

EMPLOYEE OWNERSHIP: DILEMMAS AND OPPORTUNITIES

Inclusive Ownership Funds: a transatlantic agenda for transformative change

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Bernie Sanders and the UK Labour Party have both committed to a radical new policy on worker share ownership: Inclusive Ownership Funds. By giving workers new rights over the wealth they create and the firms that they work for, IOFs can set us on the path to the democratic economy we need.

We want to deprive the capitalists of the power that they exercise by virtue of ownership. All experience shows that it is not enough to have influence and control. Ownership plays a decisive role. I refer to Marx and Wigforss: we cannot fundamentally change society without changing its ownership structure.

Rudolf Meidner, 1975 interview with LO magazine¹

Oligarchy rules the company. Working people lack a meaningful stake and a say in their firm. Corporate voting rights are near-monopolised by a web of extractive financial institutions, whose power rests on their control of other people's money.

Finance – in alliance with executive management – is privileged over the interests of labour and nature. The result: the deep, undemocratic concentration of control in our economy, driving inequalities of power and reward.

Tinkering won't address this deep imbalance. To build an economy that works for the many, we need to transform how the company operates and for whom. Fundamental to this must be a profound change in ownership and control of the company, the 'hidden abode of production'. One recent proposal, the Inclusive Ownership Fund (IOF), has been adopted by the Labour Party and the Bernie Sanders presidential campaign. Its goal: to make the company inclusive, democratic, and purposeful by design.

At its core, the IOF proposal seeks to help democratise the company by redistributing economic and political rights away from external shareholders and executive management and toward the workforce as a collective. It is about redistributing wealth and income, but critically, it is also about redistributing power and control, transforming the company from an engine of wealth extraction and oligarchic power toward a genuinely purposeful, egalitarian institution: one where workers have a collective stake and say in how their company operates, and share in the wealth they create in common.

The policy would do this by requiring all large companies to establish a democratically controlled, all-employee trust, which they would be required to transfer shares into, up to 10 per cent of total shareholding within a decade in Labour's proposal, 20 per cent within ten years for Sanders. This would grant the Fund a growing share of income and control rights, to exercise on behalf of all workers within the company, while diluting that of incumbent shareholders. As Erik Olin Wright wrote, a share dilution mechanism

would create a new institutional equilibrium within which capitalist power would be diminished in the overall configuration of a capitalist economy. Depending upon the details of the design and its trajectory over time, this could even signal an equilibrium in which social power – democratic control over economic power – became dominant.²

It is worth noting that existing investor guidelines allow for the issuance of new shares to employees – up to 10 per cent of the issued ordinary share capital in any rolling 10-year period – thereby diluting incumbent shareholders. However, this practice is currently overwhelmingly captured by executive management; the IOF proposal would redirect existing schemes for employee share issuance in a progressive, collective direction over a finite time period. It is share issuance for the many, not the few.

The Fund would exercise voting rights and other assigned corporate governance powers as democratically determined by the workforce, and receive a share of dividends

equal to its stake to be distributed among the workforce. It would interlock with and reinforce wider corporate governance reforms and the extension of collective bargaining and trade union rights, providing a further channel for exercising collective voice.

In Labour's plan, in order to address the significant variation in profitability and dividend payouts between different sectors and companies, there would be a cap of £500 on the amount any one worker can receive from an IOF dividend; anything above that would flow to the Treasury as a 'social dividend'.

Common Wealth's plan for inclusive ownership

Common Wealth, the think tank of which I am the director, has its own proposed variant of the IOF proposal. The differences between our proposal and Labour's relate to the mechanism for transferring economic and political rights to the Fund, the size of the cap, and what to do with any dividend 'surplus' above the cap.

We suggest that the vesting of economic and political rights in the IOF could occur in one of two ways. The first would be through the creation and issuance to the IOF of a special share class, the 'IOF share'. This would have legislatively-defined rights equal to 1 per cent of income and control rights related to the company's UK-based economic activity, expanding to a 20 per cent stake. But it could also occur through a new form of collectively held property granted to the Fund. This would mimic the rights of the 'IOF share', including voice and income rights, but would not, in law, be a share. The critical goal is the redistribution of economic and political rights.

We also argue the Fund share should be assigned income rights to UK-based economic activity only, reflecting the animating principle: to give the workforce as a collective strategic control rights. Giving the Fund rights to global profits would create concerns about global justice and create distortive anomalies for certain companies. A UK-focused approach would also significantly lessen the impact on UK pension holders, given their reliance on dividends issued by UK multinationals that make the majority of their profits through large global operations.

We also argue that a higher cap, of £1000, would ensure the majority of the dividends would flow to workers, not the Treasury. Instead of the money above the cap flowing to the government, we suggest it that it could help capitalise a social wealth fund. This would be owned directly by the people with a dual investment mandate: investing to support a rapid and just transition to a net-zero emissions economy, and to help scale democratic forms of enterprise. The social wealth fund would help diversify risk, ensure everyone in society had an ownership stake through the IOF policy, and would ensure that a growing part of the gains from economic activity were captured and shared equally throughout society, through the transformation of private wealth into public, shared wealth.

Social ownership should be a complement to, not a replacement of, firm-level ownership stakes; a purely social wealth fund approach to broadening ownership would do not generate direct control rights for a company's workforce as a whole, or create a mechanical link to profit sharing. The severing of that link would also likely substantially weaken the positive effects in terms of improved wellbeing, productivity, and overall company performance. As a result, perhaps, the evidence suggests firm-level ownership is substantially more popular than a purely social wealth fund approach to transforming ownership.³

Finally, we argue that the Fund agenda should be accompanied by proposals for a wider democratisation of control, including employee codetermination in capital and pension funds, with a prohibition on financial intermediaries voting on the money of the ultimate beneficiary without direction (either directly or indirectly) from the saver. Similarly, pension trusts should be democratised, with at least half of the board being elected by the beneficiaries on a one-person, one-vote basis. Combined with a strategy to expand alternative forms of ownership at a smaller scale – from co-ops and social enterprise to employee owned trusts and mutuals – the IOFs can be part of a wider democratisation of vital economic and political rights in the economy.

Remaking the corporation

Though there are variants, all Inclusive Ownership Fund proposals share a fundamental goal: the extension of new, collectively held economic and political rights to the workforce of a company as a whole, to ensure workers benefit directly when their company does well, and to give them collective voice in corporate decision-making, not just in terms and conditions, but in the strategic direction and purpose of the enterprise. These new rights would dilute the power of shareholders and management relative to other stakeholders, but give employees new control and income rights.

In doing so, the Fund seeks to drive three structural shifts in how the company operates and for whom.

First, by broadening company ownership at the firm level it would challenge inequalities in both resources and decision-making power in the economy by ensuring returns to capital are more equally shared across society. If highly profitable firms helped capitalise an overarching social wealth fund, the policy would be more redistributive still.

Second, by ensuring all workers with a Fund had a growing stake and say in corporate decision-making and shares in collectively created profits, it would help create more inclusive companies.

Third, the Fund would limit the space for institutional investors to intermediate company ownership, while building up a block of ownership that is likely to have a deep, abiding commitment to the company. In doing so, it begins to rescue the corporation from the degradations of extractive financial capital, its short-termism and rentier-like qualities, while creating an ownership partner that can help steward the company toward long-term success.

In doing so, the policy seeks to transform the company from something treated as a private entity, controlled by an extractive nexus of institutional investors and executive management, toward an institution of the commons, something that in a fundamental sense cannot be 'owned', but that through a redistribution of economic and political rights, can be democratically controlled and nurtured for collective success, with labour a fundamental and empowered stakeholder. In doing so, the Funds would challenge the private power of capital to order our working lives via scaling a new form of democratic control within the company.

For the left, remaking corporations must be at the heart of a radical agenda. The company is an extraordinary social institution, an immense engine for coordinating production based on a complex web of relationships. The critical question is who controls how it operates and who has a claim on its surplus. Today, the answer is a combination of shareholders, institutional investors and executive management; the company has been captured by finance and extractive economic practices, but it doesn't have to be that way.

We can organise the economy differently: through social control, not private dominion, via democracy, not oligarchy. There is, in other words, nothing inevitable about existing, sharply unequal distributions of power and reward within the economy.

By insisting on the plasticity of property as a social institution, the political ordering of economic rights, and the malleability of the company form as a public entity – and hence their capacity for change – we can build a more generative configuration of economic power, one that is democratic and purposeful by design. Against the deadening claims of an economics of no alternative, politics can assert its capacity to reorder deep institutional arrangements that are too often cast as 'natural' and immutable. The hopeful, fragile natality of political life – our collective capacity for renewal and world-making – must be mobilised to first de-naturalise, then dethrone, the sovereign right of capital to organise society.

A democratic economy, beyond extraction and hierarchy

The Fund's agenda should be placed in a wider context. It can only succeed as part of a broader agenda to build a democratic economy. This will require confronting

and overcoming neoliberalism, and ultimately creating a post-capitalist economy rooted in new arrangements of economic and political rights.

Neoliberalism is many things: a mode of governance, an often-contradictory strategy for regulating capitalism, an ideology and class project, and a reshaping of the state to enforce market-based techniques of measurement and evaluation into ever-widening domains of life. At its core, however, it is an effort to insulate capitalism from democracy, to transform the economy into an object beyond the realm of politics, making the ‘market’ and unequal forms of economic power safe from democratic intervention.⁴ As such, neoliberalism is counter-democratic, suppressing the possibility and range of collective decisions about the shape of the economy. As Will Davies has argued, it constitutes ‘the disenchantment of politics by economics’.⁵

To move beyond neoliberalism, and the extractive hierarchies embedded in capitalist property relations, we will need to experiment with new ways of institutionalising democratic power over the economy at multiple scales, and in ways that expand deep and universal forms of freedom. This will require new economic institutions that broaden the distribution of voice and income within the company.

Democratically controlled ownership funds represent a move toward that goal: they have the potential to underpin a different economic ordering of the firm; to recast property, membership and governance rights so that all workers have a democratic stake and a say; and – through the capitalising of the social wealth fund – to include wider society in that stake and voice. An IOF is a collective institution that injects shared agency into the firm, both in how it is governed and in how any surplus generated is distributed. In place of the existing and hierarchical vision of who has voice and reaps the lion’s share of reward, it amplifies and expands the capacity of collective, democratic action and reward within the company.

Radical change is both necessary and possible. As Adam Tooze has argued, we live in an age of deep but under-recognised institutional transformation.⁶ In the wake of the financial crisis, states and central banks have radically re-engineered fiscal, monetary, and macro-prudential regimes. This was and remains a deeply political project, and one with sharply inegalitarian consequences. The task now is to recognise the possibility and need for radical change, developing new models of ownership able to reverse entrenched inequalities of income, wealth and power. Ownership funds can drive this movement towards the creation of a more democratic and sustainable economy.

Further reading

Peter Gowan and Mathew Lawrence, *Democratic Ownership Funds: Creating Shared Wealth and Power*, Democracy Collaborative/Common Wealth, Washington DC/London, 2019.

Notes

1. Quoted in Jonas Pontusson, 'Radicalization and retreat in Swedish Social Democracy', *New Left Review*, 1/165, 1987.
2. Erik Olin Wright, *Envisioning Real Utopias*, Verso, London 2010.
3. Next System Project, 'Polling on Key Elements of a Democratic Economy', 13 May 2019: <https://thenextsystem.org/learn/stories/polling-key-elements-democratic-economy>.
4. Quinn Slobodian, *Globalists: The End of Empire and the Birth of Neoliberalism*, Harvard University Press, Cambridge, Mass., 2018.
5. Will Davies, *The Limits of Neoliberalism: Authority, Sovereignty and the Logic of Competition*, Sage, London 2014, p14.
6. Adam Tooze, *Crashed: How A Decade of Financial Crises Changed the World*, Allen Lane, London, 2018.