Center for American Progress

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Building Workers' Wealth in Cities and States

State and Local Policies to Support Employee Ownership and Broad-Based Profit-Sharing

By Karla Walter

January 2020

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Introduction and summary

Every year, millions of Americans benefit from employee ownership and broad-based profit-sharing plans that ensure workers receive a share of the wealth that they help create. These programs—which reward workers based on a company's collective performance rather than workers' individual performance—help raise wages and boost wealth among American workers. Moreover, research shows that broad-based sharing programs support the long-term stability and profitability of local businesses and even do a better job boosting firm-level productivity than does performance pay for individual workers.

As a result of these benefits, city and state policymakers across ideological divides—including the conservative strongholds of Iowa and Nebraska and the progressive bastions of Berkeley, California, and Newark, New Jersey—are increasingly adopting policies to support and expand the use of employee ownership and broad-based profit-sharing.[1] Yet, too few jurisdictions are taking advantage of such programs. Cities and states could do much more to advance the use of all types of profit-sharing plans, which help ensure that workers are able to prosper in the 21st century.

Despite working in an expanding economy with low levels of unemployment, Americans' wages are only slowly inching up.[2] According to a 2018 report from the Economic Policy Institute, labor income for the bottom 90 percent of Americans as a share of all market-based income shrunk by 11 percentage points between 1979 and 2015.[3]

Moreover, the wealth of everyday Americans is shrinking while racial wealth disparities are increasing. The average wealth level for the bottom half of American households was approximately $20,500 in early 2019—about half of what working-class families were able to save 20 years earlier.[4] In addition, the wealth gap between white households and African American and Latino households has only increased since the Great Recession.[5]

At the same time, large corporations are too often focused on short-term profits rather than long-term investments and increasingly share profits only with corporate executives and top talent. Moreover, an ongoing wave of retirements among Baby Boomer business owners could lead to the sale or shuttering of local businesses that employ millions of American workers.[6]

Employee ownership and broad-based profit-sharing—granting workers ownership stakes in the company or a share of its profits based on workers' collective performance—promise to help alleviate a number of these problems. These plans include everything from profit-sharing and stock options that are sufficiently broad based to employee stock ownership plans, employee ownership trusts, and worker cooperatives.

Studies that compare workers enrolled in broad-based sharing programs with workers in similar companies without sharing programs find that participating employees—including those who are African American, Latino, or working class—experience higher wages and wealth.[7] Businesses that offer such programs are more likely to have other types of retirement plans as well.[8] Research also shows that firms and investors receive tangible benefits from sharing with their workers, and, by selling to their workers, retiring business owners can preserve local jobs and the legacies of their companies.[9]

Yet, today, far too few workers receive significant benefits from employee ownership and broad-based profit-sharing. While the federal government has adopted a number of policies to support sharing programs—such as tax advantages for companies and owners interested in selling to their employees—policymakers at all levels of government can take further action to ensure that more workers are able participate in these sorts of programs.

This report seeks to increase knowledge among state and local lawmakers on the benefits of broad-based profit-sharing; review existing policies that state and local leaders are using to expand the use of these programs; and recommend innovative reforms that can help cities and states go even further. Specifically, state and local policymakers should:

- Establish an office of employee ownership and broad-based profit-sharing to provide outreach and technical assistance to private sector businesses and workers and serve to improve government knowledge and support for all types of broad-based sharing.
- Ensure employee-owned firms can access existing government loan programs and use public funding to help facilitate ownership conversions.
- Evaluate government contractors on whether they provide good jobs and encourage them to share ownership and profits with their workers.
- Require government-supported tech startups to share equity, profits, or ownership with their workers.

By adopting these sorts of reforms, policymakers can help expand the use of employee ownership and broad-based profit-sharing; increase the well-being of working families; and support strong local economies.

Ways to share

Private sector companies have adopted a variety of programs to share profits with their workers, ranging from employee stock ownership plans and worker cooperatives—which allow workers an ownership stake in the company—to cash-based profit- and gain-sharing programs, which pay workers a portion of the capital-related income they helped generate but do not grant ownership.

All of these plans compensate a broad base of workers—not just top executives—on the basis of group performance rather than individual performance. While some programs fundamentally change workers' relationships with their employers and provide significant capital payments, others have fairly modest effects on workers. What follows is an overview of the various types of ownership and broad-based profit-sharing plans that companies currently practice in the United States.[10]

Worker cooperatives: Co-ops are typically started by ideologically affiliated workers and are owned and democratically controlled by their member owners. Co-op members elect their board of directors. Co-ops pay taxes on income kept within the co-op for investment and reserves but not on any surplus revenues that are returned to individual members who pay taxes on that income.

Employee stock ownership plans (ESOPs): ESOPs are tax-qualified employee benefit plans that typically offer workers an ownership stake in a company without having to spend their own money to purchase stock. ESOP companies set up a trust fund into which they contribute new shares of their stock or cash to purchase existing shares. Workers receive their stock when they retire or leave the company, and the company must buy the stock back at its fair market value unless the worker is able to sell it in the public market. The ESOP trust may also borrow money to buy shares, with the company making payments to the trust in order to repay the loan. Private companies often use leveraged ESOPs to buy out company founders and other shareholders.

401(k) plans with ownership of company stock: With these retirement plans, workers and companies make pretax contributions from their pay to buy company stock or the company gives employees company stock as a match to employee contributions. As 401(k)s have become the primary retirement vehicle for many workers, the federal government has increasingly scrutinized 401(k)s with investments in employer stock and made a number of changes to regulations in order to encourage investment diversity.

Employee ownership trusts (EOTs): Employers transfer stock to a perpetual trust that is administered on behalf of all current and future employees. Participants typically receive a percentage of profits annually as a cash payment. EOTs are rare in the United States and do not enjoy tax-advantaged status. However, employee ownership advocates are increasingly promoting their expansion due to the relatively low cost of establishing the plans, flexible plan designs, and the trust's ability to maintain shared ownership of the company in perpetuity.[11]

Employee stock purchase plans: Employers subsidize the purchase of company stocks outside of a retirement plan, typically offering workers stock at a 10 percent to 15 percent discount, usually over an offering period that ranges from three months to as many as 27 months. Enrolled employees buy company shares with after-tax contributions deducted from their paychecks.

Stock options, restricted stock, phantom stock, and stock appreciation rights: In these hybrid programs, benefits are tied to either the value of shares—as in restricted stock and phantom stock—or to increases in stock prices—as with stock options and stock appreciation rights. Workers may or may not ever actually own shares except for a very short period once the awards are exercised.

Profit-sharing: When the firm makes money, employees are paid a share of the profits. Payments can be offered either in cash—such as annual cash bonuses—or employer contributions of company stock. Profit-sharing becomes employee ownership when profits are received in the form of stock. Contributions can be made to deferred plans that are placed in individual tax-qualified retirement accounts where earnings accrue tax free until withdrawal.

Gain-sharing: Workers receive payments based on the performance of their unit rather than the entire company. Performance is typically measured as productivity or cost savings. Payments are typically made in cash.

Employee ownership and profit-sharing can raise standards for everyone

A growing body of research indicates that providing workers with a stake in firm performance—when coupled with good pay and benefits and a voice on the job—leads to good results for the firm, its shareholders, its workers, and the economy at large. Research finds that these programs often empower workers by increasing their participation in decision-making and trust in the company and management; they are also associated with higher pay and benefits as well as greater long-term wealth accumulation.[12]

Benefits for workers

Studies measuring the benefits of various types of broad-based sharing programs find that workers' wages are significantly higher when compared with those of workers in similar companies without sharing programs. Employees are also up to five times more likely to have another retirement plan, and a recent study also finds that workers participating in an ESOP hold more than twice the average total retirement balance of Americans nationally.[13]

Moreover, workers participating in these programs are far more likely to have other types of benefits that are increasingly essential, including paid maternity and paternity leave; tuition reimbursement; flexible work scheduling; and even company-provided or subsidized child care.[14]

Employee ownership does not replace other types of wealth; research finds that it results in a substantial net gain in wealth.[15] One study of companies in Finland also found that even when firms with profit-sharing plans struggle—either by experiencing losses or decreases in profitability—companies do not respond by lowering workers' wages.[16]

These results demonstrate the potential of these programs to help stem the tide of income stagnation and rising wealth inequality and ensure that middle- and working-class American families see the benefits of economic growth.

Employee ownership and broad-based profit-sharing programs also promise to help boost the incomes and wealth of women and people of color, who continue to be paid significantly less than comparable men and white workers and, as a result, have difficulty accumulating wealth. For example, in 2018, women in the United States earned 85 percent of what men earned.[17] And a 2017 study from the Center for American Progress found that African Americans hold approximately one-tenth of the wealth of white Americans.[18]

While the effects of employee ownership on women and people of color merit far more study, emerging research is beginning to demonstrate that participating in such a program leads to both earnings and wealth increases. For example, a 2017 study from the National Center for Employee Ownership using data from a sample of more than 5,500 respondents found that workers of color who participate in an ESOP—compared with those who do not—earn 30 percent more in wages; hold nearly 80 percent more in net household wealth; and have a median tenure at their current job that is 36 percent longer.[19]

The study also found that single women participating in an ESOP earned wages that were 24 percent higher than the wages of those with no ownership benefits and held 51 percent more in net household wealth.[20]

Similarly, a 2019 Institute for the Study of Employee Ownership and Profit Sharing qualitative study, which included detailed interviews with 92 low- to moderate-income ESOP participants, found that African American study participants held three times more wealth in their ESOP and 401(k) than the overall median wealth for African American households in the United States. Moreover, Latino study participants held 12 times more in retirements savings than the median wealth level for Latino households in the United States.[21]

Benefits for employers and the greater economy

Business owners also benefit when workers share in a firm's profits: Research shows that sharing programs are associated with greater worker loyalty and effort, lower turnover rates and absenteeism, and a greater willingness on the part of workers to put in longer hours and suggest innovations.[22] For example, a 2015 study found that workers in companies with higher levels of reliance on broad-based incentive pay reported higher levels of information sharing, trust in supervisors, and improved workplace culture. The same study found that combining group incentive pay with policies that increase information sharing with workers and allow them greater participation in decision-making in turn reduced turnover and increased firms' return on equity sharing.[23]

Moreover, employee ownership and profit-sharing are often associated with increased productivity, profitability, and likelihood of the company's survival. Companies and investors that adopt partnership approaches make profits that are greater than the cost of sharing ownership with employees, according to a review of more than 70 empirical studies.[24] A recent study also found that group incentive pay—and particularly incentive pay based on firm profitability—is more effective at boosting enterprise-level productivity than incentive pay based on individual performance pay.[25]

Research shows that both public and private companies with broad-based sharing plans are less likely than their counterparts without employee ownership to go bankrupt or disappear for another reason.[26] Indeed, a study reviewing companies during a time period that included the 2001 and 2008 recessions concluded that publicly traded employee-owned firms "exhibit greater employment stability in the face of economy-wide and firm-specific negative shocks."[27]

The government also benefits from greater employment stability in employee ownership firms. Recent analyses of the General Social Survey have found that employees of firms that did not offer an employee ownership program were six to seven times more likely than employees with some form of stock ownership to have been laid off in the previous year.[28] A lower layoff rate likely results in billions of dollars in savings for the government since it does not have to bear the costs associated with supporting unemployed workers.[29]

By reducing layoffs, employee ownership may play a role in decreasing the economic, social, and personal costs of unemployment and help stabilize the economy when it is under recessionary pressures.

Disparities in access to profit-sharing and employee ownership plans

Unfortunately, while many American workers receive some form of profit-sharing compensation, the benefits do not provide a meaningful source of income or wealth to average workers at most companies with these programs, and most workers still lack access to broad-based sharing programs at all.[30]

Less than half of all U.S. workers participated in some sort of sharing plan in 2018, according to analysis from Rutgers University's School of Labor and Management Relations. About 38 percent of workers participated in a profit-sharing plan and 30 percent in a gain-sharing plan, while 20 percent owned company stock, and 9 percent held stock options.[31] In addition, the value of workers' plans varied widely. While the median value of stock owned by participating workers was $15,000 in 2018, and the average was about $75,000, the median value of profit-sharing and gain-sharing programs in 2018 was approximately $2,000, with the average value just more than $13,000.[32]

Moreover, the benefits of profit-sharing are not evenly distributed across the population. White workers hold significantly more wealth than people of color through profit-sharing and are somewhat more likely to participate in these programs. More than 20 percent of white workers participate in sharing programs of any kind, holding a median of $12,000 in wealth through sharing programs. Comparatively, just less than 11 percent of Latino workers participate in sharing programs, holding a median wealth level of less than $10,000, and approximately 17 percent of African American workers participate in sharing programs, holding a median wealth level of less than $7,000.[33]

Authors of the study believe that nationwide occupational segregation; firms' relatively recent move toward greater gender and racial diversity; and ongoing barriers to advancement may contribute to these disparities.[34]

The same pattern is true for workers across the income distribution. While nearly one-third of high-income workers participate in profit-sharing plans, just 20 percent of middle-income workers—who earn between nearly $35,000 and $99,000 annually—and only 7 percent of low-wage workers—who earn less than $35,000 annually—participate in these programs.[35]

In order to ensure that these programs' benefits are broadly shared, state and local policymakers must do more to expand the use of profit-sharing as well as think through how to target populations of workers that would benefit the most from sharing programs.

Several cities and states are working to support profit-sharing

Policymakers in several cities and states are expanding government support for profit-sharing programs in order to counteract wage stagnation, inequality, and racial disparities, as well as to support local economies. While some jurisdictions have supported programs for nearly 40 years to provide outreach and education to area businesses on transitioning to employee ownership, interest in and action on these sorts of policies is growing in other areas. Policymakers' focus has expanded to include leveraging tax incentives, other sorts of public financing, and even the government's role as a purchaser of goods and services to support the growth of profit-sharing.

In the mid-1980s, several states funded employee-ownership programs with the goal of broadening ownership, stabilizing local economies, and preventing plant closures.[36] Although the first ESOP was founded in 1956, ESOP conversions did not become more commonplace until after Congress enacted the Employee Retirement Income Security Act—the first federal statute to officially recognize ESOPs—as well as several tax incentives to encourage companies to convert to an ESOP in the 1970s and 1980s.[37] Even so, shared-ownership structures at the time were still rarely used and poorly understood by the business community.

The state programs implemented during the 1980s functioned to facilitate word-of-mouth about the benefits of employee ownership plans as well as new federal tax incentives to encourage their growth. The programs also aimed to assist owners converting to an employee ownership structure through preliminary feasibility studies, technical training and advice, and locating financial assistance; help workers and employers adopt an ownership culture; and bring together existing employee-owned businesses.

The success of these programs has varied. The Ohio Employee Ownership Center and the Vermont Employee Ownership Center have been particularly successful in increasing awareness of employee stock ownership plans throughout the country and in facilitating company conversions—particularly in small, privately held firms where owners are facing retirement.[38]

Yet, many other state programs were victims of budget cuts or were allowed to sunset. For example, Massachusetts' Office For Employee Involvement and Ownership closed due to budget cuts during the last recession.[39] And while some policymakers and advocates in the 1980s and 1990s hoped to use employee ownership as a tool to rescue failing firms, this approach fell out of favor after a handful of failed high-profile employee buyouts in struggling industries.[40]

In the past decade, however, there has been a resurgence of interest at the state and local government level in these types of programs, particularly insofar as they can serve as a tool to ensure that local businesses do not shutter when owners retire and to support good jobs that boost wages and provide a mechanism for wealth acquisition, especially among low-income residents and residents of color. These efforts have typically taken the form of three types of initiatives: education, outreach, and technical assistance on the benefits of employee ownership; financial incentives for businesses that transition to employee ownership; and offers of special corporate status to businesses that implement an employee ownership or profit-sharing plan.

Education, outreach, and technical assistance

A number of reforms expand on Vermont and Ohio's education and outreach model. Policymakers and employee ownership advocates in Colorado, California, Massachusetts, New Jersey, New York, North Carolina, and Pennsylvania as well as the cities of New York, Newark, New Jersey, Madison, Wisconsin, and Oakland and Berkeley, California, have all launched efforts in recent years to conduct outreach on the benefits of employee ownership programs.[41]

For example, Colorado Gov. Jared Polis (D) signed an executive order in spring 2019 establishing a Commission on Employee Ownership and an Employee Ownership Network. The effort promises to provide technical support to businesses that want to convert to an employee-owned structure; educate businesses and communities on the benefits of becoming employee owned; and identify barriers to the expansion of employee ownership.[42]

In his signing comments and order preamble, Gov. Polis emphasized the ability of employee ownership conversions to meet the twin goals of ensuring that workers' wages keep up with economic growth and retaining local businesses after owners' retirement.[43] Similarly, New York City provides targeted assistance to support the conversion of companies to worker cooperatives with the goal of overcoming "economic and social inequality."[44]

Financial incentives

In addition to general outreach and education, these sorts of programs often subsidize the cost of companies conducting feasibility and transition planning studies.

Other jurisdictions provide even more financial incentives to companies converting to employee ownership. For example, Iowa and Missouri have enacted legislation to exempt half of a seller's capital gain from taxation if a company is sold to an ESOP; New Jersey debated legislation that would have exempted 100 percent of a seller's gains; and many states duplicate federal tax exemptions in ways that are beneficial to ESOPs.[45] These state-level tax incentives supplement federal tax benefits to both selling owners and the firms themselves.

Indeed, there is ongoing debate at the federal level around legislation to further expand the tax benefits of profit-sharing. For example, during her 2016 presidential campaign, former U.S. Secretary of State Hillary Clinton proposed a new tax credit to spur business owners to enact broad-based profit-sharing plans.[46]

Jurisdictions are also using their power as a purchaser of goods and services to incentivize companies to adopt these sorts of structures. For example, in Cleveland, the municipal government, the Cleveland Foundation, and the city's universities and hospitals have combined their purchasing power—equivalent to nearly $3 billion dollars annually—to support community-based cooperatives that create high-quality, green jobs and support economic stability for residents of the surrounding low-income communities.[47]

Newark is encouraging businesses to implement some sort of employee ownership program as well. The city is initiating a new plan that is combining this function of outreach and education on the benefits of employee ownership with financial assistance in order to support the conversion of companies. In partnership with the Newark Community Economic Development Corporation (CEDC), the city is pairing outreach to retirement-age business owners with a public-private investment fund to help ensure that companies have the access to the capital they need to sell to their employees and provide incentives to owners interested in exiting a business quickly.[48]

ESOP conversions typically require loan payments over several years with ESOP trusts often providing selling owners with promissory notes to cover at least a portion of the proceeds from a sale. In contrast, the Newark CEDC would take on the debt in the transaction, allowing business owners to cash out immediately at the sale. Without this support, some of these retiring business owners could choose to either sell to a competitor that moves the jobs elsewhere or shutter the firm.

Special corporate status

Finally, some cities and states have enacted legislation to provide a privileged corporate status to companies that abide by higher standards, including sharing profits with their workers. At least 36 state legislatures have passed benefit corporation laws that provide certified companies with broad legal protections from shareholder reprisal, thereby allowing corporate boards to look beyond short-term financial gains and make decisions that consider broader impacts on workers and other community stakeholders as well.[49] To become certified, companies must report on their overall social and environmental performance—including their adoption of profit-sharing plans—to an independent and transparent third-party standard. These laws, for example, protect companies' decisions to sell to their workers, prioritize service to low-income communities, or adhere to higher environmental standards over profit maximization.

Indeed, cities and states are adopting numerous initiatives to boost income and wealth for area residents; supporting the long-term economic prosperity of area businesses; and creating a new generation of leaders committed to fostering these ideas.

However, cities and states could do more to support the growth of employee ownership and profit-sharing. Programs are frequently too modest in scope, reaching a relatively small number of workers and companies or supporting only one type of sharing. For example, cities and states do little to support the expansion of profit-sharing plans in large companies that may reach far more workers.

Moreover, cities and states do not do nearly enough to leverage their power as a purchaser of goods and services or incorporate employee ownership and broad-based profit-sharing into larger strategies of supporting high-quality jobs in their communities. State and local governments can raise wages and wealth for workers, support high-road businesses, and create a wider coalition of supporters by more broadly incorporating policies to promote profit-sharing in their economic policy agendas.

Policy recommendations

Policymakers in cities and states across the country are taking action to expand support for employee ownership. While the renewed interest in these sorts of policies is encouraging and will likely be expanded to more jurisdictions, there is far more that policymakers can do to support the growth of employee ownership and broad-based profit-sharing both in terms of expanding the public's understanding of the benefits of profit-sharing and ensuring that government spending programs are deployed in ways that facilitate the expansion of these sorts of programs.

Specifically, CAP recommends that cities and states:

- Establish an office of employee ownership and broad-based profit-sharing
- Use public financing to facilitate ownership conversions
- Encourage government contractors to share ownership and profits with their workers
- Require government-supported tech startups to share equity, profits, or ownership with their workers

Establish an office of employee ownership and broad-based profit-sharing

Cities and states can encourage more companies to adopt well-designed sharing programs by creating an office of employee ownership and broad-based profit-sharing. Housed in a jurisdiction's commerce department or economic development authority, this office would provide outreach and technical assistance to private sector businesses and workers and serve to improve government knowledge and support for all types of broad-based sharing.

Successful sharing programs are not always well understood by the business community or workers.[50] The benefits and mechanisms for sharing capital broadly with workers are largely absent from higher education curricula, and companies often report that they are unaware of the benefits of sharing capital income and ownership broadly. They thus lack the technical knowledge to evaluate whether to adopt these programs or how to do so.[51]

However, employee ownership and broad-based profit-sharing could provide important benefits to privately held businesses. Recent analysis by Project Equity—a nonprofit advocacy organization and consultant for companies interested in selling to their employees—estimates that Baby Boomers nearing retirement own more than 2.3 million businesses, employing nearly 25 million workers nationwide.[52] Selling to employees—rather than to a competitor, larger company, or private equity fund—is one way for these owners to ensure that local jobs and the legacy of their company are preserved. But few owners know that employee ownership is a viable option. Additionally, companies are often unaware of how employee involvement in programs paired with profit-sharing or gain-sharing can improve business performance.

An office of employee ownership and broad-based profit-sharing should award grants—at a maximum value of $500,000 per year—to a university, nonprofit, or a partnership between these entities. The goal should be to create a center of employee ownership and broad-based profit-sharing as well as to promote these sorts of programs among existing business owners and develop this knowledge among future leaders. To the extent that a similar center already exists in the state, it would also be eligible for support.

These centers would promote employee ownership and profit-sharing as well as democratic workplace culture that allows workers a stronger voice on the job by providing education and outreach, technical assistance, training, and even modest grants to small businesses to conduct feasibility studies. Grants would also fund the development of various levels and types of curricula and courses on the topic as well as academic research looking at the effects of profit-sharing broadly and its effects on women, workers of color, and low-income workers. These efforts should prioritize recipients that target assistance to support the retention and creation of businesses in low-income communities.

In order to build knowledge of sharing programs and the impact of outreach, the office would also track various measures—including growth in the number of businesses and workers participating in these sorts of programs, participant demographics, and the effect of sharing programs on the state's economy.

This concept builds on a successful model for increasing one type of sharing. As discussed above, employee ownership centers in Vermont and Ohio have successfully increased awareness and facilitated the conversion of small- and medium-sized businesses to an employee ownership structure. For example, a 2013 report found that the Ohio Employee Ownership Center has assisted about 15,000 employees in the purchase of all or part of their respective companies, adding an average of $40,000 to their individual wealth.[53]

While several cities and states have recently funded new centers focused on ESOPs and worker cooperatives, state and local officials should also promote the benefits of stock ownership and profit-sharing in order to ensure that workers at larger companies enjoy the benefits of broad-based sharing programs. They should also support low-cost options such as employee ownership trusts that make sense for smaller companies.[54]

Finally, the office of employee ownership and broad-based profit-sharing should help improve governmentwide support for employee ownership and profit-sharing programs. The office should serve as an advocate for improving government knowledge and support for well-designed, broad-based sharing. It should also increase awareness of how agency programs affect companies with sharing programs and promote the legislative or regulatory changes necessary to ensure that government policies encourage the adoption of existing and emerging sharing programs.

For example, these offices should evaluate the effects and total cost of providing additional tax incentives to business owners selling to an ESOP as well as how the government should promote and potentially regulate new forms of sharing—such as employee ownership trusts (EOTs)—and make recommendations on whether to pursue new policy in these areas.

Use public financing to facilitate ownership conversions

Employee ownership structures—including worker cooperatives, ESOPs, and now EOTs—are most frequently adopted by small businesses. According to the National Center for Employee Ownership, nearly 60 percent of ESOPs nationwide include 100 or fewer employees.[55] Moreover, the ongoing wave of Baby Boomer retirements provides a significant opportunity to convert thousands of businesses.

Several cities and states help fund feasibility studies and transition plans for existing businesses, but policymakers should also ensure that businesses have access to sufficient capital to sell to their employees. For example, at the federal level, Congress recently enacted Sen. Kirsten Gillibrand's (D-NY) Main Street Employee Ownership Act to ensure that small businesses selling to an ESOP or worker cooperative are able to access a U.S. Small Business Administration loan guarantee program.[56]

Additionally, as discussed above, the city of Newark and the Newark CEDC are going further to target local business owners who are nearing retirement. The CEDC will finance not only the cost of hiring an independent trustee and appraiser, but also—in partnership with commercial lenders and private investors—the acquisition of the business by the ESOP trust.[57]

The program should allow the CEDC as well as partnering investors to secure a moderate return on the investment while delivering cash at sale to selling owners and allowing them to avoid business broker fees. After a sale, the company will be required to train workers on their new roles as owners as well as the benefits of ownership. While the program is in its earliest stages, it is working with a handful of midsize companies on executing a sale to an ESOP.

Cities and states should ensure that all existing loan guarantee and loan programs aimed at supporting small businesses and economic development in the jurisdiction are available to firms transitioning to an employee-owned structure. In addition, cities and states—in partnership with the state or local economic development authority—should consider adopting Newark's more active investment model.

Encourage government contractors to share ownership and profits with their workers

State and local governments finance millions of jobs across the U.S. economy with the hundreds of billions of dollars that they spend each year to purchase goods and services. Yet, jobs created through government contracting are often substandard, paying very low wages and involving poor working conditions.

Some governments have developed ways in the contractor selection process to give extra consideration to employers that create good jobs. Basing bidders' scores in part on the quality of workplace practices, as well as other comprehensive criteria, can increase the likelihood that companies with better practices will win contracts and help motivate companies to improve their working conditions.[58]

Government agencies frequently evaluate bidders' proposals based on the strength of their technical ability and past performance record as they seek contractors that will provide the best value for the taxpayers—not simply the lowest price. They should use the same type of system to evaluate contractors on the quality of their workplace practices. Government agencies should give significant weight to those employers that provide decent jobs, including those that pay market wages, provide benefits, and share profits with their employees.

Incentives can potentially play a useful role in improving job standards beyond the contracted workforce and can reward employers that successfully create quality jobs.

Cities and states can encourage employers to improve job standards broadly by evaluating job quality across a bidder's entire workforce that is located within the jurisdiction rather than evaluating only standards for contracted workers. While this sort of evaluation is not without precedent, state and local policymakers should nonetheless carefully consider the criteria for measuring work quality.

As discussed above, 36 states have adopted benefits corporation laws that require third party evaluations of qualifying companies' workplace practices. Cities including El Paso, Texas, and San Jose, California, already consider the quality of jobs provided by a contractor when determining a winning bidder.[59] Similarly, California and Texas are debating legislation that would provide a contracting preference for companies that workers own through an ESOP.[60]

Finally, policymakers should ensure that a firm's status as an ESOP does not preclude it from qualifying for contracting set-aside programs. Rules governing contracting set-asides for minority-, women-, and veteran-owned businesses should ensure that employee-owned companies are able to access these programs by counting each stock trustee and plan member as an owner.

Require government-supported tech startups to provide their employees equity

State and local governments frequently promote entrepreneurship and the growth of innovative startups through various types of economic development subsidies and assistance.[61] These incentives can include grants, direct loans, support for private venture capital companies, and tax benefits for companies and investors.

For example, New York's START-UP NY program allows growing businesses to partner with eligible university or college campuses and to operate tax free for 10 years.[62] And Massachusetts' MassVentures was formed in 1978 as a quasi-public venture capital firm to provide early-stage funding as well as grants to startups working to commercialize a product.[63]

This early-stage seed funding often represents a relatively high-risk venture and is granted in cases when obtaining government support is essential to a firm's survival. Many of today's leading technology and biotechnology firms—such as Google, Apple, Tesla, Symantec, and MedImmune—were recipients of government support in their early years.[64]

Tech startups pioneered the use of stock ownership programs in the mid-20th century as a way to reward all employees upon a company's sale, but companies such as Intel, Hewlett-Packard, Science Applications International Corporation, Apple, Microsoft, and Google broadened the application of these programs over the next three decades to ensure that all employees were oriented toward the success of the company.

Yet, many tech companies have abandoned this practice in recent years, offering stock ownership to a much smaller sliver of top talent. For example, one study found that from 2002 to 2010, the portion of workers in the computer services industry benefiting from employee stock options fell by nearly 70 percent.[65]

In order to help reverse this trend, whenever a government provides at least $1 million in assistance to a company, the recipient should be required to share profits or ownership with its workers when the company goes public or is sold to another firm.[66] Companies should be required to demonstrate that the value expended on the top 5 percent of employees is equal to the amount spent on the bottom 80 percent of workers at the time of sale or public offering.[67]

Recipients could comply with this requirement by setting up broad-based incentive programs with an ongoing awards system through grants of restricted stock unions, stock options, or an employee stock ownership plan.[68] Alternatively, they could fulfill these requirements at the point of going public or a private sale, with the award of unrestricted stock with full voting rights or cash profit-sharing.

Government assistance can include grants, loans, loan guarantees, access to government-developed technology, and even tax incentives. Support would be measured cumulatively; a company receiving $1 million in assistance from multiple programs or at different phases of development would be required to meet these profit-sharing requirements.

While attaching a profit-sharing requirement to economic development subsidies would break new ground, many tech companies embrace broad-based equity programs and would likely already comply under this policy.

Conclusion

Employee ownership and broad-based profit-sharing programs can help to ensure that workers are rewarded for the wealth they help create, close racial wealth disparities, and strengthen local economies. While less than half of working Americans benefit from these sorts of sharing plans, state and local policymakers are increasingly interested in supporting their growth. In order to do so, cities and states should adopt policies to ensure that companies know about the benefits of sharing and that government spending programs are deployed in ways that facilitate the expansion of these sorts of programs.

About the author

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Acknowledgments

This report was made possible by the generous support of the Louis O. Kelso Fellowship. The author would like to thank Professors Joseph Blasi, Doug Kruse, and Chris Michael at the Rutgers University Institute for the Study of Employee Ownership and Profit Sharing; Loren Rodgers and Nancy Wiefek at the National Center for Employee Ownership; and Camille Kerr, founder of Upside Down Consulting for their comments and guidance. However, any errors are my own.

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Our Approach

We develop new policy ideas, challenge the media to cover the issues that truly matter, and shape the national debate. With policy teams in major issue areas, American Progress can think creatively at the cross-section of traditional boundaries to develop ideas for policymakers that lead to real change. By employing an extensive communications and outreach effort that we adapt to a rapidly changing media landscape, we move our ideas aggressively in the national policy debate.

Center for American Progress

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