



Capitalism for Everyone

Encouraging Companies to Adopt Employee Ownership Programs and Broad-Based Profit Sharing

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Introduction and summary

When a company does well, so should its workers. American workers have helped the economy grow by becoming more productive. Yet, even as productivity has increased, many middle- and working-class households have experienced stagnant wages and declining household incomes over the past few decades.¹ This means workers currently receive only a small share of the wealth they help create.

Broad-based sharing programs—such as granting workers an ownership stake or a share of profits based on workers’ collective performance—can help ensure that workers are rewarded for the wealth they generate. Advocates for these programs refer to this type of sharing by a number of names, including broad-based profit sharing and inclusive capitalism. Collectively, these programs hold the potential not only to benefit workers: Research shows that firms and investors also receive tangible benefits from sharing with their workers.²

Yet, too often, companies embrace a strategy that includes paying their workers the lowest possible wages; providing few benefits; and creating a work environment where turnover is high, worker knowledge is low, and profits are maximized by driving down labor costs.

As a result, workers are not reaping the full benefits of their increasing productivity or the country’s economic growth. A typical worker today is almost 60 percent more productive than a worker was 25 years ago but has seen only half of that productivity growth translate into higher compensation.³

Instead, the gains from economic growth in the United States have increasingly gone only to those at the very top. Among the top 20 percent of families by net worth, average wealth increased by 120 percent between 1983 and 2010, while the middle 20 percent of families only saw their wealth increase by 13 percent, and the bottom fifth of families saw their debt exceed their assets.⁴ Meanwhile, corporate profits are capturing a growing share of national income.⁵

A small but growing body of research shows that broad-based sharing programs can help reverse this trend and ensure that workers' wages and wealth increase as the economy grows. Studies measuring the benefits of various types of broad-based sharing programs find that—when compared to workers in similar companies without sharing programs—workers' wages are significantly higher, they are four times more likely to have defined benefit pension plans, and they are more than five times more likely to have 401(k) plans.⁶

Yet, far too few workers receive the significant benefits available from inclusive capitalism, and there are a number of issues that inhibit the growth of broad-based profit sharing programs. Business owners and executives are often unaware of inclusive capitalism programs and the mutual benefits they provide. In addition—while not born out by existing research—owners and executives often believe that company success is driven by a small number of “key” employees, particularly executives; this leads them to focus incentive pay on these individuals, not ordinary employees.⁷ Moreover, some government policies provide perverse incentives not to share; existing policies to encourage companies to share ownership with their employees are inadequate; and the federal government does not have a unified vision for how to encourage more sharing.

While the federal government has adopted a number of policies to support broad-based sharing programs⁸—such as tax advantages for companies and owners interested in selling to their employees—it can do more to ensure that more workers are able to participate in these programs.

First, the government should eliminate perverse incentives that encourage companies not to share with their employees. Reforming the tax code so that it no longer subsidizes narrow incentive programs that benefit only top executives would be a big start.⁹ In addition, policymakers should ensure that employee-owned companies are not barred from participating in contract set-aside programs.

Second, government leaders should adopt policies to incent more companies to implement broad-based sharing plans. It can do so by making it easier for companies that share with their workers to benefit from loan guarantees through the Small Business Administration. This would ensure that these businesses have access to the capital they need to sell to their employees—a good investment as these companies have lower rates of default than comparable companies without sharing programs.¹⁰ Policymakers should also encourage estates to sell to workers by providing partial estate tax relief.

Third, the federal government can begin to bridge knowledge gaps and thereby encourage more companies to adopt broad-based sharing programs for workers by creating an Office of Inclusive Capitalism. This office would promote outreach and provide technical assistance to private sector businesses, unions, and workers and improve government knowledge and support for inclusive capitalism.

These policies represent the Center for American Progress' plan for how to encourage greater adoption of inclusive capitalism programs throughout the economy. Some are new concepts, while other concepts build on policies included in the recent report of the Commission on Inclusive Prosperity,¹¹ as well as the good work of others. Academics, practitioners, and a bipartisan group of lawmakers—including Rep. Ron Kind (D-WI), Rep. Chaka Fattah (D-PA), Rep. Dana Rohrabacher (R-CA), Rep. Dave Reichert (R-WA), Rep. Brett Guthrie (R-KY), Rep. Randy Hultgren (R-IL), Rep. Ann McLane Kuster (D-NH), Sen. Ben Cardin (D-MD), Sen. Pat Roberts (R-KS), Sen. Bernie Sanders (I-VT), Sen. Kelly Ayotte (R-NH), and Sen. Amy Klobuchar (D-MN)—are increasingly discussing how government policy can be used to encourage more companies to adopt employee ownership programs and other types of profit sharing.¹² For example, the bipartisan Promotion and Expansion of Private Employee Ownership Act of 2015 would further support worker ownership in privately owned companies.¹³

This fall, CAP will release another related report that examines the question of risk to workers when employee ownership comes through retirement. Both papers build on CAP's 2013 report, "Growing the Wealth," which reviewed inclusive capitalism policies and identified tough questions advocates must answer.¹⁴

In addition, the Center for American Progress has released a number of reports in recent years that offer wide-ranging policy agendas to combat wage stagnation, reinvigorate the middle class, and reduce growing income inequality, including "The Middle-Class Squeeze" and the report from the Inclusive Prosperity Commission.¹⁵

Our Mission

The Center for American Progress is an independent, nonpartisan policy institute that is dedicated to improving the lives of all Americans, through bold, progressive ideas, as well as strong leadership and concerted action. Our aim is not just to change the conversation, but to change the country.

Our Values

As progressives, we believe America should be a land of boundless opportunity, where people can climb the ladder of economic mobility. We believe we owe it to future generations to protect the planet and promote peace and shared global prosperity.

And we believe an effective government can earn the trust of the American people, champion the common good over narrow self-interest, and harness the strength of our diversity.

Our Approach

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

