Lately, economic inequality in the United States has been getting a lot of attention. When you look on the surface, it’s easy to find the supporting facts. A recent study shows capital income is highly concentrated with 86% of all capital gains and income distributed to the top 20% of the population and 56.8% to the top 1%. But if you look closer, there is a long bipartisan history explaining how we got here.

This article explores the nation’s evolving views on capital ownership in the United States, from its founding to present day, and suggests some bipartisan public policies to help even out the scales.

1 Refer to Exhibit 1 on page 2.
Early Days: The Bipartisan Views of America’s Founders Support Broad Land Ownership

The idea of capital ownership has deep roots in America’s history. Through the writings, statements and policies of America’s Founders, we know that they did not always agree on the issues and ultimately developed rival political parties to advance their agendas. However, their writings and policies demonstrated a common vision on the idea of capital ownership. President George Washington, President John Adams, President Thomas Jefferson, President James Madison, senior American Founder Benjamin Franklin, and President Abraham Lincoln all agreed that broad-based property ownership was necessary for a representative democratic republic to sustain itself over time.

Their economic plan was for citizens to have some ownership stake in the land, which was the main form of productive capital of the day. Initially, they tried to encourage broad land ownership with a variety of public policies, such as George Washington’s tax credit incentives to continue broad-based profit sharing and land discounts, and Abraham Lincoln’s Homestead Act of 1862 that granted land to homesteaders after farming it for several years. Over time, it became evident that the amount of land, the property rights of existing land, and the rapid growth of the US population would provide limitations to expanding property ownership simply through agricultural land. 2 In what would become a prophetic statement, Galusha Grow, Speaker of the House of Representatives at the time, wrote that the future of the broad-based land ownership idea was in making shares in corporations widely available to workers. Ironically, many public figures later adopted the idea that profit and equity shares were closely connected to achieving the American idea of broad-based capital ownership.

The 1990s: The United States Is the World Leader in Employee Share Plan Systems

By the 1980s and early 1990s, the corporate sector of the United States had developed the most public policies in the world encouraging broad-based property ownership. It also had the largest number of employees participating in corporate stock plans. During this time, the Employee Stock Purchase Plan was widely used in public companies with liberal employee discounts of 15%, generous “look-back” provisions that reduced the risk of such purchases, and reasonable upper-level limits to be sure employees did not over-invest in company stock.

In 1984, the bipartisan move of Democratic Senator Russell Long, chairman of the Senate Finance Committee, resulted in the enactment of Section 133 of the Internal Revenue Code. This allowed financial services companies/lenders to deduct half of their interest income on loans to corporations that set up Employee Stock Ownership Plans. Major financial institutions were now able to provide low-risk ESOP transactions to public companies and split the tax incentives received on these ESOP transactions. This meant public companies were able to use the dividends paid on these shares to pay off the loan. These transactions were very similar to the most liberal “share of land capital”

Note: Figures are for calendar year 2011, current law. Capital income includes taxable and nontaxable interest income, income from dividends, realized capital gains or losses, and imputed corporate taxable liability. The cash income percentile classes used are based on the income distribution of the entire population and contain an equal number of people, not tax units. Source: Urban Institute-Brookings Institution Tax Policy Center.

policies in American history, in that the ESOP allowed regular workers to acquire equity shares in corporations through the use of leverage, low-interest loans and, eventually, grants of the capital.

Also during this time, high technology companies began to emerge across the country. These innovative computer, software, Internet and biotech companies decided to provide grants of broad-based stock options and restricted stock to their employees. By 2001, 57% of all workers in the computer services industry and 43% of all workers in the communications industry participated in company-sponsored programs.3

2015: Public Policy Support for Share Plans Weakens

By 2015, there has been a huge depletion of supportive public policies for “share of capital” plans in American corporations. The following factors contributed to this trend:

- The Financial Accounting Standards Board (FASB) made accounting reforms that changed the expensing rules of share plans. These changes caused companies to discourage lower-level participation in favor of maintaining plans at the higher salary levels. This led to a 30 to 40% drop in employee participation in most of the United States’ leading industries.
- Companies started to reduce the employee discount for Employee Stock Purchase Plans and eliminated the “look-back” provision. This diminished the benefits of participation.
- The legislative incentives provided by Internal Revenue Code Section 133 were eliminated at the end of the 1990s due to budget-cutting efforts.
- ESOPs for closely held companies were never updated to be applicable to S corporations, the fastest growing corporate form among privately held companies today.

Why the decline in policy support?

Although opinions may vary, a plausible explanation is the fact that the private sector does not have a single channel in which to communicate with the Federal Government. There is also no single group within the White House responsible for coordinating policy development. Exhibit 2 shows the low percentages of company shares held by employees in various industries. The opportunities for capital expansion are clear, as the median dollar value of employee equity ownership is only $2,000 for the entire United States.

<table>
<thead>
<tr>
<th>Exhibit 2: Percent of All Workers Holding Company Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.6% Agriculture/Mining/Construction</td>
</tr>
<tr>
<td>32.7% Durable mfg.</td>
</tr>
<tr>
<td>26.1% Non-durable mfg.</td>
</tr>
<tr>
<td>34.0% Transportation/Utilities/Communications</td>
</tr>
<tr>
<td>21.2% Retail/Wholesale Trade</td>
</tr>
<tr>
<td>31.1% Finance/Insurance</td>
</tr>
<tr>
<td>11.9% Education/Health</td>
</tr>
<tr>
<td>18.7% Professional/Management Services</td>
</tr>
<tr>
<td>6.9% Other services</td>
</tr>
</tbody>
</table>


3 2014 General Social Survey of the National Opinion Research Center at the University of Chicago.
Ways to Reinvigorate Bipartisan National Employee “Share of Capital” Policies

The time is right for business and government to have a dialogue about employee share ownership. To get started, communication channels should be established across the political spectrum. The White House should set up an office to coordinate the measurement, research, evaluation and policy development in a formalized manner. In addition, a national spokesperson or organization should be appointed to meet with the White House to discuss bipartisan ideas on national “share of capital” policy.

Policies to Consider

1. A tax incentive for corporations that offers grants of equity (stock options or restricted stock or performance shares) to more than a majority of their employees. This would help reverse the decline of broad-based share plans, especially in the technology and bio-technology industries.

2. A federal policy that incents stock market companies to offer higher discounts in Employee Stock Purchase Plans with more tax incentives to bring back “look-back” provisions. (Note: To keep these plans low risk, existing limits on employee purchases would be strictly enforced.)

3. A new version of Section 133 of the Internal Revenue Code that would give every public company the incentive to offer ESOPs or other broad-based equity plans based on company grants.

4. An extension of ESOP laws to S corporations to facilitate their sale to the managers and employees when an heir does not exist. This will give millions of small-business owners the ability to cash out of their company for retirement.

5. A conditioning of the Section 162(m) deduction to companies that offer broad-based share plans to their employees.

6. A bipartisan policy that lowers the capital gains taxes for middle and middle- and lower-income workers who participate in share plans.

7. A “national share of capital” policy should be focused principally on lower-risk grants of equity and profit sharing to middle-income employees and not on high-risk, excessive employee purchases of company stock with their wages or retirement savings.

Author’s Closing Notes

I want to make clear that these opinions are my own and do not represent those of my institution or any other institution. They are based on my analysis of the American history of shares and the implications of “shares of capital” for broadened property ownership in the United States. I want to stress that, as a sociologist, I do not see many policy options that are this bipartisan, this anchored in American tradition, and this easy for millions of businesses to consider implementing. It is my opinion that if these policies are not implemented, meaningful capital ownership and capital income by most middle-income citizens will become a rapidly declining phenomenon in American life.