Employee Share Ownership in the United States: Statistics, Research, and Lessons Learned

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Abstract
Employee shares in the United States are made up of employee share ownership plans such as Employee Stock Ownership Plans, equity compensation plans based on restricted stock units and performance shares, worker cooperatives, Employee Ownership Trusts, Employee Stock Purchase Plans, employee stock option plans, and profit and gain sharing plans. The ideas that citizens should enjoy widespread broad-based property ownership and that a vibrant middle class based on such property ownership is central to sustaining a democratic republic served as the ideological infrastructure for the development of broad-based employee shares in the United States. Originally, the idea of many Founders was to distribute land to insure this reality. Subsequently, the idea arose that shares of property could be widely distributed based on shares of businesses or corporations that had an unlimited supply. Businesses and workers developed various company-based equity and profit and gain sharing plans. The US government subsequently gave favorable tax treatment to these plans. This accounts for the widespread incidence of share plans. The chapter evaluates how such plans are distributed in the US population and the dollar value of such plans to citizens and discusses how the issue of excessive risk to workers has been addressed.
Keywords: ***ESOP, EO statistics, US research***

Given the extensive development of employee share ownership, equity compensation, profit sharing, and gain sharing in the US economy over the last century and a half, and the highly concerning level of global wealth inequality now is a good time to distill the positive and negative lessons learned from this experience for other countries in the world, especially the Americas at large and the global south. Presumably, many scholars and policy-experts in the United States might also find a birds-eye view of the entire system of employee shares useful in order to take stock of the phenomenon as whole. The goal of this chapter is to summarize in a sweeping overview and a thumbnail sketch the history, statistical incidence and distribution, policy, and lessons learned so that government officials or policy-makers, think tanks, members of the business or labor sector, or scholars or concerned citizens can reach credible conclusions about how to apply this experience to develop employee shares in a country other than the United States.

The authors have written extensively about the research on the individual and firm performance effects of employee shares and that subject will not be covered in this chapter. These studies are collected in the bibliography.

The central hypothesis of this chapter is that a "shares economy" with a wide base in formats, types of companies, supporting policies, and public support is the one most likely to grow quickly, based on the lessons from the US experience. Moreover, a society wide network of for-profit consulting firms and non-profit institutions to support the development of a "shares economy" can play a key role in accelerating the virtuous process whereby real business cases lead to public and media attention, which spur research and think tank support, that create interest in policy and philanthropic circles. A number of those institutions are referenced.

A BRIEF HISTORY OF EMPLOYEE SHARES IN THE UNITED STATES

Employee shares is the general term that refers to both profit/gain sharing and equity shares or employee share ownership with employees at companies. For the purposes of this chapter, the focus is on broad-based share programs that include all employees of an organization. Profit shares are cash or deferred shares based on a company's profits. Gain shares are cash shares founded on the performance of a group, division, or unit of the company not tied to overall company profit. Equity shares can be structured as whole shares of stock or as stock options. This historical overview of shares will establish how and why the business practices emerged and how their development interacted with the development of federal and state policy. The United States has a long history of public policies aimed at reducing inequality. This is discussed in detail in the book *The citizen's share: Reducing inequality in the 21st century* (Blasi et al., 2014, pp. 1-56) on which this entire section is based. For the Founders of the US Republic, the primary tool was to make federal lands available at low prices so that average citizens could acquire a homestead to support their families. The writings of the Founding Fathers are filled with references to the idea of the independent farmer whose family could enjoy economic liberty because the individuals were able to support themselves through working on land that they owned and controlled. The Founders drew a contrast between this state of affairs and European feudalism. Chapter one of *The citizen's share* explains these ideological views in detail.

Central to the ideas of the Founders ideologically was the concept that a democratic republic required a vibrant middle class and broad-based property ownership to exist and to sustain itself into the future to prevent it from turning into an oligarchy or some form of an authoritarian regime. This idea was never fully realized. The deep moral failure of slavery, the far-ranging social violence of the exclusion of women and blacks from civic life, hypocrisy of dealing with Native Peoples all limited and severely complicated the realization of this goal. Yet, it remained a persistent theme. When Thomas Jefferson became president, he made the Louisiana Purchase of almost a million square miles in order to advance a citizen-property-holder "empire of liberty," although it too was complicated by these larger moral issues. Successive administrations followed with major initiatives in trying to broaden land ownership, sometimes getting embroiled in political battles and important issues of justice.

President Abraham Lincoln took the biggest step to advance this vision with the Homestead Act of 1862, which helped make available 270 million acres, or 10% of the land mass of the entire nation available to citizens—for the first-time including women—in order to encourage independent farm ownership. The Republican Speaker of the House of Representatives, Pennsylvania's Rep. Galusha Grow, managed the Act through Congress on behalf of Lincoln and echoed a point made years earlier by former President James Madison that population growth would eventually make obsolete a broad-based property ownership policy, or a property-based republic limited only to the ownership of land. There is also no question that the dispossession of lands of Native Americans and the conquest of lands of other countries played a role in the implementation of The Homestead Act. Blacks were excluded from Homesteads. How did the idea of basing economic shares on land evolve into the idea of basing economic shares on corporations and businesses? Speaker of the House of Representatives Galusha Grow recognized that business and corporate assets, unlike land, were unlimited, so he saw the potential of broad-based profit sharing and equity shares in businesses, which the concept of profit sharing included at the time, by employees as the successor idea. The notion was that corporate and business assets were limitless, unlike land, and could be broadly made available to employees. Thus, the development of employee share ownership and profit sharing in earnest in the United States begins generally after the Civil War when the distribution of land shares began to wane and the country faced the beginning of industrialization. While land grants and land independence was viewed as generally low risk for creating the middle class, the development of forms of equity participation and profit and gain sharing in businesses, corporations, and cooperatives had a variety of risk profiles. In many ways, the new idea that broad-based property ownership could be achieved by focusing on the unlimited assets of businesses (rather than land) provided a new way forward for this idea.

From the late 1800s through the early 1900s, there were different strains of development of employee shares with a variety of risk profiles (Blasi et al., 2014, pp. 123-166). On one hand, trade unions sometime supported the idea of worker-owned cooperatives while industrialists took the lead in pushing for profit sharing and employee share ownership. Worker cooperatives, generally speaking, involve 100% employee ownership by members who vote on a one-person-one-one vote basis for members of the board of directors, while workers or the board may actually select executive management. Worker cooperatives receive business deductions from their income for tax purposes for distributions to members based on hours worked which are referred to as patronage dividends (Co-opLaw.org, n.d.). Early union experiments in worker cooperatives, even back to the late 1700s, often lacked adequate funding or professional management. By 1900 in the United States, trade unions began to coalesce around the idea of collective bargaining and there was no major union developing worker cooperatives.

By 1900, a number of industrialists were experimenting with equity and profit shares quite successfully. Charles A. Pillsbury of Minnesota's Pillsbury Flour Mill, William Cooper Procter of Procter & Gamble, and John D. Rockefeller Jr. of Standard Oil, among many others, developed broad-based profit sharing and employee share ownership designs for companies, formed national associations of businesspeople to advance these ideas, and supported research on these issues at universities. In the case of Pillsbury, the company started with profit sharing but later granted stock options to employees. In the case of Procter & Gamble, the company also started with profit sharing, but began to offer plans whereby employees could purchase stock with profit sharing and dividends from the stock. In the case of Standard Oil, Rockefeller offered deep discounts on the price of the stock with favorable terms and the ability to use dividends to pay for the stock. Such approaches became the bases of what later became the popular Employee Stock Purchase Plan (ESPP) in the modern US economy. There is no question that employee shares were viewed as a way to inoculate workers against supporting trade unions. Below data will be presented to show that unions play a key role in different forms of employee share ownership. Chapter four of *The citizen's share* tells this history in detail (Blasi et al., 2014).

THE DEVELOPMENT OF A VARIETY OF EQUITY PARTICIPATION AND PROFIT/GAIN SHARING FORMATS

With the emergence of individual and corporate income taxes following the 16th Amendment to the US Constitution ratified in 1913, business leaders pushed for integrating the tax treatment of these practices into the new corporate income tax system. The initial tax incentive for profit sharing made cash profit sharing a deductible expense when computing corporate income taxes like other forms of employee compensation. There were various tax incentives for granting shares to workers. Unions had done some early experimentation with broad share ownership ideas with the United Steelworkers developing cash gain sharing, a close relative to profit sharing, although unions at this time did not embrace employee share ownership. The growth of federal and individual state tax incentives for corporate behavior after the 16th amendment began over a century of debate about what the appropriate tax encouragements for these ideas should be.

Profit Sharing

Many forms of employee share ownership in the 1920s and earlier were based on workers buying stock with wage deductions or their own savings or their retirement savings. These formats had some tax benefits, but workers paying for stock with their wages and their savings can be highly risky. The 1929 Stock Market Crash wiped out many of these employee share ownership plans, although the most generous plans (such as the Standard Oil Plan) with deep discounts on the price of the stock and dividends used to pay for the stock, managed to still hold employee support coming out of the crash. Cash and deferred profit-sharing plans were being used on a company-by-company basis during the 1800's in the US. Members of Congress and successive presidents saw broad-based profit sharing and employee stock ownership as worthy of federal encouragement, but did relatively little in committing federal resources to spur its development until the late 1930s and 1940s for broad-based profit sharing, and the 1970s for broad-based employee stock ownership. A major bipartisan initiative led by Republican Senator Arthur Vandenberg and the administration of President Franklin Roosevelt produced congressional hearings and legislation that allowed tax incentives for deferred profit-sharing trusts in the 1940s. Deferred profit-sharing trusts were employee retirement plans that were funded with cash profit sharing that was subsequently invested in assets for the employee's retirement. In addition to the deductibility of cash profit sharing as an expense against corporate income taxes, the new bipartisan policy allowed companies deductions for contributing to these deferred profit-sharing plans that would come to be funded with cash and company stock. Deferred profit-sharing trusts grew and subsequently would fall under the Employee Retirement Income Security Act (ERISA) when it became law in 1974 and they received support by trade unions at the time. Profit sharing through deferred profit-sharing trusts still leads to a tax deduction for corporations. ERISA was designed to regulate all employee retirement plans and it became the main federal regulator of deferred profit-sharing trusts and Employee Stock Ownership Plans (ESOPs). Cash profit sharing, however, which is now more prominent in the United States has no special deduction for companies other than the ordinary ability of companies to deduct all compensation from their corporate income before corporate tax is assigned.

THE EVOLUTION OF THE ESOP AS THE DOMINANT FORMAT

In the early 1970s, Senator Russell Long took the ideas of law professor and investment banker Louis O. Kelso and added sections to this Employee Retirement Income Security Act of 1974 that introduced ESOPs in the United States and established the tax-advantaged status for these plans. Kelso's idea and Long's legislation directly addressed the key issue of risk of earlier employee share ownership plans in the 1920s where workers bought the stock with their wages and savings. The ESOP they designed was based on employees receiving earned grants of stock that were financed by the company setting up an employee benefit trust that bought the stock with credit, not with workers' wage contributions or savings. The idea was that employees focused on building up the value of the company so the company itself would finance the purchase of shares on behalf of the workers. Employees typically in an ESOP do not pay for the company stock with their wages, private savings, givebacks, or retirement contributions. Kelso and Long designed the ESOP just like a leveraged buyout where, in this case, an employee trust, backed by the company, can borrow money to buy stock in a corporation where the workers are employed, while the corporation pledges itself as collateral for the loan, pays back the loan, and then grants the stock to the employees as the loan is repaid. The idea is that by building up the company with their work and dedication, employees are allowing the company to earn the capital necessary to pay back the loan. The core tax incentive is that the principal on the loan, the interest on the loan, and all dividends from the shares are tax deductible to the corporation sponsoring the ESOP. These tax incentives were also extended to worker cooperatives.

This legislation led to ESOPS becoming the dominant form of employee stock ownership in the country, although mainly in closely held small businesses. With an ESOP trust, workers could purchase 100% of a company on credit in one transaction or gradually acquire the company in several transactions. The ESOP revolutionized employee share ownership by moderating the risk to workers because it typically did not use their wages or savings. Kelso internalized the failure of workers buying shares just before the Stock Market Crash of 1929 and designed something with less risk. Research shows that most ESOPs have a separate diversified retirement plan in addition to the ESOP (Wiefek & Nicholson, 2018, p. 9). The inclusion in ERISA offers many protections to employees. For example, substantially all employees must be included (although unions can opt out), employees are required to have direct voting rights on all major corporate decisions, the formula for distributing shares must be fair and not favor highly-compensated employees, and older employees diversify their assets away from company stock.

After the initial ESOP legislation, ten years later, in another bipartisan effort, this time led by Republican President Ronald Reagan and Democratic Senator Russell Long, the Tax Reform Act of 1984 altered the tax incentives to further encourage ESOPS. Both Long and Reagan reiterated the Founder's notions that broad-based capital ownership was essential to create a middle class and a thriving democracy. Their approach was to make ESOPS with modest levels—generally 5-10% of employee stock ownership—attractive to publicly traded stock market corporations. It did this by allowing banks, investment banks, and insurance companies to deduct half of the lender's interest income in computing their own corporate taxes for loans or structured bonds to corporations to access credit to finance ESOPS for broad groups of employees. This led most large banks and other lenders to set up entire employee stock ownership divisions to market the idea to corporations nationwide and pass some of their own tax savings to the companies doing ESOPS in the form of lower interest rates. This facilitated a large increase in ESOPS in stock market companies (Blasi & Kruse, 1990). Because most of these ESOPS in stock market companies depended on actually financing and buying newly issued shares with credit rather than simply granting shares that brought in no new capital to the corporation, the dilutive aspects of these ESOPS were moderated. This was later repealed as part of a deficit reduction measure in the first Bush Administration, but the United States could very well replace this with another policy in the coming years to encourage employee equity participation in stock market companies.

Subsequent ESOP tax incentives in the 1980s (such as Section 1042 of the Internal Revenue Code) allowed owners of privately held businesses to defer their capital gains taxes when they sold more than 30% of C corporations (these are corporations that pay corporate income taxes to the federal government) to the employees and managers through ESOPS or eligible worker cooperatives. This was the first time that worker cooperatives and ESOPS were treated similarly in US policy. Often, retiring entrepreneurs would sell 100% in stages so that they could fully retire if they had no heir to operate the company or the family wished to cash out on their stake. Because most ESOPS in closely held companies take place in situations where the founding owner wants to retire and cash out of the business, this phenomenon is a main driver of majority and 100% employee-owned firms in the United States. Subsequently, corporations were allowed to incorporate as an S Corporation—a corporation that does not pay taxes at the federal level but passes through its income to its owners who pay taxes on their own—creating a type of 100% employee-owned ESOP S Corporation. That ESOP S Corporation pays no federal taxes at the corporate level, but workers pay taxes on their gains individually. Both C and S corporations have ESOPS, and are used to buy out retiring business owners. Increasingly, worker coops are using credit to buy the firms from retiring business owners just as ESOPS did in the past.

THE WORKER COOPERATIVE

As noted above, worker cooperatives as a form of employee share ownership emerged very early in American history. In recent years, worker cooperatives have continued to develop (Palmer, 2020). The new developments, however, are that more and more worker cooperatives are based on converting already existing businesses to the cooperative form using a leveraged buyout similar to that employed by the ESOP trust to buy out retiring business owners (Democracy at Work Institute, 2020); worker cooperatives are also being created using internet platforms, such as Up & Go,[1] a cleaning cooperative in New York City (Thompson, 2019); the related franchising operation Brightly (McKinley, 2020); and an entire range of platform worker cooperatives monitored and facilitated by the New School University's new Institute for the Cooperative Digital Economy and its director Trebor Sholtz (Schneider & Sholtz, 2017). Legally and technically, an ESOP could be structured to function like a worker cooperative and some lawyers have worked on such hybrid forms.

1. www.upandgo.coop

THE RECENT EMERGENCE OF THE EMPLOYEE OWNERSHIP TRUST

In the last five years, an alternative to the ESOP has emerged in the United States, called Employee Ownership Trust (EOT), which resembles a perpetual trust that continues into the future beyond any present group of employees. The EOT owns the company, so the company is employee-owned at some percentage between 1% and 100%, and is not governed by the ERISA of 1974 and thus easier to set up than an ESOP. It is kind of a equity/profit-sharing hybrid. While employees as a collective group own the entire company, there are no individual stock ownership accounts, and current employees receive a percentage of ongoing profits (Michael, n.d.). Again, an EOT can be structured to function and be governed like a worker cooperative.

THE EMPLOYEE STOCK PURCHASE PLAN

The federal government encouraged other kinds of employee share ownership that involved workers paying for the stock. It's important to understand these formats, although the judgment of history comes to very different conclusions about them. Since the fifties companies have increasingly offered ESPPS that allow employees to purchase up to $25,000 in company stock each year typically at a 15% discount to market. One interesting design feature of the ESPP is that a company can offer a "look-back" whereby the employee can have the right to purchase the stock at a price in the past with the discount. For example, with a discount equal to 15% of the current day's purchase price (let's consider a purchase price of $150 per share) and with the "look-back" feature allowing a purchase with the past year price, when it was trading at $100 a share, an employee could purchase a $150 per share stock today for $85 per share. These plans are now very popular in stock market companies and must include all employees. The combination of the discount and the look-back feature can significantly reduces risk in these types of plans, especially if they are offered in Blue Chip companies with good credit ratings.

The next employee share ownership plan offering employee purchase is very controversial. On November 6, 1978, Congress created Section 401(k) of the Revenue Act, allowing employers to establish individual retirement account for workers under ERISA. The employer and worker contributed that could be invested in different mutual funds and grow tax-free until retirement. 401(k) plans have evolved; typically, the employer contributes funds and often matches employee contributions. This is called a defined contribution plan because unlike traditional pensions the payment post-retirement pension benefit is not an obligation of the employer until the death of the employee. Only the contribution, not the final benefit is combined. Employers began the practice of matching employee contributions in company stock and also offering employees a company stock account where they could purchase shares. While employer matches in company stock to employee contributions make sense if employees are not over-invested in company stock, encouraging working middle class employees to load up their retirement accounts company stock that they buy with their wages is certainly not advisable. This led to excessive holdings in company stock using employee's wages in companies such as Enron and WorldCom and others that were involved in stunning financial failures. While this issue of risk will be discussed later in this chapter, this form of excessive employee investment of wages has serious public policy limitations (Blasi et al., 2014, pp. 102-105).

BROAD-BASED STOCK OPTIONS AND RESTRICTED STOCK UNIT PLANS

For decades, the federal government has encouraged the granting of shares and stock options outside of retirement plans with certain tax advantages to companies. Currently, the principal method of granting shares is to issue restricted stock units to employees, which vest in a gradual manner over a long period of time, say five years, to keep the employees at the company. Sometimes, these are structured as performance shares whose vesting is dependent on the performance of the company over a specified period of time. In general, companies receive no tax deduction when such shares are granted, but can take a corporate tax deduction when employees actually vest in these shares and receive the value as compensation. Stock options have also been popular, especially in high technology companies, mostly during the start-up stage when the companies are not traded on a stock market. The book *In the company of owners* (Blasi et al., 2003) looks at these developments in the hundred top firms in the National Association of Securities Dealers Automated Quotation that invented the internet, manufactured its technology, and initially sold products and services. Companies receive no tax deduction when stock options are granted, but can take a corporate tax deduction when employees exercise the stock option in order to buy the company stock and thus companies receive the value of the difference of the trading price of the stock at the time of exercise and the exercise price of the stock option as compensation (The Tax Adviser, 2019). With all these formats, it is clear that from a very early stage in its history the US government wanted to make shares of capital property available to citizens and employees with extensive tax incentives for companies to do so.

What is the tax impact on the individual employee of different kinds of share programs? Worker cooperatives organized under Subchapter T of the US Tax Code can pass through their income to their worker-owners in the form of patronage dividends, avoiding the entity level taxes that corporations are generally required to pay. This is consistent with deductions allowed for other types of worker shares (Co-opLaw.org, n.d.). Payments to individual employees through retirement plans qualified under ERISA, namely, deferred profit-sharing trusts and ESOP, do not trigger taxes for individuals and grow tax free within those retirement plans. Thus, grants of ESOP in an ESOP trigger zero individual taxation as do grants of profit sharing in a deferred profit-sharing trust. When the employee retires and receives the value of the stock, they pay ordinary income tax (National Center for Employee Ownership, 2014, pp. 102-105) although under certain circumstances part of the value may receive a lower capital gains tax treatment. Likewise, individual employees in the United States are not taxed at the time of grants of stock (such as restricted stock units or performance shares) or stock options. The same principle is followed, generally, that when an individual employee vests their restricted stock units, they will report the fair market value as ordinary income and pay income taxes at that time. Employees will pay either long-term or short-term capital gains taxes on these shares depending on how long they are held. Employees are also not taxed at the time of grants of stock options, rather they must claim the difference between the exercise price of the stock option and the trading price of the stock on the day it was exercised as personal income and pay income tax on that spread.

Regarding ESPPs, employees only pay tax when they sell the stock at either ordinary income tax rates or lower capital gains rates depending on how long the employee holds the stock (NCEO, 2021). Regarding company stock in 401(k) plans, since these are ERISA plans, the value of the company stock can grow tax free inside the trust until the employee retires and takes out the funds. When an individual withdraws funds for retirement from a 401(k) plan, including the value of company stock, it is taxed as ordinary income. Finally, companies that pay their employees cash profit sharing or cash gain sharing receive a corporate tax deduction for these payments as regular compensation.

Over its history, the United States has developed a cafeteria of employee share plans that allow financial participation for workers and provide access to both equity ownership and profit sharing. These plans address different types of businesses and different life stages of these companies. The various formats have evolved and it is clear that not all forms of employee shares withstand the rigor of policy analysis. The phenomenon of encouraging employees to purchase company stock with their own money during the 1920s before the Stock Market Crash and the company-led policies of encouraging employees to purchase stock with their own money from the eighties in their 401(k) retirement plans have both proven to be excessively risky and inferior types of employee share ownership. Based on this history several lessons emerge.

LESSONS LEARNED FROM THE HISTORY AND DEVELOPMENT OF EMPLOYEE/WORKER SHARES

One lesson is that the United States developed share plans with what, in retrospect looks like a set of coordinated tax incentives for the companies that create share plans and for the employees who receive shares. The US federal government makes it easy for businesses to grant a share of the business's profits, ownership, stock, or equity to employees by offering tax deductions to these businesses at different points in time. The government also facilitates for individual employees to receive these shares without triggering any tax on the individual employee. When these equity or profit shares are inside retirement plans, they can grow tax-free. When these equity shares are structured as restricted stock units their value can also grow tax-free until they are vested. When these equity shares are structured as stock options their value can also grow tax-free until the option is exercised. When this employee share ownership is within an ESOP or ESPP or within the company stock account of a 401(k) plan, the share can grow tax free until the employee takes the value of the stock for personal use. Only when employees receive an actual cash payment of cash profit sharing or cash gain sharing does this trigger individual taxation in the United States at the time of grant. Most forms of equity sharing allow the company stock investment to grow without any taxes until the value of the stock is actually taken to be used by the individual. Any country that wishes to encourage equity and profit sharing would be advised to remove any barriers to penalizing employers when they establish share plans or employees when they receive equity ownership.

Another lesson is that, after some clear policy errors, the United States has favored share plans with lower or moderated risk in order to protect working middle class employees from losing their job and their employee share ownership and profit sharing at the same time. Current US policy focuses on ESOPS and worker coops funded with credit sources and not employee contributions and grants of restricted stock and stock options to employees for which they do not have to pay. Equity participation plans based on grants of stock to employees, not employee purchases, moderate risk. The US experience shows that equity participation plans by employees have led to excessive risk when employees, not employee purchases, the stock with their wages and savings. Employee purchases of company stock with wages create substantial risk. The United States does have some employee stock purchase programs with lower risk, namely, the ESPP (with extensive discounts and look-back features the risk is moderated) and employer company stock matches to employee contributions to retirement plans. Nevertheless, the experience with encouraging employees to buy stock in 401(k) plans with their savings has often entertained excessive risk. To reduce risk, historical experience suggests that employees should not be allowed to purchase company stock in retirement plans with wages or savings. The different formats and their policy relevance are reviewed in Table 2.1. Let's now turn to empirical data on the incidence of employee shares.

TABLE 2.1 TYPES OF EQUITY SHARES AND PROFIT/GAIN SHARING PLANS: A BRIEF OUTLINE	
Type of Plan	Definition
Employee Stock Ownership Plans (ESOPS)	Allows companies to set up employee trusts to finance employee typically not paying for them and receiving the shares as the company pays back the loan. The federal government mandates full voting rights for employee owners on all major corporate issues, but allows the governance of the firm to be structured in various ways except for this provision. ERISA regulates the fairness of the price that the employee trust pays for the shares, fair stock distribution formulas, while limiting highly compensated employees from dominating the distribution of the stock.
Employee Ownership Trusts (EOTs)	A perpetual trust allowing the employees as a whole to own a business. EOTs can use credit to purchase firms like ESOPS and their governance can be structured in different ways. No federal fairness provisions apply at this time.
Worker cooperatives	Workers vote their shares on a one worker one vote basis and receive patronage dividends. No federal fairness provisions apply at this time.
Grants of restricted stock or other whole shares of stock	No federal fairness provisions apply at this time.
Grants of stock options	No federal fairness provisions apply at this time.
401(k) Retirement plans	Workers are offered company matching contributions, sometimes in company shares to contribute to their own retirement savings. The controversial provision is that workers are often given the option or even encouragement to purchase company shares with their own wages or savings without any clear limits.

THE INCIDENCE, VALUE, AND DISTRIBUTION OF EMPLOYEE EQUITY SHARES IN THE UNITED STATES: ESTIMATES FOR 2021

What level of employee shares have these ideological supports and these practical federal tax incentives accomplished by 2021? Who receives employee shares in the United States out of all private sector workers? Tables 2.2 and 2.3 tell this story from the General Social Survey which is a national representative sample of the entire US population sponsored by the Government's National Science Foundation and conducted by the highly respected National Opinion Research Center at the University of Chicago. The most recent data from 2018 are being presented.

Table 2.2 provides an overview of the metrics of employee shares of different types. What are the main conclusions from these data? The presence of a national ideology on the importance of the middle-class owning capi-

TABLE 2.2 INCIDENCE AND VALUE OF EMPLOYEE SHARES IN THE UNITED STATES

Overall in the US Population

Total adult employees: 127 million
Percent of all adult employees owning any stock in their company: 20%
• 25 million adult employess
• The average dollar value is $75,000 and the median is $25,000

Percent of all adult employees holding any stock options in their company: 9%
• 11 million adult employees
• No estimates of the dollar value are available

Percent of all adult employees covered by profit sharing in their company: 38%
• 42 million adult employees
• The average annual profit sharing is $13,000 and the median is $2,000

Percent of all adult employees covered by gain sharing in their company: 30%
• 30 million adult employees
• The average annual gain sharing is $13,000 and the median is $2,000

Percent of all adult employees with any form of equity or profit/gain sharing: 47%
• 59 million adult employees

Overall in the US Population

ESOPS (Employee Stock Ownership Plans)
• Total number of ESOP companies: 6,400
• 14 million adult employees
• $1.5 trillion in total assets

Closely-held ESOP companies
• 5,800 ESOP companies
• 3,000 to 3,500 ESOPS are majority or 100% employee-owned
• 2 million adult employees
• $183 billion in total assets

Publicly-traded stock market companies
• 600 ESOP companies
• 12 million adult employees
• $1.3 trillion in total assets

Worker-owned cooperatives or worker cooperatives
• 465 worker cooperatives
• 7000 workers
• $202 million in sales
• $253 million is the estimated market value of these cooperatives
• Some estimates suggest there may be 800 worker cooperatives with 8,000 workers
• All worker cooperatives are 100% majority worker-owned

Employee Ownership Trusts (EOTs)
• 14 EOT companies
• 1,000 employees
• No estimate of the value of the employee securities is available

Employee stock option plans
• Not possible to estimate the number of companies
• 11.1 million adult employees
• From 1999-2001, the 177,000 workers in the 100 companies that created the internet marketplace gained $425,000 each from employee stock options on average

TABLE 2.2 (CONTINUED)

All non-ESOP employee share ownership programs
• Not possible to estimate the number of companies
• 11 million adult workers*

Employee Stock Purchase Plans
Total number of companies: 1,300
• 4 million adult employees
• No estimate of the value of these employee securities is available

Broad-based restricted stock units and performance shares granted to employees
• No precise number of employees or value is available

Employee holdings of company stock in 401k retirement plans

Total number of companies:
• 8.64 million adult employees
• $310 billion in total employee ownership assets

* Sources: Percentages and associated numbers in millions from the US adult employee population and are from the 2018; General Social Survey of the National Opinion Research Center at the University of Chicago based on questions designed and analyzed by Joseph Blasi and Douglas Kruse unless identified as estimates. ESOP data is from National Center for Employee Ownership, "Employee ownership by the numbers", https://www.nceo.org/articles/employee-ownership-by-the-numbers#1 and www.nceo.org; Worker cooperative data is from The Democracy at Work Institute, "How many worker cooperatives are there in the US?, https://institute.coop/worker-cooperative-faq#Q4 and www.institute.coop; 2019 Worker Cooperative State of the Sector Report, https://institute.coop/resources/2019-worker-cooperative-state-sector-report; US Federation of Worker Cooperatives, https://www.usworker.coop/home/; Majority and 100% employee-owned status of companies is from Estimated Statistics of Majority Worker-Owned Firms and Job Quality in the US, February 10, 2020, by Joseph Blasi with input from Nancy Wiefek of the National Center for Employee Ownership; Employee Ownership Trust data is from Employee Ownership Trust Law (EOT Law), www.eotlaw.com; Employee Stock Option data is from the 2018 General Social Survey with average stock option wealth from Blasi et al. (2003, p. 85); Employee Stock Purchase Plan (ESPP) data is estimated by Joseph Blasi based on an analysis from Kapinos et al. (2020) and additional input from Barbara Baksa of the National Association of Stock Plan Professionals and Emily Cervino of Fidelity Investments; Employee holdings of company stock in 401k plans is from the Employee Benefits Research Institute (EBRI) and the Investment Company Institute with thanks to Jack VanDerhei of EBRI.

tal and the determined support of the federal government for decades and decades has resulted in 47% of the entire adult working population having some combination of equity, profit, or gain shares, about 59.3 million workers. Employee share ownership of whole shares of stock is common at about 20% of the population and 25 million workers, stock options are widely spread beyond the executive ranks with 8.7% of adult workers holding any stock options involving 11 million workers. Profit sharing involves 38% or 48 million workers and gain sharing involves 30.1% or 38.1 million workers.

This widespread incidence suggests that a determined policy focus over decades can create the structures of a "share-based" capitalism with the widespread availability of share mechanisms at companies. Not shown in

Table 2.1 is the fact that 50.2% of all for-profit companies have some form of employee shares and 57% of joint stock companies. Indeed, among joint stock companies, 32.3% of all of their employees own company stock and 14.5% hold company stock options. The wide incidence is definitely notable because what it has accomplished is to encourage businesses across the United States to install into their human resource management systems a variety of share programs that can be further used if there are innovations in federal policy. While a particular reader may be more interested in, or more supportive of, one particular form of employee share format, the fact that they all exist in the United States has laid the groundwork for greater public knowledge of each particular format.

It is important, however, not to exaggerate the impact of this wide incidence on the individual workers. The average value of all employee share ownership holdings (of whole shares of stock) is $75,205 in 2018 and the median dollar value is $15,000. Moreover, the average dollar value of annual profit sharing and gain sharing cash payments is $13,272, while the median is only $2,000. Profit sharing and gain sharing, while common practices, have very modest effects on most workers because of the low median dollar values of these practices. This may be explained by the fact that there is no special tax deduction for profit sharing or gain sharing. Cash profit sharing or gain sharing is deductible by companies from their corporate income for tax purposes in a way similar to all compensation. This may be one reason why the amounts are relatively small for the median worker. In order to address this, Presidential candidate Hilary Clinton proposed a special tax credit for profit sharing (*The Economist*, 2015).

There is no question that the ESOP which has received the greatest amount of federal tax incentives, and which allows workers to own the largest percentage of stock in corporations also allows workers to accumulate the most wealth. This average is much higher among workers in ESOPS at about $130,000 with some data indicating on average ESOP employees with more than twenty years seniority have accumulated employee share ownership accounts of $250,000 or about $100,000 at the median. It appears that ESOPS allow for the largest accumulations of wealth based on whole shares of stock, although data on the ESPP is required. There is no information on how much money workers on average or at the median in the economy can make on employee stock options, although from 1999-2001 at the height of the dotcom bubble, the 177,000 employees in the High Tech 100 of internet-based marketplace firms realized option profits on $425,000 each on average. These data must be viewed with caution because they come from the high growth firms during a stock market bubble (Blasi et al., 2003, p. 85).

The issue of risk merits special focus. On one hand, some economists object to equity participation at the place of work because the practice appears to violate portfolio theory that holds that citizen's portfolios should be broadly diversified and it is more risky for a worker to have her or his job and retirement savings tied up in a single firm. On the other hand, one can argue that equity at the place of work provides the employee with one mechanism to address income and wealth inequality. Indeed, Harry Markowitz, 1990 Nobel Prize in Economics regarding portfolio theory, has explicitly written in several studies that employee share ownership does not violate portfolio theory as long as stock purchased by employees does not exceed 15% of an otherwise diversified portfolio. Markowitz distinguished for the purpose of risk between stock purchased by employees and grants that he considers to be a gift and not to be counted as employee investments (Blasi et al., 2010; Blasi et al., 2021, pp. 4-5).

Corporate and government policymakers in the United States made stunning errors in encouraging equity participation plans by employees based on workers buying the shares with their wages, savings, and retirement contributions. This happened during the 1920's with the spread of purchase plans in large corporations and from the 1980's to the 2000's when the 401(k) plan became the vehicle for employees to buy company stock and was the basis of many losses, for example, by employees at Enron, Lehman Brothers, and WorldCom and other examples (Blasi et al., 2014, pp. 101-108). These errors led to changes in the structure of employee share plans to address the high level of risk based on excessive employee purchases. ESOPS, which typically do not require employee to purchase the stock, have become the dominant form of employee share ownership along with grants of stock and stock options to workers. Employee investments in 401(k) plans have fallen by 74% since 1999 when company stock accounted for 19% of assets in 401(k) plans. In 2018, 5% of 401(k) assets are in company stock. Moreover, the main form of employee share ownership encouraging employee purchases with wages and savings, the ESPP, is based on deep discounts to the price of the stock, and, in many cases, the ability to buy the stock at a lower price within the last two years (the look back option) (Bass et al., 2021).

Another issue is why worker cooperatives have grown so slowly despite the long-standing interest in worker cooperatives? With much less than a thousand worker cooperatives consisting of less than 10,000 workers in total and a median of 10-11 workers per firm, while there are 14 million ESOP employees in thousands of ESOP firms, the difference in reach is inescapable to the observer. One reason is that trade unions and trade union federations and political parties stopped supporting the development of worker cooperatives as a labor strategy in the late 1800's. Another reason is that in other countries these institutions made access to credit to create larger worker cooperatives and the supportive infrastructure of federations of worker cooperatives easier. Another reason is that the US government has not, until recently, had a special program to make loan guarantees available to create and sustain worker cooperatives. An important additional reason is that ESOPS tend to be created by converting existing successful businesses with intact management and HR systems to employee-owned corporations.

It is possible that the average US worker does not want to be in a workplace that has the level of democratic participation in management as most worker cooperatives. This needs to be explored by researchers and representative rather than direct participation models of governance need to be considered for worker coops similar to the more representative versus direct models of worker participation in the Mondragon federation of worker cooperatives (Whyte & Whyte, 1991). These models have not evolved in the US because worker coops tend to be so small. Most ESOPS have direct confidential voting rights by workers mandated by federal law on all major corporate issues, but no required worker votes to elect the board of directors that selects management. It is possible that the more conventional management approach of ESOPs make them more accessible. Nevertheless, worker cooperatives are experiencing a special historical moment in the United States as public interest in them is at its highest since the 1800's and as a variety of credit and technical assistance resources are available for their formation; even the idea of converting conventional firms to worker coops has gained strong support. Smaller worker cooperatives may be the fastest growing type of employee share ownership today.

The 2018 General Social Survey of the entire adult working population of the United States makes it possible to assess how equitably employee shares have spread through the US population after a century of support by citizens,

TABLE 2.3 WHICH WORKERS HOLD WORKER SHARES? (% OF ALL ADULT WORKERS IN THE UNITED STATES WITH THIS PARTICULAR SHARE PLAN)					
Demographic group	Stock	Stock Options	Profit Sharing	Gain Sharing	ESOPS
Overall, nation as whole	19.8%	8.7%	38%	30.1%	
Industry					
Farming/mining/ construction	17.4%	9.9%	31.3%	28.6%	3.5%
Durable manufacturing	28%	8.1%	49.6%	38.9%	12%
Non-durable manufacturing	31.8%	21%	36%	27.6%	8%
Transportation/utilities	30.4%	11.4%	40.7%	38.9%	10.9%
Information/ communications	49%	37.3%	72.6%	33.3%	12.8%
Wholesale trade	14.3%	14.4%	51.6%	25.8%	19.7%
Retail trade	22%	10.1%	48%	40.1%	8.05%
Finance/insurance	32.5%	11.9%	60.6%	53.3%	13.9%
Education/health	9.5%	1.3%	25.6%	20.7%	0.72%
Professional & mgt. services	16.2%	6.4%	37.6%	24.7%	3.86%
Other services	11.1%	4.1%	23.4%	20.1%	3.24%
Occupation					
Management	28.1%	13.2%	56.5%	37.2%	6.97%
Human Resources/ Finance/Etc.	26.5%	14.4%	60.7%	41.3%	7.34%
Professional/Technical	18.2%	10.2%	40.6%	26.8%	6.39%
Sales	23.2%	10.1%	52.3%	48%	10.29%
Clerical	19.9%	10%	41.2%	35.4%	7.58%
Service	7.9%	0.6%	24.1%	23.3%	1.96%
Blue-collar	23%	9.2%	26.6%	22.7%	5.47%
Hours of work					
Full-time	18.3%	8.7%	39.6%	31.2%	7.95%
Part-time	27.8%	9.1%	17.4%	9.1%	6.28%
Representation					
Union member	16.4%	6%	34%	25.4%	4.04%
Not a union member	22.9%	11.3%	41.7%	34.4%	7.95%

TABLE 2.3 (CONTINUED)					
Gender					
Female	16.4%	6%	34%	25.4%	4.04%
Male	**22.9%**	**11.3%**	**41.7%**	**34.4%**	**7.95%**
Race/Ethnicity					
Black	14.3%	9.3%	38.1%	29.5%	3.78%
Latinx	17.2%	7.4%	26.4%	25.7%	4.49%
White non-Hispanic	22.4%	9.3%	40.9%	30.5%	7.18%
Other	11.8%	4.3%	41.7%	42.3%	2.69%
Job tenure					
0-2 years	11.9%	4.8%	32.5%	29.6%	3.59%
2-4 years	19.3%	6.3%	39.1%	32.6%	3.99%
5-9 years	25.4%	12.3%	42.5%	33.3%	9.74%
10+ years	31.7%	15.5%	44.7%	27.3%	9.52%
Size of company					
1-9 employees	7.5%	1.1%	15.2%	8.5%	0.19%
10-49 employees	7.4%	1.6%	29.8%	22.3%	0.75%
50-99 employees	8.9%	0.6%	24.1%	19.8%	7.73%
100-499 employees	19.5%	9.8%	47.8%	32.3%	4.92%
500-999 employees	19.8%	14.9%	35.9%	31.7%	5.1%
1000-1999 employees	18.7%	9.3%	51.3%	48.2%	5.3%
2000-9999 employees	28.4%	16%	47.8%	32.3%	12.7%
10,000+ employees	32.4%	14.2%	45.1%	36.4%	11.3%

business, and government. Regarding employee share ownership, Table 2.3 shows that ownership shares are fairly well represented in most industries (except education/health/other services), fairly common in occupations except for service occupations, common with workers making above $30,000 a year, and more common in medium and large firms.

Notably, holding company stock and holding company stock options is more common, proportionally speaking, among union members than non-union members. This can be partly explained by the use of shares in the restructuring of the US auto industry. Employee share ownership is less common among women, although Blacks are represented similar to their proportion in the US population while Latin workers are under-represented. Indeed, worker cooperatives tend to be concentrated in services, among modest income workers, and Blacks and Latin groups, so that they are particularly addressing the demographic inequities of employee shares nationwide (Palmer, 2020; Schlachter & Prushinskaya, 2020).

Table 2.3, column 5, presents the distribution in the population for ESOPS. As the dominant form of employee share ownership and the one in the most majority and 100% employee-owned firms, these statistics provide an overview of this form. Briefly, ESOP employees are well represented in most industries, but unlike worker cooperatives have low representation in services. ESOP employees have fairly equivalent representation among different occupations, again, except for service occupations. Proportionally, as many union members as non-union members are in ESOPS. ESOP employees are represented well among employees of different job tenures and annual earnings except the lowest group suggesting they encourage stable employment. ESOP employees are concentrated in mid-size and large firms unlike worker cooperatives. This data helps underline the relative competitiveness of worker cooperatives in service and smaller start-up firms in the United States and among modest income workers just at the beginning of their careers.

While employees in ESOPS typically do not buy the stock with their wages or personal savings, ESOPS have further addressed the issue of risk of excessive concentration in company stock by providing those workers can diversify away from their company's stock after the age of 55 and by most ESOPS voluntarily installing a separate diversified retirement plan that does not include company stock for employees. Separate analysis shows that 97% of one sample of ESOP employees have such a plan. Moreover, ESOPS appear to constitute more of a general "shared capitalism" company model since 70% of ESOP workers report also having a cash profit sharing plan (compared to 35% of non-ESOP workers), while 53% report also having a cash gain sharing plan (compared to 26% of non-ESOP workers).

CONCLUSIONS AND POLICY IMPLICATIONS

The evolution of employee shares in the United States benefited from ideological support for broad-based shares of property to sustain a middle class and the idea that a broad middle class was necessary for a democratic republic to survive and sustain itself. The original basis for both equity and profit-sharing approaches was experimentation by businesses. Subsequently, the federal government developed a series of tax incentives to encourage such share plans.

The employee share ownership format with the most tax incentives, the ESOP, has achieved the widest incidence. Its tax incentives encourage employers to create large ESOPS. As a result, the impact on worker wealth can be considerable. Profit sharing and gain sharing have the least tax incentives and thus have the least national impact on employee wealth. The worker cooperative and the EOT, to the extent that they can use credit, like ESOPS, to purchase more valuable and profitable companies, have the same potential of the ESOP.

The ESPP has a long pedigree in American history, having roots in the plans designed by William Cooper Procter of Procter & Gamble in the late 1800s and by John D. Rockefeller Jr. in the 1920s. Where the ESPP can be structured to be significantly reduced in risk, namely, with deep discounts on the price of the stock and a look-back allowing the employee to purchase the stock at any price over the last two years, in effect turning it into a stock option that looks back into the past, it can have some promise in stock market companies. There is a lot of potential to expand broad-based stock option programs and restricted stock and performance share programs so that they could potentially contribute a lot to employee wealth, but data on these plans is limited.

It should be clear to the reader that the development of employee shares in the United States is very much a hydraulic process, as tax incentives increase, the incidence of employee shares increase. After so much evolution over more than a century, some irregularities need to be corrected. As policy makers consider the direction of employee shares for their countries, this is the most important lesson to acquire. In the United States, tax subsidies to corporations or corporate tax incentives amount to about one trillion dollars every 4-5 years. They are often designed to encourage a wide variety of behaviors by corporations. Most of these tax incentives have little impact on reversing income inequality or wealth inequality. Modest amounts of tax incentives can change corporate behavior significantly. For example, from 2010-2023 the US Congress' Joint Committee on Taxation estimates the tax expenditure for ESOPS to be between $1.4 billion and $1.8 billion per year (Joint Committee on Taxation, 2019, p. 27) out of total tax expenditures of about 200-250 billion dollars per year. In considering the expansion or contraction of employee share programs in the United States and other nations, the tight relationship between tax incentives and the incidence of such plans needs to be appreciated along with the fact that many nations have large tax incentive "budgets," part of which can potentially be allotted to encouraging employee shares. One issue that US policymakers are looking at in 2021 is whether there is parallel treatment of all of the different kinds of equity participation and profit/gain sharing employee share programs by the federal government.

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