February 2014

An American Share Economy

Kristin E. Tomonto

Follow this and additional works at: http://scholarship.law.nd.edu/ndjlepp

Recommended Citation
Available at: http://scholarship.law.nd.edu/ndjlepp/vol2/iss4/8

This Commentary is brought to you for free and open access by the Notre Dame Journal of Law, Ethics & Public Policy at NDLScholarship. It has been accepted for inclusion in Notre Dame Journal of Law, Ethics & Public Policy by an authorized administrator of NDLScholarship. For more information, please contact lawdr@nd.edu.
AN AMERICAN SHARE ECONOMY

KRISTIN E. TOMONTO*

INTRODUCTION

In the 1980s, Americans have faced unemployment levels unparalleled since the Depression, rapidly fluctuating inflation rates that distort the real value of money, and an economic stagnation that has crippled many industries.\(^1\) For much of this decade, these three problems have existed simultaneously, threatening the American economy with a new dilemma, stagflation.\(^2\) Attempts by policymakers to control these factors using traditional means has resulted in mixed success.\(^3\) At the present time, the level of inflation has


2. P. SAMUELSON, ECONOMICS 769 (11th ed. 1980). Economists have suggested several causes for the development of this unique combination. Some economists attribute this problem to inconsistencies in the competitive market system. In a perfect competitive model, unemployment (the excess supply of labor) should cause the price of labor to drop until the supply equals the demand. Thus, competition should force wages to drop to a level where all laborers are employed. G. HABERLER, THE PROBLEM OF STAGFLATION REFLECTIONS ON THE MICROFOUNDATION OF MACROECONOMIC THEORY AND POLICY 9-10 (1985). Other economists think that wages are sticky and will respond slowly, if at all, to market pressures to decrease to a lower level. They suggest this market pressure has been counterbalanced by labor's demands to increase wages. As the price index continues to advance, labor, seeking wages which meet their expectations in an inflationary economy, demands higher wages. Businesses faced with higher wage costs raise prices, thus increasing expectations and inflation in the economy. Many economists suggest the inflation caused by wage-push or price-push, known as cost-push or seller's inflation, has triggered stagflation in our economy. P. SAMUELSON, supra, at 138, 768-770.

3. If the government attempts to reduce inflation by contractionary fiscal and monetary policies, unemployment will increase while growth and productivity decrease. If the government attempts to decrease unemployment and increase growth by increasing aggregate demand through
dropped significantly. Nevertheless, to one observer, "inflation is far from having been eliminated, even temporarily; . . . the current inflation rate is high by standards of any extended peacetime period other than the past fifteen years." Economist Gottfried Haberler has warned, "Inflation is down but not out. It may well accelerate again when the strong dollar weakens, as most experts expect." Economists also have cautioned that if the government fails to restrict monetary policy and control budget deficits, inflation may well increase in the future. Thus, stagflation has challenged Americans to find the "theoretical breakthrough that will help the mixed economy cope better with this new scourge."

Professor Martin Weitzman, an economist at the Massachusetts Institute of Technology, has proposed a wage payment system called a "share economy," which asserts that employment and production should increase without allowing the development of cost-push inflation, thus conquering stagflation. In a share economy, the wage system is restructured to allow market forces to directly influence salary payments. The employee's income is determined by allocating a percentage of the annual revenue or profit earned by the corporation among the workers. When sales drop during a recession, wages fall, thereby allowing prices to drop and sales to be revived. Professor Weitzman predicts cost-push inflation will be curtailed; unemployment will be decreased due to the built-in incentive for employers to hire additional labor; and production will be increased as more labor is hired, leading to a stimulation of growth as well as demand in our econ-

expansionary monetary and fiscal policies, inflation will be accelerated. G. Haberler, supra note 2, at 9. See also, Bureau of the Census, supra note 1, at 477. Chart No. 796 shows the decreasing rate of the Consumer Price Index from 1980-1983 (13.5 to 3.2) and then the increasing rate in 1984 (4.3). Id.

5. G. Haberler, supra note 2, at 6.
7. P. Samuelson, supra note 2, at 766.
9. Id. at 101.
11. M. Weitzman, supra note 8, at 117.
12. Id. at 88.
This article will analyze Professor Weitzman's share system, evaluate the objections raised by laborers and owners, and recommend a tax incentive plan to encourage its implementation in the current United States economy.

I. PROFESSOR WEITZMAN'S SHARE ECONOMY

A. Changes Under a Hybrid Share System

Professor Weitzman foresees a hybrid share system as the means of implementing a share system into the American economy. In the theoretical share system, one hundred percent of the wage would be determined by market forces. In a hybrid share system, eighty to eighty-five percent of the salary would be a guaranteed base wage and fifteen to twenty percent would be a share wage. This share wage would be negotiated as a fixed percentage of profits or revenue of the company. A typical plan might set aside the percentage of revenue or income from the past quarter and create a "sharing fund." The fund would be divided into thirteen weeks and the laborer would receive both his base wage and his bonus payment at the end of the week. Both the base wage and the percentage amount could be renegotiated through the bargaining process to allow labor to react to growth or decline in the company and changing market conditions.

Professor Weitzman's proposal includes a tax exemption of fifty percent of the laborers' share wage to induce labor to participate in such a program. It also includes the creation of a Share Plan Agency to establish minimum requirement guidelines for a share system. For example, it would set the minimum percentage needed for a share wage to qualify for the tax-exemption status.

Despite the apparent novelty of Professor Weitzman's proposal to implement a profit sharing system into industrial firms with traditional fixed wage systems, various forms of profit sharing determine salaries in a number of professions.

13. Id. at 5-6.
15. M. Weitzman, supra note 8, at 3-5.
16. Id. at 136.
17. Id. at 104.
18. Id. at 131.
19. Id. at 134-35.
20. It would also be reasonable to speculate that such an agency would disallow any system which would violate minimum wage laws.
Self-employed workers, professionals, executives, salesmen and writers all earn their salary based on a percentage of profit earned during the year.\textsuperscript{21} Closely related to Professor Weitzman's hybrid share system is the shūskin koyō system in Japan, in which workers receive their salary in the form of a monthly base wage and two yearly profit-sharing bonuses. The base wage is a negotiated amount while the bonus wage rises or falls with the income of the company. Japanese employers have benefited from the built-in flexibility of this system, which allows the company to reduce labor costs during recessions without laying off workers. Japanese laborers benefit by lifetime employment and excellent working conditions. Workers also perceive themselves as permanently employed partners which increases corporate loyalty and a positive attitude toward technological improvements enhancing productivity.\textsuperscript{22}

B. Primary Effects

Professor Weitzman suggests that if several firms adopt a share system, the aggregate effect would be to cause a decrease in unemployment, an increase in growth, and a decrease in cost-push inflation, thus avoiding stagflation.\textsuperscript{23}

The unique characteristics of a share economy would stimulate demand for labor and decrease unemployment. When an employee’s wage is based on a percentage of revenue or profits, the hiring of additional workers means that profits are divided by more persons, thus lowering the bonus payment of every employee by a fraction. As additional labor produces more output, the price, and subsequently the profit, will drop because the increased supply in the market will lower demand, thus reducing the bonus payment of the previously employed laborer. This relationship creates a situation in which the marginal cost of each new laborer is lower than the marginal cost of the last laborer. These elements result in a lower marginal cost to the firm in hiring an additional laborer than the average cost of a laborer.\textsuperscript{24} Hence, firms in a share economy will have a natural tendency to hire additional workers because the marginal cost of hiring a new

\textsuperscript{21} M. WEITZMAN, supra note 8, at 72-74.
\textsuperscript{22} Id. at 74-75.
\textsuperscript{23} Id. at 144.
\textsuperscript{24} Weitzman assumes firms hire labor to the point where the marginal cost of an additional worker is equal to the marginal revenue contributed by that worker.
worker is less than the marginal revenue produced by that worker.\textsuperscript{25} Professor Weitzman suggests that as individual firms hire additional laborers, these newly hired workers will cause an increased demand for the products of other firms. This increased demand creates a ripple effect causing other firms to increase production and hire additional workers.\textsuperscript{26} Several economists, however, suggest that wages will not drop;\textsuperscript{27} that the system creates an artificial demand for labor;\textsuperscript{28} and that unemployment is caused by several different factors.\textsuperscript{29} Despite these arguments, Professor Weitzman contends that firms, in aggregate, will create a "'strong force' of positive excess demand for labor . . . pulling it toward full employment."\textsuperscript{30}

This increased employment could cause an increase in growth in the economy. Newly hired workers would spend their salaries on other products in the market, thus, increasing the demand for these products and stimulating growth in other markets.\textsuperscript{31} Furthermore, as additional labor is hired, the quantity of goods produced would increase, causing growth within the original markets. Thus, industry stagnation could be eliminated.\textsuperscript{32}

A share system could create an environment in which cost-push inflation could not take root.\textsuperscript{33} When labor de-

\begin{thebibliography}{99}
\bibitem{25} M. Weitzman, \textit{supra} note 8, at 87-88.
\bibitem{26} \textit{Id.}
\bibitem{27} Whether wages will drop has been a major source of debate between the Classical and Keynesian schools of thought for years, and history tends to show that they will not drop. Thurow, \textit{How to Get Out of the Economic Rut}, N.Y. Rev. of Books, Feb. 14, 1985, at 9; P. Samuelson, \textit{supra} note 2, at 546.
\bibitem{28} A share economy assumes the demand will increase despite the fact that it is splitting the same pie among more people. "Nor is it clear why a share economy necessarily solves the Keynesian problem of inadequate demand." \textit{The State of the Unions}, The New Republic, Mar. 25, 1985, at 26.
\bibitem{29} Albeit increasing demand for labor, thus stimulating jobs, should decrease unemployment, it must be noted that several other factors affect unemployment such as insufficient skills, increased automation, and inability to relocate (two income families), as well as increased competition from world market (with lower wages) and discrimination in employment. \textit{National Conference of Catholic Bishops, Economic Justice for All: Catholic Social Teaching and the U.S. Economy} (Final Text 1986), at paras. 146-147 reprinted in \textit{16 Origins} 412 (1986) [hereinafter cited as \textit{Pastoral Letter}].
\bibitem{30} M. Weitzman, \textit{supra} note 8, at 97.
\bibitem{31} \textit{Id.} at 88.
\bibitem{32} \textit{See id.} at 5-6.
\bibitem{33} \textit{The State of the Unions, supra} note 28, at 26.
\end{thebibliography}
mands wages (base wage plus share wage) to be pushed higher than the competitive price of labor in that market, more workers would be attracted to that firm. As this firm hires additional labor, the quantity of goods produced would increase, thus causing prices to drop as supply increases. This price decrease would eventually reduce revenue, thus reducing the bonus payment. Professor Weitzman suggests that such reductions will lower the artificially pushed wage rate back to the competitive market price, not allowing wage-push, and consequently price-push, to take hold. Professor Weitzman further proposes that since prices and wages are interrelated, labor costs are effectively indexed to price changes. The economy as a whole is "inherently biased against inflation because it is costly to the [individual] firms to raise prices." Professor Weitzman suggests that the share system's ability to absorb unemployment has a significant anti-inflationary effect because it frees the government to deal more effectively with stabilizing the value of money. Although economists correctly argue that inflation is caused by several different factors, a share system could decrease the rise of cost-push inflation in the United States economy.

C. Secondary Effects

In addition to solving stagflation, Professor Weitzman contends that a share system would have significant secondary economic implications. The degree to which a share system would encourage these secondary benefits depends upon the number of firms which implement this system. Nevertheless, the employment of more workers would have an effect on factors such as consumption, savings, government expenditures, and tax revenues. Also, the production of more goods would stimulate domestic long-term capital growth as well as international market growth.

The higher demand for labor would cause the secondary

34. M. WEITZMAN, supra note 8, at 117.
36. Id.
37. Cost-push inflation caused by union wage demands constitute only a fraction of the factors which caused inflation in the 1970s; other factors include Asian industrial competition, international agricultural production, prices of oil and the overvalued dollar. The State of the Unions, supra note 28, at 26.
38. M. WEITZMAN, supra note 8, at 120-121.
effect of increasing consumption. The previously unemployed worker would now be able to provide the basic necessities for his family, such as food and clothing. (The purchase of these items would create a greater demand for labor in these markets, further stimulating consumption.) More workers would also be able to purchase more expensive commodities. Studies of bonus systems in Japan have shown that because of semi-annual bonus payments, workers tend to be able to purchase the major consumer durable items in July and December, thus stimulating more consumption.

Although some people use their bonus payments to purchase necessities, others use this extra income to increase their savings. Further studies of the Japanese system have shown that workers tend to consider their bonus payment as a "buffer income." Accordingly, they tend to spend this money with more discretion and their "marginal propensity to consume the bonus income is significantly lower than that of non-bonus income." Such results have suggested bonus payments have a substantial positive effect on Japan’s high personal savings rate.

A share system would affect a government’s revenues and expenditures in several ways. Government expenditures would be reduced by the decrease in unemployment payments and welfare benefits. Federal tax revenues would be increased by the newly hired worker’s payment of income taxes. Tax revenue simultaneously would be reduced by the proposed tax incentives. Based on his conclusions that a one percentage point drop in unemployment will cover the loss of tax revenue from the proposed tax exemptions, Professor Weitzman suggests an overall government budget surplus would result.

39. See id. at 88.
41. This increase in major consumer items results from the timing of semi-annual bonus payments; thus, such an effect may not occur if the bonuses are paid with the weekly salary.
42. Again, if bonus payments are made as part of a weekly salary, anticipated increases in savings may not occur.
44. Id. at 133.
45. M. WEITZMAN, supra note 8, at 131.
46. “Every extra percentage point of unemployment translates into about $25 billion of increased federal budget deficits and about $80 billion
Finally, adoption of a share system by many companies could increase demand for goods, stimulating both the national and international markets. A brisk demand at full capacity would increase long-term capital formation and technological growth of domestic corporations. Full employment at home would initiate the elimination of trade barriers. International corporations would then be able to expand their markets and increase their foreign trade. Expanded exports would significantly stimulate the economies of underdeveloped nations.47

Therefore, according to Professor Weitzman, "the average worker, as well as the economy as a whole, is better off under a revenue-sharing system . . . ."48 While further economic analysis goes beyond the scope of this article, several economists have suggested potential flaws in Professor Weitzman's proposal.49 Some of these criticisms include: a share economy operates in a perfectly competitive market;50 the system is based on a "monopolistic competitive" model which "has been of limited help in trying to understand the modern corporation";51 and the proposal treats labor as a completely fungible resource without considering the complex contracting issues which will result.52

II. EVALUATION OF LABOR'S OBJECTIONS

Because of the unstable economy that has marked the '80s, labor unions have been required to accept salary cuts in salaries and reduced benefit packages.53 A share system would also force laborers to forgo short-term benefits, such as wage stability, for long term results such as increased em-

48. Id. at 6.
50. This perfect competition model has several underlying assumptions which do not occur in the real world. They include: the economy operates in equilibrium where marginal cost equals marginal revenue; a firm operates at maximum efficiency; a firm has no other variable costs; a firm makes decisions based on perfect knowledge; and a firm has only two alternatives in a recession, to go out of business or to cut costs by firing laborers.
52. Id. at 631-634.
ployment. Laborers have legitimate objections to the accessions required by a share system. First, laborers may object to the potential decrease in wages and the instability of their wage payments. However, since a share system should create more jobs, this instability should be balanced by increased job security. Second, labor does not want salaries to be determined by competitive forces, because if market pressures are allowed to influence wage payments, workers who try to increase their salaries to meet inflationary expectations should not be able to push wages above the competitive level, and thus wage-push or cost-push inflation would be curtailed. Third, labor objects to sharing in the risks of the company without sharing in the decision-making process. Their role in decision-making must be limited because they would not support the hiring of additional workers which would reduce their salaries. To properly analyze an American share system, however, labor’s interests must be carefully evaluated.

A. Wage Instability vs. Job Security

Laborers object to the instability of wages in a share economy, particularly the potential wage loss, because it reduces a worker’s ability to provide for his family’s needs and his expectation of earning a fair wage, as well as other motivations derived from a raise in salary. First, workers require a certain wage payment to meet the needs of their families. As the cost of living rises each year, workers need salaries which reflect the increased cost of providing the basic necessities of food, clothing and shelter. Second, a worker expects his wage, at a minimum, to stay constant, if not to rise with the cost of living. If salaries are reduced, workers will become disappointed, if not angry, at the unfairness of a system over which they have no control. Many workers are motivated by an employer’s recognition of high quality work that is reflected in a raise in income. A system which determines salaries on factors other than workers’ performance might not only eliminate the motivational factors derived from salaries, but also create discontent by the perceived notion that their efforts go unnoticed.

Labor also objects to the increased uncertainty of wages created by a share system. This uncertainty produces anxiety over the ability to plan for the future. It restricts a worker’s ability to take on long-term investments such as the purchase of a home or establishment of a college fund. Such a system decreases the worker’s ability to plan these endeavors with
any assurance that he or she will be able to meet the monthly financial commitments over a long period of time.

Despite the disadvantages of potential wage losses, workers in several industries have already been forced to accept contracts with wage reductions. These contracts do not assure job security in the future. However, if many firms implement a share system, labor's loss of stability in wage payments should be counterbalanced by its increase in job security. The diminished lack of certainty in exact wage payments should be countered by the increased certainty of long-term wages from guaranteed employment throughout a share economy. Professor Weitzman foresees job security for workers "because a share firm de facto offers lifetime employment, and even if a job should be lost or a worker wishes to transfer, another job can be found relatively easily in a share economy." Professor Weitzman cites the example of The Lincoln Electric Company (the world's largest manufacturer of arc-welding equipment) for its successful use of a bonus payment plan and its guaranteed employment program. Its success is proven because no one has been laid off since the program was initiated over thirty years ago. General Motor's Saturn Project illustrates another firm where workers will give up wage certainty for job security. Laborers have switched from an hourly wage system to a salary based on eighty per cent of the average industry pay plus extra payments if they meet productivity, profitability and production goals. In return, "Saturn will guarantee lifetime employment to eighty per cent of its work force, unless 'severe economic conditions' or 'catastrophic events' occur." Furthermore, in 1982 and 1984, the UAW adopted employment security as their highest bargaining priority. Professor Weitzman's prediction of full employment and guaranteed job security for all laborers under a share system could offset the resulting wage instability.

54. Id.
55. M. WEITZMAN, supra note 8, at 120.
56. Id. at 81-82.
B. Competitive Wages vs. Cost-Push Inflation

Labor unions object to wages being put back into competition. This change could subject wages to the pressures which force salaries to decrease to a level at which supply for labor equals the demand for labor. Unions have worked, in the past 100 years, to standardize contracts and to require equal wages within an industry. Unions contend this change "is good not only for workers, who avoid being played off against each other; it is also good for the economy because it rewards productive firms and punishes unproductive ones." They explain that unproductive firms are rewarded in a competitive wage market because these firms can inefficiently use their resources and then take pay cuts from their employees to produce a profit.

Although labor correctly predicts that an unrestricted determination of wages by market pressures could reduce salaries below an acceptable standard of living, such a situation need not occur in a share system. Under Professor Weitzman's proposed hybrid system, only fifteen to twenty per cent of wages would be determined by market influences. He believes a share percentage within that range would be enough to stimulate the economic activity necessary to eliminate stagflation. Thus, more than eighty per cent of a worker's salary would be untouched by market pressures, and this base wage would not be lower than the minimum wage for an acceptable standard of living.

Furthermore, allowing wages to be determined by the competitive market might stimulate Third World economies more effectively than vast amounts of foreign aid. Haberler has stated that, "unions in such industries as steel and automobiles have managed to keep wages about fifty per cent above the average wage in U.S. manufacturing industries." He claims that, "this has been possible because these industries have been protected from foreign competition." By putting wages into the competitive market, American prod-
ucts should be able to compete better on the international level. Professor Weitzman suggests this ability to compete will allow us to eliminate protectionist measures. Tariffs, import quotas and exchange controls hamper free trade and the ability of less developed countries to expand their markets. Less developed countries depend upon the expanded American market to exchange their products for necessary goods and services. The ability to eliminate trade restrictions between Third World nations and the United States would allow the United States to help developing countries “improve the quality of their lives and ensure that the benefits of economic growth are shared equitably” among them. Thus, increased international trade can be mutually beneficial to both the United States and less developed countries.

If wages are placed in competition and market pressures are allowed to influence wage payments, the growth of cost-push inflation in the economy should be restricted. In a share system, if labor artificially pushes wages above the market price for that industry, more laborers could be hired at that firm; the bonus payment would be reduced until the wage falls back to the industry rate at which time less labor will seek a job at that firm. Thus, a share system would limit labor’s ability to create an artificial wage rate. Followers of John Kenneth Galbraith would suggest solving creeping wage inflation by imposing wage and price controls, and thereby

66. Others suggest concentrating on our own front yard through “wage-led productivity growth” will be a better strategy to promote decreased dependence on the global economy and increased international cooperation. They argue this growth would be achieved without workers having to accept lower wages. These goals would be accomplished through “creation of public-jobs program, labor-law reform to reduce barriers to unionization, a substantial increase in the minimum wage and legislation to require equal pay for jobs of comparable worth.” Gordon, Do We Need To Be No. 1?, THE ATLANTA MONTHLY 100, 104 (April 1986).
67. M. WEITZMAN, supra note 8, at 120.
68. G. HABERLER, supra note 2, at 67.
70. Pastoral Letter, supra note 29, para. 292.
71. However, “a good society must not allow its own general gains to be won at extreme cost to a few.” New policies must be established to protect workers who may be most vulnerable to industry-wide change. LAY LETTER, supra note 69, at 69-76.
72. M. WEITZMAN, supra note 8, at 108.
73. P. SAMUELSON, supra note 2, at 768.
reducing individuals' expectations. A share economy should not permit individuals' expectations to push wages above the market rate. A share system should also reduce a firm's desire to raise prices, since it would lead to a simultaneous increase in their labor cost. Thus, a reduction of artificial wage increases and a reduction in price increases would chill the growth of cost-push inflation.  

Many individuals would benefit from a reduction of cost-push inflation since it creates many adverse effects in our society. First, it reduces the "real value" of money, thus requiring more dollars to buy the same product. This loss disproportionately falls upon the poor and the working class because much of their income is spent on the purchase of four basic necessities: food, energy, shelter and health care. The annual inflation rate for necessities between 1970 and 1977 was one and a half times as high as the rate for non-necessities. Hence, people on fixed incomes are severely affected by inflation, since their ability to buy necessities is greatly reduced. Similarly, the elderly within the lower to middle income brackets often are adversely affected because they depend heavily on fixed income from property interests and fixed social security benefits.

Second, inflation reduces the value of savings since an individual's dollar has less value in the future than it does at the present time. A reduction in the ability to save causes people to lose a measure of control over their lives. They are unable to build college or retirement funds which will sufficiently cover these future expenses.

Third, inflation creates an unstable income structure. The inability to save and an unstable salary only serve to increase anxiety about the prospects for the future. There-

74. Weitzman, supra note 35, at 38.
77. Despite the fact that labor's wage demand have been cited as a major contributor to causing wage-push inflation, (G. Haberler, supra note 2, at 5.) the reader should be aware that restricting labor's ability to increase their income may force their salaries to become similar to a fixed salary.
79. A. Burns, supra note 75, at 2.
80. Id. at 4.
81. Id. at 2.
fore, "by causing disillusionment and breeding discontent, inflation . . . (increases) doubt among people about themselves, about the competence of their government and about the free enterprise system itself."  

Many corporations also would benefit from the reduction of cost-push inflation in our economy. As in the case of individuals, a corporation's "real value" of money is reduced and their value of savings is lessened. In addition, corporations face the substantial problem of erratic price changes caused by inflation. These changes affect the firm's ability to predict long-term profits and thus restrict long-term capital investment.  

Without these investments, corporate growth is severely limited. In sum, the reduction of cost-push inflation would improve the quality of life for many sectors of our society.

C. Participative Management vs. Unemployment

The third objection to the share economy is that laborers would be expected to share in the risk of the company without receiving a share in the decision-making process. Since a worker's salary would correlate to the profits of the company, the amount of an employee's paycheck would directly relate to the successful operation of the firm. Thus, employees would be sharing more fully in the risks inherent in ownership. Laborers object to this apparent shifting of risk without receiving the ability to influence decisions which determine the success of the company. Professor Weitzman argues that a share system only reallocates the risks among all laborers instead of allocating it only to workers with the lowest seniority who will be the first to lose their jobs. 

Nevertheless, a form of participative management would give workers a means to contribute their ideas into the decision-making process. Professor Weitzman suggests, however, that there is an inherent problem with a participative type of management in a share system. The ability to decrease unemployment, a

83. Id. at 5.
84. Minarik, supra note 78, at 26.
85. M. WEITZMAN, supra note 8, at 140. In a wage system, when demand decreases, the last hired workers will once again become unemployed. Thus, they shoulder the risk for all employees, while the high-seniority workers do not share any of the risk.
86. Id. at 133.
primary goal of a share system, can only occur when the firm is allowed to hire significant numbers of new workers. But when a new worker is hired, the presently employed laborer takes a wage loss because he receives a smaller share of the profits. Thus, it is intrinsically against the employee's interests for the firm to continuously hire additional workers.\textsuperscript{7} Since it is feared that the implementation of participative management would endanger the firm’s ability to decrease unemployment, the benefits of increased participative management must be balanced with the benefits of reduced unemployment.

Implementing a participative management system could create a more conducive work environment, and, in general, a healthier workforce. Studies evaluating profit sharing programs have been shown participation improves morale, cooperation, and loyalty within the firm, allowing the company to attract and retain better workers, reducing employee turnover and absenteeism.\textsuperscript{8} Conversely, programs which lack an effective means of participation have shown to be less efficient plans, causing workers to feel disappointment, hostility and cynicism.\textsuperscript{9} Moreover, it has been suggested that participation "yields good results: prosperity, security, peace and individual morality."\textsuperscript{90} Such results have been attributed to an employee's increased interest in working hard for a common goal. This increased democracy in the workplace has contributed to a decrease in an individual's self-interest and an increase in the interest of the general good of the community creating "a body of active concerned public-spirited citizens."\textsuperscript{91} In 1986, the American Bishops in \textit{Justice for All: Catholic Social Teaching and the U.S. Economy} suggested "{s}ocial justice implies that persons have an obligation to be

\textsuperscript{7} Other methods of participation can be designed to limit employee's input on hiring decisions, but still provide an effective voice for labor within the firm. Alternatively, share system stock ownership plans give employees an equity interest in their firm with full voting rights. Thus, as individuals, they are receiving ownership interests which compensates for the perceived increase in risk and in aggregate, they can elect directors to the Board to represent their interests in the company's operation.

\textsuperscript{8} B. Metzger, \textit{Profit Sharing In Perspective In American Medium-sized and Small Business} 119-129 (1966).

\textsuperscript{89} National Center for Employee Ownership, \textit{Employee Ownership-A Reader} 46 (1985).


\textsuperscript{91} \textit{Id.} at 31.
active and productive participants in the life of society and that society has a duty to enable them to participate in this way." The Bishops further stressed the duty "to organize economic . . . institutions so that people can contribute to society in ways that respect their freedom and the dignity of their labor." Thus, through participative management, labor is given the opportunity to contribute to the decisions in their firms and effectively influence the economic institutions which shape their lives.

These benefits must be balanced by the benefits of reduced unemployment. In the pastoral letter, the American Bishops declared that full employment should be the primary goal. In 1931, addressing a world beset with economic problems, Pope Pius XI warned:

Unemployment . . . especially as we see it prolonged and injuring so many . . . has plunged workers into misery and temptations, ruined the prosperity of nations, and put in jeopardy the public order, peace and tranquility of the whole world.

Increased employment can significantly decrease the emotional effects on these individuals, decrease poverty and discrimination in our society and improve working conditions in corporations.

The emotional effects of unemployment have shattered the individual, the family and American society. Unemployed individuals experience a serious loss of self respect as well as strong guilt, believing society blames them for not having a job. They suffer overwhelming stress, and this pressure has been correlated to increased mental illnesses and increased suicides. The unemployed experience this deep loss of self respect because work corresponds with dignity; it is through work that dignity is expressed and increased. Work provides the opportunity for fulfillment as a human being.

---

93. Id. at para. 72.
94. Id. at para. 155.
96. M. Weitzman, supra note 8, at 120.
98. Id.
ment is crucial to self-realization and essential to the fulfillment of material needs.\textsuperscript{100}

The sense of inadequacy which results from a worker’s inability to provide for the material needs of his or her family has contributed to the breakdown of the family.\textsuperscript{101} In 1982, Pope John Paul II, perceiving the probable displacement of skilled workers because of vast technological innovations, explained in \textit{Laborem Exercens} that “work constitutes a foundation for the formation of family life.”\textsuperscript{102} It is through the family that the “reference for shaping the social and ethical order of human work” is affirmed.\textsuperscript{103} Thus, children learn the value and fulfillment of work by the role model of their parents. Lack of employment limits the parent’s ability to instill the ethical value of work in their children. It can also limit the parents’ ability to educate their children.\textsuperscript{104}

The stress created by unemployment has been known to cause family quarrels and excessive drinking. This pressure has been released in destructive ways causing increases in spouse and child abuse, even leading to deaths. Unemployment has contributed to the rising divorce rate and the number of single-parent families.\textsuperscript{105}

Moreover, Pope John Paul II asserts that man through work “combines his deepest human identity with membership of a nation, and intends his work also to increase the common good. . . .”\textsuperscript{106} An individual’s inability to work erodes the common welfare. “Business, schools and local governments lose their economic support base . . . Churches and social agencies no longer have the resources to meet escalating family and personal problems. Unemployed youth become a threat, not a resource.”\textsuperscript{107} Joblessness has been linked with crime, particularly to an increase in homicides, robberies, larcenies, narcotics arrests and youth arrests. An increase in crime results in an increased prison population.\textsuperscript{108} Thus, it is clear that individuals, families and society are paying a high cost for unemployment.

The level of poverty, which has risen dramatically during

\textsuperscript{100} \textit{Pastoral Letter, supra} note 29, at para. 137.
\textsuperscript{101} \textit{Id.} at para. 141.
\textsuperscript{102} John Paul II, \textit{supra} note 99, at no. 1 and no. 10.
\textsuperscript{103} \textit{Id.} at no. 10.
\textsuperscript{104} \textit{Id.}
\textsuperscript{105} \textit{Pastoral Letter, supra} note 29, at para. 141.
\textsuperscript{106} John Paul II, \textit{supra} note 99, at no. 10.
\textsuperscript{107} R. McKenzie, \textit{supra} note 90, at 31.
\textsuperscript{108} \textit{Pastoral Letter, supra} note 29, at para. 142.
the last decade, could be reduced by increasing employment; thereby reducing the psychological effects on individuals and more specifically the effects on the mental and physical development of children. Poverty destroys human dignity and self-reliance. It creates feelings of helplessness, dependency and inferiority. Many poor feel unable to influence decisions that affect their lives and are not oriented towards the future. Poor children have not only been found to be psychologically scarred but also physically undernourished. Statistically, "one out of every four American children under the age of six and one in every two black children under six are poor. The [aggregate] number of children in poverty rose by four million over the decade between 1973-1983. . . ." Many poor do not have medical insurance and "less than half are immunized against preventable diseases such as diphtheria and polio." Furthermore, the poor are denied full participation in the economic, social and political life of society. For these reasons, the American Bishops have urged "the first line of attack against poverty must be to build and sustain a healthy economy that provides employment opportunities. . . . Poverty is intimately linked to the issue of employment."

Past discrimination has excluded minorities from the mainstream of American life. Such obstacles need to be eliminated so minorities can improve their economic status and

109. "Since 1973 the poverty rate has increased by nearly a third." Id. at para. 171.
110. M. Weitzman, supra note 8, at 120.
111. Pastoral Letter, supra note 29, at para. 172.
112. Id. at para. 196.
113. Id. at para. 188.
114. Id. at para. 172.
115. Id. at para. 176.
116. Id. at para. 177.
117. Id. at para. 188.
118. Id. at para. 196. Mainstream poverty, specifically should be influenced by increased job opportunities. Sociologists describe three kinds of poverty: mainstream poverty, the temporary poor whose primary breadwinner is temporarily out of work; case poverty, the permanent poor who may be physically disabled, mentally disturbed, alcoholic or chronically ill; and social poverty, the urban underclass who may be functionally illiterate, two time offenders or undocumented aliens. Increased employment efforts will most specifically benefit the mainstream poor, but other types of social programs may be necessary to decrease case poverty and social poverty. Speech given by Ed Marciniak, President of the Institute of Urban Life (March 28, 1985) reprinted in 14 Origins 724, 726 (1985).
partake more actively in the opportunities of our society. Discrimination should be decreased if there is a greater demand for labor than the supply, as the economy moves towards full employment. Prejudices unrelated to productivity should be eliminated despite their deep roots because one's desire to make a profit can also be deep-rooted.\footnote{120}{M. WEITZMAN, supra note 8, at 121-122. (However, even if employment discrimination is reduced, it may still influence corporate decisions such as the amount of a raise or the fringe benefit package.)}

In addition, increased employment caused by an excess demand for labor should create better working conditions for employees. In a share economy, workers would become scarce and employers would compete for the scarce supply by utilizing innovative recruitment techniques, offering training programs and creating a better work atmosphere.\footnote{121}{Id. at 120.} Employees may experience a more positive work environment, reflected in increased cooperation and corporate loyalty, such as that found in both traditional American profit-sharing firms and Japanese bonus systems.\footnote{122}{NATIONAL INDUSTRIAL CONFERENCE BOARD, INC., SHARING PROFITS WITH EMPLOYEES 12 (1957); Okuno, Corporate Loyalty and Bonus Payments: An Analysis of Work Incentives in Japan, in THE ECONOMIC ANALYSIS OF THE JAPANESE FIRM 406 (M. Aoki ed. 1984).}

The emotional effects of unemployment on the individual, the family and American society have been devastating. Persistent levels of high unemployment during the last decade have been a major reason why poverty has increased in recent years.\footnote{123}{Pastoral Letter, supra note 29, at para. 196.} High unemployment has given firms little incentive to decrease discrimination or improve working conditions. To summarize, the American Bishops have recently explained:

We cannot afford the economic costs, the social dislocation and the enormous human tragedies, caused by unemployment. In the end, however, what we can least afford is the assault on human dignity that occurs when millions are left without adequate employment. Therefore, we cannot but conclude that current levels of unemployment are morally unacceptable.\footnote{124}{National Conference of Catholic Bishops, Catholic Social Teaching and the U.S. Economy (Second Draft,) para. 142 reprinted in 15 ORIGINS 257, 272 (1985).}
III. Evaluation of Owners' Objection:

Divestment of Ownership Interests vs. Economic Development

Owners object to the divestment of their ownership interest through the employees' ability to share in the profits of the company. This divestment must be balanced, however, by the increase in growth of their own company and of the overall economy. In a year of high profits, an employee's base wage and increased share wage may be higher than a salary under the fixed wage system, but in a year of low profits, an employee's share system wage may be lower than a fixed wage.

In either case, the owners will be divesting part of this ownership interest. Owners have invested their capital into the firm in exchange for a right to ownership interests. In a share system, owners are asked to relinquish a share of the benefits which they rightfully own. In 1891, Pope Leo XIII addressed the need for private ownership in *Rerum Novarum*. He explained that when a man labors, he acquires a right to renumeration but also to the disposal of that renumeration. He elaborated on this there by stating:

> if [a man] lives sparingly, saves his money, and for greater security, invests his savings in land, the land, in such case, is only his wages under another form; and consequently, a working man's little estate thus purchased should be as completely at his full disposal as are the wages he receives for his labor.¹²⁵

Although owners have the right to receive the fruits of their investment, many have suggested the right to private ownership should be qualified.¹²⁶

While recognizing the rights of the individual and the need to provide for one's family, some theorists argue that we must appreciate the needs of the whole community, and that the limited goods available must be shared to provide basic necessities for all members of the community.¹²⁷ This argument has recently been expressed by the American Bishops in 1986 as they addressed the increasingly complex economic situation facing the United States: "the common good

¹²⁷. Pius XI, *supra* note 95, at no. 45.
may sometimes demand that the right to own be limited by public involvement in the planning or ownership of certain sectors of the economy . . . . No one is justified in keeping for his exclusive use what he does not need, when others lack necessities."\textsuperscript{128}

The divestment of ownership interests should be balanced by the economic development of the firm and society as a whole. The company should benefit by increased flexibility in the wage system and increased growth in production.\textsuperscript{129} First, a flexible wage system provides for shifts in the individual firm's market as well as in the overall economy. This flexibility allows the firm to react to such shifts without requiring employee lay-offs or renegotiated contracts. This flexibility would decrease the administration and training costs associated with a constantly changing workforce. Secondly, a share wage system would increase an individual firm's production. As the demand for the product increases, the firm would produce more goods. This increased growth would generate more income and profit for the company, thus, despite the divestment of interests, each owner could potentially receive more benefits.

A share system would promote an overall healthier economic development which could benefit all members of society. Under a share system, more workers could enjoy the benefits of employment, and the society as a whole would enjoy the benefits of decreased inflation, a steady dollar, increased growth and production, and the conquering of stagflation.\textsuperscript{130} The American Bishops have emphasized the need for labor and management to work together in a partnership, with creative initiative and a willingness to cooperate on all sides.\textsuperscript{131} With this spirit of cooperation, it is hoped owners and workers can overcome their objections to expand the sharing of economic power and relate the economic system more accountably to the common good.\textsuperscript{132}

IV. Recommendations

Despite the potential benefits to labor, owners and society, widespread implementation of share systems cannot be

\textsuperscript{128.} Pastoral Letter, supra note 29, at para. 115.  
\textsuperscript{129.} M. Weitzman, supra note 8, at 5.  
\textsuperscript{130.} Id. at 144.  
\textsuperscript{131.} Pastoral Letter, supra note 29, at para. 302.  
\textsuperscript{132.} Id. at para. 297.
expected\textsuperscript{133} without further incentives\textsuperscript{134}. If an individual firm is considering a share system, the increased wage flexibility should give owners sufficient incentive to implement a share system\textsuperscript{135}. Labor, however, will also need an incentive to stimulate a willingness to risk a potential wage loss and a certain wage amount in an uncertain economy. Professor Weitzman proposes that employees receive a tax exemption of approximately fifty percent of the bonus payment\textsuperscript{136}. The federal government would be encouraging a share system by effectively increasing employees’ take-home pay\textsuperscript{137}.

An alternative would be for the company to provide an incentive in the form of shares of stock. A share system stock option may be preferable because it would reflect current tax policy goals; it would constitute a more efficient tax expenditure; and it would provide greater benefits to both the firm and the employee. A share system stock option would be similar to the current leveraged employee stock ownership plans. The firm would establish a share system stock option trust to hold assets, and this trust would borrow money to buy shares of stock from the firm. The firm would then contribute money to the trust which would be used to pay off the loan\textsuperscript{138}. The firm would get a deduction for the amount contributed to the trust, but these contributions could not exceed the total wages paid in bonus payments. The firm would receive a tax deduction on all dividends paid on these shares, thus reducing the effect of the corporation’s double taxation. The bank also would receive a fifty percent deduction in the amount of interest received\textsuperscript{139}. Under a share system stock option, the employees would receive shares of stock in proportion to the amount of their bonus payments. These shares

\textsuperscript{133} Williamson, \textit{supra} note 51, at 628.

\textsuperscript{134} Tax analysts will argue that if a share system will significantly benefit these groups, then they will implement a system because of these implicit advantages. The success of the Japanese shushin koyō system exemplifies this point. Thus, they question the need for a tax incentive plan. Tax specialists also suggest the use of tax incentives is inconsistent with a share system’s general premise of removing obstacles which limit free flow within the market.

\textsuperscript{135} See M. Weitzman, \textit{supra} note 8, at 112.

\textsuperscript{136} \textit{Id.} at 131.

\textsuperscript{137} The increase would be in the amount of fifty percent of their bonus wage times the appropriate tax rate.

\textsuperscript{138} \textbf{The ESOP Association, Employee Stock Ownership Plan: The Concept.}

\textsuperscript{139} H.R. CONF. REP. No. 841, 99th Cong., 2d Sess. 11-551 (1986) [hereinafter referred to as \textit{Conference Report}].
would accumulate in the trust until the employee separates from the firm, at which time, if there is no readily tradeable market, the firm would be required to offer the employee a temporary "put" option. The trust would retain only nominal ownership of the securities, however. A significant factor in the share system ownership plan, unlike the employee stock ownership plan, would be that employees would immediately receive substantial incidents of ownership. They would acquire the right to receive dividends and the right to vote without needing to meet any vesting requirements. Because of their participation in a bonus wage system, they would become actual shareholders in the company.

A share system stock option would promote current tax policy goals. Throughout the current tax reform efforts, the Reagan administration has stressed several goals, including economic neutrality, lower rates of tax, revenue neutrality, fairness for families, simplification and a fair and orderly transition. Economic neutrality, one of these primary goals, encourages the free market system by allowing "market forces to lead business firms to produce what consumers want in ways that are relatively efficient and economical." The administration promotes economic neutrality by requiring all income to be taxed equally, so one person, firm, investment or use of income is not favored over another. In the Tax Reform Act of 1986 this policy fostered the elimination of both the investment tax credit and the employee stock ownership tax credit (PAYSOP) because they disproportionately favored one use of income over another. Similarly, the tax credit proposed by Professor Weitzman disproportionately favors one form of income over another. Since Professor Weitzman's tax credit fails to promote economic neutrality, a primary goal of the current tax reform efforts, such an incentive system will probably lack the sup-

140. Giving immediate voting rights to employees will not affect the firm's decisions to hire additional labor (an essential factor in a share system) because management makes the hiring decisions not the shareholders.
142. Id. at 13.
145. SENATE COMM. ON FINANCE, supra note 144, at 679; see AMERICAN ENTERPRISE INSTITUTE, supra note 143, at 60.
port necessary to implement the program.

On the other hand, leveraged employee stock ownership plans have been encouraged by Congress as well as by the Administration. ESOPs have received strong support from the Senate whose version of the Tax Reform Act of 1986 contained the following statement of Congressional Policy:

The Congress . . . has reflected its interest in encouraging employee stock ownership plans (ESOPs) as a bold and innovative technique of corporate finance for purposes of strengthening the private free enterprise system. . . . [T]he Congress [intends that such plans] be used in a wide variety of corporate financing transactions in order to encourage the participation of employees as beneficiaries of such transactions."148

Although this statement was not adopted by the Conference Committee, a similar provision was retained from the Tax Reform Act of 1976.147 Moreover, the Committee expanded some important tax incentives, such as the dividends paid deduction and the interest income exclusion.148 Additionally, the share system stock option contains many characteristics stressed in the Administration's proposal to defer the traditional incidents of ownership in employee stock ownership plans.149 Under a share system stock option, these incidents of ownership vest immediately, thus fulfilling the Administration's goal of more effectively encouraging employee ownership.

A share system stock option would constitute a more efficient tax expenditure than Professor Weitzman's proposed tax credit. Tax expenditures represent losses of revenue which can be attributed to federal tax law provisions such as tax exemptions, deductions or credits.150 Despite the difficulty of measuring these expenditures,151 the estimated revenue loss of Professor Weitzman's tax credit and of a share system stock option deduction can be compared to determine

146. Senate Comm. on Finance, supra note 144, at 677.
151. Id. at 1538-1539.
the most efficient incentive plan. Under Professor Weitzman's plan, the federal government would completely finance the incentive by providing a tax credit in the amount of fifty percent of the bonus payment. Professor Weitzman hypothesizes that if twenty-five million workers take one half of their pay as share income and each worker earns $17,000, then, under this proposed system each worker would save $1,000 in taxes and the federal government would lose $25 billion per year in tax revenues. Under a share system stock option, the firm would finance the majority of the incentive plan. Government tax expenditures for the share system stock plan would be similar to the expenditures for the leveraged employee stock ownership plan. For the period of 1977-1983, leveraged ESOPs accounted for less than one billion dollars in lost revenue. Despite the fact that these numbers are estimates, such analysis shows that a share system stock option would result in a much smaller tax expenditure.

A share system stock option offers many advantages to both the firm and the employees. In addition to the benefits attributable to a share system, the firm would specifically gain from a stock ownership plan. A trust fund allows a corporation to raise new capital or to refinance existing debt with pretax dollars. Such financing can prevent a company from going public or facilitating an employee buyout. These stock options facilitate selling stock by creating a ready market for their shares. Cooperation between labor and management should increase, thus influencing motivation and productivity.

Employees will benefit significantly from a share system stock option. With Professor Weitzman's proposed tax credit, the employee would receive a single tax reduction. With a share system stock option, the employee would receive a stream of payments. Employees would be receiving much more than the immediate cash; they would be building an equity interest in the company. In the past twenty years, the concentration of wealth in the super-rich has increased signif-

---

152. See generally, Davenport, 11 Tax Notes 1051-1054 (1980).
156. Id. at 34.
icantly. The top ten percent of American households own more than seventy percent of the nation's wealth not otherwise owned by governments or private organizations. In the past ten years, stock ownership plans have distributed substantial amounts of corporate stock to workers who might never have been able to accumulate an equity interest. In 1981, Pope John Paul II in *Laborem Exercens* expressed strong support for proposals which associate labor with the ownership of capital. This redistribution of wealth has been promoted throughout social teachings in the past century. In 1891, Pope Leo XIII, aware of the struggles of laborers, discussed the value of employee ownership:

> Men always work harder and more readily when they work on that which belongs to them; nay, they learn to love the very soil that yields in response to the labor of their hands, not only food to eat, but an abundance of good things for themselves and those who are dear to them. That such a spirit of willing labor would add to the produce of the earth and to the wealth of the community is self-evident.

Thus, employees would substantially benefit from a share system stock option and it may provide the necessary incentive to encourage employees to bargain for a share system.

**Conclusion**

Stagflation has defied economists in the 1980s. A share economy offers a realistic solution to this troubling combination of unemployment, inflation and stagnation. Moreover, a share system stock option could provide the incentive needed to encourage owners and especially laborers to implement a share system. "The challenge of today is to move beyond abstract disputes . . . to consideration of creative ways of enabling government and private groups to work together effectively." An American share economy could be the answer to that challenge.

---

158. *Id.*
160. Leo XIII, *supra* note 125, at no. 47.