



## How Employee Share Schemes can respond to Regional Policy

David Craddock is a recognised authority in the UK and worldwide on employee share schemes and the author of *The Tolley's Guide to Employee Share Schemes*. In this article, David identifies the role that employee share schemes can play towards formulating an effective regional policy to which the current British Government is committed through its manifesto pledges.

### **T**he Conservative Manifesto Pledges to Regional Regeneration

The dramatic onset of Covid-19 in the early months of 2020 and the ongoing unpredictable consequences of the disease would appear to have derailed the wider ambitions and manifesto pledges of the British Government for a levelling up of the regions, notably in the North and the South West of England. With explicit reference to the General Election of 12th December, 2019, the Prime Minister has personally expressed the debt that he believes he owes to constituencies that transitioned to Conservative to give him the substantial majority in the House of Commons. Indeed, it is no coincidence that the last General Election is known as The Brexit Election, as one of the prime causes of the Brexit campaign was the demand for the levelling up of the regions that had lost much of their economic significance due to the process of increasing globalisation over the last 30 years. Addressing regional economic disparity must continue to be a priority of government and, when properly implemented it has the potential to be a significant part of the recovery from the economic devastation left in the wake of the pandemic. Simply to refer to the government funds that have been committed to the HS2 rail project is insufficient to meet the needs of regional regeneration and, in reality, a

distraction from the true economic imperatives when companies have become used to meetings by Zoom and Microsoft Teams, thereby making a significant proportion of business rail travel redundant.

Part of the massive historical success of the USA in economic policy from the nineteenth century onwards has been the multitude of business centres across the 50 states, with each state engaging in its own experiment to produce excellence, the results from which all the other 49 states can learn and derive benefit. This is a stark contrast to the UK with its reliance on London and the South East, and travel to London from the regions for business. The commitment of the British Government must be to raise the major cities – Liverpool and Manchester, Leeds and Newcastle, Birmingham and Bristol – and the smaller cities also, to have a fully self-sufficient business infrastructure and reduce the dependence on London. Surely it is only with that decentralisation of economic power that the regions will have the capacity to develop and demonstrate their initiative, their innate inventiveness and their independence. Then if that regional economic regeneration is encased within a new political framework of a federal nation-state, following the USA or German model, the opportunity exists to save the union and stem the tide of separation in Scotland, Wales and Northern Ireland. ►



## The Fallacy of “Tax-and-Spend” Strategies

The fallacy of “tax-and-spend”, whether it be of a Keynesian disposition or otherwise, becomes obvious in the light of a clear examination of the current predicament for many companies. The large corporations of big business have the cash resources and accumulated reserves to withstand the assault of Covid-19 and, provided they continue to have a market relevance, they will survive and go on to thrive once again. But for many small-to-medium size companies, the exposure to market forces and their current prospects may be very different, particularly if they are lumbered with debt repayments of their Covid-19 loans at a time when their profit margins have yet to recover. Furthermore, lockdowns act like a form of regressive taxation, impacting the worst on the poorest and most vulnerable individuals either through their employing companies or self-employed businesses. Unfortunately, given the current aggressive nature of the virus and the emergence of even more deadly and contagious variants, there may not be an alternative to lockdowns in the short-term.

So why tax these companies or individuals further or deny them existing tax reliefs when they are already strained to breaking point? Surely an increased tax burden imposed by government would make no sense whatsoever when what is really required for these companies and individuals is incentive to recover with the aid of the most friendly fiscal and monetary policies possible. The continuing tax incentives through the capital gains tax regime, notably through the tax-advantageous employee share schemes and the Business Asset Disposal Relief, previously known as Entrepreneurs Relief, is essential to ensure that businesses know that they can commit to economic growth and their owners realise benefit on retirement without the imposition of punitive taxes.

Remember, tax acts directly as a decelerator to economic growth. Furthermore, regardless of the sheer magnitude of the increase in the National Debt to fund the support during the pandemic, this is not the time to organise its repayment. The British Government is only now paying back the debt incurred to fund the operations of World War II. The key to the country's recovery from the pandemic will be economic growth and, so long as the ratio of GDP to debt is manageable, there is no express need to raise tax rates on the

false pretext of having to pay down the National Debt. At this present time, for the regions, priority should be given to attracting the outsourced businesses that are returning home as part of the process of deglobalisation, accelerated by the identification of China as the source of the virus. There is, of course, a natural alignment between the economic deglobalisation of the world, as countries organise themselves into regional trading blocs (or, as in the case of the UK through Brexit, completely decouple from the EU trading bloc) and decentralisation to the regions within the UK of both economic and political power.

## The Alternative System of Economics

So, let's now explore the employee share scheme proposal as an alternative system of economics. The modern-day origins of employee share ownership derive from the work of Louis Kelso, an economist and lawyer working in 1956 on the West Coast of the USA to deliver an alternative economic system for the ownership of a successful newspaper company, Peninsula Newspapers, based in Palo Alto in California, whose founder and sole shareholder had decided to retire. The employee motivational basis for the employee ownership solution was that capital values rise faster than wages and, in most companies, this is dramatically apparent. The employee share ownership model, therefore, properly implemented and properly communicated to the employees, is the natural mechanism to act as an accelerator for wealth creation, i.e. for the existing shareholders and for the employee shareholders.

The requirement, therefore, for regional economic regeneration, is to establish the firm linkage between employee share schemes and regional policy. This could take the form of additional tax reliefs embedded in the employee share scheme, maybe in the form of an additional corporation tax deduction, if a company introduces an employee share scheme in a designated region. In this context,



the employee share scheme acts as the invisible hand, rather than relying on the clumsy tools of grants and subsidies which were the recourse of governments in the 1960s and 1970s. Through embedding tax-advantageous employee share schemes into regional policy, with all the consequential motivational and worker self-esteem benefits that the linkage would bring, this would contribute towards the internal strength of each region, as manufacturing centres, as service provider centres and as financial centres, generating their own wealth to fund their own infrastructure. The avoidance of grants and subsidies takes the hand of big government away from proceedings in favour of employee share schemes contributing towards a free-market solution regional policy. The smaller the interference from central government, whether in economic power or in political power, the greater the role of the individual citizen, enhancing the status and self-esteem of the empowered individual citizen in contributing to the dynamic business life of the region.

## The Unique Contribution of Employee Share Schemes

Bringing into the regions the power of employee share schemes as part of a formulated regional policy represents a strategy of regional economic reinvigoration. Each region represents its own economy, albeit with interconnectedness with the other regions as well as international trade. The unique contribution of employee share schemes lies in having the potential at the same time: (1) to increase the productivity of the company, (2) to increase employment levels or at least avoid unemployment while at the same time, (3) awarding non-inflationary pay increases linked to productivity. Numerous empirical studies from universities and institutes in the USA and the UK support this prognosis, including Rutgers University and Cass Business School. The higher levels of productivity derive from the individual personal motivation together with the more co-operative working patterns and the breakdown of barriers between management and workforce. The stability in employment

levels derives from the recognition of employee share scheme rewards, potentially combined with a cash profit share, as variable remuneration which as a variable percentage within the total reward package avoids unemployment when trade in any given year for any reason falls. Increases in employment levels through company growth arise through the buoyancy, energy and efficiency injected into the company courtesy of the share ownership culture. The operation of this self-regulatory mechanism to deal with fluctuating income levels over a given business cycle avoids the need for heavy stimulus through fiscal and monetary measures, thereby curtailing inflationary pressures in the economy.

Applied to the regions or applied to the national economy as a whole, this recipe for economic outcomes offers the alternative system of economics that can facilitate recovery from this damaging period of Covid-19, as well as implement the Conservative manifesto pledge to support the regions and without excessive central government expenditure.



David Craddock will be very pleased to discuss your employee share scheme initiative with you.

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