IV. EFP and the Rising Concentration of Capital Ownership and of Capital Income

Joseph Blasi and Douglas Kruse

1. Introduction

The PEPPER V Report can be viewed by examining EFP in and of itself as an isolated subject or it can be viewed in a much wider set of contexts. Widening the lens in order to examine EFP in the context of the concentration of capital ownership and the concentration of capital income can help observers establish EFP's span of relevance.

This Chapter makes a very straightforward observation that the relevance of EFP in an economic system, in a country, and for the average employee in a country is related to the trend in the concentration of capital ownership and capital income. Interest in the idea is potentially increased or decreased by trends in real wages. Atkinson, who many consider the founder of modern wealth concentration scholarship, "focuses on the increasing share of capital incomes a source of income inequality among individuals." (Cirillo et. al, 2017: 1) Indeed this Chapter considers the difference between labour's share and capital's share to be a critically important fundamental problem of political economy. This essay asserts that when this concentration is high and real wages are flat, other things being equal, EFP may be more relevant. When the concentration of capital ownership and capital income is high, this means that ownership and income on that ownership is thinly spread in the population. When real wages are flat, this means that the rate at which fixed wages can replenish wealth is decreasing. As a result, both trends would make EFP more relevant.

Some overall definitions will be important to sort out the mechanisms under discussion. For the purpose of this Chapter,

- **Concentration of capital ownership** is the same as wealth concentration, although the specific metric used, from the World Inequality Database, is net personal wealth share of assets minus liabilities, as noted below.
- EFP refers to **individual employee share ownership** of whole shares of stock, holding of company stock options, or participation in various employee share purchase plans. Briefly, employee share ownership is a mechanism to expand capital ownership of wealth.
- EFP also refers to **individual employee profit sharing** (based on a computation of company profits) or individual employee "gain" sharing (based on a computation of financial gains at the facility or department or work group level. Briefly, profit sharing and "gain" sharing are mechanisms to expand employee access to capital income, while the payment of dividends and the accrual of capital gains on whole shares of stock are also ways to expand employee access to capital income.
- Every capital asset that can be owned can yield **capital income**, which, for the purposes of this Chapter, refers to all capital gains, all dividends, all interest, all rents, and shares of unincorporated business assets.

First, this Chapter will discuss in greater detail the conceptual reasons why the concentration of capital ownership, the concentration of capital income, and trends in real

wages might be related to the relevance of EFP. Second, empirical data on the concentration of capital ownership (wealth) in the European Union compared to the United States will be presented to assess the role of such concentration in considering EFP. Third, empirical data on the dynamics in the concentration of capital income in Europe will be presented to assess the role of such concentration in considering EFP. Fourth, empirical data on the dynamics in the concentration of capital income in the United States will be presented to assess the role of such concentration in considering EFP. These US data are introduced into the picture because there is a forty-year dataset that allows the examination of long-term trends in capital income from 1979-2018. Fifth, this Section provides the first ever data on EFP in the US as a percent of wages and wealth and illustrates the role that EFP plays in the US economy to directly affect capital ownership and capital income. Finally, on the conclusion, some unique aspects of the EU will be discussed that can help to focus on the important points for future research and consideration. Throughout the essay, attention will be drawn to measurement and methodological issues that will rise to some level of importance in accurately assessing the amount of capital income in the EU and the relevance of EFP to the distribution of capital income. Ideas for future research will be recommended.

2. Conceptual Reasons Connecting Capital Concentration and Employee Financial Participation

We consider the composition of household incomes and how changes in this composition might play a major role in the relevance of EFP in economies that seek to have more broad-based economic systems. This composition can at a general level be considered to be made up of income from labour and income from capital. Let's examine two extreme ideal types to illustrate this point. On the one hand, consider an economy where labour income (income for effort in job roles through salaries and fixed hourly pay) makes up the overwhelming percentage of most citizens' annual income flow and separately income from capital – namely income from capital assets such as capital gains, dividends, interest, rents, and unincorporated business assets – makes up a very small percentage of most citizen's annual income flow. In such an economy, labour income will offer the main mechanism to accumulate wealth (other than inheritance) and inequalities in labour income will largely determine inequalities in total wealth. On the other hand, consider an economy where labour income is growing slowly and may even be relatively flat adjusted for inflation and capital income - namely income from capital assets such as capital gains, dividends, interest, rents, and un-incorporated business assets - makes up a very large percentage of most citizen's annual income flow. In such an economy, capital income will offer the main mechanism to accumulate wealth (other than inheritance) and inequalities in capital income will largely determine inequalities in total wealth (Blasi, Freeman, and Kruse, 2013).

These two ideal types establish the poles between which the relevance of EFP can be assessed and measured. In the economy where labour income has primacy, EFP could potentially play the role of another mechanism expanding the total wealth of citizens, that is, if such an economy had supportive features that allowed EFP to be an accumulation mechanism, namely, a lack of wage substitution for EFP and a tax system that allowed citizens to keep much of their EFP. In such an economy, the capital ownership such as employee share ownership in companies and the capital income attached to it, such as capital gains and dividends on employee share ownership and other forms of profit sharing, could supplement labour income.

An influential intellectual who thought about these issues decades ago and can help understand these issues is political economist and lawyer, Louis O. Kelso. In his book with Mortimer J. Adler, *The Capitalist Manifesto* (1958), Kelso theorized that the coming decades would evidence increasing wealth inequality as a result of the rise of technology that replaced physical and mental labour. He predicted that labour effort would increasingly result in a smaller contribution to wealth than capital effort or the deployment and investment of non-human capital. The implications of Kelso's theory involved predicting that this state of affairs would lead to rising wealth inequality, exacerbated by those who had privileged access to capital ownership and income, while those who were increasingly dependent on labour income – and had less capital ownership and access to capital income – would fall behind. Kelso believed that broadening the access of all citizens to capital ownership and the capital income that was the fruit of this capital ownership – namely, capital gains, dividends, interest, and rents, etc. – was the only way to preserve the middle class and its role in capitalism. Kelso tied these dynamics to broader changes in the economy, asserting that the development of technology that replaces labour with capital would exacerbate the concentration of capital ownership and capital income and overshadow the role that labour income plays in an economic system and an average middle class employee's wealth. He also asserted that access to credit that would allow employees and citizens to acquire capital assets and pay back this access to credit through the income on these assets, essentially the leveraged buyout he invented for this purpose[46] and in its prototype applied to regular members of society, would provide a mechanism to expand capital ownership and access to capital income.

In *The Capitalist Manifesto* and subsequent books, last, *Democracy and Economic Power* (1990), written with Patricia Hetter Kelso, this perspective asserted that forms of EFP in the companies for which employees worked along with other approaches to broaden capital ownership, could increase access to capital ownership and capital income by average employees and citizens. The work of the Kelso's was subsequently responsible for inspiring the creation of the Employee Stock Ownership Plan, which is the dominant form of employee equity participation in the US today. As noted, the access to credit has figured prominently in the Kelso analysis, where, in the case of the ESOP, corporations access credit in private credit markets with Federal tax incentives that allows the ESOP employee trust to buy shares in the companies where the employees work using Leveraged Buyout (LBO) financial transactions that Kelso pioneered. In the ESOP, employees do not purchase the stock with their savings or retirement assets or by pledging their personal assets as collateral, rather, the corporations where they work set up an ESOP trust and the company accesses credit with tax incentives and purchases shares of stock on behalf of employees from existing business owners. These shares are then distributed to employees as the new owners as the credit is repaid out of the operations of the company itself. This is the classic Leveraged Buyout applied to employee share ownership as proposed by Kelso.

[46] It is little known that the prototype of the leverage buy-out as applied for the first time in 1956 an employee buy-out when in the first historical ESOP the employees of Peninsula Newspapers, Inc. bought out the retiring owners; see also, Louis O. Kelso and Patricia Hetter Kelso "Why I Invented the ESOP LBO", *LEADERS, Oct., Nov., Dec. 1989, Vol. 12, No. 4;* https://kelsoinstitute.org/louiskelso/literary-legacy/why-i-invented-the-esop-lbo/.

The Kelso paradigm provides a broader theoretical perspective to examine the issues under consideration in this Chapter. In recent decades, Syracuse University Law professor Robert Ashford has laid out and expanded on this theoretical approach in a number of recent articles (2015, 2011, and 2007). Both Kelso and Ashford have asserted broader implications for this theoretical perspective that are important to consider. For the purposes of this analysis, the presentation is focused more narrowly on, what scholars are calling the functional distribution of household income or functional income distribution between labour income and capital income. Let's examine the EU economy empirically in terms of the concentration of capital ownership and capital income to observe how these concepts look in light of the facts and what the context is for EFP in Europe and the United States, by comparison.

3. Empirical Data on the Concentration of Capital Ownership in Europe versus the United States

The World Inequality Database examines the trends in the concentration of capital ownership. The measure employed there is net personal wealth which is standardized by the World Inequality Database across countries and regions. Data are available for various countries and regions. The year for which comparative data is available between Europe and the US is 2019. In 2019, the net personal wealth share for the top 1% was 26.5% for Europe while it was 35.3% for the United States. In 2019, the net personal wealth share for the top 10% was 60.8% for Europe while it was 71.5% for the United States. In 2019, the net personal wealth share for the bottom 50% was 3.2% for Europe while it was 0.3% for the United States. These estimates are shown in Table 9.

Table 9: Concentration of Capital Ownership: Europe and the United States in per cent

	Top 1%	Top 10%	Bottom 50%
Europe	26.5	60.8	3.2
United States	35.3	71.5	0.3

Source: World Inequality Database.[47]

Because of the concentration of wealth which includes access to the shares of both closely held corporations and corporations on public-traded stock markets, an argument can be made that broadening access to employee share ownership as a strategy for EFP is relevant to wealth inequality.

a) Dynamics in the Concentration of Capital Income in Europe

While, as we have seen above, it is possible to compare the concentration of capital ownership between Europe and the United States there are some complications in developing estimates on the concentration of capital income – namely, income on all wealth assets such as all capital gains, dividends, interest, rents, and unincorporated business assets – in Europe. EUROSTAT, the European Union's statistical office created

[47] Data available at: https://wid.world/world/#shweal_p0p50_z/WO;QP;US/2019/eu/k/p/yearly/s/false/-1.978/7.5/curve/false/region;https://wid.world/world/#shweal_p0p50_z/WO;QP;US/2019/eu/k/p/yearly/s/false/-1.978/7.5/curve/false/country; Note: This is estimated as the net personal wealth share in the World Inequality database. It is the total value of non-financial and financial assets (housing, land, deposits, bonds, equities, etc.) held by households, minus their debts. The source is the WID codebook at https://wid.world/codes-dictionary/#distributed-wealth.

the European Community Household Panel (ECHP) in 1994 to study the income and living conditions of different households in the EU and this longitudinal panel was carried out until 2001 with the initial individuals in the survey followed and surveyed each year, including their changes in domicile. In 2004, EUROSTAT created the Statistics on Income and Living Conditions (EU-SILC). It provides microdata in all member countries and allows for *"European comparative studies on inequalities and the role of social and fiscal policies of redistribution"*. It has more coverage and detail than the European Community Household Panel (ECHP) and allows for both longitudinal and cross-sectional analysis. This Chapter provides only an initial review of some EU-SILC conclusions from 2004-2022 as a context for considering EFP in the EU. The goal is to understand the dynamics of capital income in the EU in a preliminary way with the hope that later scholarship will expand on these insights and present further analysis of the EU data. The most recent European Union's Statistics on Income and Living Conditions (EU-SILC) survey report is available for 2022 but the preliminary report does not report in detail on capital income; in the EU-SILC, capital income is referred to as "property income".[48]

What is known about "property income" comes from its mention in several reports that call attention to the data limitations in EUROSTAT. Törmälehto (2019b, p. 34) says there is a discrepancy between measures of property income using the national accounts methodology versus using the Survey of Income and Living Conditions (EU-SILC; see, Piketty, Saez, and Zucman, 2008 for this national-accounts method.) This suggests that there is a lot of work in order to property assess capital incomes (property income) in the EU. Törmälehto (2019b, p. 30) does report that *"property income is very concentrated to the top of the distribution, and the gap between survey and national accounts could be entirely or mostly allocated to the very top."* Törmälehto (2017) presents an analysis of property incomes by EU member nations in Figure 2.2.2 and states that *"France stands out as having by far the highest share of capital income in the top 5%, followed by Finland and Iceland. This can be contrasted with Sweden and Denmark, with lower shares and where capital income consists mostly of interest and dividends. Luxembourg and Greece have high share of rental income."* (p.12) Piketty (2014) has also made this observation. Törmälehto (2017) cautions that the individual household surveys he uses are likely to understate capital incomes, especially, capital incomes of top earners.

Schlenker and Schmid (2013) have analysed data on capital income shares in seventeen EU countries from 2005 to 2011 also using the European Union's Statistics on Income and Living Conditions (EU-SILC). They reiterate (p.2) that it is the only *"longitudinal survey that offers rich data for all EU member states and Norway since 2002. The number of observed households outnumbers all other existing studies."* They note (p. 3, 4): "For our analysis, we use data from the cross-sectional files from the waves

[48] https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2022/; a search of all recent reports in EUROSTAT indicates that "property income" has not been a major feature of reports for the EU-SILC; see https://ec.europa.eu/eurostat.

between 2005 until 2011."[49] They again find that capital income drives concentration. They find (p. 8) *"a positive relationship between changes in capital income shares and changes in the concentration of gross household income."*[50] Schlenker and Schmid (2013) thus confirm this Chapter's conceptual prediction that the concentration of capital income plays a large role in wealth inequality thus establishing the relevance of broadening forms of capital income. However, given that there are 27 European Union Member States, their perspective also cautions that the impact of capital income on wealth inequality depends on how concentrated capital income is in each particular Member State. By extension, the concentration of capital ownership and the concentration of capital income in each Member State will create different contexts for EFP in each Member State respectively.

Cirillo, Corsi, and D'Ippoliti (2017) also focus on the European Union's Statistics on Income and Living Conditions (EU-SILC) survey using a cross-sectional survey in 2007 and 2013, the years they define as the European economic crisis; their definition of capital income (p. 63) also includes *"profits from investments in unincorporated businesses."* Their main findings are that (p. 64) *"42% of European households earned their largest share of income from labour (income)".* This group was the majority group when correcting for the fact that public transfers are a central form of income. They find that (p. 65) *"for around 4% of European household's capital incomes are the main source of income" with a slight increase between 2007 and 2013."* The connection of capital income to wealth inequality is clearcut because (p. 70) *"households' capital income shares positively affected their probability of an upwards shift in the income distribution… (while) capital income becomes a significantly negative predictor of the probability of downwards income mobility".* This reflects what will be shown from the US sample below, namely that a dependence on labour income means a group goes lower in the income distribution. There is an interesting artifact in their data, namely, that low-income households might have high capital income driven by rents because a small amount of rent turns out to be a large percent of capital income relative to a small total household income. Cirillo, Corsi, and D'Ippoliti's (2017) contribution to the discussion is to show the role capital incomes play in upward and downward economic mobility.

Ranaldi (2022) offers results based on a different survey, the Luxembourg Income Study (LIS). It helps introduce some insights on compositional inequality, namely, a central issue to our discussion, the inequality between different groups in the population in terms of the composition of their total income as either labour income or capital income. He calls LIS (p.3) *"The only harmonized household surveys available for a large set of countries."* He focuses on two benchmark years: 2000 and 2016 and adjusts for the underestimation of both labour incomes and capital incomes at the top of

[49] The authors describe the dataset as such: "Our final panel data consists of observations for 17 countries, namely Austria (AT), Belgium (BE), Cyprus (CY), Germany (DE), Denmark (DK), Spain (ES), Finland (FI), France (FR), Greece (GR), Ireland (IE), Italy (IT), Luxembourg (LU), the Netherlands (NL), Norway (NO), Portugal (PT), Sweden (SE) and the United Kingdom (UK) and covers the seven different years from 2005 to 2011. Due to limited data availability, we miss some variables for different countries and years. (p.4)"

[50] This is demonstrated in their paper in their Figure 5, on The Contribution of Capital Income Shares to the Concentration of Gross Household Income and their Figure 6 on The Contribution of Capital Income Shares to Income Inequality Against Capital Income Concentration (p. 13-14).

the wealth distribution that is a common criticism of such surveys.[51] His dataset covers 60% of the world population with 84% and 94% respectively of the population of mature economies represented (p.6). For this Chapter's discussion, Ranaldi's analysis sharpens the issue of compositional inequality which means the inequality between how labour income and capital income constitute relative parts of total household income. As the US data below will reflect, those households with capi-tal income composing more of total household income will drive higher levels of wealth in-equality, while those households where labour income plays a greater role and capital in-come plays a lesser role will be more unequal. Ranaldi concludes (p.11-12): *"High levels of compositional inequality are associated to classical capitalism, where rich and poor separately earn from different income sources, whereas low levels to liberal, or multiple-sources-of-income societies."* Linking this discussion to his more detailed data on the US, Ranaldi finds that in the US 60% of the population lost access to capital income (p. 23). This finding will be reflected in the empirical results from our own studies presented on the US below that underlines the collapse of capital income for the working middle class. Ranaldi's work underlines the role that capital income plays in the concentration of wealth and the role compositional inequality plays in this story.

Blanchet et. al. (2022) constructs Distributional Wealth Accounts for Europe which provide more accurate data about the concentration of wealth and its distribution than surveys of individuals such as the European Union's EU-SILC. The data were constructed from national accounts, tax records and surveys to put together the first Distributional Wealth Accounts (DWAs) for Europe from 1970–2018 (p. 25-29). Net household wealth includes all financial and non-financial assets net of debt. Blanchet's data allow the calculation of the distribution of wealth-by-wealth bracket and an estimation of both labour income and capital income, along with providing the savings rates for each group (p. 32, 34). One key finding from Blanchet's work is that net housing assets are more central to Europe's 1% than in the US where financial assets dominate as financial assets are more important for the top 1% wealth share in the US (p. 34 - 35). Indeed, he reports (p. 40, 42) that *"wealth inequality has grown much faster in the United States than in Europe since the mid-1980s … Using wealth accumulation decompositions, we find that both the weaker rise in labour income inequality and the stronger rise in house prices relative to financial assets in Europe relative to the United States appear to explain why Europe has experienced a more moderate rise in wealth concentration since the mid-1980s."* Blanchet's contribution is to demonstrate the impact on the analysis of using Distributional Wealth Accounts for better data, while calling attention to the special role of housing assets in Europe.

Finally, Ooms' (2019) doctoral dissertation at Oxford University provides a comprehensive literature review on the role of capital incomes in wealth inequality in Table 1 (page 11-15). Juute's doctoral dissertation at the University of Jyväskylä in Finland examines the link between the concentration of capital incomes and economic growth, concluding (p. 180): *"Our main theoretical prediction is that an increase in income inequality is associated with higher subsequent economic growth when labour is the dominant factor of production in the economy. On the contrary, when the capital share*

[51] Ranaldi's definition of capital and labour income is as follows (p. 8): "While capital income is composed by rent, dividends and interests, labour income is the sum of wages and self-employment income."; this criticism is noted by (Törmälehto, V. M. (2017) regarding the EU Survey of Income and Living Conditions (EU-SILC).

of income is large, an increase in inequality is related with lower growth. This prediction holds when credit constraint is sufficiently low." As noted, this Chapter will not address these broader claims.

b) Dynamics in the Concentration of Capital Income in the United States

As noted in the Introduction, US data are introduced into this discussion regarding the European Union because there is a forty-year US dataset that allows the examination of long-term trends in capital income made available annually by the Congressional Budget Office of the US Congress (2021), entitled *The Distribution of Household Income, 2018*. These data have allowed for an examination of trends from 1979 to 2018 using consistent methodology in *Capital Income as a Share of Compensation* (Blasi and Kruse, 2021). That analysis looked at capital income data and standardizes all dollar values to 2018 dollars for comparability across the forty years. Unlike the EU data, the US dataset is mostly based on a sample of actual tax returns (about 90,000 in the earlier to 350,000 in the more recent years). While the US dataset has the advantage that it is not based on individual household surveys, it does not adjust for unreported income.

What does an overview of the data on capital income show for the US? Capital income for the entire population averages 12% of all household income in 2018 and adds 22% on average on top of wage and salary income. **Between 1979 and 2018:**

- **The average dollar value of capital income for all households increased 47.25% but average capital income as a percent of household income fell from 13.28% in 1979 to 11.62% in 2018.** In 2018, when total capital income averaged USD 13,400 per household, the percentage distribution of its components was: capital gains 53.73%; dividends 18.65%; interest 11.19%; share of corporate income taxes borne by capital owners 9.70%; positive rental income 6.71%.
- **Capital gains as a percent of total capital income increased 95.59%, nearly doubling its share of capital income**, dividends as a percent of total capital income increased moderately from 14.3% to 18.7%, interest as a percent of capital income decreased from 31.9% of capital income to 11% of capital income – a drop by almost two-thirds.
- **The share of corporate income taxes borne by capital owners as a percent of capital income decreased from 19.8% of capital income to 9.7% of capital income**, while positive rental income share of total capital income was stable at 6.6%-6.7%.

Capital gains have thus increased to constitute more than half of capital income. As King Richard III's broker said at Bosworth field, "Your wealth, your wealth, your wealth is in capital gains and dividends".

What are the trends by quintiles and percentiles of the US population from 1979 to 2019? Table 10 examines these trends in terms of capital income as a percent of household income and the dollar value of capital income. Stated briefly, the top 1%, the next 4%, and the next 5% showed large increases in the dollar value of capital income from 1979 to 2018 with all other groups showing declines.

Table 10: Changes in average capital income 1979-2018 by percent of average household income and dollar value in 2018 USD

	1979 % of total household income	2018 % of total household income	Percentage point decline	% decrease	Average in 1979 USD	Average in 2018 USD	*Average USD change	% Capital income change
Quintile								
1st Q	4.3	1.8	-2.5	-58.1	700	400	(-300)	-43
2nd Q	5.2	1.6	-3.6	-69.2	2,000	800	(-1,200)	-60
3rd Q	5.6	2.3	-3.3	-59.0	3,300	1,800	(-1,500)	-46
4th Q	6.2	3.4	-2.8	-45.2	5,000	3,800	(-1,200)	-24
Top Q	21.8	18.9	-2.9	-13.3	33,200	59,800	+26,600	+80
Percentile								
81-90	8.7	4.9	-3.8	-43.7	9,100	8,500	(-600)	-7
91-95	11.2	7.4	-3.8	-34.0	14,400	17,800	+3,400	+24
96-99	22.8	13.5	-7.3	-32.0	42,600	53,600	+11,000	+24
Top 1%	54.4	42.0	-12.4	-22.8	318,200	839,500	+521,300	+164

Notes: Based on authors' analysis of Congressional Budget Office data. *For the average dollar value change column, the amount in parentheses indicates the decrease in dollar value.

Table 10 shows changes in the detailed distribution of capital income among the five quintiles of household income groups and different percentiles over the 1979-2018 period. While capital income as a percent of total household income has fallen for every quintile and percentile, this drop has been smaller for the top 1%, the next 4%, and the next 5% of households. But that does not tell the real story. The real story is that the dollar value of capital income from 1979 to 2018 dramatically increased for the top 1% by +164%, for the next 4% by +24%, and for the next 5% by +24% while it dropped stunningly by -43% to -60% for the first three quintiles. The fourth quintile is a transitional quintile where there is a large percentage drop in capital income as a percent of household income from 1979-2018 but much smaller dollar value drop.

What can be observed is a stunning concentration of capital income at the top in the US. While the top quintile shows a 13.3% decline in capital income as a percent of total household income, the top quintile saw an 80% increase in their capital income over the period. These averages for the top quintile cloud the fact that – looking inside the sub-groups within the top quintile – those in the 81st-99th percentiles have largely experienced the same phenomenon as the first three quintiles, with large drops in the capital income as a percent of household income. Dollar values of capital incomes went down in the 81-90th percentiles but up in the other top percentiles. Large increases in household income in the top 10% led to a decrease in capital income as a percent of household income, but the dollar value increased by 24% for the 91st-99th percentile and a standout 164% for the top 1%. In brief, the concentration dynamics are prevalent in the top 10% of households not the entire top quintile.

The study of capital income trends in the US from 1979 to 2018 found that capital income in the US is more concentrated than capital ownership (wealth). Table 1 above reported for the US wealth was concentrated in the top 1% by 35.3%, in the top 10%

by 71.5% and in the bottom 50% by 0.3%. In contrast, the top 1% in the US had 59% of all capital income while the top 20% had 89.7% of capital income.

Understanding the US data involve some definitional issues. Contrary to the EU-Survey of Income and Living Conditions data, the US definition of capital income does not include "net income from businesses or farms operated solely by their owners, partnership income, or income from S corporations." (CBO, 2021: 51).

For example, entrepreneur E can pay herself USD 200,000 salary as President of a Company that is 100% owned by E, yet also have net income of USD 1 million from that same company as "business income." For the purposes of this discussion, both the labour income from companies that E owns part of and the "business income" is included the CBO's definition of E's "total household income." The definition of "capital income" used by the US Congressional Budget Office and many others does not include this "business income." Given the large increase in the concentration of capital income in the US from 1970 to 2018, it is a valid question whether such business income "filled in" for capital income in the lower quintiles. That was decidedly not the case. Average business income per household grew from USD 3,100 to USD 8,100 from 1979 to 2018 for all households, but business income as a percent of total household income was flat for the middle three quintiles at around 2% at the beginning and the end of the period, so it could not substitute for the decline in capital incomes.

Capital income in this research does not include income from businesses. Is it possible that business income was less concentrated in the US than capital income? No, business income as a form of capital income also went to the top in the US. Indeed, in terms of dollar values, business income did not make a meaningful dollar value difference in the second to fourth quintiles, where it added USD 300 on average for the second quintile and middle quintile and USD 600 for the fourth quintile. Business income did, however, increase as a percent of total household income for the lowest quintile of households from 2% to 7% of total household income for an actual dollar increase of USD 120. This ironic figment is similar to the finding in the EU-Survey of Income and Living Conditions where rental income increases among lower income demographic groups appeared to show an increase in their capital income, while, in fact, only a small amount of rental income could show a large increase from an already small base.

The large gains of business income as a percent of total household income occurred for the fifth quintile. However, when the data for the fifth quintile are disaggregated, business income over the 1979-2018 period was also flat for the 81st to 90th percentile, the 91st to 95th percentile, and the 96th to 99th percentile as a percent of household income. In terms of the 2018 dollar value increase over the period, business income rose USD 2,100 for the 81st to 90th percentile (a 54% increase), USD 5,250 for the 91st to 95th percentile (a 79% increase), and USD 26,200 (a 135% increase) for the 96th to 99th percentile. But business income only rose significantly for the Top 1%, doubling from 11% to 22% of average household income and showed growth in 2018 dollars from USD 61,500 to USD 430,600, namely, dollar growth of 600% (Blasi and Kruse, 2022, p. 13). Business income did not play any critical role in the household income in the lowest to the fourth quintile or in the 81st to 99th percentile of the fifth quintile.

To the extent that capital income can be viewed as an income stream potentially augmenting wages and salaries, possibly even a "raise" on top of wages, its role has also waned greatly with a more than half decline from 1979-2018.

- The flip side of these shifts are a **ballooning concentration of capital income among the richest households** from 59.3% of all capital income held by the top 1% of households in 2018 (up from 39.6% in 1979) and 89.7% of all capital income in the hands of the top 20% of households in 2018 (up from 76.2% in 1979).
- **Every percentile except the top 1% showed large decreases in their total share of capital income** over the period. Business income increased in dollar value by 600% for the Top 1% of households and it doubled as a percent of household income for that group from 11% to 22%. Business income did not offset the plummeting role of capital income in the first four quintiles.
- In summary, the US data on capital income show that **capital income has largely collapsed as a reality from 1979 to 2018 for "the working middle class."** The composition of incomes changed away from capital incomes for the lower quintiles and played a major role at the very top.

Comparable EU data is needed to benefit from a comparison of both economic regions. The story of the concentration of capital ownership and the concentration of capital income in the US sets the stage to put US EFP under a microscope and explore some ideas for studying this phenomenon in Europe.

4. Employee Financial Participation in the US

The dollar value of EFP has been studied for two decades in the US using the respected General Social Survey. These data include six national random samples from 2002 to 2022 every four years, namely, in 2002, 2006, 2010, 2014, 2018, and 2022.

These data provide the dollar value of all forms of EFP, such as employee share ownership, profit sharing, and gain sharing for each year. (Estimates of the dollar value of unexercised stock options are not available). These data have been collected by the National Opinion Research Center of the University of Chicago which does contract work for the US Census.[52] Here the US data from the General Social Survey are used to illustrate the role that EFP plays as a percentage of wages and wealth in an economy and the impact EFP can have on broadening access to capital ownership and to capital income. Because no strictly comparative data for the European Union are available, it is difficult to make firm comparative judgements between the EU and the US about these results. At most, they indicate the impact that EFP has had on wealth in an economy that has a lot of EFP and what could be learned in Europe if the collection of such data were implemented.

[52] The GSS is supported by taxpayers through the US National Science Foundation with the special questions on EFP supported mainly by the Russell Sage Foundation, the Rockefeller Foundation, Employee Ownership Foundation, and others until 2018, and by Google.org in 2022.

According to the General Social Survey for 2022, 17.5% of all adult private sector employees own company stock and 7.7% hold employee stock options, 34.9% have access to company profit sharing, 26.7% have access to company gain sharing, while 41.8% have access to one or more of these forms of EFP. In companies with stock, 52.4% of all adult employees have access to one or more of these forms of EFP. While the percentage results for the EU focus principally on the percent of company and not the percent of employees in the whole economy covered, these results do appear to indicate that EFP is more widely implemented than in the EU (Kruse and Blasi, 2023). In 2023, the Institute for the Study of Employee Ownership and Profit Sharing announced the creation of The Shares Laboratory to monitor EFP more closely. The first quarterly report released on 1 March 2023, reported the dollar value of these form of EFP in 2018 and looked at the 2002-2018 trends. These data are shown in Table 2. The data that follows only focuses on employee equity participation in whole shares of stock. When an employee owns a whole share of stock, that employee has the potential to have more capital ownership along with greater capital income as a result of the capital gains of the shares and the dividends associated with the shares.

The data is shown in Table 11 below. For those employees with EFP in the US, **the average dollar value of the equity compensation stake as a percent of yearly income** has generally hovered between 56.8% and 89.5% of annual salary if one looks at the statistics for 2002, 2006, 2014, and 2018, meaning that on average employees almost achieved total equity dollar value equal to about one year of their salary. The average of all the employees for which data is available over the twenty-year period is 83.7%, meaning over the twenty-year period the average employee reported wealth equal to about 84% of annual salary in 2018 dollars. The medians are between 21.2% and 30.7% for 2002, 2006, 2014, and 2018, meaning that half of employees have less than that as a percent of yearly earnings and half have more than that percent of salary earnings. This strikes the authors as a relatively low number suggesting that the accumulated total career equity compensation dollar value was less than 20-30% of annual earnings for half of all employees with equity compensation, and that was more than 20-30% for the other half. Across all years, median equity compensation as a percent of yearly income in USD equalled 24.9%.

The dollar value of the equity compensation stake as a percent of net family wealth (assets minus liabilities) communicates what proportion the total equity dollar value in the US is as a percent of family wealth communicates or how many multiples of net family wealth it represents. On average, the dollar value of the equity compensation stake as a percent of net household wealth has generally hovered between 18% and 24.6% for 2002, 2006, 2014, and 2018, meaning that on average employees had total equity dollar value equal to about a fifth to a third of their total household wealth. The average of all the employees for which data is available over the twenty-year period is about 25%, meaning all the available information suggests average equity dollar value equals a quarter of net family wealth. The medians range between 7% and 8.5% for 2002, 2006, 2014, and 2018 meaning that half of employees have less than that as a percent of net household wealth and half have more than that. This strikes us as a relatively low number suggesting that the accumulated total career equity compensation dollar value was less than 7-9% of net household wealth for half of all employees with equity compensation, and that it was more than 7-9% for the other half. Taking all employees over the entire period it was 8.1%.

Table 11: Value of Employee Equity Compensation Stake, 2002-2018 (in 2018 USD)

	2002	2006	2014	2018	All years
Mean	66,061	41,123	54,050	76,318	60,423
Median	12,607	18,630	12,690	20,000	14,008
As a % of yearly earnings					
Mean	89.5%	56.8%	93.9%	88.2%	83.7%
Median	21.2%	24.9%	23.1%	30.7%	24.9%
As a % of Family Wealth*					
Mean	NA	18.4%	30.7%	24.6%	25%
Median	NA	7%	8.5%	7.6%	8.1%

Source: Own elaboration of the authors. *Wealth is total assets minus total liabilities estimated by the employee respondent.[53]

These findings suggest that there is wide variation in the impact of the dollar value of equity compensation on individual employees' wealth accumulation as a percent of each individual employee's annual earnings or net household wealth, which obviously indicates more about the impact on their family's economic situation.

Table 12 presents more detailed data by looking at the impact of equity compensation in the US on three different income groups. In order to investigate the distribution of the dollar value of equity compensation between different groups in the population, the population was divided into three income groups, the lower third, the middle third, and the upper third. Here is a more finely-grained summary of the results:

- The **dollar value of equity compensation as a percent of annual earnings is remarkably similar in its impact** on the lower third, middle third, and upper third of employees ranging from 70-96% at the mean, while at the median it is 16%-31%.
- The **dollar value of equity compensation as a percent of net household wealth is also remarkably similar in its impact** on the lower third, middle third, and upper third of employees ranging from 18%-29% at the mean, while at the median it is 5%-9%.
- This suggests that when employees are included in equity compensation plans that the level at which they are able to supplement their wealth accumulation as a percent of both their annual earnings and their net household wealth is remarkably similar.

In effect, **when equity compensation plans are available and employees are included at different income levels, the impact in the US is not as heavily skewed as one might expect and is relatively egalitarian**.

[53] Note: 2010 data was not collected. Based on employees who report a dollar value for equity compensation plans. These data do not include self-employed individuals and those that answered, "Don't know." Only for-profit firms are included. Only dollar values of equity compensation of USD 1 million or lower were included in order to limit the impact of out-liers on the results. The median statistic would modulate the impact of outliers.

Table 12: Employee Ownership by Earnings Groups as Proportion of Earnings & Wealth

		2002	2006	2014	2018	Average 2002-2018
Across all employee owners						
Dollar value of EO stake (2018 $, capped at $1 mln.)						
Mean		$66,061	$41,123	$54,050	$76,318	$60,423
Median		$12,607	$18,630	$12,690	$20,000	$14,008
n		175	129	115	116	535
EO stake as percent of yearly earnings (upper 1% capped)						
Mean		89.5%	56.8%	93.9%	88.2%	83.7%
Median		21.2%	24.9%	23.1%	30.7%	24.9%
n		175	129	115	116	535
EO stake as percent of family wealth (upper 1% capped)						
Mean		na	18.4%	30.7%	24.6%	25.0%
Median		na	7.0%	8.5%	7.6%	8.1%
Separately by low, middle, and high earners						
Dollar value of EO stake (2018 $, capped at $1 million)						
Mean	Lower third	$24,859	$20,908	$28,398	$14,631	$22,308
	Middle third	$35,064	$43,709	$57,289	$56,471	$48,402
	Upper third	$143,409	$60,355	$82,635	$156,303	$117,338
Median	Lower third	$5,603	$12,420	$3,701	$2,000	$4,230
	Middle third	$14,008	$12,420	$23,265	$19,000	$15,862
	Upper third	$42,023	$31,050	$31,725	$74,000	$37,260
EO stake as percent of yearly earnings (upper 1% capped)						
Mean	Lower third	86.2%	54.3%	140.4%	86.5%	96.4%
	Middle third	54.7%	66.3%	75.8%	84.6%	70.4%
	Upper third	127.5%	43.8%	56.6%	92.9%	84.0%
Median	Lower third	15.9%	31.9%	11.3%	8.2%	15.9%
	Middle third	24.7%	18.9%	31.1%	30.7%	26.1%
	Upper third	33.8%	24.9%	25.5%	54.9%	30.7%
EO stake as percent of family wealth (upper 1% capped)						
Mean	Lower third	na	31.7%	29.2%	22.9%	27.5%
	Middle third	na	15.2%	42.0%	28.8%	28.5%
	Upper third	na	8.5%	19.6%	22.9%	18.4%
Median	Lower third	na	11.5%	3.9%	3.5%	5.1%
	Middle third	na	5.6%	11.3%	10.1%	8.8%
	Upper third	na	4.9%	10.6%	12.3%	8.6%

Source: Own elaboration of the authors.

A focus on the lower third group income group merits some further exploration. In the lowest third group by yearly earnings those employees in equity compensation plans were able over the entire period (including all employees for which data is available) to accumulate a dollar value of equity compensation equal to 96% on average of one year's salary, whereas this was 84% for the upper third of earners. The working middle class, as it were, the middle third of earners had an equity compensation stake equal to 70% of their yearly income. Looking now at equity compensation as a proportion of total wealth, in the lowest third group by yearly income, those employees in equity compensation plans were able over the entire period (including all employees for which data is available) to accumulate a dollar value of equity compensation equal to 27% on average of household wealth, whereas this was 18% for the upper third of earners. The working middle class, as it were, the middle third of earners had an equity compensation stake equal to 28% of their family household wealth. These findings suggest that participation in equity compensation plans has relatively similar impacts on individuals and family household wealth at this level.

5. Conclusion

All available data indicate that both capital ownership (wealth) and capital income are increasingly concentrated at the top in the European Union and the United States. Because equity ownership can broaden EFP in both capital ownership (through ownership of property) and capital income (through capital gains and dividends), this Chapter provides a preliminary examination of the relevance of EFP in this context. Capital ownership is less concentrated in the European Union than in the US and while capital income is concentrated at the top, precise estimates about the level of EU concentration of capital income are simply not readily available, with the differences between Member States having a lot of meaning for any analysis. Data on the US is introduced by comparison in order to illustrate how a detailed analysis of capital income concentration by quintile and percentiles in one economy can be described and used to generate insights and ideas for further research. Data from the US is also introduced to illustrate possible methods for assessing the impact that EFP can have on expanding capital ownership and capital income as a percent of the wealth of different income groups in the population. This Chapter presents – for the first time – a society-wide measure of the impact of EFP on one economy, namely, the US For further research, it makes sense to build on the comparable data available on the distribution of capital ownership and have similar research on the distribution of capital income for both the EU and the US along with measures of the EUR and USD values of EFP.

The conceptual model suggested for this Chapter asserts that the relevance of EFP can be viewed as a function of narrowing income and wealth options for the working middle class when the concentration of capital ownership and capital income is high and when real wage growth is low. Does this relevance change across economic systems? There is no question that the future understanding of these issues requires adding metrics to the statistical methodologies of different regions and countries and adding to existing reports and analyses that focus on both the dynamics of and trends in capital income (property income in the EU) and on the EUR and USD value of EFP at the mean and at the median for different income levels of the population.