

Having a Stake: Evidence and Implications for Broad-based Employee Stock Ownership and Profit Sharing



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WHAT NEXT?

At the center of the ongoing debate about the causes and cures of inequality in America today is the vast difference in wealth between owners and workers. As many have noted, that gap was not nearly as large in the middle of the twentieth century as it has become in the first two decades of the 21st century, where owners and other executives make many multiples of what workers make – largely through grants of stock in lieu of salary.

There is, however, an alternative – one that goes all the way back to the founding of this nation: Employees should share in the ownership equation. In their new paper, Joseph R. Blasi, Douglas L. Kruse and Richard B. Freeman show that this concept has a long and robust tradition in American history. Their argument is straightforward. They begin with the fact that “Capital income is the most unequal part of the income distribution.” They go on to argue that we should adopt “policies that encourage firms and workers to broaden capital

ownership and access to capital income, consistent within the long American tradition of encouraging broad-based private property ownership, should be part of any effort to address today's economic inequality.”

As Blasi et.al. take us through this history, it becomes clear that although the U.S. Federal government supported the notion of employee ownership throughout most of its history, recent decades have seen a gradual but undeniable roll back in federal policies supporting these forms of corporations. This has happened “even as concern was rising about the plight of the middle class and the growing economic inequality in America.”

They argue that the time has come to encourage Employee Stock Ownership Plans. Not only are these corporate forms a powerful tool in the fight against inequality, but there is evidence that they provide the incentives for greater effort, more cooperation, more innovation and more sharing – all of which contribute to improvements in workplace performance and company productivity. ESOPs can also increase both firm survival and employment stability and create more harmonious workplaces.

Blasi et.al. argue for a broad package of reforms that would restore forms of corporate employee ownership to the place they used to hold in American policy. Their argument is not just economic. In advocating a policy agenda they remind us that “... broader citizen capital ownership and capital income contribute to a stronger democracy.”

“Having a Stake” is the latest in a series of ahead-of-the-curve, groundbreaking pieces published through Third Way's NEXT initiative. NEXT is made up of in-depth, commissioned academic research papers that look at trends that will shape policy over the coming decades. Each paper dives into one aspect of middle class prosperity—such as inequality, education, retirement, achievement, or the safety net. We seek to answer the central domestic policy challenge of the 21st century: how to ensure American middle class prosperity and individual success in an era of ever-intensifying

globalization and technological upheaval. And by doing that, we'll be able to help push the conversation towards a new, more modern understanding of America's middle class challenges—and spur fresh ideas for a new era.

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In the first place, it is a point conceded that America, under an efficient government, will be the most favorable country of any kind in the world for persons of industry and frugality, possessed of moderate capital, to inhabit. It is also believed that it will not be less advantageous to the happiness of the lowest class of people because of the equal distribution of property.

—George Washington, letter to Richard Henderson, Mount Vernon, June 19, 1788 ¹

Introduction

Broad-based employee stock ownership and profit sharing can be found throughout the U.S. Most members of Congress have likely met business owners, entrepreneurs, managers, and employees who share in the rewards of the productivity, profit, and wealth that they have built, often through Employee Stock Ownership Plans (ESOPs), established by Congress in 1974, and profit sharing, along with other approaches. ESOPs provide companies tax incentives to finance the purchase of shares through loans to an employee benefit trust where employees do not have to pay for shares. Many corporations grant restricted stock or stock options to employees. Profit sharing provides employees a percent of annual profits in cash or in a deferred profit-sharing trust. ² Businesses of all sizes in every part of the country and in every industry have policies that provide opportunities for employee stock ownership, profit sharing, or both with most, if not all, workers. In recent years, worker cooperatives, which have the longest tradition in America, often in smaller, single-site local firms, have emerged as an increasingly popular way for citizens to do much smaller entrepreneurial start-ups where they have an ownership stake. ³ When these approaches work well, employee share ownership and profit-

sharing plans help increase the productivity of employees enough to pay for any extra cost on the firm for ceding part of ownership or profits for employees.

There are large stock market companies like Procter & Gamble, which has had meaningful employee share ownership along with profit-sharing for more than a century, and Southwest Airlines, which has both employee share ownership and an annual cash profit sharing plan that in 2015 paid \$620 million in profits to all employees, adding 15% on top of their wages and salaries.⁴ Divisions of stock market companies are sometimes spun off and sold to workers through ESOPs: the 100% employee-owned Scot Forge in Clinton, Wisconsin, and the 100% employee-owned Houchens in Bowling Green, Kentucky, are examples. There is also the highly successful worker cooperative, Equal Exchange, which sells fair-trade coffee and chocolate nationwide with about 100 employees. Employee stock ownership of different magnitudes, from 5-25% in stock market companies to 30-100% in small businesses, appears in companies throughout the U.S., with plans designed by local entrepreneurs and companies based on their specific conditions, given the many formats that the U.S. government has recognized over two and a half centuries.

Many family entrepreneurs use ESOPs to sell their ownership to the employees and managers who helped them build the business when the founding family member retires. A sale to the employees living in an area protects the jobs and wealth of the employees, benefits the local community, and allows the entrepreneurs who built the businesses to cash out their equity interest so they can enjoy retirement. Employee share ownership thus helps address the problem that small businesses face in business succession. Many businesses, small and large, use cash profit sharing to give incentives to employees and to share the benefits from good economic outcomes—it is highly popular in family-owned businesses. Profits and wealth from stock that go to employees living in an area boost local economic activity and businesses.

In Silicon Valley, Seattle, and other tech “innovation clusters,” large and small high-tech firms have both equity compensation and forms of profit sharing for employees. Think Google, Intel, and Microsoft. High-tech start-up companies, such as Jet.com and Juno in New York State, have used profit and equity sharing to build the companies.⁵ It is hard to find high-tech firms and start-ups that do not have some form of equity sharing and profit sharing with employees.

But the story of ownership and profit sharing in America does not begin with today’s firms. Shares of property ownership are a major American tradition. As the quote from Washington illustrates, the founders of the American Republic believed that broad-based property ownership was necessary for republican democracy to exist and sustain itself. They believed this because they feared that extreme economic inequality would undermine the ability of people to elect representatives who would govern in their interest, a worry that is with us still today. In the largely agrarian economy in which the founders lived, land was the primary form of business capital, so the founders endorsed broad access to land ownership as the main tool for promoting greater economic equality.⁶ From land grants to efforts to save the early cod fishing industry with profit sharing “tax credits,” the founders supported steps to make sure that wealth would be shared by employees as well as owners.⁷

The theme of this brief is that the policies to expand capital ownership and profit sharing that the founders of the U.S. saw as the right way to address the inequality and economic problems of their day are as appropriate—or even more so—to the inequality and economic problems of our day. With the experience of the past to draw upon and a large and growing set of studies on how different forms of employee share ownership and profit sharing work in modern settings, it is time to examine how ownership and profit-sharing policies can help make U.S. capitalism more efficient and equitable in the current economic environment. Our argument is straightforward: policies that encourage firms and workers to

broaden capital ownership and access to capital income, consistent within the long American tradition of encouraging broad-based private property ownership, should be part of any effort to address today's economic inequality.

Employee stock ownership and profit-sharing today

1. There are four reasons to be interested in employee stock ownership and profit sharing today: Employee share ownership and profit sharing can increase worker pay and wealth and broaden the overall distribution of income and wealth, a key ingredient for a successful democracy. To be a tool for reducing **inequality**, employee stock ownership and profit sharing must be spread more widely and meaningfully than it is today.
2. Employee share ownership and profit sharing provide incentives for more effort, cooperation, information sharing, and innovation that can improve **workplace performance** and company productivity.
3. Employee share ownership and profit sharing can save jobs by enhancing **firm survival and employment stability**, with wider economic benefits that come from decreasing unemployment.
4. Employee share ownership and profit sharing can create more harmonious workplaces with **greater corporate transparency and increased worker involvement** in their work lives through access to information and participation in workplace decisions.

The United States has a long history of public policies aimed at reducing inequality. For the founders, the primary tool was to make federal lands available at low prices so that average citizens could acquire a homestead to support their families. When Thomas Jefferson became president, he made the Louisiana Purchase of almost a million square miles in order to advance a citizen-property-holder "empire of liberty." Successive administrations followed with major initiatives in

trying to broaden land ownership, sometimes getting embroiled in political battles and important issues of justice.⁸

President Abraham Lincoln took the biggest step with the Homestead Act of 1862, which helped make available 270 million acres, or 10% of the land mass of the entire nation, to encourage independent farm ownership. The Republican Speaker of the House of Representatives, Pennsylvania's Rep. Galusha Grow, managed the Act through Congress and echoed a point made years earlier by former President James Madison that population growth would eventually make obsolete a broad-based property ownership policy limited only to the ownership of land. Speaker Grow recognized that business and corporate assets, unlike land, were unlimited, so he saw broad-based profit sharing and capital shares in businesses by employees as the successor idea⁹.

From the late 1800s through the early 1900s, industrialists took the lead in pushing for profit sharing and employee share ownership. Charles A. Pillsbury of Minnesota's Pillsbury Flour Mill, William Cooper Procter of Procter & Gamble, and John D. Rockefeller Jr. of Standard Oil, among many others, developed broad-based profit sharing and employee share ownership designs for companies, formed national associations of business people to advance these ideas, and supported research on the issues at universities. With the emergence of individual and corporate income taxes following the 16th Amendment to the Constitution, business leaders like Andrew Carnegie—who, like others, specifically referenced the founders' ideas on broad property ownership in his writings—pushed for integrating the tax treatment of these practices into the new corporate income tax system. The initial tax incentive for profit sharing made cash profit sharing a deductible expense when figuring corporate income taxes like other forms of employee compensation. Unions had done some early experimentation with broad share ownership ideas with the United Steelworkers developing cash gain sharing, a close relative to profit sharing.¹⁰

Many forms of employee share ownership in the 1920s and earlier were based on workers buying stock with wage deductions or retirement savings. These formats had some tax benefits, but workers paying for stock with their wages and their savings can be highly risky. Members of Congress and successive Presidents saw broad-based profit sharing and employee stock ownership as worthy of Federal encouragement but did relatively little in committing federal resources to spur its development until the late 1930s and 1940s for broad-based profit sharing, and the 1970s for broad-based employee stock ownership.¹¹

A major bipartisan initiative led by Republican Senator Arthur Vandenberg and the administration of President Franklin Roosevelt produced Congressional hearings and legislation that allowed tax incentives for deferred profit-sharing trusts in the 1940s. In addition to the deductibility of cash profit sharing as an expense against corporate income taxes, the new bipartisan policy allowed companies deductions for contributing to deferred profit-sharing plans that would come to be funded with cash and company stock. Deferred profit-sharing trusts grew and subsequently would fall under the Employee Retirement Income Security Act when it became law in 1974.¹²

In the early 1970s Senator Russell Long took the ideas of law professor and investment banker Louis O. Kelso and added sections to the Employee Retirement Income Security Act of 1974 that defines ESOPs (Employee Stock Ownership Plans) and establishes the tax-advantaged status for these plans. Kelso's idea and Long's legislation directly addressed the key issue of risk of earlier employee share ownership plans in the 1920s where workers bought the stock with their wages and savings. The ESOP they designed was based on employees receiving grants of stock that were financed by the company setting up an employee benefit trust that bought the stock with credit, not with workers' wage contributions or savings.

By being included in ERISA, company contributions of cash or stock to an ESOP defined contribution plan became

deductible similarly to company contributions to other retirement plans. ESOPs under ERISA received additional tax encouragement, with the company payments of the principal and the interest on the loan also being tax deductible. This legislation led to ESOPs becoming the dominant form of employee stock ownership in the country, although mainly in closely held small businesses.¹³

Ten years later, in another bipartisan effort, this time led by President Ronald Reagan and Senator Russell Long, the Tax Reform Act of 1984 altered the tax incentives to make ESOPs with modest levels of generally 5-20% of employee stock ownership attractive to publicly traded stock market corporations. It did this by allowing banks, investment banks, and insurance companies to deduct half of the lender's interest income in computing their own corporate taxes for loans or structured bonds to corporations to access credit to finance ESOPs for broad groups of employees. This led most large banks and other lenders to set up entire employee stock ownership divisions to market the idea to corporations nationwide and pass some of their own tax savings to the companies doing ESOPs in the form of lower interest rates. This facilitated a large increase in ESOPs in stock market companies. Because most of these ESOPs in stock market companies depended on actually financing and buying newly issued shares with credit rather than simply granting shares that brought in no new capital to the corporation, the dilutive aspects of these ESOPs were moderated. The deduction of dividends used to pay back the loans on this stock was also given a tax incentive.¹⁴

Subsequent tax incentives in the 1980s (such as Section 1042 of the Internal Revenue Code) allowed owners of privately held businesses to defer their capital gains taxes when they sold more than 30% of C corporations to the employees and managers through ESOPs or eligible worker cooperatives.¹⁵ Often, retiring entrepreneurs would sell 100% in stages so that they could fully retire if they had no heir to operate the company or the family wished to cash out on their stake. Because most ESOPs in closely held companies take place in

situations where the founding owner wants to retire and cash out of the business, the issue of diluting profit per share and diluting the ownership and governance rights of majority shareholders is not a material issue in these cases. The dilution question is more complex in ESOPs in stock market corporations and broad-based equity compensation plans such as restricted stock plans and stock options, which also have tax deductions. The estimates of tax expenditures for ESOPs by the Joint Committee on Taxation are \$0.9 to \$1.0 billion per year from 2014-2018 for ESOPs. No composite estimate for all other broad-based equity compensation plans exists in the Joint Committee on Taxation's publications.¹⁶

In spite of this long record of federal support for profit sharing and employee stock ownership, the Federal Government has backed off its support for broad-based employee stock ownership and profit sharing during virtually every recent Presidential administration for almost four decades, a trend that has lasted to the present. In the Carter administration, the 1978 section of the Internal Revenue Code made 401(k) defined contribution retirement plans possible and created a competitive form of retirement savings that many firms preferred to ESOPs. The 401(k) plan on balance weakened Federal incentives for profit sharing and encouraged employees to buy stock in their companies with their wages, which gave them greater individual risk exposure than when they received grants of stock.¹⁷

The George H.W. Bush administration eliminated the tax incentives encouraging ESOPs in stock market companies that had been earlier supported by President Ronald Reagan and Senator Russell Long. This spelled the end of the spread of ESOPs in stock market companies and their ensuing decline in importance there. In the Clinton administration, Internal Revenue Code 162(m) allowed companies to deduct as a cost of business billions of dollars for corporate profit sharing and employee share ownership programs only for the top five executives of stock market companies, while incentives for ESOPs were cut back. In the George W. Bush administration, changes in accounting regulations and

Federal policies made granting of broad-based stock options and restricted and other stock grants to employees in high technology and other companies less attractive, which led to a huge drop in employee share ownership among the middle class in those companies and industries. The Obama administration regularly called for slashing ESOP tax incentives in their annual budget messages. And, as noted, over the last several decades, a variety of regulatory and tax changes made deferred profit-sharing plans less attractive to businesses.

The 162(m) expansion of tax benefits for the top five executives is of special concern. One can argue that this policy was created to tie executive pay to performance since it was tied to the capping of deductions for top five executive salaries at \$1 million. After several initial years of experience with 162(m) it became clear that the new law added to rather than restricted the expansion of top executive pay. Even so, every administration and Congress continued to support Internal Revenue Code 162(m)'s super-deductions for top executive forms of stock ownership and profit sharing while each of these administrations cut or did not expand support for broad-based profit sharing and employee share ownership plans that could benefit the middle class. It is estimated that 162(m) tax expenditures cost the Federal government \$5-10 billion per year over the last 20 years.¹⁸

The reasons for this decades-long abandonment of significant Federal support for broad-based employee stock ownership and cash and deferred profit sharing are varied and complex. This massive policy reversal continued even as concern was rising about the plight of the middle class and the growing economic inequality in America. The causes for the reversal differed by Presidential administration and discussions in Congress, including a focus on deficit cutting, a lack of coordination in the White House and Congress on overall policies for broadening profit sharing and employee share ownership, the manipulation of the tax system by moneyed interests for their own benefit, potential misunderstanding by top decision-makers of how broad-

based profit sharing and employee share ownership work, and a common and misguided belief by economists and policymakers that wage growth could be spurred by policies that did not include shares. Policy leaders did not appreciate the connection between these long-standing concepts in American history and the rising problem of economic inequality. The older political tradition of the founders became lost in the post-WWII era. Potentially most important of all, most of the cutbacks occurred before the severity and persistence of the upward trend in economic inequality was fully recognized and before the economic evidence showed the large economic payoff from ownership and profit sharing to workers and firms.¹⁹

The pullback in government support was often justified by the idea that employee stock ownership may be a risky substitute for fixed worker pay, but almost all the studies indicate that employee stock ownership in the form of ESOPs does not come at the expense of workers taking lower wages or other forms of compensation. With a few exceptions where workers gave wage concessions for ownership, firms that adopt ESOPs add ownership to paying normal market levels of pay. A comprehensive study of all ESOP adoptions over 1980–2001 found that employee wages apart from the ESOP either increased or stayed constant after adoption, so that ESOP contributions was an add-on to existing pay. Other comparisons among firms and workers also find that employee stock ownership and profit sharing generally come on top of standard pay, and employee owners are more likely to say they are “paid what they deserve.”²⁰ To enhance worker pay and wealth without creating excessive risk, employee stock ownership and profit sharing should not substitute for standard worker pay or benefits. Employee stock ownership where workers have to buy the stock with their savings in 401(k) plans may not have these effects.

Workplace Performance

The skeptic may wonder how this can be. How can firms add employee ownership/profit sharing to existing compensation

and remain in business? After all, one might argue that if the company is giving away shares of profit or stock for free, then profits per share will be less, and the company's stock will be less competitive in the marketplace. As noted, for ESOPs in closely held companies this is not an issue since, typically, the entire company is being sold to the employees, and managers and the exiting owner are not focused on the dilution of the majority shareholder since that shareholder desires to cash out its majority equity. Closely held companies starting minority ESOPs would have to evaluate if the dilution is outweighed by the productivity and financial performance of the firm. This dilution is an issue in publicly traded stock market firms, but it has been historically addressed by keeping the size of the ESOP modest compared to the rest of shareholders (most ESOPs in stock market companies are under 20%) and by establishing a corporate culture where employee stock ownership is likely to increase the performance of the firm so as to offset the modest dilution of profits per share of non-employee shareholders. In such firms, the board and executive management assess if the type of employee share ownership offered is likely to have a greater positive effect than any expected dilution.²¹

A more subtle interpretation that fits with evidence on company performance, worker behavior, and pay is embodied in George Akerlof's model of "gift exchange."²² In this model workers respond to the "gift" of employee share ownership or profit sharing on top of market compensation with a reciprocal "gift" of high effort, cooperation, and work standards. The group incentive nature of employee stock ownership and profit sharing makes this an effective way to create and reinforce a sense of common purpose, and to encourage higher commitment and productivity.²³ It is also the case with ESOPs that the new ownership might not be viewed by the firm in the same way as other added compensation because the ownership is financed through loans to buy new capital as company stock, with Federal tax incentives, and the shares are not paid as normal wages and benefits out of company budget reserved for this purpose.

Comparing pay and wealth within firms having different organizational and sharing arrangements shows more equal distribution in employee stock ownership firms than in other firms.²⁴ But the broader sharing of the fruits of economic performance is too limited at current levels of employee stock ownership to impact income and wealth distribution across the entire economy.

A new meta-analysis of studies with 102 samples covering 56,984 firms finds a small but significant positive relationship on average between employee stock ownership and firm performance.²⁵ The positive relationship holds across firm size and has increased over time, possibly because firms are learning to implement employee stock ownership more effectively. Prior reviews and meta-analyses of employee stock ownership and profit sharing likewise found positive average relationships with performance, with only a small minority of negative estimates.²⁶

While it is sensible economics to interpret the positive link of employee stock ownership and profit sharing to company performance as reflecting worker responses to the incentives in the plans, it is possible that the positive relation comes from a very different causal link, in which higher-productivity companies introduce profit sharing or employee stock ownership plans for whatever reason. To get a handle on causality in the relation of organizational form with company performance, many studies use before/after comparisons and various statistical corrections for endogeneity of company form. These methodologies yield positive effects flowing from profit sharing or employee ownership to performance. Further evidence on causation comes from a field experiment in which several fast food outlets were randomly assigned profit-sharing plans and had improved performance and lower employee turnover compared to outlets in the control group (Peterson and Luthans 2006). These positive results are consistent with laboratory experiments where subjects are randomly assigned into employee-owned “firms.”²⁷

The evidence that incentives based on group outcomes are associated with higher productivity contravenes the oft-repeated critique that employee stock ownership and profit sharing cannot possibly work due to the incentive to “free ride.” With a large group of persons sharing group output, this view holds that each person has good reason to slack and let others contribute to the whole. What prevents free riding from destroying the incentive effects of profit sharing and employee stock ownership? In our National Bureau of Economic Research study of more than 40,000 workers, we asked workers whether they would intervene when they saw a fellow worker not working well. Workers with company stock and other group incentives were actually more likely to say they would take action to reduce free riding than workers without group incentive pay. They were far significantly more likely to say that they would talk to the worker, supervisor, or members of the work team. When asked why they would do this, many workers reported that “Poor performance will cost me and other employees in bonus or stock value.” In addition, our and other studies find that employee owners generally have lower turnover and absenteeism, more company pride and loyalty and greater willingness to work hard, and make more suggestions to improve performance.²⁸

Positive effects of employee stock ownership and profit sharing are not automatic. A majority of companies do well with these systems, but some companies do not. The positive effects appear to depend on workplace policies and norms that support cooperation and higher effort, such as employee involvement in decisions, participation in company training, and job security. An economy with expanded employee stock ownership and profit sharing is likely to perform better than the current economy. However, it is important to recognize that to support such policies, one would only need evidence that the firms perform as well as the current economy in terms of their profitability and their stock price performance. The only difference would be broader property ownership, which is what the founders thought was important to sustain American democracy.

Firm Survival and Employment Stability

In the Great Recession and the previous recession, employee stock ownership firms had smaller employment cutbacks and higher survival rates than similar firms. A study of S corporations (small firms with 100 or fewer shareholders who are taxed as a partnership) found that those with ESOPs had higher average employment growth in the 2006–2008 pre-recession period than did the economy as a whole, and they also had faster growth following the recession from 2009 to 2011. This is consistent with national survey reports from the General Social Survey where employee owners report that they have greater job security and lower likelihoods of being laid off in the previous year compared to other employees.²⁹ When faced with recessionary pressures, employee ownership firms may retain workers to sustain a workplace culture based on cooperation, information-sharing, and commitment to long-term performance. In such a culture it may be especially important to preserve worker skills during economic downturns and possibly increase skills by having workers engage in extra training until demand recovers.

Increased Worker Participation and Corporate Transparency

Employee stock ownership under ESOPs gives workers confidential voting rights on major corporate issues, so that they have some formal corporate governance rights in closely held corporations, and in stock market companies, employee owners have the same rights as other public shareholders. Employee owners also report more informal participation in decisions at the job and department level compared to other employees, along with higher quality of work life, more training opportunities and better management-employee relations. They also report lower intention to leave the firm for another job, but consistent with the idea that the context matters, the favorable effects appear to depend on the presence of other supportive workplace policies. Without

supportive policies (employee involvement, training, job security, and low supervision), workers with company stock and other group incentives may even have lower satisfaction and higher turnover intention. This may reflect mixed messages to employees when they are given employee ownership without supportive workplace policies: “We want you to be more productive as employee-owners, but we’re not going to give you the tools to be more productive, and we’re going to keep a close eye on you.” In such cases, the employee stock ownership may be seen as an attempt to shift financial risk onto workers, rather than to empower workers. However, the largest national research survey, using recent data on hundreds of companies that employ 6 million workers, gives encouraging news on this score, showing that managers in companies with more employee share ownership, appear to implement a greater number of these supportive involvement policies.³⁰

Potential Drawbacks/Downsides

The two major objections to employee stock ownership and profit sharing are that the incentive to free ride will ultimately destroy the “ownership/sharing magic,” and that having assets in one’s workplace creates excessive financial risk for worker-owners.

While free riding undeniably occurs in group incentives as in many types of teamwork, the evidence on firm performance and worker behaviors reviewed above shows that the free riding problem is overcome more often than not under employee ownership and profit sharing. Many companies and workers implement policies and norms that discourage free riding by increasing team spirit, loyalty, and work standards. As noted, our analysis of the 100 Best Companies to Work For in America dataset, compiled by the Great Place to Work Institute, which is the basis for Fortune Magazine’s annual issue on Best Companies to Work For, finds that companies with more employee stock ownership and profit sharing have

more participative cultures, so many private-sector managers appear to understand how to do it in an optimal fashion.³¹

Having one's job and a portion of one's wealth in the same firm can create undue financial risk for workers, as it does for individuals and families who use some or all of their life savings to start their own businesses or otherwise invest heavily in one asset. The risks for employee owners are exemplified by the experiences of United Airlines and the Tribune company, where employees traded stock for wage and benefit concessions, which point to the need for policies that mitigate risk.³² These two cases were not classic ESOPs where workers received the grants of stock based on financing the purchase of the shares. Rather, the United and Tribune cases were based on the exceedingly risky trading of wage, benefit, and work rule concessions for stock, namely, where the workers bought the stock with wages or give-backs.

While financial risk is real in every case of private market economy ownership, there are offsetting factors that make it more tolerable than critics of profit sharing and employee stock ownership realize for regular employees. First, since the evidence shows that profit sharing and employee stock ownership generally come on top of standard pay and benefits, workers are not sacrificing for risky pay. A recent study using population data from Department of Labor files comparing about 4,000 ESOP companies to all other non-ESOP firms with 401K plans has shown that most ESOPs do not replace more diversified retirement plans, virtually all of the assets in ESOPs are from company contributions not employee contributions as is the case in the 401K plans, and the net plan assets per participant are 20% higher in ESOPs than in the non-ESOP companies. This study found that 47% of ESOPs under 100 employees and 57% of ESOPs over 100 employees had a second diversified retirement plan. Another population study of all ESOPs found that 75% of employees were in firms with a second diversified pension plan, and other studies substantiate these findings. Using credit to finance new ownership for ESOP workers can allow workers to

accumulate capital wealth on top of their wages while still having access to diversified retirement plans that are funded through the firm's compensation budget.³³

Second, the biggest form of financial risk faced by most workers is job loss, which is lower for employees of worker-owned firms than most other firms. Employee owners may face less total risk than other employees because employee ownership increases employment stability and firm survival, as reviewed above. Third, individuals weigh financial risk in their choices. Even risk-averse employees tend to like variable pay associated with profit-sharing and employee stock ownership. In our National Bureau of Economic Research study of over 40,000 employees, two-thirds of the most risk-averse employees reported that they would like at least some ownership, profit sharing, or stock options in their pay package. Employees apparently recognize that capital ownership and capital income provide an opportunity for greater economic wealth. Fourth, the founder of portfolio theory, 1990 Nobel Prize winner Harry Markowitz, has shown that employee share ownership can be part of an efficient, diversified portfolio. Based on standard assumptions about individual preferences, he estimated that an optimal investment of company stock in an overall diversified portfolio would be to hold around 9% of the workers' entire wealth portfolio, while "10 or even 15% would not be imprudent." This analysis did not take into account whether the added equity wealth was a grant on top of fair wages and other diversified benefits. Evidence from the 2013 Survey of Consumer Finances shows that five-sixths of U.S. families that own employer stock fall below Markowitz's 15% threshold, indicating that excessive risk is likely confined to a minority of employee owners.³⁴

The Case for New Public Policy

Current facts on inequality and economic growth make as strong a case for public policy to increase a variety of employee share ownership and profit-sharing formats as in the early days of the Republic. Measures of inequality in the

late 18th century are problematic, but the best scholarly estimates indicate that colonial U.S. had lower Gini coefficients than in other countries with measures of inequality. The U.S. now has the highest inequality among advanced countries and a level that exceeds, possibly substantially, the estimated inequality in 1774. If Washington, Adams, Jefferson, Madison, and other founders were to time travel to 2016, they would almost surely be troubled by the threat that inequality poses to the well-being of citizens and democratic governance and ask, “What are your policies to make the U.S. what it should be, the most favorable country in the world for persons of industry and frugality, possessed of moderate capital, to inhabit?”³⁵

Capital income is the most unequal part of the income distribution. The top 10% of households own more than 80% of financial assets, and the top 20% of individuals receive almost 90% of all capital income. By one metric, wealth is 100 times more unequally distributed than income. Data on the Internal Revenue Service website shows that in 2013, the top 400 taxpayers (the upper 0.000027% of taxpayers) earned 1.17% of adjustable gross income; 6.1% of taxable interest, 5.3% of dividends; and 9.8% of capital gains. The four wealthiest persons—the two Koch brothers, Warren Buffett, and Bill Gates—have as much wealth as the 128 million persons in the bottom 40% of the wealth distribution. The families whose wealth is increasing in the economy are receiving this wealth through access to capital ownership and capital income. In addition, part of the inequality in labor incomes is associated with access to capital income. The stock options, stock grants, and profit- and gain-sharing bonuses that companies pay to executives are counted in official statistics as compensation for work with no asterisk that they are also income to capital.³⁶

Growth has been extraordinarily sluggish in the recovery from the Great Recession and has weakened in advanced countries over a longer period, leading some analysts to believe that we have entered a new economic era of small to modest growth. This may turn out to be true, which will

increase the importance of growth-enhancing policies. The evidence that firms with employee stock ownership and/or profit sharing perform better than others suggests that policies that extend ownership would boost the country's lagging growth rate. The evidence that employee share ownership firms preserve jobs and survive recessions better than others suggests that policies that extend ownership could help stabilize the economy when the next recession comes down the pike.

Expanding employee share ownership and profit-sharing formats is not a panacea for all that ails the economy. No single policy can address persons and firms facing diverse problems in a dynamic modern economy. But the same can be said for other policies designed to improve economic outcomes for the bulk of citizens— increasing the minimum wage, increased spending on infrastructure, establishing a guaranteed minimum base income, regulatory reforms, increased spending on R&D, cuts in corporate taxes, whatever your favorites may be. Given that spreading ownership of capital and increasing employees' share in economic rewards has bipartisan appeal,³⁷ the only valid answer to the question by Washington, Adams, Jefferson, Madison, or other time travelers is that, after four decades of neglecting policies to stimulate broad-based profit sharing and employee share ownership, we have changed course and are now placing them in the policy portfolio, if not at the center of economic policymaking that they occupied from the days of Washington to Lincoln.

If Congress and future administrations wish to expand these policies, measurements every four years of broad-based employee share ownership and profit sharing are already in place since 2002 as part of the General Social Survey mainly supported by the National Science Foundation. In 2014, 19.5% of adult employees owned some company stock, 7.2% held company stock options, 38.5% received profit sharing, and 25.3% received gain sharing, with 52.4% participating on one or more share format. However, the median value of the employee share ownership holdings was only \$10,000, and

profit/gain sharing annual compensation was \$2,000, so a case can be made for encouraging these capital share approaches.³⁸

Why is Federal Encouragement Needed?

First, as documented in this paper, the American tradition of using meaningful Federal incentives to broaden equity and profit shares has been going backwards, in the mistaken belief that other policies would assure rising earnings for most workers and in forgetting the Founders' concern that broader citizen capital ownership and capital income contribute to a stronger democracy.

Second, because there may be informational or institutional barriers about the benefits of ownership and sharing and the ways firms can introduce such programs that government can help overcome. Government has often played a role in promoting performance-enhancing work practices to enhance overall economy-wide outcomes from higher productivity and innovation, such as the long history of agricultural extension services (since 1887) to spread information on best practices in farming, and employer education on safety practices conducted by the Occupational Safety and Health Administration.

Third, because of the 'externalities'—effects that extend beyond the firm and its members—that greater ownership/profit sharing can bring us. If employee ownership and profit sharing lead to fewer layoffs and firm closures, this can reduce (i) recession-created drops in consumer purchasing power and aggregate demand; (ii) government expenditures on unemployment compensation and other forms of support; (iii) decreased tax base for supporting schools and infrastructure; and (iv) potentially harmful social and personal effects, such as marital breakups and alcohol abuse. Apart from unemployment, more broadly shared prosperity and lower inequality may also have wider benefits for macroeconomic growth, stability, and societal outcomes

as described by a number of social scientists. To the extent the ownership and profit sharing is a public good, a nudge in policy to consider the idea makes sense.

Fourth, because it is hard to find policy options that are as bipartisan as the shares policy. In *The Citizens' Share*, and in other articles and venues, we lay out the areas in which there is evidence or logic for in-depth development of, and experimentation with, several broad policy directions, with the details to be worked out by members of Congress based on their deliberations.

These include:

- The federal government helping state governments with seed funds to set up independent nonprofit centers (that later would become self-supporting) in order to provide information about how to move companies to implement employee share ownership and profit-sharing plans, and the best practices in operating firms locally in that state, much as it has historically provided information to small businesses through the Small Business Administration and to farmers through agricultural extension services.
- Congress shifting corporate tax expenditures that do not serve to broaden ownership or profit-sharing participation (which total about \$1 trillion over every four to five years), including those that subsidize the wealth of top executives³⁹ under the Treasury interpretation of Internal Revenue Code 162(m), to be conditional on a recipient company having broad-based employee stock ownership and profit sharing plans.
- The federal government or state and local governments adding a small preference in contracting and purchasing with firms that meet a minimum employee share ownership or profit sharing criterion while insuring that companies that already have special-purpose preferences (such as majority veterans, or women, or minority owned businesses) do not lose their preference when they become majority employee-owned.

- Congress creating modest short-term tax breaks for companies that introduce profit sharing, as candidate Secretary Hillary Clinton had proposed as part of her Democratic economic agenda and is in the 2016 Democratic Party Platform. The platform explicitly endorses the profit sharing concept saying, “we will incentivize companies to share profits with their employees on top of wages and pay increases, while targeting the workers and businesses that need profit-sharing the most.” (page 5) Clinton also expressed strong support for the idea of employee stock ownership as another example of profit sharing.
- Congress implementing different tax benefits to expand ESOPs, as the Republican Party and then-presidential candidate Senator John McCain proposed in 2012 and continues to be part of the Republican Party’s 2016 platform. Today, the 2016 platform explicitly endorses the concept saying, “We therefore endorse employee stock ownership plans that enable workers to become capitalists, expand the realm of private property, and energize the free enterprise economy.” (page 8) This should also include other forms of employee stock ownership such as broad-based restricted stock and stock option plans for entrepreneurial firms and worker cooperatives for smaller local firms.
- Congress or the President creating an Office of Broad-based Employee Share Ownership and Profit Sharing in the White House to coordinate policies across the government to assure that there is sufficient data, research, and analysis to encourage responsible policies and avoid unintended consequences as the many policy disasters of the past noted above. ⁴⁰

The phenomenal appreciation in value that is reaped by a small group of founders and their backers in IPOs and top executives in stock market companies, mergers, and private equity buyouts can be turned into an opportunity for the middle class if more such businesses are encouraged through

tax incentives to have employee share ownership or profit-sharing plans early in their development. A Congress or Administration that wants to support broader employee share ownership and profit sharing in economic rewards could develop a checklist on any major program or legislation that is proposed to examine its likely effects on, and capacity to increase, financial participation and capital ownership and access to income on capital of employees and citizens in our economy. It is time for political leaders and their advisors to consider these and develop other practical policies to deal with inequality and our economic problems in a way consonant with America's broad-based ownership tradition.

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Richard B. Freeman holds the Herbert Ascherman Chair in Economics at Harvard University. He is currently serving as Faculty co-Director of the Labor and Worklife Program at the Harvard Law School, and is Senior Research Fellow in Labour Markets at the London School of Economics' Centre for Economic Performance. He directs the National Bureau of Economic Research / Sloan Science Engineering Workforce Projects, and is Co-Director of the Harvard Center for Green Buildings and Cities. Professor Freeman is a Fellow of the American Academy of Arts and Science and the AAAS, and is serving on the AAAS Initiative for Science and Technology. He is currently serving on 4 panels and boards of the U.S. National Academy of Science and U.S. National Academy of Engineering. Professor Freeman received the Mincer Lifetime Achievement Prize from the Society of Labor Economics in 2006, and in 2007 he was awarded the IZA Prize in Labor Economics. In 2011 he was appointed Frances Perkins Fellow of the American Academy of Political and Social Science. In 2016 he was named a Distinguished Fellow of the American Economic Association; the award citation describes Richard as “an enormously innovative labor economist who has made pioneering contributions to virtually every aspect of the

field.” Also in 2016, he received the Global Equity Organization (GEO) Judges Award, honoring exceptional contribution towards the promotion of global employee share ownership.

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1. George Washington, *The Papers of George Washington Digital Edition*, ed. Theodore J. Crackel et. al. (Charlottesville: University of Virginia Press, Rotunda, 2007). Original source: Confederation series (January 1, 1784 – September 23, 1788), letter to Richard Henderson, Mount Vernon, June 19, 1788.

2. A “deferred profit-sharing trust” is a defined contribution plan under the Employee Retirement Income Security Act of 1974 that is a group retirement plan with individual employee accounts, which, in this case, are funded by profit shares from a company that are deposited into employees’ accounts either as cash or as company equity shares (employee stock ownership). Historically, both companies and employees have had some say over how much of a cash profit-sharing payment would go into the deferred retirement trust and how it would be invested. Today, companies typically contract with a major financial services firm such as Charles Schwab, Fidelity, Morgan Stanley, T. Rowe Price, etc. to provide employees with mutual fund choices about how to invest these assets. Often, company stock is one investment choice, although since this form of employee ownership is actually paid for by the employees with their profit sharing, employees are often advised to have company stock be a modest percent of the overall investment account. Since the popularity of the 401(k) plan has spread, deferred profit-sharing trusts and 401(k) plans are often combined. The Plan Sponsor Council of America is a nonprofit association that provides research on such trends (<http://www.pasca.org/401-k-plan-research>).

- 3.** Worker cooperatives are businesses where the employee members typically invested in the start-up capital of the business as a joint entrepreneurial venture and own significant stakes. The modern worker cooperative has professional management, a substantially more flat salary structure, and a commitment to the local economy. While traditionally in lower-profit and lower-value industries such as food, retail, and other services, worker cooperatives are now on the upswing in high-tech and other business sectors (<http://www.isthmuseng.com/inWisconsin>) and are converting existing small businesses to this model (<http://institute.coop/workers-owners> and <http://institute.coop/resources/successful-cooperative-ownership-transitions-case-studies-conversion-privately-held>). For a census of worker cooperatives, see: http://institute.coop/sites/default/files/resources/State_of_the_sector_0.pdf Worker cooperatives are now far more mature, with some of them being organized as LLCs (Limited Liability Partnerships) and some having various kinds of outside investor/shareholders as partners. Former Senator Russell Long (D-Louisiana), Chairman of the Senate Finance Committee, foresaw this relevance and provided worker cooperatives parity in some ERISA bills offering tax incentives to ESOPs. See EWOCs (eligible worker owned cooperatives), which Senator Long included in Internal Revenue Code Section 1042 ESOP tax incentives, and which extends Internal Revenue Code 1042 ESOP tax incentives to worker cooperatives as defined by Federal law here: <https://www.law.cornell.edu/uscode/text/26/1042> See also a recent popular book co-authored by a Republican Committeeman and the former Democratic Deputy Speaker of the New Jersey Assembly, recommending specific bipartisan policies on these issues: Upendra Chivukula and Veny Musum, *THE 3rd WAY: Building Inclusive Capitalism Through Employee Ownership*. (Amazon Publishing Platform CreateSpace, 2015)

- 4.** Press Release, Southwest Airlines Co., “Southwest Airlines Gives Employees Record \$620 Million In 2015 ProfitSharing,” Feb. 11, 2016, <http://www.prnewswire.com/news-releases/southwest-airlines-gives-employees-record-620-million-in-2015-profits-sharing-300218638.html>
- 5.** See stories at http://www.nytimes.com/2015/12/27/technology/jetco-ns-strategy-low-prices-fast-delivery-happy-workers.html?_r=0 for Jet and <http://thenextweb.com/opinion/2016/04/05/anti-uber-ride-sharing-service-juno-launches-month-heres-itll-fail/#gref> for Juno. For companies involved in inventing, selling, or writing software for the Internet with broad equity participation, see Joseph R. Blasi and Douglas L. Kruse and Aaron Bernstein. In *The Company of Owners*. (New York: Basic Books, 2001)
- 6.** On the founders and property shares, see Chapter 1, “The American Vision,” in *The Citizen’s Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), 16–56, 229–233. Previous work of the co-authors contains a larger number of background references for the material presented here. The historical review and summary of evidence and policies draws on Chapters 1, 3, 4, 5, and 6 of this work.

7. The founders supported major steps to put this into action. Before the Constitution created the United States as a unitary nation, the Congress of the Confederation of States passed the Northwest Ordinance in 1787 to make large segments of land available to citizens in the area that later became the states of Ohio, Indiana, Illinois, Michigan, Wisconsin, and Minnesota. The second President, John Adams, favored making available public land so that every citizen could be an independent property holder, and wrote the right to acquire property into the Massachusetts Constitution. One of President George Washington's first economic policies was to encourage cash profit sharing. Cod fishing was the third largest export industry of the colonies, with salted cod mainly from New England fisheries sent to Europe. During the American Revolution, the British destroyed much of the American cod industry in an effort to weaken the colonies' economy. When the War ended, President Washington asked Secretary of State Thomas Jefferson to find a way to encourage the rebuilding of the cod industry for economic and national security reasons. Cod fishing was important for national security because it trained sailors who could help develop the nascent U.S. Navy. Jefferson researched the industry and produced the *Report on the American Fisheries* that was submitted to Congress on February 1, 1791. For more than 100 years, the cod fishery had used broad-based profit sharing to give the crews of ships incentives for their performance and teamwork. In the beginning of the report Jefferson cited a letter from a major Philadelphia merchant who testified that the cod ships with profit sharing were more productive than the cod ships with wages not tied to performance. The sailors worked better with a share in the wealth created by the industry. Jefferson, Washington, and the Congress chose to help the industry get back on its feet by what was essentially a tax cut (in lieu of tariffs paid for supplies coming from outside the U.S.) to the owners and workers of the cod fishery on the condition that the ship owners share the tax credits with all the workers. In so doing, they rejected government ownership of cod fishery on the basis of Britain's failure to strengthen its whaling industry by nationalization, and they rejected outright subsidies to the wealthy owners who controlled the boats and warehouses on the basis that any government tax credits had to include

workers. The law was explicit in its sharing criterion: owners had to share five-eighths of the credit with the crew, and additionally have a signed agreement with the captain and crew for broad-based profit sharing on the entire catch throughout the voyage. The tax credits were administered by the Treasury Department headed by Alexander Hamilton through the port Customs' Houses. The arrangement helped rejuvenate the industry. Congress continued it for many decades. See *The Citizen's Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), 1-8. See also the *Report on the American Fisheries by the Secretary of State*, <http://founders.archives.gov/documents/Jefferson/01-19-02-0013-0014>.

- 8.** See *The Citizen's Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), 16-32, 33-35, 51-53
- 9.** See *The Citizen's Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), 35-40 on President Lincoln, 42-43 on Speaker Galusha Grow, and 33-35 and 51-53, on President Madison.
- 10.** Gain sharing involves granting shares of some gain in the performance of the business to employees that is based on a measure other than stock price (as in employee stock ownership) or profit (as in profit sharing). For example, the company might agree to offer employees a share of the gain in sales, productivity, customer service, or other business goals that can be fairly and objectively measured.
- 11.** There is a long history of government support for Employee Stock Purchase Plans (ESPPs) back to the 1920s. These plans typically allow employees to buy company stock at a 10-15% discount on the market price. This brief focuses principally on broad-based employee ownership plans that involve grants of equity to workers, as they have a larger capacity to broaden wealth. Some elements of ESPPs can significantly moderate employee risk.

- 12.** On the Vandenberg/Roosevelt initiatives, see Blasi, Joseph “Profit Sharing: An American Presidential History,” *Huffington Post*, August 28, 2015. http://www.huffingtonpost.com/joseph-biasi/profit-sharing-an-america_b_8056668.html Economist Alan Blinder called for economy-wide profit sharing in his book, *Paying for Productivity* (Washington, D.C.: Brookings Institution Press, 1989).
- 13.** On the work of business leaders to develop share plans, see *The Citizen’s Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), Chapter 4, “How It Evolved,” 123-166 and 252-258.
- 14.** On the legislation for stock market company ESOPs, see *The Citizen’s Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), 219-221. The impact on stock market companies is reported in Joseph R. Blasi and Douglas L. Kruse, *The New Owners: The Mass Emergence of Employee Ownership in Public Companies and What It Means To American Business*. (New York: HarperCollins, 1991), 33-88 and Appendix D, 313.
- 15.** A C corporation under Federal law pays corporate income taxes directly on its corporate income. Section 1042 of the Internal Revenue Code originally assigned that tax benefit only to C corporations. S corporations are corporations under Federal law where there is no Federal corporate taxation *at the Federal level* because these corporations pass through their corporate income to their shareholders who then pay Federal tax *at the individual level on the gains*. There is 2016 pending legislation before the Senate (S. 1212) and House (H.R. 2096) to extend section 1042 capital gains exclusion to entrepreneurs who sell to S corporation ESOPs. This would update ESOP legislation, since many small businesses are now S corporations, and increase ESOP growth.

16. Joint Committee on Taxation. *Estimates of Federal Tax Expenditures for Fiscal Years 2014-2018*. [Washington, D.C.: Joint Committee of Taxation, August 5, 2014 (JCX-97-14)]. For a review of the accounting and tax issues for equity compensation plans, see <http://www.nceo.org/Accounting-Equity-Compensation/pub.php/id/2/> For closely held companies that do ESOPs, the dilution issue is generally a non-issue. In virtually all uses of the ESOP in closely-held companies the founding family or entrepreneur is the controlling shareholder and decides to sell the company in parts (typically until 100% is sold) to the ESOP so she or he can cash out their equity holdings and wealth and go retire and share this value with their family, who may not want to continue to operate the business. However, for stock market companies, simply creating new shares or issuing stock options by fiat that are given away to employees *without the company selling them at full value*, existing shareholders would experience an economic dilution in profits (dividends) per share going down because of a larger number of shares and, importantly, in economic value, being given away (shares of the company are literally being simply granted to someone else, namely employees). They would also experience a governance dilution with more shares diluting the percentage stakes of large shareholders. For this reason, the SEC requires such dilutive employee share ownership plans (typically called restricted stock, performance shares, or stock options) to be pre-approved by shareholders, and sometimes large ones are rejected and employee share ownership becomes a shareholder rights issue. However, the role of leveraged ESOPs, specifically in stock market companies, is quite different. In virtually all stock market companies that have done ESOPs in the last 20 years, the company sets up the ESOP trust, which borrows money to finance the purchase of newly issued shares, and the trust pays the market price on that day for the shares. While the shares are granted without the employees having to pay for the shares personally, unlike the example above of restricted stock, the ESOP shares are sold and paid for. The shares are financed and not simply created and given away. Thus, there is no dilution in the sense that pieces of the company are not being literally given away. There is dilution in profits (dividends) per share with sales of new shares to ESOPs,

and there is also governance dilution. However, in the case of ESOPs, we have not identified any documented cases of shareholders objecting after the fact. Typically, a stock market company would select a modest ESOP size, in the 5-20% range, that would be acceptable to shareholders. Management will select an appropriate ESOP size, assessing that the benefits of employee stock ownership for the company's performance will play a role in offsetting any dilution.

17. The explanation is complicated. As part of a strategy by many businesses to withdraw from financing retirement savings with their own funds, 401(k) plans were based on the notion that employees would largely finance their own retirement savings. Companies hired financial service firms to provide employees with a menu of equity and bond mutual funds as investments. The Federal Government tried to encourage companies to match employee contributions with company matching payments. As it developed, the overall impact of the 401(k) plan on both profit sharing and employee stock ownership had some negative consequences. Many companies that used to offer cash profit sharing began to designate their match to the employee contributions to 401(k) plans as the profit sharing contribution. Over time, some companies started cutting these company matches to employee contributions to lower and lower levels, essentially minimizing profit sharing. Some Federal regulations put in limitations on the amount of deductions for deferred profit sharing plans that were often integrated with 401k plans. As for the impact of 401k plans on employee stock ownership, in addition to mutual funds where the 401(k) assets could be invested, some companies with 401(k) plans began offering employees the choice of the employees themselves *buying* company stock with their own wage deductions and savings. This actually encouraged the more risky approach of employees buying the stock with their savings rather than the *grants* of stock on which ESOPs are based. In some cases, as in the case of Enron, employees were overinvested in company stock they purchased and lost their retirements. Thus, the 401k plan recreated a form of employee stock ownership that was common in the 1920s, where employee savings and wages had more exposure. Most employees in 401(k) plans have very low 401(k) balances, many do not contribute or participate in these plans, and the “deferred profit-sharing” option has lost some of its public persona as a result of its integration with 401(k) plans. The 401(k) phenomenon has become a mainly employee-funded retirement plan supported by wage deductions that does not build new capital ownership and capital income on top of wages. In our view, there is one responsible employee stock ownership dimension of 401(k), namely, when companies match employee contributions to the plan

with *company stock grants* that the employee does not have to purchase with wages. It is consistent with the policy option of encouraging grants of company stock not employee purchases of shares.

- 18.** See *The Citizen's Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), 214-223 for a more detailed discussion of these changes and cutbacks.

19. Previous work of the co-authors contains a larger number of background references for the material presented here. The summary of evidence and policies draws on: Douglas L. Kruse. *Employee Ownership and Economic Performance*. (Berlin: IZA World of Labor Policy Brief, forthcoming 2016), Chapters 1 and 6 of *How Did Employee Ownership Firms Weather the Past Two Recessions?* Fidan Kurtulus and Douglas L. Kruse. (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2016, in press); and Chapter 5 of *The Citizen's Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013). Employee ownership and profit sharing come in diverse forms. Common types of employee ownership include: 1) Employee Stock Ownership Plans (ESOPs) where employees own accounts in a group retirement trust, which can borrow money to finance stock purchases (paid back by the company) so employees do not have to put up their own money or assets as collateral. In 2015, there were 9,323 Employee Ownership Plans, with about 15 million employees, and \$1.3 trillion in assets. ESOPs typically own about 5-25% of stock market companies but more than 30% of stock in closely held companies. The 6,329 closely held companies with ESOPs have about 3 million workers and \$263 billion in ESOP assets. A few thousand companies are estimated to be majority or 100% employee owned. Most stock market ESOPs have a lot of employees but a very small amount of employee ownership. This is based on National Center for Employee Ownership analysis of U.S. Department of Labor Form 5500 data from 2013. Available at: <https://www.nceo.org/articles/statistical-profile-employee-ownership> For detailed numbers on ESOPs, see the center's January-February 2016 newsletter; 2) Employer stock in other retirement plans such as 401(k) plans where companies may match pretax employee contributions with company stock, or where workers buy the stock themselves, also exist. There were 5.9 million participants in such plans in 2012; 3) Employee Share Purchase Plans, which allow employees to buy company stock at a discount. About half of all large companies in the U.S. offer ESPPs, and an average 30% of employees in these companies participate in the ESPP. See Ilona Babenko and Richard Sen, "Money Left on the Table: An Analysis of Participation in Employee

Stock Purchase Plans, *Review of Financial Studies*, 27 (2014): 3658–3698; 4) Stock held after the exercise of granted stock options or grants of restricted stock. Options give an employee the right to buy shares of a company at some future time at a price specified in the option, thereby providing workers an incentive to improve performance and raise the stock price. As options are risky, many employees cash them out quickly. If workers hold options but not stocks, they have no voting rights. Options are effectively a form of potential profit-sharing rather than ownership, and 5) Employee ownership shares in broad-based worker cooperatives or LLCs (Limited Liability Partnerships or perpetual trusts facilitating such ownership or EWOCs (eligible worker owned cooperatives) under Internal Revenue Code Section 1042. There are about 256 worker cooperatives nationally with a median workforce of 10 worker-owners and median sales under \$300,000, and about 7,000 employees in total. See Tim Palmer, *Democratic Workplace Ownership after the Great Recession: An Economic Overview of US Worker Cooperatives*. (San Francisco: Democracy at Work Institute, 2014)

- 20.** See E. Han Kim and Paige Ouimet, “Broad Based Employee Stock Ownership: Motives and Outcomes,” *The Journal of Finance*, 69:2 (2014): 1273–1319; Peter A. Kardas, Adria L. Scharf, and Jim Keogh, “Wealth and Income Consequences of ESOPs and Employee Ownership: A Comparative Study from Washington State,” *Journal of Employee Ownership Law and Finance*, 10:4 (1998). Adria A. Scharf and Christopher Mackin. *Census of Massachusetts Companies with Employee Stock Ownership Plans (ESOPs)*. (Boston: Commonwealth Corporation, 2000); Michael Handel and Maury Gittleman, “Is There A Wage Payoff to Innovative Practices?” *Industrial Relations*, 43:1 (2004), 67–97. Richard J. Long and Tony Fang. “Do Employees Profit From Profit Sharing? Evidence From Canadian Panel Data,” *Industrial and Labor Relations Review* 65:4 (2012): 899–927.

- 21.** Indeed, weighing whether having employees and managers as partners can contribute more to all shareholders of a stock market company than the dilution of a share plan that is based on newly issued shares, is common in stock market companies. It is examined in detail in the book, *In the Company of Owners*, which focuses on high-tech Internet stock market firms. See Joseph R. Blasi and Douglas L. Kruse and Aaron Bernstein. *In The Company of Owners*. New York: Basic Books, 2001. Empirical research on this is in Joseph R. Blasi, Richard B. Freeman and Douglas L. Kruse, "Do Broad-Based Employee Ownership, Profit Sharing and Stock Options Help the Best Firms Do Even Better?" *British Journal of Industrial Relations*, 54(1) 2016, 55-82, showing that such companies had higher return on equity than low equity and profit sharing companies, based on a sample representing 10% of sales and employment and 20% of total market value of the entire NYSE and NASDAQ comparing companies with broad-based shares to companies without broad-based shares.
- 22.** See George G. Akerlof, "Labor Contracts as Partial Gift Exchange," *Quarterly Journal of Economics*, 97 (1982), 543-569.
- 23.** See chapter five of *The Citizen's Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013); See Joseph R. Blasi, Richard B. Freeman, Christopher Mackin, and Douglas L. Kruse "Creating a Bigger Pie? The Effects of Employee Ownership, Profit Sharing, and Stock Options on Workplace Performance," in *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, ed. Douglas L. Kruse, Richard B. Freeman, and Joseph R. Blasi. (Chicago: University of Chicago Press and National Bureau of Economic Research, 2010), 139-165.

- 24.** See Jared Bernstein, *Employee Ownership, ESOPs, Wealth, And Wages*. Washington, D.C. Employee-Owned S Corporations of America, January 2016), <http://esca.us/wp-content/uploads/2016/01/ESOP-Study-Final.pdf>. See also, Robert Buchele, Douglas Kruse, Loren Rodgers, and Adria Scharf, “Show Me the Money: Does Shared Capitalism Share the Wealth?” in *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, ed. Douglas Kruse, Richard Freeman, and Joseph Blasi. (Chicago, IL: University of Chicago Press, 2010), 351-376).
- 25.** See Earnest H. O’Boyle,, Pankaj C. Patel, and Erik Gonzalez-Mulé, “Employee Ownership and Firm Performance: A Meta-Analysis,” *Human Resource Management Journal*, 2016, in press), DOI: 10.1111/1748-8583.12115.

26. See Eric C. A. Kaarsemaker. *Employee Ownership and Human Resource Management: A Theoretical and Empirical Treatise with a Digression on the Dutch Context*. (Nijmegen, The Netherlands: Radboud University, Doctoral Dissertation, 2006); Chris Doucouliagos, “Worker Participation and Productivity in Labor-managed and Participatory Capitalist Firms: A Meta-analysis,” *Industrial and Labor Relations Review*, 49:1 (1995): 58-77 and, Steven Freeman. *Effects of ESOP Adoption and Employee Ownership: Thirty Years of Research and Experience*. (Philadelphia, Pa: University of Pennsylvania, Organizational Dynamics Working Paper #07-01, 2007), <http://www.lb7.uscourts.gov/documents/WIWD/09-413.pdf>. These are summarized with additional evidence in *The Citizen’s Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), 167-194). The U.K. Treasury’s sponsored analysis of confidential tax records on tax-advantaged share schemes at over 16,000 U.K. firms reported that broad-based employee stock ownership was linked to improved value added and productivity with correlations consistent with those in many studies of smaller numbers of firms. See *Oxera Tax Advantaged Employee Share Schemes: Analysis of Productivity Effects, Report 1, Productivity Measured Using Turnover and Report 2, Productivity Measured Using Gross Value Added*. (London: HM Revenue and Customs. See also, Martin Weitzman and Douglas Kruse, “Profit Sharing and Productivity,” in *Paying For Productivity: A Look at the Evidence*, ed. Alan Blinder. (Washington, D.C.: Brookings Institution, 1990). See also Douglas L. Kruse. *Employee Ownership and Economic Performance*. (Berlin: IZA World of Labor Policy Brief, forthcoming 2016) and Douglas L. Kruse and Joseph Blasi, “Employee Ownership, Employee Attitudes, and Firm Performance: A Review of the Evidence,” in ed. Dan Mitchell, David Lewin, and Mahmood Zaidi, *Handbook of Human Resource Management*. (Greenwich, CT: JAI Press, 1997), 113-15.

- 27.** See Suzanne J. Peterson, and Fred Luthans, “The Impact of Financial and Nonfinancial Incentives on Business-Unit Outcomes Over Time,” *Journal of Applied Psychology*, 91 (2006): 156–165; N. Frohlich, J. Godard, J. A. Oppenheimer, and F. A. Starke. “Employee Versus Conventionally-owned and Controlled Firms: An Experimental Analysis,” *Managerial and Decision Economics*, 19 (1998), 311– 326, and Philip Mellizo, “Can Group-Incentives Without Participation Survive the Free-Rider Problem? A View From the Lab,” in *Sharing Ownership, Profits, and Decision-Making in the 21st Century*, ed. Douglas L. Kruse (Bingley, UK: Emerald Publishing, 2013), 27 – 59, Volume 14, Advances in the Economic Analysis of Participatory and Labor-managed Firms Series.
- 28.** See Richard B. Freeman, Douglas L. Kruse, and Joseph R. Blasi, “Worker Responses to Shirking Under Shared Capitalism,” in *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, ed. Douglas L. Kruse, Richard B. Freeman, and Joseph R. Blasi. (Chicago: University of Chicago Press and National Bureau of Economic Research, 2010), 77-103.
- 29.** See Alex Brill, *An Analysis of the Benefits S ESOPs Provide the U.S. Economy and Workforce*. (Washington, D.C. : Matrix Global Advisors, July 2012), <http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/paper-brill.pdf> See also *How Did Employee Ownership Firms Weather the Past Two Recessions?* Fidan Kurtulus and Douglas L. Kruse. (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2016, in press).
- 30.** See *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, ed. Douglas Kruse, Richard Freeman, and Joseph Blasi. (Chicago, IL: University of Chicago Press, 2010), 351-376); *The Citizen’s Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), and Joseph R. Blasi, Richard B. Freeman and Douglas L. Kruse, “Do Broad-Based Employee Ownership, Profit Sharing and Stock Options Help the Best Firms Do Even Better?” *British Journal of Industrial Relations*, 54(1) 2016: 55-82

- 31.** See Joseph R. Blasi, Richard B. Freeman and Douglas L. Kruse, “Do Broad-Based Employee Ownership, Profit Sharing and Stock Options Help the Best Firms Do Even Better?” *British Journal of Industrial Relations*, 54(1) 2016: 55-82.

- 32.** See Karla Walter and Danielle Corley. Mitigating Risk to Maximize the Benefits of Employee Ownership. (Washington, D.C.: Center for American Progress, October 2015), <https://cdn.americanprogress.org/wp-content/uploads/2015/10/28102559/MitigatingRiskReport.pdf>.

33. See Rodgers, Loren, “Are ESOPs Good for Employees?” *Pension & Benefits Daily*, 100 (2010): 1-2. On the other population study using all US DOL data, see *Testimony of Professor Douglas L. Kruse, Phd., Rutgers University*. (Washington, D.C.: Committee on Education and the Workforce, February, 13, 2002), <http://archives.republicans.edlabor.house.gov/archive/hearings/107th/ee/enronthree21302/kruse.htm>

Another study comparing a matched sample of ESOP versus non-ESOP firms in with similar industries and workforce sizes among closely held companies, again, using population data on all available US DOL data followed the ESOP firms before and after their adoption of the ESOP from 1988 to 1998 along with the matched firms and found that 20% of the ESOP firms had a defined benefit plan before adopting their ESOP, and 10 years later, after adopting their ESOP, they had defined benefit plans five times more than non-ESOP firms), 33.3% of ESOP firms had a 401(k) plan before adopting their ESOP with 52.4% 10 years later (five times more than non-ESOP firms), and 35.7% of ESOP firms had a deferred profit-sharing plan before adopting their ESOP with 51.2% 10 years later (five times more than non-ESOP firms). See Blasi, Kruse, and Weltmann, 2013. This study is: Joseph Blasi and Douglas Kruse and Dan Weltmann, “Firm Survival and Performance in Privately-held ESOP Companies,” in *Sharing Ownership, Profits, and Decision-making in the 21st Century*, ed. Douglas L. Kruse, (Bingley, UK: Emerald Publishing, 2013), 109-124, Volume 14, *Advances in the Economic Analysis of Participatory and Labor-managed Firms Series*. The most recent study in 2015 focuses on S corporation ESOPs by Dr. Robert J. Carroll. Dr. Carroll is the National Director, Quantitative Economics and Statistics (QUEST), Earnst & Young and former Deputy Assistant Secretary for Tax Analysis of the US Treasury Department, finds ESOPs have higher distributions than 401(k) plans and that 65% of S corporation ESOPs offer an additional retirement plan compared to 45% of all establishments. See Robert J. Carroll. *Contribution of S ESOPs to Participant Retirement Security: Prepared for the Employee-Owned S Corporations of America*. (Washington, D.C.: Ernst and Young, March 2015), http://esca.us/wp-content/uploads/2015/11/EY_ESCA_S_ESOP_retirement_security_analysis_2015.pdf.

- 34.** On NBER see *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, ed. Douglas Kruse, Richard Freeman, and Joseph Blasi. (Chicago, IL: University of Chicago Press, 2010), 60-66. On Markowitz, see Joseph R. Blasi, Douglas L. Kruse, and Harry M. Markowitz, "Risk and Lack of Diversification under Employee Ownership and Shared Capitalism," in *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, ed. Douglas L. Kruse, Richard B. Freeman, and Joseph R. Blasi. (Chicago: University of Chicago Press and National Bureau of Economic Research, 2010), 77-103 and Harry M. Markowitz and Joseph R. Blasi and Douglas L. Kruse, "Employee Stock Ownership and Diversification," *Annals of Operations Research*, 176 (2010): 95-107. On Survey of Consumer Finances, see Douglas L. Kruse, and Joseph R. Blasi and Dan Weltmann and Saehee Kang and Jung oook Kim. *Do Employee Owners Face Too Much Financial Risk? Evidence from the 2013 Survey of Consumer Finances*. (New Brunswick, New Jersey: Rutgers University, School of Management and Labor Relations. Paper presented at Beyster Symposium and International Association for the Economics of Participation, 2016.) Recent research from the main lenders to ESOPs suggests very low default rates on loans to ESOPs used to purchase stock for grants to workers. See Corey Rosen. *Default Rates on ESOP Loans: 2009 - 2013*. (Oakland, Ca.: National Center for Employee Ownership, June 2014), <https://www.nceo.org/articles/default-rates-esop-loans-2009-2013>.
- 35.** See Peter Lindert and Jeffrey Williamson. *American Incomes, 1774-1860*. Cambridge: National Bureau of Economic Research Working Paper 18396, 2012). See also, Jordan Weissman, "U.S. Income Inequality: It's Worse Today Than It Was in 1774," *The Atlantic Monthly*, Sept 19, 2012, <http://www.theatlantic.com/business/archive/2012/09/u-s-income-inequality-its-worse-today-than-it-was-in-1774/262537/>.

36. *The Citizen's Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), 9-15. On the IRS see <http://metrocosm.com/wealth-vs-income-inequality/>; <https://www.irs.gov/pub/irs-soi/13intop400.pdf>. See also, Emmanuel Saez and Gabriel Zucman. *Wealth Inequality in the United States Since 1913: Evidence from Capitalized Income Data* (Cambridge: National Bureau of Economic Research Working Paper 20625, October 2014). On capital income, see also <http://www.stateofworkingamerica.org/chart/swa-income-figure-2v-share-total-household/> and Blasi, Joseph, "Ideas and Insights: Tipping the Scale of Employee Share Ownership," Morgan Stanley Global Stock Plan Services, September 2015, p.2, Exhibit 1, Available at <https://www.morganstanleyfa.com/public/projectfiles/38269dee-ee02-43d0-b2c5-f5913211990f.pdf>.

37. Bipartisan support for employee ownership and profit sharing have been documented by researchers. As noted in the article, *Profit Sharing: An American Presidential History* in endnote 12, regarding profit sharing, Republican businesspeople initiated many of the leading profit-sharing plans in American history, Republican members of Congress led the fight for legislative support for profit sharing, while the actual incentives were developed under President Franklin D. Roosevelt's administration with bipartisan support. On employee ownership, many Republican business leaders supported the idea in the early 1900s through the Special Conference Committee initiated by the Rockefellers. The initial ESOP legislation was written by Senator Russell Long and passed under President Gerald Ford with bipartisan support. The most significant expansion of ESOP legislation happened under President Ronald Reagan in a bipartisan effort with Democratic Senator Russell Long. For a video of President Reagan discussing the Founders' tradition on broad-based property ownership and employee ownership, see: <https://www.youtube.com/watch?v=06vP84SqnS4> and <https://www.youtube.com/watch?v=nEyUnCIkhMs> Employee ownership was part of the 2012 Republican Party platform as reported in <https://www.nceo.org/employee-ownership-update/2012-09-04>. On the Democratic side, the D.C.-based think tank founded by leaders of the Democratic Party, the Center for American Progress has published several policy papers on employee ownership policy: Richard B. Freeman, Joseph R. Blasi, and Douglas L. Kruse. *Inclusive Capitalism for the American Workforce*. (Washington, D.C.: Center for American Progress, March 2011), <https://www.americanprogress.org/issues/labor/report/2011/03/02/9356/inclusive-capitalism-for-the-american-workforce/> and David Madland and Karla Walter. *Growing the Wealth: How Government Encourages Broad-based Inclusive Capitalism*. (Washington, D.C.: Center for American Progress, 2013), <https://cdn.americanprogress.org/wp-content/uploads/2013/04/InclusiveCapitalism.pdf> and Karla Walter and David Madland and Danielle Corley. *Capitalism for Everyone; Encouraging Companies to Adopt Employee Ownership Programs and Broad-Based Profit Sharing*. (Washington, D.C.: Center for American

Progress, 2015), <https://www.americanprogress.org/issues/economy/report/2015/07/21/117742/capitalism-for-everyone/> and Karla Walter and Danielle Corley. *Mitigating Risk to Maximize the Benefits of Employee Ownership*. (Washington, D.C.: Center for American Progress, October 2015), <https://cdn.americanprogress.org/wp-content/uploads/2015/10/28102559/MitigatingRiskReport.pdf> and Lawrence Summers and Edward Balls. *Report on the Commission on Inclusive Prosperity*. (Washington, D.C.: Center for American Progress, 2015), which adopted most of the recommendations of *The Citizen's Share* book <https://www.americanprogress.org/issues/economy/report/2015/01/15/104266/report-of-the-commission-on-inclusive-prosperity/> Another DC-based group, hoping to encourage 50 million workers in employee ownership firms by 2050, 50x50, has two relevant reports: Marjorie Kelley and Violeta Ducan and Steve Dubb. *Strategies for Financing the Inclusive Economy by and Broad-Based Ownership Models as Tools for Job Creation*. (Washington, D.C.: The Democracy Collaborative, 2016) and <http://www.fiftybyfifty.org/the-initiative.html> and <http://www.fiftybyfifty.org/report-learning--design-session.html> as does the Democracy at Work Institute under "Our Work" at <http://institute.coop/projects> The American Sustainable Business Council also supports shares. See <http://asbcouncil.org/issues/worker-ownership#.V-2T3pMrLUo> and <http://www.chillicothegazette.com/story/opinion/columnists/guest/2016/09/03/esops-one-way-improve-worker-treatment/89725374/> by their Vice President Richard Eidlin. See also the Surdna Foundation has a recent position paper on the topic: <http://www.surdna.org/whats-new/news/920-ours-to-share-how-worker-ownership-can-change-the-american-economy.html> drafted by Dr. Sanjay Pinto. The W.K. Kellogg Foundation has supported a research program at Rutgers University to study whether employee stock ownership can build significant wealth for citizens of modest income and minorities.

- 38.** On the General Social Survey, see *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-based Stock Options*, Douglas L. Kruse, Richard B. Freeman, and Joseph R. Blasi. (Chicago: University of Chicago Press and National Bureau of Economic Research, 2010), 44-74 with data from 2002 and 2006; *The Citizen's Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), 109-122 with data from 2010, with a recent draft report available from the authors on the 2014 data. Data showing the distribution of equity and profit shares by income, gender, and race are also available. The General Social Survey supplement measuring of broad-based employee stock ownership, profit sharing, and stock options is conducted by the National Opinion Research Center at the University of Chicago on contract with the Employee Ownership Foundation. For a history of public opinion polls on employee stock ownership and profit sharing, see Douglas Kruse and Joseph Blasi, "Public Opinion Polls on Employee Ownership and Profit Sharing," *Journal of Employee Ownership Law and Finance*, 11 (1999), 3-25 and Joseph Blasi, "Polls: The Middle Class Likes Profit Sharing," *The Huffington Post*, March 21, 2015, http://www.huffingtonpost.com/joseph-biasi/polls-the-middle-class-li_b_6917230.html A recent 2016 poll by Public Policy Polling shows bi-partisan support for employee stock ownership, <https://www.nceo.org/employee-ownership-update/2016-08-01> and a strong preference for products and services of businesses with employee stock ownership, <https://www.nceo.org/articles/surveys-show-strong-preference-employee-owned-products-services>.
- 39.** See Joint Committee on Taxation. *Estimates of Federal Tax Expenditures for Fiscal Years 2014-2018*. (Washington, D.C. Joint Committee on Taxation, August 5, 2014), <https://www.jct.gov/publications.html?func=startdown&id=4663>.

40. See a copy of the 2016 Democratic Party Platform at: <https://www.demconvention.com/wp-content/uploads/2016/07/Democratic-Party-Platform-7.21.16-no-lines.pdf> with the profit sharing section on page 5. See a copy of the 2016 Republican Party Platform at: [https://prod-cdn-static.gop.com/media/documents/DRAFT_12_FINAL\[1\]-ben_1468872234.pdf](https://prod-cdn-static.gop.com/media/documents/DRAFT_12_FINAL[1]-ben_1468872234.pdf) with the employee stock ownership section on page 8.” On Clinton’s support for employee share ownership, see: <http://www.bloomberg.com/politics/trackers/2016-04-26/clinton-chobani-worker-stock-gift-way-business-should-work>. The largest policy disasters causing the greatest reversals and the most in tax expenditures are summarized in *The Citizen’s Share: Reducing Inequality in the 21st Century*, Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse. (New Haven: Yale University Press, 2013), Appendix 6.1, 214-227.