Center for American Progress

Growing the Wealth

How Government Encourages Broad-Based Inclusive Capitalism

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Introduction and summary

American companies use a variety of financial incentives, from broad-based profit sharing and stock options to worker cooperatives and employee stock ownership plans, to reward their employees with a portion of the wealth those workers help generate. This kind of compensation goes well beyond simply paying wages or providing individual incentives, but rather involves granting workers ownership stakes in the company or a share of its profits based on workers' collective performance—a concept we describe as inclusive capitalism.

Inclusive capitalism, when partnered with democratic workplace practices, has a proven record of helping workers and businesses alike in a myriad of ways. Additionally, it is an economic philosophy that can draw bipartisan support. Yet policy to advance inclusive capitalism has not been part of the national dialogue for quite some time.

The purpose of this report is to change this dynamic and jump-start a policy conversation aimed at promoting inclusive capitalism. While we do not advocate for specific policy changes in this report, our hope is that it will spark dialogue among policymakers and advocates about how inclusive capitalism can help address some of the most fundamental problems facing our economy; what government can do to encourage employers to use it more; and how to ensure that inclusive capitalism is done right so workers can enjoy the upsides of broad-based sharing and having an increased say on the job without being exposed to undue risk.

Inclusive capitalism is by no means a new or rare phenomenon in the United States. Companies and workers have practiced inclusive capitalism since the founding of our nation.[1] Today almost half of U.S. workers receive some sort of inclusive capitalism compensation—though in most firms its use is quite limited.[2]

Companies practicing broad-based inclusive capitalism range from unionized American steel manufacturers and air carriers to leading technology firms to growing, socially minded companies. The United States Steel Corporation, for example, pays quarterly cash profit-sharing payments to its unionized workforce, while a significant portion of Southwest Airlines' stock is owned by its employees.[3] Likewise, the high-tech firm Intel Corporation rewards its employees with both cash profit sharing and broad-based stock ownership through restricted stock and stock options.[4] And then there are the socially minded companies such as the tea and coffee purveyor Equal Exchange and the beer maker New Belgium Brewing that are both employee-owned, the former through a worker cooperative and the other through an employee stock ownership plan.[5]

At its best, inclusive capitalism aligns the interests of workers and employers in ways that benefit both parties. Workers are respected and compensated for their contributions toward the firm's success. Firms benefit from increased worker productivity, greater worker satisfaction, and employees with the drive to suggest and make changes to improve company performance.

Consequently, inclusive capitalism can improve company performance while at the same time improving worker wellbeing. As such, these programs are not about redistributing wealth but about creating additional wealth shared between American workers and businesses.

Studies of inclusive capitalism bear this out. For both lower- and middle-income workers, inclusive capitalism is associated with higher pay, expanded benefits and greater job security, participation in decision making, trust in the company and management, and better labor-management relations.[6]

For businesses, inclusive capitalism is often associated with increased productivity and profitability and a greater likelihood of corporate survival. In addition, companies benefit from greater worker loyalty and effort, lower turnover rates, and an increased willingness on the part of workers to suggest innovations.[7] Looking specifically at one type of inclusive capitalism—employee stock ownership plans, or ESOPs—Douglas Kruse, professor and director of the doctoral program in industrial relations and human resources at Rutgers University, found that productivity improved by 4 percent to 5 percent on average in the year of ESOP adoption and continues after adoption, more than doubling the rate of annual productivity growth of the U.S. economy over the past 20 years.[8]

Another study examining the effects of stock options found that companies that offered options broadly to their employees showed significant improvements in their firm's operating performance.[9]

Investors also come out ahead when companies adopt capital-sharing programs. Companies and investors that adopt partnership approaches make profits over and above the cost of sharing ownership with employees, according to a review of more than 70 empirical studies.[10]

Finally, inclusive capitalism in the form of worker-ownership is often thought to benefit democracy by giving workers a real, participatory role in their work life that can translate into their civic life.[11]

In short, inclusive capitalism can encourage competition and profit-seeking behavior that can benefit investors, managers, and workers, which is why the concept has attracted believers of all political stripes. Former President Ronald Reagan called these sorts of programs "People's Capitalism" and argued that the "energy and vitality unleashed by this kind of People's Capitalism—free and open markets, robust competition, and broad-based ownership of the means of production—can serve this nation well."[12]

Similarly, the liberal icon Sen. Hubert Humphrey Jr. (D-MN) called capital sharing one of the "twin pillars of our economy."[13]

Not only can inclusive capitalism help workers and business and draw bipartisan support, but it has the potential to address at least partly some of the most fundamental problems facing our country: weak economic growth, excessive speculative economic activities that fail to build societal wealth, high unemployment, stagnant worker compensation, and the dramatic differences in income and wealth between the struggling middle class and the very rich.

Today policymakers continue to support inclusive capitalism. A bipartisan list of advocates ranging from Sen. Bernie Sanders (I-VT) and Rep. Chaka Fattah (D-PA) to Sen. Kelly Ayotte (R-NH) and Rep. Dana Rohrabacher (R-CA) separately introduced legislation in the 112th session of Congress to expand government support for inclusive capitalism.[14] But only the most modest of these bills received any legislative action and inclusive capitalism has not yet become a part of the larger national debate on how to address the nation's economic problems.

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Despite this across-the-board support for the concept of wealth sharing, far too few workers enjoy the benefits of broad-based sharing programs. More than half of American workers do not have access or choose not to participate in inclusive capitalism programs and most participating workers receive only very modest amounts of income from these programs.[15]

What's more, sharing programs are sometimes implemented in ways that take advantage of workers. On occasion companies have implemented sharing programs that expose workers to excessive risk, using the programs as a substitute for good wages and benefits or providing their workers little say on the job. Neither workers nor firms benefit from inclusive capitalism when workers are marginalized.

Research suggests that the most successful broad-based sharing programs are those in which workers have a high level of trust of management, are paid wages at or above the market rate, and have a high level of job security and involvement in decision making over their work at the job and department level.[16] A recent study of 780 companies employing more than 300,000 workers confirms that the best results happen when broad-based inclusive capitalism is combined with a supportive company culture.[17]

Yet today most companies provide generous incentive pay only to top executives providing rewards for the short-term success of the company.[18] While strong evidence suggests that providing workers with a stake in a firm's performance leads to good results for both the firm and the workers, paying executives based on company performance has a very mixed record and is a major cause of the growing income gap between the middle class and the top 1 percent.[19]

Government should do more to limit excessive top executive pay and ensure that incentive pay for corporate executives encourages decision making to support the long-term, sustainable growth of the company. The Center for American Progress has recommended closing loopholes in the tax code that allow firms unlimited deductions on executive compensation in the form of incentive-based pay.[20] Similarly, Germany passed a law in 2009 reining in excessive executive compensation, which included provisions stipulating that management boards should reduce executive compensation when companies perform poorly and requiring that incentive compensation be determined based on longer-term performance.[21]

While the debate surrounding reining in executive pay has received a good deal of attention, how to encourage real broad-based sharing has not been included in this conversation and outside the personal knowledge of a narrow group of experts, little information is available for interested parties seeking to understand the relevant policy issues.

The purpose of this report is to provide baseline knowledge that is essential to creating a broad discussion about inclusive capitalism policy. To help achieve this goal, the report describes the types of inclusive capitalism that firms currently practice and briefly reviews the history of federal policy in this area.

Most importantly, our report catalogs existing government policies that support inclusive capitalism programs providing one-stop shopping for those seeking to understand what governments are doing in this area. Both federal and state governments have a long history of supporting inclusive capitalism programs—with policy mechanisms that range from federal tax incentives to state technical assistance programs—but these efforts have not been compiled in a comprehensive way.

Additionally, we highlight some key questions about how existing inclusive capitalism policy is working and the challenges to ensuring that inclusive capitalism helps all workers. Addressing these questions will be important for any future policy development. Lastly, we discuss the potential of inclusive capitalism to address at least partly some of the most fundamental problems facing our economy.

This report is an initial analysis of the current policy landscape supporting inclusive capitalism. We hope that it helps provide a path forward for policymakers to support broad-based and sustainable capital-sharing programs.

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