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INVESTING IN AMERICAN WORKERS: THE BENEFITS OF EXPANDING EMPLOYEE OWNERSHIP

FIELD HEARING

OF THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

ON

EXAMINING INVESTING IN AMERICAN WORKERS FOCUSING ON THE BENEFITS OF EXPANDING EMPLOYEE OWNERSHIP

AUGUST 26, 2010 (Montpelier, VT)

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C O N T E N T S

STATEMENTS

THURSDAY, AUGUST 26, 2010

INVESTING IN AMERICAN WORKERS: THE BENEFITS OF EXPANDING EMPLOYEE OWNERSHIP

THURSDAY, AUGUST 26, 2010

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Montpelier, VT.

The committee met, pursuant to notice, at 11:06 a.m. in the Vermont Statehouse, Room 11, 115 State Street, Montpelier, VT 05633, Hon. Bernard Sanders, presiding.

Present: Senator Sanders.

OPENING STATEMENT OF SENATOR SANDERS

Senator SANDERS. We're going to begin the meeting of the Health, Education, Labor, and Pensions Committee, and I want to thank Senator Tom Harkin, who is the Chairman of the committee, for allowing us to hold this hearing on this very, very important issue here in the State of Vermont, and I want to thank all of our guests for being here and all the people in the audience.

The format will be as I'll go on for 2 or 3 hours. I won't.

[Laughter.]

Senator SANDERS. I'll be brief, and then we'll open it up for brief remarks, and then we're going to do an informal discussion, kind of a roundtable, except we don't have a round table. It's a rectangle table discussion, and what we want to do is we're dealing today with an unusually important issue.

I don't have to tell anybody in this room that in the United States today and in Vermont we're in the midst of a very, very serious recession, real unemployment, I mean in terms of those people who don't have jobs, those people who have given up looking for work, those people who are working part time when they want to work full time. The unemployment rate is over 16 percent in this Nation.

Further, millions of American workers today are working longer hours for lower wages and in the last 30 or so years, we have seen millions and millions of good-paying jobs in this country disappear as corporate America has thrown workers in this country out on the street, moved to China, moved to other low wage countries where they're getting workers who work for them for pennies an hour.

We're seeing a decline in the middle class, a significant gap between the very rich and everybody else, and in fact what we're dealing with today is, I think, an economic model that begins to address some of those issues.

We need new economic models which create and retain jobs here in the United States of America, not in China. We need new economic models which provide working people with more dignity on the job and control over what they are doing so that they're proud and excited about coming to work in the morning rather than doing it in a resentful and angry way. We need new economic models so that when companies do well, it is not just the CEOs and the owners of the company who do well, people on top, but all people who work in the companies who do well and that's also what the concept of worker ownership deals with.

In my view, the concept of employee ownership can and will be an important tool for addressing all of these goals, creating a more democratic workforce, stimulating our economy, creating decent-paying jobs.

Holding this hearing here in the State of Vermont instead of Washington, DC, makes a whole lot of sense because, as all of you know, Vermont has been a national leader in the area of employee ownership and it's important that we share our successes as well as the problems that we've had with our friends in Washington and all over this country.

Study after study has shown that employee ownership has been proven to increase employment, increase productivity, increase sales, and increase wages in the United States. Unlike large corporations that have been shipping jobs overseas, employee-owned businesses are not going to shut down and move their jobs to China, Vietnam, or Mexico.

Further, employee-owned businesses boost morale and worker satisfaction because workers, as I mentioned earlier, share in future profits.

So there is a lot to be discussed. I think we have an economic model now that millions and millions of working people will be interested in, if they can learn something about it. We have introduced two pieces of legislation which I think will help spread the gospel of employee ownership.

The first bill is the Worker Ownership Readiness and Knowledge Act and that is S. 2909 and that would create an Office of Employee Ownership within the Department of Labor. Among other things, this office would be responsible for providing grants to States to establish and expand what we have here in the State of Vermont already and what also exists in Ohio and that is employee ownership centers and when you have employee ownership centers, they're able to get the word out to businesses, to workers in their geographical locale and we think expanding that concept is very, very important.

The second bill that we've introduced is S. 2914 and that would create a U.S. Employee Ownership Bank to provide loans and loan guarantees to employees to purchase a business through an ESOP or worker-owned cooperative. The Federal Government does a lot of that but it does not do that for businesses that are worker-owned and we want to see them do that.

So those are the two bills that we have, but there are a lot of other ideas that are out there and I want to get the discussion going as soon as possible. So what we'll do is we're going to hear from people from Vermont. We're going to hear from our friend from Ohio, short presentations, 3 to 4 minutes, then open it up. I'll ask some questions and we'll open it up for discussion by the panel and with the audience, as well.

So this is big stuff. I think the country wants an economic model that keeps jobs in America, allows workers dignity on the job, and that's what we're talking about today.

I also want to mention that we have representatives from Senator Leahy's office here and Congressman Welch's office is here and we appreciate them being here and I should mention that Senator Leahy is a co-sponsor of both of these pieces of legislation.

Let's start off with Jon Crystal, who is the Executive Director of the Vermont Employee Ownership Center in Burlington.

Jon, thanks a lot for being here.

STATEMENT OF JON CRYSTAL, EXECUTIVE DIRECTOR OF THE VERMONT EMPLOYEE OWNERSHIP CENTER, BURLINGTON, VT

Mr. CRYSTAL. Thank you, Senator, for the opportunity to speak today.

I've been involved with employee ownership since 1979 when I moved to Vermont to begin working with a company called Guard Lend which is one of the pioneers in employee ownership in Vermont. Later, while working with the Industrial Cooperative Association, I was involved in the early efforts in Burlington, driven by then Mayor Sanders, to explore employee ownership in that city, and I was the founder of the VEOC in 2001 and have been in my current position since 2007.

Our mission at the VEOC, Vermont Employee Ownership Center, is to promote and foster employee ownership in order to broaden capital ownership, deepen employee participation, retain jobs, increase living standards for working families, and stabilize communities.

We do this by offering a variety of educational outreach programs involving conferences and workshops but also by providing direct technical assistance and information to companies interested in exploring this opportunity.

Since our founding we've had such direct conversation with over 165 companies in Vermont. A number of those companies have subsequently implemented some form of employee ownership with a total of over 550 jobs impacted from this.

Nationally, there are over 10,000 companies in the U.S. with some form of employee ownership but there really should be more. In Vermont, 30 to 40 such companies actually, on a *per capita* basis are very high and we think that's due in part to the presence of the VEOC here to help with that process.

In helping to establish similar centers around the Nation, we believe the Work Act that Senator Sanders just told you about could contribute significantly to increasing the number of employee-owned companies.

We think the best evidence in favor of employee ownership is provided by the real-world examples and you'll be hearing stories today from some wonderful Vermont companies. We like to refer to the disproportionate excellence of these companies because we think that the employee-owned companies of Vermont seem to gain more recognition and win more awards than their modest numbers would indicate. We at the VEOC are very devoted to the objective of helping create more such companies.

A couple of brief comments about the funding realities, however, of all of this.

While we are not terribly involved in the financial end of these deals, it's true that most of these transactions do involve a certain level of bank borrowing. It's our understanding that both locally and nationally, there's a real problem now with timely access to capital to make these deals happen.

We strongly believe that the U.S. Employee Ownership Bank Act that you just heard about can play an important role in facilitating such deals and would have positive impact on the number of successful transactions in Vermont and elsewhere.

Another funding reality is the money to run centers like ours. Our initial funding came from a variety of grants and then in 2002 a Federal appropriation that then Representative Sanders helped us secure. We have since developed a stream of other sources of revenue, including private corporate sponsorships, some modest support from the State, and Senator Leahy helped us obtain an SBA grant that has been instrumental for the last several years for us.

There's no question in my mind that government support will remain an essential part of the funding of a center like this but it's always held very tenuous and temporary. A Federal grant, such as might result from the Work Act, around which we could build a budget to provide core funding would really be very instrumental to our future success.

We believe that statewide programs like ours and the one from Ohio you're about to hear about have a crucial role to play in creating more employee-owned companies in this Nation and may well be the most cost-effective way to do so.

As with the Employee Ownership Bank Act, we have great hopes for the Work Act, that it will be passed, that statewide programs will be developed and will flourish, and, most importantly, that these programs will help create more excellent employee-owned companies around the U.S.

Thank you.

[The prepared statement of Mr. Crystal follows:]

Prepared Statement of Jon Crystal

BRIEF HISTORY OF VEOC

Our Mission—Why We Were Formed

Too often, a surprisingly small number of business owners take the necessary steps to prepare for one of the most important decisions they will face: their departure from the business. As a result of this lack of planning, the better opportunities may be lost and some owners are forced to select among a limited number of less desirable options including liquidation of assets or a sale to outside interests which may result in the business being relocated. These actions can have a significant negative impact on Vermonters, their communities and the State as a whole.

One of the better alternatives is to sell the business to the employees. Employee-owned companies tend to perform better, pay higher wages, and provide better retirement and other benefits than non-employee-owned firms. Ownership of a business by its employees can be an extremely effective way to increase long-term sustainability with all the associated benefits to employees, local communities and the State.

The Vermont Employee Ownership Center, or VEOC, was formed in 2001 to address this need. The VEOC's mission is "to promote and foster employee ownership in order to broaden capital ownership, deepen employee participation, retain jobs, increase living standards for working families, and stabilize communities." Our mission statement is very similar to that of the Ohio Employee Ownership Center, the organization on which the VEOC was modeled, which was founded in 1987 and is based at Kent State University. You will hear today from Bill McIntyre, the Program Director of the OEOC, about the impressive accomplishments of the Ohio Center. Vermont is a much smaller State, and our center has existed a much shorter time, but between our two programs, you have evidence that statewide programs promoting and fostering employee ownership can be effective under very different economic and business conditions.

Why Employee Ownership is an Important Economic Development Tool

Why do we care so much about employee ownership? First, we care because it helps retain local ownership of businesses and the jobs within them. You hear much about "sustainability" these days, and we believe that this model of business ownership is the most sustainable, both in terms of retaining jobs and the longevity of the business. In addition, this approach helps broaden the ownership of wealth. Studies have shown that broad-based employee stock ownership plan participants tend to accumulate more than twice the level of retirement assets of employees in other companies. Finally, we care because it can be a crucial ingredient in creating high-performance companies that are more competitive—and that are great places to work. It helps engage employees in the future of their own companies, and also tends to create better workplaces.

There are now well over 10,000 companies in the U.S. with some form of employee ownership, but there should be many more. The 30–40 such companies in this State represent one of the highest *per capita* rates, and that is due at least in part to the work of the VEOC. In helping to establish similar centers in States around the Nation, the WORK Act could contribute greatly to increasing the number of employee-owned companies.

The best evidence in favor of employee ownership is provided by real examples. You will hear today from some of Vermont's best-known employee-owned companies, all of which are among Vermont's highest-performing companies. We sometimes refer to the "disproportionate excellence" of these companies—reflecting the fact that in Vermont at least employee-owned companies seem to gain a greater share of recognition and earn more awards than would otherwise be expected by their modest numbers. We at the VEOC are devoted to the objective of helping to create more companies like these.

Earlier this year we invited comments from key leaders of some employee-owned firms in Vermont on the impact this has had on them. These excerpts provide some of the strongest arguments to go this route:

> "Economic development is about helping companies form or move to Vermont, grow, and then stay in State as they go through ownership transitions. Employee ownership targets company growth and retention. As in our instance, employee ownership is an incredibly powerful tool to engage employees in the future of a company, to help drive company success . . . From just a job retention point of view, we are a compelling story. I can tell you that if not for employee ownership, Will Raap's next best option would have been to sell to a strategic buyer from out-of-state, which with near certainty would have meant a loss of most of our in-state jobs."
>
> *Jim Feinson, President and CEO of Gardener's Supply*
>
> "We just recently completed our transition to 100 percent employee ownership. This means, among other things, that the 60+ high-paying jobs that we have created in Vermont will stay in Vermont and that we will continue to grow here . . . Our company is among many who believe that employee ownership exemplifies and promotes Vermont's unique values. And, most of us also believe that increased employee ownership could be valuable nationally as an approach to preserve and enhance employment in companies of all types."
>
> *Tom Adler, President of Resource Systems Group*

The VEOC's Activities and Results So Far

Since the fall of 2002, when the VEOC embarked on its work, we have focused on two main types of activity. The first of these is educational work: getting the word out about employee ownership to business owners, employees, economic development professionals, business advisors and the general public. The point at which most Employee Stock Ownership Plans (ESOPs) are formed is when business owners are seeking a good way to exit from their companies. If they don't know about this possibility and its merits, they won't consider it. Getting ESOPs and other employee ownership structures on the map for business owners and those who advise them has been one of our main efforts since the beginning. We have had increasing success of late partnering with other local and regional economic development organizations both to support these educational activities and to provide these professionals with basic tools and understanding of this option to share with their clients.

We also work to plant seeds more broadly—in college classrooms, at Rotary Clubs, at conferences and community forums. Our most important educational outreach activity is an annual conference, which serves both those just considering employee ownership as well as those in employee-owned firms. To date, we have presented eight annual conferences, with strong attendance every year. We also offer a variety of introductory and intermediate level workshops around the State, which cover basic business succession issues and the opportunities to sell to employees.

Our second major activity has been to provide information and technical assistance to those interested in exploring employee ownership for their companies. Since our founding, we have had direct conversations with representatives of over 165 different companies. Thirteen of those companies subsequently implemented an ESOP or worker cooperative structure. Another eight of those companies are either well on their way to an ESOP or co-op or are very strong candidates. Since this is Vermont, most of these companies are small—several of them with fewer than 10 employees, several with 30 to 50—but occasionally we have the opportunity to play a role in a larger company.

There is a manufacturing company with over 200 employees in a small Vermont town that is on track to become 100 percent ESOP-owned next month. This is a clear example of how employee ownership can preserve local ownership and jobs. The husband and wife owners of the company were considering offers to buy the company from several strategic buyers from outside of Vermont. After a meeting with the VEOC, their banker suggested they consider an ESOP and they quickly realized that this was a way for them to exit and also keep the business operating in its community, an outcome they very much wanted—and which would have been very unlikely had they accepted one of the outside offers.

Once two transactions which are underway are completed, VEOC will have directly aided 14 companies to become employee-owned with over 550 jobs impacted.

In addition to these two main activities, we also work with existing employee-owned companies seeking to expand and improve their ownership culture and the types and degrees of employee participation. Much of this takes place at our annual conference, but we are also currently preparing a shared training series to address these ongoing needs.

We are now seeing the fruit of our earlier work in outreach and education. It often takes years from the time when someone first gets the idea that an ESOP or worker cooperative might suit their situation until they take action. It is very possible that someone who attended our conference for the first time this year will help create an ESOP in 2020. This particular pipeline is a long one. It takes persistence and patience and a reliable funding stream to sustain these efforts.

Funding

Most often the transactions which result in a transfer of ownership to employees involve a significant element of bank borrowing. While the VEOC rarely plays a role in the financing aspects of the deal, it is our understanding that timely access to capital has become a serious hindrance on both the local and national stage. We strongly believe that the U.S. Employee Ownership Bank Act can play an important role in facilitating such deals and would have a positive impact on the numbers of successful transactions.

Another funding need is that required to operate centers like ours. VEOC's initial funding came from several foundations and, in 2002, a Federal appropriation secured by then-Representative Sanders. We have since developed several revenue streams, including income from corporate sponsorships and our educational events, modest support from the State of Vermont and, for the past 4 years, a grant from the Small Business Administration that Senator Leahy secured for us. Government support has been essential to the VEOC, but it has always felt tenuous and temporary. The pursuit of private grants and other funding continues to be necessary but also a distraction from our core work. A Federal grant around which we could build our budget would make our organization sustainable for the long haul.

Over the past 30 years there have been statewide employee ownership programs in several other States—notably Massachusetts, Michigan, New York, Oregon, and

Washington. One of the main reasons these programs have disappeared (at least temporarily) was the lack of dependable core funding.

We believe that statewide programs like the VEOC and OEOC have a crucial role to play in creating more employee-owned companies, and may be the most cost-effective way to accomplish this. As with the Employee Ownership Bank Act, we have great hopes for the WORK Act: that it will be passed, that statewide programs will be developed and will flourish, and, most importantly, that these programs will help to create many more excellent employee-owned companies in the United States.

Senator SANDERS. Jon, thanks very much.

We're delighted to have joining us as a State representative from the Ohio Employee Ownership Center. Bill McIntyre is here. Ohio has also been a leader in this area.

Bill, thanks very much for coming. Why don't you begin.

STATEMENT OF BILL McINTYRE, DIRECTOR OF THE OHIO EMPLOYEE OWNERSHIP CENTER, KENT, OH

Mr. MCINTYRE. Thank you very much for the opportunity to testify before the committee and to be involved in this hearing.

I've worked at the Ohio Employee Ownership Center which is an outreach center at Kent State University, partially funded by the State of Ohio, partially funded by the U.S. Government, partially funded by private foundations, donations, and some fee-for-services rendered.

I have worked at the center for coming up on 8½ years and with the passing of our founder and director John Loeb this past December, I have assumed the role and responsibilities of Director of the OEOC.

Prior to joining the center, I was Chief Financial Officer for over 15 years at Comsonics, Inc., a 100-percent ESOP-owned company in Virginia, where I was able to experience firsthand how an ESOP could benefit employees on a personal, professional, and financial basis.

Let me jump to talking about the impact of our center on jobs. Since the inception of the OEOC in 1987 and June 30th, 2010, OEOC staff worked with 644 companies, employing almost 137,000 people, to explore whether employee ownership made sense in their cases.

We assisted employees in buying part or all of 89 companies, creating 14,658 new employee owners and retaining or stabilizing their jobs. Of the 89 employee-owned companies, 63 are still employee-owned. Eighteen were sold as financial successes. Five were sold in distress and three were shut down. Considering that 15 of the 89 were initially threatened with shut down, in other words some fairly bright and insightful business people analyzed those 15 companies' futures and decided that the best solution was to shut all 15 of them down, the fact that only three of the ESOP companies were shut down out of the total of 89 that we've helped is quite impressive.

If every cent of our budget over our 23-year history were allocated to job retention, which is a very unfair calculation, the cost per job retained or stabilized would be about $719 per job, and if you included only the cost in State support, it would be $336 per job impacted. These costs are very low in relation to the usual costs of job retention.

Let's talk about the Work Act and the Bank Act. Officially, the Ohio Employee Ownership Center at Kent State University supports the proposed Work Act and the U.S. Employee Ownership Bank Act. Their passage would facilitate the establishment and success of more employee-owned companies.

As stated above, the OEOC has had considerable positive impact on jobs and wealth creation in Ohio. Other State employee centers should yield similar results in their States. The Work Act should be passed.

Obtaining financing for ESOP and worker-owned cooperatives is a continual struggle. The U.S. Employee Ownership Bank Act will facilitate that financing and will result in the creation of more ESOPs and worker-owned cooperatives and prevent jobs from being needlessly lost due to lack of available financing. It should also be passed.

As supported by several research studies, ESOP companies perform better than comparable non-ESOP companies. ESOPs and worker-owned cooperatives are simply a better way of doing business. Creating more of them will help not only the individual employees but the companies themselves, their communities, their States, and the Nation as a whole. Thank you very much.

[The prepared statement of Mr. McIntyre follows:]

PREPARED STATEMENT OF BILL MCINTYRE

The Ohio Employee Ownership Center (OEOC) at Kent State University appreciates this opportunity to present its views and your willingness to consider them.

BACKGROUND OF OHIO EMPLOYEE OWNERSHIP CENTER

The OEOC is a State-supported, non-profit, university-based program established in 1987 to provide information and preliminary technical assistance to Ohio employees and business owners interested in exploring employee ownership. The OEOC also provides ownership training to employee-owned firms. The OEOC is one of only three active State-supported centers and the only one based at a university. In addition to receiving funding from the State of Ohio, the OEOC receives funding from the Federal Government, private foundations, donations and fees for services rendered.

OEOC MISSION

The mission of the OEOC is to broaden ownership among working Ohioans and to deepen that ownership through employee participation, communication and training in the employee-owned sector. Our overall aim is to anchor capital and jobs locally through participatory employee ownership. That builds productive assets for working families and increases community prosperity. Layoff aversion and economic development are at the heart of the OEOC's mission.

OEOC PROGRAMS

The OEOC coordinates programs in Ohio in the following areas:

- Outreach
- Business Owner Succession Planning
- Technical Assistance in situations where employee ownership is considered:
    - Plant shutdowns and distressed companies
    - Retiring owners
    - Employee buyouts
    - Owners desiring cash for a portion of the company
- State of Ohio's Prefeasibility Study Grant Program to avert threatened job loss;
- Referral of qualified service providers from professional member database;
- Administration of non-profit Common Wealth Revolving Loan fund specializing in loans to employee-owned companies or cooperatives
    - Employee buyout transactions
    - Employee-owned start-up ESOP companies or cooperatives

- Equipment and working capital loans to existing employee-owned companies
- Network of Employee-Owned Companies in Ohio that provides educational and networking opportunities for the member companies
  - 12–20 programs annually on topics ranging from ESOP technical administration issues to communication strategies geared toward audiences ranging from board members to upper management to middle managers to hourly workers
  - Annual Conference attended by 400 employee owners and other interested parties;
- Customized training at employee-owned companies
- Research on employee ownership

We have designed this as a coherent strategy to promote employee ownership in one State. Outreach creates a demand for technical assistance and builds political support. Succession planning is not only a very cost effective economic development tool ("save jobs that are already here") but also helps create demand for employee ownership technical assistance as selling to employees is one option of succession planning. Technical assistance develops new employee-owned companies and builds political support. Rural cooperatives frequently develop through the succession planning process and also give rise to some worker-owned cooperatives. Employee-ownership training, organization development and Network programs all facilitate the establishment of an ownership culture at companies, thereby helping those companies realize improved corporate performance that results from the combination of actual employee ownership and an ownership culture. Our best-practice Network not only provides training but also serves as a learning community for companies committed to employee ownership. CWRLF is serving as a source of capital for some new and existing employee-owned companies with the prospect of future growth likely.

One of our projects, The Evergreen Model, in which we are collaborating with the Cleveland Foundation and the Democracy Collaborative, is demonstrating how a program can incorporate employee ownership and be viable in a single impoverished city district with 43,000 inhabitants and be replicable in other cities in the State. Indeed, the Evergreen Model has received national acclaim as a new approach to help revitalize and solve some of the economic problems associated with America's inner cities by employing low income residents of those inner city neighborhoods in employee-owned businesses that provide services for the anchor institutions of the city. Our applied research and publications reinforce our outreach and technical assistance, offering roadmaps of "how to do" participatory employee ownership (especially in unionized settings) and for setting up employee cooperatives in small businesses.

IMPACT OF OEOC ON JOBS

Since the inception of the OEOC in 1987 and June 30, 2010, OEOC staff worked with 644 companies employing 136,958 to explore whether employee ownership made sense in their cases. We assisted employees in buying part or all of 89 companies, creating 14,658 new employee owners and retaining or stabilizing their jobs.

Of the 89 employee-owned companies, 63 are still employee-owned, 18 were sold as financial successes, 5 were sold in distress and 3 were shut. Considering that 15 of the 89 were initially threatened with shutdown (in other words, some fairly bright and insightful business people analyzed the 15 companies' futures and decided that the best solution was to shut all 15 of them down), the fact that only 3 of the ESOP companies were shut down out of the total that we've helped is quite impressive.

If every cent in our budget over our 23-year history were allocated to job retention, the cost per job retained or stabilized would be about $719/job (the cost in State support would be about $336/job impacted). These costs are very low in relation to the usual costs of job retention.

IMPACT OF OEOC ON WEALTH CREATION

Employee ownership results in significant wealth creation for Ohio workers. Through 2004–5, the most recent year for which we have complete data, 64 of the 89 firms reported to the IRS that they had created about $344 million in net equity for their employee owners, while paying out more than $6.4 million to retirees that year.

We have analyzed the OEOC's wealth creation impact in studies in 2004, 2006 and 2008, and we have preliminary results from our 2010 study. The results from all four studies are included in the chart below:

Item	Date of OEOC study 2004	2006	2008	2010 Prelim
Total number of companies with which OEOC has worked that became employee-owned.	69	79	85	89
Number of companies for which we have wealth data	44	49	64	52
Number of employees at those companies for which we have wealth data.	4,831	9,800	11,640	5,549
Fiscal year of company wealth reports	2001	2003	2004–5	2007
Total Assets created	$300 million	$349 million	$421 million	$253 million
Net Assets	$121 million	$267 million	$344 million	$224 million
Net Assets per Employee	$25,000	$27,000	$30,000	$40,000
Payouts to ESOP Participants during the fiscal year of their ESOP benefit.	....	$8.4 million	$6.4 million	$72.0 million
Payouts to ESOP Participants not including the largest company, which was making ESOP termination distributions (the company was sold).	....	....	....	$16.0 million

Total Assets includes debt taken on to purchase shares from retiring owners. The net asset number excludes the remaining acquisition debt. In the case of new ESOPs which are 100 percent leveraged initially, not only does the acquisition debt affect the net value of employee equity, but also the heavy leverage against the business reduces the business' value as well.

Clearly, employee ownership is a significant tool for wealth creation for working people. Without employee ownership, these amounts would all be zero for the employees at these companies.

The Net Assets per Employee figure shows a healthy increase across the years. Why? Three primary reasons: (1) the general tendency of the stock price per share for the ESOP companies to increase over the years; (2) the general tendency over the years for ESOP participants to be allocated additional shares of company stock into their ESOP accounts; and (3) the general tendency for the ESOP trust to purchase additional shares of company stock over time from selling owners; i.e., a 30 percent ESOP-owned company becomes a 40 percent ESOP-owned company becomes a 60 percent ESOP-owned company, etc.

ESOPs are a "get rich slow" scheme, and the data appear to be confirming that notion. ESOPs are not consistent with the "get rich quick" schemes that seem to be so prevalent today, and these schemes likely will not result in any lasting wealth creation for individuals, companies or the Nation. ESOPs facilitate the creation of healthy, lasting wealth.

Please note that the 2010 figures are preliminary, and the number of companies for which we could obtain data is significantly lower than the 2008 study. Hopefully, as we dig further into the data, we'll identify additional companies for which data is available.

ADDED VALUE OF OEOC

As evidenced above, the OEOC has produced dramatic results through the years. Yet, the impact is even greater when we drill down into the numbers. General ESOP research has established that an ESOP by itself does not result in improved corporate performance; however, an ESOP combined with an ownership culture results in significantly improved corporate performance in just about every measure of corporate performance. We have some preliminary evidence that companies that are members of Ohio's Network of Employee-Owned companies take heed from our training programs and have more democratic employee ownership with more employee participation and influence from the shop floor to the boardroom, and, correspondingly, perform better than non-member Ohio ESOP companies.

OEOC'S COMMON WEALTH REVOLVING LOAN FUND

The OEOC has managed the Common Wealth Revolving Loan Fund (CWRLF) since 2004. CWRLF is a separate non-profit, 501(c)(3), entity. CWRLF has a contract with OEOC to manage the loan fund. Just this week, CWRLF was awarded $600,000 in funding from CDFI (Community Development Finance Institution) funds which will bring CWRLF's total assets to just over $2 million. CWRLF makes loans to employee-owned companies to satisfy a variety of financing needs—ESOP or employee-owned cooperative buyout, partial sale by retiring owner, plant or equipment expansion, working capital, etc. Unfortunately, with its ability to make a loan to an individual borrower limited to a maximum of $250,000, CWRLF is unable to contribute in a significant way to many ESOP transactions. Our objective is for CWRLF to become much larger; however, currently, it is limited as to what it can accomplish.

Because ESOPs and worker-owned cooperatives have somewhat different accounting rules than what bankers and other lenders typically see, many bankers and other lenders are uncomfortable in making loans to those companies. This often makes financing for ESOP and coop transactions more difficult to obtain than financing for transactions involving conventional companies. The idea of a U.S. Employee Ownership Bank would greatly alleviate much of that difficulty and would, in fact, provide an incentive for financial institutions to lend to employee-owned companies.

REPLICATION OF OEOC

The OEOC has served as the model for the Vermont Employee Ownership Center and is currently assisting the State of New York in re-establishing its center modeled after the OEOC. An employee ownership center has recently been established in Australia, again utilizing the OEOC as a model and OEOC staff as mentors for the Australian staff. Most recently, this month, representatives from Kentucky visited the OEOC for a day long series of meetings with OEOC staff with the intention of replicating the OEOC model in Kentucky.

RISK FOR STATE EMPLOYEE OWNERSHIP CENTERS UNDER CURRENT STRUCTURE

Employee ownership is a concept that is essentially non-partisan. Elected officials of all political persuasions have supported it. But, unfortunately, although the OEOC has survived quite nicely since 1987, other State centers have not done so. To the best of our knowledge, 28 States passed legislation encouraging the creation of employee-owned; however, Ohio is one of only 8 States that created a State-supported program to achieve this end. Regrettably, as mentioned previously, only 3 State-sponsored centers exist now. In many cases, change of State administration meant the end of the employee ownership center.

Historically, the OEOC was funded by the Ohio legislature; however, due to the State's budget crunch, the legislature did not fund the OEOC for fiscal year 2010. The OEOC programs are now funded at Governor Ted Strickland's discretion through the use of Workforce Investment Act funds administered by the Ohio Department of Development. While we are very pleased with our current funding from the State of Ohio, we recognize that when there is a new governor (and there will be a new governor at some point in the future), there is a risk that the new governor will deem the OEOC to be a program of the previous governor and not support it. We are striving to avoid this fate, but we recognize that it is a possibility.

Federal legislation providing ongoing funding for State employee ownership centers would do much to eliminate this risk and would allow us, and other centers like us, to concentrate on our core mission of saving jobs and broadening employee ownership.

SUPPORT FOR WORK ACT AND U.S. EMPLOYEE OWNERSHIP BANK ACT

The Ohio Employee Ownership Center at Kent State University supports the proposed WORK Act and U.S. Employee Ownership Bank Act. Their passages would facilitate the establishment and success of more employee-owned companies.

As stated above, the OEOC has had considerable positive impact on jobs and wealth creation in Ohio. Other State employee ownership centers should yield similar results in their States. The WORK Act should be passed.

Obtaining financing for ESOP and worker-owned cooperatives is a continual struggle. The U.S. Employee Ownership Bank Act will facilitate that financing and will result in the creation of more ESOPs and worker-owned cooperatives and prevent jobs from being needlessly lost due to lack of available financing. It should also be passed.

As supported by several research studies, ESOP companies perform better than comparable non-ESOP companies. ESOPs and worker-owned cooperatives are simply a better way of doing business. Creating more of them will help not only the individual employees but the companies themselves, their communities, their States, and the Nation as a whole.

ADDITIONAL SUPPORTING MATERIAL—WORK ACT

The "Worker Ownership Readiness and Knowledge Act" (WORK Act) seeks to spread ownership of productive assets among American workers and to deepen that ownership through employee participation. Both employee ownership and employee participation play major roles in increasing employee wages, benefits, job security, and assets for working Americans.

1. Employee ownership creates assets for workers who otherwise would have less of them, and these assets aren't offset by reductions in other pension plan contributions by employers.

Data: Only 19 percent of Ohio ESOPs in the 2004–6 study were conversions from another pension plan; most of those were profit-sharing plan conversions. So in four-fifths of Ohio ESOP companies, the ESOP represents an **additional** pension plan. Moreover, 89 percent of Ohio ESOP companies maintain at least one non-ESOP pension plan for employees.

2. Part of the reason for this is employee-owned firms which provide avenues for employee owners to participate in business decisionmaking, which share information about business performance with employee owners, and which do training for their employee owners on using the participation system and understanding financial and other business information, systematically outperform employee-owned companies which don't do that *and* conventionally owned companies. So, there's a performance bonus for participatory employee-owned companies

Data: At least a score of studies beginning with the General Accounting Office's 1987 study have found gains in a variety of indicators of corporate performance in closely held, participatory ESOP companies. The gains are greatest in terms of indicators under the direct control of employee owners, such as productivity and quality. The 2000 Rutgers University study by Joseph Blasi and Douglas Kruse found improve in annual sales growth to be +2.4 percent, annual employment growth to be 2.3 percent and annual growth in sales per employee to be +2.3 percent in ESOP companies over their previous performance prior to instituting the ESOP. Our 1992–3 Ohio ESOP study which looked specifically at the relation between avenues for participation and performance found no magic bullet but consistent evidence of an additive effect: the more avenues for participation there were, the greater the impact on performance. Open book management and employee training play contributory roles but have little impact in the absence of employee participation.

3. Majority employee-owned companies are more likely to have this complex of high performance characteristics (especially participation) than minority ESOPs.

Data: The 1992–3 and 2004–6 Ohio studies demonstrate that majority employee-owned companies are more likely to evidence these high performance traits than minority employee-owned companies.

4. Employees benefit: they receive somewhat higher wages, much higher benefits, and significant wealth accumulation **not** bought at the cost of reduction of other pension plans, and they are less likely to be laid off.

Data: The primary comparative study of wages and benefits in matched ESOP and non-ESOP firms was the 1998 Washington State study by Peter Kardas, Jim Keogh, and Adria Scharf. This study, *Wealth and Income Consequences of Employee Ownership*, found median hourly wages in ESOP firms to be 5 percent to 12 percent higher than the median hourly wage in the comparison companies, and that the value of retirement plans to be 150 percent higher in ESOP companies ($32,213) than matched non-ESOP companies ($12,735). The average annual ESOP companies' retirement contribution per employee per year was about 10 percent of pay while non-ESOP companies average about 3.0 percent. The 2004–6 Ohio study had similar findings: 28 percent of ESOP companies paid higher wages versus 8 percent which paid lower wages, and 47 percent had higher benefits and 2 percent had lower benefits than their conventionally owned competitors.

5. Employee-owned companies provide significant community economic benefits. Relative to their conventionally owned competition, they are less likely to lay off in downturns, less likely to outsource/off shore work, and relatively more likely to reinvest locally.

Data: The 2004–6 Ohio Study found that 35 percent of Ohio ESOP companies outperformed their industry in terms of employment while 9 percent underperformed their industries, 47 percent outsourced/offshored less work than their conventionally owned competitors and none outsourced/offshored more, and 31 percent reinvested more while 17 percent reinvested less than their conventionally owned competitors.

6. Most of the publicity for employee ownership in the media concerns troubled companies. These make up, however, only 2–5 percent of employee-owned companies. While there have been some well publicized failures in this group, many have done well. These buyouts save jobs which otherwise would have been lost.

The reason in part is doing rigorous feasibility studies to determine whether—and how—the firm or plant can succeed under a change to employee ownership, whether the employees need outside partners, how much debt the employee-owned firm can service, etc. This bill encourages those feasibility studies.

7. Despite the publicity about troubled companies, about 70 percent of ESOPs are set up as part of ownership succession planning in closely held businesses. Many business owners nearing retirement without heirs, however, know nothing about employee ownership as a business succession strategy. Encouraging the use of employee ownership—ESOPs in larger businesses, co-ops in smaller firms—in business ownership succession, a major function of this bill, will increase job retention in small and medium-sized closely held companies.

Data: *The Real World of Employee Ownership*, p. 26; 2004–6 Ohio ESOP survey, question 9.

8. There is an inverse relationship between tax expenditures for employee ownership and improved company performance. Higher tax-expenditure ESOP companies (largely publicly traded) tend to have lower performance impacts. They do, however, create significant wealth for their employees.

Data: The least participatory employee-owned firms—which include almost all of the public companies—in the 1992–93 Ohio study constituted 43 percent of the firms but received about 90 percent of the tax expenditures for employee ownership. The top 57 percent received about 10 percent of the tax expenditures (cf., *The Real World of Employee Ownership*, pp. 169–72).

9. High impact of peer networks on improving the performance of companies via the laggards acquiring high performance characteristics. The "Worker Ownership Readiness and Knowledge Act" encourages formation of peer networks within individual States.

Data: Members of Ohio's Employee-Owned Network, a peer network of employee-owned firms which approximates a learning community, outperform non-members by a factor of roughly 2 in terms of participation, communication, training and employee interest in decisionmaking in the 1992–93 Ohio Study. They were 7 times as likely to have non-managerial employees elected to their boards of directors and 1½ times more likely to have improved their profitability relative to their industries (cf., *The Real World of Employee Ownership*, pp. 167–69).

10. State programs have a high impact in increasing rates of ESOP creation in small companies & spreading best practices. But they are rare. Only Massachusetts, Ohio and Vermont currently have State employee ownership programs, though New York is actively working to revive its program. The "Worker Ownership Readiness and Knowledge Act" speaks directly to this need to increase formation of employee ownership in smaller, closely held companies.

Data: National Center for Employee Ownership studies of the New York, Ohio, and Washington State programs in the early 1990s found that these programs increased the rate of ESOP formation in closely held firms but had no impact in the publicly traded sector.

Data: The OEOC statistics are cited in the body of our statement above.

These numbers compare favorably with other strategies for creating wealth for working people because the State program serves as a catalyst to put productive assets which can multiply themselves into the hands of Ohio working families.

Sources of data: National data are taken from the National Center for Employee Ownership's summary of studies, "Employee Ownership and Corporate Performance," located at *http://www.nceo.org/library/corpperf.html*. The 1992–93 Ohio study results were published as John Logue and Jacquelyn Yates, *The Real World of Employee Ownership* (Ithaca: Cornell University Press, 2001). The 2004–6 Ohio study results are currently unpublished.

ADDITIONAL SUPPORTING MATERIAL—THE U.S. EMPLOYEE OWNERSHIP BANK ACT

Employee ownership is a proven tool for job retention and job creation and for economic development in Ohio communities. The Ohio ESOP study cited in *The Real World of Employee Ownership* (Cornell University Press, 2001) found that 49 percent of employee-owned companies outperformed their industries in job creation and retention, 50 percent matched their industries, and only 1 percent under-performed their industries. Employee-owned businesses clearly contribute to healthy local economies.

Employee ownership benefits individual Ohio firms and their communities in many ways. For individual firms, it can create a market for a departing owner's stock, provide significant Federal tax breaks, reduce debt service burdens, complement a commitment to participative management, and improve corporate performance. For the local community, employee ownership can be an economic development strategy used to retain businesses that might otherwise be liquidated at the retirement of an owner without a successor, anchor the ownership of businesses in the community, secure jobs that might otherwise be moved out of State, provide additional capital for reinvestment and expansion and increase the competitiveness of Ohio businesses.

The Cost

Cost per job retained, created or stabilized through the Ohio Employee Ownership Assistance Program cumulatively through June 30, 2010, in the firms that implemented ESOPs was $336 per job in Ohio Department of Development funds, a small number compared to the costs, financial, physical and psychological, associated with unemployment. The program is highly cost effective because it helps people help themselves.

As an economic development strategy, employee ownership yields long-term benefits in four additional areas:

(1) Employee-owned firms reinvest in capital improvements in existing facilities at a higher rate than other firms. While this is motivated primarily by the employee-owners' interest in job security, it helps to increase the competitiveness of Ohio firms and to anchor capital and jobs in our communities;

(2) Employee-owned firms also reinvest in their human capital at a higher level than is common in our region. The consequence is a movement up the scale toward high performance work systems with higher productivity and profitability.

(3) There is growing evidence that employee-owned firms have a higher economic multiplier effect in their communities, in part because of a preference for local suppliers and in part because anchoring the ownership of productive wealth in a community among employees generally supports higher levels of home ownership, purchases of consumer durables and higher retirement benefits;

(4) As cited in the chart in the body of this statement, employee-owned firms create significant assets for Ohio families. That wealth creation effect also anchors capital locally and helps solidify our communities' economic base.

In short, employee ownership has proven to be an effective means to retain and increase jobs in Ohio. Today, some 350 partially or wholly employee-owned companies headquartered in Ohio employ more than 300,000 people.

Obstacles

Nevertheless, for many years, the Ohio Employee Ownership Center has had to struggle with issues of how to obtain adequate loans and equity for employee-owned companies. In theory, capital looks so easy to obtain; in practice, however, employee-owned companies and small and medium-sized companies in general, have trouble getting financing. The median size of the companies we work with is about 100 employees doing about $10 million in sales. Of the 75 companies that are part of Ohio's Employee-Owned Network, only 4 have more than 500 employees. In short, we work largely with classic small and mid-market companies. And they are often strapped to get capital for growth.

Every year, in our technical assistance at the OEOC, we have lost at least one otherwise viable employee buyout because of the lack of timely, friendly capital. To put it bluntly, almost every year for the last 15, we have seen at least one viable employee buyout effort fail with the loss of 100–200 jobs because no one could round up financing in a timely fashion.

Following are four potentially viable buyouts in Ohio that could have benefited from a friendly lender:

CSC Steel, Warren, 1,350 employees. The closing of CSC was announced in the third quarter of fiscal 2001. The ODJFS Rapid Response program funded a two-stage prefeasibility study. Stage one determined that the facility was viable and that the shutdown occasioned by lack of debtor in possession working capital had dramatically diminished the value of the plant while making a re-start extremely difficult for employees because of the working capital needs. This stage one study found employee ownership could work with an outside equity partner. Stage two determined whether a partner for the employees could be located and apparently found one in Renaissance Partners, a Pittsburgh-based investment fund. Throughout the first quarter of fiscal year 2002 Renaissance Partners continued their due diligence for a purchase and the employee buyout group was optimistic about a successful sale and re-opening of the facilities. Immediately following the end of the quarter, however, Renaissance Partners announced that it had ended its interest in pursuing the purchase of CSC; there were, Renaissance Partners told the press, better opportunities available for turnarounds in the aftermath of September 11th.

HPM, Mt. Gilead, 500 employees. In fiscal year 2001 a two-phase study was commissioned. Phase one reached positive conclusions about the viability of a restructured HPM provided a partner could be found for the employees. The second phase of the study then offered three potentially viable options for restructuring the company. During the first quarter of fiscal year 2002, however, HPM failed to keep control of the company. The consequence was that the lender, Fleet/First Boston, seized HPM's assets, threw the company into bankruptcy and closed down the plant. Fleet proceeded to sell the assets of the company to a buyer of dubious ability to perform in terms of keeping the plant open, or, perhaps, even completing the deal. This was in preference to selling to the partner whom the employees had found who pledged to run the company and to sell to the employees as an exit strategy.

Massillon Stainless Inc. Massillon, 92 employees. Massillon Stainless, Inc. was a stainless cold rolling operation. Major markets for stainless steel strips include household appliances, food processing and restaurant equipment, elevators, architectural trims, pipes and tubing and transportation equipment. At the request of the Steelworkers Local Union and members of salaried management, a prefeasibility study was commissioned. The buyout group selected Locker Associates to perform the study. While the study was being conducted, the company announced plans to close the facility.

The study was completed October 24, 2002 and concluded that the facility could restart and operate profitably if it could find an outside equity investment partner and assure itself of a supply of raw materials. The study also noted that a minority ESOP would make sense given the employees' strong commitment to the company and its excellent labor-management relations. A supply of raw materials was found, however, ultimately, an equity partner was not found, and the plant was closed. The machinery was sold to interests in India.

Cold Metal Products, Youngstown, 116 employees. Cold Metal Products was a manufacturer of strip steel products for precision parts manufacturers. The company announced closure of the plant on August 15, 2002 and then filed for bankruptcy the next day. Subsequently, the Cold Metal Employee Buyout Group filed an application for a prefeasibility study grant that the OEOC approved.

The Buyout Group selected Kokkinis & Associates to do the study. The study got underway late in September and was completed in early December 2002. The study found potential for a successful restart of the facility, however, because of the capital requirements of such a restart, it recommended the employees work to get an outside equity investor involved that would entertain a minority employee ownership position for the workers. The plant stayed closed, and the equipment and material was auctioned off in January 2007.

The Proposed Legislation

The impetus behind this draft legislation is the fact that the United States has lost a couple million good-paying manufacturing jobs over just the last few years. The loss of manufacturing jobs has been going on for some period of time, although the pace of job loss has picked up in the more recent past as we have battled with economic recession, the crisis in the steel industry and the adverse effects of massive international trade deficits.

The U.S. Employee Ownership Bank Act is, in essence, aimed at job retention and job creation and proposes to retain more manufacturing in America by helping American workers buy their plants, educating them in employee participation strategies so they can be more competitive while anchoring capital locally in the process.

The act proposes to establish a "Bank" within the U.S. Treasury Department that will provide grants to the States to provide technical assistance, participation training, education and outreach along with loan guarantees and/or subordinated loans to help employees purchase the business provided a prefeasibility study shows that employee ownership is a viable alternative. The existence of such a "Bank" would, in our opinion, have made a positive difference in the outcome of the four buyout efforts cited above.

The act also includes a provision that would require an employer closing a plant to provide 90 days advance notice before such plant closing and to offer the employees the opportunity to purchase the business. This provision would have been of particular utility in the case of Brainard Rivet in Girard, OH. Brainard Rivet is now employee owned and part of Fastener Industries, a 100 percent employee owned company in Ohio. However, it was a major struggle to get to that point. Brainard was part of Textron when the parent shut down this profitable specialty fastener operation so that it could move the production to a non-union plant in Virginia. The move didn't work out because the employees in the Virginia plant did not have the skill level needed to be competitive. The turning point in Brainard's road to employee ownership came when it was discovered that Textron was sending much of the Brainard business to competitors rather than running it at its Virginia plant. This revelation resulted in political pressure from the Ohio Congressional delegation as well as from State and municipal representatives. Since Textron was the recipient of a number of government contracts, it became more cooperative in the employee's efforts to buy the facility.

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Senator SANDERS. Bill, thank you very much, and thank you for the pioneering work you guys have done in Ohio.

Let's go now to some of the companies in Vermont that I think have done an extraordinarily good job becoming a model for other companies and we're very proud of the work that they have done.

Let's start with Steve Voigt who is the Chief Executive Officer of King Arthur Flour in Norwich. Steve.

STATEMENT OF STEVE VOIGT, CHIEF EXECUTIVE OFFICER, KING ARTHUR FLOUR, NORWICH, VT

Mr. VOIGT. Thanks. King Arthur Flour is America's oldest flour company. It traces its history back to 1790, the year George Washington delivered the first State of The Union Address.

Not known as a big business magazine, The Smithsonian actually did an article on us on our 200th Anniversary.

Building on what is now 220 years of experience, King Arthur Flour's leadership believes that our next 220 years needs to be rooted in employee ownership. Similarly, we believe broader employee ownership will make America stronger.

King Arthur is the No. 1 brand of flour in New England groceries and the No. 1 whole wheat, organic, and bread flour across the entire United States. We have a growing catalog and Web business that carries high-quality specialty flour, mixes, ingredients, everything you need to bake great stuff and the information and recipes to help you have success.

We also have a bakery, a café, teaching center, classrooms, all at Camelot. That's our name of our building in Norwich, Vermont.

In the early 1990s, we had less than 20 employees and started down a path of open book and participative management. We used phrases like "act like an owner." So when, in 1996, Frank Sands, who was fifth generation owner of the King Arthur Flour Company, decided to sell, he started by selling a part of it to the employees. It seemed natural. We were already acting like owners.

ESOP for us was part of succession strategy and part of foundation for building the type of workplace and the type of company that we were striving to build. The initial experience with ESOP went well and 3 years later, the second block of stock was sold to what was then the majority owner ESOP.

In 2004, we became 100 percent owned by the ESOP and in less than a year from today, all the debt that we incurred during that process will be fully paid down.

Today, King Arthur employs 180 year-round with seasonal employment bringing that total to 400 and we're actively expanding and seeking permanence as we speak right now to help our growth.

A little detail about ESOP. You can always make it better and one of the great things about this State is we share our ideas about making things better. We're changing or we've changed recently our ESOP to let anybody in with 800 hours a year. It used to be a thousand.

The big benefit for us is the seasonal employment. We have a lot of people between 800 and 1,000 and so they're so important to us delivering our services during the holidays to let them participate in the upside of employee ownership is really critical and that was a great change.

Employee ownership suits us well. We've been growing 16 percent annually for the past 10 years to about 80 million today. We're among the fastest-growing companies in Vermont over the longer time frames. King Arthur's available now in every State and we're bringing more great products to consumers all the time.

King Arthur's a mission-driven company. We have a higher amount of creative energies that our employees bring to their work because they care about the future of their friends that they have at work and the families and communities that depend on us.

We do really hard stuff all the time, like balancing the goals of work, life, small town living, employee ownership, open book communication, both for all the employees but also governance, transparency about how we are governed.

On the other hand, ambitions for high long-term profitability and growth, hard work, growing our market share, very high professional standards, and tough-minded evidence-based decision-making.

So employee owner productivity at King Arthur is strong. We think about improvements all the time. We've built a brand around consistent quality, so building better quality management systems, not just taking costs out fits our definition of productivity. Our high bar for quality extends beyond the product to the info and resources we provide people who bake and by extension to the team that we hire and motivate to make this all happen.

When this is working, we have near zero turn-over. Overall, we've maintained a less than 3 percent employee turnover over long periods of time. The growth and success of King Arthur has created opportunities for many internal promotions and career advancement and hence better compensation.

The larger business base, our sales, increases the dollar benefit of employees' improvement ideas which then further justifies higher wages. Completing market competitive wages has the strong upside potential of both King Arthur stock and annual profit-sharing, and I have two other quick props.

Senator, one is a Harvard Business School DVD Video, a case on employee ownership. It was done 5 years ago, and I go down every fall, I'll be going down in October again to teach three sections, probably 150 students, about how employee ownership works.

And lastly, proudly on the top of every bag of flour we say 100 Percent Employee Owned, 100 Percent Committed to Quality, and in focus groups the public understands that if the workers own the business, they're not going to put junk in the food.

[The prepared statement of Mr. Voigt follows:]

PREPARED STATEMENT OF STEVEN VOIGT

King Arthur Flour is America's oldest flour company, tracing its history back to 1790, the year George Washington delivered the first State of the Union address. Building on these 220 years of experience, King Arthur's leadership believes our next 220 years need to be rooted in employee ownership. Similarly, we believe that broader employee ownership will make America stronger.

King Arthur Flour is the No. 1 flour brand in the New England grocery trade, and the No. 1 whole wheat, bread and organic flour in the United States. Our growing catalog and Web business carries high quality specialty flours, mixes, ingredients, utensils, and hundreds of other baking-related items and information to help create great baking experiences. All this, a bakery, café and education center is available at "Camelot," our retail store in Norwich, Vermont.

In the early 1990s, with less than 20 employees we began using open book and participative management. The refrain was "act like an owner," so when in 1996 Frank Sands, fifth generation owner decided to sell part of his company to the employees, it seemed like a natural. ESOP for us was part succession strategy and part foundation for the type of workplace we were striving to build. The initial experience with ESOP went well and in 1999 a second block of stock was sold to the now majority-owner ESOP. In 2004, the company became 100 percent owned by its ESOP and less than a year from now, the debt that financed the ownership transition will be completely paid down. Today King Arthur employs 180 year round with seasonal employment bringing that total up to 400.

Recent refinements to the ESOP includes dropping number of hours for eligibility from 1,000 to 800 to permit more returning seasonal workers who are so key to our success during the busy holiday period to participate in the ESOP as well. We often find some of our best regular workers from the seasonal pool.

Employee ownership suits us well. We have been growing 16 percent annually over the past 10 years, to $80 million, and are among the fastest growing companies in Vermont over longer timeframes. King Arthur flour is now available in grocery stores in all 50 States and we are bringing more great products to consumers all the time such as the only unbleached cake flour and a line of gluten free mixes that actually taste good.

King Arthur is a mission driven company. We have a higher amount of the creative energies of our employees because they care for the futures of their friends at work and their larger families and the vision of our company. We do the really hard stuff as a matter of course; such as balancing goals like: work-life balance, small-town living, employee ownership, open-book transparency in both governance and communication to employees, and the environment, with on the other hand, ambitions for: high long-term profitability and growth, hard work, growing our market share, exacting professional standards, sophisticated analysis, and tough-minded evidence-based decisionmaking.

Our employee-owner productivity is strong. We think about improvements all the time. We are a brand built around consistent quality, so building better quality management systems, not just "taking costs out" fits our definition of productivity. Our high bar for quality extends beyond product to the information and resources we provide people who bake, and by extension to the team we hire and motivate to make this all happen. When this is working we have near zero turnover. Overall, we have maintained a less than 3 percent turnover over long periods of time.

The growth and success of King Arthur Flour has created opportunities for many internal promotions and career advancement and hence better compensation. The larger business base increases the dollar benefit of employees' improvement ideas, justifying higher wages. Complementing market competitive wages is the strong upside potential from both King Arthur stock and annual profit sharing.

(*See www.kingarthurflour.com for more background.*)

Senator SANDERS. Steve, thank you very much.

Cindy Turcot is the Chief Operating Officer of Gardeners Supply in Burlington.

Cindy, thanks a lot for being here.

STATEMENT OF CINDY TURCOT, CHIEF OPERATING OFFICER, GARDENERS SUPPLY COMPANY, BURLINGTON, VT

Ms. TURCOT. Thank you. Gardeners Supply, for those who don't know, is the Number 1 gardening direct marketing company in the Nation and we are primarily doing that through catalog and our Web site.

We were founded in 1983 by Will Raap and at that time we had about 10 employees and I was one of those, luckily one of those employees that started back at that point.

We currently now have four locations in Vermont and we have 275 employees and about a hundred seasonal employees. So we've had quite a bit of growth over our time and employee ownership was always a part of our business plan.

For those of you who know Will, he started Gardeners Supply when he was in his mid 30s and Will did not create an ESOP for ownership succession at that time. He created it because he wanted to do shared ownership and shared ownership was really important to him because he felt like if each of us had a stake in the company, we'd be more committed, more dedicated, and more invested in how our company ran.

We started our ESOP in 1987 with that as our premise. Now, ultimately, 25 years later, we became a 100 percent ESOP-owned and that was an ownership succession strategy.

How it worked for us is that in 1987, we started our ESOP and over time for the 12 years we actually did it really slowly. We didn't have the financing to be able to do it more quickly. So over 12 years we went up to about 19 percent and in 1999, we did our first leveraged transaction, a bank-financed transaction, to get to 30 percent. In 2006, we went to 45 percent the same way, and then this past December to 100 percent which was both a seller-and bank-financed deal.

When Will really considered his personal succession plans to get liquidity, we really did look at different options. Obviously employee ownership was one of them. We also looked at should we get acquired, should we bring in outside capital, should we do a management buy-out?

Ultimately, what we looked at was that if we were bought out by someone else or brought in outside capital, they would not have kept us in Vermont. The contact center would have been moved and consolidated, potentially offshore. Our distribution center would have been moved to the Midwest. That would have been devastating not only for us as employees but also for the community, a devastating loss if we were to be moved out.

So employee ownership became the only answer for us because we wanted to control our destiny. We wanted to keep our jobs and we wanted to continue to be the great company that we are.

Gardeners, as many of you may know, is locally and nationally recognized for our innovative and participatory work culture. We speak on it, we win awards on it, and we do our best to make it the kind of environment anyone would want to work in.

We involve our employees in decisionmaking. We ask for feedback and we get it and we take action and as our business has its ups and downs, I think our employees are instrumental in helping us figure out how to get through it and be more financially and culturally sound.

Our turnover rate is a third of the national average. Seventy-five percent or more of our jobs are internally fulfilled and I can vouch for that as I started in an entry-level position in 1983.

Our ESOP will eventually become at least three times what the national average is for 401(k) contribution and we have a really generous cash profit-sharing plan and part of it we pay equally because we recognize it's harder to live at the bottom end of the scale. So as a percent of pay, it's really important that those people get a higher percentage of cash profit-sharing than the highest-paid person. We really think that employees really directly benefit from that and that they naturally then think and act like owners because they're seeing what the benefit is for them.

We're a company committed to doing the right thing in all parts of our business and obviously employee ownership has been a cornerstone, but it was hard. We started in 1987, we didn't have the technical resources. We didn't have the Vermont Employee Ownership Center. So we really learned the ins and outs and we had to do a lot of that ourselves, although more recently have had more support to do that.

So when I look at the two bills Senator Sanders is putting out there, both of them, having employee ownership centers or bank financing, which we couldn't get in the beginning, are both key, and I think as new companies come through they need that help and support so that we can have more employee ownership and I'll end by saying that I wish that we had had both when we started.

So thanks.

[The prepared statement of Ms. Turcot follows:]

PREPARED STATEMENT OF CINDY TURCOT

Our Mission—"We are in business to spread the joys and rewards of gardening, because gardening nourishes the body, elevates the spirit, builds community, and makes the world a better place. We are the market leader in developing and marketing innovative, earth-friendly products and information that help people garden more successfully."

Gardener's Supply was founded in 1983 by Will Raap and a handful of enthusiastic Vermont gardeners. Today, we serve millions of gardeners nationwide offering everything from seedstarting supplies and garden furniture to flower supports and garden carts. As our company grows, we remain passionately committed to providing garden-tested, earth-friendly products that will help our customers have more fun and success in their gardens. We are a direct marketing company selling through our printed catalog and our on-line Web site.

We have four locations in Vermont which include a manufacturing facility in Georgia, Vermont, a Distribution Center in Essex, Vermont, a Retail Store, Customer Contact Center and Administrative offices in Burlington, Vermont and a Retail Store in Williston, Vermont. In 1983, we started with 10 employees. We currently have 275 regular employees and employ over 100 seasonal employees.

Employee ownership has been a part of our business plan since the beginning. Although Will Raap was in his mid-30's when he started Gardener's Supply and not thinking of succession, he already believed in shared ownership. He wanted to share ownership with all employees with the belief that if each of us has an ownership stake, we will be more committed, more productive and more invested in the success of the company. Ultimately, 25 years later, employee ownership became the vehicle for succession planning for Will.

In 1987, Gardener's Supply started an Employee Stock Ownership Plan (ESOP). Over the next 12 years, as profits allowed, the ESOP purchased small amounts of stock increasing the ESOP ownership to 19 percent. In 1999, the ESOP made its first leveraged (bank financed) transaction increasing ownership to 30 percent. In 2006, the ESOP made its next leveraged transaction to 45 percent ownership. Now, 22 years later, the ownership transition changed from a sharing of ownership with Will to a succession transition. In December 2009, the ESOP bought the remaining stock (through both bank and seller financing) and Gardener's Supply became proudly 100 percent ESOP owned.

When Will Raap considered his personal succession plans and desire to get liquidity out of his lifelong investment in building Gardener's Supply, we looked at all of the options in front of us. We looked at bringing in outside capital, being purchased, a management buyout and of course, employee ownership. We knew that if we were to be purchased by an outside company, the likelihood of jobs remaining in Vermont would be small. The loss of these jobs would have been devastating to our community. We knew both our Customer Contact Center and Distribution Center, in the least, would be moved out of Vermont and consolidated. We wanted to stay in Vermont, we wanted to have control of our destiny, we wanted to keep our jobs and we wanted to continue the great company we created. Employee ownership was the only answer for us.

In addition to being the No. 1 gardening direct marketing company in the country, we are nationally known for our innovative and participatory corporate culture. We have an open book policy—we share financial information in many forms, we have monthly staff meetings, our President holds annual Town Meetings, we call on our employees to help us in tough times and we are always asking for ideas for continuous improvements. We ask for feedback, we listen to feedback and we take action on that feedback. Employee ownership is the key to creating an engaging and fulfilling workplace for our employees and for the company getting maximum input, commitment and contribution from all.

Employee productivity and satisfaction is high and employee ownership is the key reason why. We are always finding ways to improve our processes. And, we share the gains with our employees. We have a generous cash profit sharing program for all employees. A portion of the program is paid equally.This gives a higher percentage of profit sharing to the lowest paid employees recognizing it is harder to live at the bottom of the pay scale than the top. In addition, the contributions to their retirement from the ESOP will be significantly higher than a normal employer match to a 401(k). Because employees directly benefit as owners from an increased share price, they naturally think and act like owners and they receive benefits that exceed those paid to employees in our non-employee owned peer companies.

For us, employee ownership is at the heart of our corporate culture. We have won many awards over the years for our communications excellence and employee satisfaction. We have won the Annual Award for Communications Excellence from the ESOP Association, Vermont's Best Places To Work Award, Governor's Work Site Wellness Award, the Chamber of Commerce Entrepreneurial Spirit Award, the Burlington Business Association's Business of the Year award and Will Raap has won numerous awards for his personal contributions to our community.

The effectiveness of our employee ownership culture is evidenced in our low turnover rate and high rate of internal promotion. Our turnover rate has ranged between 4–6 percent over the past 5 years, a significantly lower rate than national averages over any industry but especially in the direct marketing industry. We have had strong growth throughout our history. Our employee base has increased from 10 to 275. We have a strong commitment to internal promotion. The majority of our positions are filled internally so the opportunity for growth in both position and compensation has been positive for our employees.

We are a company committed to improving the world through gardening. We donate 8 percent of our profits to support programs and organizations that are using gardening to improve the quality of people's lives and the health of our environment. We started a Garden Crusader Award which recognizes people across the country who are using gardening to improve the quality of life in their community. In Vermont, our company's local donations program helps support more than 50 organizations. We also founded, and continue to be a lead sponsor for the Intervale Center, which oversees 350 acres of farmland and a wide range of urban farming initiatives in Burlington, Vermont.

We are a company committed to doing the right thing in all parts of our business. Employee ownership has been a cornerstone to our success and to the future of our business. Becoming employee owned has not been easy. When we started, technical advice and information about ESOPs was not readily available. Bank financing has been challenging to get. We have had an ESOP for many years and have learned the ins and outs of getting to 100 percent ESOP ownership. However, new companies need access to resources to get them started. Having a State-wide employee ownership center and having access to funding can be a key piece for a company to get started.

As a company that worked hard to get to 100 percent employee ownership, we see the pressing need and support the bills Senator Sanders is proposing.

Thank you for the opportunity to share our story.

(*For more information about our company, please visit www.gardeners.com.*)

Senator SANDERS. Cindy, thank you very much. Jeff Clark is the Operations Manager of Chroma Technology in Bellows Falls.

Jeff, thanks for being here.

STATEMENT OF JEFF CLARK, OPERATIONS MANAGER, CHROMA TECHNOLOGY CORP., BELLOWS FALLS, VT

Mr. CLARK. Thank you, Senator. My name is Jeff Clark. I'm the Director of Operations for Chroma Technology, a 100-percent employee-owned company in Rockingham, Vermont.

Chroma Technology is a manufacturer of precision optical filters. Precision optical filters are used in applications, such as biomedical imaging, DNA sequencing, and fluorescent microscopy by hospitals, universities, and research facilities.

In 1991, Chroma Technology was formed by six people. These founders wanted to work for themselves. So they started Chroma Technology and modeled it after a law firm. It was a partnership and everyone was equal.

Initially, their salary was $30,000, flat $30,000 a year, which was a good salary to earn in Brattleboro, Vermont, in 1991. Each founder purchased and received a thousand shares of stock, had equal vacation, health benefits, and they split any profits equally twice a year.

When the company started to grow, they added more people. They continued with the same approach. New employees were partners, as well, with the same salary and benefits. The company also paid for the 200 shares of stock for each person that were allocated each year. Profits continued to be split equally amongst the owners.

In 1996, there were adjustments to the salary structure. The adjustments changed the $30,000 flat to $35,000 to $55,000 over the course of 5 years. All the other benefits remained the same.

In 2000, the salary range increased to a maximum of $75,000 a year, regardless of the job position, and in 2007, because of market forces, Chroma instituted a four-tier system with different salary ranges within each tier, based upon the skill sets needed for the different positions but no one's salary was cut and most people at Chroma still earned way above market rate.

So today, Chroma's benefit package includes salary, company healthcare plan, profit-sharing twice a year, company-funded SEP IRA, stock distribution, dividends on stock if declared, vacation 3 weeks after 1 year and 4 weeks after 5 years with 10 personal sick days.

Becoming an employee-owned and operated company allows Chroma to have a unique approach to management. Since we're responsible to ourselves, we need to work within the system we create. This means that we're not forced to take the textbook approach to management.

Our business structure is a little bit different than most. We try to minimize management. When the company was smaller, it was easy to meet as a group, discuss problems and make decisions. No one person was in charge. However, as we grew to 30, 40, and 50 people, it became more difficult to meet as a group. Decisions in departments were made by departments but no one was looking after the company as a whole.

In 2005, the company developed a steering committee. This committee facilitates information and makes sure the decisions that need to be made within each department are made. It works with the departments not as managers but as collaborators. It's a fine line to walk but when it's done correctly it's the best way.

Since we do not have direct supervisors, we spread some of the burden for running the company to all employee owners. This allows us to minimize the amount of people we need to employ which in turn keeps our costs and prices down.

Our turnover rate is extremely low in comparison to other companies within our industry. Chroma's turnover for Fiscal Year 2010 was 6.74 percent and for the 2009 Department of Labor statistics for our industry turnover rate was 24.1 percent.

In recent years, Chroma has expanded its footprint. In 2007, we opened our first sales office in Germany. In 2009, we opened two sales offices in the United States, one in North Carolina and one in Oregon. In July of 2009, we also opened a subsidiary in Burlington, Vermont, named 89 North, which employs five engineers, one microbiologist, and an office manager, and, of course, it's employee-owned, and, finally, in 2011, we're going to be opening a representative office in Xiongma, China, for the sales of filters.

Over the past 2 years, Chroma has also won multiple awards—2009 and 2010, Inc. Magazine named Chroma as one of the fastest-growing privately-owned companies in the United States; 2009 and 2010, WorldBlu listed Chroma as one of the most democratic workplaces worldwide; 2010, Inc. Magazine and Winning Workplaces named Chroma as one of the best places to work in the country.

Over the past 13 years, I've seen something special. You can see it in the data and you can hear it in the stories. I'm proud to have been given the opportunity to work and own such a company like Chroma.

I'm hopeful that the Work Act and the U.S. Employee Ownership Bank Act bills are passed so other employees will have a chance to learn about employee ownership and the funds will be available to make it happen.

Thank you.

[The prepared statement of Mr. Clark follows:]

PREPARED STATEMENT OF JEFF CLARK

My name is Jeff Clark and I am the Director of Operations at Chroma Technology, a 100 percent employee owned company in Rockingham, Vermont. Chroma Technology is a manufacturer of precision optical filters. These optical filters are used in applications such as Biomedical imaging, DNA sequencing, and Fluorescent microscopy by hospitals, universities and research facilities.

In 1991 Chroma Technology was formed by a group of six people. These founders wanted to work for themselves so they started Chroma Technology and modeled it like a law firm; it was a partnership and everyone was equal. Initially, their salary was a flat $30,000/year, which was a good salary for someone living in Brattleboro, Vermont in 1991. Each founder purchased and received 1,000 shares of stock. They had equal vacation, health benefits and split any profits equally twice a year.

When the company started to grow and they added more people, they continued with the same approach. New employees were partners as well, with the same salary and benefits. The company also paid for the 200 shares of stock per person that were allocated each year. Profits continued to be split equally amongst the owners.

In 1996, there were adjustments to the salary structure. The adjustments changed the flat $30,000/year to a range of $35,000 to $55,000/year over 5 years and all the other benefits remained the same.

In 2000, the salary range increased to a maximum $75,000/year over 10 years regardless of the job position.

In 2007, because of market forces, Chroma instituted 4 "tiers", with different salary ranges within each "tier", based upon the skill sets needed for the different positions. No one's salary was cut and most people at Chroma continue to earn above market rate.

Today Chroma's benefit package includes:

- Salary
- Company funded health care plan
- Profit Sharing twice/year
- Company funded SEP IRA
- Stock distribution
- Dividends on stock if declared
- Vacation: 3 weeks after 1 year, 4 weeks after 5 years and 10 Personal/Sick days

Being an employee owned and operated company allows Chroma to have a unique approach to management. Since we're responsible to ourselves, we need to work within the system we create. This means that we are not forced to take the "text book" approach to management. Our business structure is a little different than most. We try to minimize management. When the company was smaller, it was easy to meet as a group, discuss problems and make decisions. No, "one" person was in charge. However, as we grew to 30, 40 and 50 employees, it became more difficult to meet as a group. Decisions in departments were made by the departments, but no one was looking after the company as a whole. So, in 2005, the company developed the steering committee. The committee facilitates information and makes sure the decisions that need to be made within each department are made. It works with the departments; not as managers, but as collaborators. It's a fine line to walk, but when done correctly, it's the best way.

Since we do not have direct supervisors, we spread some of the burden of running the company to all employee/owners. This allows us to minimize the amount of peoples we need to employ, which in turn, keeps our costs and prices down.

Our turnover rate is also extremely low in comparison to other companies in our industry. Chroma's turnover in fiscal year 2010, was 6.74 percent while the 2009 department of labor statistic for our industry is 24.1 percent.

In recent years, Chroma has expanded its footprint. In 2007 we opened our first sales office in Germany which is staffed by an Applications Scientist. In 2009 we opened two sales offices in the United States; one in North Carolina and one in Oregon. They are staffed with OEM Sales Engineers. In July of 2009 we also opened a subsidiary in Burlington, VT, name is 89 North. It is employee owned and has 5 engineers, one microbiologist and an office manager. They design, manufacture, and sell fluorescent-based light sources. Finally, in February of 2011 we will be opening a representative office in Xiamen, China. It will be staffed by an OEM sales engineer and an Applications Scientist.

Over the past 2 years Chroma has also won multiple awards:

- *2009 and 2010 Inc. Magazine*: Named Chroma as one of the Fastest Growing Private Companies in the United States; (Aug. 2009 and Aug 2010).
- *2009 and 2010 WorldBlu*: Listed Chroma as one of Most Democratic Workplaces Worldwide: (April 13, 2010).
- *2010 Inc. Magazine/Winning Work Places*: Named Chroma as One of the Best places to work in the country: (June 2010).

Prior to coming to Chroma, I worked for some other large corporations. They were very efficient at manufacturing products, cutting costs and keeping an eye on the bottom line which was good for their stockholders. Chroma has these same concerns, but we also consider the impact of our decisions on our employee owners and local communities.

Over the past 13 years at Chroma, I've seen something special. You can see it in the data and hear it in the stories. I'm proud to have been given the opportunity to own and work at such a company. I am hopeful that the WORK Act and the United States Employee Ownership Bank Act bills are passed so other employees will have a chance to learn about employee ownership options and the funds will be available to make it happen.

(*Jeff Clark, Chroma Technology, 10 Imtec Lane, Rockingham, VT 05101: 1–802–428–2527; jpclark@chroma.com*.)

Senator SANDERS. Jeff, thank you very much.

Tom McCabe is the Treasurer, Pizzagalli Construction Company in South Burlington.

Tom, thanks for being here.

STATEMENT OF TOM McCABE, TREASURER, PIZZAGALLI CONSTRUCTION COMPANY, SOUTH BURLINGTON, VT

Mr. MCCABE. Thank you, Senator Sanders, and thank you for championing the cause of ESOPs in Washington.

We're a $400 million general contractor. We're located in South Burlington. Our company employs approximately 750 employees in about 10 States.

The employee owners of Pizzagalli celebrated 50 years of business in the Spring of 2008. The company was founded and continues to be headquartered in Vermont. It's grown from humble beginnings with two young brothers who installed a flag pole foundation at the Post Office in Bilbury, Vermont.

It's grown from there to regularly employing nearly a thousand people to construct buildings and water treatment plants throughout the United States.

In 1998, the owners began to transition the management of the company to a new generation of leadership and in 2001 formed an ESOP to transition ownership. In 2009, the company also became a 100-percent employee-owned.

The founders decided to sell the company to the people who had helped them make their business a success rather than an outside firm. They wanted the employees to reap the benefits of ownership, to continue what they helped create, and take control of their own destiny.

Employee ownership has been a foundational element of who we are and the decisions we make every day. Because employee owners share in the benefits of the company's success, they've come to understand what they do directly impacts the company and what impacts the company impacts them.

I have a couple examples of how our employees, for instance, keep costs down to improve their share value. We made a presentation a few years ago to all of our employees as an effort to make them understand that what they do has a positive impact on how we run the business and we compared the increase in net income, the company's net income, from saving a third, one-third of a penny on every dollar we spend in the field, the cost of constructing a project, versus saving 10 percent of our overhead or our back office costs.

The saving of a third of a penny on every dollar in the field increased our profitability by 20 percent and saving 10 percent on our overhead just had a marginal increase in our profitability.

So a few months after that, one of our vice presidents was out at a project and he noticed three craft workers, the guys in the field, sort of hustling across the field rather quickly and the health and safety of our employees is paramount to us, particularly in the construction industry. It's very important.

So he called out to the men and told them, he said, hey, slow down, you've got to think about safety first. So they wandered over to him and said, hey, wait a minute, we're just working on our third of a penny.

[Laughter.]

Mr. McCABE. True story. Another example is our health and wellness program. Employee ownership helps people have a greater sense of control over their company, their jobs, their selves, and because we're constantly talking about how things they do have an impact on them from work and the company standpoint, we use the same concept to promote a state-of-the-art health and wellness program which our employees have taken a significant responsibility for their own health.

Prior to implementation of the program, 40 percent of our employees over a 2-year period didn't use healthcare systems at all. Forty percent never saw a doctor, never had a mammogram, never had a physical, nothing. In contrast with that today, just 3 years after implementing the program, over 90 percent, a little different stat, but 90 percent of our employees who were identified by an independent party as being high risk for future health programs are engaged with a health professional, a coach, provided to the employees at no additional cost who's helping them deal with their problems, if you will, and it's not a doctor visit to deal with sickness. It's a visit with a healthcare professional, someone who is not sick and wants to stay that way.

We've seen the number of employees with high cholesterol drop 12 percent during that period and obesity is down 5 percent. Most impressively, our cost per month per employee for health insurance has not increased in 3 years.

The last example would be overall company performance and how it translates into employee owner stock price and retirement benefit. We've had our best years in the history of the company in terms of bottom line in 2007, 2008, and 2009.

We are scheduled, we are on track to have a similar type of year in 2010. While the rest of the stock market's been faltering, we've thrived and flourished, and we attribute much of that success to the employee owners who are ensuring our engine is firing on all cylinders.

Thank you.

[The prepared statement of Mr. McCabe follows:]

PREPARED STATEMENT OF TOM MCCABE

Employee owners at Pizzagalli Construction celebrated 50 years of business spring of 2008. The company was founded and continues to be headquartered in Vermont. It has grown from humble beginnings with two young brothers installing a flagpole foundation in Middlebury, Vermont, to regularly employing nearly a thousand people who construct buildings and plants throughout the United States.

In 1998, the founders began to transition management of the company to a new generation of leadership and in 2001 formed an ESOP to transition ownership to the employees. In 2009, the company became 100 percent employee owned.

The founders decided to sell the company to the people who had helped make their business a success rather than to an outside firm. They wanted the employees to reap the benefits of ownership, to continue what they had helped create, and to have control over their destiny.

Employee-ownership has become a foundational element of who we are and the decision we make every day. Because employee-owners share in the benefits of company success, they have come to understand what they do directly impacts the company and what impacts the company impacts on them.

Several examples may help. We made presentations a few years ago in an effort to help employees understand how they could make a positive impact on the value of the company. We compared the increase in net income of saving ⅓ of a penny on every dollar spent in the field versus saving 10 percent of our overhead costs. In essence, saving a ⅓ of a penny on every dollar spent in the field increased our profitability over 20 percent whereas saving 10 percent on overhead only marginally increased profitability.

One of our vice presidents was visiting a project a few months after the presentation. He noted three craft workers moving rapidly across the project. The health and safety of our employees is of upmost importance so the vice president yelled out to these men that they needed to slow down and think safety first. The three walked over to the vice president and politely told him that they were just working on their ⅓ of a penny.

My second example is about our health and wellness program. Employee ownership helps people have a greater sense of control over their company, their jobs, and their self. Because we are constantly talking about how the things they do have an impact on them, from a work and company standpoint, we used this same concept to develop and promote a world class health and wellness program in which our owners are taking significant responsibility for their own health.

Prior to implementation of the program, 45 percent of our employees over a 2-year period did not use the healthcare systems at all. These employees did not get a physical, mammogram, colonoscopy . . . nothing. I contrast that with what is happening today, just 3 years after implementing the program. Over 90 percent of our employees identified by an independent party as being at high risk for future health problems are engaging with an independent professional health coach provided at no cost to the employee. This is not a doctor visit to deal with sickness. It is a visit to a healthcare professional by someone who is not sick and wants to stay that way. We have seen the number of employees with high cholesterol drop 12 percent and obesity is down 5 percent. Most impressively, our cost per month per employee has not increased in 3 years.

For my final example, I'll use overall company performance as it translates into an employee owner's stock price and retirement benefit. We have had our best years, in terms of bottom line results, during 2007, 2008 and 2009. It appears we are on schedule to have a similar year in 2010. While the rest of the stock market has been faltering, we have thrived and flourished. I attribute much of this success to owners who are ensuring our engine is firing on all cylinders.

Senator SANDERS. Tom, thank you very much.

I think in our State we have a lot to be proud of from the stories that we've heard and there are other stories out there, but I just want to thank the four companies who have been here today.

Now I want to turn to two people who have years and years of experience in the concept of employee ownership. I remember when I was Mayor of Burlington, Bruce Seifer helped me put together a meeting where we had hundreds of people coming out in the auditorium at City Hall there which made me realize that this really was a potent issue.

So, Bruce, why don't you say a few words about your perspective on employee ownership?

Bruce is the Assistant Director for Economic Development in CEDO in the City of Burlington.

STATEMENT OF BRUCE SEIFER, ASSISTANT DIRECTOR FOR ECONOMIC DEVELOPMENT, COMMUNITY AND ECONOMIC DEVELOPMENT OFFICE, BURLINGTON, VT

Mr. SEIFER. Thank you, Bernie. Thank you for the opportunity to testify at the hearing.

I have worked, as Bernie mentioned, in employee ownership since 1983 when I was hired by the City of Burlington and Bernie was Mayor at that time. I started in 1983. The City of Burlington worked with Chris Mackin, who you will hear from in a minute. Chris worked with the Industrial Property Association, with Jon Crystal, and we created a long-term economic development framework that focused on local ownership with a preference for employee ownership.

The overarching economic development approach focuses on jobs and people and the concept of local ownership. The focus is on fusing local business opportunity with employee development. It's a smart approach to root businesses and the workforce in our community and have them become part of our economy for generations to come. We're hoping for 220 years.

We are still following this overarching economic development framework 27 years later because we have a firm belief that this supports and fosters a strong local economy.

As we heard from Cindy, Gardeners Supply is a shining example. They have benefited from this approach which has in turn served our community.

We started working with them over 23 years ago at the conference Bernie talked about, Bill came, and they worked diligently over the years when they were a small little company and they've grown tenfold since that time and recently, as you heard, sold their company to all their workers. That's something I'm truly proud of.

The City of Burlington provided financial and technical resources to support the establishment and development of the Vermont Employee Ownership Center. Senator Sanders provided funding and Senator Leahy, as well, follow-up funding which has provided, I think, the State of Vermont an opportunity for companies to work together in this industry and to foster the growth and development of those firms.

Through the efforts of the Employee Ownership Center in Vermont, a number of firms have decided to become employee owned and also, importantly, they've provided information to a broad range of business people to help them consider employee ownership as an option to seriously consider.

When I studied accounting in college, they didn't teach employee ownership. I'm glad to hear that Steve goes down to Harvard. It's not part of the lexicon in the colleges or in high schools and I think it needs to become so people can understand that this is a viable opportunity.

Vermont and the Nation, I think, would benefit if there were more financial and technical resources available to support employee ownership in States around the Nation. The choice of employee ownership is derived from the following assumptions that we've looked at over the years: that successful employee-owned companies over the long term provide for stable employment opportunities since key corporate decisions will tend to be made by residents with a long-term interest in the future of our local communities, that successful employee-owned companies will strengthen their local economy as they both retain wages and profits and are more likely to be retained and invested by the employee owners.

You heard Gardeners Supply have four locations in Vermont. They were 15 when we started working with them.

That successful employee-owned businesses are more familiar with local resources and institutions developing a higher-trained and promote local residents, thereby promoting a higher percentage of quality employment opportunities for local residents.

I asked Cindy when I got here, are you the Cindy Davis? I looked at an old article. She was quoted as Cindy Davis and now she's been promoted to somebody who's helping to run the company, but back then she wasn't.

Employee-owned and controlled companies should particularly be encouraged because of their demonstrated potential and performance potential, the breadth of local ownership which they can provide and the quality of employment opportunity which affects the business over time.

Two bills that Senator Sanders has proposed will be a big step forward for rooting our firms in our communities and leading to better-quality jobs and spread economic democracy. The communities in the United States will benefit by retaining and growing businesses, thereby creating more jobs. In this way, our political democracy would also support our economic democracy.

Lastly, I'd say employee ownership is a growing trend in Vermont that can spread across the Nation. This would help to stabilize local communities by creating jobs, preserving and growing the tax base, and providing opportunities for common people to build wealth.

Thank you, Senator Sanders, for the opportunity to testify and I welcome the opportunity to respond to any questions.

[The prepared statement of Mr. Seifer follows:]

PREPARED STATEMENT OF BRUCE SEIFER

Thank you Senator Sanders for the opportunity to testify at this hearing.

My name is Bruce Seifer. I am the Assistant Director for Economic Development for the City of Burlington's Community and Economic Development Office or CEDO. I have worked on employee ownership since 1983 when I was hired by the City of Burlington. Senator Sanders was Mayor of Burlington at this time.

Starting in 1983, the City of Burlington, working with Chris Mackin of the Industrial Cooperative Association, created a long-term economic development framework that focused on Local Ownership with a preference for Employee Ownership.

The overarching economic development approach focuses on Jobs and People and the concept of locally owned businesses. The focus is on fusing local business opportunity with employee development. It is a smart approach to root businesses and their workforce in your community and have them become part of your economy for generations to come.

We are still following this overarching economic development framework 27 years later, because we have a firm belief this supports and fosters a strong local economy. Gardeners Supply is one example of a company which has benefited from this approach and which in turn has served our community. We started working with them over 23 years ago when they were still a small company. They have since grown tenfold and recently sold 100 percent of the company to their workers.

The City of Burlington provided financial and technical resources to support the establishment and development of the Vermont Employee Ownership Center (VEOC). VEOC is a good example of having the employee owned businesses work together through an organization that fosters their growth and development. Through the efforts of VEOC, a number of firms have decided to become employee owned. They also have provided information to a broad range of businesspeople to help them consider if employee ownership is an option to seriously consider.

Vermont and the Nation would benefit if there were more financial and technical resources available to support Employee Ownership in States around the Nation. The choice of employee owned businesses derives from the following assumptions:

- That successful employee owned businesses will, over the long-term, provide more stable employment opportunities since key corporate decisions will tend to be made by residents with a long-term interest in the future of local communities.
- That successful, employee owned businesses will strengthen their local economies as both wages and profits are more likely to be retained and reinvested by employee owners.
- That successful employee owned businesses, being more familiar with local resources and institutions, are more likely to hire, train, and promote local residents, therefore promoting a higher percentage of quality job opportunities for local residents.

Employee owned and controlled businesses should be particularly encouraged because of:

- Their demonstrated performance potential. Studies have found employee owned businesses to outperform conventionally owned business structures on measures of productivity and profitability;
- The breadth of local ownership which they can provide—in placing long-term strategic decisions that could affect the local economies in the hands of a broader number of local actors than one or two local entrepreneurs;

• The quality of the employment environment they can create by involving local residents in decisions which affect companies that they own; and

• The fundamental equity and fairness of employee ownership as a business structure—which helps distribute the gains of economic success to the people most responsible for that success—the blue, white and green collar employees working under the same roof together.

The two bills proposed by Senator Sanders would be a big step forward in rooting our firms in our communities and leading to better quality jobs that spread economic democracy. The communities in the United States will benefit by retaining and growing businesses thereby creating more jobs. In this way our political democracy would also support economic democracy.

Employee ownership is a growing trend in Vermont that could spread across the Nation. This would help to stabilize local communities by creating jobs, preserving and growing the tax base and providing opportunity for the common people to build wealth over time.

Thank you Senator Sanders for the opportunity to testify, and I welcome the opportunity to respond to any questions.

(*Contact Information: Bruce Seifer, Assistant Director for Economic Development, City of Burlington Community and Economic Development Office, 149 Church Street, Burlington, VT 05401; Tel: (802) 865–7179/email: bseifer@ci.burlington.vt.us.*)

Senator SANDERS. OK. Bruce, thank you, and thank you for the work you've been doing for years.

Last but not least is somebody I've known for almost 30 years. I don't want to embarrass him but he is one of the fathers, if you like, of the worker ownership movement in the United States of America. He has been active on this issue successfully for so many years.

Chris Mackin, thank you very much for being with us.

STATEMENT OF CHRISTOPHER MACKIN, PRESIDENT, OWNERSHIP ASSOCIATES, INC., CAMBRIDGE, MA

Mr. MACKIN. Thank you, Senator Sanders. My name is Christopher Mackin. I have worked professionally in the field of employment since 1978. It's been 32 years.

I run a private consulting firm based in Cambridge, Massachusetts, by the name of Ownership Associates, that provides assistance to the community of employee-owned firms nationwide.

I serve as a member of the core faculty of the Harvard Trade Union Program where I teach an annual course on this topic called Capital Strategies for Labor, and I'm a Special Advisor to American Working Capital, LLC, a merchant banking firm providing financing for employee-owned firms.

In addition to those vantage points on the field, during the time period 1998 through 2008, my company managed the Massachusetts Office for Employee Involvement in Ownership or Mass EIO, a State program regarding employee ownership analogous to the Ohio and Vermont programs.

Mass EIO was funded entirely with State dollars and was closed or, perhaps more optimistically, frozen in 2008 as a result of the State budget crisis in Massachusetts.

There remains strong interest in providing this Massachusetts office and hope that S. 2909, the Work Act, will provide a means to achieve that goal.

I've been asked by hearing organizers to comment on how the legislation introduced by Senator Sanders might strengthen our local and national economies and contribute to decent-paying jobs.

In order to respond to that request, I'd like to first comment on my role as practitioner, advising companies of various sizes and shapes around the country, and, second, comment in my role as a contributing academic to something called the Shared Capitals and Research Project, a 13-year research project funded by the Russell Sage Foundation and the Sloan Foundation, and based at the National Bureau of Economic Research.

I served as one of the original organizers for this research project in 1997 and contributed to one of the newly-published studies to be found in a book published earlier this year by the University of Chicago Press, Senator Sanders' alma mater, that I'd like to present to Senator Sanders. This book is called Shared Capitalism at Work: Employee Ownership, Profit-Sharing, and Gain-Sharing in the American Economy. If you would hand that to him?

First, if I might, a couple of observations from my own personal experience in the field.

In my role running the State office I provided assistance to a community of approximately 125 employee-owned businesses that collectively employed 25,000 Massachusetts residents. Most of these firms were organized as ESOPs but half a dozen were organized as industrial or workers cooperatives.

According to the last formal Census performed in 2006, the median size of these companies was 110 employees. The overwhelming majority of these cases follow the standard profile: privately-owned closely-held businesses where owners, motivated by a combination of tax incentives and belief in the concept of employee ownership, have sold these businesses gradually through an employee stock ownership trust representing their employees.

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

Business failures, plant closings where people lose their jobs make headlines. The everyday sale of businesses, even the sale internally to employees, do not. To the accepted public policy rationale of using employee ownership to increase productivity and company performance we should therefore add the important fact of job preservation.

Few of the businesses helped by employee-ownership legislation already on the books or under discussion today, involve the rescue of companies near commercial extinction. Many, if not most, of these businesses and the jobs associated are extremely viable but instead at risk of a more quiet form of extinction of being absorbed elsewhere, including overseas, unless this internal option, the employee ownership option, remains viable. Both of these pieces of legislation would serve to address that problem.

The second point I'd like to make based on my experience as a practitioner is that this is a vignette really and it's a formative interaction that I have that I was sharing ahead of time with our friends from King Arthur Flour.

It's some work I did 15 years ago for a company called G.W. Lisk Corporation in Clifton Springs, New York. G.W. Lisk manufactures solenoids which are complex starter devices used in the automobile and aeronautical industry.

In 1995, my company was hired to deliver introductory ESOP training to the company's 600 employees. The CEO of this company, a gentleman by the name of Drew Morris, watched over every one of our sessions with an eagle eye. It seemed that this rather forceful and flinty Republican CEO had a concern or two about these Cambridge consultants, likely Democrats or worse, that he was about to let loose on his workforce.

Fortunately for us, Mr. Morris was sufficiently satisfied with what he saw during the Monday morning sessions and he invited my colleague and I to lunch. As we waited for our meal to be delivered at a nearby restaurant, one could see out the window to a large community hospital that Mr. Morris had helped to found.

Next to it sat several buildings of the Lisk Corporation. Slightly above our heads in clear view to all was a television screen broadcasting the nonstop business news with the Wall Street ticker crawl streaming across the bottom of the screen.

During a lull in conversation and some babble from the television commentator about the stock market took over the room, Mr. Morris pointed forcefully towards the television screen and literally sneered. "That's not capitalism," he exclaimed. He then pivoted in his seat towards one of his company buildings and pointed once in the direction of the plant. He said, "That's capitalism."

I swallowed hard. Because of that incident I felt a connection with this flinty Republican businessman who'd begun the process of sharing ownership of his family business with employees that exceeded the connection I felt with many of my liberal Democratic fellows in Harvard Square.

The point is a simple one and I will conclude with this. Employee ownership is an ideologically, ambidextrous issue. That quality may be the single most important strength as we look forward to using this idea as a plank in any future economic policy. It's safe to say, and there's an entire book in front of you, Senator, that the research is close to settled on this issue, that this is a high-performance strategy that creates value and creates jobs and the two pieces of legislation you've introduced would help mightily to bring this issue further into other parts of our country.

Thank you.

[The prepared statement of Mr. Mackin follows:]

PREPARED STATEMENT OF CHRISTOPHER MACKIN

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

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

I have been asked by hearing organizers to comment upon how the legislation introduced by Senator Sanders might strengthen our local and national economies and contribute to decent paying jobs. In order to respond to this request, I would like to first comment in my role as a practitioner, advising companies of various sizes and shapes around the country and second comment in my role as a contributing academic to something called the Shared Capitalism Research Project, a 13 year research project funded by the Russell Sage Foundation and the Sloan Foundation and based at the National Bureau of Economic Research. I served as one of the original organizers of this research project in 1997 and contributed to one of the newly published studies to be found in a book published earlier this year by the University of Chicago Press that I would like to present to Senator Sanders. This book is called *Shared Capitalism at Work: Employee Ownership, Profit Sharing and Gain Sharing and Broad-Based Stock Options*.

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

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

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

The second point I would like to make based on my practical experience in this field stems from a particularly memorable, even formative, interaction that took place 15 years ago at a company called the G.W. Lisk Corporation in Clifton Springs, New York. G.W. Lisk manufactures solenoids, complex "starter" devices used in the automobile and the aeronautical industry. In 1995 my company was hired to deliver introductory ESOP training to G.W. Lisk's 600 employees. The CEO of this company, a gentleman by the name of Drew Morris, watched over every one of our sessions with an eagle eye. It seemed that this rather forceful and flinty, Republican CEO had a concern or two about these Cambridge consultants, likely Democrats or worse, that he was about to let loose upon his workforce. Fortunately for us Mr. Morris was sufficiently satisfied with what he saw during the morning sessions. He had invited my colleague Loren Rodgers and I to lunch.

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

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

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

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

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

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

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

(*Contact: Christopher Mackin, Ownership Associates, Inc. 122 Mt. Auburn Street, Cambridge, MA 02138; Tel. 617–868–4600; email: cm@ownershipassociates.com.*)

Senator SANDERS. Chris, thanks very much.

What I want to do now is just have an informal discussion with the folks up here. I'll throw out a couple of questions and we'll go from there.

I think it's fair to say that in this country there are a whole lot of employees who are kind of demoralized, who go to work every day because they need a paycheck but not happily, not feeling part of the process, not with a lot of pride.

What I was very interested in hearing from all four of you, I believe, is employee morale, low turnover, people's pride in being part of the process.

Can each of you or whoever chooses say a few words about what happens to an employee in an employee-owned operation? How does that change his or her life?

Tom, why don't you start off.

Mr. McCabe. I think a lot of people didn't understand in our situation, didn't understand what an ESOP was, and we had a very interesting—another strange situation where we had our pension—our administrative principal handles our ESOP and our 401(k) and we had him out in the field interviewing people, talking about retirement benefits, explaining the benefits to them again, and hard to believe, a particular individual he had with him never really understood what his 401(k) and his ESOP contribution was going to or where and he found out during the course of the conversation that he had $30,000 balance in his account and he broke down in tears, and we have never experienced that. Remarkable that somebody wouldn't know that. It's incredible.

I can't say that that's a very small unique situation that they wouldn't know that, but I think people really look upon an ESOP in our company has they work hard, it's for their futures, it's for their retirement plan, and it's a significant benefit to them when it comes to retirement and you can see that in the examples I used already in just the way they approach work.

Senator Sanders. You see the difference.

Mr. McCabe. You do. You do. And people are aware of it. We're actively promoting it. I think people like Cindy and Steve, I will tell you, do a much better job because they're a more mature ESOP company than we are in promoting it and making their employees understand it, but I think we're starting to get the drift of how to do it and it's working.

Senator Sanders. Jeff, you talked about low turnover. How does the work at Chroma seem to be different than other employees in the area, in your judgment?

Mr. Clark. After they've learned how Chroma operates as in minimizing management and it might take some employees 6 months, it might take some employees 5 years, to understand that we're paying a salary to people that are way above market rate because we spread the decision-making process for their departments back to them.

Some employees coming from large companies or more regimented companies with supervisors, managers, and what have you just don't get it right off. It takes years to understand that we're paying extra because someone's not going to make that decision for you. If you need extra equipment, if you need to alter your work habits, work time or do whatever needs to be done, you need to either make that decision or help others make that decision.

Senator Sanders. Do you find people stepping up to the plate in that regard?

Mr. Clark. Some people that you wouldn't even expect. Ideas come from the quietest person in the company. If you give them the opportunity and it might take comment cards, it might take conversations, it might take barbeques or what have you, but the ideas come. You've just got to be able to be open to listening.

Senator SANDERS. OK. Cindy, what's your experience in terms of employee morale, ideas coming from people in your business?

Ms. TURCOT. I think we've probably become masters of getting input from people. I'd like to say that our business has always been steady state, always growing and doing great and, unfortunately, we've been a fluctuant company.

So for me, it's all about how do we get input and how do we hear the input and maybe some of these guys want to talk to that, but for me it's always giving those opportunities so people have the opportunity, whether it's staff meetings, town meeting.

Senator SANDERS. Do you do town meetings?

Ms. TURCOT. Town meetings, yes, small groups where Jim Fines, our president, meets with groups of 15 and just have smaller discussions about whatever it might be that's coming up and so the feedback comes in many ways and you're right. You have to have different forums for that so that people know how to give that input and have the guts to give it.

But I see that more people give it and are willing to give it, the more other people are willing to give it, and I'll give one example right now, which is that we had a tough spring and we're doing better now, but we took a tough spring. So our top managers took a pay cut. Our ESOP Committee is doing a surprise lunch for them to thank them and so for me, even the employees are willing to say, hey, thank you, managers, for doing that. They don't have to do that. They came up with their own idea. It was a surprise and that's why there aren't more people here today, but it's those kinds of things that are always happening that made you realize people get it and care about everybody, no matter who you are.

Senator SANDERS. I visited Steve's operation at King Arthur over a year ago and he had a whole lot of workers out there and people just are very comfortable. I mean, it was just a very nice environment where I think people felt—you got that feeling that they believed they were part of the process.

Steve, what's your observation here?

Mr. VOIGT. Well, I was thinking about that same visit and Laurie used to work at the telephone company. She'll remember the conversation with you forever. But it was a very dramatic moment where she was fired from the phone company. Compare and contrast it, what it was like for her to work there versus to come and actually help people have success baking, whether it was helping them on the phone or helping them in the store. She showed up with an energy and enthusiasm, that we talk about health and wellness, and I think that's a topic in and of itself that's really interesting, just what ESOP companies are doing there and how that might also be other benefits to a broader community.

But Laurie was a different person working for King Arthur and then the other example I thought of is on the anniversary of every employee's joining King Arthur, I go around, thank them. Each year we have a little something different, you know, a travel coffee mug or a license plate holder that talks about King Arthur employee-owned and stuff like that, and in a recent one, somebody in the Fulfillment Center was saying, You know, this is the longest

I've worked at any place. I said, You know, King Arthur's the longest I've ever worked, and after 5 and 6 years you just feel like it's yours and it's part of your life and you think about how to make things better on weekends and you care about the people there and your energy is devoted towards making things better and it's not just for the bottom line. It's for all the other things you heard.

So it's a totally different sort and some of these measures that were quoted here today get to it, but it's way bigger than that.

Senator SANDERS. Steve, thank you very much. Let me ask the experts over here. There is great concern in this State and all over this country about the outsourcing of jobs. I think people feel very uncomfortable that increasingly it is difficult to buy a product manufactured in the United States of America and they look over their shoulders to whether their job is going to end up in China or India or some place else.

Obviously people who have control over their own jobs, who own the companies that they're working in are not going to move that company to China.

How significant is the issue of outsourcing in terms of providing motivation for employee-owned companies in the United States? Who wants to start? Jon, you want to start with that? Pass it on down.

Mr. CRYSTAL. I don't think that there's been a really comprehensive study of that issue, but we have heard anecdotally stories of employee-owned companies during the last year or two when the economy's been so tight and where cuts were faced who have turned around and have started to outsource certain services and they've turned that around and brought them back in-house. Employees at the company that otherwise might have been laid off to complete those services that had been out-sourced previously.

Maybe some of the others——

Senator SANDERS. Well, Bill, maybe you could. Ohio has been hit very, very hard. I mean, Ohio is a major manufacturing State and the economy is in rough shape and outsourcing. I know Sherrod Brown is the co-sponsor of this legislation and he and I chat about this all the time.

What's going on there, Bill?

Mr. MCINTYRE. Ohio has been devastated in the last few years with the loss of manufacturing jobs, many of them going overseas.

In the ESOP world, though, we've seen fundamentally during that same time period an increase in jobs at ESOP companies. If all of the companies in Ohio were employee-owned, who knows, the picture may be somewhat different because other people have said it. Employee owners simply don't send their jobs offshore. They do what they can to keep their jobs intact.

I'll echo Jon's comments that anecdotally, what we have seen is that employee-owned companies are much more reluctant to lay off folks. They will, in the true example of participative management, they'll figure out some way to cut back everybody's hours or somebody will say I'm 58 years old, I have tons of money in the bank, you're 26, you're married, you have three kids, you work, I'll lay myself off, things like that happening for the greater good of everybody that you're working with and working for the company.

It's, as I mentioned before, in the long run, it amounts to a better way of doing business and your one-third of one cent really does add up.

Senator SANDERS. Well, let me ask—I'll ask Chris and Bruce their view. Outsourcing is, I can tell you, a major concern in this country. Is ESOPs and worker-owned companies an antidote to that?

Mr. SEIFER. I think there was a study done in Vermont in 2005 by the Sustainable Jobs Fund and it looked at communities in Vermont that have a dominant employer as one employer in their community and the risk of ownership transition of the owners getting near retirement age and so there's 60 or so different communities that were reliant on one company and a number of those companies have turned over some of that time.

I think our Nation needs a national study to look at, you know, retiring owners and what do they do as an option, and I think local ownership, employee ownership is a good strategy to root our companies, those companies. You could plan ahead. We heard about ownership over time is being sold to their workers and I think if you strategize with those employers, we've heard examples of people having that forethought that we need market research and then the follow-through and that requires the employee ownership centers.

Senator SANDERS. Right. But the choice here would be an owner could sell to a large company which could eventually shut down that plant to be more profitable operating in China or that owner could sell to a worker-owned company that would stay in the community.

Mr. SEIFER. Without a doubt, and I think, you know, Gardeners Supply is a good example, you know. That could have been sold many times over to an out-of-state firm and they've sold it to their workforce and they're growing at this point in time.

Senator SANDERS. All right. Chris, your thoughts about this?

Mr. MACKIN. Yes. A couple of vignettes come to mind as examples. The largest ESOP we have in Massachusetts is a company called Nypro. They manufacture plastic injection molded pieces. They start with the Gillette throwaway razor actually and they make medical equipment and sell phone casings and the like. They've got 1,100 people in Clinton, Massachusetts.

They have been able to minimize offshore. They're a worldwide company. So they actually do have to follow some of their customers around the globe and set up across the street from where they're doing plants, but I just heard from them that they've had their best year ever and, interestingly, their Massachusetts operation, their Clinton operation, which is their largest operation, is out-competing China and what that company has done, which is ownership alone is obviously not going to solve all these problems, they've invested heavily in training for their employees so that the higher value-added stuff, the breaking technologies, if you will, in their business is happening close to home and that's how they have been able to avoid it.

One other thought that is probably applicable to Vermont. A company called Light Control that manufactures architectural lighting fixtures, fantastic company, 200 people down near Plymouth on the way to Cape Cod, has manufacturing that can be servicing government procurement, you know, out-of-state and Federal level and there are—I would urge my colleagues at Vermont, if you haven't done it already, to go about that business and to look at what your community of employee-owned companies does already and see about how our tax dollars at the State and Federal level might go to keep the jobs.

Senator SANDERS. Excellent, excellent point.

I want to thank Ted Brady from Senator Leahy's office and Fred Raymond from Congressman Welch's office. We thank them for being here, as well.

What I want to do now is open it up to any questions or comments from anybody in the room. Just stand up, give us your name.

Mr. HAZLETT. Jeff Hazlett. I feel like I've come into the light here hearing all of you talk. I'm so glad I came.

It brings to mind a quote from Abraham Lincoln when he talked about his concerns for the money power corporations. I like to call them the empire corporations. I've got a new word "you're the employee corporations."

So my question is what impact would we have on our democracy if we had more—because the values that you have, the core values that you have fundamentally would change the eroding democracy that we all live in. So is there a central organization, okay, an alliance of you or you as a special interest, you as lobbyists in Washington could try to offset the onslaught of the empire corporations having on our society because you could be a tremendous hope for reversing the trends against our democracy and bringing about wellness for people and so I compliment all of you for the hope you've given me.

Senator SANDERS. Well, thank you for the question, Jeff. I see these guys in Washington every year, right?

So, Cindy, I see you. Cindy leads a delegation. Cindy, you want to respond to Jeff's question.

Ms. TURCOT. Oh, I'm trying to think of the best way to respond. It's difficult because what we're trying to do is to be the spokespeople or to work with the VEOC to be also doing what we're doing now which is to—and we do it all the time.

We're out there as employee-owned companies sort of preaching to whoever will listen to us, that this is the way to go, and so we're all involved, whether it's the Vermont Employee Ownership or at the national level with the Employee Ownership Foundation, to sort of spread the message and how do we get out there?

The only thing I feel like we can do right now is to be teaching the classes or to be out there doing what we can do just one at a time, the power of one. How do we get out there and get the message out there? That's the only way I feel like I can do it.

So I do bring the whole delegation. We all meet with you, whether——

Senator SANDERS. We have a great time every year.

Ms. Turcot [continuing]. You want to meet with us or not, we meet with you. We might say the same things but he meets with us and there's new people and there's new employees that are coming through always that you're trying to spread that message so that when they move on to the next place, maybe they'll think about it.

Senator SANDERS. This is Warren Gunnels. Warren has worked on this issue with me for years. We have a number of co-sponsors on some of these legislations. That's because people all over the country are putting a little bit of pressure on their senators. Senator Leahy has been very strong on this issue. Senator Shaheen, Senator Sherrod Brown of Ohio has been very strong on it.

But I think it's fair to say that these don't quite have the clout of Wall Street. I think you probably haven't put many hundreds of millions of dollars into lobbying and campaign contributions the last few months, right?

Steve, what's your experience in terms of the political process?

Mr. VOIGT. Well, I agree with you on the opportunity and in a way it's been kind of a head-scratcher why it hasn't taken some more, and I think maybe Chris mentioned that the media headlines grab at the failures but don't talk about the successes, the nice warm story really doesn't sell a lot of papers, and so a combination of the grassroots that Cindy talked about.

There is an ESOP Association in DC which brings us down there. There's an educational-oriented, research-oriented one on the West Coast called NCEO. I think Chris and I were talking before just how much has changed even in the last 5 years in terms of academic interest in ESOP whereas before it was a total wasteland. There was nothing and now there are classes actually taught at business schools, undergraduate and graduate level, on this. There's a sharing of case studies. The Aspen Institute's involved.

So maybe some of these think tanks are beginning to spread the ideas which then may catch on like a brush fire on a windy day and take off that way, but the classic, as the Senator said, dollar for dollar, can't really win that battle.

Senator SANDERS. Anybody else want to comment how we're doing politically in spreading—yes.

Mr. MACKIN. Well, I can project here. I don't know if it's for the record.

Senator SANDERS. It's for the record.

Mr. MACKIN. OK. Well, that's fine. The gentleman raised a really interesting point and one that I've been thinking about, about how we convert these ideas from something more than an interesting little business trend to something that's a challenge to what's wrong about what's going on.

If there's one U.S. Senator in the Congress who's not afraid of that, it's this gentleman, and I think it's fair to say, and here's a distinction that's been coming to me, we're talking about a kind of responsible capitalism here and that's to be distinguished deliberately from irresponsible capitalism and I think it's time that responsible capitalists banded together and spoke about what they're doing that's good, like the people around this table and many others who are not here. We made some distinctions about the kind of capitalism that we think is good and we found a capitalism that isn't and that kind of general normative and moral framing of this issue hasn't happened yet.

I mean, I'm toying with creating a center for responsible capitalism for this very purpose because that's sort of beyond technical lobbying. That's more of a kind of a challenge to what's going on, but the challenge wouldn't be happening, this hearing wouldn't be happening unless Senator Sanders saw through this, and again it's one of the most interesting things.

This is the first left wing person in the U.S. Congress and there are Republicans who love this idea, too. And there are some decent Republicans who can also make that distinction between responsible and irresponsible. So we'll see.

Senator SANDERS. OK. Other questions.

Mr. MAYNARD. I'm a product engineer at IBM and I went through those two layoffs.

Senator SANDERS. Your name, if you could, please?

Mr. MAYNARD. Robert Maynard.

Senator SANDERS. Robert.

Mr. MAYNARD. There was one time where I was trying to look for work afterwards and there was a number of us decided to go into business for ourselves and so some of them, in conjunction with one another and some of them by ourselves, and I want to bring up another perspective on layoffs and some of this unemployment.

You've got jobs going overseas but you also have manufacturing jobs being lost overseas, as well, because you have new technology because you have a segment of our technology revolution that is doing more with less. So that is a challenge for employment but it's also an opportunity because the new technology that's making companies lay off also makes smaller companies be able to do things that they weren't able to do before in terms of reaching for market.

So there's a shift with this new technology and information age coming I think, potentially away from big companies towards smaller companies and the tendency of a smaller company, you know, because the entrepreneur tends to hear you're trying to start a company, there's risk involved. So the idea of sharing the risk is something—is not only a nice idea that you have to convince people, it's practical, too, because if you have self-ownership, if you have employee ownership, you're going to share the risk involved.

So instead of one person all alone risking this new capital venture, which is a very scary thing, I can tell you, I've been through it, you share the risk. So there's a practical reason for it, but there's also the reality of the percentage of start-ups that go bankrupt.

It's hard for a small company to compete with a large company in an environment, in the political environment you're talking about, the lobbying. There's a lot of us that haven't got the time for that or the inclination and it would be a lot easier if we didn't have to lobby if there was a little bit leaner—we can't hire tax lawyers and lobbyists and things like that.

If the process was leaner and the government officials recognized we're not in the industrial age anymore, we don't have massive bureaucracies, so whether they be government or private sector, it's not the leading edge. There's streamlining regulations, taxes, stuff like that.

I've been involved with these federations of independent small businesses and it's killing them. You know, it hurts big business but it kills the small business and if we really want to have employee ownership, we want to have all these creative ideas, then the encouragement of small business start-up is a good idea and one of the best ways that you can encourage them is to get out of their way because the kind of obstacles that the big businesses face, it's a barrier to them, it's a much bigger barrier to the small business which is not set up to deal with that kind of thing.

Senator SANDERS. OK. Robert, thanks very much. Other thoughts? Ma'am? Please stand up. Your name, please.

Ms. CONSTANTINA. Hi. I'm Constantina from the Vermont Sustainable Jobs Fund, and mainly today you've spoken about the social fabric that's built through employee ownership and yet we see quiet shutdowns or sales of businesses all the time, sometimes with employees finding out about it in the paper alongside everybody else, and so it speaks to me of barriers with the idea of the sales of businesses.

I'm wondering if some of you can speak to what you will do to address, proactively addressing those barriers when companies decide to sell. I understand the finance one is a big part of it, but if you could describe other ways you could address that.

Senator SANDERS. Jon.

Mr. CRYSTAL. I think one of the greatest barriers is the lack of information in a timely fashion. One of the real focuses of our work is to educate business owners and employees about the opportunities that may exist in employee ownership and while it doesn't fit all situations of a potential plant closing, there are many, many situations where if the owners of a business knew sufficiently in advance about what they could do through employee ownership and had time to act on that, they could have avoided the kind of situation you're describing.

So I think the Work Act that Senator Sanders is proposing that would set up centers like the VEOC around the Nation, that would help educate business owners and employees about these opportunities is one of the most proactive things that could be done.

Senator SANDERS. I mean, would you guys think it's fair to say that if some entrepreneur started a business and was successful, he was aging, that he would have—and he was going to leave the business, that he knew about or she knew about the option of employee ownership, they would take a look at that and many just don't know about it? Is that a fair statement?

Mr. CRYSTAL. Absolutely.

Mr. MCINTYRE. In Ohio, probably 75 percent of the ESOPs that we've helped create have been succession planning situations and that's the reality and another reality is that the baby-boomer generation aren't babies anymore. They've been running their businesses for 30, in some cases 40-some years and they're ready to retire and there's an outstanding opportunity for employee ownership right now, to have many of those conversions lead to sales to the employees and form ESOP companies or worker-owned cooperatives.

As Jon said, the problem is that the business owners don't know about this option. A service provider, an attorney, banker, accountant type of person mentioned to us about 4 years ago that no service provider is going to recommend to a client something that they don't have a fundamental understanding of themselves and that the problem is that the service providers don't understand ESOPs or worker-owned cooperatives.

So in our State, we've expanded our succession planning program throughout the entire State and, frankly, we're focusing on educating the service providers with the thought that they will be the ones who are for every accountant they know 30 to 50 small businesses in their area who are their client and when they face succession planning situations, they'll have heard about an ESOP and say yes, that might be something that would apply.

The act does provide for the individual State employee ownership centers to provide succession planning training which is absolutely terrific and right on the mark and I think will be unusually successful.

Senator SANDERS. Other thoughts on that one? Yes, ma'am.

Ms. WHITE. Hi. Abby White with NRG Systems. Many of you are familiar with our company. We're not employee-owned but we do have an active profit-sharing program and I just wanted to share with you the challenge that we face and that is our company has been around for a long time and our relative size compared to other companies that are in our industry is shrinking. So our relative power compared to like GE or Mitsubishi, companies that are now flocking to this industry is changing and so I'm just curious to hear from you all if that's an experience that you've faced, as well.

Our company is a very mission-driven company. We care very much about doing the right thing and we're employee-driven and having employee incentives. So, a company likes ours, how do we use that to our competitive advantage and how have some of your companies addressed this?

Senator SANDERS. I think I hear two questions there. One is the smaller company trying to compete in a climate where there's increased concentration of ownership.

Ms. WHITE. Yes.

Senator SANDERS. The second, I don't know this or not, but the second part of your question, which I think is interesting, it's been touched on, maybe we can elaborate on it, I find, you know, many Americans see (a) a product manufactured in the United States of America, everything being equal, they would like to buy that product and I think we also heard that if a company—you guys are advertising that you're a worker-owned company and I've seen that certainly in other areas.

My guess would be that that is a marketing advantage, right? Would I rather buy a product manufactured in the United States by a worker-owned company or a product manufactured in China?

Ms. WHITE. Although I think the environment is somewhat of a different kind of pitch that you would be making. We're a manufacturer of technical products that we sell to others. So I think it's somewhat different than your example of the injection molding company which still needs to outsource but they have a global market the same way we have a global market but that they brought more of those higher skills, higher wage jobs and they've grown at a faster pace.

Senator SANDERS. Who wants to respond to Abby's question?

Mr. MACKIN. Well, I think one—it's a complicated question, but there's a couple key words here, buzzwords. Remember the word "modernize." If you want to understand how worker ownership could look,——

Senator SANDERS. This is very interesting. He and I talked about this 30 years ago. Listen closely.

Mr. MACKIN. Right.

Senator SANDERS. Because this concept, you know, didn't start with King Arthur Flour.

Mr. MACKIN. That's right.

Senator SANDERS. Talk about Spain just a little bit.

Mr. MACKIN. Sure, sure. My hair was a different color back then.

Well, in Northern Spain, the Basque region of Spain, it's a very high-tech federation of democratically-owned industrial cooperatives and I've been over there several times and they invest—they have the power of having all of the companies that are part of their group pool their capital and they started their own bank called the Caja de Ahorros de Galicia, which is now the 12th largest bank or 10th largest bank in Spain.

They pooled their research and development function so that they're able to do all this and help the university base which could be done in a place like the University of Vermont, some other places like that, because the problems with high-tech/high value-added companies are rather unique and they require a lot of capital. They require a lot of technical expertise but those are problems that can be solved, as well, if you do the proper kind of organizing.

In Northern Spain, it happened to have been a priest who fought resistance against Franco who came back and devastated part of his—of the world who said, you know, I've got to do something for my people here and he started an engineering school and then he didn't want to just enable his young engineers to go out and be capitalists and exploit other people but they actually went to work for the few capitalist companies in the area in the '50s and they were interested in the sort of social philosophy that the priest taught about worker participation and the like.

When they weren't getting anywhere with those companies, they came back to the priest and the priest said, well, the hell with them, we'll start our own companies but we're going to do it in a way that's not just going to be owned by the 11 of you, we're going to set up a structure that's in perpetuity, will be owned by people around——

Senator SANDERS. And how many people, how many employees?

Mr. MACKIN. There are now about a 150,000, I think, or somewhere around between a 100-150,000 companies and they're the largest producer of white goods, consumer durables of that kind. They're big in software, as a matter of fact, and research in that.

It's a little bit of a bigger picture visioning here that has to happen. If you're interested in doing this, you have to begin to develop the infrastructure around universities, around financing, around that kind of research, in addition to—we've been talking here largely about how do we hold up the companies we've got, but it's possible to marry these ideas with enough advance thinking with the same kind of values.

Senator SANDERS. OK. Other questions? Sir? Bruce, briefly, though.

Mr. SEIFER. What I think about that, if I could, I was on the Board of the Montclair Ocean Center for about 7 years, the first 7 years and there's a number of business people who served on that Board and represent the companies you see at this table and the one thing I found is I work for the government, so I guess I'm an employee to some degree, you all make—but we own each other, but the thing I found out about is, to get to your point, it's like a sorority or fraternity. People who work with employee-owned companies, it's like a secret handshake.

So I think to get to Chris's point is if you work with other like-minded companies that are employee-owned, they realize that there's something bigger than just going to work.

Mr. MACKIN. And this structure does appear to provide an unusual appetite for collaboration across different platforms and stuff.

Senator SANDERS. Sir? Name?

Mr. THRAIL. I am thoroughly in love with ESOPs.

Senator SANDERS. Your name, please, sir?

Mr. THRAIL. Bill Thrail, Advanced Illumination, Rochester. We attended the briefing and all-day session in Burlington and so we're really interested in doing it.

One reason we want to do it is so that we can keep the jobs in Vermont. I want to throw that out. We've taken people that are basically untrained and have trained them to perform various tasks and we've been offered to move the company twice, one to Massachusetts and once to New Jersey, for ownership.

But I'd like to know more about what you're going to be introducing in 2914. What kind of—do you have any details on that yet?

Senator SANDERS. I'll let Warren speak about that.

Mr. GUNNELS. Simply, S. 2914 is the United States Employee Ownership Bank and it would authorize $500 million in funding to create this bank to provide loans, loan guarantees, technical assistance, to employees that want to start their own business.

Before they would get the loans or loan guarantees, they would have to get third party feasibility study that would show that if they receive those loans or loan guarantees to start up their own companies or an ESOP or worker-owned cooperative, that those companies would be able to make a profit. They would become successful and they would be able to pay back those loans and loan guarantees.

So that's really the essence of the legislation.

Senator SANDERS. In essence, the government provides billions of dollars right now in loans and loan guarantees to various types of economic activity but not to those people, those employers who want to convert to employee ownership or workers who want to move in that direction. So we think that that economic model also deserves some Federal help.

Ma'am.

Ms. MESSICK. I'm Carrie Messick, and I'm part of the Ohio Worker-Owned Network, and I was on their Web site and I noticed and listening to the man who was talking about the company start-ups and I noticed that in Athens, they have an incubator there to help companies start up to deal with their overhead costs. Do you know how that's going and is that something that Vermont should know about?

Mr. MCINTYRE. Actually, I'm sorry to say I don't know about the incubator in Athens. There are several business incubators around the State. I thought you were going to talk about the worker-owned cooperative restaurant in Athens.

Ms. MESSICK. I know about them, but no.

Mr. MCINTYRE. One topic that has not come up is, and it works very well with the whole idea of employee ownership, and that is buying locally and it's a nice transition to that or segue because it's a worker-owned cooperative restaurant that has arranged with the local farmers to grow the things that they're going to be using in the restaurant and back when you were asking about the outsourcing, there have been some studies done that have indicated that if you have employee-owned companies, that the multiplier, the number of times that the cash revolves around the community is higher for an employee-owned business than for a regular domestically-owned business, certainly higher for a business that's offshore. It's another positive impact of employee ownership.

Senator SANDERS. All right. Maybe one or two more questions, if there are any.

Mr. MAYNARD. Small technical question. You talked about outsourcing. If ESOPs outsource, is there any reason that they don't outsource with employee ownership overseas?

Mr. MACKIN. That's been tried and I think that the state-of-the-art is relatively—well, a couple points there.

The people who've done it best and in fact they've done it through trial and error. They have acquired businesses in Latin America and not so much here in the United States that some of them were owned by—seemingly in contradiction to their philosophy, right, and they have decided that that's not the way to go, that when they need to expand and go into other markets, they're going to use the same structure.

Now this is one of the reasons why Leo Girard of the United Steelworkers has taken an interest in Montergand, as well, as this sort of new model because there's no incentive to not saying you don't have to operate around the globe. I mean, this is a global economy and you've got to be able to sell into those markets. You need to understand what's going on.

How you actually do that in Montergand is probably at the leading edge. It's complicated because there are different legal regimes. We have one that's ESOP that doesn't apply in China. So you have to do the work of figuring out how to invent something in that country and into your structure.

So there's thought going on about that but the Basques are ahead of everyone else.

Senator SANDERS. Let me just thank our panelists for being here and thank all of you for being here.

I think, especially given the state of the economy right now and all of the anxiety that workers are feeling from one end of this country to the other, the model that we are looking at, that we're talking about now, the legislation that we have introduced is going to gain increased interest. So I think the purpose of this hearing is to stimulate some interest. This will become part of the record of the Health, Education, Labor, and Pensions Committee. We'll be talking to Chairman Harkin about it. We have some pretty good support in the Senate, trying to get some hearings in Washington, trying to get some kind of legislation like this passed as soon as possible.

I want to thank all of you for being here. This is an enormously important economic issue and let's go forward together.

Thank you all very much.

[Applause.]

[Whereupon, at 12:37 p.m., the hearing was adjourned.]

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