U.S. Senate Committee on Health, Education, Labor and Pensions
Investing in American Workers: The Benefits of Expanding Employee Ownership
Thursday, August 26, 2010, State House, Montpelier, Vermont

Public Hearing regarding
S. 2909 – Worker Ownership, Readiness and Knowledge ("WORK") Act and
S. 2914 Employee Ownership Bank Bill
Testimony of Christopher Mackin

My name is Christopher Mackin. I have worked professionally in the field of employee ownership since 1978, a span of 32 years. I run a private consulting firm based in Cambridge, Massachusetts by the name of Ownership Associates that provides assistance to the community of employee-owned firms nationwide. I serve as a member of the core faculty of the Harvard Trade Union Program where I teach an annual course on this topic called Capital Strategies for Labor and I am a Special Advisor to American Working Capital, LLC, a merchant banking firm providing financing for employee owned firms.

In addition to those vantage points on the field, during the time period 1999 through 2008, my company managed the Massachusetts Office for Employee Involvement and Ownership or MASSEIO, a state program promoting employee ownership analogous to the Ohio and Vermont employee ownership centers. MASSEIO was funded entirely with state dollars and was closed, or perhaps more optimistically, frozen in 2008, as a result of the state budget crisis in Massachusetts. There remains strong interest in reviving this Massachusetts office and hope that S.2909, the WORK Act might provide the means to accomplish that goal.

I have been asked by hearing organizers to comment upon how the legislation introduced by Senator Sanders might strengthen our local and national economies and contribute to decent paying jobs. In order to respond to this request, I would like to first comment in my role as a practitioner, advising companies of various sizes and shapes around the country and second comment in my role as a contributing academic to something called the Shared Capitalism Research Project, a thirteen year research project funded by the Russell Sage Foundation and the Sloan Foundation and based at the National Bureau of Economic Research. I served as one of the original organizers of this research project in 1997 and contributed to one of the newly published studies to be found in a book published earlier this year by the University of Chicago Press that I would like to present to Senator Sanders. This book is called *Shared Capitalism at Work: Employee Ownership, Profit Sharing and Gain Sharing and Broad-Based Stock Options*.

First, if I might, a couple of observations from my own personal experiences in the field. In my role as a contractor to the State of Massachusetts to manage the Massachusetts Office for Employee Involvement and Ownership I provided assistance to a community of approximately 125 employee owned businesses that collectively employ over 25,000 Massachusetts residents. Most of these firms are organized as ESOPs, about a half dozen are organized as industrial or workers cooperatives. According to the last formal census performed of these firms in 2006, the median size of these companies was 110 employees. The overwhelming majority of these cases followed the standard profile; privately owned/closely held businesses where owners, motivated by a combination of tax incentives and belief in the concept of employee ownership sold these businesses gradually to an Employee Stock Ownership Trust representing their employees.

Three observations about these cases. First, these companies are largely successful, typically representing the life's work of founding owner/entrepreneurs, Second, because these firms are successful, their owners have alternatives in the form of active suitors who wish to absorb them into an existing business platform and third, following from this last point, had these companies not been sold internally to employees, the overwhelming majority of jobs they had created would be gone, quietly and without a trace.

Business failures, plant closings where people lose their jobs make headlines. The everyday sale of businesses, even a sale internally to employees, do not. To the accepted public policy rationale of using employee ownership to increase productivity and company performance we should therefore add the important fact of job preservation. Few of the businesses helped by employee ownership legislation already on the books or under discussion today involve the rescue of companies that are on the brink of commercial extinction. Many if not most of these businesses and the jobs associated with them are commercially extremely viable but instead at risk of a more quiet form of extinction of being absorbed elsewhere, including overseas, unless the internal option, the employee ownership option, remains viable. Both S.2909, the WORK Act, that can help ensure that business owners are made aware of this alternative and S. 2914, the Bank Act that can help finance necessary transactions decrease the risk of job loss and promote job preservation.

The second point I would like to make based on my practical experience in this field stems from a particularly memorable, even formative, interaction that took place fifteen years ago at a company called the G.W. Lisk Corporation in Clifton Springs, New York. G.W. Lisk manufactures solenoids, complex "starter" devices used in the automobile and the aeronautical industry. In 1995 my company was hired to deliver introductory ESOP training to G.W. Lisk's 600 employees. The CEO of this company, a gentleman by the name of Drew Morris, watched over every one of our sessions with an eagle eye. It seemed that this rather forceful and flinty, Republican CEO had a concern or two about these Cambridge consultants, likely Democrats or worse, that he was about to let loose upon his workforce. Fortunately for us Mr. Morris was sufficiently satisfied with what he saw during the morning sessions. He had invited my colleague Loren Rodgers and I to lunch.

As we waited for our meal to be delivered at a nearby restaurant one could see out the window the large community hospital that Mr. Morris had helped to found. Next to it sat several buildings of the G.W. Lisk Corporation. Slightly above our heads in clear view to all was a television screen, broadcasting non-stop business news with the Wall Street ticker crawl streaming across the bottom of the screen. During a lull in the conversation as some babble from the television commentator about the stock market took over the room, Mr. Morris pointed forcefully toward the television screen and literally sneered. "That's not capitalism" he exclaimed. He then pivoted in his seat toward one of his company buildings and pointed once again, this time in the direction of the plant. "That's capitalism!"

I swallowed hard. In that instant I felt a connection with this flinty Republican businessman, who had begun the process of sharing ownership of his family business with his employees, that exceeded the connection I felt with many of my liberal democratic pals in the coffee shops of Harvard Square. The point here is a simple one. Employee ownership is ideologically ambidextrous issue. That quality may be its single most important strength as we look forward to using this idea as a plank in any future economic policy.

While it is ideologically flexible, what employee ownership also appears to do is to distinguish what we might call "responsible" capitalism from its almost purely speculative, finance-driven evil twin, “irresponsible” capitalism. Responsible capitalists can be found in companies across this country and its proponents can be found in both of our major political parties. So can irresponsible capitalists. I therefore applaud the efforts of Senator Sanders to take the lead on this issue and urge him to find common ground with leaders of the Republican party who are ready to make similar and necessary distinctions. In the wake of the financial crisis of recent years, S.2909 and S.2914 are two pieces of legislation that contribute toward a species of “responsible” capitalism that is needed today more than ever before.

Finally a few short words in my role as a part-time academic and academic organizer that are relevant to the proposed legislation. In May of 1997, Professor Richard Freeman of the Harvard Economics Department and I organized the first Shared Capitalism Research Project conference at the Madison Hotel in Washington, D.C.. Among the luminaries we attracted to that inaugural conference included Alan Blinder of Princeton and the Federal Reserve, Doug Kruse and Joseph Blasi of Rutgers and Ralph Nader. Thirteen years later, that project produced the aforementioned book, *Shared Capitalism at Work: Employee Ownership, Profit Sharing and Gain Sharing and Broad-Based Stock Options*.

Research is never definitive but this body of data is compelling. On page 12 of this book, Exhibit 1 presents a table that summarizes six “take-away” findings from this research on shared capitalism. I will not take the time to summarize all six findings here but will instead pull out three:

> First, shared capitalism improves the performance of firms. It is associated with greater attachment, loyalty and willingness to work hard; lower chances of turnover; worker reports that co-workers work hard and are involved in company issues; and worker suggestions for innovations. Shared capitalism is most effective when combined with employee involvement and decision-making and with other advanced personnel and labor policies.
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> Second, the risk of shared capitalist investments in one’s employer is manageable. Portfolio theory suggests employee ownership can be part of an efficient portfolio as long as the overall portfolio is properly diversified.
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> Third, shared capitalism improves worker well-being. It is associated with greater participation in decision-making, higher pay, benefits and wealth, greater job security, satisfaction with influence at the workplace, trust in the firm and assessment of management and better labor-management relations practices.

The message to take away from these findings is that the public policy outcomes that S.2909 and S. 2914 seek to promote stands on firm research ground. It is prudent public policy that helps both our economy and our workforce. More research is necessary because it will always be necessary, particularly research that can uncover mistakes in implementation that must be discovered and reversed. There should be little doubt however that the overall public policy trajectory of these ideas, started in 1974 in the 93rd Congress by Senator Russell Long and his contemporaries, remains sound. These two bills under discussion today will productively build on those earlier achievements.

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