



# WORKER OWNERSHIP

## A Way to Promote the Dignity of Work and Workers

BY DENNIS KALOB, PH.D.

For those of us who promote economic justice for all, there are many issues we can and do pursue. It may be time for us to elevate worker ownership to a top tier issue for which we fight.

Writing in his encyclical, *Rerum Novarum* (1891), Pope Leo XIII says,

Justice...demands that the interests of the working classes should be carefully watched over...so that they who contribute so largely to the advantage of the community may themselves share in the benefits which they create...It follows that whatever shall appear to prove conducive to the well-being of those who work should obtain favorable consideration.<sup>1</sup>

Catholic social teaching eventually embraced, specifically, worker ownership. Pope John XXIII, writing in *Mater et Magistra* (1961), explains the issue at hand:

Experience suggests many ways in which the demands of justice can be satisfied. Not to mention other ways, it is especially desirable today that workers gradually come to share in the ownership of their company, by ways and in the manner that seem most suitable.<sup>2</sup>

Worker ownership is not only embraced by the Catholic Church, it has support across the political spectrum. Senator Bernie Sanders has strongly endorsed an expansion of worker ownership.<sup>3</sup> And on the other side of the spectrum, President Ronald Reagan said this back in 1987: "I can't help but believe that in the future we'll see in the United States and throughout the Western World an increasing trend toward the next logical step: employee ownership. It's a path that benefits a free people."<sup>4</sup>

Employee ownership can take several forms, including:<sup>5</sup>

- Employee Stock Ownership Plans (ESOPs)
- Employee Ownership Trusts (EOTs)
- Worker Cooperatives

ESOPs provide workers shares of stock in the company as a retirement benefit, with no need for the workers to purchase any stock with their own funds. There are substantial tax benefits to both employees and companies for adopting ESOPs, and research indicates that these arrangements have positive impacts on both company performance and worker satisfaction and productivity.<sup>6</sup> Today there are about 7000

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of them across the country, including Publix Supermarkets, Amsted Industries, and King Arthur Flour.<sup>7</sup> Most ESOPs are created through the buying out of retiring business owners.<sup>8</sup>

ESOPs, however, do have some risks. If the company were to fail, employees could lose both their jobs and their retirement nest egg (in the form of the stocks they own).<sup>9</sup> Another concern is that workers in an ESOP typically have little to no direct influence over day-to-day management.<sup>10</sup> However, as stockholders, they have the ability to vote on major corporate decisions.

There are far fewer EOTs than there are ESOPs in this country, but in some respects their benefits to workers are more substantial. EOTs, also known as Perpetual Employee Trusts, are contrasted with ESOPs this way:

EOTs preserve the business over the long term for the benefit of the employees—not just their financial benefit, but also the preservation of their jobs and ownership. This contrasts to ESOPs, which, if faced with an acquisition offer, have a fiduciary responsibility to maximize the financial benefits to the shareholders.<sup>11</sup>

Furthermore, the workers share the profits annually in an EOT. In an ESOP, worker-owners may receive dividends on the stocks that they own, but do not receive an annual distribution of the profits.<sup>12</sup> However, over 70 percent of workers in ESOPs report they have a separate cash profit sharing plan.<sup>13</sup>

EOTs do not have the significant tax advantages that ESOPs have, but there are lower set-up and administration costs.<sup>14</sup>

Finally, there are worker cooperatives, which may be what most people think of as real “worker-owned companies.” And indeed, this type of employee ownership is the most egalitarian and democratic. As Dr. Joseph Blasi, a leading scholar on worker-owned businesses explained to me in a recent interview:

Typically, they emerge as startups and use worker savings or philanthropic contributions as seed capital. Thus, they are often appropriate for less capital intensive industries, although increasingly they can be used to buy out retiring business owners with similar tax incentives as ESOPs.<sup>15</sup>

Worker cooperatives are owned and controlled by the workers themselves. Profits are shared and workers control the management of the enterprise. There are low set-up costs and some tax advantages. They are also more efficient and productive than conventional businesses. There are hundreds of worker cooperatives in the U.S. today, including Equal Exchange and Isthmus Engineering and Manufacturing.<sup>16</sup>

The most famous cooperatives in the world can be found in Mondragon, Spain. Begun in the 1950s in the Basque region of Spain, the Mondragon group is now a network of 96 separate self-governing cooperatives across the sectors of finance, industry, retail, and knowledge. They collectively employ more than 81,000 people and have operations in other parts of the world.<sup>17</sup>

Mondragon was started by Fr. José María Arizmendiarieta (also called Fr. Arizmendi for short). Gospel and Church values of egalitarianism, the promotion of the common good, and the dignity of work motivated Fr. Arizmendi and sustain this amazing project that represents for us a model of economic justice.

Fr. Arizmendi died in 1976. Shortly before his passing he seemed to sum up the project he birthed some two decades earlier in this way: “Hand in hand, of one mind, renewed, united in work, through work, in our small land we shall create a more human environment for everyone.”<sup>18</sup>

Worker-owned enterprises, particularly the most democratic ones, have demonstrated one way we can pursue economic justice. To be sure, these enterprises have had their difficulties, as all business ventures do within our rough capitalist world. They also are not a panacea for all our economic problems. They do provide us, however, with a viable roadmap to a society where the common good can be honored and pursued.

Six years ago, Pope Francis spoke before the Confederation of Italian Cooperatives. He told the gathering of their importance and value and urged the continued development and growth of the cooperative sector. Near the end of his talk, he shared these words, “We must have courage and imagination to build the right road to integrate, in the world, development, justice, and peace.”<sup>19</sup>

### LEARN MORE ABOUT WORKER OWNERSHIP:

**The Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University**

#### Project Equity

Most retiring business owners have great difficulty selling their businesses. Project Equity offers free consulting to owners considering converting their business to an Employee Ownership Trust or Worker Cooperative.

**National Center for Employee Ownership**

**U.S. Federation of Worker Cooperatives**

***The Citizen’s Share*, a book by Blasi, Freeman, and Kruse.**

*Author’s Note: I would like to thank Dr. Joseph Blasi, Director of the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University, for inspiring and reviewing this article.*

### ENDNOTES

- 1 Pope Leo XIII. (1891). *Rerum Novarum—On the conditions of labor*, 34.
- 2 Pope John XXIII. (1961). *Mater et Magistra—Christianity and social progress*, 77.
- 3 Bruenig, M. (2019, May 29). Bernie wants power in workers’ hands. *Jacobin*: <https://jacobinmag.com/2019/05/bernie-sanders-funds-socialism-shares-cooperatives>.

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## WORKER OWNERSHIP - ENDNOTES

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- 4 Reagan, Ronald. (1987, August 3). *Remarks on receiving the report of the Presidential Task Force on Project Economic Justice*. Retrieved on February 21, 2021 from the website of the Ronald Reagan Presidential Library and Museum: <https://www.reaganlibrary.gov/archives/speech/remarks-receiving-report-presidential-task-force-project-economic-justice>.
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- 6 Ibid.
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- 8 Blasi, J.R., Freeman, R.B., and Kruse, D.L. (2013). *The citizen's share: Reducing inequality in the 21st century*. Yale University Press.
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- 11 Project Equity, op. cit.
- 12 Ibid.
- 13 Blasi, J.R., Freeman, R.B., and Kruse, D.L., op. cit.
- 14 Project Equity, op. cit.
- 15 From an interview with Dr. Joseph R. Blasi, Director, Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University. February 21, 2021.
- 16 For information on worker cooperatives, go to the websites of Project Equity, [project-equity.org](http://project-equity.org), and the University of Wisconsin Center for Cooperatives, [uwcc.wisc.edu](http://uwcc.wisc.edu). Also: Chen, M. (2016, March 16). Worker cooperatives are more productive than normal companies. *The Nation*.
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- 19 Pope Francis. (February 28, 2015). *Address of His Holiness Pope Francis to representatives of the Confederation of Italian Cooperatives*: [http://www.vatican.va/content/francesco/en/speeches/2015/february/documents/papa-francesco\\_20150228\\_confcooperative.html](http://www.vatican.va/content/francesco/en/speeches/2015/february/documents/papa-francesco_20150228_confcooperative.html).

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