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# COUNTERING ECONOMIC INJUSTICE THROUGH PROPERTY-OWNING DEMOCRACY[1]

**ABSTRACT**
The paper provides theoretical and practical examination of economic injustice. In the first part of the paper the specific conception of a property-owning democracy is developed. Strategically combining two institutional models – worker-controlled economic democracy for small and medium enterprises and broadly distributed coupon capitalism for large corporations – the dual approach to property-owning democracy addresses the limitations of each model when implemented separately. In the second part of the paper, employee buyouts are evaluated, particularly through the employment of the eurESOP model, as a concrete transition mechanism toward property-owning democracy. Using Serbia's post-transition economy as a case study, where small and medium enterprises face imminent succession crises, the analysis demonstrates how employee ownership can simultaneously solve business continuity challenges while advancing economic democracy. In conclusion, the required legal and fiscal reforms for the improvement of the enabling institutional environment for democratic ownership transitions are spelt out.

**KEYWORDS**
economic injustice, property-owning democracy, economic democracy, coupon capitalism, employee ownership, predistribution, economic inequality

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## Introduction

According to John Rawls, justice is the main virtue of a well-ordered society that no other value could outcompete (Rawls 1999). Martin O'Neill and Thad Williamson noticed that "for all the ink spilled and academic careers devoted to the finer points of Rawls's theory, the core question of how Rawls's theory of justice can be realized institutionally under contemporary conditions has received only intermittent attention" (O'Neill and Williamson 2012: 2).

The paper is divided into two sections, each consecutively answering one of the following questions: What form of economy do we need to achieve a just society? And what should be the first steps towards it? In the first section we are focusing on the exploration of a social arrangement that seems to be the best fit to deliver economic distribution in accordance with principles of justice – property-owning democracy (POD).

The second section and conclusion go into practical matters, elaborating on the first move towards POD both in terms of opportunity and policy. When it comes to opportunity, we detect looming small and medium-sized enterprise (SME) succession crises as an entry point for employee ownership (EO) in a current labour-hostile environment. We spell out a strategy that combines both market-level alternative in the form of employee buyouts of companies and state-level reformism in the form of legal and economic measures that the state should conduct to make EO ownership the only viable succession plan for SMEs. In this way, we offer a value-informed strategy for developing an egalitarian economy.

## Path to Economic Justice – Democratisation of Ownership

In *Justice as Fairness*, Rawls examines the relationship between five institutional arrangements and the fundamental political values of freedom and equality: laissez-faire capitalism, authoritarian socialism, the welfare state, liberal socialism, and POD (Rawls 2001: 135–140). Laissez-faire capitalism and authoritarian socialism undermine equality and freedom. The welfare state, as well, due to the initial high concentration of wealth, undermines fundamental political values in the following three ways:

1) Welfare state capitalism undermines the fair value of political liberties. The wealthy have greater influence over political processes, violating the principle of equal political participation.

2) The greater political influence of the wealthy prevents transfers that would align with the principles of justice. Wealthy individuals can block policies that would redistribute primary goods to the less advantaged.

3) Welfare state creates a group of people dependent on state aid and another group that earns income through labour, undermining the principle of reciprocity: This division fosters social stratification and weakens the sense of mutual obligation among citizens.

According to Rawls, only liberal socialism and POD can create a well-ordered society i.e. a society based on the principles of justice which ensure that social and economic inequalities are arranged so that they are on everyone's advantage, and connected to positions and offices open to all (Rawls 1999: 266).

As O'Neill and Williamson note, "Rawlsian justice as fairness shares with socialist perspectives not only a critique of capitalism but a determination to find a different way to organize a modern economy" (O'Neill and Williamson 2012: 6). However, Rawls says little about liberal socialism (Ibid.: 4). Let us therefore focus on POD.

The goal of a POD is not economic growth *per se*, but rather to ensure that the ownership of capital is distributed in such a way that no single group can dominate economic life. The broad distribution of capital is to be achieved through measures such as a high inheritance tax. Additionally, a POD should ensure full employment and improve the standard of living for those in the worst position (Ibid.). Rawls states that "the background institutions of property-owning democracy work to disperse ownership of wealth and capital, and thus prevent a small part of society from controlling the economy (...)" (Rawls 2001: 139). In *A Theory of Justice*, Rawls outlines the institutional characteristics of a POD. The government should be involved in macroeconomic planning, regulation of economic institutions, establishment of market rules, implementation of transfers, and provision of essential and non-essential public goods. More specifically, a POD is based on four background institutions of distributive justice that ensure a well-ordered society, i.e. a society founded on the principles of justice: (1) allocative branch which is responsible for combating monopolies and negative market externalities, (2) stabilisation branch which ensures full employment, (3) transfer branch which establishes a social minimum in line with the difference principle, and (4) distributive branch which collects the necessary funds for the social minimum and public goods through a flat tax on consumption and a progressive inheritance tax (Rawls 1999: 242–251). These branches work together to ensure that wealth and capital are widely dispersed, preventing the concentration of economic power in the hands of a few and promoting a more just and equitable society.

The problem is that Rawls does not provide a detailed explanation of how a POD should function, and particularly, on what kind of economic institutions the four branches of government should operate. David Schweickart, as one possible interpretation of POD, mentions the vision of decentralized small businesses but quickly dismisses it as unrealistic. Instead, Schweickart opts for John Roemer's version of market socialism or coupon capitalism, which allows private ownership of the means of production but ensures that such ownership is evenly distributed among all citizens, as a more adequate interpretation of POD (Schweickart 2012: 205–206).

The reason for this is that Rawls suggests that the legal definition of property rights should be adjusted to protect equality of opportunity and the fair value of political liberties (Rawls 1999: 247). Schweickart's interpretation of Rawls's request for a change in the legal definition of property rights is essentially the

mechanism proposed by Roemer to maintain an equal distribution of property. This is a voucher system through which citizens can purchase shares in large companies, allowing for the exchange of shares and the payment of dividends to shareholders. However, these shares cannot be sold for money or inherited, ensuring that the distribution of shares among citizens remains equal over time, although dividends may vary depending on each individual's portfolio. In this way, the legal definition of property rights would be altered to remove or radically limit the right to capital appreciation, restricting it exclusively to the exchange for other shares. This limitation prevents the concentration of capital.

However, this is not the only way to conceptualize POD. Thad Williamson offers an interpretation of a property-owning democracy as a "society in which all citizens have tangible (i.e., alienable) property, and enough of it to materially affect their life prospects and possibilities for exercising personal liberty" (Williamson 2012: 226). Personal liberty should be understood in a republican fashion as independence from relations of social domination. Thus, assets function as a buffer against the pressure to compromise personal liberty in order to secure a livelihood. It is supplementary to a system of social security and its primary aim is to establish long-term security for individuals, substantial political equality, and equality of opportunity (Williamson 2012: 232).

All citizens under the age of 65, regardless of their existing income, should have access to a certain minimum of diversified property (20% in real property, 40% in cash, and 40% in productive capital). The diversification of assets is intended to ensure the resilience of the financial portfolio (not putting all eggs in one basket), but also independence from various actors who would otherwise be in a position of power over the individual. Savings and real estate strengthen one's position *vis-à-vis* an employer and landlord, while widespread control of productive capital prevents the violation of the fair value of political liberties (Williamson 2012: 230). The capitalization of an individual's account would accrue gradually from the beginning of their life at a rate of 4% per year of the total projected sum (adjusted for real GDP growth) for those under 45, and for those older, at a rate of 2%. Also, the wealth of those over 45 will be progressively taxed (Ibid.: 231).

The productive capital owned by citizens should itself be diversified in such a way that half of this capital is free for unrestricted investment (an entrepreneurial fund), while the other half consists of non-tradable stock coupons like those proposed by Roemer (1994) (a coupon fund), with the possibility of transferring the entrepreneurial fund into the coupon fund. The purpose of these two funds is fundamentally different. While the entrepreneurial fund serves to invest in high-risk productive business enterprises that could result in losing investments or establishing a substantial income from it, the primary goal of the coupon fund is the gradual socialization of capital and the establishment of real democratic control over future investments (Williamson 2012: 237).

However, it is unclear whether the high-risk, high-return activity enabled by the entrepreneurial fund actually contributes to the economy in accordance with the principles of justice, as it allows for the concentration of capital.

Besides that, cash savings can only temporarily and in a limited way empower an individual *vis-à-vis* an employer, making the exit option more realistic and extending the available time they can spend outside the job market. But for the kind of real independence from the arbitrary power of an employer, that would be parallel to the independence established through homeownership from landlords, a more robust arrangement is needed.

David Ellerman's concept of economic democracy restricts property rights, but instead of dividing ownership of large companies equally among all citizens, ownership of a company (of any size) belongs to the workers of that company. Economic democracy is a type of economy dominated by employee-owned enterprises (Dahl 1985; Lutz and Lux 1988; Ellerman 1992). It is a market-based economy where ownership of the means of production is in the hands of workers, and the property rights are redefined into personal rights to ensure the stability and continuity of economic democracy as a system across generations. In an economic democracy, the employment contract is replaced with membership. Workers would be members and owners of their workplace, with ownership conditioned on membership as a personal right. In this way, workers always remain owners of the company in which they work. Workers would receive salaries, while profits would be reinvested back in the enterprise. A worker cannot sell their ownership in the company to individuals who do not work there or pass it on to their heirs; they can only sell it to new workers of the same company. Thus, the classic bundle of property rights is partially limited, particularly in terms of the right to capital appreciation. However, this ensures that the company remains under the control of the workers and prevents its gradual degeneration into a conventional company with absentee owners.

Under capitalism, property rights over companies are structured as transferable rights, enabling the accumulation and concentration of ownership. By treating property rights as non-transferable, non-inheritable personal rights, economic democracy prevents the concentration of capital ownership (Ellerman 1997: 37). Thus, in economic democracy, companies are transformed from property-based organisations into people-based organisations (Ibid.: 39).[2]

In an economic democracy, property rights are less restricted because, unlike in coupon capitalism, a company regularly purchases shares back from workers through a rollover plan (see section 2.1.). The buyback of shares represents an opportunity for economic stratification, especially considering that companies operate in a market where capital value can fluctuate. Consequently, workers

2 Since we are concerned here with the democratization of wealth, the status of workers employed in public institutions and other non-profit organizations is not directly relevant, as these entities are already in the public sphere and/or are by definition not oriented toward generating a surplus. However, as citizens, these workers should still receive their share of productive capital through a coupon-based system.
Separately from the issue of ownership, an independent argument could be made for worker governance within public institutions and non-profits. Indeed, workers in some public institutions, such as universities, already enjoy a high degree of self-management and autonomy from the state.

in successful companies could end up with significant savings after their shares are bought back, although this dynamic is somewhat mitigated by the periodic payouts facilitated by the rollover system. Still, the fundamental problem of entry costs persists. As Alan Thomas notes, Ellerman's model of ensuring democratic control of the workplace comes with inter-industry inequalities in profitability: "you would be lucky to work in a worker owned cooperative that ran a group of oil refineries; you would be comparatively unlucky to work in a cooperative that ran a fruit growing and harvesting business" (Thomas 2017: 239). Economic inequalities between worker-owners of companies in different industries could be ameliorated through redistributive policies, but that is an ad hoc solution that brings us back again to the problems of welfare capitalism that were stated at the very beginning of this section. Another possible route for preventing economic inequalities between worker-owners in different industries might be to limit the application of economic democracy only to labour-intensive industries.

On the other hand, economic democracy better accommodates the regulation of disparities within the company. Given that, under coupon capitalism, each citizen's ownership is diffused across numerous companies, and their share in each firm is negligible, their ability to influence management, including decisions about income distribution within the company, might be even weaker than in the current regime. All that small shareholders can do today, if they are dissatisfied with decisions of management, is to sell their shares; they do not have the power to influence management governance of the company as shareholders. Under coupon capitalism, they could trade their shares for others' shares, but their ability to influence management would still be no greater. In fact, it might be even weaker because, compared to the present situation, more people would own shares, thus diluting each individual's share of the company. In worker-owned companies, all ownership of the means of production is concentrated in that specific firm, making it larger. Additionally, since all owners work in that firm, and hence they are present in the company on a daily basis and directly involved in the production process, they are more informed and better positioned to influence management decisions, regardless of the size of their share in the ownership.

The concentration of ownership in a single company is also a drawback because it exposes workers to greater risk (Hsieh 2012: 152). If a firm goes bankrupt, they would lose all their ownership of the means of production, which is not the case under coupon capitalism, where ownership is dispersed across all large companies. A particular challenge for economic democracy is the treatment of those who are unemployed. Under coupon capitalism, they are covered just like all other citizens, as employment is not a prerequisite for receiving dividends from an equal share of total large enterprise production. In contrast, under economic democracy, they are left solely to the welfare state. Therefore, if economic democracy is not matched with policies that ensure full employment, it will, to some degree, face the same challenges as the welfare state in fulfilling the principle of justice.

However, excluding the unemployed from ownership of the means of production represents a weakness of economic democracy only if one takes a Rawlsian approach to distributive justice, which does not recognise desert as a deciding factor in the allocation of primary goods. If the distribution of ownership of the means of production is viewed through a desert-sensitive lens, then excluding the unemployed is justified because, within Ellerman's model of economic democracy, ownership of the means of production is earned. Nobody has an inherent right to it. Thus, it is not unjust that the unemployed do not have capital ownership, nor that the capital value varies among workers, because it reflects the value of their labour.

In contrast to Ellerman's understanding of the production process, Rawls's conception of justice does not directly imply that workers have a fundamental right to control the means of production (Rawls 2001: 114). The reason for this is that the principles of justice apply only to the state, not to organizations that people voluntarily join. In welfare-state capitalism, the problem of dependence on labour for income for most people should be solved through redistributive policies. However, here we are interested in alternative, predistributive solutions that property-owning democracy should offer as an answer to the arbitrary authority in the workplace. In coupon capitalism, the authenticity of people's consent to work would be more convincing because they would have an independent income from dividends (Meade 1964: 40). Although Meade and Rawls have not envisaged that capital income should enable individuals freedom from labour, as with other forms of universal provision, to avoid functioning merely as a subsidy for employers, dividends would need to be large enough to enable individuals, if they so choose, to completely withdraw from the labour market.

If we frame things this way, then economic democracy and coupon capitalism stand in an antagonistic relationship, representing two competing visions of how workers gain autonomy in the realm of labour. Economic democracy offers a direct answer. Enterprises should be owned and governed by employees themselves. Thus, workers are not liberated from the necessity to work, but they regain agency in the workplace. Coupon capitalism offers a completely opposite perspective on autonomy in the field of labour. Since workers have an alternative source of income from dividends, they can choose not to work, and therefore it is not necessary for them to have a democratic work environment. Acknowledging the fact of reasonable pluralism implies that one cannot impose one's conception of the good on others. Thus, political liberalism implies that people should be allowed to voluntarily join hierarchical organizations as long as they join them really freely and they are compatible with an overall just institutional structure of a well-ordered society.

However, it is still not obvious that these two competing visions of worker autonomy cannot coexist simultaneously within one economy. The first thing to note is that the greatest advantage of EO companies, in terms of better management control, diminishes with the size of the company. In large companies, workers' position as owners will not be significantly different from someone

who owns shares in multiple companies where they are not employed, because in both cases we are talking about an excessively small ownership share. This would preserve the principal-agent problem, meaning that hundreds of worker-owners would face difficulties in monitoring the company's management similar to those faced by small, absent shareholders.[3] At the same time, workers-owners will take a much greater risk because they will put all their eggs in one basket. Given that effective worker control is only feasible in SMEs (Hsieh 2012: 152) economic democracy should be tied to the SME sector and coupon capitalism to large companies. This way, workers who are more risk-tolerant and inclined toward egalitarian relationships could work in the EO SME sector, while those who are less risk-tolerant and do not mind hierarchically organised work environments could be employed in large companies.[4] Coupon capitalism would also address unemployment by making the unemployed shareholders, which would enable them to secure a decent life from capital income, instead of relying on unemployment and welfare benefits. Another advantage of this mixed arrangement is that workers could not use the money from the sale of their shares in SMEs to invest in conventional enterprises. All means of production would be covered either by coupon capitalism or economic democracy, thereby excluding the purchase of ownership with money and preventing the concentration of property.

## Making Employee Ownership the Only Viable Succession Plan

Let us place the economic changes necessary for the realisation of the envisioned POD in the timeline. From a pragmatic perspective, priority should be given to the democratisation of ownership within SMEs as a prefigurative anticapitalist strategy. Prefigurative strategies focus on building alternatives within the cracks and gaps of the existing capitalist system. These strategies emphasise creating new forms of economic organisations that operate outside or alongside capitalism, gradually expanding and potentially displacing it over time. The goal is to prefigure economic democracy by developing EO companies within the current system. Ellerman's concept of economic democracy does not imply the expropriation of current owners but rather the voluntary sale of the company to workers. Thus, economic democracy does not rely as heavily on state intervention as coupon capitalism for democratising ownership. The possibility that workers, with minimal legal changes and tax incentives, can independently acquire ownership of a company is a good starting point for contestation of the current distribution of ownership in the context

3 It could rightly be noted that this logic implies that the institutions of liberal democracy are also prone to the principal-agent problem, given that a large electorate may be unable to hold its representatives accountable. This observation, however, does not serve to vindicate employee ownership in large corporations but rather stresses the need for reforming liberal democracy.

4 For Ellerman's proposal on risk reduction in EO companies, see Ellerman 1997: 65-66.

of the hegemony of the imperative of non-intervention in the economy. Due to the dominant idea that any form of economic interventionism is inevitably doomed to fail, states have become unwilling, and often unable, to invest in bold public policies (Mazzucato 2020: 21–32, Bontempi , Helfter-Noa and Rulman 2021: 15). In this sense, economic democracy is a much more plausible candidate for the first phase of the transition to POD than coupon capitalism.[5]

In the Serbian context, EO could potentially successfully resonate with a four-decades-long self-management tradition that Serbia, as a former part of Socialist Federal Republic of Yugoslavia, had. The experience of self-managing socialism in Yugoslavia constitutes one of the most distinctive historical experiments in the broad application of the principles of economic democracy. Its central objectives were to enhance workers' participation in decision-making processes, decentralize ownership structures, and secure social reproduction beyond the confines of the market. The system rested upon two fundamental pillars: the socialization of the means of production and the democratization of management. The introduction of self-management represented a comprehensive attempt to transform the real-socialist economic model, creating distance from both capitalist economic organization and statist centralization. The aim was to subordinate production, exchange, and distribution not to profit generation but to the satisfaction of collective social needs, while simultaneously reducing the administrative control of the state over the economy. Workers' councils emerged as the principal organs of self-management, entrusted with decisions concerning production planning, foreign trade, pricing, investment, income distribution, and employment (Rajković, Mraović and Lakić 2023).

Today, the most promising way for establishing control of the workplace by workers in the Serbian legal framework is through the form of a cooperative. The main activity of the cooperative should be holding shares in the company on behalf of its employee-members. While not explicitly defined in the Serbian Law on Cooperatives, the law's flexible provisions on permitted activities allow for the establishment of such a holding cooperative. Its primary function would be similar to a holding company. Holding cooperative would hold a stake in the main company, allowing employees to share in its profits. Employees do not need to use their own money to buy shares. Instead, the cooperative could finance the purchase using a portion of the company's profits, distributed proportionally to the cooperative's stake (Lakić and Savanović 2023: 19–61).

Since the current Serbian context is characterized by a lack of state support for progressive economic policies, EO also represents an opportunity for a bottom-up shift toward fairer predistribution, which is far more promising compared to coupon capitalism under current circumstances. EO could pave the way for strategies that utilize state power for more radical transformations in the future, such as coupon capitalism.

5 EO companies are also recognized by Roemer as potential precursors to coupon capitalism (Roemer 1994; 1999: 65-68).

## The EurESOP model

The European ESOP (eurESOP) represents a modern model for the implementation and maintenance of employee ownership in companies. More specifically, it is an indirect, broad-based, and democratic form of employee ownership that ensures ownership remains anchored within the company's workforce. Slovenian think-tank, the Institute for Economic Democracy, has refined the US ESOP model, producing a standardised employee ownership model for the European context (eurESOP). Institute for Economic Democracy is specialised in employee ownership. In the last years, it has become a major institutional actor embedded in the global employee ownership community and it has developed a standardized blueprint for designing policy in support of the eurESOP model, which can be readily adopted by other European countries with minimal legislative reform. This model integrates best practices from the cooperative movement into the US ESOP model. While adopting internal capital accounts, eurESOP differs from the Mondragon cooperatives[6]—in which a large number of workers are excluded from membership—by including all employees of the company. On the other hand, while adopting the mechanisms of leveraged buyouts, eurESOP differs from the US ESOP model—in which employees are passive beneficiaries via a trust structure—by establishing democratic employee governance. Besides that, one additional way in which eurESOP differs from the US ESOP is that it is not a pension plan, so employees realise capital gains on a regular basis by selling it back to the company through the rollover system.

EO could be classified according to many criteria, including (1) control, (2) structure, (3) governance, (4) inclusivity and (5) size. When it comes to control, we distinguish between direct and indirect EO. When determining whether employee ownership is direct or indirect, the key feature revolves around the nature of ownership rights. Direct ownership implies full legal and economic control over capital by an employee, including the ability to sell, mortgage, or bequeath it to non-employees of the same company. On the other hand, while employees who indirectly own the company are entitled to economic benefits, such as rights to profit and capital appreciation, they cannot individually manage their shares, but a separate entity (trust or cooperative) does that on

6 The foundational idea of the Mondragon cooperatives in Spain is that every worker within the group is also a member, guaranteeing rights to management and economic benefits. Mondragon's integrated ecosystem, including its own university, bank, and social services, has been crucial to its success. A key structural innovation is the use of Individual Capital Accounts (ICAs). These accounts function as a form of debt capital that mimics equity, allowing the profits to be distributed into capital investments for each member. However, despite these successful structural solutions, the corporation has faced the problem of employing non-members since the early 1980s. (Etxeberria-Otadui 2024:208–209). This practice of hiring workers without offering them full membership creates a two-tiered workforce and represents a significant tension between its cooperative ideals and the pressures of operating and expanding within a global capitalist economy (Navarro 2014).

their behalf. Thus, indirect EO implies restricted marketability of capital i.e., property can only be tradable to other employees of the same company through an intermediary entity.

Other criteria are more straightforward. The structure of EO can be individualised or collectivised. When determining whether EO is individual or collective, the key feature is whether ownership is ascribed to a discernible individual or assets are inseparably owned by a group of employees. Furthermore, the company might have a mixed ownership structure that allows part of the assets to be pooled but the rest of it to be personalised.

Governance can be democratic or undemocratic in the sense of whether all employees have an equal voice in choosing the management of the company (Dahl 1985: 91). EO can be more or less inclusive depending on the percentage of the workforce it covers. When (almost) all employees are owners, that level of inclusivity is called broad-based, whereas the ownership is limited to a small group of employees that is exclusive EO. [7]

And lastly, when it comes to the size of EO, we distinguish between companies that are fully and partially owned by employees. The inclusivity of EO should not be mixed with the size of the share of the company that employees own. Employees could have a small share, but in broad-based ownership (for example, 10% of the company that is owned by 100% of employees) and vice versa, a full company can be owned by a small number of employees (Gonza et al. 2024: 254).

The outlined criteria should enable a better understanding of the strengths and limitations of specific EO models in addressing economic injustice. The contribution of certain EO models, such as stock options or employee stock purchase plans, to the shift toward economic democracy is so superficial that it warrants a conceptual distinction between them and the forms of EO that bring about substantial economic change. Let us call these forms "EO-lite" models, indicating how they leave the dominant paradigm and economic order unchallenged despite the shift in presentation. Tej Gonza makes a strict distinction based on the degree of inclusivity and control (Gonza 2022), where exclusive EO models, which encompass only a smaller percentage of highly skilled workers or managers with direct control over their shares, would represent what we call EO-lite models. On the other end of the spectrum are robust EO models that, in addition to being broad-based and indirect, are also

7 One example of the broad-based ownership plan is Meidner group proposal adopted by Swedish Confederation of Trade Unions in 1976. Based on the core objective of counteracting private capital concentration, the Meidner Plan proposed a form of sector-wide profit-sharing. Its key innovation was to channel a portion of corporate profits into collectively-owned "wage-earner funds" not as cash, but as new voting shares, administered by unions. This mechanism ensured the plan was distinct from company-specific US ESOPs or eurESOPs. By pooling ownership across entire industries, it prevented inequality between workers in different firms and actively transferred ultimate economic control from private shareholders to workers via trade unions, aiming to democratize ownership of the entire economy within decades (Viktorsson and Gowan 2017).

democratic and large enough in size so that employees could outvote absentee owners in situations of conflicting interests.

Where could the eurESOP model be placed among all these criteria? First, the eurESOP is *indirect* employee ownership because it establishes an intermediary legal entity that assures that ownership moves from one generation of employees to another. Secondly, when it comes to structure, in the early phase of a buyout, when shares are still not paid, it is collective, but with their repayment, the collective capital pool shrinks and the ownership is gradually individualised. By the end of the repayment, ownership of the company is mainly *individualised* as the permanent structure of ownership. The eurESOP is *democratically governed* according to the one person, one vote principle. The governance rights in the eurESOP are not determined by the degree of ownership that one has but by being an employee. The eurESOP is a *broad-based* type of EO. By default, all employees are included, except those who opt out. Great inclusivity of the eurESOP is enabled by a buyout method that ensures workers do not purchase their share through their salaries or personal assets, but through the profit of the company. At the end, the eurESOP allows flexibility about the size of EO, which makes it a suitable solution for conversions in which existing non-employee owners want to keep part of the ownership of the company. As Gonza et al. notice, the eurESOP "allows for a gradual conversion of a capitalist firm into a democratic firm – or, at least, a conversion into a part-democratic firm, where some parts of economic and governance rights are (permanently) attached to firm membership" (Gonza 2025: 254).

The basic mechanism of the eurESOP model of conversion of conventional companies into EO ones starts with establishing a special purpose vehicle (SPV) through which employees will (1) purchase (part of) the company from existing owners and that will (2) hold the share, ensuring that it is always anchored with the current generation of employees. In the Serbian legal framework, the cooperative can fulfil both purposes, although there is a lot of room for improvement, especially when it comes to purpose (2). Additionally, the good feature of cooperatives is that they are democratically organized by default. Preferably, all employees of the company which is intended to be purchased should become members of the cooperative. The democratically elected board of the cooperative, in the name of its employees, purchases the company via credit. The seller has a crucial role in helping the cooperative to obtain the loan. The underlying company could do that in two ways. Directly, through the seller's credit, i.e. acceptance to be paid out over a period of time. However, if the seller wants to be immediately paid out, the underlying company could indirectly ensure that the cooperative obtains the loan from the bank underwriting it. Once the shares are purchased, the cooperative uses the company's profits to service the debt. Since the debt is not repaid through employees' salaries, nor do employees pledge their personal assets, everyone can participate in the company buyout, regardless of their personal circumstances or the size of their income.

After the seller or the bank loan is paid off, the capital of the company is allocated to the Individual Capital Accounts (ICAs) of each employee. The

criterion for this allocation must be democratically decided by the employees. This involves selecting a specific, measurable distribution key. Options include an egalitarian model (equal shares for all) or a differentiated model based on quantifiable factors such as hours worked, seniority, or wage level. The chosen formula is then applied to determine each member's share of the capital. ICAs primarily ensure that employees as owners exercise fully their economic rights, including the right to added value that is reinvested back into the company. They are a form of internal debt that will be paid out once new employees enter the company.

Thanks to ICAs, the eurESOP avoids the horizon problem to which collectivized forms of employee ownership are susceptible, such as the UK's Employee Ownership Trust (EOT), Yugoslav self-managed companies, and regular cooperatives. The horizon problem appears when the structure of EO incentivises immediate payouts of profits through higher salaries or bonuses, leading to long-term underinvestment and the creation of debt that negatively affects the net capital value of the company. There are also other degenerative tendencies of collectivised ownership which are not applicable to Yugoslav self-managed companies because in that case, the net capital value of the firm is not owned by employees but by society in general, so it cannot be sold by them. However, in the cases in which employees are indeed collective owners of the net capital value of the company, as in EOTs and cooperatives, the current generation of employees is incentivised to sell the company to non-employees and in that way realise capital gain. Otherwise, since there is no option to sell shares to the new employees, upon exiting the company, they would have to hand them out for free.

Collectivised ownership is not the only contributing factor to the degeneration of EO companies into conventional companies over time. The US ESOP model faces the same problem, although it has an individualised ownership structure. Many US ESOP companies are sold to non-employers just to repay the accumulated shares their retiring employees have on their ICAs. This happens because the company is unable to repurchase bundled liabilities all at once (Ibid.: 257). To prevent this scenario, eurESOP is using a rollover plan, which is a technical solution that uses profits to constantly purchase the oldest shares on ICAs and distribute them to all the active accounts. When the new employee enters the company and earns their first shares, the oldest shares are purchased from other employees on a first-in, first-out basis to be distributed on the new employee's ICA. In this way, the company as a whole achieves predictability in the repurchase of liabilities. On the other hand, individual employees realise capital gains periodically during their careers, and in that way they lower disparities in risk-taking among themselves. Like conventional companies, EO companies also operate on the market. That means that employees are exposed to risk, not just from job loss but from capital depreciation since they are also holding company shares. The employees who have served longer are more exposed to capital depreciation than the newer ones because they have more shares in their ICAs. However, since through the

rollover plan the oldest shares are purchased every time from the older employees when the new employees enter the company, the eurESOP model ameliorates disparity in risk-taking among employees. In order to ensure long-term stability and fulfilment of buyout obligations, the eurESOP keeps a portion of capital value that is not distributed among members on a collective capital account. With a balanced approach to the structure of capital ownership, the eurESOP prevents the appearance of both the abovementioned incentives to sell the EO company to absentee owners.

To sum up, the eurESOP is a leveraged buyout which, partially or fully, transforms conventional companies into broad-based EO companies. The eurESOP combines the best elements of the Mondragon cooperative and US ESOP, allowing indirect, democratic and mainly individualised EO. The major technical innovation of the eurESOP is the roll-over plan that ensures liquidity, equalises distribution of risks among employees, and anchors ownership within the company.

### The Succession Problem as an Opportunity for Employee Ownership

Over the next 20 years, the baby boomer generation is expected to pass their wealth and assets, including their businesses, onto younger generations. However, the succession of business ownership is a challenge for a significant number of companies, threatening economic growth, business continuity, employment, the value of assets, and owners' legacies. Business ownership succession can be defined as the transfer of business ownership that results from the owners' "wish to retire or exit their business for personal reasons such as ill health. The new owners may be external buyers or come from within the business or owners' families. Successful ownership succession results in a continuation of a business, at least in the short term" (Martin 2002: 6).

Around 450,000 European companies employing two million people are transferred every year, with potentially unsuccessful transfers threatening the continuity of about 150,000 businesses with 600,000 employees annually (European Commission 2011). An overwhelming majority of these transfers in the EU occur in SMEs (European Commission 2020), which account for 99.8% of all enterprises in the non-financial business sector in the EU, employing 84.9 million people (two-thirds of the private sector workforce) and contributing to over half of the total value added generated by businesses (Kraemer-Eis 2023). Most SMEs in the EU are family-owned businesses, and a large majority of family-owned companies are SMEs (European Commission 2009).

Driven by demographic changes and the ageing population, the number of European companies undergoing or expected to undergo succession soon is increasing. In Germany, about 31% of business owners are aged 60 or over, an approximately three-fold increase compared to 20 years earlier (Schwartz 2024). In France, 20.5% of SME owners were aged 60 or more in 2016, a 5.5% increase compared to 2005 (BPCE L'Observatoire 2019).

The business landscape and demographic changes in Serbia mirror the European situation in many respects. Serbian SMEs account for 99.9% of the country's businesses and employ 63.8% of the private sector workforce (Burzanović 2024). Like in the EU, people aged 65 and over represent about 22% of the population (Statistical Office of the Republic of Serbia 2023), a number that is projected to reach about 28.5% by 2053 in Serbia (Statistical Office of the Republic of Serbia 2024) and about 29.4 % in the EU by 2050 (Eurostat 2020). In 2015, 28.1% of all limited liability companies (LLCs) in Serbia, employing over 180,000 people in total, were majority-owned by people aged 55 or over (Vuković 2017: 13). Of those, 54% were 55-60 years old while 43% were aged between 61 and 70 (Ibid.: 17).

Serbia's succession problem is further exacerbated by several factors unique to the Serbian context. A former Yugoslav republic, the country transitioned to a market economy following the collapse of Yugoslavia in the 1990s. With 84.5% of family-owned businesses founded by the current owners (Puhalo and Milanović 2014), and with 92% of Serbia's business owners who are over 55 years old being first-generation owners without prior experience in business succession (Vuković 2017: 19), it can be said that Serbia's current generation of business owners is also its first generation of private business owners. As a result, there is significantly less experience and knowledge among business owners about succession planning – and fewer places to turn to for questions (Ibid.). In 2014, over a quarter of the country's family business owners were approaching retirement, and 36.9% did not have succession plans in place (Puhalo and Milanović 2014).

Traditional succession methods often involve passing the business to a family member or selling the company to an external buyer. Passing business ownership to family members is proving to be a significant challenge for companies: about 70% of family business around the world do not have formal succession plans in place (Calabrò and Valentino 2020) and around 67% do not survive beyond the first generation, a number that drops to 12% when it comes to passing the business onto the third generation (Poza 2010). Selling the business to an external buyer also carries substantial risks. While this path may provide short-term financial gain, external buyers, particularly private equity firms or large corporations, may primarily focus on financial returns. This often leads to deteriorated workplace conditions, job cuts, changes in business strategy, and/or loss of legacy, affecting business owners, economies and local communities. In the worst-case scenario, this could result in the company being sold to a competitor, leading to the disappearance of the business altogether.

EO buyouts have demonstrated their potential in addressing the succession problem in the US and the UK. According to the National Center for Employee Ownership, almost two thirds of US ESOPs were established as part of succession planning efforts (Rodrick 2023). The 6,548 registered US ESOPs cover about 14.9 million participants and hold over $1.8 trillion in assets. In the UK, EOTs were the second-most-chosen exit strategy for business owners in 2023 (Evelyn Partners 2023).

In the absence of sustainable alternatives, ESOP buyouts present a unique solution to keeping ownership within the company and local community. They enable business owners to gradually transfer ownership to their employees through a structured mechanism, whereby employees buy the company using its future profits, and allow for a smooth transition, helping to maintain jobs and preserve the company culture as well as the owners' legacies, and ensuring long-term stability for both the company and the local community.

### Implementation of the eurESOP in Serbia

Serbian Law on Cooperatives does not recognise the possibility of ICAs or roll-over plan, which makes EO companies vulnerable to the degenerative tendencies discussed in section 2.1. This is the major problem with the implementation of the eurESOP in Serbia. The Accounting Act, which applies to cooperatives, does not permit double-entry bookkeeping and ICAs would be recognized as such. Similarly, the roll-over mechanism lacks a legal basis, meaning that in any dispute, a cooperative would be legally obligated to pay members according to the standard law, not the roll-over plan (Lakic and Savanovic 2023: 55). Additionally, there are several other possible obstacles, both in terms of decommodification of ownership and employee buyouts.

When it comes to buyout, employees can establish a cooperative with symbolic contributions and, in that way, create an SPV that will purchase and keep the share of the underlying company. At least five persons can found a cooperative with a minimal member contribution of 100 dinars, which is less than one euro. Therefore, there is no legally required financial gatekeeping for employees to join the cooperative. Nor does the number of employees play a role in the establishment of the cooperative, save for the smallest companies. The Law on Cooperatives offers the opportunity for the creation of an SPV with broad-based employee membership for companies of different sizes, including microenterprises. The cooperative should be registered as a holding cooperative because its purpose is to purchase and control (share of) capital of the underlying company. Although it is not common, it is possible to found a cooperative for holding because the law allows registration for any legal activity.

The problems for the seller may arise before and after the buyout. If the seller is not the only owner of the LLC, they are obliged by law to offer their shares to co-owners before selling them to outsiders. Additionally, further selling limitations could be placed by the company itself that prevent the owner from selling shares to outsiders without the permission of the company (Ibid.: 44-45). Diminished share transferability could constrain the magnitude of employee buyouts as any other outsider buyout. The paradox is that employees are actually insiders in the company, but not in terms of ownership, which current law recognises as only relevant. Besides legal challenges, there are tax-related issues that could also discourage owners from transferring their shares. First, the seller has to pay capital gains tax, which is 15%, except if the seller has owned the share for 10 years or longer. Second, if the seller offers to credit

the purchase, the tax authority could recognise that as a loan and tax the interest, even if the seller credited the purchase without interest (Ibid.: 46-47).

Let us move now to challenges in keeping ownership anchored among employees of the company. Besides the impossibility of application of ICAs and rollover plans in the current legal framework, the Law on Cooperatives poses too low a threshold for making decisions that could undermine employee ownership. Although a cooperative is a legal entity that owns shares of the company that disables any individual employee from selling their own share to non-employees, a simple majority of employees could decide to sell the cooperative and, in that way, share in the underlying company. They can also, by simple majority, open membership for non-employees or close it for new employees of the underlying company, the first resulting in degeneration into a conventional company and later in an exclusive form of employee ownership. Moreover, there is worry that limiting membership of the cooperative only to current employees of the underlying company might be discriminatory due to ambiguities concerning the discretion of the cooperative to decide about the conditions one ought to fulfil to be a member (Ibid.: 36-55). One thing is certain – lawmakers have not written the Law on Cooperatives with the intent of regulating holding cooperatives, nor have other laws in any way stimulate robust, indirect employee buyouts. Recent changes of the Companies Act created a framework for LLCs implementing only EO-lite models. In its current form, the Companies Act allows only direct, exclusive EO (Momčilov and Knežević Bojanić 2024). EO-friendly legal frameworks and tax incentives are powerful tools for democratising and decommodifying business ownership. The Republic of Serbia has to utilise them to address economic injustice.

## Conclusion

Although there is some data about business transfer in Serbia, it is not comprehensive enough for the purpose of policy development. The Government should fund a large-scale research project about the business succession problem in Serbia, so all relevant stakeholders can get insights into important data, such as the number of business owners facing this challenge, their succession plans, conditions under which they would be open to sell the company to their employees, etc.

Additionally, there should be a joint and coordinated effort by relevant state institutions, such as the Ministry of Finance and Chamber of Commerce in raising awareness about the importance and complexity of timely business transfer in Serbia, targeting all SME owners over the age of 55. Special attention should be given to alternative models like employee buyout as one of the most reliable and proven solutions for the business succession problem.

There are at least two paths for implementing employee ownership in Serbia. The first, a classic stock option model given to employees as an incentive, does not involve the employees' participation in decision-making and holds little potential for addressing the business succession problem. The other

option is to implement the eurESOP model through holding cooperatives. Although this approach currently lacks the possibility of creating the roll-over mechanism or ICAs, it represents a potentially sustainable form of inclusive, participatory, and broad-based employee stock ownership that would be the closest to the eurESOP model. Since the holding cooperatives model, which is not explicitly regulated by current Serbian law but is not prohibited either, has never been tested in practice, the recommendation is to pilot the model within the existing legal environment. This would allow for the identification of concrete problems and barriers that may arise in practice, providing a better basis for future legal reforms.

While a holding cooperative can be established under the current legal framework, the cooperative could have systemic structural deficiencies that would put its long-term existence and functionality at risk. Therefore, regulation of holding cooperatives might be necessary to ensure their sustainability, and would help reduce the risk of failure or misuse and align the holding cooperative model more closely with the eurESOP model. The current Cooperative Act allows a cooperative to engage in any type of activity, but it does not recognize holding cooperatives as a specific type of cooperative. The recommendation is to amend the Cooperative Act so that it recognizes holding cooperatives as a specific type of cooperative, with specific rules that apply to this type of cooperative only.

These rules for holding cooperatives should make it clear that any group of employees within a company can establish a holding cooperative; that the company can transfer ownership or a portion of it to the holding cooperative; and that membership in the holding cooperative is conditional upon employment in the underlying company. Under the current Serbia law, making membership in a cooperative conditional upon employment in another company constitutes discrimination and is not legally possible – unless the membership limitation stems from the purpose of the existence and work of the cooperative. By establishing holding cooperatives as a specific type of cooperative whose purpose is to manage the underlying company and its capital, conditioning membership in holding cooperatives upon employment in the underlying company would be objectively justified and rational.

The rules should also specify that, in a holding cooperative, a 90% majority vote of cooperative members is required for any changes to membership conditions or for the sale of cooperative assets, and should recognize the possibility of forming ICAs and implementing roll-over mechanisms within holding cooperatives. Current Serbian laws do not allow for the implementation of ICAs. To be able to implement ICAs in holding cooperatives, equity shares and individual capital accounts should be included as a form of holding cooperative financing, in addition to membership fees and shares. Amendments to the Cooperatives Act should be facilitated by the Ministry of Economy and need to be approved by the Ministry of Finance and the Ministry of Labor. It is estimated that the amendments would take between six and 12 months, from

the moment the Ministry of Economy accepts the proposal to the moment it is adopted in parliament.

When it comes to the tax treatment of holding cooperatives' payments of shares and profits, it is unclear how these will be treated as they are currently not regulated by law. The assumption is that a cooperative's profits would be treated like any other profit, but the fact that no such regulation exists creates uncertainty. To avoid this legal uncertainty, the recommendation is that the Tax Administration amends the Law on Citizens' Income Tax so that it recognizes payments of holding cooperatives' shares and profits and classifies them into some of the existing groups. Then, regardless of the type of tax imposed, the recommendation is to introduce an exemption from the tax on profits for companies that are 51% or more owned by a holding cooperative – conditioned (crawback proposition for at least 10 years) by the prohibition of the sale of the cooperative.

One of the major problems for potential EO companies in Serbia is going to be the difficulty of obtaining a loan for a company buyout through already existing unfavorable market conditions and commercial bank infrastructure. In order to alleviate this, the recommendation is to abolish the tax on capital gains and on statutory default interest when buyout is credited, under the condition that the further transfer of ownership is forbidden for at least 10 years. Additionally, the government can set up an investment fund or create a specialized department within the existing Development Fund of the Republic of Serbia to provide loans to EO enterprises under favorable conditions, such as a long grace period and interest rates lower than market rates. Another option could be the creation of a government credit guarantee scheme specifically intended for future EO enterprises, which would significantly lower the risk of crediting EO firms for private banks. Collectively, these measures represent a robust predistributive framework aimed at lowering economic disparities and establishing a well-ordered society.

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## Borba protiv ekonomske nepravde kroz demokratiju vlasničkog tipa

**Apstrakt**

Rad pruža teorijsko i praktično razmatranje ekonomske nepravde. U prvom delu rada razvija se specifično shvatanje demokratije vlasničkog tipa. Strateškim kombinovanjem dva institucionalna modela – radnički kontrolisane ekonomske demokratije za mala i srednja preduzeća i široko raspodeljenog kupon kapitalizma za velike korporacije – dualni pristup demokratiji vlasničkog tipa prevazilazi ograničenja zasebne primene svakog od modela. U drugom delu rada razmatraju se otkupi preduzeća od strane zaposlenih, posebno kroz upotrebu eurESOP modela, kao konkretan mehanizam tranzicije ka demokratiji vlasničkog tipa. Koristeći post-tranzicionu privredu Srbije, u kojoj se mala i srednja preduzeća suočavaju sa nadolazećom krizom nasleđivanja, kao studiju slučaja, analiza pokazuje kako vlasništvo zaposlenih može istovremeno da reši izazove u kontinuitetu poslovanja i unapredi ekonomsku demokratiju. U zaključku se navode neophodne pravne i fiskalne reforme za unapređenje podsticajnog institucionalnog okruženja za demokratski prenos vlasništva.

Ključne reči: ekonomska nepravda, demokratija vlasničkog tipa, ekonomska demokratija, kupon kapitalizam, vlasništvo zaposlenih, predistribucija, ekonomska nejednakost