The Potential Benefits of Employee Ownership Funds in the United States

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Structured Abstract

Purpose: A crucial decision for large corporations is how profits created by corporate activity should be distributed among different corporate stakeholders. This article posits that public policy should recognize employees as key contributors to corporate value-creation. One approach is to require the creation of Employee Ownership Funds (EOFs), mandatory employee equity ownership trusts established at large corporations, which would pay employees dividends and establish a collective employee voice in corporate governance. The EOFs may reduce economic inequality while improving firm performance and macroeconomic stability. This article provides an original estimate of employee dividends, illustrating the potential of Employee Ownership Funds.

Design/ methodology/ approach: Analysis of employee dividends for potential Employee Ownership Funds at large U.S. corporations, using publicly available corporate finance data.

Findings: Based on historic dividend payments and employee counts in public 10-K filings, I find that, if EOFs held twenty percent of outstanding equity, the average employee dividend across this sample would be $2,622 per year, while the median is $1,760. This indicates that employee dividends can be a small but meaningful form of redressing wealth inequality for the low-wage workforce, though it should emphatically not be seen as a replacement for fair wages.

Originality: Original research article.

1. Introduction

A crucial decision for large corporations is how profits created by corporate activity should be distributed among different corporate stakeholders. In the United States, the corporate workforce is remunerated through labor compensation, while shareholders benefit through capital gains accruing to their equity ownership and regular dividends. Corporate management is paid through a combination of the two. While this division of mechanisms could be equitable in theory, in practice it has led to widening economic inequality and a growing sense that corporate activity rewards the few, not the many.

Large corporations in the United States operate according to the flawed theory of shareholder primacy, in which the primary aim of corporate activity is to increase shareholder wealth (Lazonick and O'Sullivan, 2000). This article posits that shareholder primacy is flawed both as a theory of the corporation and in its policy execution; instead public policy should recognize employees as key contributors to corporate value-creation and structure their remuneration to view them as such. One approach is to require the creation of Employee Ownership Funds (EOFs), mandatory employee ownership share trusts established at large corporations, which would pay employees dividends and establish a collective employee voice in corporate governance, to reduce economic inequality while improving firm performance and macroeconomic stability.

This article will discuss the benefits and drawbacks of a policy to require corporations to share profits with employees through the establishment of Employee Ownership Funds in the United States, in which over time the EOFs grow to hold twenty percent of outstanding corporate equity. Though employee ownership is more widespread in the United States than is often understood, the EOF would mandate participation by firms and by all employees, rather than leaving participation optional (Blasi et al., 2018). Required participation by the largest American corporations, rather than concentrating employee ownership in medium-size enterprises, would give employees a vehicle for a collective voice in corporate governance along with economic participation rights during their working lifetimes, as opposed to receiving the economic gains only after retirement.

This article analyzes the hypothetical benefits to employees from the establishment of EOFs by calculating average "employee dividends" that employees would receive if EOFs were established, and by discussing the potential impact of establishing a collective employee voice in corporate governance. Based on historic dividend payments and employee counts in public 10-K filings, I find that, if EOFs held twenty percent of outstanding equity, the average employee dividend across this sample would be $2,622 per year, while the median is $1,760. The employee dividend ranges from a low of $281.67 annually for the Health Care and Social Assistance industrial sector to a high of $9,144 for employees in the Mining, Quarrying, Oil and Gas Extraction Industry. In three-quarters of industries, workers would receive more than $1,000 as an annual dividend; in seven out of the twenty industries, the employee dividend is above $2,000. This indicates that employee dividends can be a small but meaningful form of redressing wealth inequality for the low-wage workforce, though it should emphatically not be seen as a replacement for fair wages. As discussed below, these estimates should be considered a low bar because of the required disclosure of employee numbers includes the international workforce. Furthermore, the wide disparity across sectors raises question of policy design for further research: should EOFs be structured differently at companies with larger workforces?

Employee ownership is an important tool to combat rising economic inequality. As summarized by leading employee ownership scholars in Blasi et. al 2018, there are "four main reasons for interest in employee ownership and profit sharing—reducing economic inequality, improving workplace performance, enhancing firm survival and employment stability and creating more harmonious workplaces with greater corporate transparency and increased worker involvement." (Blasi et al., 2018), p. 40. Given the extreme levels of wealth and corporate equity ownership inequality today, and the high levels of corporate profits contrasted with stagnant worker wages, it seems reasonable to assume that employee ownership could be one solution adopted to combat such problems, along with a wide variety of other reforms, such as protections for union organizing, living wages, health care and retirement reform, fair corporate taxation, and a panoply of other issues. Yet voluntary adoption will not happen at the speed or scale required. That is why this article proposes the establishment of Employee Ownership Funds.

2. Wealth and Income Inequality and its Roots in Shareholder Primacy

Large American corporations today operate according to the maxim of shareholder primacy. 'Shareholder primacy' refers to the ideology that claims that the only purpose of a corporation is to maximize wealth for its shareholders (Lazonick and O'Sullivan, 2000). The theory claims that shareholders are the only corporate stakeholder making a variable risk with their investment, and therefore they are the principals in need of agents (corporate management) to properly steward their investment, and all other stakeholders—including employees—simply receive a market-based level of compensation (Jensen and Meckling, 1976). This framework ignores the fact that corporations are social institutions that require public permission to operate—no business can utilize the privileges of the corporate form (limited liability, perpetual existence) unless they have been granted a charter by a state to operate (Greenfield, 2006). The norm of shareholder primacy for the modern complex corporation developed as a result of neoliberal economic arguments claiming that corporations were simply 'nexus of contracts,' and that shareholders were the sole stakeholder group with a variable claim, and thus the best incentives to monitor corporate management (Easterbrook and Fischel, 1991). There is a voluminous literature documenting the economic and legal flaws of shareholder primacy, based on its methodological individualism, lack of a theory of innovation, misconception that shareholders actually contribute operating capital, and the legal fact that corporations own themselves (among other arguments) (Keay, 2011; Lazonick, 2015; Stout, 2012). Given the flaws in this economic and legal theory, a more plausible claim to the rise of this framework is to view it as a successful "political construct developed to accommodate and protect the *rentier* investor," (Ireland, 2008)p. 837.

The theoretical grounding for the present article is that shareholder primacy is a flawed theory of the corporation and should be replaced with a stakeholder conception of corporate governance, rooted in the theory of the innovative enterprise (Lazonick and Shin, 2020) (Kelly et al., 1997) (Greenfield, 2006). The theory of the innovative enterprise recognizes the actual process by which firms produce higher-quality goods and services for lower prices depends in large part on the collective and cumulative contributions of employees, along with other social conditions that foster the social conditions that support innovation: strategic control, organizational integration, and financial commitment (Lazonick and Shin, 2020)A stakeholder theory of the corporation acknowledges the reality that shareholders are not the only corporate stakeholder that take risks and should share in the benefits from corporate profits. Key stakeholders besides shareholders—and first among equals, perhaps, employees—take variable risks in their participation with the firm and therefore should participate in the decision-making process (Donaldson and Preston, 1995; Greenfield, 2006). This article will leave aside the important considerations of whether and how other stakeholder groups should play a role in corporate governance and ownership and focus on the potential role of employees as key stakeholders in corporate governance (Bodie, 2016).

If we accept the premise that shareholder primacy is flawed, it is critical to look for public policies that can substantively move corporations towards a framework in which they benefit all stakeholders. One straightforward mechanism is to structurally include employees as owners of corporate equity, such that they benefit from shareholder payments and have a collective voice in corporate governance. However, it is critical to state at the outset that this policy reform proposal is not meant to simply ameliorate the harms of shareholder primacy by bringing the employees 'inside' as shareholders; it is meant instead to situate employees as a key group whose interests must be balanced with other investors, leaving room for other reforms that move corporations away from shareholder primacy (including board fiduciary duty running to all stakeholders, stakeholder representation on the boards of directors, and explicitly categorizing other stakeholder groups such as customers, suppliers, and the natural world).

In addition to the theoretical flaws of shareholder primacy, its other set of harms is its outcomes in terms of wealth and income inequality. Large disparities in wealth and income are driven by shareholder primacy and ownership of corporate equity. Wealth inequality in the United States is extreme and growing and is significantly greater than income inequality. According to the Federal Reserve's Distributional Financial Accounts, in the third quarter of 2019, the top 1% of American households held 32.2% of the nation's wealth; the next 9% (the 90-99th wealth percentile) held 37.4% of the nation's wealth; the next forty held 28.8%; and the bottom 50% held just 1.6% (Batty et al., 2019). One important contributor to wealth inequality is how the value created by American corporations is distributed. Common causes cited for wealth inequality include disparate home ownership and rising household debt as a result of austerity and retrenchment from public investment (for example, the rising cost of higher education). However, corporate equity and mutual fund ownership is equivalent to home ownership as an asset class for American households, but far more unequal in distribution. Figure 1 shows that as of the third quarter of 2019, the top 1 percent of households by held over half of corporate equities by market value (54.2%). By contrast, the bottom 50 percent of American households held less than one percent (.8%). This ratio has changed little since the Federal Reserve's Distributional Financial Accounts quarterly data begins in 2004, though the dollar value has grown; the value of the holdings of the top 1 percent has grown from

$4.19 trillion in 2004 to $13.6 trillion in 2019. In addition to the dollar value of the equity held, payments to shareholders have been rising. Over the past ten years, nonfinancial public companies have spent 100% of net income (profits) on shareholder payments—dividends and stock buybacks (Palladino, 2020). Skewed ownership of corporate equity also contributes to the structural racial wealth gap. The United States has a persistent racial wealth gap: in the same period, white households held 85.2% of the country's overall wealth (while being 60.7% of the U.S. population) (Nembhard and Chiteji, 2006). Yet corporate equity ownership is even more unequal: As of the third quarter of 2019, 92.1 percent of corporate equity and mutual fund value was owned by white households. Black households owned 1.5 percent, while Hispanic households owned 1.9 percent.

- Figure 1 About Here -

The disparity in corporate equity ownership matters because it indicates how the value created by different corporate stakeholders is apportioned. The labor share of income in the United States has been falling since the 1970s (Barradas, 2019; Karabarbounis and Neiman, 2013). There is evidence that the rising financialization of the economy and the rise of shareholder payments has negatively impacted labor's share of income (Fligstein and Shin, 2007; Lin and Tomaskovic-Devey, 2013; Palladino, 2020). One indicator in the decline in worker bargaining power and wage stagnation is to look at the growing disconnect between corporate profits and labor compensation (though this does elide the important fact that the compensation of corporate executives has skyrocketed). Figure 2 shows the evolution of corporate profits and labor compensation as shares of GDP, indexed to 1980. The trend lines show a clear divergence, especially beginning in 2002 and recovering quickly after the dip caused by the Great Recession. The profits generated by the efforts of American workers inside corporations has not been shared with them, but has instead flowed to shareholders, increasing the value of corporate equity held by the elite tremendously, as demonstrated by Figure 1, above.

- Figure 2 About Here -

An important factor that contributes to the focus on short-term shareholder distributions is the lack of employee voice inside the corporate boardroom. Although procedurally directors are elected at annual shareholder meetings, in reality corporate boards are self-perpetuating: current directors nominate their replacements and corporate leadership has control over the corporate proxy (the ballot distributed to shareholders). The rise of asset management and institutional investors has meant that the underlying beneficiaries –households saving for retirement or other wealth-building purposes—have no voice or even awareness of the corporations in their portfolios (Alexander, 2018; McGaughey, 2019). Two trends in the boardroom further entrench shareholder primacy: the increase in stock-based pay for corporate executives (Hopkins and Lazonick, 2016), and the dominance of 'activist' investors on corporate boards contrasted with the rise of index funds as majority shareholders (Bebchuk and Hirst, 2018; Lazonick and Shin, 2020). Meanwhile, employees have no voice in U.S. boardrooms, as opposed to codetermination models in many European industrial organization systems (Fauver and Fuerst, 2006; Jäger et al., 2019). Though employees, as key stakeholders, could be granted board seats by right of employment, another way to structure their participation on the board, explored below, would be through the collective shareholding of the Employee Ownership Fund, in which the EOF has the ability to cast one-fifth (or more) of all shareholder votes.

The contrast between wages for typical workers—who produce the goods and services that corporations then sell to customers, resulting in profits that become shareholder payments—and where the gains from corporate equity is going is driven by whose voice is heard in corporate boardrooms, and motivates the proposal for Employee Ownership Funds. Such funds would serve to rebalance power inside the corporation by ensuring that the value created by corporate activity is shared among the stakeholders who create it, and that employees have a collective voice in corporate governance. We next turn to the benefits of employee ownership more generally, followed by the analysis of the economic and corporate governance implications of the establishment of Employee Ownership Funds.

3. The Benefits of Employee Ownership

In order to fully grasp the potential benefits of Employee Ownership Funds, it is useful to understand the breadth and impact of employee ownership today in the United States. Employee ownership is more widespread than many realize, taking many forms, including profit- and gain-sharing along with employee ownership of corporate equity. Blasi et al (2013) trace debates about how to best encourage employee ownership and profit-sharing back to the earliest days of the American Republic (Blasi et al., 2018). They show that one of the very first economic policymaking actions taken by the new government was to grant a tax credit to encourage profit-sharing in the cod fishing industry. Blasi and his co-authors trace support for broad-based economic participation through the homesteading acts of the 1800s into the industrial age, in which early industrialists like Pillsbury and Proctor & gamble developed broad-based profit sharing and employee ownership programs (Blasi et al., 2018).

Today, "shared capitalism" schemes are more prevalent than many Americans realize, and they include a range of profit and gain-sharing programs, stock options, and employee stock ownership programs. In 2008, 45% of employees in the for-profit private sector reported participating in a shared capitalism program (Kruse et al., 2008). By 2014, 19.5% of US workers owned company stock, with 7.2 percent owning stock options (Kurtulus and Kruse, 2017). ESOPs also continue to grow—Kurtulus and Kruse note that the percentage of the private-sector workforce participating in ESOPs grew from 6.2 to 8.7 percent from 1999 to 2010 (Kurtulus and Kruse, 2017b). According to the National Center for Employee Ownership, wide variety of public companies in the S&P 500 currently have some form of employee ownership. Stock options are an important form of incentive compensation in the high-tech sector (Hopkins and Lazonick, 2016).

There is an extensive literature on the impacts of employee ownership on corporate and employee outcomes, finding that employee-owned companies are productive and resilient due to increased economic productivity; increased macroeconomic stability through firm survival; increased shared wealth; and better working conditions (Kurtulus and Kruse, 2017a). Blasi, Freeman, Mackin and Kruse find that while employee ownership and profit-sharing have the strongest effects on workplace performance, all forms of shared capitalism that they study[1] motivate workers to work harder (Blasi et al., 2008). Blasi et. al note that the positive effect of shared capitalism is tied to "high performance" workplace policies, and not as a replacement for labor compensation.

A broad literature discusses the impact that employee ownership and profit sharing have on positive impacts on "effort, cooperation, information sharing and innovation that can improve workplace performance and company productivity," (Blasi et al., 2018), p. 44. A meta-analysis looking at a wide variety of sample sizes and methodologies found a small but significant positive relationship between firm performance and employee ownership, with no differences in the relationship for privately-held and publicly-traded firms or across firm size (measured by employment). (O'Boyle et al., 2016). The key to sharing ownership in a manner that improves wealth for both internal and external shareholders is to ensure that ownership is linked to a corporate culture that improves overall productivity. As noted by Blasi, Kruse and Markowitz (2010), the *group* nature of employee ownership, if programs are constructed in that way, can contribute to a sense of common purpose, resulting in higher collective effort.

In addition to firm-level effects, Kurtulus and Kruse (2017) find that employee ownership has stabilizing effects on employment, leading to positive macroeconomic outcomes. They look at whether firms with employee ownership programs are less likely to lay off workers during negative shocks and find that firms with employee ownership are more stable in the face of negative shocks (Kurtulus and Kruse, 2017b). Shared capitalism programs themselves are an indicator of firm interest in long-term employment stability, meaning that firms are less likely to jump quickly to layoffs during a business cycle downturn. They find that the higher the average employee-ownership assets per employee, the more employees are employee-owners and/ or ESOP participants, the more stable the workforce. As stable employment is linked to positive macroeconomic effects such as higher income taxes and reduced spending on the social safety net, as well as maintaining aggregate consumption, employee ownership benefits not just employees but the entire economy.

[1] Their schema of shared capitalism programs includes cash incentives, stock options, ESOP stock, ESPP participation programs.

One common form of employee ownership in America is the retirement- based Employee Stock Ownership Plan (ESOP), which provides a useful model for non-retirement Employee Ownership Funds. ESOPs are structured to provide companies with tax incentives that incentivize establishment of the plans, in which the companies finance the purchase of shares by providing a loan to an employee benefit trust. Employees do not pay for shares directly, and the shares are held in trust for them until they retire; employees do not earn dividends on shares during their working life. ESOPs are commonly established in smaller, privately-held companies as a succession tool: a founding owner sells the company to an ESOP in order to vest control in employees while gaining the tax benefits of such a transfer of ownership (Bodie, 2016). One of the main challenges of the ESOP is that the majority of corporate ESOPs do not provide a clear mechanism for employee voice in corporate governance.

There are a variety of mechanisms currently in use to provide non-retirement equity-based compensation to executive and nonexecutive employees, which can be distinguished in terms of whether they require the employee to purchase the equity using labor compensation or not. Stock options are grants of the right to purchase stock at a later date at a lower purchase price (fixed to the initial grant date) than what it is currently worth. Options are granted to executive and nonexecutive employees to incentivize employee retention. A common form of non-retirement incentives for employee ownership for non-executive employees is the Employee Stock Purchase Plan (ESPP). ESPPs allow employees to purchase company stock at a discount, for their own personal ownership; there is no collective ownership structure (and no collective employee voice in corporate governance). Employee Stock Purchase Plans (ESPPs) give employees the choice of purchasing company stock below market value, which can then be held or sold as if the employee were an external shareholder (including immediately for a sure profit). ESPPs can be available to a company's entire workforce or restricted to executive employees. However, when employees are left on their own to choose whether or not to participate, a 2014 analysis found that only thirty percent participate, and the average employee loses out of $3,079 annually (Babenko and Sen, 2014). However, studies have documented the positive relationship between non-retirement employee equity and firm performance (Frye, 2004)(Babenko and Sen, 2014).

Though the goal of employee ownership has its origins at the founding of the American republic, it has been accompanied by consistent opposition to economic gains by employees from both conservatives and radicals. One objection is the risks that employees take by holding corporate equity, which is heightened if they purchase it themselves or if it replaces other forms of labor compensation (Bodie, 2016). A related risk is if their overall portfolio is therefore less diversified than it would be otherwise, leading to wealth reduction over their lifecycle versus a more balanced portfolio (Markowitz et al., 2009). This concern does not distinguish between employees purchasing stock on their own, out of their wages, versus employee ownership in which companies create employee equity on top of standard labor compensation. Of course, this brings up the important risk that ownership or profit-sharing will be used as a replacement for labor compensation, putting more risk into a workers' overall compensation basket. However, studies have found that when companies adopt ESOP programs, employee wages either stay constant or increase (Blasi et al., 2018). Another concern is that collective granting of profit-sharing or increased wealth due to share ownership will lead to free riders, but empirical research has showed that workers in shared capitalism firms are more likely to take action to reduce shirking by free riders (Kruse et al., 2010). A different kind of objection is premised in support for the supremacy of shareholders, and the concern that employee ownership means less interest in the firm from investors (Hansmann, 1990).

Moving forward to analyze the potential for Employee Ownership Funds, it is critical to distinguish between retirement and non-retirement employee equity. The focus of the present article is on equity granted to employees that provides economic benefits in the course of their working lifetime, and that they lose access to at the end of their employment. Most employee ownership for nonexecutive employees comes in the form of retirement benefits. It is executive and managerial employees, along with employees in the technology sector, that have been the recipients of employee equity or stock options that will benefit them economically in their working life. In order to fully address disparities in wealth and income experienced by the American workforce, it is crucial to structurally vest employees with the ability to benefit economically and with increased voice in corporate governance. That is the potential of the Employee Ownership Fund.

4. Projecting the Impacts of Employee Ownership Funds

This article provides an original analysis of the economic benefits to employees from the establishment of Employee Ownership Funds (EOFs), which are collective trusts that employees participate in by right of employment. The EOFs have two main benefits for employees: first, by avoiding the requirement that employees individually opt-in to the benefits of employee equity, they avoid the reality that most nonexecutive employees will not participate, and instead ensure economic benefit to all employees. Second, through the establishment of a collective fund that owns a significant proportion of equity, employees are able to exercise a collective voice in corporate governance.

The Inclusive Ownership Fund proposal made by the U.K. Labour Party in 2018, on which the U.S. Employee Ownership Funds proposal is based, is structured as a fund that employees have a share in by right of employment. Companies would be mandated to issue new shares to turn over directly to the fund, with dividends then apportioned to the workforce based on their share ownership in the fund. Employees neither pay into the fund nor can take the shares with them when they leave employment; the wealth-enhancing benefit to employees is mainly in the dividends paid out to employees along with external shareholders (Gowan and Lawrence, 2019).

A threshold question is which businesses should be required to establish Employee Ownership Funds. At minimum, any corporation with publicly traded shares should be required to participate. It is more difficult to determine what the threshold should be for companies that are privately held. A revenue threshold, set at an inflation-adjusted rate of $100 million or $1 billion, would ensure that companies are not incentivized to further fissure their workforce or not meet the threshold through financial accounting gimmicks. For the following analysis, all publicly traded corporations are included; due to data limitations, it is not possible to include privately held corporations in this analysis.

It is important to clarify that the policy objectives of creating Employee Ownership Funds is *not* to reinforce shareholder primacy, but instead to (partially) transform the corporation towards an entity that rewards multiple groups of stakeholders commensurate with their role in value creation. The tool of a collective equity trust enables the avoidance of requiring employees to invest in equity as individuals, but the goal is not to reinforce shareholders as the only 'deserving' group, in which vesting employees as shareholders along with external investors cloaks them in the same mantle of shareholder primacy. Rather, it is important to see the granting of equity as recognition of the value-creation role of employees, whose activities vest them with collective rights to profits and a voice in corporate governance. However, the structure of the EOF does raise the possibility that shareholders will increase their agitation for dividends, using the fact that employees also receive dividends as a further argument in their arsenal. This is why it is critical that the EOF have a representative whose voice is heard in the decisions about whether or not to grant dividends, and at what level: employees are long-term stakeholders, who will have an interest in moderating the financial benefits of dividends with the long-term productive capacity of the firm (Lazonick and Shin, 2020). Additionally, it is possible to imagine a form of an Employee Ownership Fund created through a special class of shares in which dividends are allocated differently to the EOF shares and shares held by external investors.

Economic Benefits

This article provides an empirical estimate of the economic benefits to employees of participation in Employee Ownership Funds, and the impacts on shareholder dilution. The analysis takes shareholder dividends paid in FY 2014-2019 in nonfinancial firms as a starting point, and then sets up as a static projection of the economic value that EOF participants would have received if the funds had already been established. The model is then projected to look at how employees participating in EOFs would fare if EOFs were established in 2020 and grew over time to represent twenty percent of outstanding corporate equity. The data comes from S&P Compustat, a commercial data provider aggregating corporate 10-K forms filed with the Securities and Exchange Commission. Only corporations with publicly traded stock are required to submit detailed financial disclosures. Therefore this analysis excludes large corporations that would be required to create EOFs but are privately-held and thus not required to submit disclosure forms. A simplifying assumption here is that EOFs would hold twenty percent of outstanding corporate equity as of 2020; however, there is no reason why the benefits of the EOF would not hold if the EOF continued to grow its overall equity stake.

The estimates were constructed as follows. Using annual dividend and employee data reported on U.S. corporate 10-Ks (and dropping FIRE and utilities), an average employee dividend was constructed as if employees as a group own twenty percent of outstanding corporate equity for that firm-year. Then, an average employee-dividend was found at the sectoral and sub-sectoral level (two- and three-digit NAICS codes, respectively); the average does include a significant number of firms that paid no dividends in any given year[2]. A critical limitation in this analysis is that corporations are required to report their global number of employees, rather than U.S.-specific employment figures. This means that, were the EOF only to apply to U.S. companies, these figures are understated, though the wide variation in overseas employment makes specific conclusions hard to draw. The final sample included 4,575 unique firms and 20,303 firm-year observations.

The first set of findings show what the average annual employee dividend would have been over the period of 2014-2019, if the employees held twenty percent of outstanding corporate equity, and, crucially, dividend payments remained the same. Results are presented in Table 1. The first obvious result is that employee dividends would vary widely depending on in what sector the employee worked, and over how many employees the twenty-percent share of outstanding equity must be divided. Average employees per two-digit sector shows an extremely wide range from an average of 2,700 employees per firm up to 256,000 employees per firm (in Transportation and Warehousing, notably FedEx and UPS).

The average employee dividend across this sample would be $2,622 per year, while the median is $1,760. The employee dividend ranges from a low of $281.67 annually for Health Care and Social Assistance to a high of $9,144 for employees in the Mining, Quarrying, Oil and Gas Extraction Industry.[3] In three-quarters of the sectors, workers would receive more than $1,000 as an annual dividend; in seven out of the twenty industries, the employee dividend is above $2,000. Though this is in no way a supplement for higher wages, this indicates that employee dividends can be a small but meaningful form of redressing wealth inequality for the low-wage workforce. For employees at some of the nation's largest retailers and fast food companies, an hourly wage of $12 translates to an annual salary of $24,960, assuming that the employee is able to obtain full-time work. A supplement

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[2] A small set of observations were removed due to clear outliers in terms of employee-dividend, either due to outlier data or very low levels of employees, in order to not skew the average. For example, one company, Golden Growers Cooperative, paid between six and ten million in the sample period, but only had one employee. In another sub-sector, "Pipeline Transportation (NAICS 486)", over half of the firms reported no employees, skewing the average; this sub-sector was dropped from the analysis as well. We drop any observation for which a ten-percent share of dividends per employee exceeded $1 million.

[3] For the purposes of this analysis, I am leaving to the side whether the fossil fuel industry should continue to exist in the private sector.

of $1,777 (in the case of retail) or $1,016 (in the case of food service) is a meaningful addition to that household's income. The Average Employee Dividend by Sector (at the 3-digit NAICS code level) is presented in the Appendix.

- Table 1 About Here -

It is very unlikely that EOFs would be established at the level of twenty percent of outstanding corporate equity at once. Instead, they would likely need a phase-in period, where the Funds could grow by a certain percentage annually. Table 2A and 2B present the average employee dividends per year for a five percent and ten percent growth rate, respectively (Appendix Table 2 presents average employee dividends at a growth rate of one percent per year). The projections show that the economic benefits from the EOFs in the early years of their establishment will vary widely across industries and depend on the growth rate established for the Fund. For a five percent growth rate, only seven out of the twenty industries would have a employee dividend over $1,000 by their third year after establishment. A ten percent growth rate would cause more employees to receive substantial economic benefit by the second year. Again, it must be noted that these estimates are at the lower end of the likely employee dividend because of the inability to separate out the U.S.-based workforce in the data.

- Table 2 About Here -

It is worth adding to the discussion about the potential impacts of employee dividends if the creation of the EOF were accompanied by a ban or severe limits to the corporate finance practice of stock buybacks (Lazonick, 2014). Underlying the creation of the averages is the reality that across much of this time period, sixty-four percent of firm-years reported no dividends. Stock buybacks have in many ways supplanted dividends as a primary means of rewarding shareholders, often to the benefit of corporate insiders (Palladino, 2020b). Though a discussion of limits on stock buybacks is beyond the scope of this article, numerous proposals have suggested ways to limit the operation of stock buybacks as a tool of market manipulation (Palladino, 2018). If buybacks were limited, it is plausible that directors would increase the use of dividends, increasing average employee dividends if the EOF were in place. Finally, as mentioned above, though it is beyond the scope for this article, a crucial next step in policy design would be to be more precise about the U.S. employees of firms that would fall under the EOF policy (rather than their global employment numbers that are reported in 10-Ks).

A criticism of employee ownership is shareholder dilution, if EOFs were established through new equity issuances. If the Funds are established through the gradual repurchase of shares from the open market, no dilution would occur for remaining shareholders. Dilution of the value of shares held by existing shareholders would certainly be one of the main objections to the establishment of the EOF, as it has been in the past to the ESOP. However, the establishment of an EOF would not automatically transfer twenty percent of outstanding equity to an employee trust on a given day, but rather grow over time to reach the twenty percent threshold (or perhaps more). Equity could be transferred to the EOF through the issuance of new shares at a rate of one, five or ten percent of outstanding equity annually. Corporate boards engage in new share issuances frequently, whether to compensate executives, raise new capital, or engage in other financial transactions (although net share issuance has been negative across all sectors for decades, as stock buybacks outpace new share issuances). Boards do not need shareholders to permit the issuance of new shares as long as the increased share amount does not go above the threshold authorized in the company's charter (or in subsequent amendments).

There are several reasons why the dilutive impacts of the establishment of an EOF might be muted. First, the effects can be moderated by "establishing a corporate culture where employee stock ownership is likely to increase the performance of a firm so as to offset the modest dilution of profits per share to non-employee shareholders," (Blasi et al., 2018), p. 45. Blasi et. al also note that keeping the size of the ESOP in stock market companies to the same twenty percent suggested for the EOF has limited the dilutive effects.

Participation Benefits

The second strength of creating EOFs is to rebalance power inside corporate boards of directors. U.S. corporate boards of directors are elected by shareholders, though in practice the limits of the election process means that the current board and executives effectively control who joins the board (Diamond, 2019). Though worker participation on corporate boards is common throughout

Europe, in the United States worker voice has been conceptualized as union participation in collective bargaining (Fauver and Fuerst, 2006). (Diamond, 2019)Yet keeping employees from participating in the major decisions made by boards about the future of the firm ignores the critical contribution that workers can make. Furthermore, business decisions that are not directly related to the terms and conditions of employment are explicitly disallowed from union negotiations. Though 'labor's capital', in the form of union and public pension funds, have become more active in corporate governance over the last few decades, such participation only indirectly engages a company's current workforce. In order to ensure business resiliency and participation by all key corporate stakeholders, the EOF will enable workers to collectively participate in corporate governance.

The EOFs would operate in substantively the same manner as other institutional investors by voting in director elections, on major corporate transactions (including advisory 'Say on Pay' votes), and by offering shareholder proposals to address crucial issues to the workforce. Of course, there are two major limitations to the EOF's role in enabling worker voice in corporate governance, and such participation would likely work best if paired with other forms of participation, such as strong collective bargaining and direct worker participation on corporate boards of directors. The first limitation is that employee-shareholders cannot 'vote with their feet'—they cannot bring pressure to bear on corporate management by selling shares by construction. The second is that such funds are still a minority of shareholders and would have to rely on organizing other institutional investors in order to exert influence over corporate decisions[4].

There is a diversity of institutional actors engaged in corporate governance, with different modes for engagement and incentives (Diamond, 2019). In particular, there has been a growing effort by workers' organizations to exert influence commensurate with the dollars that they have invested across the corporate sector. Organizations like the AFL-CIO see themselves as 'responsible stewards of workers' capital'. Still, one of the main challenges for this form of worker voice is that under current law, retirement funds have a fiduciary duty to maximize the value of their retirement portfolio, even if that means supporting decisions that are not in the best interest of the current

[4] There are other limits to shareholder voice that are beyond the scope of this article, including generally the proxy process and the many-layered financial intermediation chain.

workforce (Webber, 2018). Labor's capital is also engaged in corporate governance through a long and complex chain of financial intermediaries, and the underlying beneficiaries—retired workers—do not have a direct voice in how corporate governance is exercised (McGaughey, 2019). This means that EOFs can complement the assertion of employee interests by employee retirement funds, and in many cases exert it more clearly. However, the establishment of the EOFs is not meant to supplant retirement-based employee equity funds, which are meant to pay retirement income to former workers, and have a powerful voice in corporate governance (Diamond, 2019).

Enabling employees to have a collective voice in corporate governance would be a powerful move towards recognizing their key role as a corporate stakeholder. With a twenty percent stake in corporate equity, employees would be able to exert a voice currently missing into corporate decision-making. Ensuring that a reasonable portion of dividends allocated are paid to employees—as long as such a payment does not supplant labor compensation—is a meaningful step towards rebalancing the benefits received from value creation within the firm. Within a larger framework of reimagining corporate governance, the establishment of Employee Ownership Funds can increase business resilience and productivity, as demonstrated by a long line of research on employee ownership, while taking a step towards redressing historic inequality in the benefits gained from corporate equity ownership.

5. Conclusion

Employee Ownership Funds would establish collective ownership of twenty percent of a company's outstanding corporate equity by its employees. Employees are a key corporate stakeholder whose efforts are integral to the creation of corporate value. Yet under the flawed theory of shareholder primacy, employee compensation is assumed to be freely bargained for (assuming that labor and management have equal bargaining power), while shareholders are presumed to take on the more profound risk (notwithstanding that the majority of shareholders buy and sell equity on the secondary markets and never invest directly in the companies in their portfolios). Though many policy reforms are necessary to reduce economic inequality and restore bargaining power to employees, employee ownership has a long history in the United States and is a proven mechanism to bring benefits to employee and to firm stability (Blasi et al., 2018). This article investigates the implications of a policy to establish mandatory employee ownership funds at large American corporations.

The analysis looks at two benefits of the EOF: the average employee dividend that an employee would receive annually, and the participation benefits for employees of engaging directly in a company's corporate governance. To project average employee benefits, the article uses corporate financial data from publicly-traded corporations to compute a hypothetical average employee dividend if EOFs were established at the level of twenty percent of a company's outstanding equity, and if they grew over time at percentage rates of one, five, and ten percent. A significant drawback of the available data is that companies are only required to disclose their worldwide workforces; thus the estimates should be considered lower bounds for what U.S. workers would actually receive. The analysis finds that the average employee dividend varies widely across industries and sectors, based both on historic dividend payments and on average employees per firm. Such disparities would need to be taken into consideration for effective policy design. Nevertheless, particularly for the low-wage workforce, the employee dividend could serve as a meaningful supplement, though not a replacement, of wage and benefits compensation. The collective participation of employees in corporate governance would also provide a mechanism to ensure the company's attention to the needs of long-term productivity.

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Figures

Figure 1: Corporate Equities and Mutual Fund Shares by Wealth Percentile Group

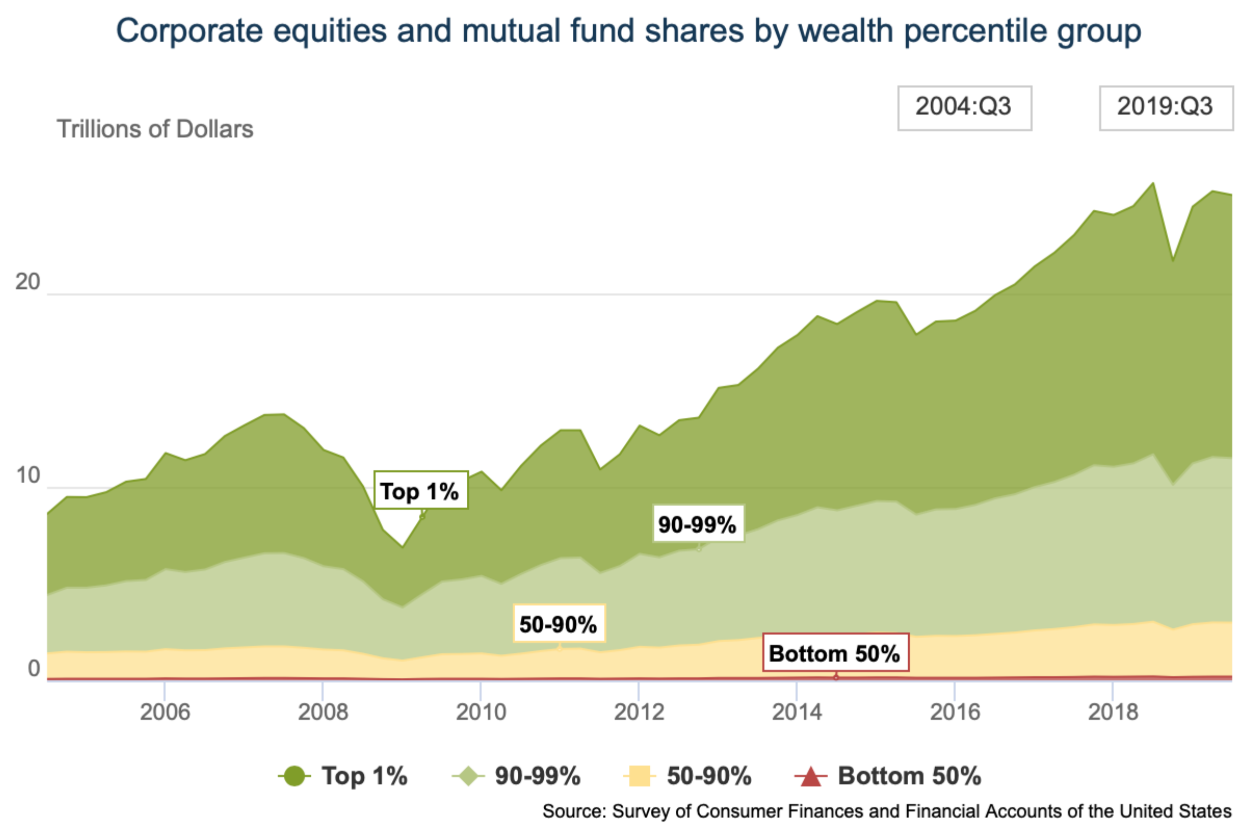
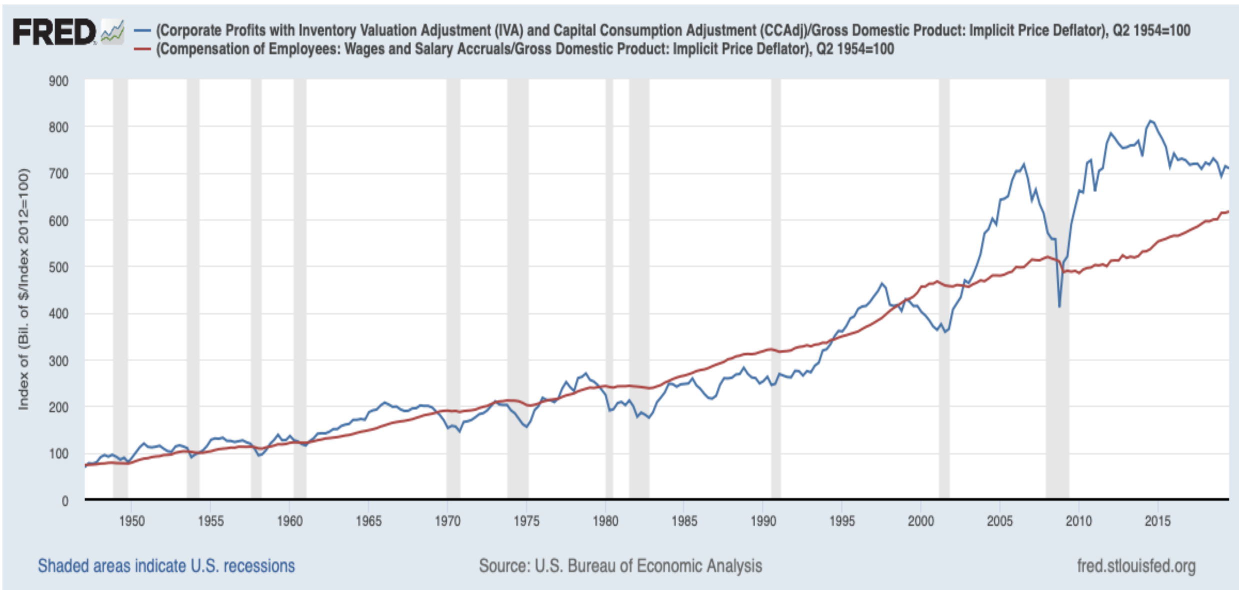


Figure 2: The Disconnect between Corporate Profits and Labor Compensation



Source: U.S. Bureau of Economic Analysis, Corporate Profits with Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment (CCAdj) [CPROFIT], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CPROFIT, January 19, 2020.

Tables

Table 1: Employee Dividends by NAICS 2-digit Industry

NAICS code	Industry Description	Avg. Emp. Dividend	Avg. Firm Emp (in thousands)
62	Health Care and Social Assistance	$ 281.67	19.6
61	Educational Services	$ 345.03	8.0
49	Transportation and Warehousing	$ 438.06	256.6
44	Retail Trade	$ 695.25	40.8
56	Administrative and Support and Waste Mana	$ 937.39	21.8
72	Accommodation and Food Services	$ 1,016.35	34.0
54	Professional, Scientific, and Technical Servic	$ 1,366.21	9.8
71	Arts, Entertainment, and Recreation	$ 1,484.03	8.2
33	Manufacturing	$ 1,602.62	7.6
48	Transportation and Warehousing	$ 1,760.87	17.0
45	Retail Trade	$ 1,777.78	75.4
51	Information	$ 1,809.53	7.3
42	Wholesale Trade	$ 3,195.41	8.4
81	Other Services (except Public Administration	$ 3,247.62	17.4
23	Construction	$ 4,061.73	5.5
31	Manufacturing	$ 4,087.58	13.1
32	Manufacturing	$ 5,651.81	3.3
11	Agriculture, Forestry, Fishing and Hunting	$ 6,921.04	2.7
21	Mining, Quarrying, and Oil and Gas Extractic	$ 9,144.52	2.4
	AVERAGE	$ 2,622.34	
	MEDIAN	$ 1,760.87	

Table 2: Average Employee Dividend Projections

A: 5 percent Growth Rate

5% Growth Rate					
NAICS (2)	2020	2021	2022	2023	2024
11	$ 346.05	$ 2,076.31	$ 3,806.57	$ 5,536.83	$ 6,921.04
21	$ 457.23	$ 2,743.35	$ 5,029.48	$ 7,315.61	$ 9,144.52
23	$ 203.09	$ 1,218.52	$ 2,233.95	$ 3,249.38	$ 4,061.73
31	$ 204.38	$ 1,226.27	$ 2,248.17	$ 3,270.06	$ 4,087.58
32	$ 282.59	$ 1,695.54	$ 3,108.49	$ 4,521.44	$ 5,651.81
33	$ 80.13	$ 480.78	$ 881.44	$ 1,282.09	$ 1,602.61
42	$ 159.77	$ 958.62	$ 1,757.48	$ 2,556.33	$ 3,195.41
44	$ 34.76	$ 208.57	$ 382.39	$ 556.20	$ 695.25
45	$ 88.89	$ 533.33	$ 977.78	$ 1,422.22	$ 1,777.78
48	$ 88.04	$ 528.26	$ 968.48	$ 1,408.70	$ 1,760.87
49	$ 21.90	$ 131.40	$ 240.90	$ 350.40	$ 438.00
51	$ 90.48	$ 542.86	$ 995.24	$ 1,447.62	$ 1,809.53
54	$ 68.31	$ 409.86	$ 751.41	$ 1,092.97	$ 1,366.21
56	$ 46.87	$ 281.22	$ 515.56	$ 749.91	$ 937.39
61	$ 17.25	$ 103.51	$ 189.77	$ 276.03	$ 345.03
62	$ 14.08	$ 84.50	$ 154.92	$ 225.33	$ 281.67
71	$ 74.20	$ 445.21	$ 816.21	$ 1,187.22	$ 1,484.03
72	$ 50.82	$ 304.91	$ 558.99	$ 813.08	$ 1,016.35
81	$ 162.38	$ 974.29	$ 1,786.19	$ 2,598.09	$ 3,247.62

B. 10 Percent Growth Rate

10% Growth Rate			
NAICS (2)	2020	2021	2022
11	$ 346.05	$ 3,806.57	$ 6,921.04
21	$ 457.23	$ 5,029.48	$ 9,144.52
23	$ 203.09	$ 2,233.95	$ 4,061.73
31	$ 204.38	$ 2,248.17	$ 4,087.58
32	$ 282.59	$ 3,108.49	$ 5,651.81
33	$ 80.13	$ 881.44	$ 1,602.61
42	$ 159.77	$ 1,757.48	$ 3,195.41
44	$ 34.76	$ 382.39	$ 695.25
45	$ 88.89	$ 977.78	$ 1,777.78
48	$ 88.04	$ 968.48	$ 1,760.87
49	$ 21.90	$ 240.90	$ 438.00
51	$ 90.48	$ 995.24	$ 1,809.53
54	$ 68.31	$ 751.41	$ 1,366.21
56	$ 46.87	$ 515.56	$ 937.39
61	$ 17.25	$ 189.77	$ 345.03
62	$ 14.08	$ 154.92	$ 281.67
71	$ 74.20	$ 816.21	$ 1,484.03
72	$ 50.82	$ 558.99	$ 1,016.35
81	$ 162.38	$ 1,786.19	$ 3,247.62

APPENDIX

Table 1: Average Employee Dividends by Sector (3-digit NAICS Codes)

Sector	Average Employee Dividend
113	$ 41,825.93
811	$ 27,082.91
211	$ 14,116.55
324	$ 12,155.40
237	$ 7,944.68
312	$ 7,401.26
482	$ 6,471.01
424	$ 5,959.20
325	$ 5,919.97
321	$ 4,774.35
311	$ 4,628.39
517	$ 3,484.11
454	$ 3,368.98
512	$ 3,046.25
213	$ 3,031.67
212	$ 3,025.02
515	$ 2,482.02
483	$ 2,469.15
446	$ 2,258.31
488	$ 2,209.78
711	$ 2,173.83
511	$ 2,107.01
339	$ 2,076.97
111	$ 1,954.25
322	$ 1,945.19
333	$ 1,837.24
334	$ 1,685.72
313	$ 1,600.36
518	$ 1,477.89
112	$ 1,402.82
541	$ 1,366.21
423	$ 1,342.58
713	$ 1,280.33
336	$ 1,257.06
335	$ 1,242.60
42	$ 1,193.21
316	$ 1,151.99
332	$ 1,148.56
562	$ 1,083.93
722	$ 1,026.93
721	$ 991.20

236	$ 922.52
561	$ 898.17
331	$ 879.21
519	$ 867.23
326	$ 818.46
484	$ 811.72
445	$ 798.34
444	$ 758.04
812	$ 711.95
337	$ 653.14
238	$ 618.80
323	$ 606.97
442	$ 542.56
448	$ 528.88
315	$ 439.36
492	$ 438.06
481	$ 428.28
327	$ 395.11
621	$ 384.98
452	$ 376.87
611	$ 345.03
453	$ 275.62
314	$ 241.28
485	$ 233.89
441	$ 223.43
451	$ 210.83
443	$ 187.28
623	$ 74.14

Table 2: Average Employee Dividend Projections at a One Percent Growth Rate

NAICS (2)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
11	$ 346.05	$ 692.10	$ 1,038.16	$ 1,384.21	$ 1,730.26	$ 2,076.31	$ 2,422.36	$ 2,768.42	$ 3,114.47	$ 3,460.52	$ 3,806.57	$ 4,152.62
21	$ 457.23	$ 914.45	$ 1,371.68	$ 1,828.90	$ 2,286.13	$ 2,743.35	$ 3,200.58	$ 3,657.81	$ 4,115.03	$ 4,572.26	$ 5,029.48	$ 5,486.71
23	$ 203.09	$ 406.17	$ 609.26	$ 812.35	$ 1,015.43	$ 1,218.52	$ 1,421.60	$ 1,624.69	$ 1,827.78	$ 2,030.86	$ 2,233.95	$ 2,437.04
31	$ 204.38	$ 408.76	$ 613.14	$ 817.52	$ 1,021.90	$ 1,226.27	$ 1,430.65	$ 1,635.03	$ 1,839.41	$ 2,043.79	$ 2,248.17	$ 2,452.55
32	$ 282.59	$ 565.18	$ 847.77	$ 1,130.36	$ 1,412.95	$ 1,695.54	$ 1,978.13	$ 2,260.72	$ 2,543.31	$ 2,825.90	$ 3,108.49	$ 3,391.08
33	$ 80.13	$ 160.26	$ 240.39	$ 320.52	$ 400.65	$ 480.78	$ 560.92	$ 641.05	$ 721.18	$ 801.31	$ 881.44	$ 961.57
42	$ 159.77	$ 319.54	$ 479.31	$ 639.08	$ 798.85	$ 958.62	$ 1,118.39	$ 1,278.16	$ 1,437.93	$ 1,597.71	$ 1,757.48	$ 1,917.25
44	$ 34.76	$ 69.52	$ 104.29	$ 139.05	$ 173.81	$ 208.57	$ 243.34	$ 278.10	$ 312.86	$ 347.62	$ 382.39	$ 417.15
45	$ 88.89	$ 177.78	$ 266.67	$ 355.56	$ 444.44	$ 533.33	$ 622.22	$ 711.11	$ 800.00	$ 888.89	$ 977.78	$ 1,066.67
48	$ 88.04	$ 176.09	$ 264.13	$ 352.17	$ 440.22	$ 528.26	$ 616.30	$ 704.35	$ 792.39	$ 880.43	$ 968.48	$ 1,056.52
49	$ 21.90	$ 43.80	$ 65.70	$ 87.60	$ 109.50	$ 131.40	$ 153.30	$ 175.20	$ 197.10	$ 219.00	$ 240.90	$ 262.80
51	$ 90.48	$ 180.95	$ 271.43	$ 361.91	$ 452.38	$ 542.86	$ 633.34	$ 723.81	$ 814.29	$ 904.77	$ 995.24	$ 1,085.72
54	$ 68.31	$ 136.62	$ 204.93	$ 273.24	$ 341.55	$ 409.86	$ 478.17	$ 546.48	$ 614.79	$ 683.10	$ 751.41	$ 819.72
56	$ 46.87	$ 93.74	$ 140.61	$ 187.48	$ 234.35	$ 281.22	$ 328.09	$ 374.95	$ 421.82	$ 468.69	$ 515.56	$ 562.43
61	$ 17.25	$ 34.50	$ 51.76	$ 69.01	$ 86.26	$ 103.51	$ 120.76	$ 138.01	$ 155.27	$ 172.52	$ 189.77	$ 207.02
62	$ 14.08	$ 28.17	$ 42.25	$ 56.33	$ 70.42	$ 84.50	$ 98.58	$ 112.67	$ 126.75	$ 140.83	$ 154.92	$ 169.00
71	$ 74.20	$ 148.40	$ 222.60	$ 296.81	$ 371.01	$ 445.21	$ 519.41	$ 593.61	$ 667.81	$ 742.01	$ 816.21	$ 890.42
72	$ 50.82	$ 101.64	$ 152.45	$ 203.27	$ 254.09	$ 304.91	$ 355.72	$ 406.54	$ 457.36	$ 508.18	$ 558.99	$ 609.81
81	$ 162.38	$ 324.76	$ 487.14	$ 649.52	$ 811.90	$ 974.29	$ 1,136.67	$ 1,299.05	$ 1,461.43	$ 1,623.81	$ 1,786.19	$ 1,948.57