Investing in Workers: Challenges and Solutions for Wealth Building for Low- and Moderate-Income Workers

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IN COLLABORATION WITH DISTINGUISHED PROFESSOR DOUGLAS KRUSE AT RUTGERS UNIVERSITY
WEALTH CONCENTRATION: 2019 (FED)
- 70% in the top 10%; 30% in bottom 90%
- 31% in the top 1%

CAPITAL INCOME CONCENTRATION: 2018 (CBO)
- 90% in the top 20%; 10% in the bottom 90%

INFLATION-ADJUSTED WAGES/PENSIONS
PAY RELATIVE TO PRODUCTIVITY
CAPITAL PRODUCES PROFITS
THOSE WHO OWN CAPITAL POCKET THE PROFITS
CAPITAL INCOME HAS COLLAPSED FOR THE MIDDLE CLASS

- Capital shares are not an alternative to fair wages.
- But capital income is not helping the middle class.
- 1979: capital income = 175% of wages for top 1%
- 1979: capital income = 36% of wages for top 20%
- 1979: capital income = 9% of wages for bottom 80%
- By 2018: capital income = 139% of wages for top 1%
- By 2018: capital income = 37% of wages for top 20%
- By 2018: capital income = 3-4% of wages for the 80%
SEVERAL POSSIBLE STRATEGIES TO CONSIDER

- The step ups in concentration continue.
- Use only wage & benefit increases.
- Huge expansion of welfare system for the 90%
- Broaden access to capital ownership/income
- A real risk of feudalism with a Constitution.

SOURCE: The Citizen’s Share, Blasi/Freeman/Kruse (Yale University Press)
ARE CAPITAL SHARES DOABLE IN THE ECONOMY?

- Data from the General Social Survey, National Opinion Research Center, University of Chicago

- Rutgers has collected data on capital shares every four years from 2002-2022

- Here are the recent data for 2018 about to be updated by the Rutgers Shares Laboratory:

  - 20% of adult workers have company stock
  - 9% hold company stock options
  - 38% have cash profit sharing
  - 30% have gain sharing
  - 47% have one or all forms of capital shares
  - The mechanisms are here but currently do not add up to a large proportion of middle-class wealth
LET'S LOOK AT FOUR WORKPLACE CAPITAL SHARE MODELS

- Employee Stock Ownership Plans (ESOPs)
- Equity Compensation Plans
- Worker Cooperatives
- Employee Ownership Trusts
EMPLOYEE STOCK OWNERSHIP PLANS

- Typically, an employee trust gets credit to buy stock.
- The firm, not the worker, guarantees/pays back the loan.
- *Workers do not purchase the stock.*
- Capital gains at retirement; profit sharing is also common.

- **IN CLOSELY-HELD CORPORATIONS**
  - 6000 companies, 2 million workers, most LBO buyouts
  - $221 billion, so $111,000 per employee in wealth

- **PUBLICLY-TRADED STOCK MARKET CORPORATIONS**
  - 580 companies, 12 million workers, most are benefit plans
  - $1.6 trillion, so $133,000 per employee in wealth
EQUITY COMPENSATION PLANS

- Gradually developing since the 1900s.
- Grew with the 16th Amendment in 1913
- Grants of restricted stock units (RSUs)
- Grants of employee stock options
- ESPPs with 15% discount and loopbacks

- ONLY ESTIMATES AT THE PRESENT TIME
- About 10 million employee stock owners
- About 11 million employee option holders
- Overlap of employee stock plans is common.
- The Rutgers Shares Laboratory is studying it.
612 verified worker cooperatives, estimate of 1000
- Patronage dividends but no capital gains
- Median size is 6 workers
- Total sales of $283 million, low wealth distributions
- Cooperative Home Health Care with about 2000
- The Drivers Coop with several thousand more workers
- 12% from ownership transitions, tremendous potential.
- Creating jobs where the economy has abandoned people.
- More diverse workforces, more women
- Platform cooperatives, for example, https://www.upandgo.coop/
EMPLOYEE OWNERSHIP TRUSTS (EOTS)

- A trust owned by all employees in perpetuity.
- Governed by state laws; unregulated.
- No individual employee stock accounts.
- Employees are paid annual profit sharing.
- No capital gains at retirement.

SOME FACTS:
- About 20 EOT’s with several thousand workers.
- Growing at a modest rate.
- In the U.K. growing at rate of 1 per day
- The U.K. is the world's major experiment with EOT’s.
FIVE EMPIRICAL STUDIES OF EMPLOYEE SHARE OWNERSHIP

- A meta-analysis by Earnest O’Boyle et. al. in the Human Resource Management Journal

- A large statistical study by Blasi, Freeman, Kruse (BFK) in the British Journal of Industrial Relations

- NBER Shared Capitalism study funded by the Rockefeller Foundation and the Russell Sage Foundation published by the University of Chicago Press and NBER, Shared Capitalism at Work, by Kruse, Freeman, and Blasi.

- Review by Douglas Kruse for the Institute of Labor Economics, Does Employee Ownership Improve Performance?

- Ongoing General Social Survey analyses by Kruse and Blasi at the Rutgers Institute
WHAT THE RESEARCH SHOWS

- O’Boyle looks at 102 samples in 56,984 firms showing a small positive performance effect for ESO. The positive relation exists across firm size, and has increased in studies over time, possibly because firms are learning to implement employee ownership more effectively. This suggests a corporate culture dimension.

- Blasi, Freeman, & Kruse look at 780 applicants to the 100 Best Competition form, 2005-2007 and 240,465 random employee surveys finds combining group incentive pay (ESO and profit sharing) with a positive workplace culture reduces turnover and increase ROE. Dataset represents a large segment of the public stock market.

- Kruse, Freeman, and Blasi looked intensively at about 40,000 employee surveys in 14 firms and found employee share ownership combined with high performance work practices reduces turnover, increases co-worker support, increases loyalty, and innovative behaviors. ESO and profit sharing work together to improve performance.

- Kruse reviews studies and finds that ESO companies have more stability, higher survival rates, and fewer layoffs in recessions, but culture explains variation in results.
What is the Impact of Equity Ownership on Companies? TURNOVER

We’ve Been Studying These Issues For Forty Years, Mainly NBER and Great Place to Work

FIGURE 2

British Journal of Industrial Relations

Shared Capitalism, Empowerment and Voluntary Turnover.

- No shared capitalism
- High shared capitalism

Low employee empowerment
High employee empowerment

Dotted lines indicate confidence intervals
ESO: IMPACT ON TURNOVER

Layoffs and employee ownership

<table>
<thead>
<tr>
<th>Year</th>
<th>Employee Owner</th>
<th>Not Employee Owner</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td>2006</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>2010</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>2014</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>2018</td>
<td>2%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: Author’s own compilation based on data from the US General Social Survey, adjusted for tenure, occupation, gender, age, race, and education. Online at: https://gss.norc.org/
TO WHAT EXTENT IS ESO A BETTER BUSINESS MODEL?

- The model supplements wages and benefits with capital ownership and capital income.

- The positive effects on firm and individual performance are dependent on a supportive corporate culture requiring employee and management education and development.

- Adding high performance work practices can reduce turnover, increase co-worker support, loyalty, and innovation on the condition of no wage and benefit substitution.

- Short-term profit sharing has a role to play together with ESO.

- It is not clear that BETTER economic performance is necessary for the model to be acceptable.

- The model can strengthen a democratic republic by creating citizens with significant broad-based property ownership that brings greater stability to society.
WHAT DOES BAD ESO LOOK LIKE?

- Having employees purchase the stock with their wages or savings creates too much financial risk, e.g. the 1920s, the Special Conference Committee, Enron, excessive purchases in 401k plans.

- Trading ESOPs for wage and benefit concessions has had a failing record.

- Wage substitution is a poor design for capital share plans for workers.

- The historical lesson of almost 250 years of experience is that ESO is optimal when based on grants and not purchases with the exception of the “Rockefeller-type ESPP plan which had deep discounts and lookbacks and are essentially “grant-like” programs.

- ESO does not correct for industry failures, e.g. school student pictures company

- A key question: Since all ESO has risk is there an alternative capital shares policy without ESO?
ESOPs have been based on a long line of tax incentives that encourage citizens to look at this alternative model.

Still, the growth rate of ESOPs has stagnated as a result of financing barriers favoring owner financing and successful ESOP firms disappearing as a result of success.

The retiring business owner phenomenon is a policy opportunity, seen recently in the American Rescue Plan Act’s State Small Business Credit Initiative that makes loans available for ESOP, coop, and EOT buyouts of retiring business owners.

Senator Van Hollen and Senator Rubio just introduced bipartisan legislation to dramatically change the rate of growth of ESOPs with the Employee Equity Investment Act.

Another large opportunity for ESO is to expand ESOPs in stock market companies.

A policy initiative to make equity compensation in stock market companies more broad-based is another option to evaluate.

Any capital shares policy would require a significant revision of tax incentives and “conditionality” of incentives.

The role of private equity industry in extending broad-based capital shares.

The need for a mutual fund made up of capital share companies.

Tens of millions of citizens are not in workplaces & citizen dividend programs make sense.
INSTITUTE FOR THE STUDY OF EMPLOYEE OWNERSHIP AND PROFIT SHARING

- The largest academic research institute on capital shares in the world: https://smlr.rutgers.edu/faculty-research-engagement/institute-study-employee-ownership-and-profit-sharing


- Two annual academic research conferences for scholars with videos at: https://online.brushfire.com/beystersymposium/

- An annual symposium on private equity and employee share ownership transactions: with videos at https://online.brushfire.com/private-equity-symposium/

- A Coursera course on the web at https://www.coursera.org/learn/employee-ownership

- A curriculum library for business school and social science professors: cleo.rutgers.edu

- Online program for retiring business owners sponsored by the W.K. Kellogg Foundation at https://smlr.rutgers.edu/employee-ownership-online-education
REFERENCES


- For statistics on ESOPs see the National Center for Employee Ownership at https://www.nceo.org/articles/employee-ownership-by-the-numbers


- For the O’Boyle study see: https://onlinelibrary.wiley.com/doi/epdf/10.1111/1748-8583.12115

- For the Blasi, Freeman, Kruse BJIR study, see https://onlinelibrary.wiley.com/doi/10.1111/bjir.12135


THANK YOU - THE END

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