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Powerful, under-used tool for reducing income-inequality: b based ownership

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When income inequality in the United States is reportedly the highest it has ever been, it's little wonder that the average American's confidence in the economy is low and dropping. Gallup recently reported that the Economic Confidence Index in mid-July had plunged nearly 20 percent from 18 months earlier. The American Dream is seen as beyond reach by most Americans. If the baby boomer generation grew up in a world where many middle class families were headed by small business owners, today that path to prosperity has been largely foreclosed. The top 10 percent of the wealthiest now hold two-thirds of national wealth. Instead of being broadly shared, wealth is flowing to folks like the highest paid CEOs managing some of the worst performing companies. Meanwhile, much of the rest of America is barely getting by, with a disturbing 40 percent of jobs in the U.S. today as part-time, temporary, or contingent. It's past time to keep leaning on old, tired solutions and recognize that if we are to have a hopeful future, it lies with tackling wealth inequality at its source, which means moving asset ownership from the hands of the few to the hands of the many.

A movement to do just that has already quietly begun at the community level. In dozens of communities nationwide, broad, local coalitions of civic, advocacy, city and state leaders are taking steps to return wealth to our communities by embracing policies and practices that create broad-based ownership.

A shift in public policy from wealth concentration and extraction to one of assets rooted in communities is both feasible and broadly beneficial. Employee-owned businesses, for example, pay 5 to 12 percent more in wages than traditionally owned companies. Workers at these firms have more than double the retirement accounts, and are one-fourth as likely to be laid off. Employee Stock Ownership Plan (ESOP) companies, over a ten-year period, showed 2.5 percent higher job growth than other firms. Employee ownership also brings increased productivity and higher profitability to companies.
An ESOP is a form of employee ownership where employee shares are held in a retirement trust. One of the most successful is Recology in San Francisco, a firm with $800 million in revenues, which is 100 percent owned by its 3,000 employees, who perform waste collection and recycling services for tens of thousands of municipalities and businesses. Nationally, there are more than 7,000 companies with ESOPs, covering

more than 10 million employees, who collectively have assets of nearly $1 trillion.

Employee ownership is just one model of broad-based ownership. Other models include social enterprises, municipally owned enterprises, and emerging hybrids like B Corporations (which are profit-making firms with a professed aim of social benefit). The nation's largest banks can be key allies in promoting these kinds of job-creating models, for they are already committed, under the framework of the 1977 Community Reinvestment Act, to invest in low- and moderate-income communities.

Employee ownership is a model that has been proven over many decades, but is uniquely poised to go to scale today, with the coming wave of company sales from aging baby boomer entrepreneurs. At least 7 million owners of privately held businesses will reach retirement age between now and 2030. We are on the brink of the largest generational transfer of wealth in the history of humankind. How will this affect communities? It depends on who buys these businesses. If sold to private equity, these company transfers will create more wealth for the already wealthy. But if sold to employees, these companies can represent new wealth-building opportunities for millions of Americans. We can begin to restore the American Dream. Working collaboratively toward that end is the aim of a new initiative called 50 by 50, with a goal of 50 million employee owners by 2050. Members of the 50 by 50 campaign are as diverse as the Democracy at Work Institute, the City of Madison, Wisconsin, Citi Community Development and Prairie Capital Advisors.

Already working towards this shift in broad-based ownership are cities like New York, which has allocated $3.3 million over two years to develop worker cooperatives. The city is already home to the nation's largest worker cooperative, Cooperative Home Health Care Associates, which has revenues of $60 million and employs over 2,300 people, many of them women of color. The company's mission is not profit maximization but providing quality home care at living wages.

Beyond municipal policy, another tool for advancing broad-based ownership is the nation's nearly 1,000 Community Development Finance Institutions (CDFIs), chartered to aid disadvantaged communities. If adequately capitalized and focused, these CDFIs are a resource for facilitating and financing business conversions to ESOPs or cooperatives. For example, in 2014, the Cooperative Fund of New England and Coastal Enterprises, Inc., of Maine joined forces to finance a $5.6 million worker buyout from retiring business owners of three rural Maine businesses, converting those businesses into the 45-member worker-owned Island Employee Cooperatives.

At the national level, H.R. 2096, the Promotion and Expansion of Employee Ownership Act, would aid in spreading the development of ESOPs by providing further tax incentives for conversion and technical assistance for making the transition. Sixty-eight percent of Americans support employee ownership. And it's no surprise why, since employee ownership offers greater protection against layoffs, keeps companies rooted locally over the long term, and works to spread wealth to many.

Proven to be stable and sustainable models for economic growth, broad-based ownership models provide an important new strategy for reversing income inequality. As more and more cities and states develop cooperative economic models, financing of broad-based ownership is no longer on the fringe of economic debate; it's just good business.

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