I Z A Institute
of Labor Economics
Initiated by Deutsche Post Foundation

DISCUSSION PAPER SERIES

IZA DP No. 14065

The Inefficiency of Employment and the Case for Workplace Democracy

Felix FitzRoy
Michael Nolan

JANUARY 2021

IZA Institute of Labor Economics
Initiated by Deutsche Post Foundation

DISCUSSION PAPER SERIES

IZA DP No. 14065

The Inefficiency of Employment and the Case for Workplace Democracy

Felix FitzRoy
University of St. Andrews and IZA

Michael Nolan
University of Hull

JANUARY 2021

Any opinions expressed in this paper are those of the author(s) and not those of IZA. Research published in this series may include views on policy, but IZA takes no institutional policy positions. The IZA research network is committed to the IZA Guiding Principles of Research Integrity.

The IZA Institute of Labor Economics is an independent economic research institute that conducts research in labor economics and offers evidence-based policy advice on labor market issues. Supported by the Deutsche Post Foundation, IZA runs the world's largest network of economists, whose research aims to provide answers to the global labor market challenges of our time. Our key objective is to build bridges between academic research, policymakers and society.

IZA Discussion Papers often represent preliminary work and are circulated to encourage discussion. Citation of such a paper should account for its provisional character. A revised version may be available directly from the author.

ISSN: 2365-9793

IZA – Institute of Labor Economics

Schaumburg-Lippe-Straße 5–9
53113 Bonn, Germany

Phone: +49-228-3894-0
Email: publications@iza.org

www.iza.org

ABSTRACT

The Inefficiency of Employment and the Case for Workplace Democracy

While most working people are in employment, there is little realisation that this relationship is inefficient and inequitable due to mis-aligned incentives – employers, as residual claimants, have an incentive to elicit greater than socially optimal effort from workers, thus generating conflict and exploitation, while workers have no 'voice' and 'exit' is costly. Workplace democracy combines efficiency and equity, aligning incentives and giving workers their natural right of self-determination, but is relatively rare due to the historically constructed power of concentrated capital owners. We show how workplace democracy can be established without expropriating capital owners, yielding efficiency and welfare gains.

JEL Classification: J

Keywords: employment, workplace democracy

Corresponding author:
Felix FitzRoy
University of St. Andrews
The Scores
St. Andrews, KY16 9AL
United Kingdom

E-mail: frf@st-andrews.ac.uk

1. *Theoretical Introduction*

Employment is fundamental to all organised economic activity in societies with an unequal distribution of wealth, as they emerged with the development of settlements and agriculture after the earlier hunter-gatherer societies around 10,000 years ago. Perhaps surprisingly, results have included declining health, life expectancy and well-being for the poorer majority according to extensive archaeological evidence summarised by Suzman (2020). Wealthier individuals could then pay poorer people to follow their instructions and perform services or work for them. This exercise of power seems to deprive employees at least temporarily of their basic right to self-determination. Although they 'voluntarily' enter into such arrangements, a lack of viable alternatives may render the employees potentially subject to exploitation.

As a long- standing critic of this relationship, Ellerman (1993, 2018, 2020) correctly observes 'that all the people who work in an enterprise, employees and working employers, are jointly de facto responsible for using up the other inputs and producing the products.' However, he continues with the invalid claims that 'the employer legally appropriates the whole product', and then, because workers' natural or de facto responsibility for the whole product cannot in fact be 'alienated', that the employment or 'human rental' relationship is invalid – 'a legalized fraud'. A parallel argument is that by agreeing to obey all the employer's work-related instructions, the employee is entering a kind of (time-limited) 'voluntary slavery' agreement otherwise similar to indentured servitude or a coverture marriage contract, which is no longer recognised, so neither should employment or 'human rental' be.

As a result, he views self-employment by individuals or groups of workers in a democratic firm as the only legitimate form of organisation. Here however, Ellerman fails to recognise that paying a wage for employees' time and giving them instructions is just a transactionally

efficient way of paying for – and organising – the succession of tasks performed by workers, for which they are responsible, but *using inputs supplied by the employer*, in the given time period. There is no scope for the employer to 'appropriate' a whole product which automatically belongs to the self-same employer who supplied the inputs. The employer is residual claimant, and manages employees accordingly. By contrast, if a self-employed, independent contractor (IC) is hired for a specific purpose, it is the contractor who must typically supply their own equipment.

The IC is generally instructed to perform one particular task for an agreed price or fee, which will depend on the time needed to complete the task, and so is essentially equivalent to a wage. It would be absurd to claim that the plumber who repairs a leaky pipe, who is certainly responsible for the repaired pipe in both senses of the word, must therefore de facto – if not legally – appropriate the repaired pipe in the house of the party who hired the plumber. Similarly, employees in a firm making pipes are paid for tasks that transform inputs provided by the employer into finished pipes. The employer who buys – and thus obviously initially owns – the non-labour inputs then naturally *still owns* all the intermediate products produced by the workforce at various stages up to the final product, after paying wages for the tasks performed.

In the same way, the home owner who initially owned the leaky pipe obviously still owns the repaired pipe after paying the plumber the contractual price or 'wage' for the repair services. As Ellerman himself (2018) observes, 'One part(y) buys or already owns all the inputs to be used up in production and then, having absorbed those input- liabilities, can lay sole legal claim on the new produced assets.' This party is usually the employer, who may be just the capital owner(s), or the collective of all those working in a democratic enterprise. Therefore, to claim that the employer 'appropriates' the product and thereby alienates the employees'

responsibility is a misunderstanding of the basic property rights of production, which obviously contradicts Ellerman's own correct description above.

Ironically, Fairchild (1916) is thus actually quite correct in his discussion of labour rights, although he is cited by Ellerman (n.d.) as an example of misunderstanding:

> There is much theoretic discussion to the "right of labor to the whole product" and much querying as to how much of the product belongs to the laborer. These questions never bother the manufacturer or his employee. They both know that, in actual fact, all of the product belongs to the capitalist, and none to the laborer. The latter has sold his labor, and has a right to the stipulated payment therefor. His claims stop there. He has no more ground for assuming a part ownership in the product than has the man who sold the raw materials, or the land on which the factory stands.

The employment contract does not depend on 'legalized fraud', but also ironically, Ellerman also follows conventional or 'neoclassical' economics (which he otherwise rejects) in neglecting the actually problematic component inevitable consequence of the traditional employment relationship – namely that employees must accept the authority – and follow the instructions – of the employer. This means abandoning natural rights of self-determination, which provides the compelling political argument for workplace democracy from viewing the firm as a community with exit costs in analogy to the state, though of course costs of emigrating are usually much greater than exit costs from the firm (Landemore and Ferreras, 2016).

However, these costs and the resulting job-specific rent over and above the next-best alternative do allow unscrupulous employers to exploit workers and violate their human rights, and so workers do need to be legally protected from exploitation (Reich and Devine, 1981). Such protection can include minimum wage legislation and/or minimum standards on working conditions, collective bargaining, or co-determination and employee 'voice', but to be completely effective requires self-determination in a democratic workplace that obviously goes beyond specific rights or collective bargaining. Thus, Ellerman actually fails to provide the

main substantive justification for such self-determination by relying exclusively on the fallacious property rights claim that employment is ‘legalised fraud’.

Another obvious difference between employee and IC is that the IC does not usually work for an extended period for the same employer, so does not have exit costs. In the contrary case of an employee, additional legal obligations and costs are generally involved. Consequently, some employers may try to avoid these costs by repeatedly hiring the same IC without the formalities and obligations of formal employment, with uncertain income and hours for the IC. In either case, the IC or employee[1] remains legally responsible for fulfilling the terms of the contract, such as providing the agreed quantity and quality of work or net output.

Of course, neither workers nor contractors will automatically fulfil obligations which cost them effort– they need to be motivated and rewarded with appropriate incentives and sanctions, including the ultimate sanction of termination. Thus, Ellerman’s (2020) claim that hiring or ‘renting persons’ in employment is like ‘renting things’ and violates a person’s natural responsibility for their actions, and is therefore invalid, misses key distinctions. The employee is responsible for following instructions to work with inputs provided – and hence owned – by the employer, is legally liable for misconduct and has a legal right to receive agreed payment for tasks performed or, most frequently in practice to reduce transaction costs, for time spent working.

However, as noted, conventional employment does deprive the employee of the natural right to self-determination during working time, a right which can only be completely restored in a democratic or labour managed firm. Ellerman also claims that an employee is analogously

[1] Although we adopt the more traditional approach of treating the terms “worker” and “employee” as being synonymous, a legal distinction is often made nowadays. According to the UK Government, whilst all employees are workers, employees have extra rights and responsibilities (see Gov (2021)) – so that (non-employee) workers have an intermediate status (with IC at one end of the spectrum, and employee-workers at the opposite end).

liable for any criminal action during employment, though in fact employees acting under coercion or duress may be exempted from liability, and this may easily result from the inevitable imbalance of power between employer and employee. This can be seen very obviously, for example, within UK and EU anti-trafficking legislation – which holds that there are circumstances where an employee is not to be held criminally liable for being involved in unlawful activities.

Employment provides some insurance – a constant wage in place of variable market returns under self-employment, and so may be preferred in some cases, though this insurance is asymmetric. Workers in a failing enterprise can lose their jobs and may suffer prolonged unemployment, while the employer as residual claimant appropriates most of the benefits from exceptional enterprise success which may be the result of 'good luck' or an entrepreneur's 'good idea', but for which all employees who produce the output are ultimately responsible.

The employment relationship is based upon the existence of such an 'employer', usually capital owners, or their representatives, who is the residual claimant after wages and other cost have been paid, and who also claims 'residual' or ultimate control in order to safeguard fixed investment with immobile capital and elicit optimal performance by workers. However, as shown below, there are other safeguards for investment by external investors without residual control, which usually means maximising the owners' returns even at the cost of employee wages and well-being, as far as is consistent with maintaining employment. Paying 'efficiency wages' above the minimum may motivate workers to be more productive and profitable, as may the existence of involuntary unemployment. But this is unlikely to attain the optimal trade-off between job quality, well-being and material productivity of workers who face costs of 'exit' and mobility in markets which are always 'sticky', so employers generally have some monopsony power, in contrast to the unrealistic assumptions of traditional 'competitive'

theories, as the two 2020 economics Nobel Prize winners have emphasised in their masterly survey of the field (Banerjee and Duflo, 2020).

The result is that most people spend much of their lives working under a command-and-control system of dictatorship by 'private government' (Anderson, 2017), with little 'voice' (Hirschman, 1970) or influence over their working conditions as an alternative to generally costly 'exit' in the absence of (increasingly rare) union representation, or employee participation. Thus, the employer's right to control employees' work activity does indeed restrict the employee's right of self- determination and hence almost automatically implies a potential for conflict and abuse (Reich and Devine, 1981), which is only tolerable because employer power is confined to work activity and limited by employee alternatives. This is not to deny that some employers undoubtedly do seek to promote worker well-being with a fair distribution including profit sharing, but this is far from guaranteed, and depends on the employer's personal benevolence or a degree of altruism contrasting with standard economic assumptions.

The extent of actual abuse without democratic safeguards has been eloquently described by many authors, including Armstrong (2017), Bloodworth (2018), Lyons (2019), and Anderson (2017). However Anderson, a distinguished US academic, surprisingly never endorses workplace democracy 'for pragmatic reasons' which are not spelled out, nor does she mention thousands of successful democratic firms in many countries, or the numerous Employee Share Ownership Plans (ESOPs) in the US. She also neglects the political argument for workplace democracy discussed above.

Even without ultimate employee control or workplace democracy (alternatively termed industrial democracy) as described below, a step towards mitigating abuse would be legal rights for employee involvement or participation in managerial decision making as in German or

Nordic co-determination (Frega, 2020; Hyman, 2018). Non-union voice through joint consultative committees (JCCs) in the UK has some benefits but is considered to be less effective than German works councils with legally defined powers of co-determination and a close relationship to much stronger unions, though works councils are formally independent (Barry et al., 2018; Bellman et al., 2018).

A further welfare gain would follow from a legal requirement that employers seriously consider any request for reduced hours of work, as in the Netherlands, which has the highest proportion of part time workers in the OECD, many of them skilled in contrast to the usual association between low pay and part time work, and the long hours often required from highly paid employees. The Covid-19 pandemic has shown that nearly half of all employees can work from home, compared to about 5% working from home previously, and the right to home working when feasible also needs to be enshrined in labour legislation.

The individual incentives needed to motivate workers, such as promotion possibilities, often depend on relative performance, and have to be monitored by a managerial hierarchy, which is costly and discourages the co-operation between workers that is essential in complex production processes. In contrast, profit sharing firms or worker ownership as in ESOPs and co-operatives encourage co-operation and mutual monitoring since each worker benefits from the efforts of all co-workers and are generally found to have higher labour productivity and less conflict than traditional firms relying on wage employment.[2] The Economic Democracy Index developed by Cumbers (2018, 2020) is strongly negatively correlated with inequality and positively related to productivity across OECD countries, with Nordics at the top and the US bottom as expected. This challenges neoliberal claims for the benefits of market deregulation and suggests that the employment relationship is fundamentally inefficient in

[2] Fakhfakh, 2019; Michie et al., 2017; Blasi et al., 2013, 2017; Kruse et al., 2010; Freeman et al., 2000.

comparison to democratic 'self-employment' or labour management (rather than 'invalid' according to normative juridical principles of liberal societies). It also emphasises that the socially optimal distribution of power would not be the historical distribution, which as Pistor (2019) shows, was deliberately structured to empower wealthy capital owners.

Workplace democracy or 'labour management' as a theoretical model implies that labour is the residual claimant and so should 'hire' capital as just another factor of production. However, 'hiring' capital traditionally implies rental payments, and workers who are without initial capital need to borrow at a fixed interest rate. This could cause cash-flow problems when revenues decline, one of the reasons why such firms are rare.

However, a solution could be provided by a new kind of hybrid, debt-equity security with flexible amortization or (re)payment of a contractual *share* of annual profit (instead of a fixed annual payment), until the principal and accumulated interest due had been repaid in total, thus reducing employee income variability and risk. Alternatively, capital ownership shares could be converted to non-voting equity entitled to a contractual share of value added instead of appropriating the entire residual. Employee buy-outs on a large scale would then be feasible, workers would become residual claimants, and assume control rights with one vote per worker to elect top management (but without expropriating capital owners), in exchange for some income variability. Of course, capital owners and bankers will continue to resist the associated loss of their existing economic (and hence political) power.

Workers could then choose the optimal trade-off between job quality or satisfaction and productivity or earnings, in contrast to management by capital owners, for whom job satisfaction is an externality, difficult to measure and essentially non-contractible (Hu and Hirsh, 2017). Extending democracy to the workplace in this way has been the goal of a long line of reformers since even before J. S. Mill's classical statement:

> "The form of association, however, which if mankind continue to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and workpeople without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves" (Mill, 1970 [1848], Bk. IV, Chap. VII).

There are many modern expositions, yet declining labour power, income shares, and the Economic Democracy Index, stagnating or declining real wages for most, and growing inequality, intensification of work, employer market power and profit shares of national income under neoliberal policies in advanced economies suggest that this goal has become increasingly distant.[3]

Democratic firms would of course abandon the toxic modern and often exclusive goal of maximising shareholder value. This doctrine has been described by Henderson (2020) of the Harvard Business School, and advisor to prominent corporations, as the root of corporate evil, stemming in its modern form from Milton Friedman (1962). Henderson (2020), Mansell (2015), and many other liberal critics favour a more inclusive 'stakeholder capitalism' in the interests of workers, customers, and investors, but do not discuss workplace democracy. Proponents of 'stakeholder capitalism' also neglect the role of the corporation as an independent legal entity, combined with limited liability for investors, in facilitating systematic environmental destruction to increase shareholders returns, as documented in detail by Bakan (2020) and Whyte (2020).

Instead of work sharing among all or most employees in response to a demand decline, the risk of redundancy in employment is mainly borne by a minority of less skilled and usually junior, workers, but the cost can be mitigated by an unemployment benefit such as universal credit

[3] See Chomsky, 2014; Cumbers, 2020; Ellerman, 1993, 2021; Paskvan and Kubicek, 2017; Wolff, 2012.

(UC) in the UK, though this is quite inadequate for survival, and calls for improvement by the TUC (2020), the Labour Party and many others have been resisted by government, except for a small temporary improvement during the Covid-19 pandemic. Subsidised work sharing in Germany has many advantages, largely avoiding unemployment during the financial crisis of 2008, and reducing the impact of the pandemic (Brenke et al., 2011). However non-standard and precarious employment has been proliferating in the UK, with irregular hours and income which are poorly compensated by traditional welfare, and this strengthens the case for a universal basic income (UBI) or minimum income guarantee combined with full-employment fiscal policy including a green new deal (GND) and a job guarantee for the small minority who will inevitably be left out even with 'full employment'.[4]

2. *Welfare in Employment*

In the three decades after WW2, full employment and collective bargaining in the advanced economies kept wages rising in line with productivity under a Keynesian macroeconomic consensus, though direct workplace democracy or employee participation was not the agenda in the UK or US, in contrast to Nordic and German employee participation and co-determination. The 'Golden Age' ended with oil price hikes, recession, and inflation. From around 1980, neoliberal policies have dominated, generating dismal results for most workers in the US and UK, and to some extent in other advanced economies, with stagnation of lower incomes and rapidly growing corporate power and inequality (Stiglitz, 2019; Stansbury and Summers, 2020, *The Economist*, 2018). As the EPI (2020) summarises, from 1979 – 2019, average real wages of the bottom 90% of Americans grew 26%, while the income of the top

[4] Armstrong, 2017; FitzRoy and Jin, 2018; FitzRoy, 2019; Rivkin, 2019; Standing, 2020; Stirling and Arnold, 2020.

1% rose 160%. Wealth inequality is even starker, with the top 1% holding about 30% of national wealth, and 20% of income, the highest shares since the 'roaring twenties', and 16.5 *times* more wealth than the bottom 50%. In 1989, the top 1% had only 6.3 times the wealth of the bottom half. Wages of the least educated men actually *declined*, and epidemic opioid addiction, and 'deaths of despair' generated unprecedented declining life expectancy, although national income rose 85% while tax rates for high earners were reduced (Deaton and Case, 2020; Saez and Zucman, 2019).

UK inequality has also risen – the wealth-share of the top 0.1% has doubled since 1985 and is now nearly 10%, while the top 1% hold nearly a quarter of all wealth.[5] With about 8% underemployment, and little productivity growth, though low official unemployment, average real wages stagnated from 2007 – 2018, and only Greece had lower average wage growth from 2007 – 2018 in the OECD (Bell and Blanchflower, 2018). Unpaid overtime may be a requirement for many employees, imposing implicit wage reduction (Sellers, 2019). Cuts in welfare and related services have hit the poorest hardest. According to the IFS (2020), most of the recent growth in UK employment has been in part time and solo self-employment: 'In 1975, 8% of workers were self-employed; by 2019, this had increased to more than 14%'. This rise has been entirely driven by 'solo self-employment', usually low-paid and precarious, while the tax and benefit system under austerity has only worsened poverty and inequality, with major welfare cuts hitting the most vulnerable (Armstrong, 2017).

The tax system exacerbates inequality with much lower rates on capital income which is mainly received by the wealthy, and regressive indirect taxes (VAT and council tax). The poorest households (bottom decile) paid total taxes of £6,390, mostly indirect, and almost equal to the

[5] See Dorling, 2018; Wilkinson and Pickett, 2018; Standing, 2020; Layard, 2020, Resolution Foundation (2021).

cash transfers they received, so their average tax rate was 44% on total gross income, a higher rate than for all the richer deciles (ONS, 2019). The richest decile paid only about 40 % tax on declared (and often understated) income, while avoidance and evasion, mainly by the rich, leaves a tax gap of probably nearly £100 billion, much larger than official estimates, according to careful calculations by Murphy (2019).

UK government expenditure was less than 40% of national income prior to the Covid-19 pandemic, compared to over 50% in Finland and other Nordic economies with the best welfare systems and highest happiness rankings (Dorling and Koljonen, 2020). One of the results is that on the international poverty measure of income less than 50% of median income, UK child poverty at around 12% was *four times* higher than the rate in Denmark and Finland in 2016, leading to serious long-term negative effects on future income, health and well-being (Alston, 2019; Taylor-Robinson, et al., 2019; Standing, 2020, OECD).

The Covid-19 pandemic and following recession have of course dramatically worsened poverty, particularly among the most vulnerable, BAME population. As Marmot et al. (2020) show, all-cause and Covid-19, age-standardised mortality is twice as high in the most deprived areas compared to the least deprived areas, according to the index of multiple deprivation, and higher than in other European countries due to serious government policy errors.

Major improvements in the seriously inadequate welfare system of universal credit (UC) and sickness benefits have been proposed by the TUC – such as increasing UC to £260 per week, without the delays, restrictive conditions and harsh sanctions that have caused extensive hardship. However, radical reform of the tax system is also urgently needed to remove the burden of regressive VAT and council tax from low earners and raise tax revenue to Nordic levels for an adequate welfare state, including a UBI. Removing most of the numerous tax

reliefs and exemptions, worth about £425 billion, which mainly benefit the rich, together with the introduction of a progressive tax on capital that is gaining increasing popular support, could raise sufficient revenue, though political obstacles remain formidable (Baker and Murphy, 2020; Ruane et al., 2020).

3. *Reforming the employment relationship*

Bua (2018) and Cumbers (2018) have independently constructed an index of economic democracy, which is often viewed as a necessary complement to political democracy and which is strongly negatively correlated with inequality.[6] The UK ranks much lower than most EU countries, and the US is the lowest ranked, with an index value less than half that of the highest-ranking countries, Sweden, and Denmark, which are also among the leaders in international rankings of life satisfaction.

EurWork (2016) notes that 'Employee participation is widely believed to be a major factor affecting employees' welfare, as well as enhancing their opportunities for self-development, work satisfaction and well-being', and also that the Nordic countries have instituted the most widespread employee participation. This is not surprising since autonomy at work, essentially a form of employee participation, implies that workers make decisions relating to their tasks which would otherwise be imposed by the management hierarchy to favour management interests and shareholder value rather than worker well-being (Wheatley, 2017).

---

[6] Blasi et al., 2010, 2017; Ellerman, 1993; Landemore and Ferreras, 2016; Herzog, 2019.

Adversarial collective bargaining in the US and UK has traditionally focused on easily observable and 'contractible' variables such as pay, seniority and working time. Even in the post-war heyday when union wage differentials in traditional manufacturing were large and persistent, unions made no attempt to extend the bargaining agenda to less easily measured issues such as overall job satisfaction and employee participation, and there was virtually no legislation to match continental European co-determination and related employee representation. Job quality is discussed by Spencer (2014, 2015), Graeber (2018) and Kalleberg (2018), while many jobs are actively disliked (Bryson and MacKerron, 2017), and: 'The declining quality of jobs has emerged as a key challenge for researchers and policymakers in the twenty-first Century' (Howell and Kalleberg, 2019), with serious health consequences for workers (Pfeffer, 2019; Tinson, 2020).

In contrast, under more co-operative industrial relations in the Nordic economies, strong unions helped to establish high levels of related employee participation and autonomy at work, yielding the highest job satisfaction and overall life satisfaction rankings in these countries (Dorling and Koljonen, 2020; Boxall and Winterton, 2015; Gustavsen, 2011). Denmark has notably utilised hourly productivity growth resulting from technological progress to attain the lowest average working hours for full time workers in the EU, in order to optimise work-life balance (Eurostat). However, only the Netherlands require employees' requests for part time work to be taken seriously whenever feasible, resulting in much more part time work by skilled workers than in other EU countries, and the lowest average hours.

An ultimate goal of employee participation must be to allow employees to generally choose their work time, place and schedule as flexibly as is compatible with coherent organisation of the firm, a goal which the Covid-19 crisis and resulting upsurge of home working has surely facilitated. Flexible working time and home working would reduce commuting costs,

emissions and traffic congestion. This would provide major benefits for families and working couples with caring responsibilities in the home, who often suffer from serious time-constraints. Flexible working arrangements were rarely offered by employers in the absence of strong legislative measures (Boushey, 2016), but the Covid-19 crisis has shown that at least some home working is feasible for most office workers. Since urban traffic emissions are a major cause of the 60,000 annual air pollution fatalities in the UK, these measures would have a large impact on mortality and morbidity from air pollution. Reduced traffic would in turn encourage cycling by remaining commuters. This offers further health benefits, while e-bikes enable longer commutes, even for the less fit.

There is much evidence that productivity and well-being can also be raised by reduced work time such as a four-day week, and such reduction can be part of work sharing to reduce both under – and over – employment. In the UK in 2018, 2.39 million workers were classified as underemployed, and 10.24 million, about a third of the working population, wanted shorter hours, though most of them without pay reduction. Due to the productivity gains often observed with worktime reductions, this may well be feasible in many cases (Coote et al., 2020; Kallis et al., 2013; Spencer, 2019). According to *The Guardian* (2021),

> Full-time employees in the UK – which make up 74% of the workforce – work longer hours than full-time employees in all other EU countries except Greece and Austria. The EU average was 41.2 hours a week in 2018; the UK's is 42.5. A four-day week would reduce those hours, but investment is also needed to ensure that productivity gains follow.

Increasing per capita GDP with no decline in work time is widely correlated with declining social capital and rising inequality, with most of the gains from growth going to a small minority of the rich and super-rich, and so average subjective well-being (SWB) has failed to

increase, or has even declined, for most people over time[7]. Shorter hours also reduce resource use and environmental impact, and thus are an essential component of the economic degrowth or reduction of material consumption in rich countries needed for sustainability (Hickel, 2020). At the same time, it is obviously important that those who are already poor should be protected from any further income declines by urgently needed tax and welfare reforms as discussed above, including the introduction of a UBI.

The well-being of workers is thus a kind of externality for the profit-maximising firm, relevant only to the extent that higher wages or improved working conditions can raise productivity and profitability. While only adequate employee participation can internalise this externality, the modern theory of co-operatives and labour managed firms (LMFs) has sometimes neglected working conditions, job quality and workers' subjective well-being, though these variables are of course more difficult to observe and measure (Hu and Hirsh, 2017; Pacheco and Webber, 2016) . Most of the relatively rare LMFs began as co-ops in low capital intensity sectors, and only a few have prospered and grown into large firms, such as the famous Mondragon conglomerate in Spain. The case for labour-management or workplace democracy, as necessary to realise various aspects of 'justice in production' is also part of a long-standing radical democratic tradition, opposed to both capitalism and non-democratic, state socialism, reviewed in detail by Hsieh (2008), Cumbers (2018, 2020), Landemore and Ferreras (2016) and others. The evidence for the benefits of worker participation and ownership is collected in the references in fn. 4 above.

[7] This is known as the Easterlin Paradox because at a point in time, income in a cross-section is (weakly) correlated with SWB, though other factors are more important (Easterlin and O'Connor, 2020; Easterlin, 2021, 2013; Clark et al., 2018; Rojas, 2019; FitzRoy and Nolan, 2018). Other reasons for the failure of SWB to rise are the importance of relative income, and the social and environmental costs of growth.

These are related to the benefits of profit sharing in conventional, profit-maximising firms found by FitzRoy and Kraft (1987) and Cable and FitzRoy (1980), and frequently confirmed subsequently (see fn. 4). Workers who benefit from each other's effort from profit sharing or ownership shares also have incentives for co-operation supported by mutual or horizontal monitoring, since 'free-riding' affects co-workers, and such incentives should increase with the workers' residual share and be maximised in LMFs. This again implies less need for hierarchical monitoring, improves information sharing and reduces conflict, resulting in efficiency gains.

Exclusively labour managed firms or worker-owned co-operatives remain comparatively rare for reasons that have been reviewed in detail by Dow (2018). The pure debt finance of firm investment when labour 'hires capital' has generally been viewed as too risky in an uncertain environment, and wealth constraints often limit worker ownership[8]. In principle, workers in conventional firms could achieve majority ownership with an employee buyout, but this rarely happens, due to worker liquidity and borrowing constraints, coupled with risk aversion.

However, interest rates have declined dramatically in recent years, which could substantially reduce the cost of debt-funded buyouts if credit were more easily available on favourable terms. The Covid-19 pandemic will leave many, particularly smaller, businesses overindebted or insolvent, and urgently needed government support offers an opportunity for democratic restructuring and employee buyouts. Dow (2018, 2003) had already suggested a policy of subsidising employee buyout by public sector banks, while Groot and van der Linde (2017) also favour public support for LMF start-ups. Such banks could offer flexible repayment,

[8] See Vanek (1975), Meade (1972), McCain (1977), Kruse et al. (2010), Michie et al. (2017), Major and Preminger (2019).

deferred during periods of declining revenue, or defined as a share of value added, thus essentially converting traditional debt into a hybrid, more equity-like instrument, stabilizing employee incomes, and reducing the risk of default.

Since banks essentially create new money whenever a new loan is extended, the process is almost costless, and public banks would thus have no need to a charge a positive rate of interest, particularly when market rates are already so close to zero. By accepting an unavoidable, small, residual risk of default even after careful scrutiny, public banks and favourable credit terms can ensure that workers would not have to risk perhaps most of their own savings in a buyout, though a modest equity stake would certainly be an appropriate commitment and incentive. Worker risk would be further reduced by work sharing rather than redundancy in response to downturns, thus providing the secure employment that is a top priority in survey responses (Datta, 2019).

Another major but neglected benefit from an economy of LMFs would be the dissolution of monopolistic, dominant firms such as Facebook or Alphabet and Google which have acquired dozens of potential competitors, unhindered by negligent competition and antitrust authorities. LMFs cannot by definition be acquired, owned, or managed by outsiders, although of course they can co-operate or collude with each other, and competition would still have to be enforced. However, the monopoly domination which imposes immense costs on the US economy and endangers democracy, as documented by Stoller (2019), would no longer be feasible.

Older, more risk averse workers as well as temporary – and some part time – employees might prefer to retain wage contracts even in a majority buyout, but they would also benefit from improvements in work organisation and the elimination of exploitation. Voting rights with one vote per worker, might be restricted to workers with ownership shares, with some minimum

share requirement. Since there are always likely to be some remaining capital managed firms and wage earners in LMFs, it will remain important that sectoral wages are negotiated fairly under collective bargaining with a functioning union organisation. In a growing LMF, new worker/investors would receive smaller shares of a larger total profit (for a given investment), than earlier or founder-members who assumed greater risk, as in Meade's (1972) inegalitarian co-operative.

The role of entrepreneurial start-ups has been neglected in most discussions of workplace democracy, in spite of the generally recognised, vital role of such start-ups in job creation and innovation. In a start-up when the first few employees are hired, the entrepreneur(s) who may have invested their own capital as well as labour will probably still appropriate the largest share of value added, so it would be a natural extension of democracy to grant the entrepreneur(s) extra votes equal to their share of value added, thus preserving control in the crucial, high risk initial stages of growth. If the start-up is successful, employees may attain a majority at some stage in voting, say on major managerial decisions in the firm, but the original entrepreneur's position as 'top manager' in such cases is likely to be confirmed by the democratic process.

4. *Conclusions*

Profit maximising firms with little or no participation by employees in either decision-making or profits have enjoyed increasing monopsony power, while union bargaining power and labour rights have been eroded under four decades of neoliberal policy in most advanced economies except the Nordics. Capital owners' exclusive claims to appropriate rising profit shares in

national incomes and control the economy to maximise their own wealth are inequitable, undemocratic, and inefficient in the light of a long history of productivity and welfare benefits generated through profit sharing and from employee participation and ownership. These developments have contributed to rising inequality, discontent, and authoritarian populism in reaction against a globalised capitalism that has allocated most of the benefits of growth and trade to a small minority of the rich and super rich. Those benefits have come at the cost of lower-paid, precarious workers and whilst ignoring the emergence of catastrophic side-effects in the form of the looming climate and environmental emergency.

We suggest an extension of employee participation and co-determination to ensure workplace democracy and subsidised surplus sharing as part of the employment relationship. This is complemented by radical, redistributive tax reform, while preserving entrepreneurial freedom and returns on ethical investment – monitored, and co-determined by those most directly affected.

References

Alston, P. (2019). Visit to the United Kingdom of Great Britain and Northern Ireland, https://undocs.org/A/HRC/41/39/Add.1.

Anderson, E., 2017. *Private Government: How Employers Rule Our Lives(and Why We Don't Talk About It)*. Princeton, NJ: Princeton University Press.

Armstrong, S., 2017, *The new poverty.* London, Verso.

Baker, A., and R. Murphy, 2020, Modern monetary theory and the changing role of tax in society, *Social Policy and Society*, Volume 19, Issue 3 , July , pp. 454-469, https://doi.org/10.1017/S1474746420000056

Barry, M., Bryson, A., Gomez, R., Kaufman, B., Lomas, G., Wilkinson, A. (2018). The "Good Workplace", IZA DP No. 11860.

Bell, D.N.F. and D.G. Blanchflower (2018),'Underemployment and the lack of wage pressure in the UK', *National Institute Economic Review*, # 243, February, pp. R53-R6

Bellman, L., Hübler, O., Leber, U. (2018). Works Councils, Training and Employee Satisfaction, IZA DP No. 11871, IZA, Bonn.

Blasi, J.R., Freeman, R.B. and Kruse, D.L. (2017). "Evidence: what the US research shows about worker ownership", in Michie, J., Blasi, J.R. and Borzaga, C. (Eds), *The Oxford Handbook of Mutual, Co-operative, and Co-owned Business*, Oxford University Press, Oxford, pp. 211-226.

Blasi, J. R., R. B. Freeman and D. L. Kruse (2013). *The Citizen's Share: Putting Ownership Back into Democracy*. New Haven, CT: Yale University Press.

Bloodworth, J., 2018*, Hired: Six Months Undercover in Low-Wage Britain*, Atlantic Books

Boushey, H. (2016). *Finding Time: The Economics of Work-life Conflict,* Harvard University Press.

Boxall, P., and Winterton, J. (2015). Which conditions foster high involvement work processes? A synthesis of the literature and an agenda for research, *Economic and social democracy*, 39(1), 27-47, published online https://doi.org/10.1177/0143831X15599584.

Brenke, K., U. Rinne, and K. Zimmermann (2011), Short time work: The German answer to the great recession, IZA Discussion Paper 5780, http://ftp.iza.org/dp5780.pdfNot referred to in the main body of the article

Bryson, A., & MacKerron, G. (2017). Are You Happy While You Work?. *The Economic Journal, 127*, 106-125. doi:10.1111/ecoj.12269.

Bua, A. (2018). Why workers' rights are good for the economy, New Economics Foundation (NEF) http://neweconomics.org/.

Cable, J. R., and F. R. FitzRoy (1980). Productive efficiency, incentives and employee participation: Some preliminary results for West Germany, *Kyklos*, 33 (1), 100-121.

Chomsky, A. N., 2014, *On Anarchism,* Penguin

Clark, A. E., Flêche, S., Layard, R., Powdthavee, N., Ward, G., 2018, *The Origins of Happiness*, Princeton University Press

Coote, A., A. Harper, A. Stirling, 2020, *The case for a four-day week,* London, Polity

Cumbers, A., 2018, https://blogs.lse.ac.uk/businessreview/2018/03/03/a-new-definition-of-economic-democracy-and-what-it-means-for-inequality/

Cumbers, A., 2020, *The Case for Economic Democracy,* London, Polity Press

Datta, N., (2019), Workers would give up half their wages in exchange for a steady job, *LSE Business Review*, https://blogs.lse.ac.uk/businessreview/2019/07/02/workers-would-give-up-half-their-hourly-wages-in-exchange-for-a-steady-job/

Dorling, D. (2018). *Peak inequality: Britain's ticking time bomb,* London, Policy Press

Dorling, D. and Koljonen, 2020, *Finntopia,*

Easterlin, R.A. 2013. Happiness, growth, and public policy. *Economic Inquiry* 51: 1–15.

Easterlin, R.A., and K. J. O'Connor, 2020, The Easterlin Paradox, IZA DP No. 13923

Easterlin, R. A., 2021, *An Economist's Lessons on Happiness: Farewell Dismal Science!* New York: Springer US.

Ellerman, D. 1993. *Property & Contract in Economics: The Case for Economic Democracy*. Cambridge MA: Blackwell.

David Ellerman (2018): Rethinking Libertarianism: Elizabeth Anderson's Private Government, *Challenge*, DOI: 10.1080/05775132.2018.1443976

Ellerman, D., 2020, Towards abolishing the institution of renting persons: A different path for the Left, *Real World Economics Review,* nr. 93

Ellerman, D., 2021, *Putting jurisprudence back into economics.* Springer Nature

EPI, 2020, https://www.epi.org/blog/wages-for-the-top-1-skyrocketed-160-since-1979-while-the-share-of-wages-for-the-bottom-90-shrunk-time-to-remake-wage-pattern-with-economic-policies-that-generate-robust-wage-growth-for-vast-majority/

EurWork, (2016). 'Employee involvement and participation at work: Recent research and policy developments revisited' *https://www.eurofound.europa.eu/observatories/eurwork/articles/working-conditions-industrial-relations/employee-involvement-and-participation-at-work-recent-research-and-policy-developments-revisited*

Fakhfakh, F., A. Robinson, A. Tall, 2019, Financial Participation and Collective Conflicts: Evidence from France, *Industrial Relations*, DOI: 10.1111/irel.12244.

FitzRoy, F. (2019). Some Simple Economics of Energy Transition. *Substantia*, *3*(2), 55 - 67. https://doi.org/10.13128/Substantia-276

FitzRoy, F. R. and K. Kraft, 1987, Cooperation, productivity, and profit sharing,*The Quarterly Journal of Economics* 102 (1), 23-35.

FitzRoy, F.R., and M.A. Nolan, 2018, Education, Income and Happiness: Panel Evidence

Frega, R., 2020, Employee involvement and economic democracy, *Business Ethics Quarterly* , DOI: https://doi.org/10.1017/beq.2020.30

Gov (2021), *Employment Status*, https://www.gov.uk/employment-status/employee (accessed 21st January 2021).

Graeber, D., (2018), *Bullshit Jobs: A Theory,* Penguin

Groot, L., and D. van der Linde (2017) The Labor-Managed Firm: Permanent or Start-Up Subsidies?, *Journal of Economic Issues*, 51:4, 1074-1093, DOI: 10.1080/00213624.2017.1391592

Gustavsen, B. (2011). The Nordic model of work organization. *Journal of the Knowledge Economy* 2(4): 463–480. Google Scholar, Crossref.

Herzog, L., 2019, *Die Rettung der Arbeit*, Hanser, Berlin.

Hickel, J., 2020, *Less is More*, London, Heineman

Hirschman, A.O. (1970). *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States.* Cambridge, MA: Harvard University Press.

Howell, David R., and Arne L. Kalleberg. 2019. "Declining Job Quality in the United States: Explanations and Evidence." *RSF: The Russell Sage Foundation Journal of the Social Sciences*5(4): 1–53. DOI: 10.7758/RSF.2019.5.4.01

Hsieh, N., 2008, Justice in Production: A survey Article, *The Journal of Political Philosophy*: Volume 16, Number 1, 2008, pp. 72–100

Hu, J. and J.B. Hirsh. (2017). 'Accepting Lower Salaries for Meaningful Work', *Front. Psychol*., 29 September 2017 | https://doi.org/10.3389/fpsyg.2017.01649.

Hyman, J., (2018). *Employee Voice and Participation*. London, Routledge

IFS, 2020, https://www.ifs.org.uk/publications/15182

Kalleberg, Arne L. 2018, *Precarious Lives: Job Insecurity and Well-Being in Rich Democracies.* Cambridge: Polity Press.

Kallis, G., Kalush, M., O.'Flynn, H., Rossiter, J., and Ashford, N. (2013). 'Friday Off: Reducing Working Hours in Europe', *Sustainability*, 5, 1545–67.

Kruse, Douglas, Richard Freeman, and Joseph Blasi. 2010. "Do Workers Gain by Sharing? Employee Outcomes under Employee Ownership, Profit Sharing, and Broad-Based Stock Options." In *Shared Capitalism at Work: Employee Ownership, Profit and Gain Sharing, and Broad-Based Stock Options*, edited by D. L. Kruse, R. B. Freeman, and J. R. Blasi, 2010, pp. 257–89. Chicago: University of Chicago Press.

Landemore, H., and I. Ferreras, 2016, In defence of economic democracy, *Political Theory*, Vol. 44(1) 53–81

Layard, R.,2020, *Can We Be Happier*? *Evidence and Ethics*, Pelican

Lyons, D., 2019, *Lab Rats,* Atlantic Books

Mansell, S., *Capitalism, Corporations and the Social Contract,* Cambridge Univ. Press.

Marmot, M., J. Allen, P. Goldblatt, E. Herd, J. Morrison (2020). *Build Back Fairer: The COVID-19 Marmot Review. The Pandemic, Socioeconomic and Health Inequalities in England*. London: Institute of Health Equity

McCain, R. A. (1977), On the Optimum Financial Environment for Worker Cooperatives, *Zeitschrift für Nationalökonomie* (Journal of Economics), Vol. 37, No. 3-4, pp. 355-384.

Meade, J., 1972, The Theory of Labour Managed Firms and of Profit Sharing, *The Economic Journal,* Vol. 82, *Supplement*, pp. 402-428

Michie, J., Blasi, J.R. and Borzaga, C. (Eds), 2017, *The Oxford Handbook of Mutual, Co-operative, and Co-owned Business*, Oxford University Press, Oxford, pp. 211-226.

Murphy, R.,2019, https://www.taxresearch.org.uk/Blog/2019/06/19/the-uk-tax-gap-is-90-billion-a-year/

OECD, OECD Family Database http://www.oecd.org/els/family/database.htm

Pacheco, G. and Webber, D. (2016) Job satisfaction: how crucial is participative decision making?, *Personnel Review*, 45(1): 183-200, https://doi.org/10.1108/PR-04-2014-0088.

Paskvan, M. and B. Kubicek (2017): The Intensification of Work, in *Job Demands in a Changing World of Work*, ed. C. Korunka and B. Kubicek, Springer.

Pfeffer, J. G. (2018). *Dying for a Paycheck,* Harper Business.

Pistor, K., 2019, *The code of capital: How the law creates wealth and inequality,* Princeton Univ. Press

Rivkin, J., 2019, *The Green New Deal*, St. Martin's Press

Reich, M. and J. Devine, 1981, The Microeconomics of Conflict and Hierarchy in Capitalist Production, *Review of Radical Political Economics*, 12:27, DOI: 10.1177/048661348101200402, http://rrp.sagepub.com/content/12/4/27

Rojas, M., (ed.), 2019, *The Economics of Happiness,* Springer

Ruane, S., Collins, M., & Sinfield, A. (2020). The Centrality of Taxation to Social Policy. *Social Policy and Society*, 19(3), 437-453. doi:10.1017/S1474746420000123

Saez, E. and G. Zucman, 2019, *The Triumph of Injustice: How the Rich dodge Taxes and how to Make Them Pay*, Norton

Sellers, 2019, Work your proper hours day, https://www.tuc.org.uk/blogs/work-your-proper-hours-day-%E2%80%93-let%E2%80%99s-get-tough-unpaid-overtime-1

Shambaugh, J. et al, 2018, *The State of Competition and Dynamism*, Brookings Report, June 13, 2018, https://www.brookings.edu/research/the-state-of-competition-and-dynamism-facts-about-concentration-start-ups-and-related-policies/

Sloane, P., Latreille, P.S. and O'Leary, N. (2013). *Modern Labour Economics*, Routledge.

Spencer, D. A. (2019), https://theconversation.com/four-day-work-week-is-a-necessary-part-of-human-progress-heres-a-plan-to-make-it-happen-124104

Spencer, D. A. (2015). Developing an Understanding of Meaningful Work in Economics: The Case for a Heterodox Economics of Work, *Cambridge Journal of Economics*, 39(3): 675-688.

Spencer, D. A. (2014). Conceptualising Work in Economics: Negating a Disutility, *Kyklos*, 67(2): 280–294.

Standing, G., 2020, *Battling Eight Giants: Basic Income Now*, London: Bloomsbury

Stansbury, A. and L. H. Summers, Declining worker power and American economic Performance, *Brookings Papers on Economic Activity*, Spring 2020.

Stiglitz, J. E., 2019, *People, Power, and Profits: Progressive Capitalism for an Age of Discontent*, Allen Lane

Stoller, M., 2019, *Golliath*, Simon and Schuster

Suzman, J., 2020, *Work*, London, Bloomsbury

Taylor, M. (2017). *Good Work: The Taylor Review of Modern Working Practices*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627671/good-work-taylor-review-modern-working-practices-rg.pdf

Taylor-Robinson, D., E. T. C. Lai, S. Wickham, T. Rose, P. Norman, C. Bambra, M.T Whitehead, B.N Barr. Assessing the impact of rising child poverty on the unprecedented rise in infant mortality in England, 2000–2017: time trend analysis**.** ***BMJ Open***, 2019; 9 (10): e029424 DOI: 10.1136/bmjopen-2019-029424

The Economist, 2018, https://www.economist.com/britain/2018/07/26/theeconomy-is-becoming-more-concentrated-and-less-competitive

The Guardian (2021), https://www.theguardian.com/business/2021/jan/05/four-day-week-covid

Tinson, A., 2020, What the Quality of Work Means for our Health, *The Health Foundation*, https://www.health.org.uk/news-and-comment/blogs/the-quality-of-work-and-what-it-means-for-health

Tooze, A., 2019, German Questions(s): The Shocks that remade German Politics. https://adamtooze.com/2019/07/14/german-questions-the-shocks-that-remade-german-politics/

TUC, 2020, A Better Recovery, May

J. Vanek (1975): The Basic Theory of Financing Participatory Firms, in: J. Vanek (ed.): *Self -Management: The Economic Liberation of Man*, Harmondsworth.

Wheatley, D., (2017), Autonomy in Paid Work and Employee Subjective Well-Being**.** *Work and Occupations*, 073088841769723 DOI: 10.1177/0730888417697232

Whyte, D., 2020, *Ecocide*, Manchester University Press

Wilkinson, R. and Pickett, K. (2018) *The Inner Level*, London, Allen Lane.

Wolff, R., 2012, *Democracy at Work,* Haymarket Books