20.9.2014

**John Hoffmire Director, Center on Business and Poverty, Wisconsin School of Business, UW-Madison (USA)**

Please find below my statement in support of fiscal incentives for employee ownership.

Various positions are held by opinion leaders about the role of the state in economic development. Along a spectrum of acceptance, some opinions are widely shared. For example, many accept that governments should be involved in influencing interest rates. On the other end of the spectrum, there is less and less support for governments wholly owning manufacturing companies.

Along this spectrum, there is fairly strong acceptance of forms of employee ownership which diversify employees' retirement holdings away from only having employer securities in the basket of assets that will protect employees as they age. There are several reasons for this acceptance: 1) stock option plans and other similar schemes have been adopted around the world as a means to effectively incentivize managers and workforces; 2) world opinion has shifted toward a belief that the ratio of wealth that should be owned by the wealthiest should be lower, not higher; 3) diverse successful means have been developed to encourage employee ownership in many different cultural and legal frameworks.

As one examines the most successful models of encouraging greater employee ownership, there is little doubt that nations which give tax advantages to support employee ownership are seeing faster growth in employee holdings. The United States is the prime example where greater state support has led to first rapid growth of ESOPs and now sustained replacement of ESOP companies which move away from employee ownership. That is, in the present environment, in most years, for each company that moves away from employee ownership there is a new ESOP.

In sum, for reasons of greater productivity and greater creation of equal economic opportunity, the world is seeing growth in employee share ownership. This growth would not take place at the same rates without state support.

Very best regards

**Philippe Dancot, Former Head of International Employee Share Plans - Saint-Gobain (France)**

C'est un euphémisme de dire que les incitants fiscaux sont nécessaires, ils sont indispensables au développement de l'actionnariat salarié.

J'en veux pour preuve le succès d'un même plan (dans ce cas de figure, celui de Saint-Gobain) présenté chaque année dans près de 50 pays: le taux de participation moyen est supérieur à 50% en France, inférieur à 10% en zone euro et inférieur à 5% hors Europe.

Trois facteurs essentiels pour le succès des souscriptions: les incitants fiscaux (très généreux en France), l'absence de risque de change, et la dynamique d'évolution du cours de l'action pendant la période de souscription ( ce dernier facteur étant de nature purement psychologique).

Par ailleurs, il est important que ces incitants soient contrebalancés par une obligation de blocage des actions (par exemple 5 ans ou plus), ce qui crée une véritable épargne à long terme. Ceci est d'autant plus important que le financement des retraites devient un souci public majeur. Étant moi-même retraité, je mesure l'intérêt et le confort qu'une telle épargne peut constituer.

Amicalement

**Božo Lednik, DEZAP Slovenian Association for Employee Ownership (Slovenia)**

I ask you kindly for your permission to translate, make a summary and publicate The Manifesto in Slovenian review "Industrijska demokracija". With kind regards.

**Debory Eres (France)**

Nous sommes tout à fait d'accord avec la position de la Fédération Européenne de l'Actionnariat Salarié et la félicitons pour son travail formidable au service de la promotion et au développement de l'actionnariat salarié partout en Europe.

Si la France est championne d'Europe de l'actionnariat salarié "démocratique" (47,2% de salariés actionnaires en 2013 contre 28% en Europe), c'est parce que notre pays a une longue tradition de réconciliation du capital et du travail initiée par Général de Gaulle quand il a créé l'intéressement et la participation. Mais c'est aussi grâce à une fiscalité incitative qui ne taxe pas au moment de la souscription et quasiment pas à la sortie du plan, grâce à la non fiscalisation des dividendes dans le PEE, grâce au FCPE qui permet d'intermédier et donc de simplifier la relation avec les salariés actionnaires.

Le développement de l'actionnariat salarié passe, sans aucun doute, par des incitations fiscales, par la création de dispositifs souples, par la simplification et le renforcement des mécanismes existants.

**Corey Rosen, Founder, National Center for Employee Ownership (USA)**

(The NCEO is a nonprofit membership and research organization that was founded in 1981 to provide most objective and reliable information on broad-based employee ownership. It is widely considered the leading source of information on employee ownership in the U.S. and worldwide.)

Here are my comments. Good luck with your efforts.

**Are Tax Incentives Necessary for Broad Employee Ownership?**

The report *Employee's Financial Participation in Companies' Policies* argues that fiscal incentives (both tax and non-tax) appear to be related to the wider adoption of employee ownership plans, but may not be a prerequisite for these plans. It is inarguable that they are not a prerequisite — companies may set up plans even without any incentives out of a philosophical commitment to the idea. This is perhaps best exemplified by the Mondragon Group in Spain. Based on our work over the past 33 years studying employee ownership in the U.S. and in other countries, however, it is clear that for employee ownership to play a substantial role in the economy, tax incentives are very much needed.

**Different Modes of Employee Ownership and Their Impact on Employees and Companies**

Before answering the question of the importance of fiscal incentives, we need to look at what kind of employee ownership countries want to encourage and what the consequences of different forms of ownership are.

In Europe, the most common form of employee ownership is the employee purchase plan in publicly traded companies. These plans often offer some discount and many countries provide some form of tax incentive to the employee. Employees hold shares individually for varying amounts of time. These plans typically result in small percentages of ownership (5% or less) held by employees and, most often, less than a majority of employees buying shares, especially lower income employees. There is no research to indicate that these companies show improved financial performance as a result of employee ownership. The research on employee ownership in the U.S., where employee ownership is most prevalent, shows that employee ownership improves performance only when employees own a more substantial share of the company, ownership is broadly distributed, and companies have cultures of high information sharing and shared participation in decisions. Providing incentives for employee share purchases may be useful to improve employee financial well being, however.

In France and the United Kingdom, and especially the U.S., there are also plans that hold shares collectively for employees in some kind of trust. The employees usually do not get the stock until after they leave. The plans tend to be broadly inclusive and are funded by the employer not the employee. These plans have a much higher potential for effecting corporate performance and tend to have a much larger impact on employee asset accumulation. In the typical U.S. ESOP, for instance, plans own at least 30% and often 100% of the company, companies contribute 6% to 8% of pay per year to the plan (this is not in lieu of, but in addition to pay) or more, and employees end up with about 2.5

times the retirement assets on companies without employee ownership. These companies also grow about 2.5% per year faster and lay people off at one-third to one-fourth the rate of non-ESOP companies.

The difficulty with the typical models that do not have some kind of share pooling mechanism, such as an ESOP trust in the U.S., is that relying on employees to purchase shares, even if they are getting a match or a discount, almost always means that:

- A majority of eligible employees will usually not participate even when there are incentives. Studies consistently show that people tend to overvalue current income versus future rewards and overvalue risk. Employees often live "paycheck to paycheck," making participation in a share purchase plan challenging.
- Among those who do participate, the amounts set aside will be skewed towards those higher paid employees with more disposable income.
- Participants will usually sell their shares when they can. While they may also buy new shares, their holdings will not aggregate over time, as they do in a trust where the shares are usually accumulated until departure. This approach gives people a much larger stake as owners.
- Employees, as a group, will always be minority owners, usually 10% or less. That creates far fewer incentives for managers to set up extensive employee ownership culture models, as would be the case where employee ownership is long-term and substantial. Yet we know that employee ownership only produces substantial performance improvements when combined with cultures that stress employee involvement in day-to-day work decisions.

**What Kinds of Fiscal Incentives Make Sense?**

Because of all this, we believe that countries that want sustained, substantial, and broad employee ownership in companies need to provide ways that the ownership is not based on employees making decisions to use current income to buy shares, but rather on company contributions with tax benefits for the companies and/or sellers to employee ownership plans doing this. The ownership plan also needs to pool ownership and allocate shares to individual employees during their tenure with the firm.

These tax incentives should be both at the corporate and individual level. Because the most equitable and deep plans are necessarily company funded, owners need incentives to set them up. This is especially true for closely held companies where the goal is to use a company-funded employee ownership plan to buy out the owners. Absent tax incentives, owners will sell to someone else. There were virtually no plans like this in the U.S. until tax incentives for ESOPs were created. Now there are over 7,000 ESOPs, mostly used for this purpose, employing millions of people. ESOP tax incentives amount to only about $2 billion/year, but, based on a National Center for Employee Ownership analysis, save over $8 billion per year in federal unemployment costs alone (because ESOP companies pay people off so much less often). By contrast, states spend over $80 billion in tax incentives to encourage companies to move from one place to another with no net job gain. The U.K. is now moving to create a very similar structure with similar tax benefits.

It is also important that U.S. and U.K. that while the incentives focus on the employer, contributions do not trigger any current taxation on employees. Tax is deferred until income is realized. Doing anything else makes employee ownership more punitive than rewarding, at least in the short-term.

In public companies, tax incentives can encourage contributions as well. But the economic and political reality is that shareholders and often governments are reluctant to shoulder the costs of significant annual company contributions for shares. Employee purchase models are a much easier sell. While these models are imperfect for the reasons we have stated, absent incentives for employees to help offset their risk aversion and current income preference, employee ownership will necessarily be a limited phenomenon except in certain idiosyncratic companies with very strong ownership cultures. In the U.S, employee stock purchase plans typically offer employees an essentially guaranteed 5% to 15% annual return, and often more, with no risk but rates of participation in these plans, which require setting aside money on a regular basis out of salaries, are still only about one-third the work force.

If governments want to encourage broader and deeper employee ownership plans in these countries, they should consider tax benefits to the employer for setting up plans that involve most or all employees meeting certain eligibility requirements. The special tax incentives would only become effective if a certain number of employees participated.

A more aggressive approach might provide incentives for plans such as that at Schneider Electric, which has a very high-take up rate. Employees can borrow money to buy shares. The loans come from a bank, but the arrangements were made by the company, but they are non-recourse to employees if the stock does not increase enough to repay the loan. For each share an employee buys, nine more are purchased on the employee's behalf. At the end of the plan's holding period, the employee receives shares having a value equal to the original share purchased plus an amount equal to 5.5 times the increase in value (if any) of that share. Thus, for the price of one share, the employee receives the value of that share plus 55% of the gain (if any) on all ten shares. The bank receives the remainder of the gain. This gives the employee the chance to make a substantial gain with a relatively small risk, since the bank does not have recourse to the employees. The lender hedges its risk through buying puts and calls on Schneider stock.

**Conclusion**

Fiscal incentive policies need to be crafted with a view towards what role a country hopes employee ownership will play. If the goal is to provide employees, mostly in listed firms, with a tax-favored way to accumulate assets, then tax incentives for employees to offset their risk aversion and time preference may be enough. But if the goal is to make employee ownership another model for corporate organization, then fiscal policy needs to provide substantial incentives to employers and deferred taxation for employees. The research in the U.S. and U.K. have shown clearly that the benefits are worth the cost. For a detailed review of U/S. research, see the article Research on Employee Ownership, Corporate Performance, and Employee Communication on the web site of the National Center for Employee Ownership.

**Guido Antolini, DirCredito (Italia)**

We are going to translate the Manifesto also in Italian, as a fundamental side tool for the audition we asked for to the Italian Senate, in the occasion of the law proposition about workers' participation.

**August Van Put, HBK Bank (Belgium)**

Mes félicitations pour le nouveau Manifeste. Il m'est impossible de le dire mieux ou de le compléter. L'argumentation est complète et parfaite. Merci pour le travail fait avec la FEAS.

**Gérard Gruet-Masson, Conseiller du Président, Fondact (France)**

Il serait bon de compléter ce mémo par quelques données économiques supplémentaires. On peut partir du constat que 0,1 point de croissance supplémentaire, c'est 2Mds€ de rentrées fiscales supplémentaires. Comment faire de l'actionnariat et de l'intéressement un levier de croissance. Il y a des liens et des chiffrages à mettre en évidence. C'est le point essentiel qui intéresse nos gouvernants. Lorsque cette démonstration est faite, il est plus facile de plaider pour des incitations fiscales. Amitiés.

**Javier San José, Miembro del Comité Ejecutivo de EFES, Confederación Empresarial de Sociedades Laborales de España (Spain)**

Je suis d´accord avec la proposition de la EFES sur les incitants fiscaux. Ils sont une condition totalement indispensable pour le développement de la participation des salariés. Un des problèmes pour quoi il n'y a pas plus de *sociedades laborales* est l'inexistence d'incitants fiscaux.

**Robert Scallon, Treasurer, FAST - Federation of Associations of Staff Shareholders of Thales**

I agree that fiscal incentives are indispensable to encourage the spread of employee share-ownership throughout Europe. This is particularly true at the time of investment. The counterpart for governments is that such incentives generate GDP growth and that such employee share-ownership improves company performance, both leading to greater tax revenues over time.

**Voestalpine Employee Participation (Austria)**

The voestalpine Employee Participation is present internationally in several European countries. Our experience shows that the participation rate in the different countries is mainly dependent on the varying the incentive systems available in the respective countries. Through the development of such tax incentive systems, employee motivation and identification increase. Employees, as shareholders, are also an important factor with respect to securing the future of the company site.

**Pascale Nieuwland, SNPI (The Netherlands)**

First of all. It is very good to make a new manifest.
The idea is good. But the way it is composed we are not sure if it has the effect EFES is looking for. Yes, we from SNPI agree that fiscal incentives do help a lot with the promotion and development of ESO.
But I am afraid that focusing too much on these fiscal incentives is not the way to start a dialogue with governments and ministries. Governments could easily just say no to the report and then there is nothing more to discuss. It does not start a dialogue.
The current title is just one of the many things that could be done. We would be more happy with a phrase like: Governmental support is indispensable prerequisites for the development of employee share ownership.
Governments should facilitate ESO more, and fiscal incentives is just one way to do this.
Any government could do more. Information can be improved in most countries. Where to find the right information. Models, examples you name it.
And many countries lack a governmental statement on this topic.
Furthermore when reading the manifest, we notice that you focus on Jens Lowitsch a lot. Why is there so much focus on Jens Lowitsch and why is it not more an independent manifest for the promotion of ESO? I am curious what others think of this?
As said, good to have a manifest. But when being honest, we are not so convinced about the title and content of the manifest. It is difficult to see how we are able to use it here in The Netherlands. Maybe when hearing the responds of the others, I will get some ideas.

**Emanuele di Francesco, University of Utrecht (The Netherlands)**

This is my reaction to the EFES manifesto. The economic arena, where economic activity takes place, is shaped by two fundamental elements: institutions and incentives. Built on a mutual relationship, they set the rules of the game and define the spectrum and nature of activities that economic actors will undertake. Doing so, in practice, they create the economic environment.
From this, it directly follows the corollary that favorable institutions and incentives are *per se* necessary prerequisites for productive and economic performant activities.
Entering in the specific case, I believe that fiscal incentives (the most direct - if not the only - way through which States incentivize economic activity) are necessary for a long-termed and sustainable broad-based ownership. In that they give the right incentive to create a more productive and equal world, with greater social cohesion and participation.

The academic research is conclusive on the issue and all the results point to corporate performance enhancements due to employee share ownership programs, in specified conditions.
Now, I believe, has come the time to educate and inform regarding employee share ownership, to create the favorable institutional setting, and to assist consistently the firms, especially the SMEs, in their implementation phase of the programme.
Thus, I absolutely stand together with the EFES in the attempt to promote a favorable political and economical environment for the evolution of a more wealth-decentralized and equal society.

**Jan Procházka, President, KSLP - The Czech Society for Employee Participation**

Our society agree with the fact that fiscal incentives are indispensable prerequisites for the development of employee share ownership.
The international experience is the proof that the extent of employee participation in different countries depends mainly on the quality and significance of incentive systems available in the respective countries. Development of fiscal incentive systems so creates the best conditions for employee involvement and consequently also incentive to promote theirs companies, helping to increase the company performance.
Employee participation is a possible source of extra income that can supplement individual savings plan, or can act as a secondary source of income next to any retirement savings plan carried out by the state and by employers.
Higher attention to and practical promotion of such fiscal incentives would be also the promotion of our effort to increase employee participation in our country.