Employee Ownership as Creative Capitalism

By Ben Durwood

The term “creative capitalism” used regularly by Bill Gates describes a society in which companies strive for dual goals – profitability and social responsibility. As an example, Microsoft has donated billions of dollars worth of software and computers to people who wouldn’t have access otherwise. Not only does this allow Microsoft to assist the needy, but it also may increase its profitability because consumers will view Microsoft more favorably and use its products more frequently.

Unfortunately, society is facing many problems beyond computer literacy. One such problem is that the retirement age for lower- and middle-class Americans likely will be delayed in the coming years. In addition to a nearly bankrupt social security program and the obsolescence of many pension plans, the risk premium for equities (which are included in the 401(k) plans of most Americans) is expected to decline. I recall a former co-worker in his sixties lamenting that with no savings, no 401(k) match and no pension plan, he would undoubtedly be working for the rest of his life. A study by the Center for Retirement Research at Boston College confirms that a record number of Americans are in danger of living in poverty during their sixties and seventies.

Part of the problem is that the earnings gap between the very wealthy and the middle class has widened considerably in the past several decades. The discrepancy between the 10th percentile of American wage earners and the 90th percentile has increased by 30 percent since 1980. Wages for middle-class Americans have remained stagnant, while the top one percent of wage earners is spoiled with 20 percent of the aggregate income. One of the causes of this wealth discrepancy is our outdated tax structure. Generally, higher earning individuals pay higher tax rates than lower earning individuals, but only to a point. The highest tax bracket begins at an income of $370,000, meaning that the doctor or sole proprietor earning $370,000 is in the same tax bracket as Lebron James and Warren Buffet.

An argument against higher taxes for the wealthy is that it disincentivizes hard work. High tax rates minimize differences in net income, reducing the individual benefits derived from working hard. The implications are that the gross earnings of a society with high tax rates will be lower than the gross earnings of a society with low tax rates.

However, taxation is not the only means of distributing income. For instance, the owner of a company could distribute stock to his employees by implementing an employee ownership plan. Allocating ownership to employees helps re-distribute wealth, allowing lower- and middle-class workers to save more and retire earlier. Meanwhile, employee ownership plans transform a company’s culture, because employees adopt the mentality of owners; they work harder and become more involved in process improvement and cost management, causing their company’s net income to increase at a faster rate. In this regard, it has the reverse effect of higher taxation, because instead of normalizing income levels, employee ownership motivates workers by linking their savings to their job performance.

In addition to achieving distributive justice, employee ownership also increases the total amount of wealth. A study performed at Rutgers found that revenues at employee-owned companies increased two to three percent faster than they would have had they had not been employee owned. Although similar to Microsoft’s donations of computers to the needy, employee ownership is in a way more revolutionary. By being socially responsible, Microsoft aims to positively differentiate itself and attract its competitor’s customers. Meanwhile, employee ownership generates new wealth by galvanizing the attitudes and work ethic of employees.

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