



VOLUME 2, NUMBER 12 DECEMBER 2000

## Half-Dozen Bold New Ideas for Spreading Capital Ownership

By Deborah Groban Olson and Alan Zundel

The stock market is "democratizing" wealth, we're told – almost incessantly. Half of all Americans now own stock, the business press proudly announces. What's largely ignored is the deeper truth, that three out of four Americans own paltry amounts of stock – less than \$10,000 – or nothing at all. And for most folks, debts are climbing faster than financial assets. Data from the Economic Policy Institute tells the true tale: From the late 1970s to the late 1990s, the 1 percent richest individuals nearly *doubled* their share of national household wealth, from 20 percent to nearly 40 percent. Wealth is not spreading today. It is massively concentrating.

Reversing this concentration, and promoting a genuine spreading of capital ownership, is more vital than ever. Advancing this goal is the focus of the Capital Ownership Group (COG). Funded by the Ford Foundation, COG is an informal "virtual think tank" of several hundred activists, academics, and other professionals whose mission is to create a coalition that promotes broadened ownership of productive capital. This article summarizes the work of one of COG's policy groups. It offers some truly innovative – and compelling – ideas, which we hope will soon find their way into the national policy arena.

### 1. The Fair Exchange Fund

This proposal offers a way to promote both wealth creation for families and protection of public resources at the same time. It's based on the principle that when business extracts natural resources, uses up clean air or water, receives tax abatements, or enjoys other public subsidies or contracts, it should provide a fair exchange to the public. It's a matter of quid pro quo, which in Latin means "this for that." We propose this fair exchange be a provision of corporate stock. The stock would be placed in non-governmental community trust funds, with individual accounts for families. Since all taxpayers have made the investment in companies, all should get some benefit. The community trust can reinvest in the community, and pay out a portion to citizens.

At one blow, this structure would deter local governments from competing for corporate location, build a diverse stock portfolio for every citizen, and secure a vote in corporate decisions by a diverse citizenry. The closest example of this in operation is the Alaska Permanent Fund, created by Governor Jay Hammond in 1978 to share the windfall of revenue from public oil reserves. As Peter Barnes described it in a May/June 1999 article in *The American Prospect*, "Hammond felt strongly that Alaska's oil wealth belonged to its people, not its government (he described Alaskans as "stockholders in Alaska, Inc."). The state uses oil revenues in three ways: 1) spending a portion on schools, highways, and other infrastructure; 2) returning a large portion to citizens in an annual cash dividend; 3) investing the remainder in a portfolio of stocks and bonds, so when the oil is gone, dividends will continue. Between 1982 – when the first dividend checks went out – and 1998, Alaskans pocketed more than \$7 billion. The per-capita dividend in 1998 totaled \$1,540. It climbed to an impressive \$6,160 for a household of four. That's real money – and it comes from real public resources. Though the fund was controversial in the beginning, and was forced to overcome a Supreme Court challenge, Alaskans are now in love with the Permanent Fund. Peter Barnes advocates giving every American "a share in the sky," so that polluting it would cost corporations – and would capture a trillion dollar windfall for individual Americans. We propose companies pay for all public resources. And we propose payment be made not in cash, but in stock - making it more palatable to

business. The idea is to recognize new property rights for a new era, and to give those property rights not to government, but to citizens. Citizen property rights are an idea whose time has come.

## **2. Ownership Transfer Corporations**

Here the idea is to encourage corporations to become owned and controlled directly by stakeholders, such as employees, suppliers, and customers. It involves reducing the corporate tax rate, to make it more profitable for stockholders to transfer, without payment, a small amount of equity each year to stakeholders. Halving the corporate tax rate could provide sufficient incentive to transfer 5 percent of equity each year. In this way, an Ownership Transfer Corporation (OTC) will transfer ownership to stakeholders entirely over 20 years. A partial example of this in practice is the Zimbabwe Enterprise Development project, which requires foreign investors to have a local partner for 30 percent of total ownership in the services sector, or 65 percent in selected other sectors. To modify this, we propose investors be allowed up to 100 percent ownership, if they agree to a "fade-out" arrangement. Investors would retain full ownership for a payback period – perhaps five to seven years – allowing them to recover their investment plus a projected rate of return. The year after the payback period, 5 percent of shares would be transferred without compensation to a trust representing employees, until employees own the requisite percentage. Similar obligations on foreign investors to transfer shares to indigenous persons after the payback period have been applied in certain cases in Malaysia and Australia. In the U.S., a related structure was used in the Chrysler Loan Guarantee Act of 1980. As part of the government's loan guarantee to Chrysler, the company was required to set up an Employee Stock Ownership Plan and contribute \$162.5 million worth of stock to it by 1984.

## **3. Labor-Sponsored Investment Funds**

This proposal would create state or federal tax credits to encourage individual investment of IRA or 401(k) funds in labor-sponsored venture capital funds, focusing on employee ownership. This would provide a much-needed source of capital for creating majority-employee-owned companies. Several Canadian provinces – including Quebec, Manitoba, British Columbia, Saskatchewan, and Ontario – have followed this template. The Canadian funds are aimed at investing within their own provinces, in companies with a proven track record and expected long-range profitability. To the extent that they focus on employee ownership, they particularly seek out companies with retiring owners who have no succession plan. Their primary focus is retaining local jobs and local control. To obtain tax credits for individual investors, a labor federation must sponsor the funds. One example is Quebec's Solidarity Fund, which has raised over \$3 billion for investment in Quebec, and saved, created, or retained over 65,000 jobs. Manitoba's Crocus Investment Fund, with assets of \$165 million, has a special preference for employee ownership. And it's provided a higher rate of return than the Toronto Stock Exchange index. Here in the U.S., Union Labor Life Insurance Co. manages a direct private equity placement fund, targeting the creation of union jobs. And from 1992-99, it provided an internal rate of return in excess of 100 percent a year, according to Michael Calabrese of the Center for National Policy.

## **4. Promoting Majority Employee Ownership**

While there are tax incentives already in place to promote Employee Stock Ownership Plans, there is no special benefit for firms that are majority employee owned. There should be. There should also be incentives for firms that allow employees a voice in management and governance – which has been shown to lead to improved financial performance. In the recent past, when banks made loans to finance employee ownership, they were allowed a tax deduction on the interest paid. That tax benefit was repealed – and we propose it be reinstated. This time around, the lender deduction should be contingent on 1) substantial or majority employee ownership (at least 30 percent), and 2) enhanced employee voice in governance. In a variation, tax benefits for the corporation and selling owner could be made available on a sliding scale – based on how much they meet the above requirements. Congress repealed an estate tax deduction that allowed families a tax-advantaged way to turn a business over to employees. That tax deduction should be restored – on a sliding scale. For example, if owners sell 10 percent of their stock to an ESOP, they would receive 20 percent of tax benefits. If they sell 20 percent, they get 40 percent of benefits, and so on – up to full tax benefits for those who sell 50 percent to employees.

## **5. Internal Capital Accounts**

New companies could be created – or the bylaws of existing companies rewritten – in a new structure offering "internal capital accounts" for employees. The idea is to create a democratic corporation, where membership rights (rights to current profits and the right to vote) are personal rights attached to one's work in the firm. These would be like citizenship rights, rather than property rights that can be bought and sold. Each person working in a firm would have a capital account, like an internal savings account. Profits retained each year (not paid out as dividends) would be allocated to these employee accounts – rather than to a general "stockholder equity" account, as in joint stock companies. The share of profit would be based on one's contribution to the company, rather than one's account balance. This proposal encourages us to re-think firm membership: Why is corporate "membership" based solely on property ownership? Why aren't employees members of the company?

The best example is the Mondragon worker cooperatives in Spain. But there are a number of Mondragon – style co-ops across the U.S. – like the Community Home Health Care cooperative in the South Bronx. Professional partnerships like law firms also have this structure. Legislation promoting this structure – offering, for example, tax breaks – should be facilitative, not coercive.

## **6. Ownership Impact Statements**

Just as we assess environmental impact before taking significant societal actions, we should also assess ownership impact. For example, we might look at proposed tax breaks, government subsidies, or trade treaties, and as a society ask formally: Does this lead to a concentration of wealth, or a widening of wealth? National and international agencies should report annually on the degree of wealth concentration. Publicly traded companies could be required to report on proportion of shares owned by employees. This kind of ownership reporting might build the awareness to make the other proposals here seem vitally necessary, as we believe they are.

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