The Business Case for Worker Ownership

In the past 30-plus years, the connection between work and reward has frayed. From 1973 to 2016, net productivity rose 74 percent, while the hourly pay of typical workers essentially stagnated — increasing only 13 percent over 43 years. One ready solution to this problem is worker ownership, which allows more Americans to share in their companies’ success and build wealth over the long term. It also makes these companies more stable, keeping local businesses open for their customers, employees, and communities.

Worker ownership — in the form of Employee Stock Ownership Plans (ESOPs), union cooperatives, or worker cooperatives — is a sustainable concept that policymakers of all political views value. Worker ownership is a business model that can preserve many American companies that may otherwise close as Baby Boomers retire; build stronger, more resilient local economies; increase wealth, and help rebuild our essential middle class. It’s a model that can work in all of our communities, and its time is now.

Stronger, More Stable Companies
Worker-owned companies are solid job creators. In one 10-year study, ESOP companies had 25 percent greater job growth than comparable companies without an ESOP. By offering equity and greater job security, worker-owned firms attract and keep more productive employees. During the Great Recession, they had both fewer layoffs and higher business survival rates.

Worker Ownership Sustains Companies, Workers, and Communities

- Companies get workers who are more committed and productive, and less likely to leave.
- Workers get more responsibility, better compensation, and another source of retirement income.
- Communities get companies that don’t relocate, keep their wealth in place, and create long-term jobs and greater consumer spending.

Worker ownership can also preserve the character and quality of a company, which may be of real value to its community of customers. A business sold to outsiders often finds new owners have very different priorities. Take the case of New Belgium Brewing. Its owners were concerned that if they brought in outside investors, the company’s socially responsible mission would be lost. For this reason, New Belgium Brewing restructured as an ESOP.

Strengthening Communities and the Economy
Consumer spending is the mainstay of our economy and broad-based wage growth is vital for growing consumer demand. Increasing worker ownership is an efficient way to boost consumer demand — and, in turn, businesses and the economy — by building wealth for hardworking Americans, the very people most likely to spend those dollars on needed products and services.

Increasing worker ownership can also boost business survival. Over the next decade, tens of thousands of businesses will be sold or shut down as their Baby-Boomer owners retire.

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1 Adjusted for inflation. Retrieved from https://www.epi.org/productivity-pay-gap
The Census reports that this age group owns about half of the six million U.S. businesses with employees. By one estimate, up to 20,000 of these businesses must change ownership each year. If they’re not sold to new owners, the widespread loss of these businesses threatens local economies. Baby-Boomer businesses don’t have to close. Many can be sold to their workers through ESOPs or by transitioning them to worker or union cooperatives.

Consider the case of Select Machine in Kent, Ohio. The two owners were planning to retire and they didn’t like the choices they faced. Their company, which makes custom parts for equipment, was profitable and debt free. However, their adult children didn’t want to take over the business, and the prospective buyers wanted their client list but otherwise intended to close the company. In 2005, the owners chose to make the company into a worker cooperative, by selling to their workers in stages.

When workers buy the company that employs them, these employees continue their commitment to their community, which makes them more likely to keep the company’s operations and infrastructure in place. Consider the economic impact of Publix Super Markets, Inc., an ESOP headquartered in Lakeland, Florida, that employs 193,000 people. In 2017, it posted sales of $34.6 billion and profits of $2.3 billion.4

**Building Wealth and Growing the Middle Class**

Employee-owned businesses can afford to pay their workers five to 12 percent higher wages than traditional businesses.5 The better the cooperative performs, the more profit and income each worker receives, so workers feel a powerful, direct connection between how hard they work and how well they are rewarded.

The United States has the highest level of income inequality among all advanced countries, and capital income (dividends and capital gains) comprises the most unequal part of U.S. income distribution. At present, most families whose wealth is increasing get their wealth through capital ownership and access to capital income. In contrast, most U.S. workers earn a wage but little or no capital income from pensions or other capital investments. The U.S. needs to make more use of business models that enable workers to own capital and earn capital income. Worker-owned companies have a track record of doing so.

Capital income is important. As many as 9 out of 10 U.S. households save too little to finance retirement. Millions of Americans save nothing at all: Among households age 55 and older, almost 30 percent have neither retirement savings nor defined-benefit plans.6 When workers own equity in their company, that equity can serve as major source of retirement savings, which can be tapped after the worker leaves the company and sells the equity back.

**Worker-Owned Businesses are Not Radical or New**

Worker ownership is fairly common. By 2013, an estimated 10,300 corporations, mostly small- and medium-size businesses, had ESOPs and similar plans. They employed just over 10 million workers and had almost a trillion dollars in total value.7 While traditional pension plans have dwindled, almost half of U.S. full-time wage and salary workers have some equity stake in their employer, and up to 20 percent of companies listed on the New York Stock Exchange and NASDAQ have some form of employee stock ownership.8 Worker ownership also has a venerable American history. For more than a century, cooperatives have been a key feature of the success of U.S. agriculture. Today, the nation’s more than 3,000 agricultural cooperatives have 2.8 million members, net income of nearly $1.2 billion, and net business volume of more than $96 billion.9

Worker ownership as a business model has earned strong bi-partisan support. In fact, the 2016 Republican Platform endorsed the creation of ESOPs, stating that the future of work will be built on “employee empowerment and workplace flexibility,” and that stock-ownership plans enable workers to become capitalists, expand private property, and boost the economy.

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8 Ibid. 112, 82.
9 UC Davis Small Farm Program. Retrieved from http://sfp.ucdavis.edu/cooperatives/what_is/#history
Barriers to Worker-Ownership Can Be Solved

- **Access to technical help and training.** The transition to worker ownership requires technical help. Owners often need help assessing if the business will remain viable when worker owned and need legal assistance in structuring the transition. Employee purchasers also need training in how to run the business to make sure it succeeds.

- **Access to capital.** Many traditional banks don’t know enough about worker-owned businesses to feel comfortable lending to them. Legislation can create ways to raise funds, either through changes to tax law or an increase in government loans.

- **Parity for ownership models under federal laws.** There are several models of worker ownership, and this variety contributes to the fragmentation of the law. Tax laws treat cooperatives differently than ESOPs, and S Corp ESOPs and C Corp ESOPs differently from each other. These laws must be changed to make tax treatment uniform and equal for all models of worker ownership. Legal parity will enable choice and flexibility for workers and provide the freedom to create new hybrid models as business and worker needs evolve.

- **Federal agency coordination.** Several federal agencies interact with worker-owned businesses. These include the Department of Agriculture, which deals with agricultural cooperatives; the Small Business Administration, which deals with ESOPs and Coops; and the Department of Labor, which deals with ESOPs governed under federal pension laws. Federal law and administrative rules need to be changed to allow these agencies to provide more consistent guidance and work under the same rules.

Here’s the Solution:

- **Change tax laws** to provide parity in support for all types of worker-owned companies.

- **Help worker-owned companies** obtain necessary funds to start and grow.

- **Expand federal technical support** to businesses in transitioning to any model of worker ownership.

Worker Ownership Legislation in the 115th Congress

- **Passed:** The *Main Street Employee Ownership Act* of 2018 (S. 2786 and H.R. 5236), increases the availability of SBA 7(a) ESOP loans; allows the seller to maintain longer contact with the company to support the transition to worker ownership; and requires the SBA to work with the nation’s Small Business Development Centers to provide transition-related technical training, executive education, and one-on-one consulting.

- **The Promotion and Expansion of Private Employee Ownership Act** (S. 1589), which would give S Corp ESOP owners the same right to defer capital gains taxes that C Corp ESOP owners now have. Ideally, S.1589 should be expanded to provide similar tax breaks to worker and union coops as well.

- **The Worker Ownership, Readiness, and Knowledge (WORK) Act** (S. 1081, H.R. 2387), which would authorize the Department of Labor to provide training, grants, and technical support to local and state programs that promote worker ownership.

Join our growing coalition of businesses supporting worker ownership at workerownership.asbcouncil.org