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Retirement of Boomer Business Owners Could Leave Millions Jobless—Unless Workers Take Over

BY Alexander Kolokotronis

The federal government estimates that more than 10,000 baby boomers retire every day—4 million people every year. Between them, soon-to-retire boomers own 2.34 million businesses, with nearly 25 million employees. Boomer-owned businesses generate $949 billion in payroll, and $5.14 trillion in sales. Yet the vast majority of boomer business owners lack a written transition plan for when they retire, and the coming shift in ownership—what some have termed the "Silver Tsunami"—could affect one-sixth of U.S. workers, decimate membership in local business associations and chambers of commerce, and have ripple effects throughout the entire economy.

For the movement to democratize the workplace, however, this transition could also present a tremendous opportunity. Only around 20 percent of retiring small business owners find a buyer, and when they do, buyers tend to be competitors, larger companies, private equity firms or predatory real estate developers. The above actors, however, rarely have the best interest of workers and local communities at heart, thrusting many into precarious work and in some cases driving gentrification.

But there's another way out. Rather than close up shop or be bought up by the highest bidder, businesses can transition into democratic employee-ownership, such as worker cooperatives—businesses owned, controlled and managed by workers, and that operate according to a "one worker, one vote" decision-making process. The manifold benefits of this and other types of democratic employee ownership include reductions in intra-firm income inequality, increased voice and say by workers themselves over working conditions, increased productivity and efficiency, potential spillover into increased political participation, and eco-friendliness.

Depending on the state or municipality, there may be legal obstacles to transitioning existing business into worker ownership, but it is not impossible. And a number of policies, some of which are already being pushed by cooperative and labor movements across the country, can ease the process along. Such policies can ensure that the surge in boomer retirement doesn't harm the economy, but instead puts more power in the hands of working people.

Worker Ownership Today

To grasp the potential for transformative future reform, we first must grapple with the present state of employee ownership. There are only around 300 worker cooperatives nationwide, and they aren't easy to build from scratch. For one, developing businesses can require years of training, steady build-up, and effective marketing—there is a limit to how many worker cooperatives can be developed at once. The degree of difficulty also means that worker cooperative developers working in isolation could easily face exhaustion and burnout. And even after getting off the ground, startup worker cooperatives can remain dependent on nonprofit developers for an indefinite period. This helps explain the long-term failure of, for example, a decentralized nonprofit-based startup worker cooperative development program from 1976 to

1986 in the United Kingdom. This "ten-year experiment produced approximately 2,000 new worker cooperatives––and almost none exist today," writes Christopher Michael, founding director of NYC Network of Worker Cooperatives and general counsel for The ICA Group, a non-profit consultancy that aims to advance employee ownership.

On the other hand, there are more than 7,000 firms with ESOP (Employee Stock Ownership Plan) status. An ESOP is an employee benefit program whereby employer stock is transferred to individual employee accounts within a tax-exempt trust. While the worker cooperative sector has experienced crests and falls since the 1970s, the total number of employee-owners under ESOPs has steadily increased. In total, 13.5 million employees—or 11.8 percent of the total U.S. workforce—work in an ESOP. By contrast, only 7.4 million private-sector workers—6.4 percent of entire private-sector workforce—are unionized. Among the 7,000 ESOP companies, 4,000 are majority employee-owned; some are even 100-percent employee-owned.

So what does this astonishing base of ESOPs—and the relative dearth of worker co-ops—have to do with the Silver Tsunami of retiring boomers? Startup worker cooperative development need not be completely abandoned. To engage in effective startup development, however, requires building durable business associations and federations for worker cooperatives. Such associations and federations could offer resources for meticulous research, engage in political advocacy and lobbying, as well as provide an existing consumer base for startup businesses to connect with. One way to build such a foundation is through converting existing businesses into democratic employee-owned firms—focusing on this now would make future startup co-ops easier. Why start a new fledgling business in a hyper competitive global economy when there are existing healthy businesses that can be converted?

The incentive structure is already there. For one, broker fees for converting to a worker cooperative are less than a typical sale. Also, as noted in an ICA report, "capital gains from the sale to a co-op or an Employee Stock Ownership Plan (ESOP) can be deferred indefinitely or completely avoided."

Second, the model is more appropriate for gradual transitions. Exiting owners are not required to sell all-at-once, and future cash flows can be used to expedite workers' purchase of the company. Instead of a scrambled and unsatisfying exit, small business owners can slowly transition out, or even secure themselves an abridged role within a majority democratic employee-owned enterprise.

Third, conversions to democratic employee-ownership benefits those small business owners that care about leaving a legacy behind. Rather than selling to an outside-purchaser in a scrambled impromptu fashion, democratic employee-ownership is likely to be more consistent with fortifying a retiring business owner's legacy. Simply put, it leaves the business in control to those that know the business best: the workers themselves.

Potential Reforms

But in ESOPs, worker ownership does not always mean worker democracy. Under the 1974 Employee Retirement Income Security Act (ERISA), which grants ESOPs special tax status, ESOP trustees are prohibited "from prioritizing nonfinancial benefits, such as working conditions, job security, or employee ownership, as 'a goal in and of itself,' " Michael writes. Effectively, "federal law requires ESOPs to prioritize employees' retirement income at the expense of employees' continued ownership." This means that maximizing shareholder value is prioritized over the needs and concerns of workers as workers—or as community members.

One effect of this is that, while it is technically possible to structure ESOPs as worker-controlled companies (and some do), many ESOPs confer few voting rights to workers. These are often restricted to major shareholder decisions, such as a restructuring or sale of the company. At the state and local levels, reforms can address these limits. The point here is not to view ESOPs with suspicion, as many labor unions have, but to build upon what has been achieved to date—specifically, by adding the important elements of workers' voting rights and other democratic procedures.

Since the 1980s, some ESOPs have been run as "Democratic ESOPs" (DESOPs), with one worker, one vote. Unlike a worker cooperative, a 100-percent employee-owned DESOP does not pay any federal income tax. This makes the DESOP more financially attractive than incorporating as a worker cooperative. The downside is that due to ERISA law requirements that ESOP trustees prioritize financial benefits, DESOPs are sometimes complicated and costly to structure. Another option is creating a one worker, one vote Employee Ownership Trust (EOT). EOTs fall outside of ESOP law, and also leverage tax-exempt loopholes. Governments and civil society can make it easier to transition existing firms into DESOPs and EOTs by building on existing incentive-structures with new legal mechanisms, institutional support, and capacity-building programs.

Specifically, both state and local governments should: (1) expand tax incentives for employee ownership; (2) establish a financing program for employee-ownership successions through loan guarantees; (3) give preference to employee-owned businesses in contracting out work, e.g., construction, cleaning, catering, etc.; and (4) establish an employee-ownership center that favors DESOPs and EOTs.

On this fourth recommendation, through its Worker Cooperative Law Project, The ICA Group proposes creating Centers for Democratic Employer Ownership that acquaint business owners with different models of employee ownership. Centers would disseminate knowledge of tax-exemptions and benefits to retiring business owners, and could provide professional assistance with the process of transferring business ownership to workers.

These could be structured to encourage full, democratic employee ownership with one worker, one vote rights—as opposed to only partial nonvoting employee ownership—through providing tax-exemptions on "earnings attributable to any portion of company stock under democratic employee ownership." ICA also proposes a full capital gains exemption for "a business owner who transfers a portion of a firm's voting shares to democratic employee ownership." This could also be structured along a scale: The more shares turned over into democratic employee-ownership, the more favorable the capital gains tax exemption.

Incentives should focus on the gradual transition of enterprises—e.g., over seven or more years—toward one worker, one vote employee ownership. Gradual transition could be more appropriate for private business owners who do not intend to retire right away. It is also an effective means by which business owners could pass on institutional knowledge and provide their own training. Gradual transitions minimize and eliminate conflict by legislating a smooth passage of control to the employees after the business owner is fully divested of their ownership. The point is not simply to pass into democratic employee-ownership, but to do so in a healthy and lasting way.

Converting Firms Now

Passing such policies will take time and effort, but many efforts have already begun. The New Haven chapter of Democracy at Work (D@W) is advocating for many of the above-mentioned policies (full disclosure: the author is a member of D@W's New Haven chapter). The ICA Group is pushing for such policies across the Northeast as well as the national level. In Congress, Sen. Bernie Sanders (D-Vt.) himself has introduced employee-ownership legislation multiple times over the last decade. Most recently, as reported by *In These Times*, Sanders, Sens. Patrick Leahy (D-Vt.), Kirsten Gillibrand (D-N.Y.) and Maggie Hassan (D-N.H.) introduced two complementary pieces of legislation this May that would ease the transition to employee ownership. Identical legislation has been introduced in the House by Rep. Jared Polis (D-Colo.).

The first bill—also introduced by Sen. Elizabeth Warren (D-Mass.)—is the Worker Ownership, Readiness, and Knowledge (WORK) Act. If passed, funds would be provided for education, outreach, technical assistance and training (to both employees and employers) to democratize the workplace. The second piece of legislation is the United States Employee Ownership Bank Act. This legislation would provide direct loans and loan guarantees for companies to become at least 51 percent employee-owned, whether as an ESOP or a worker cooperative.

Fortunately, we need not table converting existing businesses until such reforms are passed. In fact, there are already some tax incentives for such conversions, and the process is tried, tested and efficient if done with the right legal counsel. The ICA Group and the National Center for

Employee Ownership (NCEO) offer preliminary consultations for business owners interested in converting their enterprise. Democracy at Work Institute launched a "Workers to Owners" program to smooth transitions to worker ownership as boomers retire. What is still lacking, however, is the funding to massively scale such transitions, particularly for the necessary outreach.

Municipalities can act now to support conversions. They could track and report local business closure rates, with important associated content such as the number of jobs lost. Looking at business licenses on-file they can determine which and how many businesses have been operating for at least the last 15 years. This would allow Centers for Democratic Employee Ownership to conduct targeted outreach, such as through contacting business owners on the verge of retirement.

Outreach can take on many different forms. It could mean reaching out to business brokers and local economic development agencies so as to familiarize them with models of democratic employee-ownership. It should also mean prioritizing outreach to local chambers of commerce and business associations, whose membership may also plummet with mass turnover in small business ownership. If these groups want to maintain a healthy membership, jointly hosting symposiums, seminars and trainings on democratic employee-ownership could go a long way.

Considering the free fall in private-sector union membership, labor unions would be wise to get on the employee-ownership bandwagon. They could help ensure democratic employee-owned firms would be unionized, offering organized labor another source of dues-paying members as well as increased leverage with capitalist firms. In those cities and states were "eds & meds" industries dominate, for example, and unions seek to tip the local balance of power in their favor, democratic employee-ownership could even be a means by which organized labor and business stand together. This could take place through coalition building between worker-owned businesses and labor unions, such as through cooperating on progressive pushes for city council and mayoral elections. This in turn could translate into greater bargaining power for workers within unionized capitalist enterprises.

Utilizing the networks and knowledge of labor unions, democratic employee-owned firms would be able to scale while guarding against the potential for self-exploitation (which manifests in startup worker cooperatives as "sweat equity" with members initially working long hours for less than desired pay). This has precedent: There are at least thirteen unionized worker cooperatives in the United States, including the largest worker cooperative in the country, Cooperative Homecare Associates.

A partnership between labor unions and democratic employee-owned firms is a return to the labor movement's roots in fighting for self-management. If labor unions and budding worker cooperative federations were to join together, labor and associated community groups could gain decisive organizational power not only in government, or "eds & meds," but in civil society and the broader political economic landscape. And the Silver Tsunami may provide just the opening needed to make that happen.

ABOUT THIS AUTHOR

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