New Study Finds Employee Stock Ownership Plans Reduce Inequality in Wealth and Wages

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Washington. D.C. – Released today, new research by Jared Bernstein, former chief economist for Vice President Joe Biden, finds that by increasing capital ownership, employee stock ownership plans (ESOPs) reduce wealth inequality, and, if plans were to proliferate, more workers across the country would benefit from the equalizing effects of ESOPs. Commissioned by the Employee-Owned S Corporations of America (ESCA), Bernstein's report also finds that ESOPs do not have the effect of trading employee wages for ownership shares. In fact, the report argues that as employee ownership rises, wage inequality also falls.

“Employee ownership – and ESOPs in particular – should be part of our national discussion on ways to reduce inequality,” said Bernstein. “ESOPs transfer capital ownership to wage earners, directly reducing our extremely high levels of wealth concentration, and ESOP firms appear to have less internal wage dispersion.”

Other findings from the report include:

- The impact of wealth and wage inequality reduction from ESOPs is limited by the fact that only 10 percent of employees participate in ESOPs. If ESOPs were to proliferate, the impact could be far more significant.

- Companies that are ESOPs provide more stable employment than other businesses, and private, employee-owned companies were better able to weather the Great Recession.

- ESOPs also offer other benefits, especially as fewer U.S. employers offer their workers defined benefit plans. ESOPs provide capital ownership, pay better wages, and, in the majority of cases, provide employees with an additional 401(k) or other similar plan.

“ESOPs offer an impactful path to broad-based capital ownership for America’s workers,” said Steve Smith, ESCA’s chairman of the board. “If returns to capital are to continue to outpace returns to labor, policies that increase ESOP adoption and broad-based capital ownership will be central to reducing inequality,” he added.

Bernstein's report suggests two avenues to expanding ESOP adoption: the creation of a small government agency or bureau to help firms manage the process of starting an ESOP, and “reversing the polarity” of current business tax breaks to make them conditional on the firm having some form of employee ownership. While Bernstein does not advocate for new tax breaks for existing ESOP companies, he notes that there are inequalities between tax benefits between C corporation and S corporation owners who sell their business to an ESOP, and that these disparities might be equalized.

Economic inequality will continue to be a major topic of discussion among policymakers and presidential candidates. The study released today shows that ESOPs can be a part of the solution.

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ESCA is the voice in Washington, DC that speaks exclusively for employee-owned S corporations ("S ESOPs"). Since 1998, ESCA’s membership has grown to represent more than 140,000 employee-owners in virtually every state in the nation. ESCA company members engage in a broad spectrum of business activities and are a variety of sizes – from 25-person businesses to companies with 9,000+ employee-owners – but all have one thing in common: a commitment to preserving the S corporation ESOP structure and expanding it so that more working Americans can become employee-owners.