

30 April 1999

Committee Secretary
House of Representatives Standing Committee on Employment, Education and
Workplace Relations
R1 116
Parliament House
CANBERRA ACT 2600

Fax 02 6277 4427

Dear Sir/Madam,

RE : INQUIRY INTO EMPLOYEE SHARE OWNERSHIP SCHEMES

Please find attached a submission to the House of Representatives inquiry into employee share ownership schemes in Australia.

This is an important inquiry with the potential to publicly acknowledge that employees share ownership schemes can have very positive effects for the economy and employees.

I would be pleased to appear before the Committee if it is conducting public hearings in Melbourne.

Yours sincerely,

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EMPLOYEE SHARE OWNERSHIP

INTRODUCTION

The Government should consider developing legislation supporting employee share ownership schemes. Already many large companies have such schemes and there are indications that many more companies will follow suit. The Government must be prepared for and encourage employee share ownership schemes which benefit workers and not just their bosses. There are strong economic advantages from employee share ownership. This paper provides a framework for the Government to use in developing a progressive employee share ownership legislation.

Employee share ownership means workers have a direct financial stake in their employing company. Typically, the company contributes a proportion of profit (usually around 5%) each year to employees via shareholdings in addition to normal salary increases. The shares are then held in a company or trust controlled by the workers, or the shares are controlled by the individual workers themselves. Experience has shown that many workers retain their shareholdings for long periods and often reinvest their share dividends back into the trust fund. Over time, workers can accumulate a **significant** collective shareholding in their employing company.

However, schemes such as share loans and buy-back schemes are to be avoided.

Income distribution

Just as universal superannuation provides great advantages to Australian workers and the Australian economy, employee share ownership offers similar benefits such as more equitable income distribution to middle and low income earners, improved retirement incomes and increased national savings.

Shares and superannuation

It is interesting to compare the concept of worker shareholdings with the introduction of occupational superannuation. The spread of superannuation will give Australian workers a \$500 billion stake in the Australian economy by the year 2000. This represents workers having indirect ownership of Australian companies and property. Share ownership goes the next step by providing workers with direct ownership and increased control of their employing companies thereby ensuring amongst other things that employment conditions and industrial practices are appropriate.

Tax issues

The tax treatment of employee shareholdings must be applied equitably while allowing for tax deferral on dividends and/or share value. Good economic policy encourages policies directed at improving investment flows. Employee shareholdings fits neatly into existing economic policy by encouraging workers to participate in Australian equity.

The international scene

Internationally, both Britain and the USA have widespread employee share ownership schemes but they are principally aimed at senior management groups. The social democratic government of Sweden attempted a national employee share ownership scheme in the late 1980s but the government was voted out of office before the initiative could be implemented. In 1992 the European Commission recommended to member states that they ensure legal and fiscal structures exist to permit the introduction of financial participation schemes including employee share ownership.

The European Council passed Recommendation 92/443/EEC titled 'The Promotion of Participation by Employed Persons in Profits and Enterprise Results'. The Recommendation invited Member States to acknowledge *"the potential benefits of a wider use, individually or collectively, of a broad variety of schemes to increase the participation of employed persons in profits and enterprise results by means of profit-sharing, employee share-ownership or a combination of both."*

ACTU policy

The ACTU booklet *Employee Share Ownership Plans - Handle with Care* states that if employee share ownership is combined with genuine participation in the management and better organisation of work, then company performance is more likely to improve, sometimes dramatically. Coupled with employee share ownership should be the practice of worker representatives on company boards of directors. The booklet recognises that in the 1980s many unions originally approached superannuation schemes with similar caution to which they now regard employee share ownership schemes.

The ACTU believe employee shareholdings can be a positive factor in improving business performance as well as providing financial benefits to employees when coupled with workplace change, greater communication and opportunity for genuine participation. The experience of leading unions in the USA and Britain which have negotiated collective employee shareholdings shows the pursuit of such programs can enhance union standing and influence.

Employee share ownership can benefit the national economy. It offers the opportunity to further add to national savings as well as provide workers with an additional opportunity to add to their retirement income. Foreign debt can impose constraints on growth and national economic development depends on investment (ie. savings). In the longer term, employee share ownership can effectively buy out overseas capital.

Popular appeal

Importantly, there is community support for the concept of employee shareholdings. Already, there are 2.58 million Australian investors in the share market (20.9% of all Australian adults) and 70% of all shareowners have an annual income of less than

\$40,000 (from Fact Book 1995, Australian Stock Exchange). These figures demonstrate that Australians already participate in the share market to a relatively large extent. The move toward voluntary employee ownership would be welcomed by most workers where there is no personal financial risk involved. It is interesting to note that 5% of BHP shares, 16% of Lend Lease shares and 80% of WL Allens Foundry shares are owned by employees.

PRINCIPLES

Below are some principles which should underpin the development and introduction of employee share ownership legislation in Australia.

- workers have the right to participate and contribute to decisions affecting their working lives and worker representatives should exist on company Boards. of Directors;
- economic policy must take account of the distribution of income between people and the distribution of economic power;
- democratic processes and equality of opportunity should be extended to the economic sphere,
- employee share ownership based on annual profit sharing offers substantial potential for more equitable distribution of income, wealth, and economic power;
- all employees should receive equal treatment under employee share ownership schemes and employees in companies not listed on the Stock Exchange should have access to shareholdings;
- employee share ownership schemes must be mainly self-financing and contain minimal financial risk and be based on annual allocations from profit;
- employee share ownership schemes should involve a trust fund or company democratically controlled by employees and developed in consultation with unions representing employees concerned;
- unions and union members must be fully involved in proposal,; to introduce share ownership; and
- employee share ownership is not appropriate for public enterprises since they are owned and controlled by the whole community.

IMPLEMENTATION

The following actions outline what the Government should do to encourage and implement employee share ownership schemes.

Government should:

- (i) encourage the spread of voluntary employee share ownership schemes by -
 - amending the tax system to
 - defer employee income tax on shares until termination of employment or sale of shares, whichever is the latter
 - provide full tax deductibility for employers' contributions from profit to employees' share trust funds
 - exempt employee share dividends from tax
 - allowing establishment of independent and democratically controlled employee trusts to manage company shares and recognition will be given to union representatives as appropriate trustees
 - encouraging alternative equities for workers employed in companies not listed on the Stock Exchange (eg. redeemable preference shares)
 - allocating up to 10% of shares to employees employed in privatised government enterprises and annually allocating shares thereafter
 - excluding individual employees from tax benefits where those employees individually own more than 5% of voting shares in the company
 - excluding employment conditions and 'no strike clauses in employee share ownership schemes
- (ii) promote industrial democracy through the spread of worker representatives on company Boards of Directors
- (iii) pursue measures to broaden the extent of public ownership.