-119.

Weiss, Andrew, "Incentives and Worker Behavior," in Haig Nalbantian, ed., *Incentives, Cooperation, and Risk Sharing* (Totowa, N.J.: Rowman and Littlefield, 1987).

Welbourne, T. M., and L. R. G. Mejia, "Gainsharing: A Critical Review and a Future Research Agenda," *Journal of Management*, 21, no. 3 (1995): 559– 610.

Wilkinson, Richard and Kate Pickett, *The Spirit Level: Why Greater Equality Makes Societies Stronger?* (New York: Bloomsbury Press, 2009).

Williams, Mark. *Uncontrolled Risk: Lessons of Lehman Brothers and How Systemic Risk Can Still Bring Down the World Financial System* (New York: McGraw Hill, 2010).

Wright, Erik Olin. *A Sketch of the Real Utopias Theme and Program for the 2012 Annual Meeting of the American Sociological Association* (Washington, D.C.: American Sociological Association, October 20, 2010 Revised).

Zernike, Kate, and Megan Three-Brenan, "Poll Finds Tea Party Backers Wealthier and More Educated," *The New York Times*, April 14, 2010.

Appendix I.

Note: The non-profits that contributed to Rutgers University to underwrite the "shared

capitalism” component of the General Social Survey were: The Employee Ownership Foundation, the Foundation for Enterprise Development, the National Center for Employee Ownership, and the Profit Sharing Council of America.

TABLE 1: Participation in Employee Ownership and Stock Options, 2002-2010						
Based on analysis of 2002, 2006, and 2010 cross-sectional General Social Surveys						
	All private sector			For-profit companies	Companies with stock	
	2002 (1)	2006 (2)	2010 (3)	2010 (4)	2010 (5)	
Percent of employees covered						
Own company stock	21.2%	17.5%	17.4%	20.6%	36.0%	
Stock options	13.1%	9.3%	8.7%	11.2%	23.8%	
Number of employees covered (millions)						
Total employees in economy [^]	108.8	114.3	107.3	93.6	41.0	
Own company stock	23.0	20.0	18.7	18.7	18.7	
Stock options	14.3	10.6	9.3	9.3	9.3	
Sample size	1242	1173	795	690	394	

The figure for total private sector employees comes from Bureau of Labor Statistics establishment data for July of the given year. The BLS does not provide employee counts for not-for-profit organizations and companies with stock, so columns 4-5 are estimates based on the distribution of respondents in the General Social Survey sample.

Source: Analysis and question design by Douglas Kruse, Joseph Blasi, and Richard Freeman, National Bureau of Economic Research Shared Capitalism Project. The items were included in the 2010 General Social Survey which was administered by the National Opinion Research Center at the University of Chicago. The GSS is mainly supported by the National Science Foundation. The shared capitalism segment of the GSS for 2010 was supported by the Employee Ownership Foundation, the ESOP Association, the Foundation for Enterprise Development, the Beyster Institute at the University of California-San Diego, the Profit Sharing Council of America, and the National Center for Employee Ownership.

TABLE 2: Panel Data on Participation in Shared Capitalism, 2006-2010				
Based on analysis of 2006-2010 General Social Survey panel				
Private sector employees in both years				
	2006	2010	Change	
	(1)	(2)	(3)	
Percent of employees covered				
Own company stock	18.3%	23.5%	5.2%	
Stock options	7.4%	8.5%	1.1%	
Profit sharing	42.2%	37.6%	-4.6%	
Gain sharing	28.9%	25.3%	-3.6%	
Any shared capitalism	51.1%	49.8%	-1.3%	
Intensity				
Co. stock as pct. of annual earnings				
Mean	61.9%	70.3%	8.4%	
Median	22.7%	47.9%	25.2%	
Profit/gainsharing as pct. of annual earnings				
Mean	11.5%	9.7%	-1.8%	
Median	7.6%	6.2%	-1.4%	
Pct. Of EO stake bought by employee				
Mean	51.4%	44.6%	-6.8%	
Median	50.0%	50.0%	0.0%	
Sample size	377	377	377	
Source: Analysis and question design by Douglas Kruse, Joseph Blasi, and Richard Freeman, National Bureau of Economic Research Shared Capitalism Project. The items were included in the 2010 General Social Survey which was administered by the National Opinion Research Center at the University of Chicago. The GSS is mainly supported by the National Science Foundation. The shared capitalism segment of the GSS for 2010 was supported by the Employee Ownership Foundation, the ESOP Association, the Foundation for Enterprise Development, the Beyster Institute at the University of California-San Diego, the Profit Sharing Council of America, and the National Center for Employee Ownership.				

Table 3: Pay and HR Measures, by Type of Shared Capitalism, 2006						
	All	If covered by profit sharing	If covered by gainsharing	If hold co. stock	If hold stock options	
Fixed pay relative to market						
Lower	32.4%	24.1% *	20.2% *	30.9%	26.4%	
Same	46.9%	51.2% *	49.2%	43.5%	49.7%	
Higher	20.7%	24.8% *	30.5% *	25.6%	23.8%	
Employee involvement team	30.2%	42.1% *	44.7% *	43.0% *	41.6% *	
Self-directed work team	33.3%	43.8% *	48.7% *	38.6%	44.0% *	
Training in past year	47.3%	59.0% *	66.5% *	64.8% *	70.2% *	
How hard co-workers work						
Mean of 0-10 scale	7.15	7.35 *	7.36 *	7.27	7.39	
Not hard (0-3)	6.9%	4.9% *	5.4%	5.1%	3.8%	
Somewhat hard (4-6)	27.0%	23.5% *	23.6%	22.4%	22.8%	
Hard (7-10)	66.2%	71.6% *	71.0% *	72.5% *	73.5%	
Ease of seeing co-workers work						
Mean of 0-10 scale	7.93	8.06	8.15	8.03	8.47 *	
Difficult (0-3)	11.4%	10.6%	9.6%	13.3%	5.2% *	
Somewhat easy (4-6)	10.6%	7.8% *	8.3%	6.3% *	9.7%	
Easy (7-10)	77.9%	81.6% *	82.1% *	80.3%	85.1% *	
Percent of employee ownership bought with employee savings or money from wages						
Mean				43.2%		
Median				50.0%		
0%				28.2%		
1-33%				19.3%		
34-66%				17.5%		
67-99%				12.1%		
100%				23.0%		
* Difference between those with this type of shared capitalism and all other employees is significant at the 95% level.						

TABLE 4: Participation in Shared Capitalism Programs, by Job Characteristics (2010)

Figures represent percentages of all private-sector employees in category at left who are covered by program at top of column. Based on 2010 General Social Survey.

	Percent who hold:		Sample size (3)
	Company stock (1)	Stock options (2)	
Overall	17.4%	8.7%	795
Industry			
Ag./mining/constr.	17.3%	1.8%	51
Durable mfg.	23.7%	10.3%	48
Non-durable mfg.	30.5%	19.8%	63
Transportation	8.4%	4.1%	30
Comms./utilities	47.3%	36.3%	18
Wholesale	2.0%	0.0%	20
Retail	20.8%	12.5%	157
Finance/insurance	23.5%	14.8%	63
Computer services	20.6%	17.5%	10
Other services	9.2%	3.4%	297
Occupation			
Management	21.9%	11.5%	91
Mgt.-related	28.5%	17.0%	28
Professional	17.9%	8.5%	116
Other white-collar	23.1%	13.7%	242
Service	5.2%	1.4%	135
Blue-collar	15.4%	5.1%	159
Hours of work			
Full-time	20.8%	10.4%	627
Part-time	4.9%	2.9%	147
Union member			
No	17.4%	9.3%	481
Yes	15.0%	10.3%	31
Employer tenure			
0-2 years	8.8%	3.6%	295
2-4 years	16.4%	8.0%	144
5-9 years	19.3%	14.6%	167
10+ years	31.5%	11.8%	183
Yearly work earnings			
<\$15,000	4.3%	0.6%	175
\$15-30,000	11.2%	6.1%	142
\$30-50,000	21.1%	9.4%	148
\$50-75,000	28.4%	17.2%	117
\$75,000+	38.1%	23.6%	83
Size of establishment			
1-9 employees	9.2%	1.7%	172
10-49 employees	11.5%	5.7%	210
50-99 employees	12.9%	6.1%	104
100-499 employees	26.1%	14.5%	167
500-999 employees	35.0%	22.1%	47
1000-1999 employees	28.7%	11.0%	27
2000+ employees	29.4%	21.0%	55
Size of company			

TABLE 5: Participation in Shared Capitalism Programs, 2002 and 2006							
Based on analysis of 2002 and 2006 General Social Surveys							
		All private sector		For-profit companies	Not-for-profit orgs.	Companies with stock	
		2002	2006	2006	2006	2006	
		(1)	(2)	(3)	(4)	(5)	
Percent of employees covered							
Profit sharing							
	In profit-sharing plan	33.5%	38.4%	39.6%	23.8%	47.8%	
	Received profit share last year	23.8%	30.2%	31.2%	17.3%	38.3%	
Gainsharing							
	In gainsharing plan	23.2%	26.8%	27.8%	14.7%	34.6%	
	Received gainsharing bonus last year	17.1%	21.3%	22.2%	11.1%	28.6%	
	Own company stock	21.2%	17.5%	19.0%	0.0%	34.9%	
Stock options							
	Hold stock options	13.1%	10.8%	11.8%	0.0%	25.7%	
	Granted options last year	na	6.1%	6.7%	0.0%	14.8%	
	Any of above	43.1%	46.7%	48.6%	23.8%	62.6%	
Number of employees covered (millions)							
	Total employees in economy [^]	108.8	114.3	105.7	8.5	56.9	
Profit sharing							
	In profit-sharing plan	36.5	43.9	41.9	2.0	27.2	
	Received profit share last year	25.9	34.5	33.0	1.5	21.8	
Gainsharing							
	In gainsharing plan	25.2	30.6	29.4	1.3	19.7	
	Received gainsharing bonus last year	18.6	24.4	23.4	0.9	16.3	
	Own company stock	23.0	20.0	20.0	0.0	20.0	
Stock options							
	Hold stock options	14.3	12.3	12.5	0.0	14.6	
	Granted options last year	na	7.0	7.1	0.0	8.4	
	Any of above	46.9	53.4	51.4	2.0	35.7	
Size of financial stakes							
Bonus size if received profit sharing							
	Dollar value	Mean	\$7,135	\$6,876	\$6,977	\$3,998	\$6,869
		Median	\$1,500	\$2,000	\$2,000	\$4,000	\$2,000
	Percent of salary	Mean	8.5%	9.5%	9.7%	5.1%	9.2%
		Median	4.5%	5.4%	5.5%	5.1%	5.5%
Bonus size if received gainsharing							
	Dollar value	Mean	\$7,797	\$7,788	\$7,902	\$4,704	\$7,903
		Median	\$1,500	\$2,500	\$2,500	\$4,000	\$2,500
	Percent of salary	Mean	8.9%	10.0%	10.1%	5.5%	9.2%
		Median	3.8%	6.0%	6.2%	5.1%	6.0%
Company stock value if own stock							
	Dollar value	Mean	\$46,411	\$32,691	\$32,691	---	\$32,691
		Median	\$10,000	\$10,000	\$10,000	---	\$10,000
	Percent of salary	Mean	81.4%	56.8%	56.8%	---	56.8%
		Median	21.2%	25.0%	25.0%	---	25.0%
	Sample size		1242	1173	1081	92	595
Profit sharing is defined as eligibility for bonuses based on overall organizational performance.							
Gainsharing is defined as eligibility for bonuses based on department or plant performance.							
[^] The figure for total private sector employees comes from Bureau of Labor Statistics establishment data for July 2002 and 2006. The BLS does not provide employee counts for not-for-profit organizations and co with stock, so columns 3-5 are estimates based on the distribution of respondents in the General Social Survey sample.							