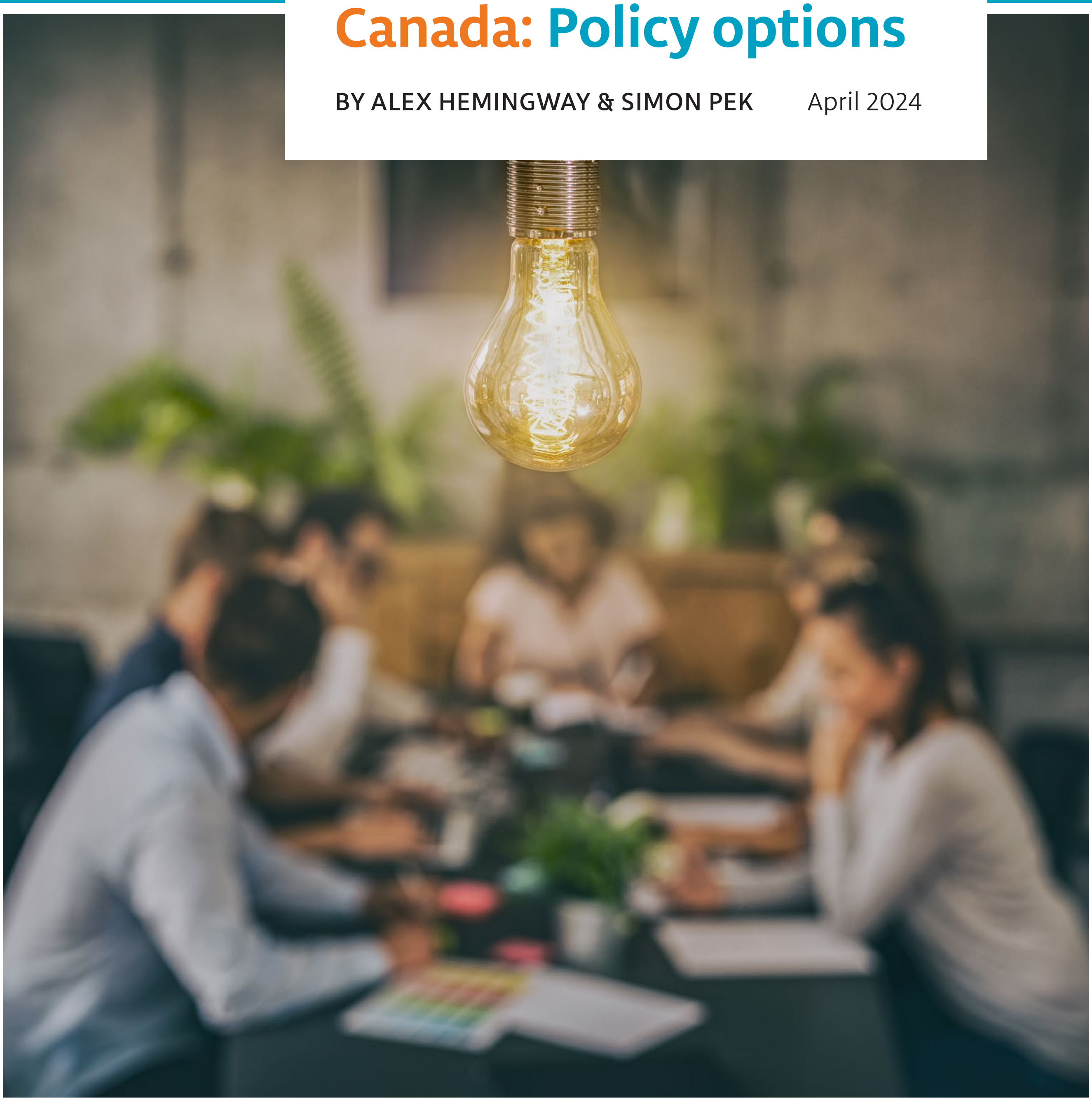
Expanding democratic employee ownership in Canada: Policy options

BY ALEX HEMINGWAY & SIMON PEK

April 2024



CCPA
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CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

520 — 700 West Pender Street, Vancouver, BC V6C 1G8
604-801-5121
ccpabc@policyalternatives.ca
policyalternatives.ca

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University of Victoria

Alex Hemingway is a Senior Economist and Public Finance Policy Analyst at the CCPA's BC Office. His research focuses on tax fairness, public finances, public services, and economic inequality in BC and Canada. Alex holds a PhD in political science from the University of British Columbia, where his research examined the relationship between economic class and political inequality in the advanced industrialized world. He holds two master's degrees from the London School of Economics (MSc Social Policy and Planning; MSc Global Politics), as well as a BA in psychology from Simon Fraser University.

Simon Pek is an associate professor in the area of business and society at the Gustavson School of Business at the University of Victoria. His primary research interests centre on helping democratic organizations like co-operatives, schools and unions achieve their social and environmental objectives using democratic innovations. Simon completed a PhD in Business Administration at Simon Fraser University. He served as the Steering Committee Lead of the Ontario Assembly on Workplace Democracy in 2022.

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Summary

This report examines policy options to expand democratic employee ownership of businesses in Canada. Whether taking the form of worker cooperatives, employee ownership trusts, or employee stock ownership plans, employee-owned firms have enjoyed considerable successes in jurisdictions like Italy, Spain, the United States, France, and the United Kingdom. But they remain relatively rare in Canada, despite the fact that they tend to be at least as productive as conventional investor-owned firms and have significant benefits for workers, firms, and society.

Employee-owned firms have enjoyed considerable successes in Italy, Spain, the US, France, and the UK, but they remain relatively rare in Canada.

Both workers and business owners express a strong interest in employee ownership in polls, and an incoming “silver tsunami” of retiring business owners in Canada means there is a major window of opportunity for converting businesses to employee ownership in the years ahead. Workers can and should have more ownership and control over the workplaces that govern their daily lives.

In this report, we elaborate the benefits of employee ownership found in decades of economic and social research, including reduced inequality, greater job security, higher pay, and more productive and resilient firms. We then lay out key features of what we call *democratic employee ownership*, including majority ownership of the firm and meaningful control rights for workers.

We also consider barriers that can hold back employee ownership, including challenges accessing capital, the need for clearer legal structures, and lack of a strong ecosystem of supporting institutions. This brings us to our central question: what would an ambitious policy agenda look like to break through those barriers and unleash the potential of democratic employee ownership?

We offer a menu of 15 public policy options (see *Summary of policy options* on page 19) to expand employee ownership, which could be adopted variously by federal, provincial, and municipal governments in Canada, including:

- Providing seed grants to regional democratic employee ownership centres and development agencies;
- Making permanent the new partial capital gains tax exemption for sales of existing firms to Employee Ownership Trusts and extending it to worker cooperatives;
- Setting a lower corporate income tax rate for democratic employee-owned firms;
- Ensuring democratic employee-owned firms are eligible for existing public investment funds and business supports;
- Creating a public investment bank with a democratic employee ownership lens; and
- Establishing an employee "right to own" the firms they work in under certain circumstances.

Most of these public policies have been employed in other jurisdictions with a significant employee ownership or worker cooperative sector, but nowhere have they all been brought together. By drawing lessons from successes (and shortcomings) in policy around the world, a concerted public policy effort in Canada could help catalyze a major expansion of democratic employee ownership.

A concerted public policy effort in Canada could help catalyze a major expansion of democratic employee ownership.

Introduction

Canada is in an era of high inequality, stagnant productivity, and growing social and political polarization. With wealth and power increasingly concentrated among the rich and large corporations, people feel frustrated and alienated from political and economic institutions. In much of the Western world, confidence in politicians, political parties, and established institutions has declined over decades,[1] and in Canada that is increasingly palpable in day-to-day politics.

As the country grapples with big social and economic challenges — cost of living, housing shortages, poverty, and the climate crisis, among others — it's worth asking some basic questions about how our economy works and how it could work better. One of those questions relates to who owns and controls the institutions that govern people's daily working lives: our workplaces.

We generally take for granted, at least in principle, that everyone has the right to a say — and certainly a vote — in what our governments do. But in the corporations and workplaces that rule many of our waking hours, which amount to what philosopher Elizabeth Anderson calls a form of "private government",[2] these minimal democratic rights are largely absent. And while workers create the value that becomes corporate profits, these profits largely flow to a highly concentrated set of owners. More worker ownership and control is one promising antidote to extreme inequality and increasingly concentrated and unaccountable economic institutions.[3]

1 Susan J. Pharr, Robert D. Putnam, and Russell J. Dalton, "A Quarter-Century of Declining Confidence," *Journal of Democracy* 11, no. 2 (2000): 5–25.

2 Elizabeth Anderson, *Private Government: How Employers Rule Our Lives (and Why We Don't Talk about It)* (Princeton University Press, 2019).

3 While our focus here is on employee ownership and control, there is a range of other complementary approaches to broadening and democratizing ownership, including consumer, producer, and multi-stakeholder cooperatives, as well as membership-based non-profits.

It's not obvious why democracy should stop at the door of the workplace. Why should the institutions that govern our daily lives be beyond the control of the people who work in them? Why shouldn't working people be the owners and beneficiaries of the fruits of their labour?

While to some ears the possibility of businesses owned and controlled by their workers may sound radical or far-fetched, economic research shows that employee-owned firms perform as well or better as conventional firms on measures like productivity. After all, for workers in employee-owned firms the business is truly their own, so a strong motivation to work productively is no surprise.

Surveys also suggest that to most people employee ownership sounds like common sense. In the US, almost three quarters of both Democrats and Republicans say they would prefer to work at an employee-owned firm.[4] A Canadian survey found that business owners expressed support for policies that would facilitate selling their business to employees and many were considering this themselves.[5] Another recent survey in 2019 found that 55% of Americans supported (and only 21% opposed) a proposed policy that would mandate the gradual transfer of half the equity in large corporations to their workers (again with support across party lines).[6] In Canada, the federal government is taking an important step forward for employee ownership by tabling legislation that will create a new Employee Ownership Trust legal structure. This structure is a potentially powerful tool to enable the conversion of conventional investor-owned firms to employee-owned businesses without an out-of-pocket cost to workers, as we discuss below.

In the US, almost three quarters of both Democrats and Republicans say they would prefer to work at an employee-owned firm.

Employee-owned firms and worker cooperatives already exist in Canada, albeit in relatively small numbers (with the exception of Quebec, where the sector is more substantial). But in certain corners of the developed economies, employee ownership is downright common. This includes the Emilia-Romagna region of Italy, where cooperatives make up a third of GDP;[7] Mondragon, a sprawling multinational worker cooperative based in Spain's Basque country; and the burgeoning sector of Employee Ownership Trusts in the United Kingdom.

Decades of economic and social research suggest that employee-owned firms have significant benefits for workers, firms, and society more broadly, and where they do exist, they are equally or more productive than comparable conventional firms. Yet employee-owned firms remain rare in most jurisdictions and face a set of key barriers that have limited their use.

4 Joseph R. Blasi and Douglas Kruse, "Understanding Support for ESOPs: Charts on Public Polling Data on Employee Ownership, 2018."

5 Canadian Federation of Independent Business, "Infographic: Small Businesses Retirement Plans," 2021, cfib-fcei.ca/en/research-economic-analysis/infographic-small-businesses-retirement-plans.

6 John Duda, "By a Wide Margin, Americans Support 'Inclusive Ownership Funds,'" TheNextSystem.org, May 27, 2019, thenextsystem.org/learn/stories/wide-margin-americans-support-inclusive-ownership-funds.

7 Tom Malleson, *After Occupy: Economic Democracy for the 21st Century* (Oxford University Press, 2014), doi.org/10.1093/acprof:oso/9780199330102.001.0001.

In this report, we ask: what would an ambitious public policy agenda look like to break through those barriers and unleash the potential of a *democratic employee ownership* sector in Canada?

With a major wave of succession decisions imminent among retiring business owners in Canada,[8] the moment is ripe. Building on the first step of the Employee Ownership Trust legislation, a range of further policy action is needed by all levels of government.

In the sections that follow, we first elaborate the benefits of employee ownership, including reduced inequality, more job security, higher pay, and strong firm productivity and resilience. Second, we outline characteristics of what we call *democratic employee ownership*, which has three core features: employees own a majority of the firm's shares, employee-owners have meaningful control rights over the firm, and shares are allocated in a broad-based and equitable manner.

In Canada, the federal government is taking an important step forward for employee ownership by tabling legislation that will create a new Employee Ownership Trust legal structure.

Third, we overview some key barriers to the spread of democratic employee ownership that advocates and researchers have identified. These include difficulties accessing needed capital and financing, and the lack of an existing ecosystem of democratic employee-owned firms in places like Canada to showcase the model.

Finally, we outline a menu of public policy options that could be adopted variously by federal, provincial, and municipal governments to help overcome these barriers and, in so doing, advance the spread of democratic employee ownership across Canada.

8 Canadian Federation of Independent Business, "Nearly Three Quarters of Small Business Owners Plan to Exit Their Business within the next 10 Years," November 28, 2018, cfib-fcei.ca/en/media/nearly-three-quarters-small-business-owners-plan-exit-their-business-within-next-10-years.

Why employee ownership?

Democratic employee ownership has the potential to address some core dynamics in our highly unequal modern economy. Democratic employee-owned firms raise the possibility that working people could have much more ownership and control over their workplaces than they do today, while contributing to a more resilient economy that is better anchored in communities.

> Employee-owned firms can contribute to a more resilient economy.

Over the decades, researchers have identified a wide range of benefits of different forms of employee ownership including reduced inequality, greater job security and satisfaction, higher compensation, and strong firm productivity and resilience. These benefits span multiple levels and often closely relate to each other. Here, we highlight some of the most important ones.

For employees, an oft-cited benefit of receiving an ownership stake in their firm is that it boosts their overall compensation and, in so doing, increases their wealth.[9] This offers many downstream benefits, including greater independence and financial health, which many racialized individuals traditionally lack.[10] Research also suggests that employee ownership is associated with employees' commitment to and identification with their organizations and, in some cases, greater satisfaction with their jobs.[11] As discussed

9 Steven F. Freeman, "Effects of ESOP Adoption and Employee Ownership: Thirty Years of Research and Experience," 2007.

10 Janet Boguslaw and Tanya Smith Brice, "Employee Ownership: Structuring Opportunities for Racial Wealth Building and Family Well-Being," *Families in Society* 103, no. 2 (2022): 135–50, doi.org/10.1177/10443894211023062.

11 Douglas Kruse, "Research Evidence on Prevalence and Effects of Employee Ownership," *Journal of Employee Ownership Law and Finance* 14, no. 4 (2002): 65–90.

below, workers in employee-owned firms are also less likely to be laid off or have their hours cut in an economic downturn. It's perhaps not surprising that when workers have ownership and control over their workplaces, they are better paid, more committed, and enjoy greater job security.

For firms, research points to how employee ownership can drive greater firm productivity, at least in certain circumstances.[12] For example, a recent study found that French worker cooperatives operating in knowledge-intensive industries were more productive than their conventionally owned peers were.[13] Employee-owned firms are also likely to be more resilient, in both good and bad economic times.[14] Taking the case of bad economic times, during the Covid-19 pandemic, a study comparing US-based firms that are majority-owned by an Employee Stock Ownership Plan (ESOP) with their conventional peers found that the former are more likely to retain their workers and maintain those workers' salaries and hours.[15] Furthermore, during both the 2001 and 2008 recessions, publicly traded firms that shared ownership with their employees were less likely to fail or be acquired, and provided their workers with more stable employment.[16]

Benefits include reduced inequality, greater job security and satisfaction, higher compensation, and strong firm productivity and resilience.

For society at large, employee ownership offers myriad benefits, four of which we highlight here. First, their greater resilience discussed above not only has benefits for firms and workers but also helps promote macro-economic stability during downturns.

Second, employee-owned firms can serve as powerful anchor organizations, helping ensure that jobs and capital remain in the communities in which they operate.[17] This is all the more important given the so-called 'silver tsunami.' The Canadian Federation of Independent

12 Kyoung Yong Kim and Pankaj C. Patel, "A Multilevel Contingency Model of Employee Ownership and Firm Productivity: The Moderating Roles of Industry Growth and Instability," *Organization Science* 32, no. 3 (2021): 625–48, doi.org/10.1287/orsc.2020.1404.

13 Trevor Young-Hyman, Nathalie Magne, and Douglas Kruse, "A Real Utopia under What Conditions? The Economic and Social Benefits of Workplace Democracy in Knowledge-Intensive Industries," *Organization Science* 34, no. 4 (2023): 353–1382, doi.org/10.1287/orsc.2022.1622.

14 Co-operatives UK, "Co-Operative Business Survival," Co-operatives UK Research Report, 2019, uk.coop/sites/default/files/2020-10/co-operative_survival_1.pdf.

15 Employee Ownership Foundation, "Employee-Owned Firms in the Covid-19 Pandemic: How Majority-Owned ESOP & Other Companies Have Responded to the Covid-19 Health and Economic Crises" (Rutgers School of Management and Labor Relations, 2020).

16 Fidan Ana Kurtulus and Douglas L. Kruse, How Did Employee Ownership Firms Weather the Last Two Recessions? Employee Ownership, Employment Stability, and Firm Survival: 1999-2011 (Kalamazoo, Michigan: W.E. Upjohn Institute, 2017).

17 Deborah Groban Olson, "Employee Ownership: An Economic Development Tool for Anchoring Capital in Local Communities Colloquium: Crisis and Opportunity: Economic Development for the 90's: Panel VII: The Role of Employee Ownership," *New York University Review of Law & Social Change* 15, no. 1 (1986): 239–78.

Business recently found that more than three quarters of small business owners expect to transition out of their business, collectively representing over $2 trillion in assets.[18] Selling these businesses to employees will help keep these assets and jobs in their communities.

Third, employee-owned firms can play an important role in tackling inequality in at least two ways: reducing discrepancies in wealth by shifting equity from investors to workers, and reducing discrepancies in wages among workers.[19] The above-mentioned study capturing the productivity improvements experienced by French worker cooperatives also found that these organizations had lower disparities in workers' pay. Many worker cooperatives choose to commit themselves to specific pay ratios between the highest and lowest paid workers like 3:1 that are significantly lower than those of their conventional peers.[20]

Employee-owned firms can serve as powerful anchor organizations, helping ensure that jobs and capital remain in the communities in which they operate.

Fourth, there is a small but growing body of research investigating how employee ownership can contribute to environmental sustainability outcomes by, for example, increasing firms' investments in environmental protection efforts.[21]

18 Laure Anna Bomal, Marvin Cruz, and Corinne Pohlmann, "Succession Tsunami: Preparing for a Decade of Small Business Transition in Canada" (Canadian Federation of Independent Business, 2022), 20336445.fs1.hubspotusercontent-na1.net/hubfs/20336445/research/reports/2022/2022-10-EN-Succession-Tsunami-Preparing-for-a-decade-of-small-business-transitions-in-Canada.pdf.

19 Jared Bernstein, "Employee Ownership, ESOPs, Wealth, and Wages," 2016.

20 Malleson, *After Occupy.*

21 Dongmin Kong et al., "Employee Stock Ownership Plans and Corporate Environmental Engagement," *Journal of Business Ethics*, 189 (2024): 177-99, doi.org/10.1007/s10551-023-05334-y.

The democratic employee-owned firm

Given the myriad understandings of employee ownership and workplace democracy, it is important for us to clarify how we understand *democratic employee-owned firms*. In our view, these firms have distinct positions on three dimensions: majority ownership of the firm, meaningful control rights to shape firm decisions, and broad-based and equitable allocation of benefits.

The first dimension is the level of employees' overall collective ownership stake. In practice, employees can own anywhere from a small percentage to all of a firm's shares.[22] Most proponents of employee ownership use the term to emphasize at least a "significant and meaningful stake."[23] Some take this to mean that employees own at least 25% of the company with no other party having a majority interest.[24]

We follow others who take democratic employee ownership to entail employees' owning a majority of the firm's shares.

In our conception, we follow others who take democratic employee ownership to entail employees' owning a majority of the firm's shares — that is, more than 50% of the company's shares.[25] Since we are interested in

22 John Logue and Jacquelyn S. Yates, "Worker Ownership American Style: Pluralism, Participation and Performance," *Economic and Industrial Democracy* 20, no. 2 (1999): 225–52, doi.org/10.1177/0143831X99202004.

23 Graeme Nuttall, "Sharing Success: The Nuttall Review of Employee Ownership," 2012, 14.

24 Andrew Pendleton, Andrew Robinson, and Graeme Nuttall, "Employee Ownership in the UK," *Journal of Participation and Employee Ownership* 6, no. 3 (2023): 194–214.

25 David J. Toscano, "Toward a Typology of Employee Ownership," *Human Relations* 36, no. 7 (1983): 581–602; Jonathan Michie, Joseph R. Blasi, and Carlo Borzaga, eds., "Introduction and Overview," in *The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business* (Oxford University Press, 2017), doi.org/10.1093/oxfordhb/9780199684977.001.0001.

growing the democratic employee ownership sector for the long term, we also prefer models that make selling off the firm to investors difficult and unlikely, ensuring that this majority worker ownership is maintained. Since worker cooperatives and employee ownership trusts typically use forms of collective asset ownership, in contrast with ESOPs in the US, they are less likely to be sold to external investors.[26]

The second dimension is employees' control rights. It is possible for employee-owners to shape their firm's decisions in a range of ways.[27] For example, they can take on representative roles and serve on the board of directors, as trustees, or as a member of strategic decision-making bodies. They can also shape directions more directly in their capacity as shareholders and through their day-to-day work. In some employee-owned firms, employee-owners have minimal control rights, to the point that some are almost indistinguishable from conventional firms in that regard.[28]

In our conception, employee owners ought to have a meaningful opportunity to influence firm decision-making. This could be done in several ways. One is to ensure that a significant percentage of board members or trustees are employees. Canada's new legislation on employee ownership trusts requires that employees who are beneficiaries of the trust comprise at least a third of the trustees.[29] Another is to grant employee-owners so-called pass-through rights on key firm decisions like sales or mergers, as in the case of some ESOPs in the US and in Canada's new legislation.[30] Worker cooperatives are generally the form of employee ownership that puts the most emphasis on democratic control, often with one-worker one-vote approaches to both making major decisions about the firm and electing board and senior management positions.[31]

The third and final dimension pertains to how shares are allocated among a firm's employees. Some forms of employee ownership like stock options are only available to a subset of employees, like those in senior management roles. Others are broad-based, meaning that all

26 Niels Mygind, "Three Models of Employee Ownership: Worker Cooperative, EOT and ESOP — Overcoming Barriers — Important Choices — Pros and Cons," *Journal of Participation and Employee Ownership* 6, no. 3 (2023): 264–80, doi.org/10.1108/JPEO-10-2022-0027.

27 Logue and Yates, "Worker Ownership American Style"; Simon Pek, "Drawing out Democracy: The Role of Sortition in Preventing and Overcoming Organizational Degeneration in Worker-Owned Firms," *Journal of Management Inquiry* 30, no. 2 (2021): 193–206, doi.org/10.1177/1056492619868030; Simon Pek "Learning from Cooperatives to Strengthen Economic Bicameralism," Politics & Society 50, no. 2 (2023) 167-313, https://doi.org/10.1177/00323292231163705

28 Mark J. Kaswan, "Property, Ownership and Employee Ownership: Employee Control in ESOPs," *Journal of Participation and Employee Ownership* 5, no. 1 (2022): 14–31, Mark J. Kaswan, "Property, Ownership and Employee Ownership: Employee Control in ESOPs," Journal of Participation and Employee Ownership 5, no. 1 (2022): 14–31, doi.org/10.1108/JPEO-11-2020-0028.

29 "An Act to Implement Certain Provisions of the Fall Economic Statement Tabled in Parliament on November 21, 2023 and Certain Provisions of the Budget Tabled in Parliament on March 28, 2023," Pub. L. No. C–59, accessed February 28, 2024, parl.ca/DocumentViewer/en/44-1/bill/C-59/first-reading.

30 National Center for Employee Ownership, "How an Employee Stock Ownership Plan (ESOP) Works," 2020, nceo.org/articles/esop-employee-stock-ownership-plan.

31 Mygind, "Three Models of Employee Ownership."

employees, with some exceptions, are eligible to participate in the ownership of their firm's shares.[32] Additionally, in some forms of ownership there are major discrepancies in the number of shares different employees hold (even if all or most employees hold some shares). In others, like ESOPs in the US and Canada's new legislation, shareholdings are more equitable, with allocations based on characteristics like an employee's tenure, hours worked, or their salary within some limits.[33]

Our conception of democratic employee ownership is both broad-based and equitable. All permanent employees are eligible to benefit from ownership, and these benefits are distributed equitably based on employees' tenure and hours worked rather than based on salaries which may be significantly more unequal. In cases when salaries are allowed to be used in the allocation formula for employee ownership, we are supportive of reasonable limits on the amount an employee's salary is eligible for this purpose.

In sum, *democratic employee-owned firms* are those in which employees own a majority of the firm's shares, employee-owners have meaningful control rights, and ownership is allocated in a broad-based and equitable manner. This conception includes worker cooperatives, most UK employee ownership trusts (given that most of them have majority or complete employee ownership and employee representation among trustees),[34] the subset of ESOPs in the US that own a majority of the company and grant employee-owners meaningful control rights,[35] and the emerging European ESOP.[36]

Our conception excludes some forms of employee ownership that do not provide a firm's employees with significant control rights, like gainsharing plans, stock purchase plans, and many ESOPs in the US. While highly successful on their own terms, a limitation of ESOPs in the US from a democratic perspective is that many of them operate effectively as retirement or profit-sharing plans and may not incorporate any meaningful control rights for workers over the firm.[37] Conversely, it also excludes co-determination systems that grant some measure of control rights — such as through elected works councils in the case of German co-determination — without significant ownership of the firm's shares.[38] However, we recognize the important benefits these alternatives offer.

32 Frank Mullins, "A Piece of the Pie? The Effects of Familial Control Enhancements on the Use of Broad-Based Employee Ownership Programs in Family Firms," *Human Resource Management* 57, no. 5 (2018): 979–92, doi.org/10.1002/hrm.21828.

33 National Center for Employee Ownership, "How an Employee Stock Ownership Plan (ESOP) Works."

34 Pendleton, Robinson, and Nuttall, "Employee Ownership in the UK."

35 Logue and Yates, "Worker Ownership American Style."

36 David Ellerman, Tej Gonza, and Gregor Berkopec, "European Employee Stock Ownership Plan (ESOP): The Main Structural Features and Pilot Implementation in Slovenia," *SN Business & Economics* 2, no. 12 (2022), doi.org/10.1007/s43546-022-00363-7.

37 Ellerman, Gonza, and Berkopec.

38 Avner Ben-Ner and Derek C. Jones, "Employee Participation, Ownership, and Productivity: A Theoretical Framework," *Industrial Relations* 34, no. 4 (1995): 532–54.

Barriers to the creation of democratic employee-owned firms

Given the benefits of democratic employee ownership, an obvious question arises: why does this type of firm remain rare in Canada and many other jurisdictions? By all indications, it's not a question of basic economic viability. In fact, as we've seen, the evidence suggests that employee-owned firms have productivity and survival rates that are as good or better than conventional firms. Moreover, there are certain areas of the world with significant and thriving democratic employee ownership sectors such as Italy and Spain, including lasting and large-scale conglomerates like the Mondragon Cooperative Corporation.

But while employee-owned firms hold their own once they're up and running, the creation of these firms lags far behind conventional firms in most places. In this section, we briefly outline several barriers to the creation of employee-owned firms. This sets the context for our subsequent discussion of public policy options that can help overcome barriers and grow the sector.

One important barrier to creating democratic employee-owned firms is a lack of clear legal structures to facilitate their creation.[39] In economies dominated by conventional firms, entrepreneurs and business owners can easily draw from a variety of familiar, off-the-shelf legal forms. By contrast, when it comes to democratic employee-owned firms, the available options may be limited, less familiar, or ill-defined in law.

39 Mathew Lawrence and Nigel Mason, "Capital Gains: Broadening Company Ownership in the UK Economy" (IPPR Commission on Economic Justice, 2017); Social Capital Partners, "Building an Employee Ownership Economy" (Toronto, ON: Social Capital Partners, 2022).

Notably, in places where employee ownership has flourished, it is generally underpinned by a variety of clearly defined legal structures that meet the diverse needs of workers hoping to start an employee-owned business and existing business owners wishing to sell their businesses to their employees. This is true of the laws structuring worker cooperatives in jurisdictions like Italy, France, and Quebec. It's also true of the ESOP structure in the United States and the Employee Ownership Trust structure in the United Kingdom which has seen rapid uptake in recent years.[40]

A second often-cited barrier to creating employee-owned firms is capital and financing constraints.[41] While starting or buying a business requires capital, workers often lack significant capital resources to invest themselves (and may be wary of risking their modest savings once in place). In turn, banks and other lenders may be wary about providing financing to employee-owned firms when this business structure is unfamiliar. External equity investors may be less likely to put up capital for firms they don't control (i.e., those controlled by their employees rather than by investors).[42] Moreover, while conventional firms often receive subsidies and assistance from the government, employee-owned firms may be explicitly or implicitly excluded from such programs.[43] For example, a recent legislative review by Buy Social Canada found that the Business Development Bank of Canada does little to provide patient capital to non-profit enterprises and cooperatives.[44]

Banks and other lenders may be wary about providing financing to employee-owned firms when this business structure is unfamiliar.

A third barrier relates to the collective action problems involved in starting a firm.[45] Starting a business is challenging and normally requires significant legwork by a relatively small set of individuals at the outset. Employee-owned firms don't offer a ready way to compensate for the start-up work and the risk inherent in it. Entrepreneurs, therefore, have an incentive to structure their new business as investor-owned,[46] though, as mentioned above, many small and medium business owners do express an interest in selling their established businesses to their employees.

40 Pendleton, Robinson, and Nuttall, "Employee Ownership in the UK"; Niels Mygind and Thomas Poulsen, "Employee Ownership — Pros and Cons — a Review," Journal of Participation and Employee Ownership 4, no. 2 (2021): 136–73, doi.org/10.1108/JPEO-08-2021-0003.

41 Mygind and Poulsen, "Employee Ownership — Pros and Cons — a Review."

42 Gregory K. Dow, *Governing the Firm: Workers' Control in Theory and Practice* (New York: Cambridge University Press, 2003), cambridge.org/core/books/governing-the-firm/EBDB30B708EF0A88AB94466ACA666B74.

43 Heather M. Hachigian, Emily Mulroney, and Emma Lynn Chapman, "Ownership Matters: Building Community Wealth in Canada," 2023.

44 Buy Social Canada, "Response to the Business Development Bank of Canada (BDC) 2022-23 Legislative Review," *Buy Social Canada* (blog), January 10, 2023, buysocialcanada.com/posts/update/response-to-the-business-development-bank-of-canada-bdc-2022-23-legislative-review/.

45 Erik K. Olsen, "The Relative Survival of Worker Cooperatives and Barriers to Their Creation," in *Advances in the Economic Analysis of Participatory & Labor-Managed Firms*, ed. Douglas Kruse, vol. 14 (Emerald Group Publishing Limited, 2013), 83–107, doi.org/10.1108/S0885-3339(2013)0000014005.

46 Dow, *Governing the Firm.*

A final barrier to democratic employee ownership is the lack of an ecosystem of existing employee-owned firms and supporting institutions capable of cultivating the sector's growth and raising awareness of the model as a viable option for structuring businesses. Indeed, supporting institutions can help overcome the collective action problems discussed above.[47] In jurisdictions where employee ownership is relatively common, there are generally supporting institutions like federations of cooperatives, which can help incubate new firms, facilitate conversions of conventional firms, and provide services and support to employee-owned businesses that reflect their particular needs.[48] In jurisdictions where there are few employee-owned firms, these types of institutions are likely to be poorly resourced or nonexistent, and business services providers are unlikely to cater to the needs of employee-owned firms. Cultivating such institutions may be critical to developing and expanding a strong democratic employee ownership sector.[49]

Starting a business is challenging and normally requires significant legwork by a relatively small set of individuals at the outset.

47 Mygind and Poulsen, "Employee Ownership — Pros and Cons — a Review."

48 Melissa Hoover and Hilary Abell, "The Cooperative Growth Ecosystem: Inclusive Economic Development in Action" (Democracy at Work Institute and Project Equity, 2016).

49 Dow, *Governing the Firm*.

Policy options

Imagine that policymakers in Canada made it a goal to dramatically scale up the role of democratic employee ownership in our economy, as a step toward realizing the social and individual benefits outlined above. Building off the strong first step of creating a new federal Employee Ownership Trust structure, what further policy tools are available and needed to advance democratic employee ownership in this country? What would a robust public policy agenda look like?

In the following four sections, we lay out a menu of 15 policy options that could be taken up variously by the federal, provincial, and municipal governments (with the first two holding the most powerful levers).

These policy options are organized around four basic aims:

- Providing clear legislative structures for democratic employee-owned firms;
- Creating tax and other public policy incentives for the creation of these firms;
- Providing and facilitating access to capital for these firms; and
- Establishing institutions to help support, incubate, and raise awareness of these firms.

Our list of policies is by no means exhaustive, but rather it is a curated set of options we offer based on our analysis of a wide range of research and the experiences of jurisdictions that have seen significant successes in establishing, growing, and maintaining a strong role for employee ownership in their economies.

Most policies we discuss here have been used in practice in other jurisdictions. But there are few if any jurisdictions that have applied such a full spectrum of supporting policies together. Indeed, a comprehensive approach to expanding democratic employee ownership could ultimately help Canada progress toward a more resilient, productive, equitable, and democratic economic model.

Summary of policy options

1. **Clearer legislative frameworks for employee-owned firms**
    - Pass and regularly revisit federal legislation for Employee Ownership Trusts including governance rights (in Canada EOT legislation is currently under consideration in Parliament).
    - Define worker cooperatives with mandatory indivisible reserves in provincial cooperative legislation.
    - Establish an employee “right to own” the firms they work in under certain circumstances.

2. **Tax and public policy incentives**
    - Make permanent the new partial capital gains tax exemption for sales of existing firms to Employee Ownership Trusts and extend it to worker cooperatives.
    - Exempt contributions to worker cooperatives’ indivisible reserves from corporate taxes.
    - Adopt personal income tax deduction for capital invested in worker cooperatives.
    - Set a lower corporate income tax rate for democratic employee-owned firms.
    - Provide a limited tax break on dividend payouts or share allocations to workers in democratic employee-owned firms.

3. **Public capital and access to financing**
    - Ensure democratic employee-owned firms are eligible for existing public investment funds and business supports; consider adding conditions targeting them specifically.
    - Create a public investment bank with a democratic employee ownership lens.
    - Facilitate the creation of a capital development fund for democratic employee owned-firms by requiring sectoral contributions from profits.
    - Allow a tax deduction for financial institutions on a portion of interest income on loans to these firms.

4. **Supporting, incubating, and awareness-building institutions**
    - Create a ministry or high-level public agency with a mandate to expand democratic employee ownership, review existing policy, and launch an awareness campaign.
    - Provide seed grants to regional democratic employee ownership centres and development agencies.
    - Provide a framework for ongoing sectoral funding of supporting institutions including mandatory profit contributions (e.g., as a condition of tax exemptions provided).

POLICY OPTIONS 1

Clearer legislative frameworks for employee-owned firms

To have a strong employee ownership sector, it's important to have a variety of clear, off-the-shelf legal structures available for those wishing to create democratic employee-owned firms based on their circumstances and priorities.[50] For example, some business owners may prefer to sell their business to a structure like an Employee Ownership Trust rather than convert it into a worker co-operative as a way of reducing their personal risk when taking deferred payments for the sale.[51] In turn, EOT structures are generally only used for the conversion of existing businesses, while worker cooperatives are used both to start up new businesses and convert existing ones. Conventional firms can take the availability of familiar business structures for granted, whereas those wanting to create a democratic employee-owned firm have to navigate less well-defined territory in Canada.

Outgoing business owners can agree to take deferred payments in the sale of the firm to the EOT.

Thanks in part to the advocacy of the Canadian Employee Ownership Coalition, the Canadian government has taken a major step forward in this regard. In 2023 it introduced legislation defining Employee Ownership Trusts based in part on a highly successful model in the United Kingdom. EOTs are designed primarily to facilitate the sale of existing businesses to trusts run on behalf of their employees. Outgoing business owners agree to take deferred payments in the sale of the firm to the EOT, with the payments coming out of annual firm profits. This means employees take (indirect) ownership of the firm without paying anything out of pocket, which is a remarkable and attractive feature of the model.

50 Social Capital Partners, "Building an Employee Ownership Economy"; Mygind and Poulsen, "Employee Ownership — Pros and Cons — a Review"; Nuttall, "Sharing Success: The Nuttall Review of Employee Ownership."

51 Corey Rosen, "Employee Ownership in the USA: Lessons to Consider in Creating More Inclusive Capitalism," Journal of Participation and Employee Ownership 6, no. 1 (2023): 215–29, doi.org/10.1108/JPEO-11-2022-0029.

Since the EOT structure was established in the UK in 2014, the conversion of conventional firms to employee ownership has taken off at a rapid rate with over 300 in the past year alone.[52] A clear legal structure was paired with strong tax incentives for conversions.

One advance in the pending Canadian legislation (expected to pass in 2024),[53] in our view, is that it includes a requirement for employee representation among the trustees of an EOT (at least one third must be current employees of the firm). Of course, one third representation among trustees does not equate to control over the trust, so this is a more limited form of employee control than a worker cooperative provides, for example. On the other hand, from the perspective of the seller, some limits on employee control in the early years after a sale may be seen as a feature to ensure they receive their deferred payments from the sale. Whether the control rights for employees in the Canadian legislation are sufficient is something that should be assessed as Employee Ownership Trusts begin to emerge in Canada.

In the UK, a clear legal structure was paired with strong tax incentives for conversions.

Employee representation among the trustees of an EOT is also the norm in the UK but not a requirement, though instituting a requirement is favoured by many advocates.[54] The Canadian legislation also allows additional flexibility to disburse benefits to workers in the form of either income (e.g., dividend payouts) or capital shares redeemable at retirement or exit from the firm (thereby combining two options available in the UK EOT and US ESOP models, respectively).

This legislation should not only be passed but should also be regularly revisited to ensure it is meeting its objectives. If, for example, uptake is lower than expected in certain sectors, owners are finding the legislation challenging to navigate, or the level of employees' voice is too limited, adaptations may be necessary. As an example, the UK recently held a consultation focused on ensuring that their tax measures are being used to further their intended policy objectives.[55] To facilitate this review, it is crucial for the federal government to collect robust data like the composition of trustees, the financial and non-financial performance of companies that are owned by EOTs, the percentage of companies that are owned by EOTs, and employees' compensation.

Worker cooperatives are the traditional form of employee ownership in Canada and may also benefit from more robust legislative frameworks. One key legislative feature common in jurisdictions with strong worker cooperative sectors is that each worker cooperative must

52 Employee Ownership Association and Ownership at Work, "EO Knowledge Programme 2023: People Powered Growth," 2023.

53 An act to implement certain provisions of the fall economic statement tabled in Parliament on November 21, 2023 and certain provisions of the budget tabled in Parliament on March 28, 2023.

54 Employee Ownership Association, "Briefing: EOA Policy Consultation," 2023.

55 HM Revenue & Customs, "Taxation of Employee Ownership Trusts and Employee Benefit Trusts," GOV.UK, July 18, 2023, gov.uk/government/consultations/taxation-of-employee-ownership-trusts-and-employee-benefit-trusts.

contribute a portion of their profits to "indivisible reserves." These are capital reserves that can be used by the cooperative internally for purposes such as investment and expansion, but can't be distributed as payouts to members on an individual basis. This can help ensure that worker co-ops are not undercapitalized by encouraging the internal accumulation of capital. Moreover, if a worker cooperative dissolves, "the reserve will go to a co-op development fund or another co-operative organization, and not be available to the members as it is indivisible."[56]

Furthermore, in some provinces, worker cooperatives are established under legislation covering cooperative enterprises in general, but there is not a dedicated model for worker cooperatives. For example, a recent BC government consultation received the feedback from stakeholders that the legislation could be improved by "providing clearer distinctions between consumer, producer, worker or multi-stakeholder cooperatives."[57] A Saskatchewan study also identified a need to develop model legislation to better enable worker cooperatives in the province.[58]

Successful jurisdictions like Italy and France and the Mondragon cooperatives in Spain have mandatory indivisible reserves of this kind.[59] Jurisdictions with smaller and less well-developed worker co-op sectors typically lack this legislative structure, including Canada (outside of Quebec, PEI, and Newfoundland).[60]

Beyond the structure of employee-owned businesses, other legislative frameworks can help facilitate their creation. For example, the Marcora Law in Italy establishes a right of first refusal for employees to buy struggling businesses if closure of the firm is imminent, along with financial and other assistance to facilitate the sale and conversion to employee ownership.[61]

The Marcora Law in Italy establishes a right of first refusal for employees to buy struggling businesses if closure of the firm is imminent, along with financial and other assistance to facilitate the sale and conversion to employee ownership.

56 Canadian Worker Co-operative Federation, "Written Submission for the Pre-Budget Consultations in Advance of the 2024 Federal Budget," 2023, 5, canadianworker.coop/wp-content/uploads/2023/08/CWCF-Pre-budget-submission_Aug_2024_fnl.pdf.

57 British Columbia Ministry of Finance, "Supporting Cooperatives to Thrive: Modernizing the Legislative Framework for Cooperative Corporations in British Columbia," 2022, 17, gov.bc.ca/assets/gov/employment-business-and-economic-development/cooperative-association-act/consultation_paper.pdf.

58 Mitch Diamantopoulos and April Bourgeois, "Worker Co-Operative Development in Saskatchewan: The Promise, the Problems, and the Prospects," Linking, Learning, Leveraging Social Enterprises, Knowledgeable Economies, and Sustainable Communities, 2014, cuisr.usask.ca/documents/publications/2010-2014/Worker%20Co-operative%20Development%20in%20Saskatchewan.pdf.

59 Hazel Corcoran and David Wilson, "The Worker Co-Operative Movements in Italy, Mondragon and France: Context, Success Factors and Lessons" (Canadian Worker Cooperative Federation, 2010).

60 Murray Fulton and Jean-Pierre Girard, "Demutualization of Cooperatives and Mutuals" (Co-operatives and Mutuals Canada, 2015).

61 Tej Gonza et al., "Marcora for Europe: How Worker-Buyouts Might Help Save Jobs and Build Resilient Businesses," *European State Aid Law Quarterly* 20, no. 1 (2021): 61–73.

This employee "right to own" could be extended to include a right of first refusal on any sale.[62] In the case of large corporations, economist Gregory Dow has proposed the possibility of a right for employees to trigger a vote on whether to bring the corporation under employee ownership.[63]

Policy options 1: Legislative frameworks policy options, in brief

- Pass and regularly revisit federal legislation for Employee Ownership Trusts including governance rights (in Canada EOT legislation is currently under consideration in Parliament).
- Define worker cooperatives with mandatory indivisible reserves in provincial cooperative legislation.
- Establish an employee "right to own" the firms they work in under certain circumstances.

62 Peter Gowan, "A Policy Framework to Catalyze Worker Ownership Transitions" (The Next System Project, 2019).

63 Dow, *Governing the Firm*.

POLICY OPTIONS 2

Tax and public policy incentives

One highly successful policy intervention for expanding employee ownership in recent years is the UK's capital gains tax exemption on the sale of conventional firms to Employee Ownership Trusts. This exemption is available if the trust is taking on majority ownership of the firm.

The tax exemption has succeeded in encouraging owners who are selling their business to seriously consider selling to an EOT. The tax break compensates sellers for the gradual payout from this type of sale, which entails more risk, and a potentially lower sale price. It also compels financial advisors to make this option known to clients who are selling, increasing awareness of EOTs.

The UK's capital gains tax exemption is available if the trust is taking on majority ownership of the firm.

Canadian employee ownership advocates have been calling for such a tax break.[64] In its 2023 Fall Economic Statement, the Canadian government announced a promising plan in this vein.[65] Under this plan, from 2024 to 2026, when a business is sold to an EOT, the first $10 million of realized capital gains would be exempt from being taxed. In our view, such a tax incentive should be equally extended to worker cooperatives.[66]

64 Jennifer Paterson, "Canadian Employee Ownership Trust Model Missing Incentives for Companies: Expert," Benefits Canada, April 21, 2023, benefitscanada.com/pensions/governance-law/canadian-employee-ownership-trust-model-missing-incentives-for-companies-expert/.

65 Department of Finance Canada, "Chapter 3 - Building an Economy That Works for All Canadians," 2023 Fall Economic Statement, November 21, 2023, budget.canada.ca/fes-eea/2023/report-rapport/chap3-en.html.

66 Canadian Worker Co-operative Federation, "Written Submission for the Pre-Budget Consultations in Advance of the 2024 Federal Budget."

In jurisdictions with successful employee ownership sectors, a range of other corporate and personal income tax incentives have been used. For example, in the United States firm profits that are put toward paying off an ESOP's purchase of a firm's shares on behalf of its employees are deducted from corporate income tax. The US also offers a capital gains tax deferral option for firm owners selling shares to an ESOP under certain circumstances.

Other tax incentives for employee-owned firms are aimed at addressing their capitalization challenges. For example, in Italy profits put toward a worker cooperative's indivisible reserves have been either exempt or partially exempt from corporate income tax.[67] The Canadian Worker Cooperative Federation advocates for a similar policy here, noting that "this reserve is [not] for private benefit but for collective benefit."[68] Quebec comes at the capital challenge from another angle, providing a personal income tax deduction of 125% on capital invested by members into their own worker cooperatives (another Canada-wide policy recommendation of the federation).[69]

Italian cooperatives are required to contribute 3% of their surplus (tax exempt) to a cooperative development fund managed by that country's federation of cooperatives, which finances the creation and expansion of cooperatives.

Other tax policies provide broader incentives to the creation of employee-owned firms. In the UK, dividend payouts to employees of an EOT are tax free up to £3600 per year. In a US ESOP, contributions to employee accounts are non-taxable for both the firm and the employee (though in this case the employee shares are part of a retirement plan, not immediately accessible).[70]

In Spain, cooperatives pay a lower corporate tax rate on profits than conventional firms (and not just on the portion of profits contributed to indivisible reserves).[71] These tax benefits come with requirements under Spanish law, however, including that cooperatives contribute at least 20% of profits to their indivisible reserves. In a similar vein, Italian cooperatives are required to contribute 3% of their surplus (tax exempt) to a cooperative development fund managed by that country's federation of cooperatives, which finances the creation and expansion of cooperatives.[72]

In our view, tax benefits of these kinds should indeed come with concomitant requirements and standards to ensure they are not solely to the benefit of an individual firm but contributing to a broader social purpose. One possibility in structuring such incentives would be to organize

67 James Rowe et al., "Policy Supports for Co-Operative Development: Learning from Co-Op Hot Spots," *Journal of Cooperative Studies* 51, no. 1 (2018), escholarship.org/uc/item/6m83m03g.

68 Canadian Worker Co-operative Federation, "Written Submission for the Pre-Budget Consultations in Advance of the 2024 Federal Budget," 6.

69 Rowe et al., "Policy Supports for Co-Operative Development."

70 Rosen, "Employee Ownership in the USA."

71 Monica C. Adeler, "Enabling Policy Environments for Co-Operative Development: A Comparative Experience," *Canadian Public Policy* 40, no. Supplement 1 (April 2014): S50–59, doi.org/10.3138/cpp.2011-062.

72 Adeler, "Enabling Policy Environments for Co-Operative Development."

them in tiers so that some are available to all forms of democratic employee ownership, as we've defined it, while others are specific to certain types. For example, firms that incorporate more and deeper democratic participation for the workers in governance and operations (especially but not exclusively worker cooperatives) might warrant stronger policy incentives. Indeed, research identifies a genuine participatory organizational culture as a factor important to realizing the benefits of democratic employee ownership.[73]

As with any public policy, the social benefits of the tax breaks should also be weighed against their potential use toward funding other public policy goals. But the case for tax breaks to democratic employee-owned firms is indeed strong and underpinned by a wide range of social and economic benefits identified in the research literature and discussed earlier. The fiscal costs of promoting democratic employee ownership can also be offset more directly by higher taxes on the wealthy, which has its own inequality-reducing benefits.[74] Ultimately, if the democratic employee ownership sector becomes large and well-established, it may also be able to grow on its own momentum with fewer tax breaks.

If the democratic employee ownership sector becomes large and well-established, it may be able to grow on its own momentum with fewer tax breaks.

Policy options 2: Tax and public policy incentives, in brief

- Make permanent the new partial capital gains tax exemption for sales of existing firms to Employee Ownership Trusts and extend it to worker cooperatives.
- Exempt contributions to worker cooperatives' indivisible reserves from corporate taxes.
- Adopt personal income tax deduction for capital invested in worker cooperatives.
- Set a lower corporate income tax rate for democratic employee-owned firms.
- Provide a limited tax break on dividend payouts or share allocations to workers in democratic employee-owned firms.

73 Edward J. Carberry, "Employee Ownership and Shared Capitalism: Assessing the Experience, Research, and Policy Implications," in Employee Ownership and Shared Capitalism: New Directions in Research (Cornell University Press, 2011), 1–26, ecommons.cornell.edu/handle/1813/74107.

74 Alex Hemingway, "Why Canada Still Needs a Wealth Tax — and What It Could Fund," Policy Note (Canadian Centre for Policy Alternatives, 2023), policynote.ca/wealth-tax-2/.

POLICY OPTIONS 3

Public capital and access to financing

To facilitate access to capital for democratic employee ownership, one immediate step that governments could take is to add an employee ownership lens to existing public investment funds for business. One example of such a fund is InBC, which is a Crown Corporation in British Columbia. Indeed, as Canadian researchers have pointed out, the present structure of this and other government supports to business may implicitly or explicitly exclude employee-owned firms (and other forms of community ownership).[75] The authors note that "government-backed funds for SMEs such as Business Development Canada, InBC, and Community Futures were designed to support traditional for-profit and investor-ownership of enterprises."[76] In some cases, they find that some programs have criteria "excluding enterprises on the basis of revenue size or other characteristics that inadvertently prevent community-based enterprises from accessing supports."[77]

The playing field should at least be levelled with a review to ensure the inclusion of democratic employee-owned firms in existing government business subsidies and supports.[78] Moreover, there is a case for putting more conditions on such business subsidies, targeting them specifically to democratic employee-owned firms.[79] Government procurement policies could also give preference to democratic employee-owned firms (in cases of comparable bids) to help improve their cash flow, as is practice in the Basque region of Spain.[80]

75 Hachigian, Mulroney, and Chapman, "Ownership Matters: Building Community Wealth in Canada."

76 Hachigian, Mulroney, and Chapman, 22.

77 Hachigian, Mulroney, and Chapman, 23.

78 Sean Geobey and Meg Ronson, "The Co-Operative Opportunity: A Strategy for Small Business Succession in Ontario" (Atkinson Foundation, 2018).

79 Joseph R. Blasi and Douglas L. Kruse, "Shared Capitalism in the USA: Evaluation and Future Policies," in *Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business*, 2017, 361–73.

80 Adeler, "Enabling Policy Environments for Co-Operative Development."

Another powerful measure that governments could undertake is to provide it themselves through the creation of a new public investment bank. The purpose of such a public investment bank would be to "supply patient risk capital" to the sector.[81] In the UK context, reports from the New Economics Foundation and the Institute for Public Policy Research have called for the creation of public investment banks as a broader economic development strategy, making the case for these to include divisions dedicated specifically to servicing cooperatives.[82]

Specialist public investment banks, with expertise in the particularities of democratic employee ownership, could help provide financing for scaling up existing firms, new start-ups, and for the buyout and conversion of conventional firms to democratic employee ownership. As the Institute for Public Policy Research report notes, this approach would be in line with "the successful banking institutions focused on the mutual and co-operative sector in Europe" including a well-developed network in Italy.[83] It would also dovetail with the Scottish National Investment Bank, which has a broader focus.

Public policy could help create an additional source of finance for democratic employee ownership by enabling the creation of a dedicated capital development fund.

Public policy could also help create an additional source of finance for democratic employee ownership by enabling the creation of a dedicated capital development fund. The same report from the Institute for Public Policy Research calls for the creation of a cooperative capital development fund to help expand the sector and "allow companies to access long-term finance without having to issue external equity."[84] They note this approach is found "in countries with the strongest co-operative economies, including France, Italy and Spain." In the Italian case, this is funded by requiring cooperatives to contribute 3% of their annual profits (offset by a corporate tax exemption, as mentioned in the previous section). This approach — requiring sector-wide contributions to a pooled development fund for start-up, conversion and expansion loans — is sometimes referred to as "sectoral financing."[85]

In a homegrown example of sectoral financing, Co-operatives and Mutuals Canada recently created the Canadian Cooperative Investment Fund to support cooperative expansions and conversions through targeted debt and equity investments.[86] The fund currently receives

81 Mathew Lawrence, Andrew Pendleton, and Sara Mahmoud, "Co-Operatives Unleashed: Doubling the Size of the UK's Co-Operative Sector" (New Economics Foundation, 2018), 35, neweconomics.org/uploads/files/co-ops-unleashed.pdf.

82 Lawrence and Mason, "Capital Gains: Broadening Company Ownership in the UK Economy"; Lawrence, Pendleton, and Mahmoud, "Co-Operatives Unleashed: Doubling the Size of the UK's Co-Operative Sector."

83 Lawrence and Mason, "Capital Gains: Broadening Company Ownership in the UK Economy," 24.

84 Lawrence and Mason, "Capital Gains: Broadening Company Ownership in the UK Economy," 24.

85 Rowe et al., "Policy Supports for Co-Operative Development," 40.

86 Co-operatives and Mutuals Canada, "Financing for Co-Ops," canada.coop/en/financing/.

funding from allied organizations like credit unions and cooperative associations.[87] Public policy efforts could be directed at supporting and building off this pioneering effort by, for example, requiring or incentivizing sectoral contributions or providing a public funding infusion to expand the fund.

Another option is to offer a tax deduction to financial institutions on interest income from loans they make to democratic employee-owned firms.[88] This could facilitate access to capital from lenders who may be unfamiliar with these types of firms and reluctant to start lending to them. Once lenders become more comfortable with lending to EOTs and worker cooperatives, the tax benefit could be phased out (as in the case of a tax benefit that was initially offered to those lending to US ESOPs).[89] A variant on this approach would be to target the tax deduction to the credit union sector specifically, building on and helping to deepen the existing relationship between these financial institutions and other cooperatives including those that are worker-owned.

Co-operatives and Mutuals Canada recently created the Canadian Cooperative Investment Fund to support cooperative expansions and conversions through targeted debt and equity investments.

Policy options 3: Capital and financing options, in brief

- Ensure democratic employee-owned firms are eligible for existing public investment funds and business supports; consider adding conditions targeting them specifically.
- Create a public investment bank with a democratic employee ownership lens.
- Facilitate the creation of a capital development fund for democratic employee owned-firms by requiring sectoral contributions from profits.
- Allow a tax deduction for financial institutions on a portion of interest income on loans to these firms.

87 Canadian Co-operative Investment Fund, “Overview,” accessed February 28, 2024, ccif.coop/investing-overview/.

88 Douglas Kruse, “Does Employee Ownership Improve Performance?,” *IZA World of Labor*, 2022, doi.org/10.15185/izawol.311.v2.

89 Social Capital Partners, “Building an Employee Ownership Economy.”

POLICY OPTIONS 4

Supporting, incubating, and awareness-building institutions

In jurisdictions where worker cooperatives have been most successful and common (e.g., Italy, Spain, France, Quebec), there is a strong ecosystem of supporting institutions that help promote and raise awareness of the sector, provide specialized advice and business services, and incubate new firms.[90] A key challenge to expanding democratic employee ownership is establishing such an ecosystem in contexts where the sector is currently small or nonexistent.

One obvious step is to create a dedicated ministry or government office with a mandate to promote and expand democratic employee ownership.

One obvious step a government could take to meet this challenge is to create a dedicated ministry or government office with a mandate to promote and expand democratic employee ownership. The US has seen expert-led calls for "Establishing an office in the highest levels of national government to support employee ownership", including encouraging best practices, reviewing existing public policies through an employee ownership lens, and publicizing the sector.[91] This has been echoed by other ESOP advocacy groups in the country.[92] In Scotland, the government took a leadership role by setting a goal of establishing 500 employee-owned businesses by 2030 and aiming to "make Scotland the best country in the world for employee-owned businesses."[93]

90 Hoover and Abell, "The Cooperative Growth Ecosystem: Inclusive Economic Development in Action."

91 Kruse, "Does Employee Ownership Improve Performance?," 12.

92 Jared Bernstein, "Why Aren't There More? Assessing Barriers to ESOP Creation," 2021, cleo.rutgers.edu/articles/why-arent-there-more-assessing-barriers-to-esop-creation/.

93 Scottish Government, "New Leadership Group for Employee Ownership," 2018, gov.scot/news/new-leadership-group-for-employee-ownership/.

In Canada, some researchers and advocates have called for a broader Ministry for Community Wealth Building, including dedicating senior civil service staff to advancing its goals.[94] A promising example of the work these entities could undertake is ensuring that professionals who provide counsel and technical advice on entrepreneurship and business conversions are adept at discussing democratic employee ownership as an option to their clients.

Leadership of this kind from government could help spearhead the introduction of many of the other policies discussed above, including reviewing and removing roadblocks to employee ownership in existing legislative frameworks and giving a mandate to economic development agencies and business support programs to ensure they are aligned with the expansion of democratic employee ownership. In areas like post-secondary education, high-level government leadership could also help ensure there is funding and encouragement to business schools and other relevant faculties to provide training and specialization in the area of democratic employee ownership. Indeed, analysts have identified lack of business school training in this area as a challenge. Governments could help fund efforts aimed at mainstreaming democratic employee ownership education across Canada that dovetail with or are modeled on successes like the Curriculum Library on Employee Ownership based out of the Rutgers School of Management and Labor Relations. Government leadership could also include a public campaign to raise awareness among workers and business owners about democratic employee ownership, serving as a catalyst and a spark to the sector.

The US recently passed legislation that provides $50 million in federal seed grants to regional employee ownership centres around the country, modeled on successful centres in states like Vermont and Ohio.

Public policy can also play a role in helping to establish supporting institutions in civil society at arm's length from the government. For example, the US recently passed legislation that provides $50 million in federal seed grants to regional employee ownership centres around the country, modeled on successful centres in states like Vermont and Ohio.[95] In advocating this approach and the provision of government seed grants, a researcher notes that these types of employee ownership centres can help "assist local businesses with transitions to employee ownership and provide ongoing technical assistance, support, and networking."[96] Other analysts in this area have similarly called for public support to regional non-profit centres of this kind.[97]

Regional supporting institutions are found across the various jurisdictions with significant cooperative and employee ownership sectors. For example, the Regional Development Cooperatives in Quebec "have a mandate to support co-operative development, strengthen

94 Hachigian, Mulroney, and Chapman, "Ownership Matters: Building Community Wealth in Canada."

95 "Major Wins for Employee Ownership in New Spending Bill | NCEO," accessed February 29, 2024, nceo.org/employee-ownership-blog/major-wins-employee-ownership-new-spending-bill.

96 Kruse, "Does Employee Ownership Improve Performance?," 12.

97 Mygind and Poulsen, "Employee Ownership — Pros and Cons — a Review."

existing co-operatives, and organise a co-operative network in Quebec's seventeen administrative regions."[98] In Italy, regional economic development agencies provide a range of services and support to cooperatives and small businesses alike.[99] In the United Kingdom, regional development agencies include Co-operative Development Scotland (a public agency) and the Wales Co-operatives Centre (an independent cooperative with public funding).

Regional efforts of this kind are also growing in Canada outside of Quebec and could be bolstered with greater public policy support. For example, in British Columbia, the BC Cooperative Association, Vancity Credit Union and other partners recently launched the BC Alliance for Co-operative Development "to establish a more systematic and policy-led… co-op development ecosystem."[100] In partnership with the labour movement, these organizations also helped found the Union Cooperative Initiative, which seeks to support "the development, incubation, and operation of unionized cooperatives."[101] The Saskatchewan Co-operative Association leads Camp Kindling to educate and inspire youth about cooperatives, and Co-operatives First provides a vast array of educational and business development support through the Co-op Creator platform it manages.

> The BC Cooperative Association, Vancity, and other partners recently launched the BC Alliance for Co-operative Development "to establish a more systematic and policy-led… co-op development ecosystem."

As discussed above, in Italy cooperatives are mandated to contribute a small portion of their profits (3%) to cooperative development funds under the auspices of national and regional cooperative federations. The combination of public seed grants and sectoral financing of this kind could be a powerful funding model for these types of supporting and incubating institutions.

Policy options 4: Supporting, incubating, and awareness-building institutions, in brief

- Create a ministry or high-level public agency with a mandate to expand democratic employee ownership, review existing policy, and launch an awareness campaign.
- Provide seed grants to regional democratic employee ownership centres and development agencies.
- Provide a framework for ongoing sectoral funding of supporting institutions including mandatory profit contributions (e.g., as a condition of tax exemptions provided).

98 Rowe et al., "Policy Supports for Co-Operative Development," 41.

99 Corcoran and Wilson, "The Worker Co-Operative Movements in Italy, Mondragon and France: Context, Success Factors and Lessons."

100 Marcelo Vieta, Josée Charbonneau, and Fiona Duguid, "Business Conversion to Co-Operatives in Canada: A Landscape Report," 2024, 33.

101 Union Cooperative Initiative, "Home," Union Cooperative Initiative, accessed March 1, 2024, unioncoopbc.ca.

Conclusion

In an era of sky-high inequality, corporate concentration, deteriorating social cohesion, and reduced trust in our institutions, there is a growing need to not only better address the interests of working people, but also to increase people's control over their economic lives. Developing a vibrant democratic employee ownership sector can contribute to addressing these challenges and help surface crucial questions about who owns and controls our workplaces.

With a wave of business succession decisions coming among Canadian business owners in the years ahead, this is a particularly opportune moment to expand democratic employee ownership in this country. Through thoughtful, targeted public policy interventions, governments across Canada can help overcome the barriers that have, to date, made it difficult to create new democratic employee-owned firms from scratch or convert existing businesses to employee ownership.

The promise of democratic employee ownership is significant, crossing left-right divides and garnering a range of impressive benefits: higher pay and more empowerment for workers, greater firm productivity and resilience, businesses that are anchored in community, and reduced economic inequality. At its most basic, democratic employee ownership can help put working people back in the economic driver's seat at a time when they have increasingly been left behind.

With a wave of business succession decisions coming among Canadian business owners in the years ahead, this is a particularly opportune moment to expand democratic employee ownership in this country.

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