Fighting Capitalism With Capitalism

What if employee-owned businesses were the key to a healthier, more humane economy?

By Nathan Schneider
As a human-resources professional, Jennifer Briggs got used to firing people.

She’d refer to it as “layoffs,” “right-sizing,” or whatever euphemism her employer wanted her to use at the time. She was a foster child turned single mother who had relied on food banks to feed her kids, and, as unpleasant as it was, managing and cutting employees at a large public company became her livelihood. So she compartmentalized the painful parts as best she could: “I downsized a lot, and it wore me down,” Briggs says. But, she adds with half a smile, “I’m really good at it.”
In 2004, Briggs took a job as vice president of human resources and organizational development at New Belgium Brewing in Fort Collins, Colorado, not far from where she grew up. She liked that the company already had a culture of shared governance and a profit-sharing plan for employees. And it was during her tenure that co-founder Kim Jordan called an all-hands meeting and announced that she had sold the company.

The several hundred anxious employees each received envelopes; inside, Jordan told them, they’d learn the identity of the buyer. To the sound of an auditorium full of paper-tearing, one by one they found themselves holding a mirror. The tearing turned into silence, then cheering.

Since December 2012, the company has been 100 percent employee-owned.

This counterintuitive turn of events—that hundreds of people could unknowingly, without paying a cent, buy the company at which they work—is only possible, and actually somewhat commonplace, thanks to a device known as the Employee Stock Ownership Plan, or ESOP.
Beginning in 1974, Congress has recognized the ESOP as a tax-advantaged retirement plan, like a pension program or a 401(k). This meant that in addition to investing employees’ savings in the broader stock market, the ESOP could invest in their company, even to the point of owning the whole thing. In the process, companies can issue shares to employees with money borrowed from the seller of the company, or a bank, and pay it back with employer’s retirement contributions and any dividends that the shares earn. If their company does well, rank-and-file employees can end up reaping gains far beyond their wages, to the point of low-wage workers retiring as millionaires.

Through ESOPs, around 14 million employees at 7,000 firms in the United States co-owned by part or all of their employers, from the 200,000-strong Publix Super Markets to the 200 employees of Bob’s Red Mill. (In comparison, there are only a few hundred worker cooperatives, the older major form of broad-based employee ownership.) The National Center for Employee Ownership lists over 300 lenders, accounting firms, and consultants around the country that specialize in servicing ESOPs. Since leaving New Belgium in 2017, Jennifer Briggs became one of those consultants. Colorado’s governor, Jared Polis—who began his campaign at an ESOP grocery store—appointed Briggs to a new commission on advancing employee ownership in the state. Rather than cutting jobs, her job has become making owners.

Employee ownership is one of those mythical, elusive ideas that can claim bipartisan support in Washington. Senator Russell Long, a centrist Democrat,
arranged for the earliest ESOP legislation in the 1970s. But one of the model’s loyal supporters over the years has been Paul Ryan, the Republican former House majority leader. The 2016 Democratic Party platform approved of profit-sharing plans as a means of countering wealth inequality, while its Republican counterpart celebrated ESOPs as a means to “enable workers to become capitalists, expand the realm of private property, and energize a free enterprise economy.” But lately the most strident support has been coming from the left.

Worker-owned businesses are part of Alexandria Ocasio-Cortez’s resolution for a Green New Deal. Bernie Sanders has introduced employee ownership legislation in the Senate and, in May, proposed mandating employee ownership for large companies. Fellow presidential candidate Kirsten Gillibrand introduced the most important new employee ownership law in years, the Main Street Employee Ownership Act, which President Trump signed (knowingly or not) in 2018 as part of a defense appropriation. In a hyper-partisan climate, the co-sponsors were nearly split down the middle.

In Newark, New Jersey, Mayor Ras Baraka has established a fund to finance conversions of local companies to employee ownership. “Ultimately, we need to spread the access to capital,” he says. “People need to own the things that they produce. It helps push back against gentrification, against displacement.” City-backed employee ownership efforts are also underway in Madison, New York City, Oakland, Philadelphia, and elsewhere.

Nationwide, an initiative called Fifty by Fifty has set out to turn 50 million
employees into owners by 2050. Behind its strategy is a demographic reality: More than 2 million baby-boomer business owners are set to retire in the coming years, often with no succession plan. Could their workers could fill the void?

“The chance to dramatically expand employee ownership is greater than ever,” says Marjorie Kelly, an executive vice president at the Democracy Collaborative and co-founder of Fifty by Fifty. And “the real potential for an employee-centric economy lies with ESOPs.”

The ESOP research agenda has long been housed at Rutgers University, which is now home to an Institute for the Study of Employee Ownership and Profit Sharing, where I recently completed a fellowship that funded me to contribute to the growing body of work on ESOPs and structures like them. At the institute’s conferences, lefty worker co-op activists and politicians mingle with ESOP executives and the likes of Michael Keeling—the longtime president of the ESOP Association lobby, a Paul Ryan enthusiast, and a Texan who befriended George W. Bush at Yale. Keeling’s contributions are not so much conference presentations as orations, and this June he used his time to implore those gathered not to fall into petty progressivism and recognize the trans-partisan opportunity that employee ownership represents.

A one-sided strategy, anyway, would drown in irony: The socialist left has embraced the invention of an avowed capitalist.

hen Louis Kelso appeared on the Bill Moyers interview show A World of Ideas in
1990, Moyers had trouble categorizing his guest. Kelso, who’d grown up in poverty, became a successful corporate lawyer. He wore only blue-and-white, polka-dot bow ties. During World War II the Navy assigned him to Panama, and he used the plentiful downtime to compose an economics treatise that his client and friend, the popular philosopher Mortimer Adler, helped him condense the sprawling manuscript down to their nearly 300-page *Capitalist Manifesto*. When it appeared in 1958, it was a national bestseller. By the time of the interview, a year before Kelso’s death, he was best known for devising the ESOP, which bore the whiff of communal co-ownership.

At one point, Moyers asked him whether he considered himself a capitalist or a socialist. “I don’t know what I am. I don't fit any of the definitions. I think I’m the capitalist of tomorrow,” Kelso responded.

The animating idea of Kelso’s career, which he came to as a student and sailor and held to unfailingly afterward, was that the production of market value results from two kinds of inputs: labor and capital. As technology advances, labor becomes less important and capital, more. Capital, in turn, will end up claiming a greater share of the resulting profits. Kelso followed Karl Marx’s analysis of the problem of capitalism—that capital wants to eat labor alive—but inverted the solution. Rather than folding the means of production under a workers’ state, he wanted to create more capitalists. That, he believed, would ensure that ever more people own the means of production and reap their capital’s returns. Creating more capitalists, he thought, would protect democracy and capitalism alike from capture by a small, wealthy elite.
He didn't think the crushing inequalities capitalism could produce are capital's fault; the problem as he saw it is that only the wealthy have the opportunity to become true capitalists—to borrow and live off of what they own, and to co-own the means of production. If anyone could do those things, capitalism would be an equalizer.

At the time, the economics profession of the time wanted little to do with Kelso. A 1970 *Time* article quotes Milton Friedman calling Kelsoism “a crackpot theory” and “Marx stood on its head.”

The trouble with Kelso, though, was that he had more than a theory. While publishing his polemics, he was also devising and testing the ESOP—first through real-life experiments in the 1950s, beginning with a Bay Area newspaper chain that became fully employee-owned. He leaned Republican, and for decades he tried to interest Republican politicians in providing the policy support his models needed in order to spread. But it was in Senator Long, a centrist Democrat, that Kelso found a champion to turn his theories into law.
The form that ESOP legislation took, as a retirement plan inscribed in tax and employment policy, was an uncomfortable compromise for Kelso. “Louis never intended that,” recalls Patricia Hetter Kelso, his co-author and eventual spouse. “It was Senator Long’s idea. Louis argued with him quite a bit about it.” Long insisted that adding the ESOP to retirement legislation was a chance that would not soon come again, so they went with it.

The ESOP, after all, was supposed to be only the beginning. The Kelsos’ last book, in 1986, was subtitled Extending the ESOP Revolution. It referred to the ESOP as not the goal in itself but merely “the Trojan Horse for democratizing American capitalism.” Co-owning workplaces was meant to whet people’s appetite for other kinds of capital ownership, inviting them into a world in which more of their income might come from what they own than from where they work. Unlike Mayor Baraka, for instance, Kelso opposed raising the minimum wage, which he thought would delay and inhibit the real goal of democratizing capital.

The ESOP is only one of eight proposed “plans” that appear in the Kelsos’ 1986 book—ranging from a Consumer Stock Ownership, Plan for companies like grocery stores and electric utilities, to plans for co-owning infrastructure and commercial real estate. Each follows the spirit of the ESOP: Set up a trust that can borrow money on behalf of ordinary people, buy stock on the promise of future earnings, and distribute the proceeds back to the new capitalists, as Kelso liked to call them. The beneficiaries don’t need to put up their own cash. After all, as Kelso saw over and over in his lawyering, rich people never do. If they can
get away with making investments on borrowed money, why can’t everyone else?

Even well-planned capitalism still has its crises, however. Spectacular failures in ESOP companies like Enron and United Airlines left employees with little to retire on and tarnished the idea’s public image. Critics on both the right and left have wondered why the ESOP deserves the public subsidy of its favorable tax treatment. And although unions have sometimes participated in setting up ESOPs—such as in the United case—they have hardly embraced the Kelsos’ call, which constitutes the conclusion of their final book, for unions to embrace a “new role” of stewarding their members’ newfound co-ownership plans. But if unions don’t take the job, others might.

When *The Capitalist Manifesto* was first published, the employment system seemed to be working in the United States. Wages were rising along with the growing economy. Kelso’s early books bore the burden of having to convince readers that seeds of trouble were germinating beneath the apparent prosperity. In 1972, Nobel-laureate economist Paul Samuelson penned a dismissal of Kelsoism on the basis of its failed predictions. But that was just around the time that labor’s share of income began to flatline, as capital’s spoils increased. Around half of US households own no stock whatsoever, and most stock is owned by those at the top of the pyramid. We no longer have to be convinced that there is a problem.

A Kelsoist echo rings through the recent calls among Silicon Valley CEOs and radicals alike for a universal basic income, a non-labor income for everyone.
These proposals generally involve taxation and redistribution, not capital ownership. But as government seems unlikely to adopt sweeping new entitlements, and the platform bubble bursts, ownership is coming into the picture again.

After years of refusing to recognize their workers as true employees, Uber, Lyft, and Airbnb have tried to make them co-owners. By 2018, all three companies had submitted letters to the Securities and Exchange Commission seeking permission to more easily issue their stock to their most loyal contractor-users. (Regulations would be more permissive for equity grants to standard employees.) The SEC was not especially obliging, nor were the companies’ motivations likely more noble than securing users’ loyalty ahead of risky IPOs. Nevertheless, the move indicates an oblique aspiration for at least some crumbs of Kelsoism.

Users and regulators could take these platforms up on their request, but demand a more democratic form of corporate governance in return. Between the ESOP and CSOP there might lie an ownership plan for platform users: a stock-holding user trust. Like an ESOP, it could buy stock with borrowed money and return the proceeds to the people who help make the shares gain value. It could also lend users governance rights over their platforms’ behavior. User trusts could thus help platforms address their mounting accountability crises, from data stewardship to labor abuses. Tech founders might even someday aspire to an “exit” that involves selling their start-ups to their users, rather than to speculators.
User ownership could also be imposed as a tool of regulation. Antitrust authorities might employ it to tame a company that holds a natural monopoly. Just as Elizabeth Warren’s Accountable Capitalism Act proposes to require employee participation on the boards of the largest companies, the largest platforms might be required to make space for user participation in governance. Warren, like Kelso, says she is out to save capitalism. But the truth is that the capitalism of more capitalists might start to seem hardly recognizable as capitalism.

Although ESOP growth has slowed in recent years—by far, most ESOP participants are in a plan created before 1999—the nature of ESOPs has been changing. By law, the model is remarkably management-friendly and entails little in the way of worker governance. But employee ownership increasingly looks like it does at New Belgium Brewing, where forklift drivers might come home with balance sheets to study, where decisions at the top emerge from meetings on the shop floor. To complement their ESOPs, companies are becoming benefit corporations, encoding a social purpose into their legal documents. The difference in ownership takes on a life of its own.

If the political moment for employee ownership starts a new wave of business conversions, there are no utopian guarantees. It could mean merely more of a certain kind of transaction, or it could continue a backdoor transformation of the relationship between labor and capital. Both Kelso the capitalist and his leftist inheritors are rooting for transformation—for opposite reasons that may somehow be more or less the same.
Democratic Socialists of America Seize the Day

There was plenty of conflict at the DSA’s national convention, but delegates came out of it with a clear plan for the fight ahead.

By Eric Blanc