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Pitfalls and Promises for Workplace Democracy

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Abstract

If democracy in the firm were organised on the right principles, it could have profound consequences for corporate influence on politics as a whole.

The corporation is political in at least two distinct ways. First, corporations, individually, sectorally, and collectively, are key players in politics. Directly, they expend extraordinary amounts of resources in lobbying and other forms of political action to exert influence on the policy-making process. Indirectly, they provide the employment that so many constituencies depend upon, which means that at least in the short term the welfare of most people depends on the profitability of firms. This dependence makes their interests radiate into policy-making even without their direct involvement in it.

But second, and maybe even more fundamentally, the inner life of the firm itself is political. The shop floor, the office space, and the boardroom are frequent sites of conflict between the workers, managers and owners that constitute the firm. How resources should be allocated, how the organisation should be designed and operated, and how the firm's activities should be directed - these are questions that can only be ever be answered by another question: 'for whom?'

Underlying the internal conflict over how firms answer the 'for whom' question is the ever-present exercise of power. On the one hand, the board and management have the power to fire and discipline employees, or to pass over someone for a promotion or a raise. On the other hand, albeit it in ways that are significantly harder to exercise, employees exercise individual and collective voice through threats of exit, work stoppages and slowdowns.

In the UK and US, leading left politicians are offering two bold new policies that directly pertain to both forms of corporate power. Jeremy Corbyn and John McDonnell's 'Inclusive Ownership Funds' in the UK, and Bernie Sanders's 'Corporate Accountability and Democracy' plan in the US, each aims to redistribute and reallocate corporate profits to address the yawning gap between large shareholders and ordinary workers. But both also propose to take on corporate political power, both on the terrain of state politics and within the firm itself.

Much has already been said about how these proposals might matter for redistribution. I won't further address that here. Instead, I offer some brief thoughts on democratic dilemmas that might be confronted once these plans are implemented. Though much of the discussion thus far has concerned the technical aspects of plans themselves, an examination of power and politics is also of critical importance. If employers and corporate boards are able to subvert democratisation within their firms, despite these plans being installed, they will also wreck their impact on broader democracy in state politics. Two issues concern me here: how might worker funds generate workplace democracy? And how might that ratchet up to transform democratic institutions more broadly? These cautious remarks aren't damning ones; they point to both risks and promises. Any path to economic democracy will be filled with pitfalls. Our task is to look out for them - and to avoid them when we can.

Democratising work

In very broad strokes, both the Sanders and Labour plans require large companies to gradually dilute their company shares by issuing new shares into a fund for employees. Labour's plan aims to issue a total of ten per cent of company shares over five or ten years - while the Sanders campaign has a target of twenty per cent.

These proposals are very different from the employee stock ownership plans (ESOPs) that are common in the United States. In the US nearly 1.75 million workers are in an ESOP, with the bulk, nearly 80 per cent, being offered by privately held companies rather than publicly traded ones.1 Beyond simply profit-sharing, which dates back to the welfare capitalism movement in the late 1800s, both plans also make workers owners of the firm, and afford workers collective voting rights in corporate governance decisions. But this new ambition for workplace democracy brings with it new questions. To what extent will these shares generate actual worker control? How will workplace democracy itself be organised? In the event that workers do gain meaningful control over or influence upon corporate governance, what will they do?

On the first question, ownership need not mean control. Nowhere is this more thoroughly documented than in the case of stock ownership itself. A robust literature on principle-agent problems argues, albeit from a largely neoliberal perspective, that because of information asymmetries managers and boards do not always act in the interests of shareholders. How might the situation change if workers themselves hold an ownership stake in the firm? Both the Labour and Sanders plans smartly seek also to democratise corporate boards, which will go some distance in making sure that those that manage and those that own aren't separate groups with separate interests. In the Sanders plan, 45 per cent of the board of directors in all publicly traded corporations and private corporations with at least $100 million in annual revenue or on the balance sheets will be directly elected by the workers in that firm.

On the other hand, there might not be enough worker principals in either plan to give workers sufficient power in governance decisions. Once a worker fund has reached maturity, the Sanders plan affords employees a twenty per cent stake in the firm, while workers only control ten per cent in the McDonnell plan. Both stakes might give workers a space to voice proposals, but neither will be binding for control. In both cases, other corporate shareholders seeking to maximise returns will need to be won over. For worker control, ten and twenty per cent ownership is a start, but left as it is, without significant increases in vote share, it remains unclear how this would fundamentally transform corporate governance beyond the redistribution of some of the profits.

What form might workplace democracy itself take? In both proposals, the worker funds will be under the control of a board that is elected by the workers. This board will be able to vote the shares of the fund as a shareholder in the firm itself. In this sense, both proposals rely on a specifically elected form of workplace democracy. Workers can opt in or out of elections that select representatives that contribute to governance decisions on their behalf. In principle, this is a fine system. In practice, however, unions in both the US and the UK that have relied on this form of democracy have been beset with problems of internal democracy. There are two key risks here for union democracy. A union bureaucracy can form with its own set of interests, and a demobilized union membership may come to view the union itself as more of a service provider than a social movement organisation.

At the heart of this problem, I believe, is the question of separating operational control from union membership's direct oversight and say. To be democratically viable, workers themselves need to develop the collective capacities and financial literacy to meaningfully influence corporate governance decisions. Here, we can turn to two alternatives: direct democracy and deliberative minipublics.

In the first of these, worker participation in governance decisions might be organised like the participatory budgeting experiments in cities like Porto Alegre, Brazil. Workers might gather regularly to diagnose their needs, vote on priorities, and develop proposals for directions in corporate governance. Such an arrangement holds the promise of bringing all the shop-floor voices into the active decision-making process. A possible drawback, however, is fatigue. Many workers might not want to participate regularly, which may very well lead to self-selection bias in the actual participants.

Second, and more promising in my view, instead of the board being populated through elections, representatives would serve mandatory terms and be selected on the basis of a stratified selection from within the firm. Such a selection would ensure that the board is diverse demographically, and fairly drawn from the firm's different departments. Democratic theorists have termed such bodies 'deliberative minipublics'.2 They have the advantage of being deliberative in a way that will avoid both direct democracy fatigue and the self-selection biases that beset both elected and participatory forms of representation.

Putting the basic problem of representation to the side, let's imagine that share ownership reached a benchmark that was sufficient in legal terms for effective worker control. Let's also imagine that the workplace was sufficiently democratised, with workers having equal capacity for input. Workers would still need to be effectively organised in two distinct ways to generate governance outcomes that break with the profit motive: on the shopfloor as workers and in the wider economy as part of a broader labour movement.

Both require significant organisational resources and an educational programme that gives workers the tools and skills to help run their companies for the social good. In the event that workers are unorganised and organisationally disconnected from workers in other firms, competitive pressure will be likely to produce collective action problems that threaten to reproduce the current ills in corporate governance associated with maximising shareholder value. If worker democratised firms pursue their particular interests without regard for wider social interests, it is possible that the collective outcome will be much the same.

At worse, it is possible that workers will come to see their interests as solely bound up with their particular firm (which they now partly own), and its profits. Two main dangers follow, self-exploitation and worker-owner generated negative externalities.

First, workers might support internal deskilling, downsizing and other forms of corporate austerity as a means to maintain a competitive position in the market. As some workforces find themselves increasingly at a competitive disadvantage and others allocate more resources internally, this will likely deepen inequalities in income and benefits, both within and between economic sectors. It also creates significant disadvantages for workers that are in less profitable industries which are nonetheless socially important. Second, firm competition that is just poorly mediated by sectoral bargaining or a broader democratic socialist politics and movement will also likely result in worker-run firms allocating negative externalities onto the community and other firms. Why, for instance, might a worker-run firm be less likely to pollute if environmentally degrading practices help its bottom line?

Whether a firm is worker run or not doesn't change the context in which firms in capitalist markets generally operate.

Though it is a critical precondition for it, democratising the firm for the social good won't result simply from greater worker ownership shares. Neither is active participation from workers itself enough to overcome the market constraints that tend to push firms to prioritise profits over the social good. Not only do workers need a voice through ownership, skills and the democratic institutions to produce engagement: they must also be part and parcel of a broader labour and political movement that can provide the capacity and guidance needed, through both resources and education, to remake neoliberal forms of corporate governance in the interests of working-class people and their communities.

Democratising society

If the dilemmas just posed can be avoided or neutralised, which is no easy feat, how might a democratised private sector help to democratise society more broadly? The new socialist movements on both sides of the Atlantic readily acknowledge that to be successful, programmes like the Inclusive Ownership Funds would need to be installed in the context of a much larger social transformation, which might include broader revitalisation of labour and community movements and the institutionalisation of new forms of sectoral bargaining; expansions in the welfare state to increase access to housing, healthcare, income, and other necessities; and the transformation of politics to ensure greater democratic participation. As suggested above, these would be important for the viability of IOFs once they are installed. But how might IOFs themselves in turn weaken the power of corporate interests in politics on their own and make policymakers more accountable to ordinary voters?

In general, the capitalist democracies tend to operate in ways that are systematically biased toward business interests. This is because of two forms of leverage that firms and members of the business elite have in political institutions, which we can term active engagement and structural prominence.

Conceptually, active engagement is the simplest. Resources in society are heavily unequally distributed, with a disproportionate amount under the control of large capitalist enterprises. The use of those resources in politics in the form of lobbying, campaign financing, and access to elite social and cultural spaces affords an overwhelming advantage to corporate interests to directly shape policy and influence policy-makers.

Unlike this direct engagement in formal politics, structural prominence relates to the power in politics that corporations gain from their role in capitalist accumulation. In a capitalist society, the organisations that are most responsible for producing the goods and services people need to survive, and for allocating the income that people need to buy those goods and services, are capitalist firms. This of course varies over time and across societies. Some societies have larger public sectors that might be more subject to political inputs than private enterprises, but even in social-democratic mixed economies the private sector dominates. How corporations allocate their resources and income therefore has massive public implications that extend well beyond the business itself. When a firm decides to shut its factory, a family can no longer afford a costly health procedure, people lose their homes, and children can go hungry. When an industry develops new technologies, the skills earned in college can become obsolete and people struggle to find work; they are often forced to return to school for more training, and debts increase.

When business confidence declines, sometimes in direct reaction to a socialist turn in politics, firms either move their capital elsewhere, capital flight, or they slow down investment, a capital strike. In both cases, disinvestment operates like an 'automatic punishing recoil' on governments that undermine corporate interests, whether by the intention of firms or not.3 In the UK, the Director General of the Confederation of British Industry, Carolyn Fairbairn, has made just this kind of threat against Labour's IOF policy, warning 'take steps like this and we will set the clock back, investment will flee our country and, whatever Labour says about this, the outcome will be one that reduces pay in people's pockets'.4 In a capitalist democracy, even firms that simply focus on their bottom line, allocating resources and income accordingly, can still have a profound influence on the character of policy.

To the extent that worker funds help to democratise the allocation of resources within the firm itself, they might additionally transform the way that corporations themselves influence state-level politics. On the one hand, democratising the workplace would be a direct challenge to the current allocation of firm income into political lobbying and campaigns. Certainly, workers might still allocate that income into politics. Shared governance, however, offers far greater opportunities to scrutinise, debate and modify a corporation's political activities.

Giving workers a stake in the firm might also limit the risks of disinvestment and capital flight. Corporations that are governed by workers with interests fixed in particular communities and broader social layers in society are more likely to weather or tolerate lower rates of profit, if these arise from policies that improve their housing, health, jobs and environment. When those making decisions about investment allocation have a stake in the place they are less likely to engage in short-term investment, chasing risk for return.

Though they come with their own set of risks, plans for worker ownership and control of firms in the UK and the US might begin to reverse the present neoliberal course. Both countries are beset with profound social problems because of the undemocratic ways that corporate governance policy is set. But we needn't stop at the level of the firm. Maximally, IOFs might contribute toward a larger democratisation of the society itself. Though viable IOFs must be part and parcel of a broader movement in labor and in politics, democracy in the state depends to a large degree on democracy at work.

Footnote

1. National Centre for Employee Ownership, 'Employee Ownership by the Numbers', September 2019: numbers#i..
2. John Gastil, 'The lessons and limitations of in democratic deliberation', Annual Review of Law and Social Science, 14, 2018, pp27i-29i.
3. Charles Lindblom, 'The market as a prison', The Journal of Politics, Vol 44, No 2, 1982, pp324-336.
4. Rajeev Syal, 'Employees to be handed stakes in firms under Labour plan', The Guardian, 25 September 2018. 2018.