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FULL EMPLOYMENT AND SOLIDARISTIC WAGE POLICY

Workers Ownership and Profit-Sharing in a New Capitalist Model?

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Since the 1990s Sweden has suffered from high unemployment and currently has what must be described as mass unemployment. It is obvious that the economic policy pursued is no longer able to achieve full employment. Nor is it possible to return to the policy prevalent before the 1990s.

Consequently, what Sweden needs is a new economic policy that combines full employment and fair wages with today's open economy. That is the background to the LO Congress resolution in 2012 to start the project *Full employment and solidaristic wage policy*. The project will result in a final report to the 2016 LO Congress and a large number of background reports, of which this is the twenty first.

It is my hope that this report, as well as the continued work of the project, will contribute to the important discussion as to how Sweden can again become a country of full employment and how the solidaristic wage policy can be modernised.

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Foreword

THERE SEEM TO BE a widespread sense that capitalism is in critical condition, more so than any time since the Second World War. One way to describe this problem is the growing influence of Capital over Labor. The wage share has decreased which has created a problem with efficient (aggregate) demand. This problem has been partially solved with household indebtedness and expanded global markets (China, Russia and India).

The economic world has changed since LO bargained for equal pay for equal work across firms as part of its centralized Rehn-Meidner solidaristic wage policy in the 1950–60s. Equal pay for equal work improved Sweden's labor market by shifting labor from low to high productivity firms while lower skill differences reduced inequality without impairing investment in skill and education. Robotization has shifted more repetitive tasks to machines; and employees increasingly work in teams. At the macro level, globalization, digitalization, and the Internet have spurred the out-sourcing and off-shoring of work along long supply chains.

In virtually all advanced countries, the distribution of national income has shifted from labor to capitals; Gini coefficients of total income have increased; and the dispersion of labor earnings among workers have also gone up, including Sweden. Increased inequality in the economic sphere has enhanced the political power of the wealthy few at the expense of democracy.

The influence of Unions, the primary institution for defending the economic interests of workers and citizens, has decreased in most advanced countries. Union movements around the world tend to defend past economic benefits instead of seeking to move the economy forward. In economic debate, "reform" has come to mean market-oriented changes that exacerbate income inequalities rather than policies that benefit the vast bulk of citizens. Increasingly Capital has come to rule capitalism.

What can be done to take the capitalist system out of its current predicament? What can unions do to reverse the trend to inequality and direct capitalism into a more socially desirable direction?

This report shows a way forward. It makes the case that the best path forward for capitalism is to increase workers' stake in the capital of their firm and in capital ownership more broadly and that the best strategy for unions is to take a lead role in promoting this development. Increased employee ownership and profit-sharing is not the whole solution to inequality or financial instability or the other problems that afflict advanced economies. But it is a necessary part of any solution and the one with the greatest potential for moving market capitalism forward in ways that benefit all.

The report has been written by Professor Richard B Freeman at Harvard University, NBER and the Centre for Economic Performance at LSE. The report has been written within the framework of the Swedish Trade Union Confederations project *Full employment and solidaristic wage policy*. It has been an important intellectual contribution to the final report of the project which will be presented in June 2015. The opinions expressed are those of the author.

It's our belief that this thought provoking report should be of value not only in Sweden. Hopefully progressive Union movements in other countries, seeking ways to improve conditions for wage earners, combat inequality and modernize the capitalist system will find the report inspiring as well. The report has been written with passion. Finally, on behalf of the project, let me express our gratitude to Richard for writing this important call to action within the framework of the project.

Stockholm in May 2015
Claes-Mikael Jonsson
The project Full employment and solidaristic wage policy

Introduction

CAPITALISM TODAY FACES the specter of ever rising economic inequality and perennial financial crisis. The fruits of economic progress are increasingly concentrated on a small proportion of society – the upper 1 %, 0.1 %, 0.01 %, 0.001 %, all the way up to the Forbes billionaires. However fine the classification, the richest in each group gained the most over the past few decades. The transmission of productivity to the real wages of regular citizens that made capitalism work for all broke down, with no obvious market fix or political solution in sight. In the new world of financialization and globalization, it is unclear how advanced economies can restore trend increases in real wages, reduce or at least arrest the growth of inequality and share more equitably the benefits of modern technology and innovation or what, if anything, trade unions can do to help save the day.

Less than a decade ago – before the implosion of finance, the great recession, sluggish employment recovery, and seemingly inexorable concentration of income and wealth – economic policy-makers and experts would have dismissed this assessment of the problems facing capitalism as the ravings of a mad hatter. Conventional thinking held that deregulated markets allocated resources and determined prices and wages according to competitive market ideals. New financial instruments had solved problems of risk.[1] If, by chance, something went wrong in the macro-economy central bankers and finance ministers had the tools to restore full employment or tame inflation. In a crisis, the IMF could bail out an economy and guide it back to prosperity through judicious spending and investment policies. Globalization was said to benefit virtually everyone as long as markets were sufficiently flexible; and flexibility was readily attainable by weakening labor protections. Many economists and

1 "finance … has made stunning progress … in theory and in practice (p. 11) … risk does not disappear but its effects virtually disappear as the risks to the individual business are blended into large international portfolios where they are diversified away to almost nothing among the ultimate bearers of the risk, the international investors" Shiller, New Financial Order, 2003, p. 3.

policy-makers saw the contraction of unionism in advanced countries[2] as opening the door for market forces to better align pay with economic reality, spurring growth and full employment.

The collapse of Wall Street and ensuing economic events have contravened this vision of capitalism. Instead of spreading risk widely, financiers leveraged debt instruments until the banking system broke. The biggest banks made fortunes through financial chicanery, cumulating fines that reached some 300 billion dollars by 2014,[3] seemingly as a normal cost of business. The flexibility reforms designed to insulate the real economy from economic shocks proved ineffective in the great recession. Faced with sovereign debt crises, the IMF, EU, and ECB Troika made repaying banks their top priority and conditioned bail-out loans on austerity policies that devastated national output and employment. Although neither workers nor unions were responsible for the crisis the Troika and the IMF made restrictions on collective bargaining part of their performance criteria for loans.[4]

When recovery finally came to most advanced countries and did little to raise real earnings for any but the highest paid workers,[5] the reality that something was wrong with the current model of capitalism hit even the international economic organizations whose policies had contributed to increased inequality. The OECD warned that inequality had bad effects on society and on economic growth.[6] The IMF reported that economies grew better with less inequality![7] At the 2015 Davos

2 The union decline began in the late 1950s in the US, in the 1980s in UK, New Zealand, Australia, Ireland but much less in Canada and in Japan, then spread in the 1990s and 2000s in most EU countries, where, however, mandatory extension of negotiated agreements kept collective bargaining rates high.

3 The most recent such case: Protess, Ben and Jack Ewing, "Deutsche Bank to Pay $2.5 Billion Fine to Settle Rate-Rigging Case" NY Times, April 23, 2015. As of 2014 the estimated value of such fines was on the order of $250 Billion. http://www.forbes.com/sites/robertlenzner/2014/08/29/too-big-to-fail-banks-have-paid-251-billion-in-fines-for-sins-committed-since-2008/ See http://conductcosts.ccpresearchfoundation.com/conduct-costs-results. This shows 173 billion pounds paid through 2013, which is about 263 billion dollars.

4 EU-ECB-IMF troika insisted that Greece and Portugal weaken collective bargaining and labor protections to obtain financial assistance in their sovereign debt crisis and without any evidence this would help solve their problems.

5 OECD data shows widened dispersion in all OECD economies except for France and Portugal.

6 See http://www.oecd.org/social/inequality.htm. For the work on growth, see Cingano, F. (2014), "Trends in Income Inequality and its Impact on Economic Growth", OECD Social, Employment and Migration Working Papers, No. 163, OECD Publishing. http://dx.doi.org/10.1787/5jxrjncwxv6j-en.

7 http://www.independent.ie/business/davos-world-economic-forum/davos-2015-inequality-hampers-growth-imfs-christine-lagarde-30930866.html.

meetings, groups with diverse interests and ideologies worried about the future of a capitalist system with huge growing inequalities. Trade unions denounced "today's business model" as bad for people but had no suggestions of how to change the model."[8]

For all the seeming recognition that the prevailing model of capitalism had failed to deliver stable growth and rising incomes for the bulk of citizens, however, it was business as usual in the board rooms, central banks and finance ministries worldwide. US banks bailed out by taxpayers pressed Congress to weaken financial reforms as they sought to subvert the Dodd-Frank banking legislation. Many European governments seemed to accept a decade or more of sluggish growth and high unemployment as the new norm. Seemingly unaware of its own research findings, the IMF maintained its policy recommendations for weakening labor protections and collective bargaining.

Sweden did better in this period than most other advanced countries. Sweden's early 1990s banking reforms protected it from the global financial disaster. Maintaining the Kroner instead of joining the Euro in 2003[9] gave Sweden fiscal and monetary space to chart its own course out of the grasp of Troika austerity. Collective bargaining stabilized employment in the great recession in many sectors, with productivity falling during the downturn, but then recovering rapidly as output rose. All of which made Sweden a top performer in the weakest global economy since the Great Depression – one of the few European economies to regain its pre-recession GDP rapidly and to generate increases in wages and total incomes for most workers.[10]

Still the pattern of change in Sweden in inequality and in labor institutions resemble those in other OECD countries. Labor's share of income in Sweden fell from 72.0 % (1990) to 65.9 % (2007), the 11th largest decline among 30 countries[11]. Inequality in labor earnings rose sharply.[12] The ratio of earnings at the 90th percentile to earnings at the 10th per-

8 http://www.theguardian.com/business/2015/jan/21/davos-unions-businesses-growth-employees-magna-carta-rights-workers. They called for "A Magna Carta for equality, jobs and sustainable growth", whatever that means.

9 http://en.wikipedia.org/wiki/Swedish_euro_referendum, 2003.

10 OECD Economic Surveys: Sweden 2015.

11 Appendix A summarizes the changes in the distribution in Sweden with comparisons to the US.

12 http://www.oecd.org/sweden/OECD-Income-Inequality-Sweden.pdf.

centile increased from around 2.00 in the 1970s to 2.28 in 2009.[13] Real earnings went up the most for the highest paid[14], and the upper 1 % of earners increased their share of income substantially. The Standardized World Income Inequality Database shows an upward trend in Sweden's Gini coefficient for market income, which in some years approached the US Gini, but that welfare state transfers offset these changes to stabilize inequality in total incomes. Union density dropped from 84 % in 1993 to 68 % in 2013,[15] as LO's once dominant share of union members dropped below half of the union total by 2010.[16]

Stipulating that something is amiss with the way capitalism currently operates in advanced countries, what can our societies do to improve the situation?

This paper makes the case that the best path forward for capitalism is to increase workers' stake in the capital of their firm and in capital ownership more broadly and that the best strategy for unions is to take a lead role in promoting this development. Increased employee ownership and profit-sharing is not the whole solution to inequality or financial instability or the other problems that afflict advanced economies. But it is a necessary part of any solution and the one with the greatest potential for moving market capitalism forward in ways that benefit all.

Part 1 summarizes evidence that worker sharing in ownership or profits is a viable business model that can reduce inequality and improve economic stability. Part 2 examines the benefits and risks to unions from promoting an ownership model and contrasts a modern ownership/sharing program with Sweden's 1970s–1980s wage-earner funds. Part 3 reprises the main arguments.

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13 http://www.oecd.org/employment/emp/lfs-minimumwagesandgrossearningsoffull-timeemployees.htm.

14 https://cdn.americanprogress.org/wp-content/uploads/2015/01/IPC-PDF-full.pdf, figures 2.8 and 2.9.

15 http://stats.oecd.org/Index.aspx?DataSetCode=UN_DEN#.

16 TCO had 34 %, Saco 16 % and independent unions 3 %. See Kjelber, Anders, "The Decline in Swedish Union Density since 2007" Nordic Journal of Working Life Studies Volume 1 Number 1 August 2011 6, p. 73 http://lup.lub.lu.se/luur/download?func=downloadFile&recordOId=1964092&fileOId=2064087.

1. Shared Capitalism Works for Firms and Workers

FIRMS IN WHICH WORKERS have an ownership stake or share in profits are a normal part of modern capitalism. Tens of thousands of worker-owned firms operate in advanced economies. The firms range from John Lewis, the UK's most successful retailer, to Spain's Mondragon conglomerate to China's giant high-tech telecom Huawei to the US's 12,000+ ESOP companies with their 13 million worker-owners. Many high tech firms and start-ups have broad-based share ownership. Many large firms subsidize stock purchase plans and offer stock options for all workers. Profit-sharing or gain-sharing (where a firm rewards workers for achieving a group target) are extensive. As a result of these diverse practices, approximately 40 % of US workers have a stake in the operation of their firm. Despite the EU's regularly endorsing greater worker financial participation in its PEPPER reports[17], sharing modes of compensation are less extensive in the EU than in the US.[18] In Sweden about 11 % of firms and 43 % of the largest firms offer employees share ownership schemes, but coverage extends to only 5.5 % of employees. Approximately one fifth of all companies offer all-employee profit-sharing schemes, mostly through tax-privileged "profit-sharing trusts".[19]

To what extent might expanding employee ownership/profit-sharing restore the link between growth of productivity and growth of real earnings, reduce income inequality, and improve economic stability? How do firms fare when workers gain a larger share of rewards and decision-making?

Per the section title, the preponderance of evidence shows that firms with workers ownership or profit-sharing do better along many dimen-

17 Pepper is the acronym for Promotion of Employee Participation in Profits and Enterprise Results http://www.eurofound.europa.eu/sites/default/files/ef_files/docs/areas/participationatwork/pepper4.pdf.

18 http://eurofound.europa.eu/areas/participationatwork/pepperreports.

19 http://www.worker-participation.eu/National-Industrial-Relations/Countries/Sweden/Financial-Participation/Basic-Data-on-Profit-Sharing-Employee-Share-Ownership.

sions than conventionally owned firms.[20] Many studies focus on US experience, with sufficiently compelling findings to have convinced the Center for American Progress's transatlantic Inclusive Prosperity Commission to endorse policies to encourage greater worker ownership and profit-sharing in 2015[21]. But enough evidence exists for EU countries to show that the benefits of the shared capitalist business model are not uniquely American.[22]

Some high points from the evidence:

Comprehensive reviews of studies of employee ownership, including a meta-analysis that amalgamates results from dozens of independent studies, conclude that "two thirds of 129 studies [including both performance and attitude studies] on employee ownership and its consequences found favorable effects relating to employee ownership, while one tenth found negative effects", and that "research on ESOPs and employee ownership is overwhelmingly positive and largely credible."[23]

On the firm side, a 2007 UK Treasury commissioned study (Oxera, Oxford, London) found that firms that shared rewards with workers through individual employee stock ownership schemes had about 2.5 % higher value added per worker than otherwise comparable firms without a sharing program. A 2014 US study (Blasi, Kruse and Freeman (2014)) of over 1,000 firms seeking to make Fortune's annual *100 Best Companies to Work For* found that a disproportionate number of the 100 Best had some form of sharing arrangements: 17 % were ESOPs, 10 % were majority employee owned, 16 % give stock options to most employees. The firms with more extensive sharing of rewards and workplace responsibility had high performance work practices and greater worker trust, which translated into higher market values relative to book value of assets.[24]

On the worker side, the NBER's Shared Capitalism study (Kruse, Freeman, Blasi, 2010) of over 41,000 workers in 14 firms found that more

20 See Freeman, Blasi, and Kruse (2011) and Blasi, Freeman, and Kruse (2013).

21 https://www.americanprogress.org/issues/economy/report/2015/01/15/104266/report-of-the-commission-on-inclusive-prosperity/.

22 Boeri, T., Lucifora, C., Murphy, KJ., Executive Remuneration and Employee Performance-related Pay: A Transatlantic Perspective Oxford 2013.

23 Freeman, R. B., J. R. Blasi, and D. L. Kruse. "Inclusive Capitalism for the American Workforce: Reaping the Rewards of Economic Growth through Broad-based Employee Ownership and Profit Sharing." Center for American Progress. March 2011.

24 Blasi, Freeman, and Kruse (2013).

extensive employee ownership, profit and gain sharing, or broad-based stock options were associated with better outcomes for employees. Workers with a greater financial stake in company or group performance were especially likely to monitor other workers and to intervene to reduce the free rider behavior that plagues any group incentive system. More extensive sharing systems increased employee attachment, reduced turnover, and produced more employee suggestions for improvements. *What makes profit-sharing and employee ownership work are the workers, which opens the door for their unions to play a key positive role in these business forms.*

Critics of employee ownership worry that the volatility of profit-sharing or share ownership creates too much risk for workers to give up the security of a fixed wage or to pay out of pocket for a stake in ownership. This concern is valid in situations in which an unprofitable firm sells its assets to workers who buy shares in the hope of preserving jobs; or for workers to invest most of their savings in their firm. But such situations are atypical. In most cases, firms with ownership or profit-sharing pay workers at market or above-market levels. ESOPs fund worker ownership using future profits. Employee share purchase plans offer discounted prices for shares, while many governments give tax breaks to workers who hold the shares for specified periods of time. The result is that total compensation in firms with ownership/profit-sharing exceeds total compensation in otherwise comparable conventional firms because shared capitalist modes of pay operate as an efficiency wage that generates the greater effort and productivity that justifies itself economically.

The most famous worker owned companies in Europe are Spain's Mondragon, a conglomerate of workers cooperatives (each worker has one vote as owner) and the UK's John Lewis, a 100 % employee owned trust that operates retail stores and groceries. In 2015 Mondragon collaborated with the US's United Steelworkers to develop a union-cooperative Mondragon-style model appropriate to the US. During the great recession, John Lewis prospered, producing headline stories in the British press about the large profit paid to its employee-owners that would have gone to shareholders in conventional firms.

Exhibit 1's "tale of two companies" highlights two US firms with different types of shared capitalism. Cisco is a high tech public corporation with extensive broad-based share ownership, including stock option plans. Its employees are disproportionately scientists and engineers. Wegmans is a privately owned grocery chain that regularly wins awards as the US's best grocery and attains the Best Companies to Work For list. It has a generous profit-sharing system for its primarily grocery clerk work force. While proportionately more high tech firms like Cisco have share ownership and profit-sharing than firms with less educated workers, there are enough cases like Wegmans to show that workers do not need graduate education to make employee ownership/profit sharing work.

Expanding shared capitalist forms more broadly

That firms that chose share ownership or profit-sharing as their business model work better than conventional firms does not mean that conventional businesses would gain similar productivity and wages improvements if some government incentive or collective bargaining agreement induced them to adopt ownership or profit-sharing operations. Firms that select employee ownership or profit-sharing choose that form because they see it as benefiting their business, which makes it likely that they would gain more from the form than firms that did not initially favor shared capitalist forms. But even if new adopters gain less than firms currently with profit sharing or worker ownership, the gains indicate that increasing the proportion of firms with shared capitalism would benefit the economy writ large.

Believing that many conventional business owners and managers lack knowledge of the legal, economic, and organizational issues involved in the worker ownership/profit-sharing model, the Center for American Progress's transatlantic Inclusive Prosperity Commission (Summers and Balls, 2015) endorsed government providing expert advice to firms about those forms and improve tax incentives for the Employee Stock Ownership Plan model.[25] Given the importance of governments as purchasers of goods and services from the private sector, an additional policy tool to encourage firms to increase workers' stake in ownership should be to give preference in government contracts to firms that meet some sharing threshold.

25 https://www.americanprogress.org/issues/economy/report/2015/01/15/104266/report-of-the-commission-on-inclusive-prosperity/.

Would economies with employees having a greater share of profits or ownership have more stable macro-economic performance than other economies? As we lack the example of an advanced capitalist economy operating with extensive worker ownership or profit sharing, the only way to answer this question is to compare firms with/without shared capitalist forms of pay to see whether firm behavior is consistent with greater stability and to extrapolate firm behavior to the macro-economy.

Comparing employment fluctuations in the US in the 2008–09 recession and ensuing recovery, Kurtulus and Kruse (2014) find that ESOP firms reduced employment less in the downturn and increased employment less in the recovery than other firms, thus stabilizing employment over the cycle. Kurtulus and Kruse reference earlier studies of more modest cycles that give similar results and give evidence that suggests that ESOP firms survive longer but their data is not fine enough to determine whether the greater rate of exit among conventional firms is through mergers of buyouts or closure.

Economic theory distinguishes between the effects on employment stability of profit-sharing, where the employer makes hiring and firing decisions and of employee ownership, where the interests of existing workers should dominate decisions. Weitzman's The Share Economy (Harvard University Press, 1984) showed that, by making the cost of labor cyclical, *profit-sharing* reduces job losses and the multiplier effects of losses in downturns and reduces demand for labor and inflationary pressures in a boom. Consistent with this, profit-related variation of summer and year-end bonuses in Japan seems to have contributed to their good macro-economic performance from the 1960s through the 1980s[26]. But Japan's lost decade and struggle to overcome deflationary pressures shows that a compensation system by itself cannot overcome stagnation.[27] On the other side, theoretical analysis suggests that to the extent that workers determine the number of employees in *worker-owned firms*, those firms will expand employment less than conventional firms, due to the likelihood that more workers will reduce profits per worker.

26 Freeman, R. and Weitzman, M., "Bonuses and Employment in Japan" Journal of the Japanese and International Economies 1, 168–194 (1987).

27 Japanese union demands for wage increases in the annual Shunto Offensive and collective bargaining will potentially have a bigger effect on raising wages and preventing deflation.

Entry of new worker-owned firms is thus necessary to attain full employment.[28]

Finally, it is likely that employee owned and profit-sharing firms pressure governments to weigh employment more heavily in policy decisions than other firms. If this is the case, an economy in which more firms are employee owned or profit-sharing ought to have more employment-friendly fiscal and monetary policy.

28 Vanek, J., (1977) The Labor Managed Economy Cornell Univ Press.

2. Should shared capitalism be part of a labor agenda?

IN THE HEYDAY of collective bargaining when unions negotiated with business across a clear labor-capital divide, a sensible answer to this question would be "no". Unions improved members' well-being by negotiating contracts with employers or employer associations, sometimes using the strike weapon to resolve an impasse. The risks of seeking a different path for advancing worker interests arguably exceeded the potential benefits. The US's UAW and Steelworkers occasionally bargained for profit-sharing, employee ownership, or union representation on boards with troubled firms, only to return to normal bargaining when the firms recovered. LO's 1970s-1980s failed experience with wage-earner funds[29] highlighted the danger of promoting a new business model against capitalist objections.

Today the labor scene in advanced economies is different. Falling union density, labor's reduced share of national income, competition from lower wage countries, and technological change have weakened collective bargaining as a mechanism to improve economic lives. Many strikes are last resort defensive actions to limit employer demands for concessions rather than a tool for improving worker incomes. Unions need innovative strategies and tactics to restore the link between growth of productivity and worker incomes and to counter-balance the power of capital in the economy. The sensible answer to whether unions should make shared capitalism part of their agenda is "yes".

Five benefits

Making shared capitalist reforms part of a union agenda for improving capitalism will:

29 Viktorov, I., "The Swedish Employers and the Wage Earner Funds Debate during the crisis of Fordism in the 1970s and 1980s" downloadable at https://apebhconference.files.wordpress.com/2009/09/viktorov1.pdf; Pontusson, J. and Kuruvilla, S., Swedish Wage-Earner Funds: An Experiment in Economic Democracy Industrial and Labor Relations Review Vol. 45, No. 4 (Jul., 1992), pp. 779–791.

1. *Transform debate over labor policy.* Current debate focuses on increasing labor market flexibility by rolling back worker protections to make it easier for firms to adjust to the ups and downs of market conditions. Debating flexibility puts unions in the role of hoary defenders of privileged "insiders" rather than as promulgators of a better future for all workers. Although flexibility reforms failed to buffer economies in the great recession[30], the notion that weakened labor protections promotes job recovery and economic growth still dominates policy discussions, presumably because "it takes a theory to beat a theory"[31]. If nothing else, union's championing ownership and profit-sharing as the policy/theory alternative to flexibility would shift debate in a fruitful direction.
2. *Develop union expertise beyond traditional collective bargaining.* Commitment to a shared capitalist agenda would require that unions gain sufficient knowledge in the economics, organization and regulations of employee ownership, profit-sharing, and participation systems to become the go-to-place for workers and firms seeking shared capitalist reforms. To develop such expertise unions would have to invest in learning the ins-and-outs of the many institutional forms of sharing: cash vs deferred profit-sharing systems, company share purchase plans vs collective ownership trusts; the links between employee involvement committees and group incentive rewards and between worker financial participation and influence on corporate governance. Unions would connect with like-minded business folk to find best ways to implement reform policies on the ground and with academics to develop programs to educate members and the public broadly about the importance of moving capitalism to a more worker-ownership mode.

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30 The OECD Employment Outlook (2009, pp. 39–40) writes: "there does not appear to be any strong reason to expect that recent structural reforms mean that OECD labour markets are now substantially less sensitive to severe economic downturns than was the case in the past" … (the) "great moderation" apparently cannot be attributed to greater resilience due to the types of structural reforms that have received a lot of attention from labour market analysts and policy makers … "there do not appear any clear grounds for concluding that workers, generally, are either better or worse prepared to weather a period of weak labour markets than was the case for the past several recessions."

31 Larry Solum's law blog attributes this to Richard Epstein [92 Yale Law Journal 1435 (1983)]. See http://lsolum.typepad.com/legaltheory/2012/10/introduction-it-takes-a-theory-to-beat-a-theory-this-is-surely-one-of-the-top-ten-all-time-comments-uttered-by-law-professo.html.

3. *Create space for unions to innovate market intermediary services.* As an example, consider the stock purchase plans that offer workers discounted share prices to invest in their firm. The workers who buy shares, like other small shareholders, have little power to affect management decisions about the issues facing the firm, including its share plans[32]. To have power, they need to vote as a group through some proxy voting organization. Who would be better suited to develop such an organization than unions? Unions could also spread knowledge of best practices, extend solidarity policies from wages to sharing arrangements, and advise/lobby governments on statutes, administrative rulings, or tax breaks most beneficial to workers and worker-owned/profit-sharing firms.
4. *Win new allies.* Representing workers as owners creates opportunity for unions to gain allies from groups who often oppose union initiatives, including conservatives who have historically favored worker ownership and profit-sharing[33] as alternatives to unionism. Within firms the natural allies for unions would be managers with permanent careers who want to build the business for the long run while the natural allies among shareholders would be institutional or other investors with long run horizons as opposed to "absentee capitalists/hedge funds" focused on short run rises in share price or cutting jobs and investment to sell the firm to some outside bidder.

The 2014 Market Basket labor dispute in New England, which pitted 25,000 nonunion workers and managers of a family-owned grocery chain built on profit-sharing and cooperative labor-employee relations against

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32 In 2014 Skanska modified its employee share purpose plan to allow top executives to increase their ownership of shares compared to other eligible employees. There was no discussion with unions or other eligible employees about this.

33 This includes national leaders such as Reagan, De Gaulle, Erhard, and Thatcher. De Gaulle succeeded in mandating profit-sharing in all French firms above a given size. See Fathi Fakhfakh and Virginie Pérotin, "France: Weitzman Under State Paternalism?" Paying for Performance: An International Comparison (ed Michelle Brown, John S. Heywood) 2002. For a longer perspective on profit-sharing see C. Estay, C. Lakshman, J-O. Pesme, (2011) "Profit sharing in the nineteenth century: history of a controversial remuneration system", Social Responsibility Journal, Vol. 7 Issue: 1, pp. 23–41. In New Jersey, conservative Republicans joined with Democrats to enact legislation favoring ESOPs in 2014.

absentee owners, exemplifies the opportunity for new alliances,[34] to which US unions, with no vision of profit-sharing/ownership as part of the labor movement, did not respond. When the absentee owners gained a majority of the board, they fired the CEO, precipitating a strike by senior managers, whom the new owners fired next. What saved Market Basket were protests by clerks, truckers and warehouse workers that sparked boycotts of the stores and forced the absentee owners to sell their shares. The AFL-CIO and its affiliates did nothing to help workers and managers win the country's biggest and most successful labor dispute in decades.

Risks

There are risks to unions from succeeding with a shared capitalist agenda and potentially greater risks from failing, per LO's 1970s–1980s experience with its wage-earner funds.

The first risk from success is that *worker-owners could see themselves more as owners than as workers needing union services.* This is a simplistic reading of how employee-owned businesses or profit-sharing programs operate and how workers and firms would view unions with expertise in implementing ownership/profit-sharing. Virtually all worker-owned enterprises hire professional managers to run their business who operate as managers, which inevitably produces disagreements with worker-owners on some workplace issues. At a 2015 Workshop at Rutgers University, the CEO of a worker-owned firm described the situation as follows[35]: "I manage the firm for the workers as owners. If workers need representation as workers, they should go union and I so inform them." Similarly, "If unions build expertise in shared capitalist practices, worker-owners or managers of worker-owned firms would go to unions as owners as well."

A second risk from succeeding would be that workers having their capital and employment in the same firm would face economic insecurity due to insufficient diversification of assets. While real, critics of shared

34 http://money.cnn.com/2014/07/29/news/economy/demoulas-market-basket-dispute/ http://en.wikipedia.org/wiki/DeMoulas_Market_Basket.

35 At annual Midyear Fellows Workshop of employee-owned firms at Rutgers University in January 2015

capitalism exaggerate the risk of getting labor and capital income from the same firm. The greater stability of employment in employee owned/profit-sharing firms offsets some of the risk of volatility profits or share prices on income,[36] Recognizing the need for diversification, many US ESOPS offer retirement and savings programs that invest outside the firm. Sweden's mandated individual worker accounts in its pension program[37] forces workers to diversify. Rather than competing with share ownership, pension fund capitalism[38] complements employee ownership/profit-sharing.

A third risk is that shared capitalism would increase earnings differentials between workers in more/less successful firms so much as to raise overall inequality.[39] Two factors reduce this risk: the likely extent to which worker ownership/profit sharing would reduce differentials between top earners and normal workers; and the natural process of workers shifting from less successful to more successful firms that will spread the benefits of successful firms to additional workers. In Sweden, solidarity wage policies that keep base pay for similar workers comparable in different establishments would limit that source of pay inequality. In some circumstances, such as a full employment labor market, competitive pressures should also limit inequality of earnings across firms.

The experience of Sweden's wage-earner funds of the 1980s suggests that a union campaign for increasing workers stake in capital and capital income would face massive business opposition that could doom any such program. Without gainsaying the problems that a union campaign to gain capital income for workers would face today, the enterprise based ownership and profit-sharing mode of increasing workers capital income examined in section I differ so much from the wage-earner funds that enraged Swedish business in the 1970s and 1980s as to rule out such a

36 With Kruse and Kurtulus, I am examining how much lower loss of job risk offsets risk of holding assets in the firm at which one works.

37 Severinson, C. and F. Stewart (2012), "Review of the Swedish National Pension Funds", OECD Working Papers on Finance, Insurance and Private Pensions, No. 17.

38 Drucker, Peter 1976, The Unseen Revolution: How Pension Fund Socialism Came to America Harper Collins.

39 That widening pay differences among firms/establishments in the US is the largest contributor to rising pay dispersion shows this could be a real problem. See Barth, E., Bryson, A., Davis, J., and Freeman, R. "It's Where You Work: Increases in Earnings Dispersion Across Establishments and Individuals in the U.S September 2014 NBER WP 20447.

negative reaction. To the contrary, many businesses favor modern shared capitalism institutions and would be hard-pressed to reject a union campaign out of hand.

Exhibit 2 summarizes the main differences between "21st century shared capitalism" and the wage-earner funds that LO developed in the 1970s and which Sweden introduced in modified form in 1983 and dissolved in 1991. The comparison covers the goals of the policies; the way they are financed; the way they operate; and responses by business and the public.

Unlike the wage-earner funds, which Rudolf Meidner designed to make the wage solidarity part of Sweden's macro-economic policy acceptable to workers, modern shared capitalist institutions are designed to remedy the micro-economic problem of aligning the interests of workers with their firm. Both plans seek to reduce inequality by distributing capital ownership and income more widely, but the 21st century shared capitalism model views this as turning workers into worker-owners with ownership in their place of work, whereas the wage-earner funds sought to do this by creating financial organizations outside the firm.

The modes of financing of the two systems differ starkly. The shared capitalist model relies on tax incentives for firms to set up trusts that own shares collectively, as with US ESOPs, and/or tax incentives for workers to invest in their firm, as with UK share purchase schemes. These are carrot rewards for expanding workers' stakes in capital. By contrast, the wage-earner funds taxed profits and wages to obtain money that the funds could invest in any firm it chose, subject to various rules.

The operational differences are also huge. The shared capitalist model offers a variety of institutions that firms and workers can choose according to their preference and circumstances. The wage-earner funds are stock market entities separate from workplaces save for the requirement that the local union vote half of the shares that a fund has in a firm. These differences generate different principal/agent problems. Workers with individual shares have little power as owner, and many ESOPs are run by senior managers without much employee input. On the wages fund side, having local unions vote shares without any financial stake in the firms gives workers incentives to seek higher pay or firm spending to reduce profits rather than finding ways to increase profits.

Finally, business and the public have responded differently to the two ways to increasing workers share of capital and capital income. Many businesses support enterprise level sharing and employee ownership. During Sweden's debate over the wage-earner funds, some businesses endorsed workers financial participation at the enterprise level. While opinion polls show widespread support for worker ownership and profit-sharing, surveys of Swedish citizens in the 1970s and 1980s found that the majority favored workers owning shares in companies as individuals over the trade unions owning shares (George, 1992 figures 2 and 3).

In sum, a union campaign for "21st century shared capitalism" would almost surely not face the opposition and problems that afflicted the wage-earner funds.

3. Conclusion

I ENCAPSULATE THE ARGUMENT for unions promoting workers ownership and profit-sharing in a new capitalist model in five bullet points and two rhetorical questions:

The bullet points:

1. *Increasing workers share of capital income is necessary to arrest the upward trend in inequality, spread the benefits of technological change widely, and prevent market capitalism from turning into an economic feudalism dominated by a small super-wealthy elite.*
2. *The economics of worker-ownership and profit sharing make it an efficient form of business for capitalism and way to increase workers' incomes.*
3. *The financial risk to workers from combining capital assets and employment in the same firm is manageable.*
4. *By taking a leadership role in campaigning for workers' ownership and profit-sharing unions will shift debates over labor reforms, build new expertise and union services to workers, and win allies in reforming today's capitalism.*
5. *Sweden's solidaristic policies and worker mobility from less productive to more productive workplaces complement shared capitalist incentives and ownership.*

The rhetorical questions:

– *If unions do not take a lead in systemic reform, who will?*

– *If not profit-sharing and ownership, what else have unions to bring to the table of big economic reforms to improve the position of workers in capitalism and keep the system working for all?*

Exhibit 1. A tale of two companies

Shared capitalism works at Wegmans and Cisco

Grocers at Wegmans and techies at Cisco profit from inclusive compensation systems and the higher profits these programs deliver. Wegmans Food Markets, Inc. is a family-owned, U.S. regional supermarket chain with about 37,000 employees in 75 stores in New York, Pennsylvania, New Jersey, Virginia, and Maryland. In 2009 Consumer Reports ranked it the nation's best large grocery chain. It was ranked 3rd on Fortune's "100 Best Companies to Work For" in 2010. Wegmans has profit-sharing for full-time employees and a host of benefits for part-timers as well as full-timers.[40] According to Fortune Magazine:

All that means Wegmans' labor costs run between 15 percent and 17 percent of sales, [industry guru Bill] Bishop estimates, compared with 12 percent for most supermarkets (the company declines to comment). But its annual turnover rate for full-time employees is just 6 percent, a fraction of the 19 percent figure for grocery chains with a similar number of stores, according to the Food Marketing Institute. Almost 6,000 Wegmans employees – about 20 percent – have ten or more years of service, and 806 have a quarter-century under their belts. The supermarket industry's annual turnover costs can exceed its entire profits by more than 40 percent, according to a study conducted by the Coca-Cola Retailing Research Council. When you understand that, you begin to see the truth in Robert Wegman's words: "I have never given away more than I got back."[41]

Source: Blasi, Freeman, Kruse (2013)

40 See "Wegmans Food Markets Inc.," available at http://www.answers.com/topic/wegmans-food-markets-inc; "Wegmans and Its Employees" (2008), available at http://www.slideshare.net/ganeshramb/wegmans-and-its-employees.

41 Matthew Boyle, "The Wegman's Way," Fortune Magazine, January 24, 2005, available at http://money.cnn.com/magazines/fortune/fortune_archive/2005/01/24/8234048/index.htm.

Cisco Systems, Inc, is one of the world's leading consumer electronics, networking, and communications technology and service firms, with over 65,000 employees. It is an archetype Silicon Valley high-tech multinational corporation, which at the height of the dot com boom had the highest market capitalization of any corporation in the world. It has been awarded "for the exemplary quality of their relationships with employees and communities," and appears regularly on the Fortune "100 Best Companies to Work For" list, ranking 16th in 2010. Its CEO, John Chambers, has spoken publicly about the importance of Cisco's broad-based incentive systems:

… On employee ownership … there's not been a single successful company in the history of high tech in the last two decades that has done that without broad-based stock option plans. When I originally heard about that in school, I would have called it socialism, when in fact it is the ultimate form of capitalism. It is a very effective way to align interests.[42] I find it ironic that the United States invented the sharing of the success of the company with its employees very broadly, and now we have other countries around the world that beat us not only in education and infrastructure, but also in terms of employee ownership.[43]

42 "Cisco Sysems/On the record: John Chambers," SFGate.com, February 29, 2004, available at http://articles.sfgate.com/2004-02-29/business/17412116_1_silicon-valley-cisco-systems-role-models.

43 Matt Hamblen, "Cisco's CEO Reflects on the Company at 20," Computerworld, December 20, 2004, available at http://www.computerworld.com.au/article/5525/cisco_ceo_reflects_company_20/.

Exhibit 2. Shared Capitalism vs Wage-Earner Funds in Extending Capital Ownership

Areas	21st Century Shared Capitalism	1970s–1980s Wage-earner Funds
1. Goal	Make firms more efficient; workers benefit from sharing in gains through efficiency wages incentive; Reduce inequality by turning workers into worker owners, with shares in firm.	Redistribute profits that top firms gain from solidarity wage constraint to buttress macro-economic policy; Reduce inequality by socializing capital through union-run funds.
2. Finance	Tax incentives to induce firms to choose shared system and workers to invest in their firm; firm profits fund ESOPsS.	Mandated on firms with 20 % profits tax + 0.2 % payroll levy.
3. Operation	Great variety – from individual share-ownership or stock options to trust funds; Within firm ownership, often dominated by managers.	Stock market funds with unionists majority of board; workers in firm vote ½ of fund owned shares; Local workers incentive to vote for local wages; no incentive to raise profits .
4. Response	Business supports enterprise level sharing/ ownership; Public is favorable in US, EU supports in PEPPER reports. Swedish opinion?	Strong opposition, leading to ”strike of capitalists” in Sweden. Germany, Holland, Denmark, UK reject forms; Public prefers individual share ownership in Sweden in 1980s.

Source: Shared Capitalism, Blasi, Freeman, Kruse (2011, 2014)
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