Thinking globally, acting locally:
Promoting employee ownership at the subnational level

Report on the COG Subnational Discussion Group
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There are at least six reasons why we should be concerned with encouraging employee ownership at the subnational level: at the level of the state, the province, the region, the municipality, or other subnational governmental units or at the level of the industrial branch, cutting across governmental geographic units.

The first is that in many governmental systems, particularly federal systems, legislative measures beneath the national level may be effective in promoting broadened capital ownership. In many federal systems, the writ of the federal governmental does not extend beyond broad national agenda items; state and local legislation speaks to the local economic development questions.

Second, in larger nation states, be they federal or unitary in structure, the national government is not a very effective provider of technical assistance for companies, employee groups, retiring owners, unions, or community economic development groups. Subnational provision of technical assistance through state, provincial, or municipal programs, or through non profits—501(C)(3)'s in the United States, and their equivalents elsewhere—and industrial associations is far more efficient and appropriate.

Third, employee ownership is, in its nature, not only a strategy for broadening capital ownership at the national level, but also a strategy for anchoring capital and jobs where employee owners live. This localistic strategy is best implemented through subnational action.

Fourth, employee ownership is intrinsically a micro economic strategy, implemented at the level of the firm. As we will discuss below, many of the opportunities available for employee-owned companies are available at the local level where the companies are situated and where their employees live. These areas of activity include collaborative networks, training cooperatives, establishing employee-owned supplier networks, and other strategies for community involvement. The substantial multiplier effect that employee-owned companies can have in spreading employee ownership and increasing community economic activity takes place typically at the state or, more generally, municipal levels.

Fifth, employee ownership tends to stabilize local and state economies by anchoring capital and jobs. Moreover, its productivity enhancing effects "help to narrow the divide between those who favor and those who fear more growth in Hawaii by slowing workforce/population growth in future economic expansions which, in turn, could reduce the need for wage cuts and lay-offs in future recessions" (Tom Brandt, 4/4/2000; see also his "Impossible Dream for Hawaii's Future?" 9/10/99).[1]

Sixth, with economic globalization, the nation state gradually ceases to be the appropriate unit for economic policy, and the traditional national economic management tools—whether fiscal, monetary, or exchange rate policies, capital transfer restrictions, domestic content, requiring a controlling domestic ownership stake, domestic preference in the award of public contracts, etc.-- cease to be effective or are struck down by international trade rules. In this environment, employee ownership is a particularly attractive alternative, especially for high wage areas.

Thus, it makes sense to look at employee ownership at the subnational level as distinct from the promotion of employee ownership nationally and from the promotion of employee ownership at the transnational level. These levels impact promotion of employee ownership at the regional and local levels but that state and local implementation is also distinct from national action.[2]

The goals of the COG subnational discussion group and of this paper have been to canvass existing subnational initiatives, to select best practices worthy of dissemination, and to propose innovations in order to promote the expansion of employee ownership through subnational initiatives by both governmental units and other organizations, including both non-profits and for-profits. Our overarching goal is to find mechanisms to expand the employee-owned sector that are within our scope of control.

We will look at what subnational actors—both public and private sector—can do to promote employee ownership through (1) stae legislation, (2) technical assistance, (3) local actions, (4) investment funds, (5) company networks, and (6) using the economic power of employee-owned firms within their communities.

Participants in the discussion appear to have sought to achieve two major goals with their proposals: (1) broadening ownership of productive assets through increasing the rate of formation of employee-owned firms, and (2) deepening existing (or future) employee ownership through encouraging greater employee participation.

This paper concludes by looking at issues and problems raised in the subnational discussion and by enumerating measures which can be taken by subnational actors to broaden ownership of productive assets.

1. Subnational public policy

Subnational political units can act to encourage employee ownership within their jurisdictions. From the subnational discussion on the COG website and during COG's annual meeting, that seems to date to have been done primarily in the United States and Canada. There is, however, no particular reason why similar measures cannot be undertaken in other federal systems and in unitary political systems which give some latitude to subnational governmental bodies in economic development.

Employee ownership hit the state policy agenda in the United States shortly after Congress passed the Employee Retirement Income Security Act (ERISA) in 1974 which legitimized ESOPs as a pension plan. In all, twenty-eight states have passed some sort of legislation encouraging employee ownership. Such measures run the gamut from policy declarations to substantial financial commitments. They include:

- Policy declarations endorsing employee ownership
- Publicity for employee ownership including workshops, pamphlets, etc.
- Tax credits
- Exemption of Employee Stock Ownership Plans from state securities regulations
- Legal recognition of workers cooperatives
- Loan guarantees
- Earmarked loan funds

- Interest rate subsidies
- Funding for or the direct provision of technical assistance
- State employee ownership offices or programs
- Use of employee ownership in privatization of state services

In the aftermath of ERISA, Minnesota and Michigan passed legislation supporting employee ownership in 1974. The big push for state legislation was between 1979 and the end of the 1980s as the one-two punch of the recession of 1979-80 and the overvalued dollar in the middle of the decade sent manufacturing into a long-term crisis. While no more than two or three percent of employee-owned companies have been set up to avert job loss, much of state legislation in this period focused on employee ownership as a defensive, job retention strategy. Between 1979 and 1990, twenty-three states passed legislation encouraging employee ownership in a variety of ways. These included all the states in the industrial heartland from Massachusetts and Connecticut through Illinois and Wisconsin as well as the Pacific Northwest. By contrast, state legislation in the 1990s focused primarily on employee ownership in privatization (Virginia 1995; North Carolina 1998).[3]

There is one notable exception. In 2000, Maine, which had passed new legislation driven by job retention interest in 1997, established a commission to undertake a comprehensive study of ownership patterns in the state. "The commission is charged with recommending to the next legislature the specific eligibility criteria for accessing grants from the feasibility fund and which agency or organization should manage the outreach program.... The commission is charged with documenting current patterns of ownership of Maine businesses, the characteristics of those businesses (size, number and quality of jobs), and the impacts of changes of ownership on the state and local economies, and civic and environmental accountability. One area of particular interest is the patterns of small Maine-owned growth companies, particularly technology firms, and their need for large infusions of capital as they grow: how many are bought out, do they continue to operate in Maine, does their growth take place in Maine? The commission will also look at policy options for broadening ownership through employee, consumer and community forms of ownership in firms operating in the state." (Carla Dickstein, 4/4/2000; see also her discussion of 4/5/2000 and 4/7/2000 and "LR: 3751: An Act To Broaden Business Ownership in Maine" in the COG library).

Maine's interest in keeping a high tech growth sector in local hands is similar to the perception in Manitoba that we will meet below in the discussion of the Crocus Fund.
Other initiatives proposed in the COG subnational discussion include:

- States could provide tax credits to companies for setting up more participatory ESOPs with caps based on a sliding scale varying with the percentage employee-owned (COG meeting, April 14-15, 2000).
- Unemployment contributions could be cut for employee-owned firms (COG meeting, April 14-15, 2000).
- Local governments could issue local currencies to finance expanding employee ownership locally (Shann Turnbull 8/6/2000).

- States can encourage electrical consumer co-ops in electricity deregulation (COG meeting, April 14-15, 2000).
- States can enact legislation giving employees the right to purchase facilities being shut by companies abandoning that line of business, or, more aggressively, to give employees right of first refusal on plants being put up for sale.

Preferential bidding arrangements for government contracts
We have a variety of set asides in government contracting varying from state to state. These include set asides based on ownership by minorities and women. Why not set asides or preferences for employee-owned firms?

Carla Dickstein (email to Deb Olson, 4/18/2000) notes that both the French and Italian governments provided preferences to cooperatives in bidding on government contracts.

State and local privatization
With the hegemony of neo-liberal ideology reaching the local level in the 1990s, subnational governmental units joined nation states in divesting themselves of ownership of public utilities and services, from hospitals through water works. Since privatization is handled in a separate paper, suffice it to say here that subnational privatization of municipal and state enterprises has represented a major missed opportunity to broaden ownership in the West. In general privatization has occurred through sale of locally owned public enterprises to conventionally owned corporations, not to employees, with revenues flowing into general coffers for current spending, rather than into trusts or other funds which provide a lasting benefit for citizens.

In effect, the public sector has liquidated long-term assets to finance current consumption. While this procedure has been justified by the unsubstantiated ideological assumption that private markets are always superior to public provision of goods and services, in fact much of the political motivation for local privatization has been covering revenue shortfalls or paying for tax cuts, usually for the well to do, quickly consuming the value of public assets. At least in the United States, this has been “free” funding for the governmental unit, because public sector accounting practices do not provide balance sheets to citizens charting asset liquidations.

Given the fact that these assets were typically built through public effort, achieving some public purpose (beyond raising funds) would seem desirable. The Virginia and North Carolina legislation consider sale to employees as a means of privatization. Russian and Eastern European privatization at the local level on occasion has also given preference to employees, as did Mrs. Thatcher’s privatization of bus lines (carried out in the unitary United Kingdom through national governmental action).

As is clear from Dan Bell’s report on the discussion group on employee ownership in privatization, one primary motivation for an employee share has been getting public employee unions’ acquiescence in privatization. However, one can conceive of a privatization policy designed to create lasting employee ownership of privatized assets.

Another interesting idea is to create partial employee ownership of some or most public enterprises by simply paying employees a small capital wage in stock, underpinning what otherwise would be purely theoretical ownership rights with dividends—when the enterprise was profitable.

Distribution of subnational public ownership rights to citizens

The Alaska Permanent Fund constitutes a unique case in the United States of using public ownership rights of subsoil resources (in this case, oil) to convey quasi ownership rights to citizens. Since 1982, a portion of state oil royalties have been distributed to every man, woman, and child resident in Alaska for all of the previous year. Every resident who qualifies gets an equal share. These rights are not tradeable (i.e., cannot be sold), cannot be inherited, and cannot be taken with you if you move out of Alaska. In effect, Alaska treats its residents as beneficial owners of royalty rights. In 2000, dividend checks from the Permanent Fund were almost $2000 for each of the state's 585,000 qualifying residents. The state retains the formal ownership right but chooses to pass-through the economic benefit to its citizens.[4]

It is not difficult to imagine a similar treatment for other profitable public ownership rights at the state or local levels when those streams of income are sufficient to be divided. Public income from royalties, easement and concession income, fees for private use of public property, and the like are often consigned to general revenues and not as jealously protected as they might be if citizens derived a more direct benefit from public ownership. Of course, most of these public ownership income rights are already committed to other worthy public ends, especially public education as is the case for Texas oil royalties and for most state lottery profits.

Is there any reason why profitable, publicly owned electrical utilities, parking garages, etc., could not pay dividends to citizens?

Thinking more broadly, what Alaska has done is to conceive of ownership as a bundle of rights. The right of ownership itself remains in the hands of the state, but the right to dividends on that ownership is accorded to citizens.

2. Providing technical assistance

One promising mechanism for encouraging employee ownership at the subnational level is the establishment of organizations which provide information, technical assistance, training, and the like for employees seeking to purchase companies or to establish cooperatives. This can be done by governmental units (as has been done in several American states), by not-for-profits organizations (again there are several American examples), by unions, by labor-sponsored investment funds, or, conceivably, by for-profit groups.

State employee ownership programs

During the latter part of the 1980s and early 1990s, seven state employee ownership programs (Hawaii, Massachusetts, Michigan, New York, Ohio, Oregon, and Washington) were established. A quasi-state entity—the Steel Valley Authority—provides similar services on a regional basis in Southwest Pennsylvania. More than anything else, these programs focused on outreach and assistance to union locals in plants facing shutdown and to retiring owners who might be interested in selling their companies to their employees.

A study of three of these programs—New York, Ohio, and Washington—in 1990-91 by the National Center for Employee Ownership found all of those studied to be efficacious in increasing the rates of ESOP formation in the states in question.[5]

Practically all we know about the impact of employee ownership at the state level is a consequence of studies done by those state programs (Michigan, Ohio, and Washington[6]) or supported by them.[7] In addition, a number of foreign scholars have reported on American state programs and their results.[8]

Despite the apparent success of these programs, their political support ebbed with improved economic conditions in the 1990s and party transitions in a number of state governments. The consequence was the defunding of state employee ownership programs in Hawaii, Massachusetts, Michigan, New York, Oregon and Washington, although state personnel continued to provide support and technical assistance for employee ownership in Massachusetts, Michigan and Washington.

Why were clearly successful programs dismantled? They were largely anchored in state governments; only Ohio's and Oregon's were contracted out by those states to, respectively, a state university and a non-profit organization. This made them susceptible to the slings and arrows of state politics, especially because several state programs had clear partisan backing at the time of their establishment. Placement outside of state government was no panacea, however: while the Ohio program has continued to grow despite reductions in state support, loss of state funding terminated the Oregon program.

Jim Houck, who ran the Michigan program while it existed and who continues to promote employee ownership in that state reflected in the COG discussion that "why many of the earlier state programs have disappeared probably relates to changes in priority in succeeding administrations and the loss of an employee ownership champion either in state government, the legislature or in the Governor's office of these respective states. State programs are inevitably vulnerable and most have a somewhat limited life expectance. There is always the temptation to try something new and programs are constantly being scrapped, merged with others and replaced by the latest fad incentive."

"Employee ownership must compete with a lot of other program applications in government," says Houck. "It must constantly evolve its marketing appeal (attracting and retaining employees is a major concern to most all states in today's economy) and specific applications if it is to retain its support by state government officials" (Houck, 3/27/2000).

One aspect of state programs is particularly important to note: most got their bang for the buck by targeting retiring owners to encourage them to sell their businesses to their employees when there was no heir eager to continue the family business. For the seller, the employees constitute an often enthusiastic buyer that is willing to pay a market price for the company, rather than bottom fishing. For the employees, buying the company averts uncertainty and avoids the dubious aims of outside owners. Additionally, in the United States, special Federal tax incentives encourage the sale of closely held businesses to employees.[9]

A number of subnational programs have this focus. In the early 1990s, Hawaii's employee ownership program was funded to identify owners within 5 years of retirement and to let them know about the advantages of employee ownership (Tom Brandt 4/4/2000). The New York state program actively promoted employee ownership in retiring ownership situations by funding preliminary feasibility studies. The Ohio Employee Ownership Center, which always stressed outreach to retiring owners, has run a broader ownership and management succession planning program successfully since 1996 in the Cleveland area; between 1996 and spring 2001, 347 business owners from 276 area companies employing more than 25,000 participated in the program.[10] Massachusetts recently funded a state-wide succession planning program patterned on the Ohio model.

This retiring owner focus pays off in broadening ownership. A 1991 NCEO study of several state employee ownership programs found a startling impact on the rate of ESOP creation in closely held companies; in Ohio, for example, where the state program targeted small business, the rate of ESOP creation in closely held firms rose 45% faster than the national average.[11]

Have these state programs made a difference? The answer is overwhelmingly "yes!" The question is how best to maintain them. Michigan's Houck argues that it is "very important to have legislation which more or less permanently supports the establishment of some sort of government response encouraging employee ownership. Ideally, that legislation will also establish a modest funding level to support staff and program initiatives. It does not have to cost a lot of money. From $100,000 to $200,000 annually will provide a substantial administrative effort. Legislation will help a state to override inevitable political shifts" (Houck, 3/27/2000).

Non-profit employee ownership organizations

In addition to public sector employee ownership assistance organizations, there are a handful of regional not-for-profits which promote employee ownership in the United States. These include the Industrial Cooperative Association (now ICA Group) in Boston, the Center for Democratic Solutions in San Francisco, and the Southern Appalachian Center for Cooperative Ownership in North Carolina.[12]

A number of local non-profits have been set up to encourage employee ownership. In Ohio alone there have been three: Commonwealth in Youngstown, Worker-Owned Network in Athens (now ACENet), and Jobs for People in Cincinnati. Generally speaking the catchment area for such local organizations is simply too small for them to focus exclusively on employee ownership and, over time, they have come to broaden their scope to include such other admirable goals as low and middle income housing development (Common Wealth) and flexible manufacturing (ACENet).

Employee ownership as a tool for general economic development organizations

A handful of general purpose economic development organizations have developed special employee ownership competence. These include Coastal Enterprises, a community development corporation in Maine; Social Action for a Just Economy (SAJE), a 501(c)(3) Hispanic community organization in Los Angeles; the Center for Community and Labor Research, a labor-related economic development and research program in Chicago; and the Steel Valley Authority, a quasi-governmental economic development agency established by a number of municipalities in the Pittsburgh area.

These organizations use employee ownership as one of their tools for economic development. While their regional catchment areas are not sufficient to focus on employee ownership alone, through their economic development activities they screen enough firms that some individual firms are identified as appropriate candidates for employee ownership.

Given the successful experience of these organizations in using employee ownership in their regions, it would be worthwhile to train additional economic development organization personnel in the appropriate uses of employee ownership.

Industrial sector strategies

An alternative to the regional geographic focus of the previous organizations is a sectoral strategy. Several organizations have undertaken to promote employee ownership nationally within particular economic sectors. These include Childspace Cooperative Development, a national cooperative daycare developer; Cooperative Homecare Training Institute, which seeks to replicate in other urban areas the outstanding success of Cooperative Home Care Associates in New York City; and the Industrial Cooperative Association's temporary service cooperative initiative.

The first two of these cases build off the success of single cooperative enterprises. Childspace, a parent-teacher cooperative daycare program, originated in Philadelphia where it developed an enviable track record of providing high quality daycare services in a low income community. Cooperative Home Care Associates (CHCA) in New York is an outstanding example of how a cooperatively organized and well led company can provide higher wages and benefits as well as ownership in a low income, female service sector branch. In both cases, national replication projects have been funded by foundations.

The ICA's employee-owned temporary employment agency initiative similarly attempts to improve employee's economic conditions in what is usually a benefit-less service branch while also providing ownership. It uses the strength of an existing employee ownership organization to seek to spread the model nationally.

All of these initiatives seek to improve economic conditions for low wage or contingent workers while improving services to children and the elderly. As such, they have received foundation support. To have large scale consequence, however, they need linkages to other large organizations with the purchasing power to take these attractive models to scale.

Private sector consultants

Private sector consultants specializing in employee ownership in the United States outnumber public and non-profit staff by a factor of 25-50 : 1. Indeed, the rapid growth of employee ownership in the United States stems from its promotion by private sector consultants who are paid on a fee-for-service basis for providing professional services. This appears to be a substantially more lucrative area of endeavor in the United States than in other countries, possibly because of the fact that the most common form of employee ownership in the United States is the ESOP, a government-regulated pension plan.

As a consequence, most of the outreach done to the business community to encourage the creation of more employee-owned companies is done by the professional community. This has been successful in spreading ESOPs (but not cooperatives, which provide few fees for professionals) in the United States, but it is driven almost exclusively by the tax breaks provided by the Federal government. A reduction in tax expenditures or in the regulations which encourage the professionalization of ESOP services would reduce the private consulting sector's interest in promoting ESOPs.

Moreover, because the tax breaks are equal for democratic and non-democratic ESOPs, private sector consultants do less to promote democratic employee ownership than is warranted by its performance.

Maximizing leverage

In the United States, Federal tax advantages are accorded to good, bad, and indifferent ESOPs alike. In fact, in terms of the total dollars in tax expenditures, the bad and indifferent ESOPs—those with little employee participation, communication, or training—account for the lion's share of tax incentives. An Ohio study found that the bottom two-fifths of firms in these areas accounted for just over 90 percent of the corporate tax expenditures for ESOPs in Ohio. By contrast, the roughly three-fifths of firms which provided more opportunity for employee owners in these areas got under 10 percent of the corporate tax dollars.[13]

Ironically, it is the latter category of companies that outperforms conventionally owned firms, not the former.

Although compelling for corporations, Federal tax incentives are expensive. They probably exceeded $3 billion annually in the 1990s. By contrast, public sector funding for all employee ownership support organizations did not exceed $2 million annually at any point in the 1990s.

A modest Federal program to provide matching funds for state and regional public and non-profit sector employee ownership assistance programs would be highly cost effective in generating both more employee-owned companies and in improving their performance. Recipients might also include sectoral employee ownership assistance programs, such as the Steelworkers' Worker Ownership Institute (which became a casualty of the steel crisis). Only $5 million annually in Federal matching funds—less than 2/10s

of 1% of the tax expenditure for ESOPs would probably lead to the establishment of 20 to 30 state, regional and sectoral employee ownership programs that would effectively cover the country.
In addition to matching funds, a $1 million marketing budget annually to promote the idea of employee ownership nationally would be valuable (COG meeting, 4/2000).

Replicating the agricultural extension service for employee-owned companies
One of the most successful American innovations in economic development is the Agricultural Extension Service. For decades it has been transferring research results from the lab to the farm, bringing knowledge and technology to the family farm. The Extension Service has helped keep American family farms competitive with corporate farming and promoted a continual process of intellectual renewal in agriculture.

Creating an employee ownership extension service could be done at the state level to supply a variety of technical and organizational development assistance to smaller firms without Federal support; once in place in a couple of states and successfully field-tested there, an employee-ownership extension service could be spread by Federal matching funds.

The Department of Agriculture's new Rural Cooperative Development Program has put cooperative development specialists into nearly all states. Their mandate includes aiding the establishment of worker cooperatives, but little has been done in its area to date. This program, however, has substantial potential to expand employee ownership in small towns in rural areas as a means to stabilize their economic base.

While the preceding discussion is couched in terms of the United States, the same principles could easily be applied in other countries as well.

3. Action at the local level

Why should we limit ourselves to actions by state, provincial, or regional governmental entities? Once we move out of Washington and turn to state and local initiatives, the possibilities are legion. Much can be done to encourage broader employee ownership by municipalities, by charitable and religious organizations, by unions and universities, and by employee-owned companies themselves.

Little has been done to promote employee ownership by local government outside of using local revolving loan funds to save jobs in employee buyouts. This probably reflects a lack of imagination rather than a lack of ability.

Among the proposals which have come to our attention during the COG process are

- Municipal or local economic development authorities can establish industrial parks for employee-owned companies and for other high performance companies which provides a joint training facility, a cooperative day-care facility, and a co-op lunch facility.

- Municipal governments can provide preference in purchasing for employee-owned firms as is the case in Northern Italy, aiding the growth of production cooperatives there (Carla Dickstein (email to Deb Olson, 4/18/2000).

- Municipalities can issue local currency to fund broadening employee ownership locally. "Self-Help Associations for Regional Economy (SHARE) ...[are] described in our book *Building*

Sustainable Communities.... The significance of the SHARE program is that it used the local banking system to finance the acquisition of self-financing assets to democratise wealth. It provides a format for achieving the same objective with interest free local currencies" (Shann Turnbull, 8/5/2000).

- The Catholic hospital system can use institutional strength to replicate New York's Cooperative Home Care Associates, creating better jobs and ownership for home health care aides and improving care for the homebound simultaneously (under discussion in a number of dioceses currently).

- Local churches can encourage employee ownership within their spheres of influence through their purchasing and through social justice work within their congregations.

- Make sale of religious or public hospitals to for-profit chains contingent on their contracting home health care, janitorial services, and other services to employee-owned firms.

- Community foundations could receive stock from local companies (charitable contribution at stepped up basis for donor) and create market by selling to employees (COG meeting, April 14-15, 2000); educational institutions and churches can do the same thing, though all of them would need some assistance with appropriate uses of employee ownership.

- Unions can negotiate contract language that gives their members the right to buy facilities put up for sale or right of first refusal at the time of such a sale.

- European and American universities concerned with the use of sweatshop labor in garments carrying their logos could simply require their production in worker-owned businesses, a positive screen which would also be more easily enforced than the current negative screens.

Further, individual employee-owned firms can act to grow capital stakes for their employee owners by simple leverage strategies. One interesting outgrowth of the discussion of opening the Federal Reserve's discount window for lending for employee ownership (which is clearly a national level issue, rather than a subnational one) was the proposal that ESOP firms **borrow** to purchase a diversified portfolio of securities held in the "other securities" portion of employee ESOP accounts (Dan Bell 4/6/2000). Company securities already held by the ESOP can collateralize the loan. Annual company ESOP contributions can then be used to pay off the loan. Portions of the portfolio of other securities can, from time to time, be sold to cover repurchase obligations. While the leverage required for this strategy increases its risk, the diversification reduces risk. (See also Michael Harrington 4/12/2000.)

ESOP companies can themselves become cornerstones of local employee ownership efforts by building networks of employee-owned suppliers. They can serve as incubators for new employee-owned companies, providing an initial base market in addition to the physical space, telephone answering and accounting services provided by other business incubators. Employee-owned companies can—and should—examine which of the goods and services they currently purchase externally can be better provided (in terms of quality and reliability as well as cost) by local employee-owned suppliers. ESOP firms can also go beyond the individual enterprise to build cooperative networks, including export cooperatives and cooperatives providing services to ESOP firms. These possibilities will be explored in Section 6 below.

It would be useful to build coalitions at the state or regional level between traditional cooperatives (agricultural, rural electric, mutual insurance companies, credit unions, consumer co-ops, etc.) and the growing employee-owned sector. The Province of Quebec offers a dramatic demonstration of the possibilities that such a critical mass could create.[14] Substantial synergies are possible, including developing hybrid consumer-employee cooperatives.

4. Employee ownership funds

Should there be special financing institutions for employee ownership?

Opinion is divided. Some feel that it is salutary for employee-owned firms to utilize the standard market financing sources: commercial banks, asset-based lenders, venture capital funds, and bond market. Others argue for at least a partially separate financing stream for the employee-owned sector.

Over the years, a variety of public and private financing mechanisms for the employee- owned sector have been launched with mixed success. These include

- local and regional revolving loan funds;
- a national banking institution with a preference for employee ownership, the National Cooperative Bank;
- state loans and loan guarantees,
- private sector venture capital funds; and
- regional labor-sponsored venture capital funds with special preference for employee ownership, such as the Crocus Fund in the province of Manitoba, Canada, and the proposed Framtid i Norr fund in the north of Sweden.

Some of these funds do only debt financing while others provide a source of friendly equity financing as well.

Revolving loan funds with preference for employee ownership
There are several revolving loan fund which have a preference for employee ownership or are exclusively employee-ownership lenders. These include A New Beginning/ANB Fund in the Shenango Valley of Pennsylvania; Commonwealth Revolving Loan Fund in the Youngstown, Ohio, area; LEAF—the Industrial Cooperative Association's revolving loan fund in Boston; and Northcountry Cooperative Development Fund in Minnesota. Some of these funds, like ANB and Commonwealth, are community-based and make loans only in a limited geographic area. Northcountry, the biggest of them, is a regional lender, covering the Great Plains and Midwest. LEAF lends nationally.

Specialized lenders nationally
Since the New Deal, the agricultural cooperative sector has been underpinned by specialized Federal lending institutions. Similarly, the expansion of home ownership from a third of American families to two-thirds of American families since the New Deal has been fueled by Federal home-ownership financing institutions. As described in the COG national paper, during the Carter administration, the

National Cooperative Bank (NCB) was established as a specialty lender for housing, consumer, and worker cooperatives. Privatized during the Reagan administration, the NCB has become a preferred lender for many worker-owned businesses because it is in itself a cooperative owned by its customers.
While the NCB and its Development Corporation (the soft-loan window) are more appropriately a subject for the national level paper, they have undertaken a policy of supporting regional cooperative lending funds, like the Northcountry Cooperative Development Fund. These serve as regional intermediaries for the NCB, working hand-in-glove with local borrowers who are too small to be serviced efficiently from Washington.

This model of decentralization is potentially very valuable both in employee ownership lending and employee ownership venture capital in the United States and elsewhere.

State employee ownership financing programs
Establishing special state credit facilities for employee ownership—particularly to avert shutdowns—was a relatively popular initiative in the 1980s as the one-two punch of the 1979-81 recession and the overvalued dollar in the mid 1980s clobbered American manufacturing. Few have been established since then. These credit facilities came in four primarily varieties:

- state loan funds specifically earmarked for employee ownership were established in Massachusetts (1984/1989), Michigan (1985) and Maine (1997);
- state loan guarantee programs were established in New Jersey (1983), West Virginia (1983) and Pennsylvania (1984);
- below market interest rates or rate subsidies were authorized in Illinois (1982), New Jersey (1983), New York (1983), and Connecticut (1985); and
- specific authorization to use state loan programs for employee ownership in Wisconsin (1983), West Virginia (1983), New Hampshire (1983), Pennsylvania (1984), Connecticut (1986), Indiana (1986), Hawaii (1987), and Maine (1997).

A number of other states, including Ohio, used existing state lending programs to support employee buyouts.

The effectiveness of such programs varied. Earmarked employee ownership lending funds have generally been rolled into other economic development loan funds as small pots of money were either underutilized or overdrawn. (Jim Houck also notes that Michigan's threshold requirement of 75% employee ownership was too high to attract a sufficient number of borrowers [3/27/2000].) On the other hand, both below market interest rates and public sector lenders willingness to subordinate their loans to commercial lenders seems to have played a significant role in supporting employee purchases of troubled and/or divested plants and firms. Loan guarantees—which are very cheap for the public sector—seem to have been underutilized.[15]

None of these programs, however, addressed the systematic lack of friendly equity investment which has hampered the growth of the employee-owned sector. There are exceptions, however. New Hampshire and Maine have created public sector venture capital funds. While the Maine fund has taken no equity positions in employee-owned companies (personal communication, John Burns, Finance Authority of Maine, 4/13/01), the New Hampshire Community Development Finance Authority has made two placements in cooperatives (personal communication, Robb Nichols, NHCDF). Other than this limited state effort and some near equity placements by revolving loan funds, equity has been left to private venture capital which sought a much higher rate of return than most employee-owned firms found pleasing.

Raising venture capital on Wall Street for ESOPs

Five national venture capital funds have been created in the United States that have special preference for employee ownership.[16] The first was Minneapolis-based Churchill Capital's **Churchill ESOP Capital Partners** which raised $188 million in a private capital partnership in 1995 in cooperation with Houlihan Lokey, a law firm with special expertise in ESOP transactions. It was designed to provide subordinate debt, preferred stock, and minority or majority equity stakes in mid-market companies in placement of $5 to $25 million in management-owned or employee-owned companies. Among its first eleven companies financed were four ESOP acquisitions and one recapitalization.

It is our understanding, however, that after the investment of this initial pool, Churchill decided against raising a second ESOP fund; the market was too limited.

American Capital Strategies was founded as an investment banking firm in 1986 specifically to arrange financing for ESOP transactions. It was one of the most successful firms in the country in this regard, arranging financing for 32 ESOP companies between 1986 and 1997. In 1997, it raised its own venture fund through a public offering as a "Registered investment company," which permits it to avoid paying Federal corporate income tax by paying out practically all its earnings to its shareholders. Since then it has completed ten transactions for eight ESOP companies creating close to 2000 new employee owners (John Hoffmire, 4/11/2000).

American Capital raised $155 million in its initial public offering on the NASDAQ in August 1997. In 1999 and 2000 it returned to the public market with follow-on offerings which raised roughly $100 million each. As of June 2000, it had assets of $650 million.

While American Capital has prospered and has become a leader in internet financial services for mid-market companies, ESOP companies have played a less prominent part in its portfolio of investments than some of its principals expected (e.g., Malon Wilkus in *Owners at Work* 9(2): 17). "We continue to be involved in approximately the same number of ESOP transactions per year as compared to years prior to our IPO in August 1997," John Hoffmire, American Capital senior investment officer us (4/11/2000). "But we would do more if we could find more ESOP transactions."

The bulk of American Capital's investments have been in conventionally owned, mid-market companies. Of the 39 companies it has invested in since it raised its venture fund, 31 are conventionally owned. ESOPs are part of its exit strategy here. "American Capital looks forward to long-term relationships with the companies we work with," says Hoffmire (4/11/2000). "We believe that such a relationship is good for us, good for our shareholders, and good for the companies. Long term we look forward to selling our interests, when possible, to the employees."

The **KPS Special Situation Fund** was established by Keilin and Company, the New York investment banking firm which had arranged the United Airlines buyout for the pilots, in 1994. The KPS fund raised $205 million, primarily from institutional investors, although a small portion of the fund was raised from collectively bargained pension funds, a major breakthrough into this funding source. As of this writing, the KPS Fund has made two major equity investments in employee-owned companies.

The first ($35 million) is a 55% equity stake in Blue Ridge Paper, formerly Champion Paper's DairyPak division. The remaining equity is divided between management stock options (5%) and the employees through an ESOP (40%). The Blue Ridge buyout, with 2200 employees in seven plants in six states, was the largest labor-initiated buyout since United Airlines.

The second is a 60% equity stake in Blue Heron Paper, a newsprint mill in Oregon City, Oregon, divested by Smurfit Stone Container. Blue Heron employees received 35% ownership through an ESOP, and 5% of the equity was reserved for a management incentive plan.

All of these funds have mobilized conventional venture capital sources including institutional investors and high net-worth individuals. Despite the fact that both American Capital and KPS clearly identify themselves with the labor movement, neither had much success tapping the Taft-Hartley jointly administered multiemployer pension funds or, for that matter, collectively bargained single employer funds. A small portion of the KPS fund was raised from these sources, but given KPS's strong labor orientation, it was a surprisingly small portion.

The primary reason for this seems to be the conservatism of multiemployer plan trustees and advisors and the pure Wall Street orientation of the trustees and advisors of collectively bargained single-employer plans. Both look askance at anything which smacks of "alternative investments" that meld social goals, such as broadening capital ownership, with decent investment returns.

Judging from their experience, the employee ownership market is not big enough or lucrative enough a niche for venture funds to specialize purely in employee ownership on Wall Street premises. Funds begun with a preference for employee ownership have found themselves broadening their investment portfolio as a consequence.

Still, every venture capitalist wants to exit. Employee ownership venture funds may create more owners at the time they sell their equity than in the initial transaction.

Further, one genuinely promising idea is to encourage conventional venture capital funds to consider employee ownership as an exit strategy. Selling to the employees is particularly attractive when the company has done decently but spectacularly; in the latter case, it commands a market premium above what the employees can finance. This idea would appear to be potentially viable in all countries with significant venture capital markets. The real question is how to educate venture capitalists about this possibility.

Labor-sponsored venture capital funds—Canada

The Canadians have developed a very different means of raising venture capital that has important implications for the future development of employee ownership in that country and for other countries where it might be replicated.

In response to the economic crisis occasioned by the second oil shock in 1979 and to the perceived shortage of capital availability for local investment in small and medium-sized businesses, the Quebec Federation of Labor undertook to establish a local investment fund—the Solidarity Fund. Endorsed by the Federation of Labor in 1981, the Solidarity Fund was established in 1983 and raised its first funds in 1984 with the support of a provincial tax credit. Since then the Solidarity Fund has grown into the largest single source of venture capital in Canada, and the Federal Government of Canada has spread the labor-sponsored investment fund idea by establishing a Federal tax credit to match provincial credits. Today, provincial and Federal tax credits encourage labor-sponsored investment funds in six of Canada's ten provinces.

The Canadian labor-sponsored investment funds are designed as vehicles for investment of the Canadian equivalent of US Individual Retirement Accounts (IRAs). They collect small investments (typically capped at $3500 Canadian) from large numbers of employees.

While the Canadian labor-sponsored funds generally focus simply on reinvesting locally with certain screens (for good employment practices, environmental record, workplace safety, etc.), Manitoba's Crocus Fund has added a preference for employee ownership to its investment criteria. In its first seven years, it raised $165 million (Canadian) from 28,000 working Manitobans—in a province with little more than one million residents. To date it has invested about two-thirds of that, saving 150 jobs that would otherwise have been lost, creating 3500 new jobs and stabilizing an additional 5200 jobs.

Crocus's employee-ownership strategy has two thrusts. The first is that Crocus is a friendly investor with the employees, partnering with employee owners in purchasing or growing employee-owned businesses. The second is that Crocus's preferred exit strategy is to sell its equity stake to the employees. As of 2000, one quarter of the employees in Crocus's investee companies had become employee owners while another quarter are expected to become owners at Crocus's exit.[17]

Following in the Canadians' footsteps: *Framtid i Norr*—Sweden

In the mid and late 1970s, the Swedish labor movement promoted the development of *wage-earner funds* (popularly known as *Meidner funds* after the trade union economist Rudolf Meidner who conceptualized the plan) as a mechanism to increase worker influence in companies and to redress the tendency of Swedish labor's "solidaristic wage policy" to create windfall profits for the largest and most efficient Swedish firms. The wage earner funds were to be the capstone of the comprehensive program of labor market reforms in the early 1970s that included a dozen or so contractual and legislative measures increasing employee and union influence on the job.

Whatever their economic advantages, the wage earner funds were a political millstone around the neck of the Swedish Social Democrats in election campaigns, and probably contributed to the Social Democrats' loss of power between 1976 and 1982—the first time the Swedish Social Democrats had been out of government since a few weeks during the summer of 1936.

The Social Democrats reformulated the wage earner fund proposal around the establishment of a regional funds. This regional fund system was enacted by the Social Democrats after they won the election of 1982. These "regional" funds weren't particularly regional in their investment policies. They invested primarily in the secondary market for public companies. No one was very happy with this hybrid which yielded a modest increase in employee influence in the board room and little more. They were dismantled after the non-socialist parties returned to power in 1991.[18]

The political disaster that the Wage Earner Fund proposal occasioned blocked further Swedish debate until the mid-1990s. The Social Democrats were leery of any fund proposal, and the non-socialist parties saw funds as an opportunity to beat up their opponents. For a country which prided itself on a factual political debate, the fund issue aroused an unusual amount of passion and generated far more heat than light.

Sweden's dismantling its capital controls in the end of the 1980s and joining the European Union in 1995 fundamentally altered the equation. Swedish Social Democratic policy had been premised on the assumption that Sweden was the relevant unit for economic policy making. By the mid 1990s, that was simply no longer true. While some Swedish flagship companies like L.M.Eriksson flourished, outlying areas of the country began to suffer from the disinvestment that has characterized older industrial areas in the United States.

In 1996, Per Åhlström, a Swedish Social Democratic journalist in Västernorrland in the northern part of Sweden, took the initiative to organize a conference on worker ownership in Ornsköldsvik. What was clear to Åhlström and others in the region regardless of their partisan affiliation was that the northern areas of Sweden had an unusually high degree of absentee ownership and were susceptible to rapid systematic disinvestment that could have devastating consequences. After research in the US and Canada[19] and staffing a high profile trade union delegation study visit to several of his research sites in 1997, Åhlström set about organizing the Framtid i Norr (Future in the North) fund. While the fund is not yet operational, it has obtained the backing of union locals representing more than 1/3 of the union members in the region and investment commitments from several unions' strike funds and the cooperative insurance company Folksam. It is continuing to seek additional funds from other unions, the European Union's structural funds, and the governmental Norrland fund. It is seeking initial capitalization of Skr 100 million (about $12 million) to service an area with a population just under one million. "The investment activities," wrote Åhlström (4/5/2000), "are planned to be blueprinted (as far as possible) on the Crocus Fund in Manitoba, which we have found to have an investment policy which is well suited to the needs of our area." Framtid i Norr's preferred exit strategy will be to sell its equity stake to the employees.

Åhlström's initiative won a key endorsement in September 2000 when the Swedish national trade union federation's convention unanimously endorsed labor taking the initiative to form regional, labor-sponsored investment funds patterned on the Canadian model. Furthermore, the convention also agreed unanimously to reassess Swedish labor's previously negative stance on worker ownership of individual firms (Åhlström, as posted by Logue, 9/8/2000).

The Mondragon Model: *The Caja Laboral Popular*—Spain

The Mondragon co-operative complex in the Basque region of Spain—which is **the** outstanding example of organizing a major component of the regional economy along cooperative lines—is built around the Caja Laboral Popular as a financial institution. The Caja Laboral is a consumer cooperative—a credit union—with a special mandate for investing in worker co-operatives. The Caja Laboral has become one of Spain's biggest financial institutions with assets in excess of $7 billion.

The Caja Laboral has provided the financing to grow the Mondragon cooperative complex from a handful of co-ops at the Caja's establishment in 1959 to its current size of about 21,000 employees in the industrial sector with sales of more than $3 billion and 23,000 employees in the retail sector with sales of more than $4 billion in 1999. Mondragon's financial sector itself employs more than 2,000. (For current information on the Mondragon cooperatives, see http://mondragon.mcc.es.)

The Italian and French cooperative movements and the Israeli Kibbutzim also have internal loan funds and financing institutions that increase stability and encourage growth (Carla Dickstein, 4/13/2001). Australian researcher Race Mathews (4/5/2000) suggests that credit unions and mutual insurance companies can play the same role elsewhere as the Caja Laboral does in the Mondragon region. The Desjardins credit union federation in Quebec has developed economic development subsidiaries "albeit to date infrequently along co-operative or worker-owned lines." The central body of the Australian credit unions, the Credit Union Services Corporation of Australia (CUSCAL) is moving into business lending.

Possibility of labor-sponsored venture funds in the US

While the United States has not developed institutions comparable to the Canadian funds generally, we have something similar in the construction trades. The AFL-CIO Building Trades Department began encouraging the development of labor-sponsored building investment funds in the 1960s. The AFL-CIO's Housing Investment Trust (HIT), established 1964, and Building Investment Trust (BIT), established 1988, draw primarily investments from multi-employer building trades plans; their scope of activity is national. Regional building trades funds, like the Employee Real Estate Construction Trust (ERECT) Fund in

Western Pennsylvania and Northeast Ohio, typically find practically all their capital in local and regional multi-employer building trades pension funds. It is worth noting that although the building trades construction funds invest only in unionized construction projects and have a penchant for affordable housing projects and promote a "high road" strategy of high skill labor and high quality construction, they have also matched investment industry benchmarks in their fields.

Since 1996, the Steelworkers have explored the feasibility of starting labor-sponsored investment funds in the United States through the Industrial Heartland Investment Forum. In addition to developing a robust analyst of the problems—from employees' perspective—of the investments of the existing American pension fund system, the Heartland Forum has provided the intellectual ammunition to justify multi-employer pension fund managers' exploration of alternative investment strategies.

An Industrial Heartland Investment fund involving the Steelworkers and several other unions is said to be close to raising its initial capital.

An ESOP partnership fund?
A final possible investment fund strategy is to raise an equity investment fund from existing employee-owned companies—and possibly from ESOP retirees seeking a diversified ESOP portfolio—to invest in partnership with employees in existing and in new employee-owned enterprises.

This employee-owned company investment pool could become a general captive financial institution for employee-owned firms more generally, including securitizing the debt of ESOP companies to lower interest costs and extend terms.

5. Building company networks

Existing employee-owned firms tend to be islands unto themselves. One positive step would be to associate them as archipelagoes, and to build linkages between them that would strengthen them individually and as a group. The Mondragon group of cooperatives provide evidence that such linkages are productive.

Mondragon Co-operative Corporation
Perhaps the most outstanding company network in any Western economy is the *Mondragon Co-operative Corporation* network in the Basque region of Spain. This is a network of firms owned by their employees. The *Mondragon* co-ops trace their origins to a technical school established by a Catholic priest. The graduates of this technical school in turn created the first of the *Mondragon* co-operatives in the mid 1950's. The Mondragon co-operatives' industrial group is one of the largest industrial groups in Spain with more than $3 billion in sales; it is among Spain's top ten exporters, selling 47% of its production outside Spain in 1999. The Mondragon cooperatives' retail group does an additional $4 billion in sales; it ranks number three in the Spanish retail sector. The Mondragon cooperatives' bank is one of the largest in Spain, with more than $7 billion in assets. All in all, the Mondragon cooperative network constitutes the seventh largest closely held business in Spain and employs more than 46,000.[20]

The average size of a *Mondragon* co-op is quite small—most are less than 500 employees—but the Co-operative Network of more than 110 firms provides large scale economies for the small enterprises. It provides a common financing source in the Mondragon Co-operative Bank, the Caja Laboral Popular. It provides joint research and development for member co-ops through a research and development firm. It provides a broad range of joint social services including kindergartens, medical insurance, day care and other services for children and adults. It provides a strategic management group that can support managers in existing enterprises that are under strain or can help develop new business plans. It has its own management training program which it operates and it continues to maintain the technical training school to which the Mondragon co-operatives owe their origins.

Here you have an example of an extraordinarily successful group of business enterprises which use their close network to obtain economies of scale while they achieve the advantages of decentralized management and employee ownership through smaller enterprises. This seems to be an optimal combination in the market economy: the flexibility of small scale business with the economies of scale provided by enterprise networks.

The Mondragon model is being replicated in Valencia, Spain. There 10 associated worker-owned firms employ 4200 and do $575 million (US) in sales (COG annual meeting, 4/2000).

The French and Italian cooperative federations provide a variety of similar economies of scale for their members, as do the Israeli kibbutzim (Carla Dickstein 4/2001).

RORAC in the valley of Mexico is attempting to establish a network of cooperatively owned businesses as well (COG annual meeting, 4/2000).

The loose model of the American trade association has some modest similarities. The ESOP Association has formed a buyer's group for officer and director insurance, and its state chapters are the source of a good bit of company networking and sharing of best practices. They have not gone beyond this, however, perhaps in part because the primary mission of the ESOP Association is lobbying for pro-ESOP legislation and regulation in Washington.

Manitoba's Crocus Fund

In Manitoba, a province in Canada with a population of 1.1 million, the Federation of Trade Unions confronted in the early 1990s the problem that investment capital was being drained out of the province and the rate of reinvestment in this outlying area was too low to sustain good living standards for union members in the long run. The consequence was that the Manitoba Federation of Labor encouraged the establishment of an investment fund, the *Crocus Fund*, in which its members place part of their retirement savings. In 2000, after only 7 years, the Crocus Fund had about $165 million Canadian dollars in assets. It re-invests these assets in enterprises in Manitoba.

It is important for the Crocus Fund to improve the performance of the enterprises it invests in. That's important to the retirement of trade union members in Manitoba, and to the return of other investors in the fund. It's also important, given the economic development goals of the Crocus Fund. To achieve this end, the Crocus Fund has embarked upon an ambitious program of using networking to do three things. First, it has a general director "club" with regular meetings where general directors of Crocus investee companies share their experience. Second, it provides, through the fund, business training for enterprise employees and has a training staff who provide those under contract to companies that Crocus has invested in. Third, it has developed, with the University of Manitoba, a management training program for investee companies that trains managers in high performance workplace practices.

The interesting thing about *Crocus*, beyond its use of networks to encourage improved enterprise performance, is the fact that it has outperformed other similar investment funds in Canada that have not created such company networks. In 1998, it was the best performing labor-sponsored investment fund in Canada.

Ohio's Employee-Owned Network

Ohio's Employee-Owned Network is a company network of about sixty enterprises in Ohio, Pennsylvania, Kentucky and West Virginia, which is staffed by the Ohio Employee Ownership Center. The common denominator for companies in this network is the fact that they are partly or wholly owned by their employees and are committed to increased employee performance, training and business communications—underlying causal factors in improving enterprise performance in the American experience. Ohio's Employee-Owned Network provides monthly training programs for employee owners at all levels of the enterprise. About half the programs are designed for shop floor employees. There is a special series for supervisory employees. There are a number of technical training programs for those who administer the employee ownership plans. There is a leadership development retreat that lasts three days for employee leaders. There are special financial training workshops and train-the-trainer workshops, and last, but certainly not least, there is an annual retreat program for general directors as well as two half-day general director workshops annually. This network provides joint training for member companies who support it through their annual dues.

Every year more than 500 employee owners attend at least one of the dozen one-to-three day training programs the Ohio Network offers. The companies think highly enough of it to provide continuing financial support for it. It is now in its eleventh year and has grown steadily.

In addition to dealing with these training issues, the *Ohio Employee-Owned Network* also provides a variety of other networking opportunities for general directors and shop floor employees to share their best practices and learn from each other. In addition, the Network provides business linkages through a common catalog of products and services of Network companies and through linked websites on the Internet.

Interestingly enough, when we last surveyed Ohio employee-owned companies, we found that companies, which are Network members, systematically outperformed employee-owned companies which did not take part in such networking activities. In fact, the numbers are quite dramatic. While

20% of Ohio employee-owned companies which did not join the Ohio Network reported improved profits relative to their industry after becoming employee owned, 46% of Network members reported improvements in their profitability relative to their industry.

Of course, networking is not the only factor that contributes to this success. Companies active in the three networks discussed are also successful because they share a common commitment to becoming "high performance organizations" B including employee participation systems from the shop floor to the board room; rewarding employees directly for improved corporate performance through bonuses, profit sharing, gain sharing, and other forms of financial incentives; sharing financial and other business information with employees; sharing ownership with employees; and investing heavily in employee training to use the participation system, to understand the ownership system, to understand financial and business information that is being communicated and to act like owners in the companies. Such firms set their sights on long-term success, not short-term or one-time gains.

6. The employee-owned firm in the community

Individual employee-owned companies can achieve a great deal in broadening ownership in their communities. They have a number of potential levers to do this. Many of these have been tried in a few places. A few are completely untried. It is hard to find a case outside Mondragon in Spain where many have been tried simultaneously.

Developing employee-owned suppliers
Employee-owned companies can use their economic clout to broaden ownership locally. They can chose to buy from neighboring employee-owned companies and they can chose to support the development of

additional employee-owned suppliers. The last is particularly viable in the case that the company is the purchaser of services such as janitorial services for the company or child care services for the employees. Much of the low wage sector is based on underpayment of workers, failure to pay benefits, absence of any career opportunities for low skill workers, and, consequently, results in high turnover, poor service, and frequent theft or other regrettable externalities. Thus, creating employee-owned suppliers of services upgrades jobs, creates a sense of ownership, and generally improves the service provision to the existing employee-owned company and to its employees.

Establishing employee-ownership incubators
One additional possibility is for well established employee-owned companies with ample management to undertake to manage an incubator for new employee-owned firms. Such firms could provide accounting, purchasing, and management support for recently established employee-owned firms. As these firms became better established, direct support would transition to mentoring.

Teaching cooperation
Many existing employee-owned companies work with local schools to provide coop jobs, internships, job training, and apprenticeships. Those school-to-work programs can be expanded through including ownership principals, participation, understanding business basics, and other knowledge and skills that create an interest in and basis for broader ownership in the future.

Mondragon does this by establishing student production cooperatives in its schools.

Creating local company networks
Existing employee-owned companies can act jointly to create small, local company networks. These networks can share common facilities, such as training facilities, can jointly purchase supplies, or employee benefits like health and dental insurance. Such company networks can also set up joint child care programs or provide other joint services to their employees. Furthermore, such joint networks can provide employment opportunities for employees of individual companies that are affected by this economic cycle in their industry. Perhaps it is possible to develop joint seniority lists that would permit employees to move among them on occasion.

Providing other community services
When employee-owned companies begin to think in community terms, there are a wealth of possible initiatives that can be undertaken to enrich the community while not impoverishing the company. Employee-owned Friesens, one of Canada's largest book publishers, in the Mennonite community of Altona, Manitoba, is a model of what can be done. The company provides a graphics classroom, instructor, and training for the local high school, and runs a two-week summer camp for its employees' 10-12 year old children in which they write, set, layout, and print a book about their families and what their parents do. Company management explain that this is part of their future employee recruitment for a major industrial enterprise in rural Manitoba.

Other possible joint steps

- Establish multi-employer employee-ownership plans for firms which use the hiring hall model for employment, such as construction firms (COG meeting 4/2000)
- Set up a marketing label for products of employee-owned companies (COG meeting 4/2000)

- Set up an internet top domain ".esop" like the co-operatives have done with ".coop" for electronic commerce

7. Major issues and concerns

A major theme in the subnational group's discussion has been whether there is a tendency of employee-owned firms toward conservatism. In particular Per Åhlström (4/5/2000) has raised this concern on the basis of his American observations. Are they resistant to change of products, technology, etc? Michael Harrington shared his concern (4/4/2000).

Opinion in the discussion has been divided. Some fear a tendency toward obsolescent production with a consequent decline in living standards for worker-owners and increasing levels of self-exploitation. Others maintain that employee-owned firms innovate internally in existing locations with existing employees, rather than redeploying capital elsewhere.

Much the same criticism could be leveled against family-owned businesses in the United States.

One of the advantages of the Mondragon and the Crocus models appears to be their creation of institutionalized processes of innovation, encouraging and supporting entrepreneurial endeavors. Mondragon's Empresarial Division for several decades has encouraged innovation (and joint Research and Development has created economies of scale) while also reinforcing more weakly managed cooperatives.

A second major point of disagreement has been whether subnational initiatives divert attention from more important things. Thus Norm Kurland argued "that Federal leadership provides considerably more leverage that token efforts at the state level.... I commend all those trying to persuade state leadership and state initiatives.... And I encourage them to keep up the good work. However, I suggest that some resources and time of solid people .... be invested in a bold national initiative like the Capital Homestead Act and more specifically the Federal Reserve discount window initiatives" (3/28/2000).

A third point of disagreement was about the political advisability of trying to factor some employee ownership element into the discussion of the privatization of Social Security.

8. Plausible projects for broadening capital ownership at the subnational level

As discussed in the previous pages, the COG subnational group discussions have identified a number of plausible projects which can be undertaken by subnational actors—public sector, non-profits, and private sector alike—to broaden employee ownership. This section pulls them all together in a single list.

Actions which can be taken by subnational governmental units

- Policy declarations endorsing employee ownership
- Publicity for employee ownership including workshops, pamphlets, etc.
- Tax credits

- Exemption of Employee Stock Ownership Plans from state securities regulations
- Legal recognition of workers cooperatives
- Loan guarantees
- Earmarked loan funds
- Encouragement of private sector loan funds with a preference for employee ownership
- Interest rate subsidies
- Funding for or the direct provision of technical assistance
- State employee ownership offices or programs
- Use of employee ownership in privatization of state services
- States could provide tax credits to companies for setting up more participatory ESOPs with caps based on a sliding scale varying with the percentage employee-owned
- Unemployment contributions could be cut for employee-owned firms
- Local governments could issue local currencies to finance expanding employee ownership locally
- States can encourage electrical consumer co-ops in electricity deregulation
- Set-asides or contracting preferences for employee-owned companies
- Right of first refusal to employees in privatization
- Distribution of dividends to citizens on state royalties or state enterprises, similar to the Alaska Permanent Fund

Develop employee ownership support organizations

- Establish state or regional public sector employee ownership support organizations
- Support non-profit employee-ownership support organizations
- Use employee ownership as a tool for general economic development organizations
- Develop industrial sector strategies for employee ownership
- Replicate the agricultural extension service for employee-owned companies
- Provide Federal matching funds to public and non-profit sector organizations in this field

- Provide a small marketing budget to encourage the growth of employee ownership

- Include employee ownership as a focus of the Department of Agriculture's Rural Cooperative Development initiative

Activities of other subnational actors

- Community foundations, churches, and educational institutions could receive stock from local companies (charitable contribution at stepped up basis for donor) and create a market by selling to employees

- Municipal or local economic development authorities can establish industrial parks for employee-owned companies and for other high performance companies which provides a joint training facility, a cooperative day-care facility, and a co-op lunch facility.

- Municipal governments can provide preference in purchasing for employee-owned firms as is the case in Northern Italy, aiding the growth of production cooperatives there

- Municipalities can issue local currency to fund broadening employee ownership locally.

- The Catholic hospital system can use institutional strength to replicate New York's Cooperative Home Care Associates, creating better jobs and ownership for home health care aides and improving care for the homebound simultaneously

- Local churches can encourage employee ownership within their spheres of influence through their purchasing and through social justice work within their congregations

- ESOP companies can themselves become cornerstones of local employee ownership efforts by building networks of employee-owned suppliers and incubating new employee-owned companies

- Make sale of religious or public hospitals to for-profit chains contingent on their contracting home health care, janitorial services, and other services to employee-owned firms

- Unions can negotiate "right to buy" and "right of first refusal" into their contracts to provide an option for their members in the event their plants are put up for sale

- Build coalitions at the state or regional level between traditional cooperatives (agricultural, rural electric, mutual insurance companies, credit unions, consumer co-ops, etc.) and the growing employee-owned sector

- Develop hybrid consumer-employee cooperative

Improving financing for employee-owned firms

- State loans and loan guarantees

- A national banking institution with a preference for employee ownership, like the National Cooperative Bank in the US
- Local and regional revolving loan funds aimed at development of cooperatives; and
- Private sector venture capital funds
- Regional labor-sponsored venture capital funds with special preference for employee ownership, such as the Crocus Fund in the province of Manitoba, Canada, and the proposed Framtid I Norr fund in the north of Sweden

Some of these funds do only debt financing while others provide a source of friendly equity financing as well.

Employee ownership financing programs
Special credit facilities can be established for employee-owned companies. These include

- State loan funds specifically earmarked for employee ownership
- State loan guarantee programs
- Below market interest rates or rate subsidies
- Specific authorization to use state loan programs for employee ownership
- State tax credits for employee-ownership venture capital funds (a la Canada)
- Local and regional revolving loan funds aimed at development of cooperatives
- Private venture capital funds with a preference for employee ownership
- Encouraging sale to employees as an exit strategy for conventional venture capital funds
- Establishing an employee ownership bank on a regional basis like the Caja Laboral in Mondragon
- Using credit unions to lend to employee-owned companies, as in Quebec

Building company networks

- Existing employee-owned firms can pool resources and achieve economies of scale at in Mondragon from common research and development, a common financial institution, common educational programs, etc.
- “Best practices” networks can be sponsored by lenders and equity investors, as in the case of

Manitoba's Crocus Fund

- Looser networks, like Ohio's Employee-Owned Network, focused on employee participation and training can have a positive impact on company performance

The employee-owned firm in the community

Individual employee-owned companies can achieve a great deal in broadening ownership in their communities. They have a number of potential levers to do this. These include:

- Developing employee-owned suppliers
- Establishing employee-ownership incubators
- Teaching cooperation
- Creating local company networks
- Providing other community services
- Establishing multi-employer employee-ownership plans
- Setting up a marketing label for products of employee-owned companies

Dealing with the widening gap in income and wealth globally clearly requires action at the transnational and national levels. At the same time, we know that most of us live and work in an entirely different world: that of our company, our local community, our church, union local and civic organizations or, occasionally, our state or province. Certainly the most striking conclusion of the COG subnational group discussion is that there is an astonishing amount to broaden ownership that can be done by each of us today where we live and work.

Together, the combination of our small steps can yield large scale change.

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[1] Citation system: To find each individual's contribution, the dates in parentheses refer to the dates of the contribution in the "eosubnat" discussion archive on the Capital Ownership Group webpage (http://cog.kent.edu). Please use the chronological listing (rather than the thread index) to locate the contribution. Items cited in the COG electronic library can also be accessed on the COG website. This paper also draws heavily on the brainstorming at the COG meeting in Chicago on April 14-15, 2000.

[2] The subnational level has been the focus of one of the Capital Ownership Group's discussion groups. Its discussion can be found by browsing the eosubnat discussion at http://cog.kent.edu.

[3] For comprehensive information on state legislation, see John Logue and John Grummel, "Employees and Ownership: Trends, Characteristics, and Policy Implications of State Employee Ownership Legislation" in the COG library.

[4] This is arguably a real world example of John Roemer's coupon socialism model. See *Market Socialism: The Current Debate* (New York: Oxford University Press, 1993).

[5] National Center for Employee Ownership, "New Data Show State Programs Increase ESOP Activity," Employee Ownership Report 10(5): 9.

[6] Jim Keogh, *A Study of Employee Ownership in Washington State* (Washington State Department of Community Development, 1988); Jim Keogh and Peter Kardas, "Employee Ownership and Participation: A Combination That Is Tough to Beat," *Owners at Work* 6(2): 5-7; Peter Kardas, Adria Scharf, and Jim Keogh, "Wealth and Income Consequences of Employee Ownership: A Comparative Study from Washington State," paper presented at Shared Capitalism Conference, Washington, DC, May 22-23, 1998 and in COG Electronic Library; Michigan Center for Employee Ownership and Gainsharing, *A Study of Employee Ownership in Michigan: Highlights of the Study* (Lansing, MI: Governor's Office of Job Training, 1990); John Logue and Cassandra Rogers, *Employee Stock Ownership Plans in Ohio: Impact on Company Performance and Employment* (Kent: OEOC, 1989); and John Logue and Jacquelyn Yates, eds. *The Real World of Employee Ownership* (Ithaca: Cornell UP, forthcoming 2001).

[7] The most notable of these is Gorm Winther's study of the impact of employee ownership in both New York and Washington: *Employee Ownership: A Comparative Analysis of Growth Performance* (Aalborg: Aalborg University Press, 1995).

[8] In Ohio alone, there have been studies by Denmark's Erik Maaloe, *The Employee Owner: Organizational*

and Individual Change Within Manufacturing Companies as Participation and Sharing Grow and Expand (Copenhagen: Academic Press, 1998); Sweden's Per Åhlströms *I egna händer: Om löntagarägande I USA & Kanada* (Stockholm: Utbildningsförlaget Brevskolan, 1998); Japan's Richard Evanoff "Employee Ownership in Northeast Ohio,"*Aoyama Kokusai Seikei Ronshu [Aoyama Journal of International Politics, Economics, and Business]* (Japan) #30 (May 1994): 113-135; Britain's Robert Oakeshott, *Jobs and Fairness: The Logic and Experience of Employee Ownership* (Wilby, Norwich: Michael Russell, 2000.)

[9] Owners of closely held businesses who sell stock to employees through an ESOP or a cooperative can defer payment of capital gains taxes on the sale provided they roll the proceeds of the sale over into "qualified replacement securities" (that is, stocks and bonds of domestic firms which produce goods and services). Should the replacement security be sold, capital gains taxes become payable, but if the replacement securities pass into the estate, the tax on the gain disappears.

[10] The rationale and design for the OEOC program are presented in Steve Clifford and John Logue, "Designing a Model Outreach Program for Business Succession in Closely Held Firms," *OEOC Occasional Papers,* 1996:2; Clifford and Alex Teodosio wrote a short manual, *The Owner's Guide to Business Succession Planning* (Kent, OH: OEOC, 1999) which has been used successfully in the program.

[11] National Center for Employee Ownership, "Program Evaluation and Needs Assessment for Northeast Ohio Employee Ownership Center," typescript, November 1990, prepared for the *1991 Employee Ownership Status Report to the Ohio Legislature*, p. 1.

[12] In writing this paper, I am regarding the National Center for Employee Ownership and the ESOP Association to be primarily actors at the national level, although the NCEO does local outreach and the ESOP Association's state chapters are active at the subnational level.

[13] John Logue and Jacquelyn Yates, The Real World of Employee Ownership (forthcoming, Cornell University Press, 2001), chapter 6.

[14] See Luc Labelle, "Development of Cooperatives and Employee Ownership, Quebec Style," *Owners at Work*, v. 12, no. 2 (Winter 2000/2001), pp. 14-17.

[15] For more on these state programs, see John Logue and John Grummel, "Employees and Ownership: Trends, Characteristics, and Policy Implications of State Employee Ownership Legislation," in the COG library.

[16] For discussions of these funds, see *Owners at Work*, 9(1): 15; 9(2): 16-18; 10(1): 10-11; and 11(1): 19.

[17] The Crocus Fund has been the subject of a number of articles in *Owners at Work* (Summer 1995: 14-19, Summer 1996: 11, Summer 1997: 12-15, Summer 1998: 11, and Summer 1999: 17-19. These articles can also be accessed through the library on the Capital Ownership Group web site, http://cog.kent.edu.

[18] For a discussion of the Swedish wage-earner fund debate and the resulting regional funds, see Don Hancock and John Logue, "Sweden: The Quest for Economic Democracy," *Polity*, v. 17(2), pp. 248-270; for Rudolf Meidner's reflections, see "Beyond Wage-Earner Funds," in Don Hancock, John Logue, and Bernt Schiller, eds., *Managing Modern Capitalism* (Westport, CT: Greenwood/Praeger, 1991), pp.291-312.

[19]Åhlström reported on this in *I egna händer: Om löntagarägande I USA & Kanada* (Stockholm:

Utbildningsförlaget Brevskolan, 1998).

[20] The Mondragon co-ops have been the subject of great interest outside Spain. For comprehensive treatments, see William Foote Whyte and Kathleen Whyte, *Making Mondragon: The Growth and Dynamics of the Worker Cooperative Complex*, 2nd ed. (Ithaca, NY: ILR Press, 1991); Greg MacLeod, *From Mondragon to America: Experiments in Community Economic Development* (Sydney, NS: University College of Cape Breton Press, 1997); George Cheney, *Values at Work: Employee Participation Meets Market Pressure at Mondragon* (Ithaca: Cornell University Press, 1999); and Karen Thomas, "Lessons of Mondragon's Employee-Owned Network," *Owners at Work*, v. 12, no. 1 (summer 2000), pp. 5-9. For current information, visit the Mondragon web site: http://www.mondragon.mcc.es.