The economic case for worker-owned co-operatives

Jerry Jones

An economy based on worker-owned co-operatives would not look much different from the economy we now have. People would continue to be employed in various productive activities in businesses or firms of all shapes and sizes, producing and supplying goods and services according to demand. The major difference would be that the profit would go to the workers rather than to capitalist owners – or to outside shareholders with little interest in the operation of the enterprise itself other than how much profit they can squeeze out of it.

In other words, workers would be in control of what happens to their surplus labour – the work that they perform over and above that required for their current consumption – which, under capitalism, is largely appropriated by the capitalist owners and shareholders. Second, in larger businesses, managers, instead of having to act in the interests of outside shareholders, would be answerable to a board of directors elected by the workers.[1]

Such a system would be more equitable and more democratic, because workers themselves would be in control of their livelihoods. As Lenin put it, commenting on the first worker-owned enterprises pioneered by Robert Owen:

> *"For the first time after centuries of working for others, of working in subjection for the exploiter, it has become possible to work for oneself, and moreover to employ all the achievements of modern technique and culture in one's work"*.

Moreover, the system would be more efficient economically. First, at the enterprise level, workers would have every incentive to make the business as successful and as efficient in its operation as possible – to improve quality, to economise on resources to minimise costs, and to introduce innovations in production techniques, the organisation of production, and in the goods or services produced or supplied – because, unlike in capitalist enterprises, they would profit directly from their efforts. And they would have a further incentive to do those things because their enterprises would be in competition with other enterprises for customers for their products.

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[1] Depending on the nature of the business, the board of directors could include non-executive directors representing the local community or others with a vested interest in the success of the business, such as banks or other creditors.

Second, such a system would also be more efficient at the macroeconomic level, and lead to higher rates of economic growth. Thus, in worker-owned enterprises, it is likely that workers would choose to pay themselves more. This would create economic demand and larger markets for goods and services that others produce and supply. That, in turn, would stimulate more investment and employment in the production and supply of goods and services that people need and want, which would lead to further growth of economic demand, and so on.

That is in sharp contrast to the situation in the current capitalist system whereby much of the surplus labour appropriated by capitalists and shareholders ends up unable to find genuine investment opportunities because workers whose surplus labour has been appropriated do not earn enough to provide a sufficient market for the goods or services that would have been produced or supplied. Much of the capital derived from surplus labour ends up not being invested in new productive activities. Indeed, this is the primary cause of the world's current economic crisis – too much capital accumulating at the expense of wages and growth of economic demand.

The problem now is that under capitalism, the drive for profits means that every capitalist – or manager acting on behalf of shareholders – strives to pay workers as little as they can get away with. But the more successful they are in achieving that goal, the more difficult it is for enterprises to find markets for their products because of the negative impact workers not being paid enough has on economic demand. Fortunately for capitalists, workers have come to their rescue to some extent by campaigning for higher wages – but that only works up to a point, because most workers under capitalism are in a weak bargaining position due to the threat of unemployment and constraints on collective bargaining. Growth in wages, therefore, tends always to lag behind growth in profitability. Consequently, capital unable to find suitable investment opportunities tends to accumulate to an ever-increasing extent.

Instead of being invested in useful productive activities – developing natural resources to produce and supply goods and services that people need and want, and providing jobs for the1.5 billion people in the world currently unemployed or underemployed – surplus capital is turned into ('invested' in) various assets including property, company shares, even whole companies, commodity futures contracts and a whole range of other ever more esoteric financial paper that is bought and sold, or more precisely gambled, on the world's ever expanding capital markets. As the volume of capital seeking such 'investments' grows, so the demand for the various assets rises inexorably, thus causing asset bubbles – escalating prices out

of all proportion to their economic value – only to burst later when pundits seek to cash in their gains before others jump on the bandwagon, which precipitates the inevitable price crash. All these activities may earn traders and speculators lucrative commissions and short-term capital gains at the expense of those who bet the wrong way or miss the boat, but the capital ends up contributing hardly at all to economic development. In short, the capital – made from the surplus labour that people have performed – is wasted. Even worse, when crises in the financial sector spill over into the real economy, many productive enterprises are forced out of business.

Some might argue that, in an economy based on common ownership, if workers paid themselves more at the expense of savings, a shortage of capital would arise, which would limit investment in new productive activities. In fact, there need never be a shortage of capital, because credit can always be made available through banks (which is equivalent to enterprises making use of workers' surplus labour before it has been performed). The only constraint, as now, would be the willingness of banks to lend, which would depend on how sure they were of getting their money back. That, among other things, would depend on banks' perceptions of future economic demand for the products resulting from the investment and the capital that had been advanced, and also of how well they thought the enterprise was being managed.

In other words, capital availability would be determined primarily by how fast economic demand was expanding – which would likely be greater in an economy based on common ownership, because a larger proportion of profits would end up in workers' wage packets. In short, more efficient use would be made of financial resources because capital for investment would tend to be made available as and when required, rather than being allowed to accumulate waiting for some use to be found for it, as is the case under capitalism.

Under the system of common ownership envisaged here, banks would also be worker-owned co-operatives, or perhaps secondary co-operatives owned by other worker-owned co-operatives similar to Caja Laboral Popular. It would also be expected that banks would be much more closely involved in investment decisions of enterprises, as in the case of the Mondragon co-operatives.

But what if workers did not adopt something like the Mondragon system, and paid themselves too much and did not save enough for future investments? In fact, they would have a disincentive to do that, because if their enterprises are to remain in business in competition with other businesses, workers would have a vested interest in keeping costs down

by not paying themselves too much, and in investing in improved quality, diversification, or in more productive technology, just as capitalist enterprises do now.

On the other hand, competitive pressures could also lead to workers cutting back excessively on their wages to make their enterprises more competitive, so that competition could take on a more cut-throat character, as happens under capitalism. One way of preventing that would be to retain minimum wage legislation. It would also be up to trade unions to ensure that nationally – and ultimately internationally – agreed wage rates for different types of work, according to skill and demand, were paid by all enterprises.

It should also be illegal to sack workers – unless they had committed a criminal offence. If investments in new technology led to some workers being rendered redundant, it would be up to enterprises to redeploy them in other ways, either by relocating them to sister enterprises, or by investing in some other type of activity. This was the practice in many Japanese enterprises, which operated a jobs-for-life policy when the focus was on the expansion of manufacturing, before the Japanese economy came to be dominated by the financial sector and speculation.