



Why Spreading Profits and Capital Ownership is the Best Way to Reduce Income Inequality in America

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The United States is losing its once great middle class – and ways must be found to spread the fruits of economic growth if current trends are to be reversed. Capital ownership and capital income – ownership of companies, stocks, bonds, land, and financial instruments – have become very unequally distributed. Meanwhile, wages and salary gaps are growing, in part because the pay of many top earners is linked to capital income. The top ten percent of U.S. households now control almost three-quarters of all wealth and more than four-fifths of all financial assets. Half of households own no stock, many have meager financial holdings, and a quarter have zero or negative net worth. Most middle-class families have seen their wealth decline since the 1980s, while ownership of capital and the income it generates skews toward the top. By 2011, 57% of all capital gains and capital income went to the top one percent, and 86% to the top fifth.

Rebuilding an Economy and Democracy That Benefit All Citizens

In our book, *A Citizen's Share* (Yale University Press, 2013), we propose reforming the structure of American business so that workers, not just the wealthy, earn a meaningful capital income and share in workplace profits. When workers have a capital stake, they are more likely to participate in decision making and they have a strong incentive to maximize firm profits.

Beyond the business sector alone, spreading broad-based profit sharing and employee stock ownership could reduce the concentration of economic and political power and help restore citizen faith in democratic politics. In March of 2010, 64% of respondents told the Pew Research Center that they thought the effect of “large corporations” on the “way things are going in the country” was negative; and 69% similarly distrusted major financial institutions and banks. By contrast, 71% of citizens had a positive view of small business; and 68% approved of technology companies, which are more prone than others to share profits and stock ownership with workers.

An American Success Story

Profit sharing and employee stock ownership plans are not odd or un-American. The 2014 General Social Survey found that about one fifth of all private sector employees own some company stock, 36% are covered by profit-sharing arrangements, and about one-fourth of employees are eligible for “gain-sharing,” defined as bonuses based on group or workplace performance. Overall, 45% of Americans workers – approximately 52 million – get earnings from one or more of these arrangements. However, the amounts are often very modest and the share programs do not go deep, to all the levels of individual firms.

The evidence is clear that capital-sharing arrangements work well for everyone. Workers with greater property in firms are more likely to stay with their company, work harder, make more suggestions, and enjoy better fixed pay and working conditions. Also, firms with profit sharing tend to be more profitable and productive than similar firms without sharing programs. More than sixty studies document a positive association on average between company performance and the existence of profit sharing, gain sharing, and employee stock ownership programs. Firms that share ownership and profits enjoy about a 4.5% boost in productivity, and employee ownership firms have greater survival rates and are less likely to lay off workers in recessions.

An important caveat is worth noting: To ensure that risks for workers are reduced, not increased, we are discussing and recommending only forms of profit sharing and employee stock ownership that involve **grants** to workers. As the Enron debacle taught us, workers should not be pushed to spend wages or retirement savings to purchase their company's stock. And we favor share programs that come on top of fair fixed wages, which is the case in the best company exemplars.

From Idea to National Commitment

To jumpstart a process of spreading capital ownership and income, leaders from business, government, unions, and concerned citizens associations should agree on clear targets and take several steps: First, set up a center in every state to disseminate information and technical expertise on broad-based capitalism. Second, use Small Business Administration programs to aid the sale of firms to employee trusts. Third, create scorecards measuring participation in profit-sharing and employee stock ownership.

Guided by clear goals and accurate information, national and state tax and expenditure policies can create market incentives for profit sharing and employee stock ownership:

- Capital gains taxation could be progressive – meaning that gains for citizens with small amounts of capital would be taxed at much lower rates than capital gains for the very wealthy.
- The Internal Revenue Service could allow publicly traded firms to write off incentive pay as a cost of business only if an incentive plan covers all workers, not just top executives.
- Firms with broad-based capital ownership could get special consideration for tax breaks and government contracts, much as minority- and women-owned businesses now do.
- Targeted tax incentives could require qualifying businesses to have some degree of employee ownership and profit sharing; and financial firms could be similarly encouraged to invest in and make loans to businesses with inclusive programs for sharing capital income.
- Estate taxes could be lowered for family firms sold to workers.
- Granting “baby bonds” to newborn citizens could ensure all a small capital stake at age 21.

The Founders of the United States and later civic leaders understood that a thriving, capital-owning middle class promotes political liberty and economic independence. Land ownership was the original issue; now spreading corporate ownership and earnings must be the priority. Inclusive profit sharing and employee ownership will not solve all problems, but they can reduce inequality, increase social mobility, spur innovation

and economic growth, and revitalize faith in American democracy.

Read more in Joseph R. Blasi, Richard B. Freeman, and Douglas L. Kruse, *The Citizen's Share* (Yale University Press, 2013).