

Presentation of Professor Joseph Blasi to the National Governors Association at the Energy Innovation Summit in Denver, Colorado on October 4, 2017.

After the American War for Independence, President George Washington, Secretary of the Treasury Alexander Hamilton, Secretary of State Thomas Jefferson, and President-to-be John Adams, collaborated on solving a problem that many of your states will face today as you move to encourage the expansion of many energy innovations in your state. During the war for our Independence, the British destroyed the fourth largest industry, namely the cod fishery. Cod was caught, salted and exported in barrels to Europe and there was, as there is for energy today, world market price for cod. The British destroyed the ships, burned the warehouses, and tried to arrest the sailors of the industry. Washington asked Jefferson to find a solution to help the industry thrive again. They all chose what was essentially tax credits. The law Congress passed and President Washington signed said that shipowners that rebuilt ships for this industry and sent them to sea, would receive an allowance against the tariffs they paid for supplies, what we call today a tax credit. And here is the policy idea that is relevant to your states today: having broad-based profit sharing among all the sailors on the ship from cabin boy to captain was a condition for receiving this tax credit. Why? Our Founders wanted to be sure that the employees of the ships shared in the wealth that they were about to earn as the cod fishery rose to world prominence. This story opens my book *The Citizen's Share* published by Yale University Press recently. *The Citizen's Share*, is a history of policies to broaden profit sharing and broad-based property ownership, like the Homestead Act, through two hundred years of American history.

I wish to offer three ideas.

First, as your states witness vast new private wealth created by energy corporations, a condition for receiving any state-level tax incentives or tax

abatements might be a corporation having a broad-based profit sharing or broad-based employee share ownership plan for its employees;

Second, the U.S. has many models of profit sharing or broad-based employee share ownership plans in private industry that industry entrepreneurs and executives can apply if they have the incentive to do so;

Third, there are a few state policies being practiced today that might be worthy of your consideration.

First, as your states witness vast new private wealth created by energy corporations, a condition for receiving any state-level tax incentives or tax abatements might be a corporation having a broad-based profit sharing or broad-based employee share ownership plan for its employees. This idea makes sense because wages adjusted for inflation for the middle class have been relatively flat for several decades. Most of the new wealth is going to those who have capital ownership from shares of stock in corporations or capital income, such as capital gains, dividends, interest, or profit sharing from those corporations. For over two hundred years the idea that expanding private capital ownership – first in land and then in industry – is necessary to nurture and expanding the middle class has been a fundamental policy idea in American history. At present 77% of all capital ownership and 97% of all capital wealth is owned by the top 10% in the country. Allowing employees to earn a share in the growth of the industries they built as the cod fishermen did under our Founders is a policy idea that can strengthen the middle class and democracy.

Second, the U.S. has many models of profit sharing or broad-based employee share ownership plans in private industry that industry entrepreneurs and executives can apply if they have the incentive to do so. I have a page of statistics on private capital shares available in your app so I will only mention a few.

Broad-based employee cash profit sharing has a special place in American history, having been encouraged in the State of the Union address of New York's President Teddy Roosevelt. Michigan Republican Senator Arthur Vandenberg led a bipartisan expansion of tax incentives to encourage profit sharing in collaboration with President Franklin Delano Roosevelt. For example, Southwest Airlines has practiced broad-based profit sharing which adds 10-15% per year on top of the wages of its employees. because they claim profit sharing encourages productivity and employee commitment and lowers turnover. However, significant profit sharing among the middle class is not growing. Another approach, broad-based employee stock ownership plans or ESOPs, have had bipartisan supports since the seventies when tax incentives for them were expanded as a result of a collaboration between President Ronald Reagan and Louisiana Democratic Senator Russell B. Long, Chair of the Senate Finance Committee. There are about 7,000 companies with ESOPs with about 11 million employees, \$1.3 trillion in employee stock ownership assets, or \$124,000 of private wealth per employee in the U.S. today. Here is how an ESOP works. A corporations set up an employee trust, the trust gets credit which the corporation uses for capital expansion. As the loan is paid off by the company, shares are granted to all employees typically according to salary level. Employees do not purchase the shares with their wages. Probably, the largest employee share ownership plan in the world is that of Exxon Mobil which was designed by John D Rockefeller Jr. himself because he believed that broad-based ownership insured the future of capitalism.

Third and last , there are a few state policies being practiced today that might be worthy of your consideration.

-As the Founders did, make it a condition for any corporation receiving tax abatements or tax incentives or tax cuts that the corporation have a broad-based employee share ownership plan of some kind or a broad-based profit sharing plan

of some kind for all of its employees so that they can earn a piece of the pie and a share of these technologies.

-Many small and medium businesses will emerge in the explosion of new energy technology ideas. As you know, business succession when there is no son or daughter to take over the company is the major challenge for the continued survival of these businesses and the jobs they bring to your local communities. You can consider proposed legislation, like that moving through the New Jersey Assembly and Senate. This bill says that entrepreneurs/founders/family business owners are excused from state capital gains taxes when they sell their company to the employees and managers with a broad based employee ownership plan. It has strong bipartisan support and emulates legislation implemented in the State of Iowa. It is being introduced into the legislatures of many states as we speak.

-The sober reality is that capital shares will not happen without state encouragement of the private sector. Experience has shown that states that have non-profit technical assistance centers that provide education, training, and technical assistance to businesses about employee share ownership and profit sharing, see more corporations adopting the ideas. Such non-profit state centers now in Iowa, Pennsylvania, Ohio, California, Vermont, and New Jersey. They are typically started with private sector or foundation support and in some cases minimal state seed funding. Take a look at these state centers and decide what makes sense for you to consider.

-Finally, each state offers its own brand of tax deductions to corporations operating within that state. The next stage in policy for is for various states to offering special tax deductions or even tax cuts to companies that have broad-based profit sharing or employee share ownership plans. This is particularly necessary to encourage the large stock market corporations who will dominate energy innovation to do employee shares.

I wish to end on a bipartisan note quoting political leaders on this issue:

Senator Russell B. Long:

“Employee ownership is not a partisan issue rather it is an issue that cuts across party lines to bring out the best in our free enterprise system. It is only fair and right that those to work to make this economy succeed should have an opportunity to share in that success. It is a matter of simply common sense and basic equity.”

President Ronald Reagan, whose speech on this issue is viewable on youtube:

“Ownership of land in most of the world has not been possible for the ordinary citizen. The Homestead Act set the pattern for American capitalism. Now we need an Industrial Homestead Act and that isn’t impossible....I’ve long believed that one of the mainsprings of our own liberty is the widespread ownership of property among our people... I can’t help but believe that in the future we will see in the United States and throughout the western world an increasing trend toward the next logical step, employee ownership.”

I think that there is a lot to do to innovate at the state level in encouraging these ideas as part of a larger policy objective namely to expand the middle class that is the foundation of American democracy. At Rutgers University, the State University of New Jersey we have a Program on Employee Share Ownership and Profit Sharing that has a network of over 120 researchers and policy experts in more than 30 states and more than 40 universities. We would be delighted to help you think through these ideas in the unique context of your state’s culture and customs and reality. Thank you very much.

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The Citizen's Share. New Haven: Yale University Press, 2017. Available on Amazon.com and other online booksellers.

APPENDIX: Some Statistics on Capital Shares

National Overview (1)

20% of adult employees have some employee share ownership
7% of adult employees have employee stock options
36% of adult employees have some employee profit sharing
25% of adult employees have some gain sharing

The median dollar value of employee ownership is \$10,000 in total assets and for profit and gain sharing, \$2000-2500 per year as the profit or gain share. The top quartile of employees in the U.S. have an average of \$174,574. in employee owned share wealth.

Employee Stock Ownership Plans (2)

There are 6,359 ESOP companies with 10.5 million employees have \$1.3 trillion in employee ownership assets, or \$124,000 per employee.

There are 5,811 ESOP companies are closely-held corporations, are mostly majority of 100% employee owned, with 1.9 million employees, \$255. billion in employee ownership assets or \$134,000 per employee.

There are 548 companies with ESOPs are in stock market companies, mostly with employee ownership representing only 1-5% of the company's total stock, with about 9 million employees, \$ 1 trillion in employee ownership assets, or about \$124,000 per employee.

Resources

Having a Stake: Evidence and Implications for Broad-Based Employee Ownership and Profit Sharing. Joseph Blasi, Douglas Kruse, and Richard Freeman.

Available at: <http://www.thirdway.org/report/having-a-stake-evidence-and-implications-for-broad-based-employee-stock-ownership-and-profit-sharing>

New Jersey New York Center for Employee Ownership
<http://ownership.rutgers.edu/>

National Center for Employee Ownership
www.nceo.org

Sources

- (1) Analysis of the U.S. General Social Survey by Douglas Kruse and Joseph Blasi, 2014.
- (2) Analysis of the U.S. Department of Labor Form 500 2014 database on ESOPs by Douglas Kruse.