

Wealth at Work: Employee Ownership and Responsible Accumulation

Christopher Mackin
Ownership Associates, Inc., Cambridge, MA
affiliated with
Harvard Trade Union Program and SweatX, Inc.¹

Real Utopias Conference
University of Wisconsin
June 25-27, 2004

Revised 6-22-04

Contents

Abstract

- I. Data: What Wealth Has Employee Ownership Produced?
- II. Employee Ownership and the Cognoscenti – Where is the Love? A Seven Part Analysis
- III. Why Wealth at Work?

Abstract

It might be inferred that the core problem that Robin Blackburn addresses in his 2003 paper *The Great Pension Crisis: From Grey Capitalism to Responsible Accumulation* is the familiar problem of concentrated wealth. Blackburn proposes to attack this problem by introducing the general notion of “second pensions” that build upon core public pension schemes. The funding of second pensions we learn can be addressed through the introduction of a five part challenge to the status quo involving, most prominently, the idea of a share levy that will require all corporations to issue new shares to a public pension trust fund each year equivalent to 10 percent of their profits.

The problem of concentrated wealth is sufficiently daunting to encourage a broad range of strategies. Blackburn’s paper contains breadth. And the share levy concept, while challenging to the practical political imagination – “Expropriation!, you insist Congressman Delay?,” - is certainly a move in the right direction. What is missing from Blackburn’s paper is any reference to a vaguely familiar chestnut that once thrilled large thinkers on the liberal left from John Stuart Mill through the Guild Socialists to Alfred Marshall before it fell off the left wing table. That chestnut, which has arguably produced more in the way of tangible assets in the hands of working people than any of the 5 other worthy ideas that Blackburn puts forward in his paper, is worker ownership.

The lineage of the idea of worker ownership is complex and cross cultural. About the same time in the 19th century that the Scottish industrialist, Robert Owen helped to found the Rochdale Pioneers Cooperative Society, a Pennsylvanian iron moulder turned union

¹ The ideas presented in this paper represent those of the author alone and not that of Ownership Associates, Inc. the Harvard Trade Union Program or SweatX, Inc.

organizer by the name of William Sylvis founded the National Labor Union. Both saw in the idea of producer ownership an alternative to the emerging capitalist order with its wage contracts. William Sylvis famously opined about what he called the dangers of “wage slavery.” In a frequently cited speech he stated “So long as we continue to work for wages, so long will we be subjected to small pay, poverty and all of the evils of which we complain”²

Fast forward to the early 21st century and one finds four centers of activity of note:

1. With marginal exceptions, in the United States and Britain, the ideas of Sylvis and Owen have largely been appropriated by the theories of Louis Kelso, the inventor of Employee Stock Ownership Plans. In the United States alone, ESOPs cover approximately 10 million private sector workers in 11,000 different plans whose combined economic value approaches \$400 Billion dollars.
2. In the Basque region of Spain, the Mondragon Cooperative Corporation www.mcc.es is nearing its 50th anniversary. Structurally, Mondragon holds fast to early cooperative principles, employs nearly 40,000 workers in over 100 enterprises with combined sales of \$7 Billion dollars. Mondragon houses its own bank and social security system with assets of over \$8 billion dollars
3. In Emilia-Romagna sector of Italy near Bologna where over 60,000 workers belong to 1,800 cooperatives that constitute 45% of the regional GDP.
4. In Argentina, where, since the collapse of the neo-liberal economy in 2002, there have emerged at least 200 worker takeovers of factories that collectively employ over 10,000 workers.

It is worth speculating why left of center analysts like Blackburn and Wright appear to neglect the worker ownership tradition of thought. We will speculate below. Perhaps more useful than theoretical speculations about sources of left wing resistance however would be a close review of the facts of what worker ownership has produced by way of tangible economic benefits for working people.

This paper will review available and it should be emphasized, scant evidence on the wealth sharing performance of worker ownership. Even though data concerning the wealth sharing performance of worker ownership is scant, the evidence that does exist suggests that a program of encouraging broad based employee ownership of private sector enterprises, adequately “hedged” by the inclusion of diversified pension plans that will prevent a concentration of resources at the level of the individual firm, should be included among the 6 strategies that Blackburn recommends to address the problem of overly concentrated wealth.

This treatment of the facts as well as my subsequent discussion combines into one category, with various usages throughout this paper, the following descriptive categories; worker control, worker ownership, employee ownership, cooperative ownership, labor managed firms and Employee Stock Ownership Plans or ESOPs. A future technical appendix will give these distinct descriptions their narrative due. It is the claim of this

² Grob, Gerald, 1961. *Workers and Utopia*, Evanston, IL.

author that the differences among these categories are not trivial but that they are sufficiently linked in practice to justify a common use.

I. Data: What Wealth Has Employee Ownership Produced?

Before summoning the common measuring stick of how employee ownership contributes to wealth formation, it should be mentioned that the idea of worker ownership has long been embraced on non-economic grounds. The father of modern economics, John Stuart Mill, wrote at length about what he saw as efficiency and productivity advantages of what he called workers cooperatives. He also wrote about what he called the social and moral changes that cooperatives could bring to social life:

“The form of association which if mankind continue to improve must be expected in the end to predominate is not that which can exist between a capitalist as chief and workpeople without a voice in the management but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves.”³

These arrangements, according to Mill, would realize not only material benefits

“which yet is as nothing compared with the moral revolution in society that would accompany it: the healing of the standing feud between capital and labor; the transformation of human life from a conflict of classes struggling for opposite interest to a friendly rivalry in the pursuit of good common to all; the elevation of the dignity of labour; a new sense of security and independence in the labouring class; and the conversion of each human being’s daily occupation into a school of the social sympathies and the practical intelligence.”⁴

Mill was followed in this line of thinking by another economist of note, Alfred Marshall⁵ but also by a range of public intellectuals and scholars including Louis Brandeis,⁶ Leland Stanford,⁷ Robert Brookings,⁸ Carol Pateman,⁹ C.B Macpherson,¹⁰ Robert Oakeshott,¹¹

³ Mill, John Stuart. 1871b. Principles of Political Economy. Books III-V and Appendices [1848], edited by J.M. Robson. Vol. 3 of the Collective Works of John Stuart Mill. Toronto: University of Toronto Press, 1965. p. 775. Sources cited in *John Stuart Mill and Alfred Marshall on Worker Ownership*, Hans E. Jensen, January, 1994 (unpublished monograph, University of Tennessee).

⁴ Ibid p. 792

⁵ Marshall, Alfred. 1889. “Cooperation” In Memorials of Alfred Marshall, edited by C.A. Pigou, pps.225-255. London:Macmillan and Co., 1925. “This great co-operative federation would be a means by which the working classes would help themselves. Its strength would be a moral strength; would rest on the broad basis of democracy and of equity; its gains would be divided out among all consumers, those consumers being in great part the producers themselves, consuming in proportion to their earnings, and earnings in proportion to their efficiency.” (p.236). Source cited in *John Stuart Mill and Alfred Marshall on Worker Ownership*, Hans E. Jensen, January, 1994 (unpublished monograph, University of Tennessee).

⁶ Strum, Phillippa 1993 Brandeis: Beyond Progressivism. University Press of Kansas, Lawrence, Kansas

⁷ Altenberg, Lee. 1990. Beyond Capitalism: Leland Stanford’s Forgotten Vision. Published in *Sandstone and Tile*, Vol. 14 (1): 8-20, Winter 1990, Stanford Historical Society, Stanford, California.

⁸ Brookings, R. S. 1932. The Way Forward. New York: MacMillan. “to require that [interstate] corporations should reincorporate under a federal incorporation act; which act, while securing to capital a fair return at a fixed rate of interest and dividends, risk considered, would divide all additional profit or accretions in the form of labor shares between the employees (management and labor) in the ratio of their individual contribution, probably as recorded by their wage or salary compensation.” [Brookings 1932, 17-

Robert Dahl,¹² David Ellerman,¹³ Jeff Gates,¹⁴ William Greider¹⁵ and most recently David Erdal.¹⁶

Erdal's work has helped to convert general moral enthusiasm for these ideas to an accounting of how they appear to contribute to public health. In his studies of the Italian cooperative movement, Erdal found statistically significant positive advantages on measures of health, education, crime, social participation and perception of the social environment in a community, Imola, Italy, with a large concentration of cooperative ownership when compared to nearby communities with no cooperatives and a modest concentration of cooperatives respectively.

Perhaps most interestingly, Erdal found that in the community with the largest concentration of cooperatives (Imola), the citizens lived longer. Longevity appeared to be caused by a significant difference in the rates of cardiovascular mortality. Citizens of Imola have fewer heart attacks and strokes.

But so much for non-material measures. What does employee ownership materially produce for employees?

The Wealth Sharing Effects of ESOPs in the United States

Employee Stock Ownership Plans (ESOPs) are the primary tool for introducing employee ownership in the United States economy. There are reported to be 11,000 ESOPs that collectively employ approximately 10 Million workers across the United States.¹⁷ The combined value of all ESOP accounts in the United States is estimated to be \$400 Billion dollars.

18]. "This reform would consist largely in the rental of capital by the workers and management, stabilizing a fair rental return for it while leaving the workers and management as their remuneration all the profits." [Brookings 1932, 73-74]

⁹ Pateman, Carol. 1975. Participation and Democratic Theory. Cambridge University Press

¹⁰ MacPherson, C.B. 1977. The Life and Times of Liberal Democracy. Oxford University Press

¹¹ Oakeshott, Robert. 1978. The Case for Worker's Cooperatives. Routledge and Kegan Paul

¹² Dahl, Robert. 1986. A Preface to Economic Democracy. Quantum Books

¹³ Ellerman, David. 1992. Property and Contract in Economics: The case for Economic Democracy. Basil Blackwell. And Ellerman, David. 2004. *Whither Self-Management? Finding New Paths to Workplace Democracy* Keynote Address for 12th Annual Conference International Association for the Economics of Participation July 8, 2004 Halifax Canada.

¹⁴ Gates, Jeff. 1998. The Ownership Solution: Toward a Shared Capitalism in 21st Century America. Perseus Books.

¹⁵ Greider, William. 2003. The Soul of Capitalism: Opening Paths to a Moral Economy. Simon & Schuster.

¹⁶ Erdal, David. 2003. "'Are humans adapted for an egalitarian social environment? or Employee ownership makes you live longer'" Paper delivered to the International Centre for Health and Society Seminar, University College London 13 October 2003.

¹⁷ Statistics cited are drawn from the National Center for Employee Ownership, Oakland, CA www.nceo.org

ESOPs appear to spread wealth but the spreading of wealth does not come without a cost to the public treasury. ESOPs exist because of tax incentives encoded in Federal law that are estimated to have cost \$18 Billion dollars since their inception in 1974.¹⁸

There have been two empirical studies of the wealth effects of employee ownership through the use of ESOPs in Washington State, using 1995 data and in Massachusetts using 1999 data.¹⁹ The first study by Kardas, Scharf and Keogh²⁰ took place in Washington State and investigated how the value of retirement assets in ESOP companies compares to the value of retirement assets in other companies, and how wages in ESOP companies compare to wages in comparable non-ESOP companies.

To get at these questions, the population of 102 ESOP companies in Washington State was identified and matched with a group of control companies of the same size and industrial sector. All 601 companies--102 ESOP companies and 499 matched controls--were surveyed, producing usable responses from 37 ESOP companies matched up with 68 control companies, all of which provided detailed information on the value of assets held by all retirement plans.

The survey found that:

- *ESOP firms provide their employees significantly higher retirement wealth than similar non-ESOP firms.*
- *Wages in ESOP companies are higher than in similar non-ESOP firms.*

More precisely, looking just at ESOP assets, the average Washington ESOP participant's account value was worth \$24,260. The average value of all retirement benefits in ESOP companies was \$32,213. This figure was substantially higher than the average value of \$12,735 in the comparison companies.

| Washington State Pension Assets Per Participant (from Survey) | |
|--|-----------------------------|
| ESOP Companies | Comparison Companies |
| \$32,213 | \$12,735 |

¹⁸ There has been no formal policy research on the cost of ESOP tax incentives to date. This figure was derived from conversations with Corey Rosen, Executive Director of the National Center for Employee Ownership, Oakland, CA and Michael Keeling, Executive Director, ESOP Association of America, Washington, D.C.

¹⁹ Information in this account of the wealth sharing effects of ESOPs is drawn substantially from an unpublished essay called *Show Them the Money*, by Adria Scharf to be found on the web site of Ownership Associates, Inc. www.ownershipassociates.com

²⁰ "Wealth And Income Consequences of Employee Ownership: A Comparative Study From Washington State," Peter A. Kardas, Adria L. Scharf, Jim Keogh, 1998, *The Journal of Employee Ownership Law and Finance*, 10(4): 3-52

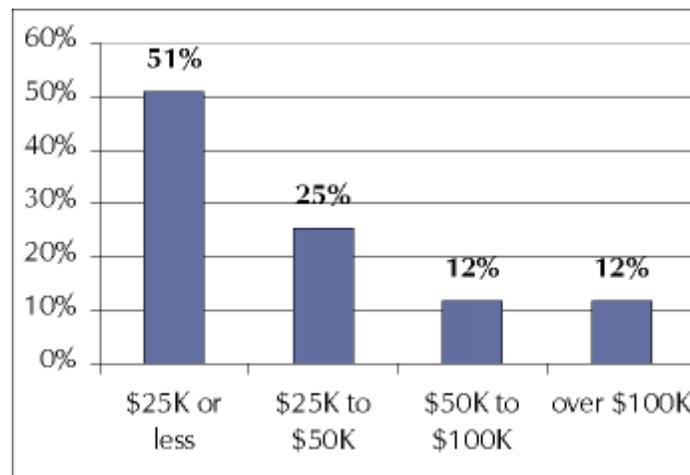
In terms of wages, the median ESOP company wage of \$15.18 was 12% higher than the median control company wage of \$13.53. ESOP wealth did not come at the cost of current income or earnings.

The Massachusetts study²¹ pursued a simpler research design, analyzing only ESOP assets (not total pension wealth). It did not include a comparison group of non-ESOP companies. The Massachusetts study identified all ESOPs in the state of Massachusetts and surveyed those firms on numerous topics, including the value of assets held by their ESOP trust.

All known ESOP companies in the state were surveyed. Of those 89 ESOP companies, 60 completed the survey. Of the 60 surveyed ESOP companies, the total value of assets held by the 51 ESOP companies that disclosed trust asset values came to over \$1 billion dollars (1999 information).

Dividing the total wealth figure by the number of participants in the 51 ESOPs (25,633 individuals) produces a per participant wealth estimate of: \$39,895.

**Chart: Distribution of ESOP account values in Massachusetts ESOPs
(Percent of ESOPs)**



In sum, the Massachusetts study found that:

- *The per participant wealth held for employees in Massachusetts ESOPs is \$39,895.*
- *Average ESOP participant holdings range from \$0 to \$396,000.*
- *12% of ESOPs have average participant accounts worth over \$100,000.*

In light of the downturn on Wall Street in the period 2000-2003, the changed economic context should be noted. The findings reported here were based on ESOP asset values in

²¹ Census of Massachusetts Companies with Employee Stock Ownership Plans,” Adria L. Scharf and Christopher Mackin, 2000, publication of the Commonwealth Corporation, Boston, MA.

1995 and 1999. Because many of these closely-held companies see their price vary with the companies in the rest of the economy, it is possible that asset values declined since these figures were reported but then again rebounded, at least in part, in 2003 and 2004.

One reassuring piece of information emerges from the surveys contradicts a common critique of ESOPs that they concentrate assets at the level of the firm. The findings of this research were that a vast majority of companies with ESOPs utilize the ESOP as a supplemental or secondary pension. In Massachusetts, fifty-five (92%) of surveyed ESOP companies provide another retirement plan in addition to the ESOP.

Additional confirmatory studies of the wealth effects of ESOPs are needed. It appears from the research conducted to date however that ESOPs are a powerful tool for sharing wealth. In Washington State the evidence was also clear that ESOP employees fare far better in terms of overall retirement assets than do employees at similar competitor firms, *without* sacrificing their wages. In Massachusetts, the per-participant wealth held by ESOPs represents a sum equal to the average annual paycheck in the state.

Future studies of the wealth effects of ESOPs should take into account the foregone tax expenditures that ESOPs have cost the public treasury as well as the productivity advances that may have lead to increased job creation and tax revenue collected at both the corporate and individual level.

The Wealth Sharing Effects of Cooperatives in Mondragon, Spain

The Mondragon Cooperative Corporation www.mcc.es, located in the Basque region of Spain, is an umbrella corporation that coordinates the commercial activities of over 100 worker owned enterprises collectively employing over 68,000 employees. In an essay on the Mondragon Group entitled *The Mondragon Cooperative Corporation: An Introduction*,²² Fred Freundlich of Ownership Associates, Inc. provides the following statistical background:

MCC firms are the leading producer of domestic appliances and machine tools in Spain, the largest domestically-based supermarket chain in the country, and the third largest supplier of automotive components in Europe. Among its other products and services, one finds automated manufacturing cells, satellite dishes, luxury buses, industrial presses, large metal structures, engineering consulting, and software development, to name a few.

Solid comparative performance data on measures profitability and productivity are hard to come by. Further, the MCC accepts a number of costs, such as support for a variety of educational institutions, that ordinary corporations do not, which makes comparing margins

²² *The Mondragon Cooperative Corporation: An Introduction*. Paper presented at Shared Capitalism: Mapping the Research Agenda, a conference sponsored by the National Bureau of Economic Research Madison Hotel, Washington D.C., May 22 - 23, 1998. A full copy of this paper is available at <http://www.ownershipassociates.com/mcc-intro.shtm>.

deceptive. The comparative research that is available generally shows that the MCC outperforms its conventionally-owned counterparts. Preliminary data on the machine tool sector, for example, indicate that companies in MCC's machine tool division are approximately 5.6% more efficient (value of output for a given value of inputs) than competitors in the region for the period 1990-1993.

A current summary of vital statistics describing Mondragon, drawn from its web site, www.mcc.es is included below.

(In millions of dollars, using exchange rate of 1.2 euro to the dollar)

| Category | 2003 |
|---|-------------|
| Total MCC assets | \$19,571 |
| MCC Equity | \$3,937 |
| MCC Consolidated Profits | \$492 |
| Caja Laboral intermediary resources | \$11,096 |
| Lagun-Aro Equity Fund | \$3,319 |
| Total Sales (Industrial and Distribution) | \$11,586 |
| International Sales | \$3,061 |
| MCC Total Investments | \$19,571 |
| Workforce | 68,260 |

The political and cultural history of Mondragon, which was founded in large part by a Catholic priest who fought in the resistance against Franco, has been the topic of several books and articles of note. William Foote Whyte and Katherine Whyte's 1991 book entitled *Making Mondragon: The Growth and Dynamics of the Worker Cooperative Complex*²³ helped to introduce Mondragon to a general audience and ushered in a range of research treatments of Mondragon both supportive and critical.²⁴

The factor of most relevance to this discussion however regards the putative wealth sharing effects of Mondragon for its individual participants. No formal research has been performed on the wealth effects of the Mondragon Cooperatives. In June of 2004 however, Fred Freundlich consulted with officials of Mondragon and produced the following analysis and estimates.

Under Spanish law, worker members of cooperative firms, including the Mondragon Cooperative Corporation, participate are classified as self-employed and therefore only partially in the Spanish state retirement system. Retirement income for Mondragon workers is therefore comprised of a combination of dividend-like interest and principal

²³ Whyte, William, F. and Whyte, Katherine. 1991 (revised). *Making Mondragon: The Growth and Dynamics of the Worker Cooperative Complex*, Cornell University ILR Press.

²⁴ Moye, A. Melissa. "Mondragon: Adapting Co-operatives to Meet the Demands of a Changing Environment" *Economic and Industrial Democracy* 14:2 (1993).

from individual capital accounts in their respective cooperatives, from a social security and health maintenance organization like structure created by Mondragon called Lagun-Aro and, from the state system. Funds from Lagun-Aro and the Spanish state are combined and result in retirees being paid approximately 60% of the best 30 years of pay (adjusted for inflation) per year. A conservative estimate of mean worker pay is estimated to be \$2,000 per month or \$24,000 per year. Sixty percent (60%) of that pay amounts to \$14,400 per year.

Membership capital funds from workers individual cooperative are typically paid in full as a lump sum upon retirement from the central financial institution controlled by the Cooperative Group, the Caja Laboral Popular. Dividend-like interest is paid on the principal in each individual capital account on an annual basis during the active working life of Mondragon workers. The most recent interest rate paid is 7%.

Since 1980 profit distributions that are booked to individual worker accounts have averaged approximately \$4,500 per year. This estimate accounts only for the principal of individual member accounts. Since there is variation in profitability as well as variation in the work life tenure of Mondragon workers, two estimates of total retirement assets (principal only) should be considered as follows:

| MCC Individual Internal Capital Accounts - Averages (Mean) | Modest | Moderate |
|--|----------|-----------|
| Years of Work | 25 | 35 |
| Annual Income | \$24,000 | \$34,615 |
| Average Profit Distribution per year ²⁵ | \$3,000 | \$4,500 |
| Total | \$75,000 | \$157,500 |
| 15 year retirement horizon Age 65-80 -Annual ²⁶ MCC Payment | \$5,000 | \$10,500 |
| Annual State Social Security Payment with Lagun Aro ptcptn. | \$14,400 | \$20,769 |
| Total Annual Retirement | \$19,400 | \$31,269 |

The Wealth Sharing Effects of Cooperatives in Italy and Argentina

This author is not aware of the existence of hard economic data on the wealth effects of the two remaining worker ownership initiatives referenced at this beginning of this paper in Italy and in Argentina.

²⁵ There is no guarantee of annual profitability. Profitability is also recorded on an individualized cooperative by cooperative basis. There are no figures available that document individual and system wide profitability over the nearly 50 year life of the Mondragon “experiment” as they call it. Research (Whyte and Whyte, 1991, Thomas and Logan, 1982) that has investigated Mondragon performance has reported that losses have been infrequent.

²⁶ Payments of individual internal capital accounts are typically paid in full upon retirement. This figure is supplied to provide an annualized basis of comparison with state social security payments.

II. Employee Ownership and the Cognoscenti – Where is the Love? A Seven Part Analysis

In an era well past that of John Stuart Mill but well before that of Britney Spears, the general idea of workers owning and controlling their places of work occupied a top shelf in discussions about how to reform or evolve beyond capitalism.

In 1974 the workers at a watch manufacturing enterprise named Lip occupied their factory in Besancon, France and inspired much romantic speculation about the possibilities of “autogestion” at the level of the firm coordinated by steering mechanisms at higher levels of the economy²⁷. Back in that era of the late 1960’s and early 1970’s, the notion of “autogestion” and its various cultural interpretations in Yugoslavia and elsewhere contributed substantially to justifying the “new” element in what was then being called the “New Left.”

During this same period, well thumbed copies of Garson, Hunnius and Case’s *Worker’s Control* volume were ubiquitous on the USA side of the Atlantic. In Britain, Ken Coates’ 1968 volume by the same name²⁸ also sold well. There were back then and there remain today substantial political differences to be found in the use of the words “workers control.” For some it suggests the notion of a “self managed” economy of firms owned and controlled by workers and managers operating within a reformed market economy. For others, it suggests either workers roles within nationalized industries that are part of an effort to dismantle the market economy or, more modestly, a description of workers roles in resisting or challenging managerial prerogatives within a universe of capitalist firms still wholly owned by the capitalists.

Since that early era, the discourse, as we say, on workers control has been taken over by at least three other significant fronts.

- One front is the “labor’s capital,” school, determining how capital controlled by pension funds should be invested by labor friendly trustees. One tributary of this movement has literally converted the usage of the term ‘worker ownership’ from control of the firm to the practice of strategic shareholding in large, publicly traded firms that are the targets of corporate campaigns.
- A second front, popular with the policy professional crowd, promotes “asset strategies” that grant unsuspecting citizens either a grubsteak grant in junior’s bassinet or a dollar for dollar match to the savings to be found in an adult’s bank account. In both these cases, the assets in question are about as remote from the workplace as can be imagined. Instead of shares of workplace stock, these asset accounts are carefully selected bundles of investment securities paid for by the government and traded on behalf of the people.

²⁷ The slogan made famous by the workers of Lip after their takeover was “100,000 watches without a manager.”

²⁸ A more recent volume entitled *Workers Control: Another World is Possible* was published by Coates and the Institute for Workers Control in December, 2003

- A third general front, central to the topic of our Real Utopia's conference, is Blackburn, et. al.'s "Meidner revivalism" share levy school. This approach resembles the asset strategy school in its policy intensity but adds in more than a whiff of good old fashioned expropriation to the mix. Rather than using government largesse to purchase stock, this strategy uses state power to dilute the holdings of existing shareholders on behalf of the citizenry.

What began in the late 1960's, at least in some circles, as a movement that featured the need to restructure capitalism at the level of the firm eventually morphed into this garden variety of policy solutions to both reform capitalism and provide a semblance of financial security to retiring workers. So what happened?

The answer to what happened to the worker control tradition as a progressive or left-wing economic program has to be answered within local political cultures where it once held sway or perhaps still maintains a presence. It can be safely stated that while there are at least three and perhaps now four significant and seemingly resilient exceptions to the historical case against worker control (listed below)

- 1) in the United States with the ESOP tradition,
- 2) in the Basque region of Spain with the Mondragon Cooperative Group and
- 3) in northern Italy with a concentration of cooperatives in the Emilia Romagna region of the country
- 4) in Argentina where there have been 200 worker takeovers since 2002

there are no national political or economic programs substantially defined by worker control ideas.

It may be worth briefly cataloguing the reasons why, over the past thirty years in particular, this tradition may not have risen to a more significant place in the contest of ideas. Seven reasons come to mind. A preliminary explanation of each of these reasons is provided below.

- 1) Difficulty of Execution
- 2) Appropriation by the Political Center: In the company of ESOPs and other defined contribution plans
- 3) Resistance from the Academic Right
- 4) Resistance from the Social Democratic Left
- 5) Obsession with Portfolio Theory – Concentrating Assets in worker ownership
- 6) Eclipsed by Events 1 and 2 – the attack on the Welfare State and the attack on Social Security
- 7) Inherent Shortcomings/Limits of Worker Control as a Solution to Social Problems a/k/a the need for Blackburn

1. Difficulty of Execution

The slogan often associated with the French takeover of the Lip watch factory in 1974 “100,000 watches without a manager” helps to set this stage for this reason. As a generalized expression of frustration with the often arbitrary and overpaid contribution of the managerial class, “100,000 watches without a manager” is articulate. What this expression oversimplifies however are the various technical and managerial problems associated with steering enterprises in global markets. At its best, modern management theory advocates the need for a minimum of policing functions and maximum self management of work. This seemingly enlightened perspective is put forward so that management can extend their gaze outward, toward the changing technologies and markets that create the context for business.

The worker control tradition has been understandably focused internally on oppression and waste within the firm. While those problems are by no means over within modern capitalism, they are at least equaled if not exceeded by the challenges of finding and keeping new markets for the sale of goods and services, even within worker controlled firms. Firms in the worker controlled tradition that have failed within the past 30 years have typically failed not because of internal dissension or an ‘overload of democracy’ as critics often expect. Access to capital has been a challenge but these firms have most often failed because they have not entered into markets with clear strategies for success²⁹. Ordinary working people are perfectly capable of understanding and critiquing business strategies. They are not typically trained in the analytical skills and techniques of devising those strategies. Worker controlled companies without strategic clarity and without other important managerial and technical skills are at a decided disadvantage regardless of how unburdened they represent themselves to be by managerial domination.

A common critique of the worker controlled tradition points to the lack of willing, skilled managerial and technical personnel who are willing to invest their careers in settings that do not value their skills. While there is no denying the importance of financial incentives in attracting competent management, the lessons of the highly sophisticated and engineering intensive Mondragon Cooperative Group in Spain at least point to a model of considerable scale that has prospered despite offering less than market compensation for managerial and technical personnel.

2. Appropriation by the Political Center – in the company of Defined Contribution Benefit Plans

During the same year (1974) when French workers occupied the Lip factory, an enterprising San Francisco lawyer by the name of Louis Kelso succeeded in getting the

²⁹ Here the example of TeamX, Inc. of Los Angeles, the first producer of SweatX brand apparel is a relevant case study which this author experienced up close during an 8 month stint (February, 2003-September, 2003). While the SweatX brand continues, in May of 2004, TeamX closed. The demise of TeamX had little to do with wage rates or worker deliberation. It had principally to do with an inadequately thought through business strategy that concentrated resources on retail as opposed to wholesale apparel markets – See forthcoming discussion in The Nation July, 2004.

ear of Senator Russell Long of Louisiana, son of Huey Long, the populist scourge from that same state. The result of those conversations was the first element of what over the following 12 years was to become an elaborate cluster of tax incentives designed to encourage capitalists to share ownership with their workers. During these same years a smattering of more democratically structured efforts at employee ownership through cooperatives emerged in the plywood industry of the northwest and elsewhere. But there is little question that the space American society was to make available to the idea of worker ownership belonged to Senator Long.

As the son of Huey Long, a man once referred to just prior to his assassination as “the most dangerous man in America,” Russell Long hewed to the political center. When confronted by legal representatives of the business community who reviewed his early ESOP days about the dangers of ESOPs leading to an overload of expectations for workplace democracy, Senator Long lent a sympathetic ear.

As a result, what emerged from the negotiating rooms of the Congress was a form of employee ownership, mediated by legal doctrine governing trusts and subject to the regulations of ERISA (the Employment Retirement Income Security Act of 1974) and formally classified as a defined contribution benefit plan³⁰, that sets a very modest floor on the rights or “voice” associated with the concept of ownership. While in practice many ESOP firms have exceeded the minimum voting rights standards, there are only six topics where employees retain the right to vote their interest in ESOPs as follows:

1. Corporate Merger or consolidation
2. Recapitalization,
3. Reclassification
4. Liquidation
5. Dissolution
6. Sale of Substantially all of the assets of a trade or business

ESOP’s do not reflect the radical democratic origins of the worker ownership or worker control movement. As a result, the ESOP field is generally viewed skeptically, as a “counterfeit” form of ownership by the liberal left. While the liberal-left “critique” of ESOP’s is conceptually valid it is difficult to deny that ESOPs have delivered non-trivial economic results to working people.³¹ There is also a consensus within the ESOP field, not substantiated yet by research numbers, that over time many ESOP firms evolve on their own in the direction of more “real” ownership including voting rights for Board’s of Directors and other forms of employee involvement.

This is particularly the case in ESOP firms, where the fastest growing segment of firms are now owned 100% by their ESOPs. The question for the liberal left in the United States may well be whether it can move beyond concerns about the centrist parentage of

³⁰ The fact that ESOPs are classified as a special form of defined contribution benefit plan has created yet another reason for a tactical breach with progressive arguments against the drift to a retirement landscape that tilts too far in favor of this higher risk form of saving.

³¹ See Section 2.0 of this paper.

this now prominent sector of the American economy. Compared to the truly unaccountable and concentrated nature of most of the balance of American capitalism, ESOP's should perhaps be viewed as a sector that could potentially allied with progressive goals.

3. Resistance from the Academic Center

The field of worker ownership has been home to a substantial amount of scholarship. Much of that scholarship appears dedicated to the proposition that worker ownership, or, as it is more formally known in these circles, the labor managed firm, is not sustainable either on its own due to an excess of internal democracy or as a system due to a fatal tendency to disinvest that follows from the granting of excess power to workers.³² Much of this research uses the experience of Yugoslavia (the "Illyrian Firm") between the 1950's and early 1980's to demonstrate their case.

It is beyond the scope of this paper to document and refute specific scholarly treatments of these issues. Evidence from the world of practice from Mondragon and with the Italian cooperative movement will have to suffice for now. It is worth specifying that the so-called "Achilles heel" of labor managed firms, where workers have the theoretical voting power to drain their firms of funds, thereby robbing them of investment capital, has not come to pass. In Yugoslavia, where workers held that power, this problem did exist. So what, in short, is the difference?

In Yugoslavia, workers likely exercised their power to drain their firms of funds because they were fully aware that the official ideological scheme of "social ownership" of enterprise surplus meant that it was only up front, in their paychecks, that they could receive economic value from their firm. Once value had passed into the vagaries of social ownership, there was no guarantee that they would be in line to recoup the fruits of their labor.

In Mondragon at least, the development of a system of individual internal capital accounts establishes ongoing individually recoupable "line of sight" claims on enterprise surplus. What workers do not see in their paychecks, they actually believe they will likely see in dividends and profit distribution. So while Mondragon workers retain the legal power to drain their firms, they do not.

The academic literature has not caught up with the world of practice.

4. Resistance from the Social Democratic Left

The idea of worker ownership has been the source of much consternation from the social democratic left. Inclined to a view of the world where there is a broad division of labor between virtue and greed, between government and private enterprise, the idea of workers as owners is problematic. The social democratic world view relies heavily on the negative taxing and regulatory power of the state to protect the public interest. This

³² Hansmann, Henry. 2000. The Ownership of Enterprise. Harvard University Press.

agenda has, on occasion, been supplemented by forays into industrial policy that make it possible for properly trained government officials to forecast and arrange incentives for the private sector activity beyond the horizon of private actors.

In 19th century England, there were colorful debates between guild socialists attached to the worker control model and Fabian socialists attached to the statist model. In pamphlets, books and speeches the best known Fabian's, Sidney and Beatrice Webb articulated their distrust of the worker control model. In 19th century politics in the United States there were echoes of these same tensions.³³ On the one side was the populist horde, yeoman democrats coming off the farm distrustful of centralized authority in the state and in emerging industrial capitalism. Two pre-AFL-CIO unions, the Knights of Labor and the National Labor Union, spoke for this tendency and explicitly advocated worker cooperatives as an alternative to wage settlements with industrial employers. Meanwhile the commercial and financial interests that were to become the titans of Wall Street began their alliances with the emerging Democratic party.

For social democrats, the relatively autonomous initiatives of workers, particularly if their initiatives have challenged prevailing employment and ownership arrangements, have been a cause of discomfort. This discomfort extends to the present. In many respects this discomfort is misplaced. There is no thoughtful futuristic model of an economy based heavily upon labor managed firms that neglects a continuing central role for a regulatory state. Externalities may be reduced under a labor managed regime but they will never be eliminated.

5. Obsession with Portfolio Theory – Concentrating Assets in worker ownership

The most predictable objection to the idea of worker ownership is the concern that this form of ownership dangerously concentrates the assets of workers in their place of work. On the face of it, this objection is valid even if on the one hand the dubious value of concentrating ones economic fortune in a weekly paycheck and on the other the counsel of Andrew Carnegie to 'concentrate, concentrate and then concentrate even more' come to mind.

Awareness of concentrated investment risk is high within the worker ownership community. As reported, research has demonstrated that a vast majority of companies with ESOPs utilize the ESOP as a supplemental or secondary pension. In Massachusetts,³⁴ fifty-five (92%) of surveyed ESOP companies provide another retirement plan in addition to the ESOP. Common wisdom among ESOP advisors today is to counsel companies to view an ESOP not as a retirement plan but as an ownership plan that should always be supplemented by a diversified retirement or pension plan.

³³ Goodwyn, Lawrence. 1978. *The Populist Moment: A Short History of the Agrarian Revolt in America*. Oxford University Press.

³⁴ "Census of Massachusetts Companies with Employee Stock Ownership Plans," Adria L. Scharf and Christopher Mackin, 2000, publication of the Commonwealth Corporation, Boston, MA.

6. Eclipsed by Events 1 and 2 – the attack on the Welfare State and the attack on Social Security

When reviewing the history of public policy debates in the United States over the past twenty-five years, during which time one may have expected worker ownership to emerge as a progressive economic platform, it is not difficult to surmise why it has not. At least since the ascension of the Reagan administration in 1980 progressive thinkers have been on the defensive, distracted by fundamental rear guard attacks on what were once seen as bedrock social programs. The attack on the welfare state and later on social security, in addition to the attack on organizing efforts of the American labor movement, have absorbed much of the energy and resources that might have been devoted to the articulation of new economic programs. As a result of this defensive stance and on account of the successful focus of centrist political interests regarding the promotion of ESOP's, worker ownership has remained outside the progressive economic conversation. Where discussion of the centrality of wealth strategies has been permitted it has largely been in the domain of so called "asset strategies" that steer clear of challenging the legitimacy of existing stock ownership arrangements at the workplace in favor of the cultivation of an "investor outlook" on the part of poor and middle class Americans.

7. Inherent Shortcomings/Limits of Worker Control as a Solution to Social Problems a/k/a the need for Blackburn

It is a fate common to all political ideologies to aggrandize and to overreach. This too has been a weakness of the worker ownership "school" of economic reform. The worker ownership school houses more than its share of messianic avatars who believe they have discovered the Holy Grail. Nonetheless, ideologies and political programs should not be judged by the identity of the personalities that occupy their extremes. The neglect by progressive policy thinkers of the development of a positive strategy for describing the structure and ownership of a humane and responsible economy is a serious shortcoming. Campaigns that rail at the rapaciousness of the status quo without putting forward positive alternatives have proven to have a limited shelf life.

In addition to the need for positive strategies, there is a need for pluralism among strategies. No single big idea is going to overcome the problem of unconscionable wealth concentration. Ideas contribute, they do not solve. Blackburn's paper usefully describes a five part strategy for attacking economic concentration. There is a sixth strategy that Blackburn should consider that locates wealth not only in regional funds but also in the workplace.³⁵

³⁵ Even within the ownership camp, there is a need to diversify attention beyond the idea of worker ownership. Citizen or consumer ownership of public utilities is an idea with a promising history in rural electrification for example, that could be extended as an alternative to privatization in the domain of water.

III. Why Wealth at Work?

Two current events, separated by a continent, will serve as the coda to this discussion of the idea of promoting wealth distribution through the workplace. That and a modest bow to neo-classical treatments of the problem of “agency chains.”

Mountain View California is the corporate headquarters of Google, the ubiquitous search engine phenomenon that has recently dominated the financial pages with news of its pending public offering. As reported by Michael Lewis in his June 13 New York Times Magazine essay *The Irresponsible Investor*, Google’s founders, Larry Page and Sergey Brin, have insisted that Rule No.1 governing the ground rules surrounding this public offering will be the admonition "Don't be evil."

One clear break from convention that provides insight into Google’s definition of potential evil is the decision, by Google, to create the Google Foundation. As reported by Lewis

The investor who purchases Google's shares will find himself the owner of not just future profits from the search engine but also a charity. "We believe strongly that in the long term we will be better served -- as shareholders and in all other ways -- by a company that does good things for the world even if we forgo some short-term gains," the founders explain.

A second innovation, more germane to our discussion in this paper, is the decision by Google to promote a robust form of employee ownership. The founders have designed the upcoming public offering in such a way as to extend to its employee investors a class of stock that holds 10 times the voting power of stock to that offered to outside shareholders.

This decision by Google will be viewed by some a dastardly example of “crony capitalism” designed to keep the company out of the reach of the portfolios of innocent grandmothers. But perhaps a better interpretation is that Google has chosen a well designed example of what Jeff Gates calls “up close” capitalism that encourages broad based influence and control not by outside speculators but by the people whose work will determine the success or failure of the enterprise. It is a design that will still offer handsome financial rewards to outside investors but it is a design that rejects outright granting those investors the right to govern the Google enterprise.

Twelve thousand miles to the south, in Buenos Aires, Argentina is the site of the Brukman Textile factory. On December 18, 2001, in an effort reminiscent of the workers of Lip in Besancon, France in 1974, the workers of Brukman first occupied their abandoned plant in order to preserve their livelihoods. Over 200 such occupations have taken place since the financial crisis of 2001 and 2002. “In October of 2003, after a series of legal battles, the Argentinian legislature declared the Brukman factory a “public

utility” and legally expropriated the factory in favor of a seamstresses cooperative named “December 18” after the date on which their occupation of the plant began.”³⁶.

The determination of the Brukman workers was captured by Canadian journalist Naomi Klein. She has referred to the occupied factories as "a new kind of labor movement in Argentina, one that is not based on the power to stop working (the traditional union tactic) but on the dogged determination to keep working no matter what.”

There is little doubt that the workers of Brukman would benefit from the broad range of financial innovations suggested by Blackburn in his paper *The Great Pension Crisis: From Grey Capitalism to Responsible Accumulation*. While they will not likely need it, the Google workers of Mountain View, California may benefit as well. What neither group of workers seems likely to sacrifice is their control over their place of work, a place where they aspire to earn more than a negotiated wage.

Finally, a bow to the wisdom of the field of economics.

A common construction in the field of economics is that of the “agency chain.” An agency chain is a multilinked chain of principal-agent relationships. In large publicly traded U.S. companies, the theory is that the shareholders are the ultimate principals who “supervise and control” the Board of Directors as their agents. The Board, in turn is supposed to select and supervise the top managers who supervise the middle managers eventually down to the workers on the office or shop floor.

Market economies are supposed to aspire to short not long agency chains. The ideal agency chain is that of the owner-operated farm where principals and agents are one in the same. The idea of worker ownership resembles that of the owner operated farm. Instead of a farmer working for himself, workers (and managers) are working for themselves.

When choosing among options to design the future of capitalism, we may do well to minimize complex agency chains of funds and groups of funds managed by investors who oversee managers who oversee workers. If our objective is to overcome concentrated wealth, we will do well to simplify and democratize ownership.

³⁶ Brukman: The Workers New Year Without an Employer, Americas.org, June 16, 2004
http://www.americas.org/item_13542