

THE 1976  
JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES

ON THE

JANUARY 1976 ECONOMIC REPORT  
OF THE PRESIDENT

TOGETHER WITH

AN INTERNATIONAL SECTION IN WHICH MAJORITY  
AND MINORITY CONCUR, AND MINORITY,  
SUPPLEMENTAL, AND ADDITIONAL  
VIEWS



MARCH 10, 1976

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1976

67-573 O

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

HUBERT H. HUMPHREY, Minnesota, *Chairman*

WRIGHT PATMAN, Texas, *Vice Chairman*

SENATE

JOHN SPARKMAN, Alabama  
WILLIAM PROXMIRE, Wisconsin  
ABRAHAM RIBICOFF, Connecticut  
LLOYD M. BENTSEN, Jr., Texas  
EDWARD M. KENNEDY, Massachusetts  
JACOB K. JAVITS, New York  
CHARLES H. PERCY, Illinois  
ROBERT TAFT, Jr., Ohio  
PAUL J. FANNIN, Arizona

HOUSE OF REPRESENTATIVES

RICHARD BOLLING, Missouri  
HENRY S. REUSS, Wisconsin  
WILLIAM S. MOORHEAD, Pennsylvania  
LEE H. HAMILTON, Indiana  
GILLIS W. LONG, Louisiana  
CLARENCE J. BROWN, Ohio  
GARRY BROWN, Michigan  
MARGARET M. HECKLER, Massachusetts  
JOHN H. ROUSSELOT, California

JOHN R. STARK, *Executive Director*

SENIOR STAFF ECONOMISTS

WILLIAM A. COX

JERRY J. JASINOWSKI  
LOUGHLIN F. MCHUGH

JOHN R. KARLIK  
COURTENAY M. SLATER

RICHARD F. KAUFMAN, *General Counsel*

ECONOMISTS

WILLIAM R. BUECHNER  
ROBERT D. HAMRIN  
RALPH L. SCHLOSSTEIN

SARAH JACKSON  
GEORGE R. TYLER

LUCY A. FALCONE  
L. DOUGLAS LEE  
LARRY YUSPEH

MINORITY

CHARLES H. BRADFORD (Senior Economist)

GEORGE D. KRUMBHAAR, Jr. (Counsel)

M. CATHERINE MILLER (Economist)

(II)

BROADENING THE OWNERSHIP OF NEW CAPITAL

Wealth in the United States is concentrated in the hands of a relatively small fraction of the population. Unfortunately, the data on wealth are sparse. The last comprehensive attempt by the Federal Government to measure its characteristics and distribution was made by the Federal Reserve Board in 1962. It was estimated that more than three-quarters of the country's total wealth was owned by less than one-fifth of the people, while more than one-quarter was owned by just the top 0.5 percent. The Federal Government should remedy

\* See recommendations for changes in taxes on small business in the section on this subject at the end of Chapter V.  
\* Senator Proxmire states: "The corporate income tax is not a progressive tax. Its incidence falls on consumers and employees far more than on stockholders. It inhibits investment. It should be reduced as the President has requested. I would favor an even greater reduction."

the lack of up-to-date information on personal wealth through periodic surveys and comprehensive reports on this subject.

The distribution of wealth reflects in large part the pattern of ownership of non-residential capital with corporate shares being one of its principle forms. This category of wealth is much more concentrated than total wealth, with the top percentile of the personal income distribution owning 51 percent of the market value of individually owned corporate stock and receiving 47 percent of the dividends. Meanwhile, the new capital assets generated by businesses, which in recent years have averaged well over \$100 billion annually, redound largely to the benefit of these persons who already have great wealth.

The number of shareholders, moreover, declined by some 18 percent from 1970 to 1975, and data suggest that young people today are not purchasing stocks in significant volume. Balancing this declining role of the individual investor has been the rise of financial institutions, which since 1950 have more than trebled their share of the market value of stock holdings.

To begin to diffuse the ownership of capital and to provide an opportunity for citizens of moderate incomes to become owners of capital rather than relying solely on their labor as a source of income and security, the Committee recommends the adoption of a national policy to foster the goal of broadened ownership. The spirit of this goal and what it purports to accomplish was endorsed by many of the witnesses at our regional hearings.

Without getting into specifics, the types of programs which could be established to help meet this goal will be outlined. Such alternative methods of broadening capital ownership are under study by the Committee.

In the individual firm, employee ownership can be encouraged directly through tax incentives to the employees to purchase stock or to firms to place newly issued stock into the hands of their employees. The latter approach, known as Employee Stock Ownership Plans (ESOPs), was examined in recent hearings by the Committee.

An alternative plan involves multifirm funds which would receive tax-favored contributions from affiliated firms and issue nonnegotiable fund certificates to the employees. This type of fund, which has been in operation in France and West Germany, may diversify its portfolio, although it may be limited to particular industries and regions.

Providing ownership opportunities not just to employees but to citizens at large could be accomplished through various devices. One example would be the establishment of funds which would accumulate personal savings on a tax-preferred basis and use them to acquire a diversified portfolio of equity shares in corporations. For instance, individuals with earned income not exceeding \$20,000 could be allowed to save up to \$3,000 a year in one or more funds and to deduct this amount from their taxable incomes.

Whatever the means used, a basic objective should be to distribute newly created capital broadly among the population. Such a policy would redress a major imbalance in our society and has the potential for strengthening future business growth.

To provide a realistic opportunity for more U.S. citizens to become owners of capital, and to provide an expanded source of equity financing for corporations, it should be made national policy to pursue the goal of broadened capital ownership. Congress also should request from the Administration a quadrennial report on the ownership of wealth in this country which would assist in evaluating how successfully the base of wealth was being broadened over time.

[The following appeared as a "Letter to the Editor" in the Washington Post, July 20, 1976]

### *'Broadened Capital Ownership'*

In his column on July 4, Hobart Rowen maintained that "Debate Still Needed on Employee Stock Ownership Plans." I agree wholeheartedly with this. However, I wish to point out that the debate should not be limited to ESOPs alone, for there are many alternative methods for achieving the ultimate goal, which is to broaden the ownership of capital.

I view this as such an important goal that in addition to introducing with Senator Javits the Employee Stock Ownership Fund Act of 1976, which was discussed in Mr. Rowen's column, I directed the Joint Economic Committee to seriously examine this goal and the best means to achieve it. The committee began its investigation by holding two very informative days of hearings on ESOPs last December at which Kelso and other ESOPs experts testified. I am pleased to say that the committee fully endorsed this goal by making it a recommendation in its 1976 Annual Report: "to provide a realistic opportunity for more U.S. citizens to become owners of capital, and to provide an expanded source of equity financing for corporations, it should be made national policy to pursue the goal of broadened capital ownership."

The most recent contribution by the committee to the debate on whether such a goal is needed and is justified and, if so, how it should be met, was a staff study released last month entitled "Broadening the Ownership of New Capital: ESOPs and Other Alternatives." This study is a valuable input into the debate Mr. Rowen says is needed as it presents the overall context for the debate and analyzes many

methods other than ESOPs that would broaden capital ownership in the U.S. The latter point is a critical one, for I feel that the more comprehensive types of plans should be subjected to debate, which they haven't been up to this point, by Congress and the appropriate Executive Departments.

The main advantages of such plans according to the study were: (1) they stimulated both the issuance of a stock and its distribution to new stockholders and (2) the new stockholder would, if so desired, consist entirely of lower and middle income Americans who currently own a very small share of this country's outstanding stock. It is my intention that the Joint Economic Committee continue its efforts in this area by examining these types of plans over the next year.

The broad framework for my thoughts in this area may be stated quite briefly. Throughout my career as a public servant, I have viewed full employment as a top priority goal for this country. And I continue to do so. But I also recognize that capital, and the question of who owns it and therefore reaps the benefits of its productiveness, is an extremely important issue that is complementary to the issue of full employment. I see these as twin pillars of our economy: Full employment of our labor resources and widespread ownership of our capital resources. Such twin pillars would go a long way in providing a firm underlying support for future economic growth that would be equitably shared.

HUBERT H. HUMPHREY,  
U.S. Senator (D-Minn.)

Washington