A national policy on shares for the working middle class

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Oliver Winery in Indiana is a 100% employee-owned business. (Photo: Oliver Winery)

Strengthening the working middle class is impossible without a system that ensures more workers own capital. And the only plausible way to get capital in the hands of America's workers is to strongly encourage broad-based profit sharing plans or employee share ownership programs at every workplace in the country.

The working middle class has been slammed by two long-term economic trends: flat or declining real wages for most income groups and the stunning concentration of wealth and capital income. Together, these trends mean that the working middle class is not sharing in the gains from economic growth and that the working middle class has not benefited from the lucrative returns to investment that have benefited wealthy families for decades. Put simply, growth in wealth is driven by increasing returns to capital—and most workers own little to none of it.

The overwhelming concentration of capital is well documented by economists Emmanuel Saez and Gabriel Zucman, who found that 74.5 percent of all household wealth—real estate, ownership of businesses, stocks, bonds, cash—is concentrated in the hands of the top 10 percent of families. This capital does not just sit still; it continues to produce more wealth each year through capital gains and returns on investment. Saez and Zucman found that a stunning 96.7 percent of this capital income went to the top 10 percent of families.

The problem for most working middle-class families is that their earnings are not growing fast enough to allow them to save and accumulate wealth. On the flip side, those who own capital and share in its profits are doing very well. And it's not just stock ownership driving this divergence. Wealthy families are the ones who own the businesses, technology, software, algorithms, and robots—all the key drivers of economic growth. Workers, whose earnings from work make up most of their income, do not share in that growth.

The solution to this dilemma is a far-reaching national policy to expand capital shares through the private sector, including a wide variety of established profit sharing and employee equity share plans. The basic idea is to encourage businesses to include employees nationwide in equity ownership and profit sharing plans, ensuring that the working middle class owns a piece of the businesses they help build.

What would a substantive national initiative on shares look like? It would look like the small businesses, large corporations, and growing tech firms that already compensate their employees with generous broad-based profit sharing and employee share ownership plans—we'd just see more of it.

Many people want to work at businesses that share profits and pay workers for their performance. Small family businesses tend to prefer cash profit sharing or gain sharing because the companies are family-owned. Large stock market companies, on the other hand, prefer broad-based employee share ownership programs.

Implementing a national policy on shares would begin with a civic discussion highlighting examples of businesses that do it well. An analysis of over a hundred different studies, including almost 60,000 businesses, found that employee share ownership improved performance. I found, along with colleagues Douglas Kruse of Rutgers and Richard Freeman of Harvard, that companies with employee share ownership and profit sharing had significantly lower employee turnover and better return on equity.

As they did decades ago, local chambers of commerce can consider calling attention to responsible share companies in their communities with seminars, receptions, and prizes. Political leaders can visit these companies, large and small, across all 50 states to draw media attention to a new fair-share deal for the middle class.

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If shares are a national goal, the federal government could play a role by encouraging businesses nationwide to establish broad-based profit sharing and employee share ownership plans through tax incentives, special tax rates, preconditions for receiving government benefits, and purchasing preferences. This can be done through a handful of thoughtful policy reforms.

First, tax incentives for every kind of responsible share plan should be expanded to a level such that CEOs of every company will ask, “Should we do a share plan now?” In particular, tax incentives could target tech companies to reverse the astounding decline in the number of workers included in their equity plans, could offer tax credits to small businesses that have meaningful cash profit sharing, could make it easier for retiring business owners to sell the company to the managers and employees by expanding the credit available for such sales, and could encourage stock market companies by allowing large stable firms to deduct interest on loans to set up such plans and dividends used to repay these loans. Every company is different and every management team will consider whether a specific plan fits its circumstance.

Second, if and when Congress revisits the massive no-strings-attached corporate tax cut, another policy option is to lower the corporate tax rate for businesses with broad-based share plans. Similarly, while some of the most generous corporate tax expenditures may need to be cut, Congress should examine conditioning corporate subsidies on the company having abroad-based profit or equity participation plan for all employees. In both cases, the basic idea is to offer corporations a cut in exchange for sharing their profits with workers—a policy that would benefit owners and workers.

Third, the entire system of federal defense and non-defense procurement should be conditioned on the bidders having a broad-based profit or equity participation plan for all employees. During the Obama administration, regulators were able to influence labor policy by changing the requirement of federal contractors—a practice that should be extended to include employee ownership.

Fourth, recognizing that private equity has become a super-engine of wealth concentration, the “carried interest” capital gains treatment for private equity firms should be conditioned on these firms having a broad-based profit or equity participation plan for all portfolio companies. Not only would this encourage widespread share ownership, but it would favor the spinning off of those companies to firms with broad-based profit or equity participation plan for all employees.

Fifth, every type of share plan regulated by the federal government should be examined so that federal regulations encourage inclusivity, generosity, ease of implementation, and financial safety for workers. For example, tax incentives could focus on encouraging share plans that do not substitute fair wages for shares. Employee share purchase and share matching plans with very deep discounts that function like grants could also be carefully encouraged.

Sixth, income and capital gains tax rates on profit and equity shares should be lowered for middle-class families who are struggling to pay mortgages and save money for college and retirement to allow working families to keep a larger part of their profit and equity share for their families and children.

Widespread share ownership is the only plausible private-sector approach to closing the inequality gap. If investment returns continue to outpace middle-class wage growth, we will soon see a two-tiered economy where capital owners capture the vast bulk of the gains to a growing economy, and everyone else fights for the crumbs.

That being said, broad-based profit sharing and employee share ownership is not only about inclusive growth, but also about citizens having a share in our civic life and our politics. If most citizens own and share in the profits, they will have the freedom, economic liberty, and resources to reengage with civic life. Making sure that everyone owns a piece of our economy is not only central to combating widespread inequity, but to strengthening our democracy.

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