SECURITY FOR WORKERS IN THE GLOBAL ECONOMY:

THE CASE FOR WORKER-OWNED BUSINESSES

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In the last few years, "globalisation" has become an in-word. There is a large literature about it — a literature in which it is often difficult to separate hard facts from hot air. One meaning of globalisation is free trade, that is, the free movement of goods across borders. This was always one of the main goals of the classical liberals of the 18th and 19th Centuries, and its achievement should be welcomed by everyone. However, globalisation can also mean other things. One of them is the ability of companies to move production to any part of the world, to take advantage of the cheapest labour. This means that millions of workers are worried that their jobs are going to disappear and reappear in another country. Some people have drawn pessimistic conclusions from this development. For example, Ian Angell has painted a grim picture of a world ruled by a master race of symbolic analysts, with the rest of mankind crawling to them for favours (see Angell 1995). A future like this is totally repugnant to those of us who want ordinary people to be in control of their own lives and do not recognise any master races or believe in Nietzsche's might-is-right philosophy. The purpose of this essay is to suggest an alternative way forward.

A TWO-HUNDRED-YEAR-OLD PROBLEM

If the majority of the shares in a company were owned by the employees, they would not vote to export their own jobs overseas. Of course, in most companies today, the workers do not own the majority of the shares, but that is just a historical accident. What interests me is how it happened. Before the Industrial Revolution (that is, before the 18th Century) most of the business enterprises in the economy were farms or cottage industries, run by families, and every family had at least a reasonable chance of acquiring their own business and becoming self-employed. After the Industrial Revolution, that became impossible because of economies of scale. Advances in technology meant that businesses had to be bigger, and there was not enough room in the economy for every family to own one. What happened was that a few family businesses expanded and employed more and more workers, none of whom had any share in the ownership of the business. Later, in the second half of the 19th Century, an increasing number of family businesses started to convert themselves into joint-stock companies in order to raise more capital. Thousands of people bought shares, but they were not usually the same people who worked for the company. That trend has continued to this day, and the number of shareholders is now in the millions, but the divorce between labour and ownership still remains.

The existence of millions of workers with no capital, which was a consequence of the Industrial Revolution, was the main cause of the rise of socialism. Workers with no capital are insecure, because their whole income depends on supplying one single service to one single customer, namely their employer, and because they have no productive assets which they can sell for cash in the event of a crisis. Many workers tried to make their position more secure by voting for more state control over the economy, or by setting up labour cartels (that is, trade unions) and forcing wages above the market level by obtaining special privileges or resorting to the threat of violence. Today socialism is being abandoned as a failure, but we should not forget that it was an attempt to solve a real problem. After two hundred years that problem still exists, and globalisation has merely given it a new twist. Even though millions of people now own shares, most of them still depend on their labour for their main source of income.

THE ADVANTAGES OF EMPLOYEE SHARE OWNERSHIP

If a company is owned by its own workers, it is much easier to develop a team spirit which makes the business efficient and profitable. The advantages of this, and the disadvantages of the present state of affairs, have been summed up very well by Robert Oakeshott:

> If we take the question of teamwork, the need plainly is for a set of arrangements which will give all members of the team the same objectives. At the very least we must avoid any pattern which gives quite different objectives to different subgroups within the production team. For that is to choose a system with a built-in source of conflict. Of course, the arrangements which exist in both private and state capitalism are precisely of the second kind. Under both systems net business income, the net product of the enterprise after payment of all expenses, including financial charges, is divided into two quite separate parts: one part, called wages and salaries (normally in some sense fixed), goes to labour; the rest and this may, of course, be a profit or a loss — goes to capital. If we add that for more or less formal reasons one group of workers in a production team traditionally links its main interests with those of capital while the other, the shop floor, having no very direct interest in doing so, rarely does, it is easy to see why existing structures simply divide the enterprise into the two separate (and normally hostile) camps of management and labour. It is surely impossible to believe that rational and intelligent people, starting from scratch, would choose such a structure when organising activities which depend on teamwork for their success.
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> (Oakeshott 1978, pp. 3-4)

Another advantage of employee share ownership is that worker-shareholders have inside knowledge of how a company is run. If it is being badly managed, they are much better equipped than outside shareholders to raise the problem at a general meeting and call the management to account, and their investment gives them the motive to do so. They can have a more effective voice if their proxies are all held by a voting trust which can exercise a block vote, but even one shareholder can sometimes make a difference. As George Copeman has explained:

> The City's love affair with the absentee owner and its almost total neglect of the people who work in the business have disastrous consequences for industrial relations, and hence for the performance of the very companies which the City claims to serve. Here is a typical example. When gas was discovered in the North Sea, a relatively obscure engineering company found itself well placed to provide some of the essential supplies. The later discovery of oil increased still further this company's prospects. Profits bounded upwards, the company obtained a stock exchange listing and its shares became the darling of tipsters and speculators. For a year it was Top of the Pops. Five years later, the shares had plummeted, though the demand for the company's products was stronger than ever. What went wrong? Industrial relations at the company's key works at an East Coast port had become so bad that the works had to be closed. The City and the company's management, in their financial dealings, had ignored the very people who worked in the business. It needed only one employee in that East Coast engineering works to have a sense of injustice and an above-average numerical skill, for him to start taking an interest in share prices and doing a few quick calculations on the back of an envelope. ... "What's going on here?"
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> (Copeman 1975, pp. 30-31)

Against these advantages must be set one disadvantage. If a worker invests his savings in the firm which employs him, he has

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all his eggs in one basket. If the company goes bankrupt, he loses his investment as well as his job. By allowing people from outside the workforce to own shares, companies enable investors to spread their risks. Even so, it should still be possible to arrive at a balance between inside and outside shareholders which achieves the best of both worlds.

INDUSTRIAL ORGANISATION: JOINT-STOCK OR CO-OPERATIVE

Given that ownership of a business by the employees has all these advantages, why is it not more common? One reason is the difficulty of finding a suitable form of organisation. In the 19th Century, nationalisation and trade unionism were not the only policies proposed by socialists as a means of improving workers' living standards. There was also the co-operative movement. Throughout the 19th Century, workers repeatedly tried to set up businesses which they themselves owned, organised on co-operative lines. Some workers' co-ops founded in the 19th Century still exist to this day, and in the last thirty years the co-operative movement has undergone a minor revival. However, the vast majority of businesses are still joint-stock companies rather than co-operatives, and the reasons for this are worth discussing.

To become a shareholder in a joint-stock company, you just have to buy shares, and anyone can do so. In a workers' co-operative, on the other hand, ownership is reserved for the employees. Outside shareholders may not be allowed at all, or, if they are allowed, they can only own loan stock or preference shares with fixed interest. With no outside shareholders, a co-op is always short of capital and finds it difficult to expand, because the only source of new capital is reinvested profits. It cannot raise capital by issuing new shares. It is worth noting that the biggest workers' co-ops in Britain today, such as the John Lewis Partnership (in retailing) and the Scott-Bader Commonwealth (in chemicals and plastics), were not founded as co-ops; they were originally joint-stock companies owned by one family, and were given to the workers as an act of philanthropy. There is also the problem of what to do when a worker resigns from his job. If outsiders cannot be owners, there are two possibilities. On one hand, his stake in the co-op can be paid to him in cash, which weakens the business by depriving it of capital. On the other hand, he can be required to forfeit his ownership rights, which means that the members of the co-op have an incentive to short-termism. If the co-op makes an investment which will only make a profit in the long term, the members may have left by that time, in which case they will gain nothing, so it is in their interests for them to pay themselves too much in wages and bonuses and reinvest too little. When a business is organised on joint-stock lines, and there is a market in the shares, the price of the shares depends partly on the profits that they are earning now, but partly on the profits that they are expected to earn in the future. If the company makes a long-term investment, the shareholders still benefit right away, because the price of their shares rises, and they can sell at a profit if they choose. In a workers' co-op, because the members are not free to sell their stake in the business to any buyer, it is impossible for them to benefit immediately from a long-term investment.

If a co-op allows outsiders to invest in it by issuing bonds or preference shares, it must pay interest on them at a fixed rate, and repay the loan when the bonds mature, whether or not the business is making a profit. This places a burden on it which may force it into bankruptcy. (In other words, the business suffers from high gearing.) On the other hand, the dividend on ordinary shares can be cancelled if a company is losing money. There have also been paradoxical cases in which a co-op was put into liquidation by the outside shareholders despite being a profitable business. This happened because the outside shareholders had become the majority and the co-op owned an asset such as land which had increased in value. Since the outside shareholders were not employed in the business, they had no incentive to maintain it as a going concern, and since the rate of interest was fixed, and they could not make capital gains because there was no market in the shares, they had no other way of releasing the value of their capital.

While a workers' co-operative has all these disadvantages, a worker-owned joint-stock company has disadvantages of its own. For example, there is the problem of how to maintain worker ownership after the retirement of the generation of workers who founded or bought the business. As shares gradually pass out of the hands of employees, through retirement or death, this must be counteracted by some sort of arrangement for buying shares on the market and offering them to new employees on easy terms. If the company was originally bought by the workers at a time of crisis, to save jobs, the problem of maintaining worker control may arise much sooner. For example, take the National Freight Consortium. This road haulage company was one of the first big privatisations of the Thatcher era. The government sold it to the workers in 1982 on the initiative of the Chairman, Peter Thompson, because it was widely regarded as a lame duck and there were no other offers for it. Over the next few years it underwent a remarkable improvement in profitability, and in 1989 it was floated on the Stock Exchange. At that time, over 80% of the shares were held by the employees, but by 1995 the proportion had fallen to less than 10%, because thousands of workers had sold their shares in order to realise the capital gains achieved by their hard work. Worker ownership had become a victim of its own success. (For further information on the history of the company in the early years of private ownership, see Thompson 1990.) In America, the Chicago and North-Western Railway went through the same cycle. In 1972 it was put up for sale by its parent company, North-West Industries, because it was not profitable enough, and the workers bought it to keep their jobs secure. The company's profits gradually rose, as did the share price, and during the 1980s it ceased to be a worker-owned business because more and more of the worker-shareholders sold out. Eventually, in 1995, it was taken over by a bigger railway company, the Union Pacific. It seems that a worker-owned company has a better chance of staying worker-owned if it is not bought by the employees as a direct response to an impending change of ownership due to unprofitability.

A NEW OPPORTUNITY IN THE POST-SOCIALIST AGE

Apart from all these problems, I think there is one other important reason why worker-owned businesses are the exception rather than the rule. That reason is the lack of experimentation. Perhaps the problem of finding a feasible method of organisation can only be solved empirically, by trial and error, not theoretically. For over a century, workers put most of their energies into state socialism and trade unionism, and the co-operative movement came a poor third. At the same time, efforts by businessmen to encourage employee share ownership were mistrusted by workers, who thought the whole idea was a bosses' plot. Perhaps there were just not enough experiments with different forms of worker ownership for anyone to discover a system that really worked well.

Today the age of socialism is ending. The policies that the labour movement fought for have been discredited. However, the same old problems still exist, so it is time to try new solutions.

Worker-owned businesses have always been an idea that makes sense, because they can achieve the advantages of job security, team spirit and accountable management. In the past their growth has been stifled by socialism. In the post-socialist age, perhaps their time will finally come.

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Peter Thompson, *Sharing the Success*, Collins, London, 1990.

For a list of further reading on the history of worker-owned businesses, see: Roderick Moore, *Self-Help in the Past, the Present and the Future*, Study Guide No. 5, Libertarian Alliance, London, 1995.

The following books are also useful:

Keith Bradley and Alan Gelb, *Worker Capitalism*, Heinemann, London, 1983. Discusses worker-owned businesses as candidates for state subsidies rather than examples of self-help, but still a useful source of background information, especially about the USA.

Jenny Thornley, *Workers' Co-operatives: Jobs and Dreams*, Heinemann, London, 1981. A history of British workers' co-ops which also includes chapters on France and Italy. Discusses failures as well as successes.