

# A Critical Analysis of Different Forms of Employee Ownership

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# First Problem: Common/Social Ownership, i.e., lack of employee recoupable claims on retained income.

- Bias against retained income and capital intensity.
- Bias in favor of debt financing and labor intensity.
- Horizon Problem: Bias in favor of investments with quick returns.
- First Cohort Problem.
- Violation of workers' rights to net fruits of their labor.



# Solutions to lack of employee recoupable claims on retained income.

- In partnerships, each partner's capital account.
- In many cooperatives, written notices of retained patronage dividends.
- In Mondragon-type cooperatives, internal capital accounts (ICAs).
- In US ESOPs, employee share accounts in the ESOP trust.
- In Slovene Coop-ESOP, share- or value-denominated ICAs in Employee Ownership Cooperative.



# Second Problem: Employee Ownership Sell-outs

- First Cohort Problem: Only way first cohort of employees in EOTs who got little or no bonuses in order to pay off acquisition debt is a sell-out.
- Accumulation of (stochastic) repurchase liabilities in US ESOPs: Only way to pay out accumulated repurchase liabilities may be a sell-out.
- Management share options/virtual equity outside ESOP or EOT motivates a “big payday” with a sell-out.
- Current focus of trustee’s fiduciary duties is to current, not future, employees.
- No tax claw-back on past employee ownership tax breaks.



# Solutions to Employee Ownership Sell-outs

- First Cohort Problem: Internal Capital Accounts as allowed in the Canadian EOTs (so foregone bonuses are recouped in ICAs).
- Accumulation of repurchase liabilities in US ESOP: Continuous share recycling or rollovers starting when acquisition debt paid off (if not before) independent of stochastic employee exits or retirements.
- Management share options/ virtual equity outside ESOP or EOT: Should be forbidden in both ESOPs and EOTs—all in same boat (and no separate yachts or lifeboats for managers).
- Focus of trustee's fiduciary duties should be current *and future* employees.
- Introduce tax claw-backs on EO tax breaks with sell-outs.



# Thank you!



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