

Ownership For All



Summaries
of the
Capital Ownership Group
Virtual Think Tank
Discussions

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The **Capital Ownership Group (COG)**, a non-profit network of and resource center for professionals, business, labor and government leaders and staff, academics and activists on six continents, works to broaden ownership to deal with the negative effects of globalization. Programs include an on-line conference center and library at www.capitalownership.org, creating collaborative research and a forum for development of policy proposals and implementation efforts. COG's electronic infrastructure is located at Kent State University.

COG's Mission is to create a coalition that promotes broadened ownership of productive capital, in order to reduce inequality of income and wealth; increase sustainable economic growth; expand opportunities for people to realize their productive and creative potential; stabilize local communities by improving living standards; and enhance the quality of life for all.

The **Ohio Employee Ownership Center (OEOC)** is a non-profit, university-based program established in 1987 at **Kent State University** to provide outreach, information, and preliminary technical assistance to Ohio employees and business owners interested in exploring employee ownership. The OEOC provides ownership training on a single and multi-company basis to existing employee-owned firms and is funded by grants from the **Ohio Department of Development (ODOD)**, private foundations, dues from firms belonging to **Ohio's Employee-Owned Network**, income from training contracts, and donations.

Introduction

Why Ownership for All?

Deborah Groban Olson and Jacquelyn Yates

How can the development of a new level of interconnection in the world's economy—that process called globalization—be a dawning of hope for the world's people rather than a downward spiral into misery? Rapid movement of capital, a focus on maximizing returns to absentee owners, and a disdain for local consequences have given globalization a bad name. But globalization has also brought paying work to desperately impoverished rural areas, cheaper goods to the developed world, and a growing sense of shared citizenship in one world. Even the protestors in Seattle don't want to go back. They just want globalization with more compassion, more concern for local communities, more opportunity, and more hope for the next generation. Our focus in the following pages is one strategy for helping that to happen: broadening ownership of productive assets.

There is no doubt that the situation is serious. Capital concentration is increasing.

Efficient manufacturing processes are flooding the world with goods, but many cannot afford to buy. Wages in some sectors seem to be on a race to the bottom. The World Trade Organization treaties and protocols focus on protecting the free flow of capital at the expense of control by local authorities, who lose the ability to protect incipient civil societies. These treaties have replicated the interstate commerce clause of the U.S. Constitution, but without the protections for rights of individuals and rights of the states that the Constitution also guaranteed. Just as most of the world's countries are embracing a concept of democracy, however flawed, the largest corporations are eclipsing many of the world's governments in economic power and political influence.

We have another, more attractive, choice: to open ownership of enterprises to much more of the world's population. It is to make ownership available to employees out of capital growth, not through a program of redistributing existing wealth. Broadened employee ownership of enterprises, sharing in the risks and reaping the benefits, creates a countertrend to the concentration of wealth, which has been the worst feature of globalization.

To do this requires new thinking. Many of the ideas that could broaden ownership are already succeeding in local venues, but they need to be brought forward for many

more to see and try. The papers that follow describe many ways to progress toward broader ownership—from a new agenda for international lenders to taking advantage of one-time events like privatization or governmental rescues of banks and stock markets. They propose new ideas and point out solutions to some known problems, such as how poor employees can afford to purchase an enterprise.

The five summaries which follow highlight longer papers inspired by the online discussions among practitioners and scholars since midsummer 1999 at the Capital Ownership Group website. (Full versions of the papers are available at the website www.capitalownership.org.) Topics were initially organized to focus on different levels of action—transnational, national and subnational, but events of the time required a group to focus on privatization, and a fifth group was formed around the theme of a “homestead act,” modeled on the governmental distribution of land that

broadened farm ownership in the U.S. Later, a group formed to discuss the ideas of Louis Kelso, who developed the concept of the employee stock ownership plan in the United States. The papers in this collection reflect the five original groups.

The first paper looks at efforts to form employee-owned enterprises at the subnational level, without any specific support from national government policy. These efforts include local and provincial legislative

measures; development of employee ownership-friendly investment funds; local organizations to provide technical support and training; and actions by unions, nonprofit foundations, religious groups and existing employee-owned companies to encourage employee ownership. The second paper describes the many ways in which employee ownership has been supported and encouraged by national governments and other national-level organizations. The third paper reflects on the wave of privatization, which began with outsourcing of a few governmental functions and ended with the sale of thousands of state-owned enterprises in countries of former Soviet influence. Fourth is a look at policies to favor employee ownership at the transnational level, by corporations, intergovernmental organizations and non-governmental institutions. The concluding paper imagines new policies that could be established at many levels to promote employee ownership of many kinds. **COG**

Just as most of the world's countries are embracing a concept of democracy, however flawed, the largest corporations are eclipsing many of the world's governments in economic power and political influence.

Thinking Globally, Acting Locally

Subnational strategies to promote employee ownership

John Logue

Broadening ownership is a global issue, but there are strong reasons why its implementation requires action at the local or regional level: state and provincial legislative measures can encourage expanded ownership; regional and local programs are efficient providers of technical assistance to those seeking to implement employee ownership; and local action can encourage the creation of collaborative company networks, training cooperatives, and employee-owned suppliers.

COG's subnational discussion group canvassed existing subnational governmental, non-profit and for-profit initiatives, selected best practices worthy of dissemination, and proposed innovations in order to promote the expansion of employee ownership. We sought to find mechanisms within our scope of control to broaden ownership of productive assets and to deepen that ownership through encouraging greater employee participation.

This summary looks at what public and private subnational actors can do to promote employee ownership through (1) state legislation, (2) technical assistance, (3) local actions, (4) investment funds, (5) company networks, and (6) using the economic power of employee-owned firms within their communities.

Subnational Public Policy

Subnational political units can encourage employee ownership within their jurisdictions. The United States and Canada have taken the lead in this area. There is no reason why similar measures cannot be undertaken in other political systems which give latitude to subnational governmental bodies in economic development.

In the United States twenty-eight states have passed some sort of legislation encouraging employee ownership since 1974. Such measures run the gamut from policy declarations to substantial financial commitments. They include tax credits, exemption of Employee Stock Ownership Plans (ESOPs) from state securities regulations, legal recognition of workers cooperatives, earmarked loan funds and loan guarantees, interest rate subsidies, funding for or the direct provision of technical assistance, establishing state employee ownership centers, and using employee ownership in privatization of state services.

New initiatives proposed in the COG subnational discussion include:

- States could provide tax credits to companies for setting up more participatory ESOPs with caps based on a sliding scale varying with the percentage employee-owned.
- States can encourage electrical consumer co-ops in electricity deregulation.
- States can enact legislation giving employees the right to purchase facilities being shut by companies abandoning that line of business, or, more aggressively, to give employees right of first refusal on plants being put up for

sale.

- Preferential bidding arrangements for government contracts could be arranged for employee-owned firms, as is done for cooperatives in France and Italy.
- A preference for employees in privatization can be provided as Virginia, North Carolina, Russia and some Eastern European countries have done with varying degrees of success.
- Partial employee ownership can be created within some or most public enterprises by simply paying employees a small capital wage in stock and underpinning ownership with dividends when the enterprise is profitable.
- The Alaska Permanent Fund constitutes a model of using public ownership rights (in this case, of oil royalties) to convey partial ownership rights to citizens. Why not do the same for other profitable public services—publicly owned utilities, parking garages, etc.—at the state or local levels when those streams of income are sufficient to be divided?

Technical Assistance and Support Organizations

Organizations which provide information, technical assistance, and training for employees seeking to purchase companies help broaden and deepen ownership. They can be governmental units, not-for-profit organizations, sectoral organizations, for-profit consulting firms, or national programs implemented locally.

State programs. During the latter part of the 1980s and early 1990s, seven state employee ownership programs (Hawaii, Massachusetts, Michigan, New York, Ohio, Oregon, and Washington) were established. A quasi-state entity—the Steel Valley Authority—provides similar services on a regional basis in Southwest Pennsylvania. More than anything else, these programs focused on outreach and assistance to union locals in plants facing shutdown and to retiring owners who might be interested in selling their companies to their employees. A study of three of these programs—New York, Ohio, and Washington—found them to be quite efficacious in increasing the rates of ESOP formation in the states in question.

Reviving state programs which have been defunded and creating new ones is clearly a viable ownership-broadening strategy.

Non-profits. In addition to public sector employee ownership assistance organizations, a dozen or so regional not-for-profits promote employee ownership in the United States, Canada, Mexico, and the United Kingdom and a number of local non-profits do the same. In addition, a few general purpose economic development organizations have developed special employee ownership competence.

Generally speaking, single-purpose employee ownership organizations require a relatively large catchment area; otherwise they have to broaden their scope of activities beyond employee ownership to prosper. General purpose economic

development organizations screen enough firms through their other activities that they can identify individual firms as appropriate candidates for employee ownership. Too few of them, however, have any employee ownership expertise.

Consequently, it would be worthwhile to train additional economic development organization personnel in the appropriate uses of employee ownership.

Sectoral strategies. An alternative to a geographic focus is a sectoral employee ownership strategy. Several organizations have undertaken to promote employee ownership in the United States within particular economic sectors: daycare, homecare, temporary services, and the steel industry. Other employee ownership sectoral initiatives could be encouraged by trade associations, labor unions, and by the agricultural cooperatives in rural areas.

Private sector consultants. Private sector consultants outnumber public and non-profit staff specializing in employee ownership in the United States by perhaps 50:1, and are largely responsible for the rapid growth of the ESOP sector. If most of the outreach done to encourage the creation of more employee-owned companies is done by the professional community, can this effort be channeled toward even broader and more democratic employee ownership?

The growing evidence that participatory employee-owned firms outperform non-participatory employee-owned companies could encourage lenders to urge participation to improve debt service coverage and trustees to insist on employee participation to maximize value for ESOP participants.

An employee ownership extension service. One of the most successful American innovations in economic development is the Agricultural Extension Service. For decades it has been transferring research results, knowledge and technology from the lab to the family farm. The Extension Service has helped keep American family farmers competitive with corporate farming and promoted a continual process of intellectual renewal in agriculture.

The Department of Agriculture's rural development specialists already have the mandate to support cooperative development—including worker cooperatives—in rural areas. Creating an employee ownership extension service to supply technical and organizational development assistance to smaller firms could be done at the state level; once in place in a couple of states and successfully field-tested there, an employee-ownership extension service could be spread by Federal matching funds.

Maximizing leverage. For a tiny fraction of the costs of Federal tax expenditures for ESOPs (more than \$3 billion annually in the 1990s), state and regional employee ownership assistance efforts could be multiplied. A modest Federal program to provide matching funds for state, regional and sectoral public and non-profit sector assistance programs would be highly cost effective. Only \$5 million annually in Federal matching funds—less than 2/10s of 1% of the tax expenditure for ESOPs—would probably lead to the establishment of 20 to 30 state, regional, and sectoral employee ownership programs that would effectively cover the country.

While the discussion in this section is couched in terms

of the United States, the same principles could easily be applied in other countries as well.

Action At The Local Level

Why should we limit ourselves to actions by state, provincial, or regional governmental entities? Much can be done to encourage broader employee ownership by municipalities, by charitable and religious organizations, and by unions. Among the proposals made during the COG process:

- Municipal or local economic development authorities can establish industrial parks for employee-owned companies and for other high performance companies which provide joint training facilities, and cooperative day-care and lunch facilities.

Several organizations Have undertaken to promote employee ownership in the United States within particular economic sectors

- Municipal governments can give preference in purchasing to employee-owned firms as is the case in Northern Italy, aiding the growth of production cooperatives there
- The Catholic hospital system can use its institutional strength to replicate New York's Cooperative Home Care Associates, creating better jobs and ownership for home health care aides and improving care for the homebound simultaneously.
- Local churches can encourage employee ownership within their spheres of influence through their purchasing and through social justice work within their congregations.
- Sale of religious or public hospitals to for-profit chains could be made contingent on their contracting home health care, janitorial services, and other services to employee-owned firms.
- Community foundations, educational institutions and churches can receive stock from local companies (charitable contribution at stepped up basis for donor) and create a market by selling to employees.
- Unions can negotiate contract language that gives their members the right to buy facilities put up for sale or right of first refusal at the time of such a sale.
- European and American universities concerned with the use of sweatshop labor in garments carrying their logos could require their production in worker-owned businesses, a positive screen more easily enforced than the current negative screens.
- A coalition at the provincial level between traditional cooperatives (agricultural, rural electric, mutual insur-

ance companies, credit unions, consumer co-ops, etc.) and the employee-owned sector has dramatically increased the rate of cooperative formation in Quebec.

Employee Ownership Financing

Should there be special financing institutions for employee ownership? Opinion is divided. Some feel that it is salutary for employee-owned firms to utilize market financing sources: commercial banks, asset-based lenders, venture capital funds, and bond market. Others argue for a separate financing stream for the employee-owned sector. Over the years, a variety of public and private financing mechanisms for the employee-owned sector have been launched with mixed success.

State loans and loan guarantees. In the U.S., thirteen states have established loan funds, loan guarantees or interest rate subsidies specifically for ESOPs or explicitly authorized the use of state loan programs for ESOP companies. The effectiveness of such programs has varied. Earmarked employee ownership lending funds have generally been rolled into other economic development loan funds as small pots of money were either underutilized or overdrawn. On the other hand, both below market interest rates and public sector lenders willingness to subordinate their loans to commercial lenders seems to have played a significant role in supporting employee purchases of troubled and/or divested plants and firms. Loan guarantees—which are very cheap for the public sector—seem to have been underutilized.

A national bank with a preference for employee ownership with regional intermediaries.

Since the New Deal, the agricultural cooperative sector has been underpinned by specialized Federal lending institutions. So has home ownership. While the National Cooperative Bank, established during the Carter administration as a specialty lender for housing, consumer, and worker cooperatives is a subject for the national level paper, it has begun to support regional cooperative lending funds, like the Northcountry Cooperative Development Fund. They serve as regional intermediaries for the NCB, working with local borrowers who are too small to be serviced efficiently from Washington.

Special purpose local or regional loan funds for employee ownership. The outstanding example internationally is the Caja Laboral Popular, the financial institution which is part of the foundation for the Mondragon cooperatives in the Basque region of Spain. The Caja Laboral is a consumer cooperative—a credit union—with a special mandate for investing in worker co-operatives. With assets in excess of \$7 billion, it has become one of Spain's biggest financial institutions.

The Caja Laboral provided the financing to grow the Mondragon cooperative complex from a handful of co-ops in 1959 to its current size of about 25,000 employees in the

industrial sector with sales of more than \$3 billion and 26,000 employees in the retail sector with sales of more than \$4 billion in 1999.

Credit unions and mutual insurance companies could be encouraged to play the same role elsewhere as the Caja Laboral does in the Mondragon region. The Desjardins credit union federation in Quebec has developed economic development subsidiaries, and the central body of the Australian credit unions, the Credit Union Services Corporation of Australia, is moving into business lending; neither has yet focused on employee ownership, however.

Private sector venture capital funds. Several national venture capital funds have been created in the United States with a preference for employee ownership, including Churchill Capital's Churchill ESOP Capital Partners, Keilen and Company's KPS Special Situations Fund, and American Capital Strategies. Between them they have raised about \$1 billion from conventional venture capital sources including institutional investors and high net-worth individuals. Each has, however, found itself doing more non-ESOP transactions than employee ownership deals.

Judging from their experience, the employee ownership market is not big enough or lucrative to be a niche for venture funds specializing purely in employee ownership.

On the other hand, every venture capitalist wants to exit. Employee ownership venture funds may create more owners at the time they sell their equity than in the initial transaction. One promising idea is to encourage conventional venture capital funds to consider employee ownership as an exit strategy. This idea would appear

Several national venture capital funds have been created in the United States with a preference for employee ownership.

to be potentially viable in all countries with significant venture capital markets. The real question is how to educate venture capitalists about this possibility.

Regional labor-sponsored venture capital funds. The Canadians have developed a very different means of raising venture capital that is not dependent on "Wall Street" and that has important implications for the future development of employee ownership in that country and for other countries where it might be replicated.

Pioneered by the Quebec Federation of Labor in the early 1980s, Canadian labor-sponsored investment funds use provincial and Federal tax credits to entice employees to place some of their retirement savings in venture funds which anchor capital locally. Rates of return are comparable to the historical average for the market, rather than the 35-40% rates of return sought by Wall Street venture funds. Since then Quebec's Solidarity Fund has grown into the largest single source of venture capital in Canada, and there are labor-sponsored investment funds in six of Canada's ten provinces.

While the Canadian labor-sponsored funds generally focus simply on reinvesting locally with certain screens (for good employment practices, environmental record, work-

place safety, etc.), Manitoba's Crocus Fund has added a preference for employee ownership to its investment criteria. Crocus's employee ownership strategy has two thrusts. The first is that Crocus is a friendly investor with the employees, partnering with employee owners in purchasing or growing employee-owned businesses. The second is that Crocus's preferred exit strategy is to sell its equity stake to the employees.

This model could easily be replicated outside Canada, and several organizations are already seeking to do that. They include Framtid i Norr, a fund being established by the trade unions in the north of Sweden, and the Industrial Heartland Investment Fund in the US. Both are designed as vehicles for union pension fund investments and for other institutional investors, rather than for individual pension investments, as in the Canadian model.

An ESOP partnership fund? Existing employee-owned companies could set up their own equity fund to invest in partnership with employees in existing and in new employee-owned enterprises. This employee-owned company investment pool could also become a financial institution for employee-owned firms more generally, including securitizing the debt of ESOP companies to lower interest costs and extend terms.

Building Company Networks

Existing employee-owned firms tend to be islands unto themselves. One positive step is to associate them as archipelagoes, and to build linkages between them that would strengthen them individually and as a group. Three different models from three countries provide evidence that such linkages are productive.

The Mondragon Co-operative Corporation in the Basque region of Spain is perhaps the most outstanding company network in any Western economy. Started in the 1950s by a Catholic priest, this network of firms owned by their employees now comprises one of the largest industrial groups in Spain with more than \$3 billion in sales; it is among Spain's top ten exporters, selling 47% of its production outside Spain in 1999. The Mondragon cooperatives' retail group does an additional \$4 billion in sales; it ranks number three in the Spanish retail sector. The Mondragon cooperatives' bank is one of the largest in Spain, with more than \$7 billion in assets. All in all, the Mondragon cooperative network constitutes the seventh largest closely held business in Spain and employs more than 53,000.

The average size of a Mondragon co-op is quite small—most are less than 500 employees—but the Network of more than 110 firms provides large scale economies for the small enterprises, including a common financing source (the Caja Laboral Popular), joint research and development services, a broad range of joint health and social services, a strategic management group that can support managers in existing enterprises that are under strain, and both technical training for employees and a management training program.

The Mondragon model has inspired others. It is being replicated in Valencia, Spain. There 10 associated worker-owned firms employ 4200 and do \$575 million (US) in sales. RORAC in the valley of Mexico is attempting to establish a

network of cooperatively owned businesses as well.

Manitoba's Crocus Fund has established its own network to improve the performance of the enterprises it invests in. To achieve this end, the Crocus Fund has embarked upon an ambitious program of using networking to do three things. First, it has a general director "club" with regular meetings where general directors of Crocus investee companies share their experience. Second, it provides business training for enterprise employees in those companies that Crocus has invested in. Third, it has developed, with the University of Manitoba, a management training program for investee companies that trains managers in high performance workplace practices.

Ohio's Employee-Owned Network is a dues-paying association of about sixty companies staffed by the Ohio Employee Ownership Center to provide joint training services. It provides 20 to 24 days of courses to more than 500 employee owners annually. About half the programs are de-

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signed for shopfloor employees. Other courses are designed for supervisory employees, those who administer ESOP plans, and managers. One result is that participating companies learn best practices from each other and benchmark themselves against each other.

A recent study found that Ohio Network member companies systematically outperform other Ohio employee-owned companies which did not take part in networking activities.

The Employee-Owned Firm In The Community

Individual employee-owned companies can do a great deal to broaden ownership in their communities.

- Employee-owned companies can use their economic clout to broaden ownership locally. They can choose to buy from neighboring employee-owned companies and they can choose to support the development of additional employee-owned suppliers.
- Well established employee-owned companies with ample management resources can undertake to manage an incubator for new employee-owned firms. Such firms could provide accounting, purchasing, and management support for recently established employee-owned firms. As these firms became better established, direct support

- would shift to mentoring.
- Many existing employee-owned companies work with local schools to provide coop jobs, internships, job training, and apprenticeships. Those school-to-work programs can be expanded by including ownership principles, participation, understanding business basics, and other knowledge and skills that create an interest in and basis for broader ownership in the future.
 - Existing employee-owned companies can act jointly to create local company networks. These networks can share common facilities, such as training facilities, jointly purchase supplies, or employee benefits like health and dental insurance. Such company networks can also set up joint child care programs or provide other joint services to their employees.
 - When employee-owned companies begin to think in community terms, there are a wealth of possible initiatives that can be undertaken to enrich the community while not impoverishing the company. Employee-owned Friesens, one of Canada's largest book publishers, in the Mennonite community of Altoona, Manitoba, is a model of what can be done. The company provides a graphics classroom, instructor, and training for the local high school, and runs a two-week summer camp for its employees' 10-12 year old children in which they write,

set, lay out, and print a book about their families and what their parents do. Company management explain that this is part of their future employee recruitment for a major industrial enterprise in rural Manitoba.

Other possible joint steps might include establishing multi-employer ESOP plans for firms which use the hiring hall model for employment, such as construction firms, setting up a marketing label for products of employee-owned companies, and establishing an internet top domain ".esop" for electronic commerce as the co-operatives have done with ".coop".

Dealing with the widening gap in income and wealth globally clearly requires action at the transnational and national levels. At the same time, we know that most of us live and work in an entirely different world: that of our company, our local community, our church, union local and civic organizations or, occasionally, our state or province. Certainly the most striking conclusion of the COG subnational group discussion is that there is an astonishing amount to broaden ownership that can be done by each of us today where we live and work.

Together, the combination of our small steps can yield large scale change. **COG**

National Practices in Employee Ownership

Jacquelyn Yates

Worldwide, employee ownership is on the increase. Even as ownership of the world's capital becomes more concentrated, shared ownership through cooperatives and employee stock ownership is a countertrend which allows poor and average people a chance at some capital accumulation.

Employee ownership is gradually setting roots in North America and Western Europe. In Central and Eastern Europe, it was launched like a powerful rocket in the former Soviet-style economies, and some survivors will emerge from the rocket's crash. In East Asia, the Chinese national government and its local communities are experimenting with home grown varieties of employee ownership as they attempt the gradual revitalization of their economy through decentralization and privatization, and Japan's substantial employee ownership program dates from the 1960's. In developing countries in South and East Asia, Africa and South and Central America, it is seen mostly in the form of cooperatives. As dictatorships and juntas are replaced by democratic governments and voluntary associations can exist or re-emerge, activity in collective ownership expands. In addition, foreign aid donors are increasingly promoting and supporting the use of collectives and cooperatives for bootstrap development.

The real success and persistence of employee ownership in many venues has laid to rest long-standing theoretical arguments that employee-owned firms incorporate perverse incentives that will inevitably lead to their demise. Some collectively owned enterprises do succumb to greed, short-

sightedness, bad judgment and mismanagement, but there is no evidence that they do so any more often than individually owned enterprises or joint stock companies. Some evidence suggests that they are more likely to be in existence five years after startup than are traditional companies.

The concept of employees' owning part or all of the companies where they work is simple, but the application is complex. National law and practice is varied and confusing. Each country has a distinct style of employee ownership, with a mix of laws, regulations, governmental agencies, institutional forms, and informal practices unique to itself. The chief possibilities include basic cooperatives of independent producers or consumers, and labor or production cooperatives (where the employees own their enterprises collectively), associations of cooperatives, direct ownership of firms by unions, ownership of stock by union pension funds, labor banks, workingmen's funds (collectively-owned portfolios of employers' stock), employee stock ownership trusts, employee stock ownership (pension) plans, employee savings accounts for investing in employer stock, direct stock purchases by employees, stock options, and deferred profit sharing paid in company shares. Even this lengthy list is probably not exhaustive. The ingenuity of groups of humans in developing their own special way of organizing economic activity has no limit. Neither do they hesitate to adopt similar names for different practices.

The oldest, best-established and most widespread form of group ownership is the cooperative. Co-ops take many

forms, including credit unions, mutual insurance associations, housing cooperatives, consumer cooperatives, and labor or producer cooperatives.

Credit union and investment cooperatives, owned by their depositors, provide a vehicle for members' savings and access to credit. They are the formalized, legitimate relatives of neighborhood savings and investment clubs where a group of friends and neighbors pool small amounts of funds each week and allocate them to each member in turn. Mutual insurance companies pool members' funds to provide housing, auto, business and farm insurance.

Housing cooperatives allow residents to purchase and maintain multi-family dwellings, which they could not afford

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on their own. They are the comfort of the rich and famous in New York City and the hope of the poor in Uruguay.

Consumer cooperatives pool their funds to bypass distributors and obtain better quality at lower prices. Typically, they charge market prices and appeal to the general public for customers, but distribute dividends to members.

In all of the above cooperatives, however, employees are not necessarily owners in the cooperatives.

In labor or producer cooperatives, the employees own their firms. Typically, prospective members work for a probationary period, must apply to join the cooperative and are screened by a membership committee. Labor cooperatives vary in the percentage of their employees who are members. A common guideline is to take no more members than the cooperative can guarantee to employ on a full-time basis. Members make a capital contribution in kind or in cash, sometimes through payroll withholdings. This is the member's account value, which will be refunded (with or without interest), at the time of separation from the enterprise. Governance is usually based on one vote for each member, and the elected directors of the enterprise set overall policy and hire top management. The main benefits of membership are job security, participation in the distribution of profits, and above average social benefits. Sometimes membership means participation in enterprise losses or making additional contributions to the reserve. In some countries, the assets of the cooperative can never be distributed to its members, preventing them from realizing long-term appreciation in the cooperative's value, but creating an incentive to continue it over many years.

In the agricultural sector, many kinds of cooperatives are commonly found. Farmers form producer cooperatives to

purchase and share expensive equipment or services or to market their crops collectively, with each farmer receiving income proportional to production. Cooperatives for the purchase of supplies are common, with each farmer receiving an annual dividend proportional to his/her trade with the cooperative. Farmers' mutual insurance and credit unions are common in the developed nations. The cooperative is so beneficial to farmers that it is often promoted through national policy.

Cooperative organizations have at times formed second-level associations of cooperatives for the purpose of owning a key supplier or marketer of their products, as well as for banking and management consulting services.

At times, unions have directly owned firms, including early labor organizations in the U.S. and substantial ownership in Israel by the labor union Histadrut. The direct ownership of firms tends to create internal tensions within the union, and in some countries it is illegal for unions to own enterprises.

Union pension funds own considerable stock in many countries. However, the funds have not been targeted toward promoting employee ownership.

Labor banks may invest in firms that employ their depositors or in other social projects that will benefit depositors, such as housing, hospitals or schools.

Workingmen's funds, collectively-owned portfolios of employers' stock, were tried in Sweden as a means of increasing the savings rate, funding an anticipated shortfall in the national pension fund and stimulating investment, but there are no current workingmen's funds, and no apparent interest in reestablishing them.

In the U.K., Ireland and elsewhere employee stock ownership trusts have been legalized to hold stock distributed as profit-sharing. Stock is allocated on the basis of a written plan, and usually based on wages, seniority or a combination of the two. The trusts keep individual accounts for each employee with a minimum length of service and the trustee votes the shares as a block. Typically, employees may withdraw their stock or cash after a certain period has elapsed, though sometimes only for specified reasons. The firm receives tax advantages for stock it contributes to the trust, and the employees receive preferred tax rates which descend to zero if the stock is held for several years.

Employee stock ownership (pension) plans are a legal option within the U.S. and a few other countries. ESOPs are pension trusts where the trustee, who has the responsibilities of a legal fiduciary agent, purchases and manages employer stock. The stock must eventually be allocated to individual accounts, but some may be held by the plan to cover a loan for stock purchase the debt has been repaid. Employees must be vested in the plan over a maximum of seven years and they can withdraw their stock only on separation from the firm, although partial cash value is available at age 55 and 10 years of service. They receive shares on the basis of wages, seniority, equality or some other written agreement. Their limited voting rights are based on the number of shares they hold. Upon separation from the firm, they may be required to resell their shares to the company and the company may be required to purchase the shares within a

specified time. Or they may be required to give the company first right of refusal. ESOPs can borrow money to purchase shares, giving retiring owners cash and repaying the loan out of the firm's profits. There are tax benefits for owners who sell at least 30% of the firm to a trust or coop for the employees and tax benefits for employees, whose share income and appreciation on shares is tax-deferred. Some ESOP firms may avoid paying any corporate taxes whatsoever.

Employee savings accounts for receiving profit sharing and/or investing in employer stock are used in both France and Germany.

In any country where there is publicly traded stock, employees may buy their employer's stock like any other investor. Compensating top management in stock has been used as a performance incentive for many years. Many companies offer their ordinary employees stock purchase on the installment plan or at a preferred price. Employees may be required to hold the stock for a specified period of time before they can sell it, and the employer may require the first right of refusal. In some countries, the amount of stock that an employee can receive in compensation is limited to a certain percentage of salary or wages. Even where no subsidies or tax shelter is offered, the opportunity to buy employer stock may be eagerly taken, as it has been in some Chinese companies.

A variant on stock ownership is the offer of stock options, which allow the employee to purchase stock for a specified time at a specified price, no matter how high (or low) the stock may go. The popularity of this practice tends to fluctuate with the stock market.

Privatization offered stock grants and stock options to employees, and created a large number of employee owned companies, mostly in Central and Eastern Europe. Many of these are floundering or failing, and even in some successful firms, employees are selling their stock as soon as they can legally do so.

Although ordinary profit sharing with employees is not a form of ownership, it seems to be a good way for getting employees to think about ownership. The practice of employees' participating in the financial success of a firm through profit sharing is widely seen as a path to more efficient operations and greater productivity.

In some countries, national policy has made profit-sharing a step towards ownership by allowing or requiring all or part of profit-sharing to be in employer stock. Deferred profit sharing may receive preferential tax treatment for the employer and the employee.

The idea of employees' having an ownership stake in their firms is now acceptable to both traditional left and traditional right, although the two sides have somewhat different ideas about how employee-owned firms should be structured and managed. Parties on the right prefer the voluntary

conversion of firms, tax shelters for retiring owners, and nonvoting shares for employees. Unions were initially quite opposed to ownership, but with experience, some have changed their stance. Parties on the left prefer a state- or union role, employee seats on the board of directors and a full pass-through of voting rights. Both sides see the possibility of macroeconomic benefits, greater labor productivity, more amiable labor-management relations and improved firm performance. Despite the differences, the two sides can come close enough to create supporting legislation and favorable government policy for employee ownership.

National governmental policy can provide substantial encouragement and support for employee stock ownership through privatization by employee buyouts, granting tax preferences for employers and/or employees, making loans or loan guarantees, and funding support organizations to provide technical advice and research.

A crucial consideration for legislation is the length of time employees are required to hold stock. Without a legal or contractual requirement to hold their stock, some employees sell immediately, undermining the goal of spreading capital ownership, forfeiting the prospect of long-term gains and creating a crisis for their fellow employee-owners, who must raise cash to purchase shares or risk losing control of the company to outside investors. The ability to sell one's shares after a short holding period has resulted in a good deal of chicanery and upward distribution of wealth where mass vouchers were the means to privatization. Through naïveté, financial exigency or cynicism,

many employees who received or purchased company stock in Russia and China treated it like a lottery ticket, cashing it in and hoping to be a big winner. And like the lottery, most were not winners. A long holding period is necessary if employees are to benefit from stock appreciation.

Another important issue is the ability to benefit from sale of the enterprise assets. Forbidding the distribution of the assets to individual employees seems to create greater prospects that the enterprise will survive over a long period of time, but it also deprives the firm of flexibility. The ability to transfer or distribute assets may allow an inefficient producer to be efficient under new leadership, perhaps saving jobs. But if the buyer is interested only for its markets, the enterprise may soon disappear. A final consideration is that the ability to distribute assets may create one final benefit for the employees of a dying firm.

Support organizations are one of the best benefits national policy can confer upon its employee-owned sector. They can supply information, training and research that medium and small firms could not afford on their own. They can help interested groups of employees explore the possibilities of buyouts, and they can facilitate the development of employee-owned networks which are forums for the exchange of information on practice and patronage.

Farmers form producer cooperatives to purchase and share expensive equipment or services or to market their crops collectively, with each farmer receiving income

Loans and loan guarantees can aid greatly in the formation of employee-ownership by providing access to capital. Despite examples of success, traditional lenders tend to avoid nontraditional enterprises. Sympathetic and patient capital from government or other sources is needed to overcome this problem. Tax expenditures can also be structured to make traditional bank lending more attractive.

Tax expenditures for sellers and buyers in the form of tax deferrals, lower rates and tax forgiveness seem to succeed in encouraging a modest growth rate in employee ownership.

Employee owned firms need government support comparable to what other kinds of business have. One area for prospective action is the support of management education. No less than other kinds of business, the leadership of employee-owned business requires the cultivation of special skills and qualities. National policy can also help by favoring employee ownership in one-time events like privatization or sale of stock from emergency takeovers, but these should be structured so that there is a realistic possibility that employee ownership will result.

Research on matching social and cultural context to the various forms and practices is in short supply. An examination of employee ownership from a world wide perspective would help to develop a better idea of what kinds of owner-

ship structures are best suited to particular cultures and stages of economic development. Scholars and policy makers in similar countries could benefit immediately from exchange of ideas.

The need for such understanding and action constitutes an urgent necessity in the former Soviet-dominated economies, where employee ownership seems to have been cynically used as a politically acceptable transfer device for privatizing large parts of the state economy. Much of the value of the vouchers distributed to citizens for purchase of shares has been lost through chicanery and incompetence, many of the shares still in the hands of employees are being held simply because they have little or no value. Firms where employees have ownership have been looted by their management. Even so, Russia is right now the largest employee ownership country in the world. With help, some of these enterprises might survive to be owned by their employees.

The door to promoting employee ownership through national policy stands wide. If national governments do not step through it, NGOs, aid programs and individual communities will continue to build community- and collectively-owned enterprises at a slow pace. With national policy for encouragement, the pace can be quickened. **COG**

Employee Ownership In Privatization

Dan Bell

While not every state service or enterprise should be privatized, where privatization is inevitable, capital-less employees should have a fair opportunity to create an employee-owned company that allows them to broaden their ownership of capital and gain a greater voice in shaping the destiny of their workplace.

What determines the feasibility of employee succeeding at privatizing their enterprise as a viable business? The state must be willing to sell, the employees must be interested in buying, the managers must be competent, there must be a market for its products or services, the operation must be competitive, labor-management cooperation must be achievable, and financing should be available.

The success of such an undertaking rests on overcoming a multitude of challenges. International donor and lending institutions, national governments, regional credit institutions, regional technical assistance organizations, labor organizations and employees themselves, all can make a difference.

When the Privatization Agency Won't Consider an Employee Bid

Strange as it may seem, not all agencies charged with privatization are truly committed to selling state enterprises. In some cases, privatization agents, or the transnational actors who hold leverage over them, may simply see employee ownership as inconsistent with the development of a working market economy. Some agencies view their task as sim-

ply transferring assets out of the state's hands, without any concern for how those assets will be used. Some unrealistically expect buyers to transform the enterprise into an entity that contributes to the economic well-being of their community. They may ignore the economic, social and political costs of throwing the fate of thousands of employees into the hands of a profit-seeking investor. Where the decision makers are trying to do the right thing, two possible strategies are education and helping to remove external pressures on their actions. Political pressure and education are needed to heighten awareness of the full process and impact of privatizing an enterprise. Well-targeted study tours to visit successful employee-owned companies, both abroad and in their own country, can help to dispel unwarranted prejudices.

Privatization agency decision makers can oppose employee ownership because they are using their position for personal gain. This requires a different approach. The options are to (1) remove them, (2) force them to act appropriately, or (3) collaborate with them.

A free press can expose, an independent judicial system can prosecute and democratically elected officials can fire corrupt bureaucrats. But entrenched bureaucrats can be hard to remove. The next option is create rules which put constraints on their ability to misbehave. Forcing transparency and lengthening the time frame of the privatization bidding process can allow proponents of an employee bid to get

organized rather than accepting a *fait accompli*. Organized labor can form coalitions that prepare to deal with privatization opportunities before specific situations emerge. A final possibility is to identify ways in which employee ownership can be in the self-interest of a corrupt but entrenched bureaucrat.

Building Employee Interest

Many workers are resistant to the idea of seeing their company move from state ownership to employee ownership. They fear loss of state protection and do not value private ownership. Tools and resources must be available to make a successful outcome realistic.

Workers who are comfortable with a socialist way of thinking may be persuaded to accept employee ownership by appealing to feelings that the means of production should be controlled by the community, not distant investors. And they may sense that outside buyers may plan to strip a community economic asset, while employee ownership anchors a national industrial jewel locally.

Organized labor may object to privatization when it weakens protection or worker rights. Requiring ownership successors to honor past promises of job security and benefits can help. Identifying models of how labor unions can play an important role is important too. Labor leaders need to broaden their understanding of possible outcomes beyond the simple status quo or sale to an outsider. Building a contingency plan around an employee bid can help prevent a worse outcome if the fight to stop the privatization fails.

Proponents of employee ownership in privatization need to listen to workers express their fears early on before pushing the privatization process forward and then include strategies for dealing with them in the plan. Educating employees about where employee ownership has worked in privatization can go a long way. Awareness of assistance and structures available to help them succeed will reduce some concerns.

Technical assistance programs should organize employees as proactive agents in the buyout process and funding must be available for prefeasibility studies which explore legitimate concerns and explain how their private employee-owned firm will succeed.

A gradual transition from reliance on the state's deep pockets can be achieved with a fund that guarantees a secure level of income in case of first-year layoffs, and state procurement contracts can guarantee a minimal level of production. A national credit agency targeted to enterprises which were previously on the state budget can also be established. Employees must sense that the government is sincerely willing to see that they have long-term income security.

Developing Competent Management

One rationale for privatization is the conviction that the state does not manage as well as private owners. Privatization is intended to create up-close owners (as Jeff Gates calls them) who, if not managers themselves, can keep an eye on their managers. State and publicly held companies (i.e., traded on the stock market) often share the same problem – the owners are too far removed from the business. If not held accountable, some managers will get away with wasteful practices for personal gain.

Incompetent management can be replaced. While existing managers should not be dismissed without review, permanence in their positions should not be taken as *a priori* either. In addition to the standard set of management skills (sales, finance, operations), values consistent with the ownership culture of an employee-owned company should be identified and used to screen candidates.

Trustworthiness is essential. Attracting good managers to employee-owned companies requires a financially rewarding opportunity. Managers should have a stake in adding value to the shares of all the shareholders. Stock-based incentives are superior to high salaries which drain much needed working capital and do not hold top management accountable.

Replacing leadership may be unrealistic in transition economies with very limited pools of ready-made managers.

One way to address this is to create a matrix of all relevant skill sets which can not only be used to assist in the selection process, but also as a diagnostic tool to assess management developmental needs. Training resources can be systematically focused on each skill set. New company leaders will benefit from the assistance of short term experienced managers. The privatization agency could establish a management intervention team which supports several companies at a time, or it could subcontract this task out to a network of employee ownership and turnaround managers. The cost for this could be rolled into the overall long-term acquisition financing.

The role of the board of directors is an important check on management. Employee owners are not normally equipped with the skills needed to review management's operation of their company. Over time, this can change with the proper training. A transition board can serve as a guardian of the employee owners' interests until they are ready to play a more active role responsibly. Outside board members who have managed in the commercial environment can help a newly privatized employee-owned company get off to a good start by initially assessing and monitoring performance of senior managers. The natural divisions of opinion between management and labor can be more successfully resolved with the assistance of a mutually selected outside board member with the power to intervene.

A lower cost alternative would be to bring networks of

Proponents of employee ownership in privatization need to listen to workers express their fears early on before pushing the privatization process forward.

newly privatized enterprises together on a regular basis for in-depth roundtable discussions. The group could share experiences and concerns with each other and also benefit from the input of a few experienced managers. The Internet can also serve as a networking tool; for example, a closed listserv that allows a select group of managers to query each other about periodic challenges.

Creating A Viable Market

Enterprises facing privatization sometimes find themselves without sufficient demand to support their operations at full capacity. Prior to moving forward with the privatization process, a prefeasibility study should be conducted which includes a realistic forecast to measure the problem's size, exploring alternative services and markets which can fill the gap.

Where a reduction in demand is due to the inability of former consumers to continue their consumption at the market price, demand can be shored up through the distribution of vouchers to the consumers or subsidies to the enterprise. Vouchers allow the enterprise to charge market prices and a subsidy allows the enterprise to lower its price to attract more consumption. A third way to maintain the market is for the government to guarantee a minimum level of procurement for a transitional period.

If the enterprise is expected to lose customers to new competition, one possible method of building customer loyalty is to provide consumers with equity in the new enterprise through a Consumer Stock Ownership Plan (CSOP). At a minimum, local retailers should be required to make local production available to consumers.

For the long term, the company's products or services are going to have to compete in the market. This will require that they be made attractive to the consumer. Where management has not had to make products marketable before, some investment in quality control, process development and marketing training is warranted.

Building A Competitive Operation And Ensuring Labor-Management Cooperation

No business can be a source of wealth creation for its employee owners if revenues do not exceed costs. The new company may not be able to enter the international market immediately. It also may have a difficult time competing against imports if no government protections are in place.

The privatization agency should only accept bidders with business plans that include a realistic three- to five-year plan of operational improvements and capital expenditures which will allow the enterprise to become competitive. During the transition period, government subsidies or protective tariffs are key.

Research shows employee ownership combined with employee involvement improves productivity, profitability, and turnover rates. Building labor-management cooperation helps make a newly privatized enterprise competitive by improving quality and reducing costs. Training centers for teaching the basics of employee involvement can help employee-owned enterprises climb the learning curve much faster. Networks of enterprises that have been successful

with employee involvement can be very powerful. Managers can witness first hand the impact of such programs and discuss their concerns with their peers.

Financing Successful Employee-Owned Companies

Financing for acquisition, working capital and modernization can come from the seller (the government); traditional private lenders; regional, national and international development banks; equity partners and the employees themselves.

If an enterprise was a drain on the state budget, seller financing does not worsen the state's position. If the enterprise was a revenue-generating state enterprise, the combina-

Helping employees build connections to the political powers responsible for their future can open up lines of communication and build trust.

tion of debt service and income taxes paid can offset the state's loss from privatization. If a private buyer intends to strip the assets, the state could find itself holding a note with nothing to back it. Where the workers control the enterprise, operations and effective oversight of management is in place, and asset stripping is less likely to occur.

Sharing control with an outside investor may be preferable to taking on personal liability and could bring needed expertise. At the same time, the pure interests of the workers will be subject to compromise. Side agreements to define the future disposition of the outsider's shares can enhance the workers' control over long-term ownership.

Cash raised from selling a portion of the ownership to an outside investor can be lent back to the employee-owned enterprise for working capital or capital investments. Alternatively, the state could accept a note from the employees for the acquisition, and the outside investor could provide the funds for working capital and capital investments in exchange for new shares. Where there are no reasonable methods for financing worker acquisition of a controlling ownership share, non-monetary shares with defined voting rights may also give the workers a level of protection where an outside investor acquires the controlling interest. At a minimum, the workers should have the right to veto negative practices such as asset stripping.

Workers should be required to contribute something to the financing of their company. Such a contribution can establish a sense of commitment to the endeavor and be a major step in the transition to a culture of ownership. While the ability to contribute is an asset, the lack of such ability should not be used as a barrier. Just as 30-year mortgages have made home ownership a reality for millions in the United States, extended loan terms could help privatizing

employees as well. Where state assistance is provided, the state could be given stock options at a reasonable future target price.

In some countries, workers have accumulated retirement assets which can be used. Risking diversified retirement assets to purchase shares in a newly privatized company is a serious matter and is justifiably seen as a means of last resort; however, dedicating 20% is not unreasonable. Where wages and benefits are sufficient to support a reasonable standard of living, a wage reduction offset by additional equity for employees could service additional debt. Workers may take on personal liability to borrow a portion of the

necessary funds, and apply future profits to debt repayment. This personal liability should only cover funding which cannot be collateralized with the enterprise's own assets.

An enterprise can be operated more efficiently by people who clearly understand that their own personal well being depends on efficiency. Where the bureaucratic structures of the state have proven ineffective in operating a state-owned enterprise, creating up-close employee owners can be the best solution. It is also an effective tool for strengthening broad-based democracy through the broadening of capital ownership. **COG**

Maintaining the Upward Trend Transnationally

Steve Clem

The Workgroup on Broadening Employee Ownership Transnationally was established to explore several areas:

- Employee ownership in multinational corporations;
- How international agencies/organizations can encourage broader employee ownership;
- The experience with organizing transnational bodies to support employee ownership;
- Transaction taxes on speculative currency transactions; How to get the concepts of broadened employee ownership into the international development mainstream; Other methods of broadening ownership through transnational efforts.

MNC's & Employee Ownership

Evidence indicates that, as business has become increasingly global, a growing trend toward the extension of various types of employee ownership plans among multinational/transnational companies (the terms are used interchangeably) has also developed. This seems to be happening in both U.S.-based companies and companies based in other parts of the world as well. About a quarter of the 1250 largest global companies offered share plans for all of their employees in 1998. And a model for an international ESOP that would work in most circumstances has been developed.

But it is certainly questionable whether this expansion of various kinds of employee ownership plans in multinational corporations actually results in true broadened ownership and broadened participation. Regardless of the motive or method, however, employee ownership spreads wealth.

What are some of the reasons that have led multinational corporations to increasingly introduce various types of employee ownership plans in their organizations?

The globalization of business has led to a concomitant globalization of the workforce and the need to maintain consistent and uniform employment policies throughout the world in order to be fair to all its employees and to be able to attract and retain, as well as to motivate, employees in different parts of the world. This "need" to be fair has been unquestionably promoted by the ease of communications

and information flow that exists throughout the world today. It's relatively easy for an employee in one part of the world to find out what kind of pay and benefits his/her counterparts in another country are receiving.

Some corporations have utilized employee ownership to distinguish themselves in the public perception from others in their field. To maintain the consistency of their public image, especially in their home countries, corporations have felt it necessary to allow their foreign employees to participate.

Increasing employee ownership in multinational enterprises is a desirable objective even though some of it almost certainly is more of a management tool to motivate workers rather than employee ownership with meaningful participation. While there are differing opinions about the quality and substance of employee ownership in multinational corporations, it is increasing, and this trend is a step in the right direction, providing an avenue for more meaningful participation in the future.

An important topic for future discussion is: How can more multinationals be encouraged that employee ownership is a good thing for their employees and a good thing for them?

A Trade Union Response

Until relatively recently, the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM), a trade union secretariat based in Brussels that has more than 20 million members worldwide, had largely concentrated on being an offsetting force to the power of multinational corporations through the formation of company networks, organizing solidarity actions and other activities designed to give unions support for the collective bargaining process. In 1999, the ICEM Second World Congress took the position that the danger posed by globalization emanated largely from investments that switch from country to country depending on perceived comparative advantages. So the Congress took the strategy that the best way to keep investment loyal to its roots is to give a stake in the company to the workers and the community. It is the position of the

ICEM that those who are employed and who live around the plant contribute to the success of the enterprise and should have their rights protected as thoroughly as those who are the owners of the property. Further, the ICEM takes the position that employees and community should have the recognized right of first option to buy.

The ICEM, in recent years, has been pushing for what they refer to as global collective agreements. This is a high priority item for the ICEM. While such agreements are not meant to take the place of normal collective bargaining agreements, they seek to establish a framework of consistent treatment of a multinational's employees no matter where they work, something on the order of the OECD principles and the ILO conventions. One global collective agreement negotiated by the ICEM includes a company pledge of neutrality in union organizing campaigns. These global agreements are mostly with firms in European countries where unions are the norm and the public expects firms to work with unions and support the well-being of their employees and the communities where they are located. In contrast to the OECD and the ILO, the global collective agreements can be more easily monitored and enforced. Perhaps as such agreements become more common, it would not be outside the realm of possibility to include provisions relating specifically to broadening of ownership, the recognition of the workers' sweat equity and the reduction of income and wealth inequality.

Establishing a working relationship with the ICEM could be quite advantageous as the Capital Ownership Group continues to pursue its objectives.

International Agencies

Also in the international arena are the world development organizations like the International Monetary Fund (IMF) and the World Bank, organizations whose policies, many hold, have contributed to the growing inequality of wealth and income throughout the world. Part of the scope of work for the transnational discussion group has been to explore how such international agencies might be able to encourage broadened ownership by connecting ownership with debt relief or economic development programs, for example. On an encouraging note, over the last couple of years or so, it appears that these and other agencies more fully recognize the reality of income and wealth inequality and the need to successfully address the problem. Both of these organizations have put poverty reduction at the heart of their agendas. Employee ownership now fits well with IMF and World Bank priority areas.

The International Labor Organization (ILO) and the United Nations Development Program are also trying to deal with the fact that more than one-fifth of the world population lives in extreme poverty. Even just realizing the

core labor conventions supported by the ILO would be a major improvement for the world's poorest people. The four international organizations may not be singing the very same song and they may not even be singing from the same songbook, but they are all singing.

While the promotion of employee ownership does not appear to be an established part of the strategies being put forth by these international organizations, they might be more open than they have been in the past to exploring the addition of an employee ownership plank in their poverty reduction initiatives. Could the World Bank and the IMF be persuaded to require exploration of the feasibility of employee ownership for some of their projects? Or at least indicate a preference for employee ownership as a component of their increased emphasis on poverty reduction? Could they potentially work with multinational corporations to encourage them to extend employee ownership as a tool to reduce poverty and income equality? There certainly should be a place for employee ownership in the design of poverty reduction programs.

As COG moves forward, it is abundantly clear that we need to more fully develop our own strategies in order to get our message across to these international agencies and organizations. We need to make a place for COG at that table.

Currency Transaction Taxes

The other item that engendered some discussion among this group was the possible imposition of taxes on currency trades across borders. Currency trades are speculative transactions that can cause fluctuations in exchange rates and possibly threaten the economic stability of countries whose currencies are being traded. There is overwhelming evidence that the lack of stability helped to cause the crises in Southeast Asia, Russia and Brazil.

Taxing such speculative transactions at 0.5% or less would have the effect of curbing the gambling type of speculation and allowing individual countries to have more control over their own currencies and monetary policies. Such a tax would produce revenues estimated at anywhere between \$50 billion and \$300 billion a year. These could be utilized to provide needed resources to fight global problems such as disease, poverty, hunger and other priorities, including an international fund to assist in the establishment of employee ownership in appropriate situations. Promoting employee ownership would be a long-term tool in the fight against poverty, and a good complement to relief of immediate human disasters. The Capital Ownership Group should determine its position on such a tax and put that before the appropriate national and international bodies.

To be really effective, the adoption and enforcement of such a tax should be coordinated among a number of countries. The United Nations is studying the issue. The Interna-

What are some of the reasons that have led multinational corporations to increasingly introduce various types of employee ownership plans in their organizations?

tional Confederation of Free Trade Unions (ICFTU) has endorsed such a tax. In addition, several countries are discussing the issue in their respective legislative bodies.

Conclusion

As can be seen, there are many arenas where the Capital Ownership Group needs to make its voice heard if it is to

successfully put forward its agenda. The biggest question seems to be how do we go about promoting our policies? COG needs to continue to develop a strategy to determine who are the decision-makers, how to get access to those decision-makers, and what are the points of leverage to get COG's message to the right people. **COG**

Nine Bold New Ideas for Spreading Capital Ownership

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 little stock—less than \$10,000—or none at all. 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 families increased their share of national household wealth from 33 percent to nearly 40 percent. Wealth is not spreading today. It is concentrating. Reversing this concentration, and promoting a genuine spreading of capital ownership, is more vital than ever.

COG's Industrial Homestead discussion sought out new ideas designed to more rapidly remedy the onslaught of capital concentration. This article summarizes several of twenty new policy ideas proposed in Industrial Homestead policy discussion. It offers some truly innovative—and compelling—ideas, which we hope will soon find their way into the national policy arena.

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 ("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 employee or community owned businesses, and pay out a portion of its return 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 says, "Hammond felt strongly that Alaska's oil wealth belonged to its people, not its government." 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 which is 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, and giving citizens a voice in the businesses in which they've invested tax dollars. 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 is an idea whose time has come.

Ownership Transfer Corporations

Here the idea is to encourage corporations to become owned and controlled directly by stakeholders, such as employees, suppliers, customers and local government suppliers of infrastructure. The transfer to stakeholders would be based on the amount of business or financial value of their contribution to the business, like a cooperative patronage dividend. 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 proposal based on this idea was recently made as part of the Zimbabwe Enterprise Development Project. It 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. But investors could be allowed up to 100 percent ownership, if they agree to a "fade-out" arrangement. Investors would retain full ownership for a pay-back period—perhaps five to seven years—allowing them to recover their investment plus a return. The year after the

payback period, 5 percent of shares would be transferred without compensation to a trust representing employees, until employees own a specified 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.

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 invest within their own provinces, in companies with proven track records and long-term 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. 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 Fund, with assets of \$165 million, has a preference for employee ownership. 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. 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.

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 avail-

able 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.

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. 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.

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. This is one of many ideas Jeff Gates proposes in his excellent book on this subject, *The Ownership Solution* (1998).

Capital Homestead Act for America

This is a proposal to provide tax, monetary, inheritance

***The 1 percent
of richest families
control 40 percent of
all household wealth.***

policy and other structural reforms to national economic policy to provide every citizen an equal opportunity to own, control and share profits from productive capital. Facilitated by the monetization of capital credit under Federal Reserve policy and reinforced by loan default insurance as a substitute for traditional collateral, the Capital Homesteading reforms would enable every citizen to establish at a qualified local lending institution a tax-exempt Capital Homestead Account (CHA) to purchase and accumulate dividend yielding shares to supplement his income from other sources, including Social Security when he retires.

Like ESOPs the citizen would put up no money but through the CHA would gain access to self-liquidating capital loans at low service charges to buy equity shares that are expected to recover their purchase price out of future pre-tax dividends. The loan default insurance, whose premiums would be paid out of dividends, would cover the risk that the loan failed to be self-liquidating. CHA loans could be invested in shares of (1) the company he or a family member works for, directly or through an ESOP, (2) the companies he regularly buys from, directly or through consumer stock ownership plans (CSOPs), (3) a Community Investment Corporation (CIC) to link him to profits from and control over local land planning and development, and (4) a variety of blue-chip growth companies with a track record of profits. The double tax on corporate profits would be eliminated for companies that sell full dividend payout shares to CHAs.

A key feature of these ideas is that those who have no capital should have equal access to credit to acquire capital, and that that credit should be made available by the government's central bank and allocated through local lenders for financing the capital needs of the productive economy. (In today's US economy productive capital is growing annually at a rate exceeding \$7,000 per capita.) The idea behind Capital Homesteading is that there is no reason that those who already have capital (and collateral to qualify for capital loans) should have a monopoly over the government's ability to create more wealth through credit.

Tax Policies for Building Equity

Alan Zundel made several proposals to reduce the tax burden on low-asset individuals and households trying to build equity. First, employment income (wages, salaries, fees) and capital income (interest, dividends, capital gains) should each be treated separately in individual income tax filing, applying personal exemptions, the standard deduction, and progressive tax rates to each type of income individually instead of both together. Instead of paying taxes on the income from their savings and investments at the top rate for their labor income (currently capital income is, in effect, piled on top of labor income), they pay zero or low tax rate on capital income until it reaches some predetermined size, after which tax rates gradually rise as the income rises. This

benefits small savers and investors in two ways: (1) helps their nest egg grow by reducing taxes on the income from it, and (2) gives them more of an incentive to save and invest. Second, make dividend payments tax-deductible against corporate profits. This eliminates the double-taxation of dividends, but with the separation of labor and capital incomes in the income tax (as above) it primarily benefits small savers and investors. Large capital incomes would be taxed at rates high enough to recapture (at least some of) the loss from the corporate income tax. Third, end regressive taxation. In U.S. there has been a trend towards greater reliance on regressive taxes such as payroll taxes, sales taxes, gas and cigarette taxes, and so forth. Reversing this trend would make it easier for low and moderate-income individuals and households to save and build equity.

The tax rate for inheritance and gift taxes should be based on the wealth of the recipient, not the wealth of the estate. This encourages donors to spread equity ownership among heirs/recipients. This is one of Kelso's ideas.

Directly Subsidized Ownership

A series of ideas were proposed to provide low asset individuals with means to build ownership. For example, Prof. Michael Sherraden's proposal for *Individual Development Accounts (IDAs)*, provide for dual account savings plans, where an employer, non-profit organization, government agency or other entity matches deposits made by low-asset savers. Accounts must be used for designated purposes such as education, starting a micro-enterprise (very small business), or down payment on first home.

Universal Savings Accounts (USAs). Similar to IDAs, Sherraden's proposed government matching deposits for low-asset citizens who start special retirement accounts.

Citizens' Grubstakes were proposed by Profs. Bruce Ackerman and Anne Alstott. A "grubstake" would be a one-time government grant of \$80,000 (for education, starting a business, buying a home, or saving/investing for retirement) for each citizen when they come of age. It would be funded by a dedicated tax, and repaid at death by those who haven't lost it, and eventually become self-financing. They think this would be more politically feasible than any kind of guaranteed annual income.

As proposed by Terry Mollner of the Calvert Social Investment Fund, *Trusteeship Trusts* were similar in concept to Ackerman and Alstott's "grubstake" idea, but not dependent upon the federal government. State and local governments, non-profits, banks, philanthropists, professional/civic organizations and/or community groups could set up a program for any community (however defined). All that would be required would be some seed money, including some entity (perhaps state/local government) to guarantee a seed loan if necessary. Mollner also believed such a program would eventually be self-financing as initial recipients paid back their stake at death. **COG**

Just as we assess environmental impact before taking significant societal actions, we should also assess ownership impact.

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* denotes employee-owned company

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Ownership for All

Imagine a world in which economic globalization and employee ownership go hand in hand....

Ownership for All is a global anthology of experiences with employee ownership policies, practices, policy proposals and related debates. It is a compilation of the first 18 months' work of the Capital Ownership Group (COG), a global virtual think tank. This booklet summarizes the COG discussions investigating the uses of employee ownership programs on the national and sub-national levels, in privatization, by transnational corporations and agencies, and includes a collection of new ownership policy proposals. It looks at a wide range of ideas including

- tax incentives to encourage employee ownership,
- labor-sponsored venture capital funds to grow the employee-owned sector,
- non-profit technical assistance agencies,
- employee ownership funds,
- cooperation among employee-owned companies,
- swapping stock for government subsidies,
- using employee ownership in Eastern European and Third World privatization, and
- building employee ownership into the International Monetary Fund and World Bank efforts at poverty reduction and community stabilization.

Globalization doesn't need to require a "race to the bottom" that cuts wages and benefits, diminishes occupational health and safety, and undermines environmental standards.

We can make better choices.