

**Memorandum**

To: Transition Team Policy Leaders and Staff  
From: Professor Joseph Blasi (Rutgers University)  
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Date: December 3, 2008  
Subject: Encourage middle-class wealth creation/fairness in economic stimulus package

*The basic principle behind this memo: If companies get taxpayer benefits, the results of success are to be shared with workers, not just top executives and shareholders.*

**The Idea**

Businesses under the proposed stimulus that have any incentive plan as part of their compensation to executives should have a similar incentive plan that covers all workers, and a minimum of 80% of the total incentives must be shared with a broad group of workers below the top ten earners. The design of the incentive plan(s) would be left to the business (whether broad-based profit sharing, gain sharing, stock options, employee stock ownership, or any combination). This would be required of all corporations that received incentives to encourage the development of clean technology, to restructure the auto industry, or to perform Federal contracts dealing with roads and infrastructure under the 2009 package. Distributions of incentives to workers of these corporations – including the executives -- would be taxed at the capital gains rate rather than the personal income tax rate in order to give further stimulus to the economy. These ideas could later be extended to all corporations.

**Background**

There is precedent in U.S. history for encouraging the broad sharing of wealth when trying to assist in the development of industry. After the British had destroyed much of Continental shipping industry before and during the American Revolution, the U.S. Congress decided to support this industry. In 1792 Congress decided to pay a bounty based on the weight

of vessels engaged in cod fishing (\$1.50 per ton up to 30 tons, and \$2.50 per ton over 30 tons, up to a maximum of \$170). *Three-eighths of this bounty went to the owners of the vessel and five-eighths went to the crew.* This encouraged the rebuilding of the fishing fleet and development of the fishing industry and the export of fish by taking advantage of the broad system of incentive sharing on which the fishing industry had been traditionally based in the colonies.

There is precedent in recent legislative policy for tying the extension of Federal support to corporations to a distribution of the benefits beyond the top executives. This is a basic feature of ERISA which since 1974 with various tweaks has prevented most of the assets of retirement plans from being concentrated among highly compensated employees. Our proposal would require no changes to ERISA or other laws, but merely serve as a condition for corporate participation in the stimulus plan.

There is precedent and a long history of bipartisan Congressional support for programs that encourage firms to share the benefits of good performance with workers – such as the tax incentives for corporations for profit sharing, gain sharing, broad-based stock options, employee stock purchase plans, Employee Stock Ownership Plans (ESOPs), or deferred profit sharing plans that have been encouraged by the Federal government for decades.

The main proposal would be revenue neutral. The only tax expenditure impact would be as a result of more favorable capital gains treatment on the distribution of incentives to the recipients in the plans, although this is a corollary and not essential part of the proposal.

### **Long term benefits**

Broad-based incentives improve firm performance and worker outcomes so that this is likely to improve economic performance over the long run. The National Bureau of Economic Research's Shared Capitalism Project (supported by the Russell Sage Foundation and the Rockefeller Foundation) has found from a recent analysis of over 40,000 workers in firms of different industries and sizes that:

- Broad-based incentives positively impact firm performance, and most significantly, contrary to some past claims, result in greater worker monitoring of shirkers.
- Broad-based incentives are linked to greater job security and higher worker pay.
- The risk of holding equity rewards can be significantly reduced by combining prudent amounts of such rewards with a portfolio that is otherwise completely diversified.

- Corporations tend to use broad incentive plans in combinations.
- Combining these plans with high performance bundles of people practices (such as training and teams) enhances the performance effects. There is some evidence that firms with broad incentives turn to these practices and we would hope that that this would be privately encouraged.

Broad-based incentives generally come on top of standard worker pay and other diversified employee benefits, which reduces worker income risk. Since many of the companies involved would be closely-held companies, we would expect that most incentive plans would be less risky cash or deferred profit sharing plans and gain sharing plans. In the area of clean/green technology, we would expect that new start-ups and early stage companies would be offering these and perhaps broad-based stock options to their workers. Since workers are not exchanging their savings for stock, the risk is reduced. Where companies use equity incentives, we would like to see a strong informational component to encourage workers to diversify their overall retirement portfolio so that they are not overly concentrated in company stock.

**Conclusion: To restore US economic well-being and stability requires more than simply bailing out banks and some big firms. Encouraging firms that receive financial support and contracts to include workers in incentive plans will help the country recover and ensure that the benefits of recovery are spread widely.**