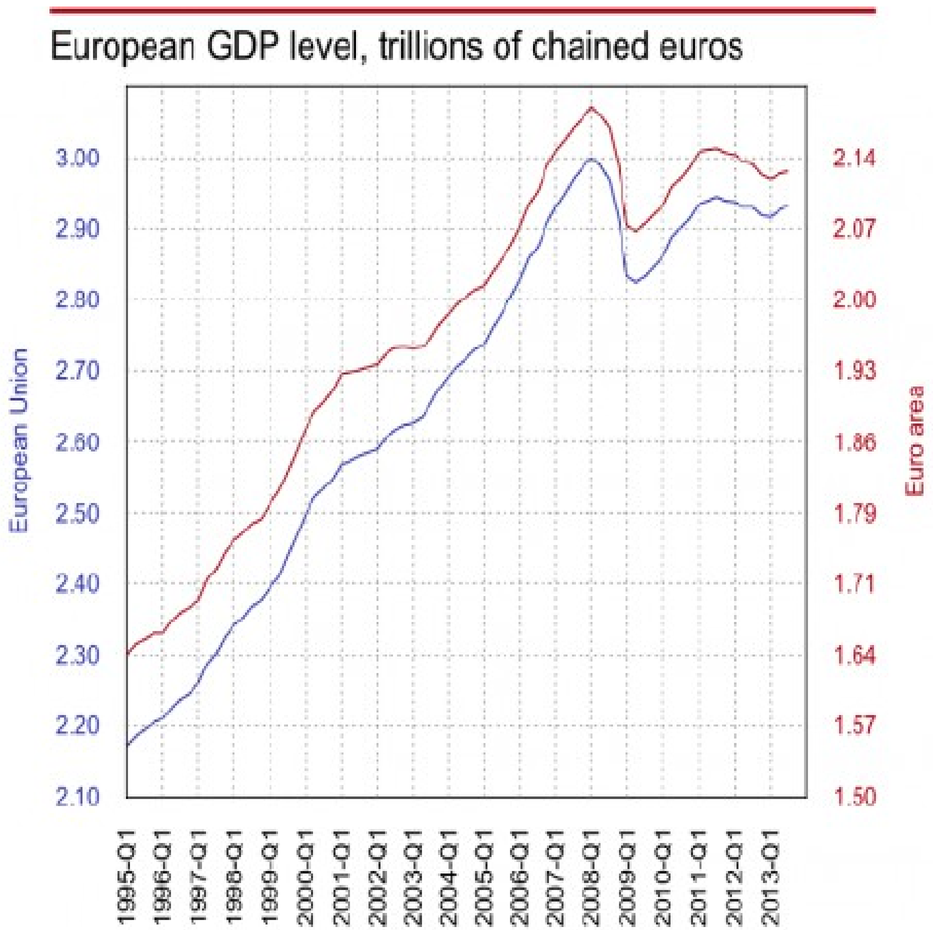
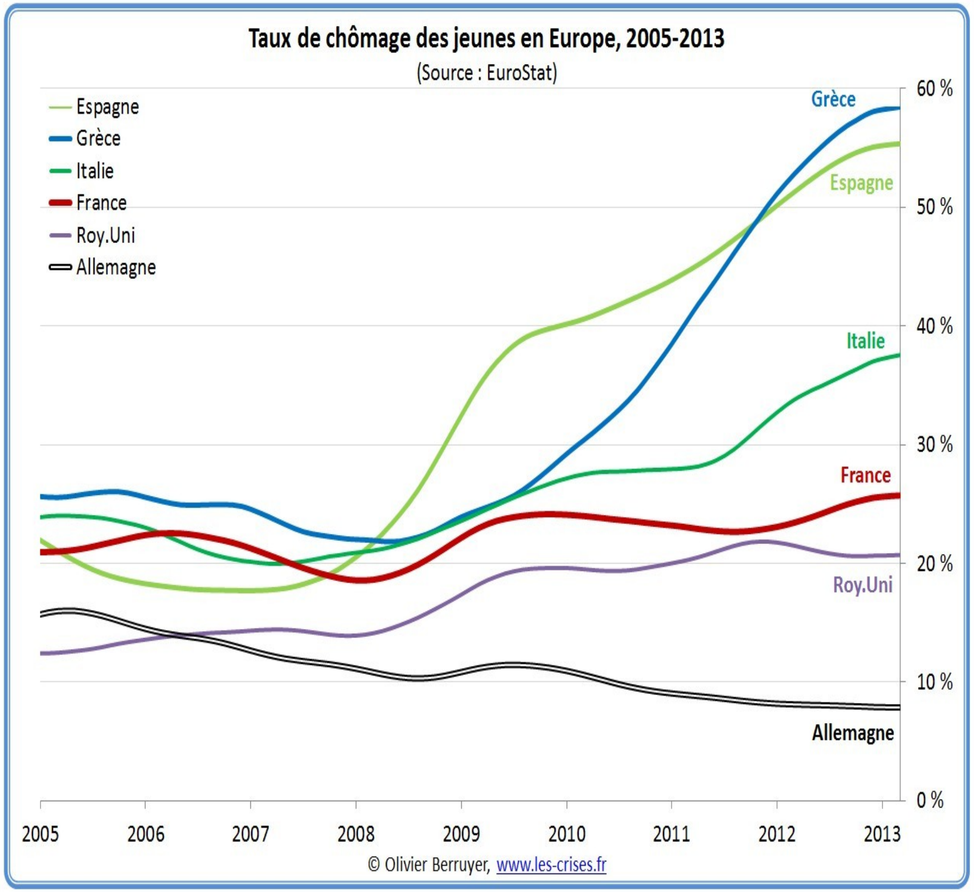
Employee share ownership and Profit-Sharing in the EU in a time of economic crisis





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Taking Action: Promotion of Employee Share Ownership
30 January 2014 Brussels

Two Humongous Economic Problems

- 1) Increased inequality and fall in labor's share of national income.

    EU was leader in reducing/limiting inequality but inequality/poverty increasing. Substantial fall in labor's share

  - Social Partner CB and welfare state solution under threat.
- 2) Failure to recover from Finance's Great Recession

    Austerity programs have produced austerity: GDP below 2007: Poster child – Portugal

  - EU Capital market: "Persistent financial market fragmentation, weak bank balance sheets, low demand, and creeping uncertainty, as well as structural weaknesses … contribute to contraction of real activity."
  - Unemployment high in many countries ~12%

My Claims

Any solution to future inequality and reduced labor share has to include increased worker ownership/profit-sharing.

The alternative to alternativlos austerity policy has to include increased worker ownership/profit-sharing.

This is consistent with past EU history, social partner institutions, and good economics.

Structure of talk

1-- Crisis as opportunity to spur ownership/profit-sharing in EU

2 – Brief History and Institutional Fit of Ownership and Profit-sharing in EU

3 – How Ownership/profit sharing can spur Investment to spark growth and stop rising inequality

4 –Equity and next steps

1. Crisis

Long term problem of persons dependent on labor earnings in changing economic world

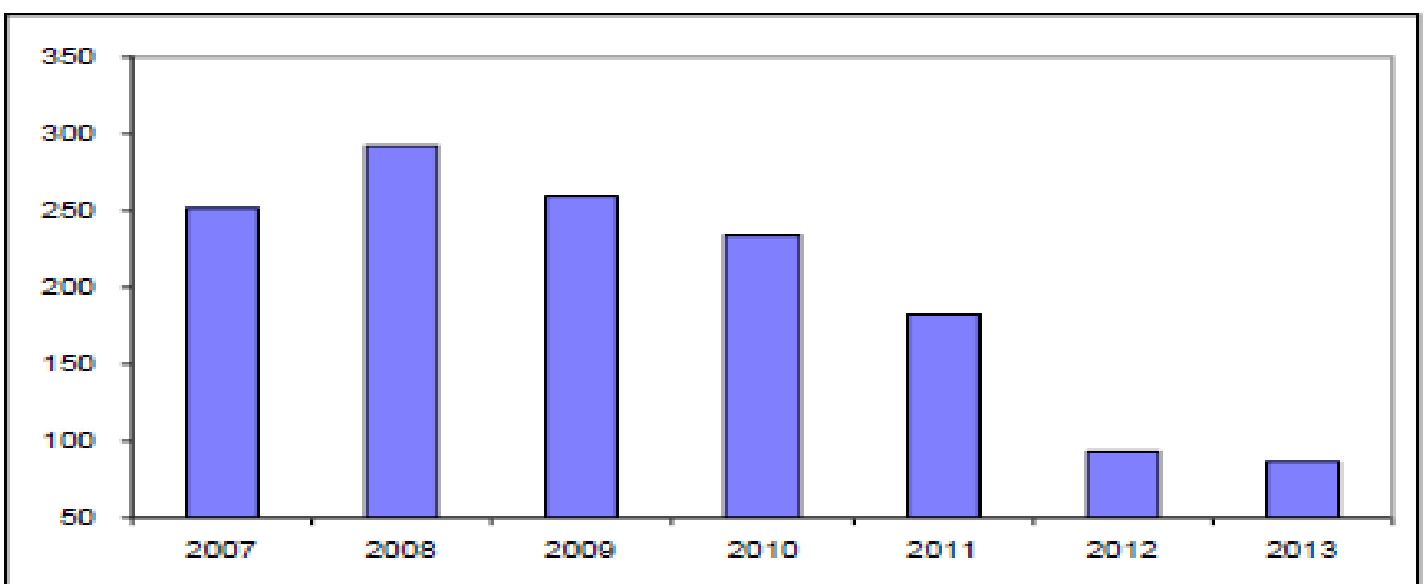
- Inequality up in almost all OECD countries
- Capital share up in almost all OECD countries
- AI Robots coming to compete with jobs in all countries: “Who Owns the Robots (modern tech and capital) Owns the world”
- Weakening of unions/CB in most countries; govt budget problems in many → cutbacks in welfare spending.
- **Greater worker share of capital/higher proportion of revenue via profit-sharing will help solve problem.**

EU Favorability Waning

	% Favorable						
	2007 %	2009 %	2010 %	2011 %	2012 %	2013 %	*07-13 Change*
Spain	80	77	77	72	60	46	*-34*
France	62	62	64	63	60	41	*-21*
Italy	78	--	--	--	59	58	*-20*
Czech Rep.	54	--	--	--	34	38	*-16*
Poland	83	77	81	74	69	68	*-15*
Britain	52	50	49	51	45	43	*-9*
Germany	68	65	62	66	68	60	*-8*
Greece	--	--	--	--	37	33	--

PEW RESEARCH CENTER Q9f.

- **Disastrous recovery** due to … austerity policies? Restoring old bank system? Lack of imagination and guts? Size of shock?
- Spring 2013 at Portugal Central Bank conference, I was gifted a hat and asked," professor, what can we do? " My answer was, **"I don't know... but it should be something different than what you are currently doing."**
- What they were doing was austerity + destroying collective bargaining social partner institutions.
- Number of published collective conventions in Portugal



Source: Government (DGERT); 2013: January-October

Substance on "something different"

- Program to stimulate private sector investment orthogonal to battles over austerity and preserving existing financial order. If EU +IMF insist on public sector austerity, need private sector recovery.
- Private sector recovery will happen eventually but it could be two-three decades.
- Jump start private sector with program of investments

  in firms/workers that increase worker ownership/profit sharing,

  focused on sectors with greatest linkages to other sectors so as to create self-sustained growth

  with pension fund and other long term capital that also relies as much as possible on worker capital.

2. Fit and Brief History

- World-class examples:Mondragon (Spain); John Lewis (UK), large construction, architecture firms in Italy, and so on; Employee share participation schemes (UK)

- EU institutions favorable to ownership/sharing: lower inequality in income; works councils with rights to information; workers on boards in some countries; social partner business and labor groups.

- But also has "Industrial Revolution" view of capital/ labor relations as class conflict. Success with broad collective bargaining blinds some to value of ownership.

Lower level of ownership and sharing than US; Higher level of collective bargaining than US

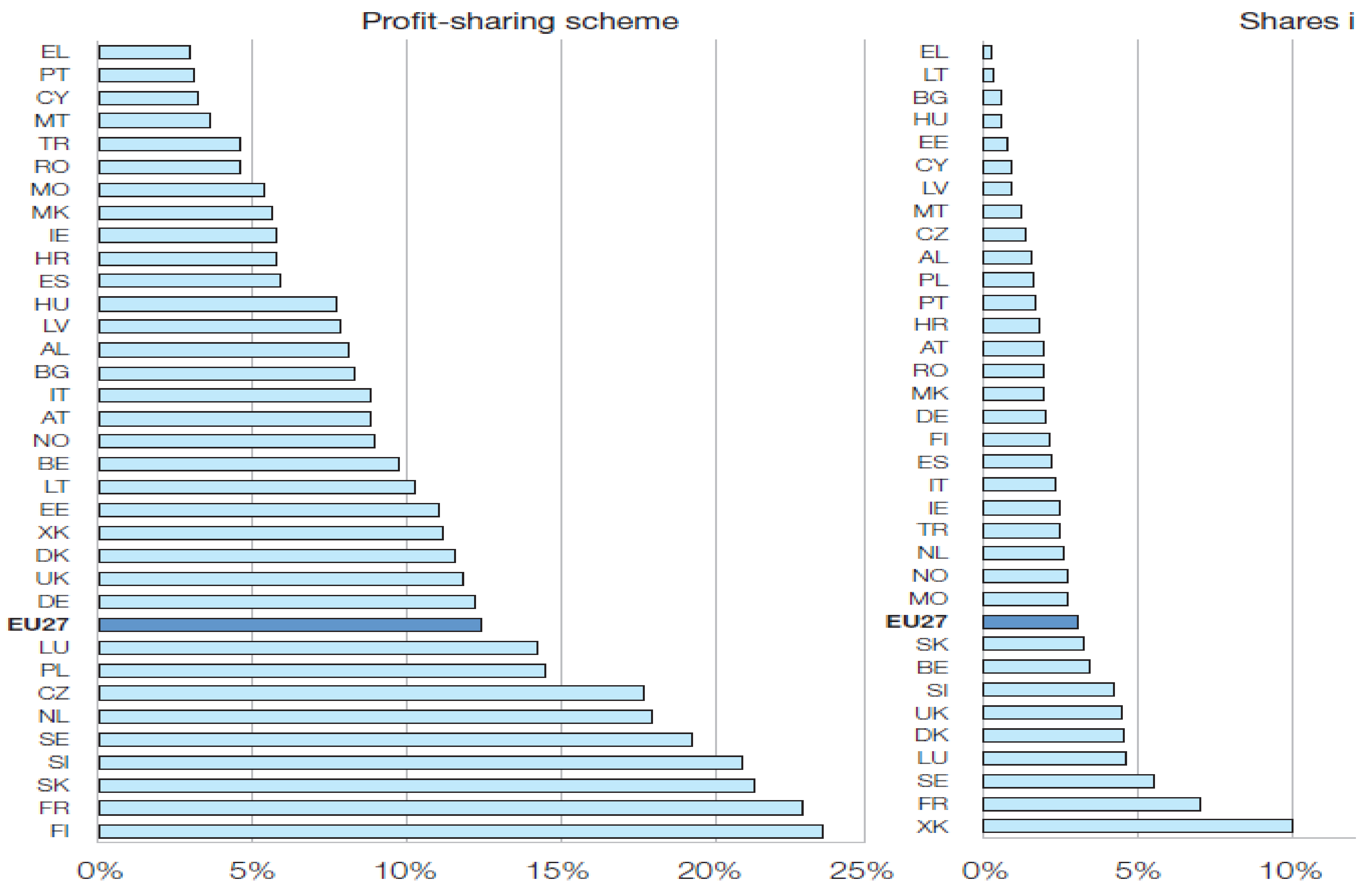
Fifth Working Conditions Survey (2012) EU27 average shows ~3% with shares plus 13% with profit-sharing

- US General Social Survey (2006) 38% profit-sharing and 18% own shares; 10/11 million workers in ESOPs.

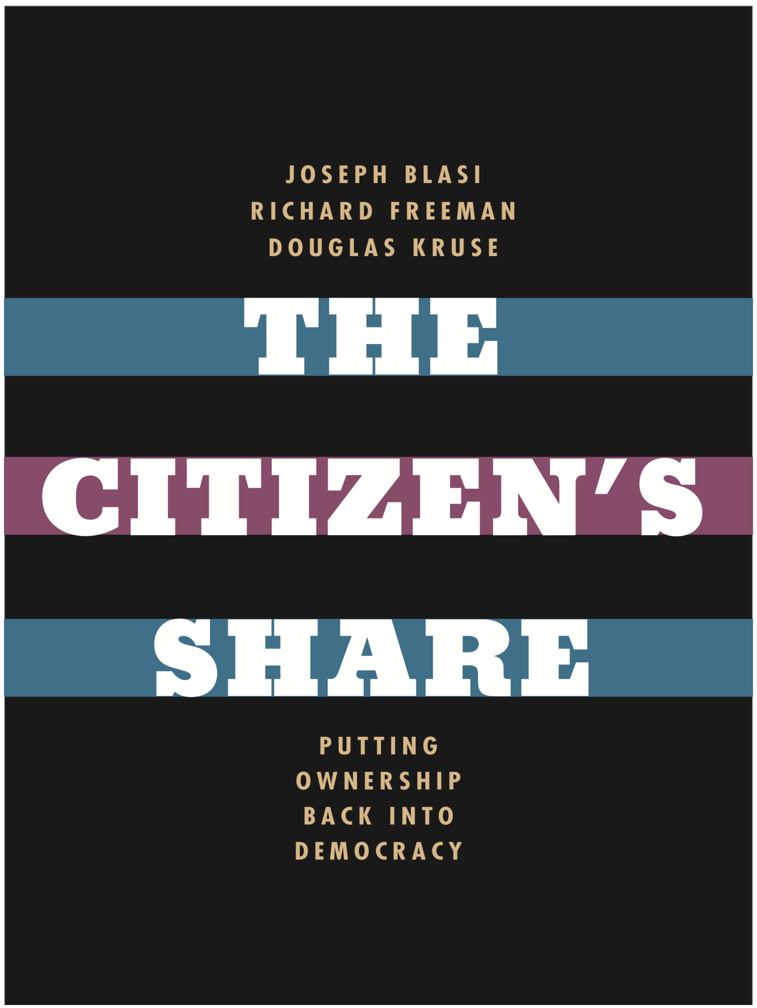
- Union membership and CB higher in EU, with huge CB difference due to industry agreements and extension of contracts

Fifth European Working Conditions Survey: Wide Variation

Figure 69: Employee participation in profit-sharing schemes and company share



The Citizen's Share``(2013) shows that founders of US had "ownership" vision of solution to labor/capital relations and inequality



If all power be suffered to slide into hands not interested in the rights of property … either they will ... become dupes and instruments of ambition,

or

their poverty and dependence will render them mercenary instruments of wealth…

In either case liberty will be subverted; in the first by a **despotism growing out of anarchy**, in the second by an **oligarchy founded on corruption**."
(James Madison, 1788)

No notion of social welfare state/collective bargaining, social partners

- Fall 2013 at Paris Employee Ownership meeting, Jens gifted an invitation to this meeting and said,"Don't tell us too much about bewhigged American revolutionists. Tell us what you know about the European tradition"
- My answer was, "I know about PEPPER but not much more ... But I will find out something beyond what I currently know."

The PEPPER IV Report:
Benchmarking of Employee Participation in Profits and Enterprise Results in the Member and Candidate Countries of the European Union

- Thanks to a German PhD student visiting girl friend in Boston, his PhD advisor in France, some friends in Spain, and meetings with ITUC people in Brussels, I know somethings more (but not enough to do a Citizen's Share history about European thinking and struggles with ownership).

Employee ownership in Germany
(based on Alexander Kern, PhD work, 2014)

- Significant issue in 1950s rebuilding effort in West Germany, with Erhard proclaiming “Jedem Deutschen seine Aktie” as part of privatization of some state owned enterprises, favoring individual shares as against Neuberger (CDU) who favored collective trust for employee shares. Discounted shares of state firms to lower opaid employees and shares sold widely in Preussag (1959) and VW
- SPD favored trust for shares and co-determination without ownership. Based on Spindler Werke whose introduction of partipation in 1950s caused most employees to leave the union, unions were suspicious.
- Tas laws in 1960s and 1970s for ownership of capital through pension funds but not through employee ownership

Posing shares as political effort to defeat socialism: Unions responded with co-determination, which eventually won the day (with little real impact)

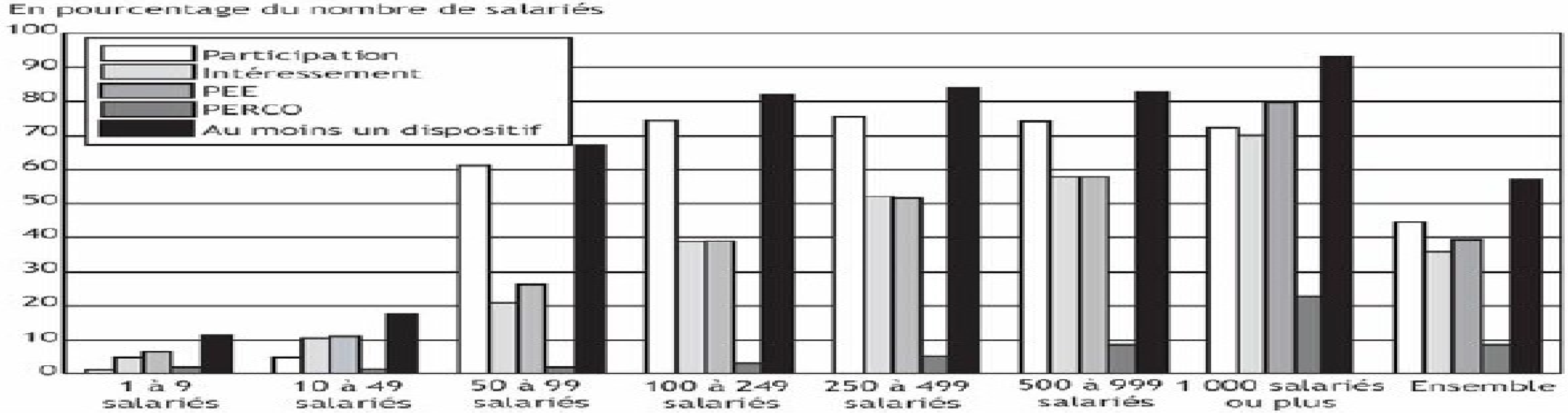
Volksaktie
Contra
Socialismus

FDP most active party for workers ownership but they got zapped

France – Profit-sharing

- A long history with similar right/left division over profit-sharing. DeGaulle pushed for profit-sharing as an income distribution “third way” (btwn capitalism and socialism) measure, with legislation in 1959 and 1967, implemented over time. Law exempts profit-sharing payments from social security and corporate taxes. Some surveys understate extent of profit-sharing because many employers/workers view the mandatory system as different than performance-related pay.
- But it is sizable and has positive effects similar to those found for other profit-sharing/ownership schemes.

Graphique n° 1 : Proportion des salariés ayant accès à un dispositif de participation, d'intéressement et d'épargne salariale en 2007



Sources : DARES, enquêtes ACEMO-PIPA 2008 et ACEMO-TPE 2008

Graphique n° 5 : Évolution de l'indice Euronext FAS IAS

Indice FAS IAS et Indice SBF 250

3 – Ownership/profit sharing role in spurring economy and halting rising inequality from rising captial share

Four planks

1) equity or loans for productive investment in firms whose workers trade equity or profit-sharing for wage increases in troubled economies (and others) – mimics devaluation

2) Increased participation to regular employees who gain stake in firm, which is critical to improving productivity; create stable employment

3) focused on S&M firms that seek capital to modernize or expand → resolve the fragmented finance market

4) seek sectors/firms likely to prosper in recovery or with big input-output effects on economy

Role for governments/international financial agencies?

YES Encourage investments via:

tax breaks for investors similar to tax-breaks for mandated private pension schemes/ ESPPs/ESOPs.

tax benefits to returns on fund

insurance for investments, for instance guaranteeing capital in pension fund investments in worker-owned firms that meet some criterion

YES With cyclical tax reductions/write offs possibly related to improved budgets

Govt support is investment in infrastructure of improved capitalist economy

Questions about each part

1. Finance-- Potential sources: Worker-related financial institutions; private pension funds (Neth, UK, German Riester pensions, US, Australia ...); Norwegian Sovereign Wealth Fund; Sharia Capital from wealthy Arabs; China banks, billionaires; Hedge and equity funds. Advantages: commitment of workers to tie their futures to firm is information and collateral. Mutual fund of outside capital to reduce risk. Timing to jumpstart.

2. Productivity and profits – large econometric literature says that on average worker ownership, profit-sharing has positive effect on productivity and profits.

3. **barriers to investments/ undervalued assets?** ” the credit channel has been broken during the crisis, particularly in stressed markets … small and medium-sized enterprises in hard-hit economies appear to most affected...monetary transmission in periphery and stressed markets remain impaired”, citing higher interest rates; declines in cross-border banking flows; periphery banks relying on deposits → fragmentation of financial markets.

4.**targets for returns when distressed economy recovers?**
Want sectors/firms that are very sensitive to:
- Cycle: high dProfits/dSales and dSales/dGDP
- Labor costs :high dProfits/dcosts and dcosts/dlabor costs
- New equity/loans: high dProfit/dI and dI/d New Equity

A big enough set of expenditures can create a self-sustaining recovery. How big?

4. Equity and Next Steps

Equity has two meanings:

Fairness – equitable solutions to disputes and division of the rewards of production

Ownership – equity in one's firm and through that in the fruits of one's labor and one's investment.

If you accept the theme of this talk the next steps for EU to recover economic health and to arrest the trend toward increased inequality associated with capital's high/ increasing share of national income should be to develop policies that bring these shared meanings together to broaden the base of capital ownership.

If you want specific policies, sadly like Fermat, I have no space in the margin or time at the lectern to lay out the ideal

So, need help of others. Ideas wanted from:

Unions and groups representing workers. Need support for employees as owners. What policies would you favor to shape equity/ownership and participation as part of labor system in which unions represent workers in new ways.

Investors and investment community representing money, need new funds to direct capital, including pension moneys to worker-owned firms instead of into the pockets of Wall Street bankers and their EU clones.

Governments and international agencies. Austerity programs and policies to destroy collective bargaining and social partnership to restore the financial system do not fulfill your fiduciary responsibility to the economy.