

**STATEMENT SUBMITTED FOR THE RECORD OF THE
COMMITTEE ON BUSINESS AND INDUSTRY ON HB 4171 by
J. Michael Keeling, President of The ESOP Association**

Chair Oliveira, and members of the Committee on Business and Industry: First I appreciate the opportunity to share with you why HB 4171's becoming Texas law would benefit Texas, communities in Texas, with employee stock owned companies, the companies, and most of all employees, especially average pay women and men who are essential to the success of our nation's free enterprise economy.

But indulge me a few personal notes. I grew up in Kilgore, Texas, which was the heart of the East Texas Oil field. After graduating from Kilgore High School, I graduated from Yale University, and then obtained a JD from the University of Texas Law School. While in UT Law School, I worked for the Texas Legislature during the summer of 1970 as the research director of the Texas Legislature's Interim Committee on Agriculture Land Taxation, chaired by Senator Wayne Connally.

During the 1971 session of the Texas Legislature, I worked in a consortium of "law students" and our bosses were Senators Babe Schwartz, Oscar Mauzy, and Charles Wilson.

When not working for, and indirectly with the Texas Legislature, I worked in several statewide campaigns, which of course had their campaign headquarters here in Austin.

And after graduation from UT Law, I worked nearly 10 years for Austin Congressman J.J. "Jake" Pickle; and though many years have passed, I think we all know of the Pickle Federal Building, and the UT Pickle Research Center.

So despite my over 26 years as Chief Staff Officer of The ESOP Association, the largest trade association in America representing employee stock ownership owned companies, my bias is still towards Texas, its politics, and its legislative branch.

Thus, it is an honor for me to give Texas legislators my views.

Mr. Chairman, and members, the evidence over the past forty plus years is overwhelming: Employee stock owned companies are more productive, more

competitive, provide better retirement savings, and are more sustainable than conventionally owned companies.

Attachment 1 is a one page summary of the data proving my assertion above.

Yes, Mr. Chairman, the data is macro-data. Some employee owned companies will go bankrupt; some go through hard times with declining stock value—we live in a capitalistic, free enterprise economy, and while capitalistic economies have proven to be the best ever devised by humans, there are no guarantees in such an economic system.

But there is a new book, by respected economists, digging deep into four General Survey's, conducted by the respected National Opinion Research Center based at the University of Chicago, that convincingly evidences employee stock owned companies are four to eight times better in laying off employees than conventionally owned companies.

One chart makes my point: I share in Attachment 2, page 12 of “How Did Employee Owned Firms Weather the Last Two Recessions? Employee Ownership and Firm Survival: 1999-2011”, Kurtulus, University of Massachusetts, and Kruse, Rutgers University.

Page 12 has a bar graph, of layoffs of American employees in 2002, 2006, 2010, and 2014. The bars on the graph represent layoffs uncovered by the GSS, most prestigious survey of Americans next to the Census, funded by the National Science Foundation. The long bars are layoff percentages by conventionally owned firms. The short, dark bars are percentage of layoffs by employee stock owned companies in the same time period.

Members of the Business and Industry Committee, what do we hear in campaign after campaign, over and over, from left, center, and right candidates, all proclaiming she or he will create jobs—repeating over and over “I am the jobs candidate!”

Well, as Attachment 2 shows, the best jobs policy is policy that encourages the creation and operation of employee owned stock companies.

When our people have jobs, which most Americans do have, and do want, they pay income taxes, they pay Social Security taxes, Medicare taxes, and, yes, with more steady income, they pay more sales taxes as they purchase more.

I do not submit this statement proclaiming I have significant knowledge of the State of Texas HUB program. I would never second guess the Committee and its staff review of the HUB program, and how it fits into the overall Texas economic development program.

^ All I am saying is having making majority-owned ESOP companies in Texas, and having more, eligible for the HUB preference, will benefit Texas, and all Texas employees of ESOP companies, and those who will become employee owners.

In finishing, let me give you a reason, from the vantage of the ESOP community, why our community would sing the praises of Texas if HB 4171, by Representative Guillen, became law.

As experts on HUB, you are familiar with the national Small Business Administration's preference program, referred to as the 8(a) program. Despite a small business, founded and owned by a class eligible for 8(a)—women, minorities, certain veterans, when that 8(a) company becomes majority owned through an ESOP, SBA takes away the preference, even though the company leadership and employee make up does not change. SBA says to small businesses once owned by the preferred class of individuals, "Sorry no preference for you!"

The ESOP Association has advocated for the U.S. Congress to stop the SBA bias against employee stock ownership. Our community is pushing for enactment of a bill in the U.S. Congress to "grandfather" the preference for eligible small businesses when they become majority owned by an ESOP. This bill has bi-partisan support in our Congress, and you know how unusual bi-partisanship has become in Washington.

In sum, Chair Oliveria, and members of the Committee, lead the way, not just for Texas, but for our nation. Demonstrate that Texas, a very populous state with a very large economy, that you endorse Texas's having a policy that is the best jobs policy in our nation—employee stock ownership.

I thank you for receiving this Texas "boy's" statement on HB 4171.