Widespread Establishment of Worker-Owned and Self-Directed Enterprises Will Solve Some of Our Nation's Most Important Problems

Once considered a utopian ideal, now it can be real

For democracy to survive, the institutions within democratic societies must not be antithetical to it, and if any institution becomes so, it must be reinvented. Corporate capitalism as practiced is anti-democratic. Workers in most corporations are told what to do and have no influence on corporate policy, including how corporate income is distributed among workers, management, and owners. For five days per week, most adults devote most of their waking hours (including commute time) to these anti-democratic institutions, and partly as a result, democracy is also disappearing from our political system. Corporations and the economic elites that control them are having an undue and extremely disproportionate influence on public policy.

Widespread employee ownership and control of business enterprises will create a more democratic society. More democratic control will eliminate wide income disparities and the resulting negative economic, political and social consequences; develop a sense of community within businesses and between businesses and their local communities; and motivate more productive work. This can be more than just a utopian ideal. *The New Enlightenment* details in a practical route to widespread worker-ownership and control of business enterprises.

New Enlightenment policies for the widespread worker-ownership and control of business enterprises will solve the economic disparity problem while increasing national prosperity. It will do so more effectively than any policy instituted in the history of the United States, and it will be more enduring because of its systemic nature.

One reason is the resulting more equitable sharing of the nation's wealth or capital. An extensive study of historical data internationally found that although return on capital, r, depends on many technological, social, and cultural factors, it has resulted in an average return of roughly 4% - 5% for centuries. The economic growth rate, g, has been less unless the impact of the two world wars and the Great Depression is accounted for. This disparity between r and g leads to growing inequalities of wealth and income. Income inequalities grow with wealth inequalities because income from investments grows at a rate exponentially faster than income from labor, whose growth rate is associated with the economic growth rate. However, over the last few decades, median labor income has been growing much more slowly than the economic growth rate, creating a more rapid than average growth in inequalities.

The two world wars and the Great Depression and their policy responses interrupted, for about three decades, the general trend of r being greater than g through the destruction of capital, high inflation, and radical policy changes; many of which have been undone. This process will now continue to proceed with terrifying results unless it is interrupted again with vigorous public policy solutions.

Probably the most important form of capital or wealth that individuals can possess is the value of the business enterprises in which they work. In addition to business value appreciation, worker-owners gain profits which can be larger than appreciation or the average gains on stocks. Corporate profit margins vary by industry, but on average they were 13.6% in 2012, a post–World War II high.

The top 1/100 million highest wealth holders in the world received an average rate of return of 6.8%, much higher than the average adult, who received a 2.1% return from 1987 through 2013 (adjusted for inflation). The profit percentage is relative to sales, and the asset appreciation rate is relative to asset values, so these numbers are not directly comparable, however, based on sales to asset value ratios it is common that profits exceed asset appreciation of even the super wealthy. Profits are not compounded, though, unless they are used for business expansion or other investments, as is asset appreciation, which worker-owners would also receive.

Receiving both profits and asset appreciation brings the greatest return on capital. R being greater than g is less important if the majority of people have a significant amount of the kind of capital—the business enterprise in which they work and that they control—that on average brings the greatest return.

Another advantage of widespread worker-ownership and control of businesses is that it will result in reversing the decline in the job satisfaction rate. 47.3% of American workers were satisfied with their jobs in 2012, according to a survey from the Conference Board. In 1987, when the research group started tracking the topic, 61.1% of workers said they were satisfied with their work. The decline suggests a steady erosion of trust and respect between employers and employees. Part of this is due to a hierarchical non-participatory management structure.

The dichotomy between workers and owners/managers is resulting in a loss of job security, while upper management is grabbing an increasing portion of corporate income and depressing median wages and benefits. Participatory ownership and control will reverse the job satisfaction decline because it eliminates much of its cause—the conflicting interests of owners/managers and workers.

Taking all the advantages into account, capital in the form of a business you own, control, and in which you work is far superior to other forms of capital ownership economically, socially, and even psychologically.

Employee ownership can and does exist side-by-side with conventional business, which facilitates successful transformation to a society where worker-owned and self-directed enterprises are the predominant kind of business enterprise in the country. The new society can gradually develop within the old. Worker owned and self-directed enterprises exist in all sectors of our economy, from banking, finance, and insurance to education, manufacturing, retail, and agriculture. Nationwide, 223 worker cooperatives having 7,500 worker-owners now exist. All worker cooperatives are worker-owned and self-directed. Also, in the United States, 13.8 million worker-owners are in Employee Stock Ownership Plan (ESOP) corporations that are generally not worker self-directed.

Economic democracy does not reject the role of markets, but rather it tempers the profit maximization motive that drives how businesses engage with the market with a greater emphasis on worker and community interests results. For example:

A non-worker board of directors directs conventional corporations. This board decides on all important corporate policies. They decide how corporate income is distributed, including among the workers as pay, or select managers that determine worker pay. Public company managers often decide on their own pay or influence the selection of those who do, which is a primary cause of the explosive growth in income inequality. This results in harmful consequences, including the corruption of our political system. In cooperatively owned businesses the workers make all the important decisions through democratic processes, both directly and through an elected board of directors from among the workers. The workers choose the maximum level of wage disparity among workers that they consider the most just and beneficial, which results in far lower disparities.

Economists call negative impacts on the general public or consumers created by business processes or products negative "externalities," if the business does not compensate the public for the harm caused, which sometimes is not possible or practical. When a business pollutes the environment to save pollution mitigation costs, and others pay any associated cleanup, health care and other costs rather than the business. Another example is when a business leaves a community for lower labor or regulatory costs, or tax or subsidy advantages elsewhere, conventional businesses ignore the economic and social costs to the abandoned community, and the community pays.

A board of directors in a remote city often makes these kinds of decisions based purely on the profit motive, but workers in control of their business would not because they must live with the consequences. One of the most serious, common and well-justified criticisms of conventional capitalism is that its design intrinsically motivates enterprises to create negative externalities to maximize profits. With worker-ownership and control, this tendency is reduced for some negative externalities and eliminated in others.

Worker-ownership also keeps resources from being transferred from local communities to multinational corporations and their owners, which can also be considered a negative externality. Supreme Court Justice William O. Douglas decried the "effect on the community when independents are swallowed up by the trusts and entrepreneurs become employees of absentee owners." The result, Douglas wrote, "is a serious loss in citizenship. Local leadership is diluted. He who was a leader in the village becomes dependent on outsiders for his action and policy. Clerks responsible to a superior in a distant place take the place of resident proprietors beholden to no one." In Fireside Chat 6, Franklin D. Roosevelt warned of a "definition of Liberty… where a free people (are) gradually regimented into the service of the privileged few."

Cooperatively owned businesses can range from small-scale companies to multimillion dollar businesses. The worker-owned Mondragon Corporation (a conglomerate of cooperatives) in Spain has over 83,000 full-time workers (over 15,000 part-time) and is one of the most successful corporations in Europe. Their highest paid worker has a pay 6.5 times that of the lowest-paid worker. In the U.S. the top to median pay ratio for corporations of similar size is over 350 to 1, top-to-bottom over 750 to 1.

The number of Americans involved in worker-owned ESOP firms has increased, from 250,000 in 1975 to about 13.8 million working in over 11,000 firms today. These firms are not "cooperatives" or WSDEs, or democratically run to the degree that Mondragon Cooperatives are, and most are not 100% worker-owned. However, their degree of worker-ownership has revealed some important advantages of workers sharing in the ownership of the firms in which they work:

Each year Fortune magazine publishes the results of surveys on "100 Best Companies to Work For." Corporations with broad-based employee ownership or profit sharing, although only 10% of the Fortune 500, regularly represent over half the winners. Publix supermarkets is the largest ESOP, with 160,000 employees. It was named as one of Fortune magazine's "100 Best Companies to Work For" (1998–2014) and "Most Admired Companies" (1994–2014) and was ranked as one of the top ten companies on the Forbes list of the largest private companies (1996–2013). Publix also scored higher than any other supermarket for customer satisfaction in a national survey conducted by the American Customer Satisfaction Index (1995–2014).

ESOPs by the end of 2012 generated $1.059 trillion in assets for 13.8 million employee-owners—a per capita retirement account balance of about $77,000, about 2.5 times the retirement assets of employees in non-ESOP companies. 12.1% of all working adults in the private sector reported getting laid off in 2010, but just 2.6% that were part of an ESOP.

Because workers own at least part of ESOP corporations they benefit directly from increases in company income and value, so they are more productive. In the largest study of the performance of ESOPs, Rutgers University researchers found that they increased sales/employee by about 2.3% to 2.4% per year over what would have been expected absent an ESOP. If ESOPs are structured as WSDEs, productivity will be further enhanced.

From the earliest days of our country's founding, it was known that businesses where workers share in the profits are more productive. Research commissioned by Thomas Jefferson found that when fishermen shared in the profits of fishing operations, they were more efficient. Paying workers a share of profits helped build the fortunes of many of the most successful businessmen. John D. Rockefeller of Standard Oil, George Eastman of Eastman Kodak, William Cooper Procter of Procter & Gamble and grain merchant Charles A. Pillsbury all used profit-sharing to attract the best workers, reduce turnover and give employees a greater incentive to make their businesses prosper.

Democratic participation brings important advantages above those of just some sharing in profits, so we will take all practical measures to direct the expected substantial increase in the number of ESOPs formed over the next 15 years resulting from "baby boomer" business owner retirement, instead to the formation of corporations with the WSDE structure. This process will be important in achieving the goal of widespread WSDE establishment.

Many studies have shown that participatory ownership, when combined with participatory work practices, significantly improves business performance, as indicated by higher sales and sales growth per worker. The consistency of the results of the many studies demonstrates this definitively. One study found that ESOP companies had sales growth rates 3.4% per year higher and employment growth rates 3.8% per year higher in the post-ESOP period than would have been expected based on pre-ESOP performance. When the companies were divided into three groups based on the degree of participative management, the most participative companies showed a gain of 8% to 11% per year faster than they would have been expected to grow. Other studies have shown similar results.

Studies have revealed that workers in these companies have greater company loyalty and pride in working for the firm, so turnover is reduced. This creates a competitive advantage by reducing the costs of recruiting, training, and integrating new employees in money, time and effort. Also, workers in firms with participatory ownership and participatory work practices express a willingness to work harder and innovate more, and they are more willing to co-monitor other worker's performance which, in addition to workers being more motivated to perform well, reduces the need for supervisors.

Studies have found much higher failure rates for conventional capitalist companies than worker cooperatives in North America. A study conducted by Quebec's Ministry of Industry and Commerce in 1999 concluded that "Coop startups are twice as likely to celebrate their 10th birthday as conventionally owned private businesses." The primary reason for the success of worker cooperative has been superior labor productivity. Studies comparing square foot output have repeatedly shown higher physical volume of output per hour, and others show higher quality of product and also economy of material use.

Some people claim that coops are impractical due to their inability to attract good managers. But this claim is false, and the mythology of super-managers being mainly responsible for the performance of well-performing companies is just that, mythology. Studies have found a negative correlation between CEO pay and long-term profitability of companies. Researchers from the University of Utah, Perdue University and the University of Cambridge studied 1,500 company's performance compared to other companies in the same field from 1994 to 2011. They found "The (stock value) returns are almost three times lower for the high paying firms than the low paying firms" and that the longer the highly paid CEOs were in office, the more their firms underperformed.

Analysis of the cooperatives that comprise the Mondragon Corporation found that productivity and profitability are consistently higher for the cooperatives than for comparable traditional capitalist firms. A study in 1974 found the worker turnover rate in Mondragon was 2% compared to 14% in similar traditional capitalist firms. One particularly successful Mondragon company, Irizar, has been awarded prizes for being the most efficient company in its sector; in Spain, it competes against ten private enterprises, but its market share is 40%. It manufactures products for transportation, from luxury coaches to city buses.

Each cooperative in Mondragon has its own workplace structure, though they share some common characteristics. Irizar's structure is especially interesting and important to learn from. To encourage innovation and the diffusion of knowledge, it has a flat organizational structure based on work teams with high autonomy, and there are no bosses. Rather, each team sets its own targets, establishes its own work schedules, and organizes the work process as they choose. The teams also work with each other, so knowledge is transmitted efficiently. Participation also occurs in a general assembly, which meets three times a year rather than the single annual meeting common in other Mondragon firms, where they approve the company's strategic plan, investments, etc. These participatory structures have enabled Irizar to surpass its competitors in profitability and market share.

The Emilia-Romagna region of northern Italy is an excellent example of a successful cooperative economy, with 40% of its region's GDP deriving from cooperative enterprises. The region of four million people, one of the richest and most developed areas in Europe rose from poverty only a few decades ago based on its development of a cooperative economy. Per capita GDP is 129% of the European Union average. The region is based on a dense network of 420,000 small and medium-sized firms. Agricultural, manufacturing, building and construction, mechanical engineering, robotics, biomedicine, graphic arts, wholesale trade, brokering, hotels, catering, transport, communications, banking and insurance, and business-related services, among other kinds of firms, comprise the network.

Worker ownership and self-direction increases life satisfaction, improves productivity, substantially reduces economic disparities, promotes meaningful democracy and even positively impacts the health of workers. The book The New Enlightenment's detailed policy proposal for the widespread establishment of worker owned and self-directed business enterprises, if instituted, will solve the growing economic disparity problem and reverse the trend while increasing national prosperity. It will do so more effectively than any policy instituted in the history of the United States, and it will be more enduring because of its systemic nature.

If we are to achieve the imperative of widespread worker ownership and self-direction of businesses in the United States within a tolerable time frame we must remove two formidable obstacles: Lack of access to sufficient capital and lack of knowledge in the majority of the citizenry. This can be accomplished only through the federal government financing and other policy support systems. New Enlightenment policies facilitate a gradual transformation over about 2 decades to an economic system where employee owned and self-directed enterprises will be the predominant type of business enterprise in the country. The creation of new businesses organized as WSDEs and the conversion of existing businesses, both privately and publicly owned, to worker owned and worker self-directed enterprises are vigorously supported by various systems.