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

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Introduction

This analysis seeks to address some of the conceptual, research, and policy issues relevant to extending broad-based worker ownership and profit sharing to the entire economy. This examination is motivated by Erik Olin Wright's Real Utopias Project "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." (Wright, 2010)

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. Capital ownership is shares of capital, namely, shares of property or profits in the economy that accrues to citizens as income beyond their fixed weekly salary. Capital income is income from these property, businesses or financial assets such as stock that take the form of interest and 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, access to ownership of capital property and

the sharing of capital income is determining inflation-adjusted increases in both income and wealth. 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. Obviously, worker ownership is not the panacea solution to a problem that has many other causes other than ownership of assets such as globalization, the decline of unions, the rising cost of health care, and the decline of retirement savings. Surely, one can cynically ask whether expanding ownership in the workplace can compensate for this astounding depletion of middle class protections all by itself. (Mishel, Bernstein, and Shierholz, 2010; Allegretto, 2011).

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.

The High Tech Sector

Google's founders, Larry Page and Sergei Brin, present a very interesting contemporary example of this kind of economic system. 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.[1] Together with equipment-oriented Intel and software-oriented Microsoft, that both have substantial commitments to employee ownership, web-oriented Google is one of the foremost leaders among high technology companies. (Google, 2009, 2011). 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

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

employee ownership. Google has about 54,000 workers. Brin and Page owned a hundred percent of Google in the beginning as does any proprietor or small businessman or woman or inventor. 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. They granted stock to make these workers partners and thereby diluted their own ownership stake. Employee stock ownership allowed them to attract superior talent and make the pie bigger. Then they decided to sell shares to the public in 2004.

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." Google 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. 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 to twenty percent owned by its non-executive workers. A recent study, *In the Company of Owners*, has identified 100 top corporation connected to Internet development that have many of these features. (Blasi, Kruse, Bernstein, 2003: 3-29). Note that the Google model of worker ownership is not purchased by workers with their savings or wages. It is typically granted using stock options or restricted stock (namely, stock workers must hold for a few years while they remain at the firm before they secure ownership.)

At the minimum, the fact that some of the most innovate corporation in the country see the importance of the worker ownership model and that some of the richest entrepreneurs of the country see it as a way to build companies, suggests that it can be a realistic part of the larger economy.

ESOPs

The largest concentration of intensive employee stock ownership is hidden in plain sight across the country in closely-held smaller corporations, precisely in the local business sector that most of the population comes into contact with daily. They are organized as Employee Stock Ownership Plans (ESOPs). 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 having assets of almost $1. Trillion. Most have 50-100 or 100-500 workers. The ESOP sector is insulated from public stock markets and the "maximizing shareholder value" debate, something that somewhat protects this sector from the major crashes that have become common every year. 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 a worker trust (an Employee Stock Ownership Trust) sponsored by 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. Thus, ESOPs convert existing successful corporations that have concentrated ownership into new corporations that have broad-based ownership.

The focus of researchers should be on the several thousand majority to 100% worker owned firms of this sector and those firms where the workers and managers are aiming towards majority employee ownership.[2] These companies have their own associations. The main one is The ESOP Association and the much smaller ESCA, the Employee-Owned S Corporation of America group. ESOPs were controversial in the seventies when they owned just 5-15% of stock and were criticized as vehicles for tax incentives. However, now, most of the members of both associations are majority or 100% worker owned, a substantially different evolution of this sector since the 1970's when social scientists last looked in on it.

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[2] See http://www.nceo.org/articles/statistical-profile-employee-ownership based on their review of the U.S. Department of Labor's Form 5500's that mandate reports to the U.S. Government about ESOPs.

How should social scientists evaluate the ESOP as a worker ownership phenomenon? ESOPs have been able to make worker ownership into a large sector controlling many corporations of significant value. They are less risky. 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 act[3] thanks to the inventiveness of their creator Louis O. 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. The ESOP trust idea thus allows groups of regular workers to buy a significant or even the entire stake in corporation in one transaction. 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. With additional Federal tax incentives that allow family owners to receive lower capital gains taxes when the family sells more than 30% of the business to a group of workers and managers, ESOPs law has created a partnership between families wanting to cash out of businesses they built and groups of workers and managers who want to embark on owning an entire business themselves.[4]

The main objection social scientists looking for a purist worker ownership model have had toward ESOPs concerns a comparison of the ESOP to utopian version of a pure worker coop where there is one worker one vote, managers and the board are elected by the general assembly of workers, there are relatively egalitarian salary ranges, workers

[3] For Kelso's writings, see The Kelso Institute at: http://www.kelsoinstitute.org/
[4] The Federal law allowing families to be excused from capital gains taxes when they sell to an ESOP is Section 1042 of the Internal Revenue Code at http://www.law.cornell.edu/uscode/text/26/1042 On the operation of ESOPs, see the National Center for Employee Ownership, www.nceo.org

make all decisions about production, and the workers control significant assets. ESOPs do accomplish the central goal of shifting ownership to all or most of the workers in an equitable manner. Research shows that the average worker accounts are worth in excess of $60,000 and that in addition to the worker ownership workers in ESOPs have better additional pension benefits, such as defined benefit plans and 401k plans on top of the ESOP. They also survive more than conventional businesses. (Kruse, 2002; Blasi, Kruse, and Weltmann, 2013).

Because they are governed by the very strict Employee Retirement Income Security Act of 1974 (which regulates pension and savings retirement plans nationally), in order to be legal an ESOP must include all or most workers, make sure that it is not a front to get tax incentives for a small group of highly compensated workers, and divvy up the stock at least as fairly as according to salary differences. Federal law prevents workers from having an inferior class of stock and imposes a regulatory and investigatory office in the Department of Labor, the Pension Welfare Benefits Administration to monitor ESOP abuses. On democratic control, while is common for social scientists to assert that ESOPs have little worker control, that is in fact wrong. All ESOPs are in fact required to have a vote for all worker members on major corporate transactions by Federal law, for example, if the firm is to be sold, or merged, or go out of business, etc. and this vote must be taken on a confidential basis. Even worker coops nationally do not fall under such a strict requirement to involve workers in major corporate decisions.

It is tempting to write off the potential of ESOPs based on how they compare to the model of the pure worker cooperative. However, this requires some interpretation. In most ESOPs, workers do not have full voting rights on a day to day basis in spite of having majority or 100% worker ownership. Research indicates that full voting rights in addition to those mandated by Federal law occur in about 17% of ESOPs. The law makes the level of voting rights optional for the manager and worker group involved in setting up the ESOP. Because these firms are closely-held and not traded on public stock markets, the only decision of any importance during a particular year is typically voting for the board of directors, namely one shareholder meeting a year. The lack of full voting rights means that ESOPs tend to have diversified boards with occasional non-executive worker membership. The optional nature of pure worker control does however

make the ESOP worker ownership form more accessible to a wider spectrum of the U.S. population for several reasons. Existing family business owners are more likely to be willing to sell an initial interest to an ESOP because the ownership and the control can be transitioned over a period of time. Managers are more willing to lead these transactions since the resulting firm looks more like a format with which they are familiar. And many workers who would like to own their company, may not have the skills or desire to run the entire business themselves. ESOPs grew because of these flexibilities.

It is precisely, the flexibility in organizational forms that the ESOP allows which accounts for the fact that it has allowed so significant a worker ownership sector to emerge. The focus with ESOPs is organizational culture rather than legal format. Research has confirmed that worker ownership works best with a participatory culture involving worker control at the job and department level using what researchers commonly call "high involvement/empowerment work practices" such as intensive selection of workers, ongoing training, employee involvement groups, self-directed work teams, and short-term profit sharing to supplement long-term ownership of the firm. (Kruse, Freeman, Blasi, 2010). 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.

Some ESOPs are in much larger private corporations that are in fact the size of giant stock market companies and they are a pocket unto themselves, challenging the notion that large worker ownership models cannot exist without public stock markets. Many were set up by families to perpetuate a certain corporate culture from generation to generation. 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. 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. Publix, the country's sixth largest privately-held corporation with 148,000 employees, is a 100% broad-based employee-owned supermarket chain.

ESOPs have a level of information transparency in the United States that is quite remarkable. Because ESOPs are part of ERISA they have to fill out detailed reports to

the U.S. Department of Labor annually that empirical researchers track closely.[5] As a result there is virtually always an up-to-date census on ESOP companies, assets, workers, and by reference, the other retirement plans that the companies offer. If Congress were to mandate that all ESOPs have one worker one vote and worker representatives on their boards of directors, then the conversion of conventionally owned successful family businesses to ESOPs would likely be similar to the conversion of successful family businesses to worker coops, namely zero.

Worker Coops

An important sector constituting a different model is the worker coop where workers can also own the entire business through shares and elect the board of directors and the management 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. [6] 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

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[5] See http://www.nceo.org/US-ESOP-Company-Database/m/262/ or their list of majority employee-owned firms at: http://www.nceo.org/List-Majority-ESOP-Owned-Companies/m/55/ or an experimental geographic map of ESOPs made available by Ownership Associates atg: www.ownershipassociates.com/EO using 2009 data. All of the Federal Government's new records on ESOPs are available on http://freeerisa.benefitspro.com/

[6] See http://www.usworker.coop/aboutworkercoops

federation. It was founded by a Catholic priest who believed that only regionally supportive economic and political and social institutions could stabilize a large worker-owned network of firms.[7]

The small footprint of worker coops and their concentration in low capital intensive industries in the U.S. requires a broader discussion about whether they really can be the model to significantly expand worker ownership to the entire economy. Researchers need to step away from their seduction with the "pure worker coop legal form" and study the existing worker coops in empirical detail and ask questions about how to expand them and if the pure form is really expandable. There is a presumption that worker coops are more participatory than ESOPs simply as a result of their formal legal charter without even looking at actual people inside the actual organizations. If as closely-held businesses, worker coops, like ESOPs, have few formal worker votes a year (namely, to elect a board and a management team) then the frequency of worker participation for both forms is quite essential for a reality-based analysis of the organizational culture. Research is needed to understand if there are really any significant differences in the range of participatory or non-participatory work cultures in a random group of worker coops versus ESOPs. There is nothing like the level of transparency in data available on worker coops as there is on ESOPs so research needs to address this issue squarely.

While having one worker one vote in their legal charter clearly is a distinction between worker coops and ESOPs (and does mean that a worker coop is "democratic"), workers in both formats need to be compared in terms of the long-term sustainability of the capital ownership that goes into their hands. Some hard questions need to be asked. How does the level of fixed wage income compare in worker coops and ESOPs? How do the health insurance and non-worker ownership retirement benefits compare? How do the changes for advancement and the educational opportunities compare? How does the level of risk compare when workers in coops need to come up with their own money and workers in ESOPs do not bear this risk? Finally, when workers leave the firm to retire or

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[7] On Mondragon, see the Mondragon Corporation at www.mondragon-corporation.com For a San Francisco project for the Worker Cooperative Credit Union, see: http://www.workercoopfcu.org/

make a life transition or are deceased, what is the level of wealth a worker can take out of a worker coop vs an ESOP? Given that worker coops are often concentrated in retail businesses with low capital intensity and low wages funded by worker savings, it is possible that collecting such data will allow a more comprehensive comparison of the two. Ironically, worker coops will very likely prove to be inherently more risky for workers and less economically valuable in spite of the one worker one vote difference.

One way to address the smaller footprint of worker coops is to attempt to build a worker coop that functions like an ESOP. An ESOP can already be created under Federal current law that has one worker one vote, that has full pass through of voting rights, where workers elect all board members and managers, and where, the ESOP-COOP can use Federal tax incentives to buy ongoing successful family businesses managing a transition using debt and leverage rather than worker savings. Another approach is to use an existing legal form in Federal law, the EWOC, the eligible worker owned cooperative that Senator Russell Long already added to the legislation so that a worker coop could use the ESOP tax incentives.[8] Recently, a bill has been introduced into the New Jersey legislature that gives ESOP tax benefits to both ESOPs and eligible worker owned cooperatives to transfer ownership of family businesses to worker and manager groups.[9]

Consider two ideal types, one an ESOP and one a COOP, and the sociologically difficulty task of determining which is the format that most equalizes power, prestige and resources for the society. These types exaggerate the formal democracy of the worker coop at one extreme and the intensive capital ownership of the ESOP at the other extreme.

One is an ESOP with 70 workers that workers and managers bought from a retiring family owner using a bank loan with no risk to any individual worker and all workers participating. Each worker's share amounts to $100,000 and all workers participate. The company has health care and a 401k plan on top of the ESOP and pays above market wages. The firm has a diversified board with several managers and a number of outsiders but no pass through of voting rights except in major corporate

[8] See the EWOC at http://www.law.cornell.edu/uscode/text/26/1042
[9] The bill, introduced in December of 2012, is Assembly 3626 introduced by Assemblyman Upendra Chivukula, Deputy Speaker of the New Jersey Assembly.

transactions as required by Federal law. It is divided into self-directed work teams with two levels of management and a lot of worker training, access to financial information, joint problem-solving at the job and department level.

The other is a COOP with 70 workers that 10 of the workers set up with their savings and own a capital stake of under $20,000 . The core group of ten control the firm on a one worker one vote basis and constitute its board. They have above market wages, health and retirement insurance. The other 60 workers are hired workers who have no worker ownership share. They are mostly part-time workers, they do not have health care, they do not have a 401k plan and they are paid market wages. The management of the firm is more hierarchical with the core owners running the show. There is little access to financial information or joint problem-solving at the job and department level although some of the training has allowed the hired workers to go off on their own.

We submit that the ESOP and COOP worlds stretch out in the real economy between these two types and that they illustrate the research and policy and realistic behavioural limits of citizens participating in worker ownership better than abstract ideological discussions of “one-worker one vote” versus “large capital ownership stakes.”

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*. (2010)

The start-up typically begins as a sole proprietorship or a partnership of two or three people with friends and family. When Bill 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. 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. 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?

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." 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 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 worker ownership 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. Giving workers a piece of the pie remains central to the culture of start-ups even after the early phase. (Hand, 2008)

Start-ups are extremely risky. Most of the innovation in the economy comes from this gritty form of worker ownership. These firms are involved in a massive sorting process where the strong succeed and the weak fail. They are unlikely the form of worker ownership most of the population wants to inhabit but they are necessary to a thriving economy.

Large Public Stock Market Corporations

A few of America's largest companies are strongly committed to broad or broader worker capital ownership. While they are clearly not examples of either majority or 100% worker ownership such as ESOPs or democratic decision-making such as coops, they too have a role to play. 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 in the entire economy and have only 16.4 million workers in total.[10] 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. (Baancato and Rabimov, 2008)

A meaningful worker ownership format must be developed for this sector. Some format of worker ownership needs to be envisioned for these 5000 corporations which

[10] 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).

allows them to continue to be the recipient of those large pension fund investments and to be available for non-worker shareholders to buy in a public stock market. 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 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. 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. 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. 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. [11] These worker ownership models 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 Worker Ownership Very Wrong

[11] 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, see http://www.nceo.org/main/column.php/id/223/printable/y/
On the Great Place to Work Institute, see www.greatplacetowork.com

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. 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 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. Two big name horror stories of employee ownership have the following names in big lights: Enron (using a 401k plan) and Worldcom (using a 401k plan). 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. 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.

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. Working jointly with Markowitz, it was determined that 10-15% of an otherwise diversified portfolio could be in company stock purchased with worker savings or wages. 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. (See Benartzi, 2001; Benartzi and Thaler, 2001; Blasi, Kruse, and Markowitz, 2010: 105-138) Worker ownership in closely-held firms and in publicly-traded firms needs to be based more on the grants of stock to workers used in the ESOP or restricted stock model or even the broad-based stock options model.

Expanding the Worker Ownership Sector

How can the quality and quantity of worker ownership be expanded? There is no question that ESOPs might benefit from more formal worker roles at the board level and that COOPs might benefit greater access to businesses that will have better economic outcomes for their members and be less risky. For large Fortune 100, public stock market, and 100 Best Companies to Work For corporations and Silicon Valley high tech successes and multinationals with worldwide commitments to broad-based employee ownership, the positive feature for expanding worker ownership is that these cases do

suggest that large corporate models are possible, 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.

One has to consider that in the 8 market crashes since 1900, the average drop was 41%, so forms of direct worker shareholding financed by worker wages or savings 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. (Barro and Ursua, 2009, Table 1) A worker ownership future for stock market companies has a heavily curtailed role for worker purchases of stock in 401k plans, a stronger emphasis on ESOPs and grants of restricted stock and stock options, and more of an emphasis on long-term patient capital rather than worker holdings in firms, like Enron, that were mere casinos. It is also possible that the inherent instability public stock markets will lead to a concentration of worker ownership in large privately-held corporations that are of the size of stock market companies, but, like Cargill and others, insulated from this instability.

A National Overview: The General Social Survey (GSS)

A more 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. Because of limitations of space, only a few major trends will be noted from these surveys. (See Kruse, Freeman, Blasi, 2010: chapter 1) [12]

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 5000 corporations traded on the NYSE and the NASDAQ with only 25,000 top five executives (5 executives x 5000 corporations), it is easy to see that, in spite of the strong national debate on executive compensation, that stock options are really fairly broadly spread in the nation. With 18.7 million workers owning stock in firms in the U.S., based on 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. 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 (in the $10-15,000 range) 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 was potentially meaningful. In light of the stark contrast this analysis 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% Certainly, the goal of a

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[12] 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. The GSS is mainly funded by the National Science Foundation. Supplemental tables based on the General Social Survey for 2002, 2006, and 2010 are available from the authors.

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 and have capital stakes closer to $60,000-100,000, the range that most ESOP wealth studies identify as average ESOP stakes.

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. 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 National Bureau for Economic Research Shared Capitalism study (the *Shared Capitalism at Work* report as cited) 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.[13]

Another issue of deep importance to sociologists has to so 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. 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.[14]

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

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[13] 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.

[14] On stratification, 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.

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.

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.[15]

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?" 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

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

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.

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.

Evidence of Performance

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. (Reviewed in kruse and Blasi, 1007; Kruse, Freeman and Blasi, 2010; Doucouliagos, 1995; Kaarsemaker, 2006; Freeman, 2007))

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 that 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 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 (the 1/N problem). 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 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.

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. In order 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 results

corroborated the National Bureau for Economic Research study. (See Kruse, Blasi, and Freeman, 2012). Thus, the worker ownership solution appears to be reasonable attainable economy-wide.

What Are the Right Policies?

Still, one big policy problem remains. If "employee involvement" is critical to the better performance of worker ownership, should these practices be legislated? The answer for "involvement" is no, although as seen, ERISA does legislate fairness standards for worker ownership in ESOPs, although no such rules exist for coops. It ends up that the research findings show clearly that it is the informal workplace culture elements of worker participation (the high involvement/high empowerment work cultures) not the formal one-worker/one vote electing managers or electing board members (which may be both desireable and important for other reasons and values) that link to important outcomes for the firms and for workers. This however raises a major policy question: How can one recommend worker ownership and profit sharing as an economy-wide system if one cannot really legislate the more informal elements of this corporate culture? And, would one settle mainly for the broadening of wealth and income?

Our solution to this problem is to let the formal elements of one worker-one vote and worker election of managers and representatives to boards of directors remain optional for citizens based on how individual groups of managers and workers decide to structure ESOPs and worker coops, but suggest an aggressive research agenda by social scientists to help understand how to expand the organizational participation that really seems to make a huge difference in the performance of these firms. We would also like to see a lot more social scientific research to test how accessible a more democratic model of formal worker participation is to most members of the population.

One encouraging sign is that the General Social Survey data are now suggesting that managers had figured out what researchers now know, namely, that financial and social participation do go together in worker ownership. The first inklings of a credible response resolving 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. 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 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.[16] These results 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.

This issue received more definitive attention in the vast Great Place to Work dataset from the100 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 the same result, namely, 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

[16] 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).

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.

It appears then that managers and workers in the United States in the 21st century are tending 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. (Kruse, Blasi, Freeman, 2012) Large stock market companies need more objective and independent boards of directors to represent all shareholders. 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) 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.

A Needed Policy Review

To the extent that a variety of worker ownership 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. 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. We assert that the major barrier is a favoritism by existing public policies and tax incentive regimes for corporations that concentrate capital ownership and capital income. A thorough review of these policies is needed. It is easy for social scientists to presume these barriers come from political conservatives. As the following example will illustrate, this would be an unfounded generalization.

Let's explore one failed policy to illustrate how the Federal Government throws its weight and that of the tax system behind "economic undemocracy," essentially feudalism. 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, 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* initiated by the Democratic Party and then subsequently supported by both Democratic and Republic administrations for over two decades. Our policy paper for the Center for American Progress estimates the cost to the Federal treasury of these Federal subsidies for concentrated worker ownership plans for the top five executives in public companies and the top 5% of highly paid workers. Our reform was to recommend

a policy allowing public companies to take these deductions if they implemented broad-based worker ownership and profit sharing plans for all workers. We have recently extended this policy analysis to as comprehensive review of tax and regulatory policy from the time of the American Revolution to the present.[17]

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[17] 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 the American Workforce. Washington, D.C.: Center for American Progress, March 2011.* For a copy of the report, see http://www.americanprogress.org/issues/2011/03/worker_productivity.html For a comprehensive analysis of barriers in Federal policy, see Joseph Blasi, Richard Freeman, and Douglas Kruse. *The Citizen's Share*. (New Haven: Yale University Press, forthcoming 2013).

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