# TOWARDS COMMON OWNERSHIP

THE LABOUR
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GROUP

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## The Labour Finance and Industry Group

This organisation, formed recently, is a result of a merger between the 1972 Industry Group and LEFTA (Labour Economic Finance and Taxation Association). The chairman is Lord Gregson and the deputy chairmen are the Rt. Hon. John Gilbert, MP and Charles Williams, CBE. The treasurers are Sir Sigmund Sternberg, JP and Paul Hendrick. The Secretary is Simon Haskel.

The Labour Finance & Industry Group exists to contribute to Labour Party thinking on industrial, commercial, economic and financial matters across the broad front of the public and private sectors of industry and commerce, and draws its members from those Labour Party supporters working in these sectors.

Amongst other activities, the group sets up specialist sub-committees to examine and report on related topics and from time to time publishes its findings. This report is one example.

If you would like further information about the group, please contact the secretary at 220 Queenstown Road, London, SW8 4LP.

# PREFACE

The Labour Party is often identified with wholesale nationalisation and a concentration of power in the hands of the State, even though the amount of new nationalisation that it proposes is very limited. This report argues that the Labour programme could be made more attractive and the alternative economic strategy more convincing if greater emphasis were placed on the co-operative form of common ownership.

The success of the Mondragon co-operatives has shown that the economic performance of industrial co-operatives can be better than that of comparable companies; and James Meade and other economists have recognised the relevance of industrial co-operatives to the problem of inflation. However, the small number of such co-operatives indicates that there are problems to be solved in achieving a significant extension of their numbers in a mixed economy.

This report looks at what government can do to increase their numbers. It argues that the tax system discriminates against industrial co-operatives and discourages them from ploughing back as high a proportion of earnings as the companies with which they compete — in particular, by excluding them from the 1978 tax concession relating to personal tax liability when bonus shares are issued to workers.

It suggests that a variety of tax concessions could be used to help industrial co-operatives to raise initial risk capital and to accumulate capital out of earnings, and to encourage conversions.

It suggests also, that a number of legislative changes should be made relating to matters such as the protection of the real value of co-operative shares, the distribution of the residual assets of a co-operative on a winding-up, the issue of non-voting preference shares with partially cumulative dividends by co-operatives, and the creation of a special class of co-operative company under company law so as to reduce the problems of tax liability on conversion.

It notes that *Labour's Programme 1982* calls for major tax concessions to encourage the formation of industrial co-operatives and the conversion of companies into co-operatives; but argues that the suggestion that conversions should sometimes be compulsory should be treated with great caution.

It recognises that industrial co-operatives face many problems — such as making accountability fully effective; but argues that greater emphasis on industrial co-operatives by the Labour Party could help to clarify its long-term aims.

# TOWARDS COMMON OWNERSHIP

Industrial Common Ownership in a Mixed Economy under a Labour Government

## A) *CASE FOR COMMON OWNERSHIP*

### 1) MEANING

In Britain, in the eighteenth century, certain common lands were enclosed by private landowners, and at the same time in the industrial revolution individual production by independent craftsmen was to a large extent replaced by hired labour in factories for the profit of the few. Socialists came to argue that as individual production was replaced by social production, individual ownership should be replaced by common ownership. Robert Owen called for a New Moral World in which capitalist ownership should be superseded by common ownership.

For Robert Owen, common ownership simply meant co-operative or community ownership; but, in the 50 years after Robert Owen left New Lanark, efforts to establish Owenite communities ended in failure, and co-operative productive societies met with very limited success. The Rochdale Pioneers turned from community to retail trading, and the Labour Movement in the nineteenth century turned increasingly from Owenite ideas about co-operative production towards strengthening the growing trade union and consumers' co-operative movements towards the state socialist ideas that were emerging in the 1870s, and towards the achievement of political power. The words "common ownership" were accepted as covering both the older co-operative ideas of Robert Owen, Fourier and Lasalle and the newer ideas of the state socialists. They were used in the Gotha programme of the German Social Democratic Party in 1875, in the constitution of the I.L.P. in 1892, and in that of the Labour Party in 1918.

#### Basic debates

The arguments between the Owenite, or libertarian, socialists and the state socialists towards the end of the nineteenth century were quite different from the arguments between those who believed in parliamentary democracy and those who believed that socialism could be achieved only by revolutionary violence. The anarchists and the syndicalists were libertarians of a kind; but they did not believe in parliamentary democracy. Karl Marx from time to time shared a platform with Edward Vansittart Neale, a Christian Socialist, and a dedicated advocate of co-operative production. Neale would explain that he and Marx agreed about the kind of socialist economy they wanted to build, but not about the way in which it could be achieved. Neale lost much of a large personal fortune promoting co-operative productive societies.

Marx talked of the state withering away which seems hardly consistent with state socialism; even though he also insisted that socialism could only be achieved by the seizure of state power. He commended co-operative production on many occasions as in his address at the inaugural meeting of the First International; and noted in *Capital* that they were sometimes more profitable than comparable companies. But because of his preoccupation with the revolutionary seizure of state power he is widely associated with state socialism.

**Private Ownership**

Professor Alec Nove opens his book on *The Economics of Feasible Socialism* by arguing that Marx had little to say about the economics of socialism. It was all left very vague, and Marxist talk about the abolition of "private" ownership when what is meant is the abolition of capitalist ownership has resulted in a great deal of confusion about what socialists mean by "common ownership".

It is sometimes argued by Marxists that state ownership is in some way superior to co-operative ownership because an enterprise belongs to the community as a whole. But it is under co-operative ownership that workers are more likely to secure the full fruits of their industry, or control over their working lives through the best obtainable system of popular administration and control. Talk of the abolition of "private" ownership suggests that the ownership of all productive resources might one day be concentrated in some huge world wide multinational corporation. But socialist pioneers understood the word "common ownership" to mean not state ownership at all but ownership by the working or local community. As E. Eldon Barry has shown in *Nationalisation in British Politics* (London, 1965) state ownership was for many years regarded as something quite separate from socialism. It was only in the twentieth century that socialism came to be identified by many with wholesale nationalisation.

## 2) THE MORAL CASE

The moral case for common ownership rests upon the simple proposition that it is wrong for the many to be exploited for the profit of the few, and that people are entitled to a right of access to productive resources to secure the full fruits of their industry and to exercise control over their working lives. Capitalism is often defended in the name of "private enterprise"; but it is not private ownership as such that socialists object to, but rather *capitalist* ownership, the exploitation of labour by capital.

The ownership of a home brings security to a home owner, and home ownership is supported by the Labour Party so long as it is not promoted by concessions to the rich at the expense of the poor. The ownership of a holding brings a worker some control over his working life and secures for him the fruits of his industry. As R.H. Tawney put it in *The Acquisitive Society*, "precisely as it is important to preserve the property which a man has in the results of his own labour it is important to abolish that which he has in the labour of someone else. The considerations which justify ownership as a function are those that condemn it as a tax".

Indeed co-operative ownership can be regarded as a form of "private" ownership in that co-operatives are independent of the state, and in that co-operative premises are no more freely accessible to the public than the premises of state enterprises; while co-operative ownership is generally recognised as a form of common ownership. Common ownership gives commoners grazing rights on common land; and the term is broad enough to cover state, municipal and co-operative ownership, eliminating the exploitation of labour for the profit of capital which is characteristic of capitalist ownership, but not necessarily of "private" or independent ownership as such.

**Co-operative Pioneers**

The Christian Socialists of the 1850s were also pioneers of co-operative production in Britain. One of them, E.V. Neale, became the first General Secretary of the Co-operative Union, and another, J.M. Ludlow, became Chief Registrar of Friendly Societies, and did much to promote the legislation under which co-operatives operate in Britain. Many other co-operative pioneers such as Buches in France, Raiffeisen in Germany, Luzatti in Italy, Kagawa in Japan, Warbasse in the USA, and Fr Jose Maria Arizmendi in Spain, were Christians. Writing about the Christian Socialists, in his book *Christiantiy & the Social Order*, Archbishop William Temple pointed out that when limited liability was first introduced the Christian Socialists argued that it should be accompanied by measures to prevent exploitation. He declared that company law should be amended so as to set a limit on the return as well as the liability of the shareholder — as is provided for in co-operative legislation.

Inasmuch as a workers' co-operative is essentially an enterprise in which labour hires capital instead of capital hiring labour, it accords very well with the views about the primacy of labour over capital expressed by Pope John Paul II in his recent Encyclical *Laborem Exercens* — as also with the views expressed by Pope Pius XI in 1931 in *Quadragesimo Anno* about the need for the wage contract to be modified by a contract of partnership. Many Christian and other social reformers have commended co-operative production as a way of improving industrial relations and promoting satisfaction in work.

**Commercial Performance**

Although the record of co-operative productive societies — or workers' co-operatives or industrial co-operatives — has been reasonably good in improving industrial relations, their commercial performance has been less impressive. In the two centuries since the industrial revolution, the number of successful industrial co-operatives has been very limited. This is one reason why a Labour Government, in seeking to extend this form of common ownership in a mixed economy, needs to move with caution. It would not be prudent for it to plunge in and seek the wholesale conversion of companies into industrial co-operatives in the shortest possible time.

It will be much wiser for a Labour Government to concentrate on creating *conditions* in which those seeking to launch new enterprises will choose the co-operative rather than the conventional capitalist forms, and in which established companies will be encouraged to convert to a co-operative basis. The moral case for organising production on a co-operative basis is recognised by many people in all political parties, but it is the Labour Party that has been particularly associated with the extension of common ownership. It is because of the problems that have been associated with co-operative production that the approach to the problem of extending their numbers needs to be pragmatic and realistic.

Interest in industrial co-operatives is growing, and at the beginning of 1983 their numbers in Britain were increasing at a rate of one a day. The Labour Party is pledged to encourage their formation and to encourage the conversion of companies into industrial co-operatives. If a significant number are formed, and if they can demonstrate — as the Mondragon co-operatives have done — that their economic performance can be better than that of competing companies, it would become possible for a Labour Government to encourage the formation of such co-operatives, and the conversion of large as well as small companies with a good deal more vigour, in that such co-operatives could make an important contribution to resolving some intractable economic problems.

### 3) THE ECONOMIC CASE

The growing interest in industrial co-operatives in many countries over the last ten years appears to be partly due to a belief that they can provide a "third way" between conventional capitalism on the one hand and centralised state socialism of the Soviet type on the other; but it is also partly due to a recognition that industrial co-operatives can make a contribution to the reduction of unemployment. Many governments and the EEC and the OECD recognise that they are a way through which the unemployed can, with some public support, provide themselves with jobs. Too much should not, however, be made of their role in reducing unemployment. The 7,000 or so jobs provided by industrial co-operatives in Britain by the end of 1982 is a fairly modest number compared with the number of unemployed. Public and private enterprise can also provide jobs if demand is growing; and it is easier for private individuals or the state to form companies than it is for unemployed workers to form co-operatives.

#### Earnings Allocation

The extension of co-operative ownership is, however, very relevant indeed to the intractable problem of controlling inflation in an expanding economy, to getting the right balance between allocations to investment, to wage increases etc. Over the last thirty-five years Labour and Conservative Governments have continually appealed to trade unionists to exercise restraint in wage claims on the ground that prices are likely to rise if money incomes increase faster than output, thus making exports less competitive. White papers in 1944, 1948, 1956, 1962, 1965, 1969, 1972, 1975 have underlined the need for incomes policies to prevent expansion leading to inflation. Under the last Labour Government between the summer of 1975 and the summer of 1978 trade unionists accepted wage increases lower than price increases over the previous year, that is to say lower living standards. At the same time the Labour Government recognised the need for higher profits to help finance investment and provide jobs so that trade unionists were accepting a declining share of the national income. By the autumn of 1978 the "social contract" had broken down.

#### Incomes Policies

The experience of the last thirty years is that incomes policies are very difficult to sustain in a capitalist economy. During the last few years TUC and Labour Party conferences have repudiated incomes policies on the ground that they do not apply fairly to all incomes in capitalist economies. At the same time the Labour Party is firmly committed to economic expansion as essential for the reduction of unemployment. During the last two years the Labour Party has outlined its alternative economic strategy in a series of statements such as *Labour's Plan for Expansion, The Socialist Alternative, Labour's Plan for Jobs, Britain on the Dole, Labour's Programme 1982, Programme for Recovery* and *The New Hope for Britain.* These have been supplemented by statements from the TUC-Labour Party Liaison Committee such as *Economic Issues Facing the Next Labour Government, Economic Planning & Industrial Democracy* and *Partners in Rebuilding Britain.* These say that the next Labour Government will undertake an annual "national economic assessment" about the kind of increases in money incomes and shares of the national income that will be likely to be available to different sections of the community.

The problem about this promised national assessment is that Labour will need to give priority to jobs, and therefore to the investment needed to provide the jobs; and to the profits needed to help finance the new investment rather than to wage increases. As profits have been a a "record low" under the restrictive policies of the Conservatives, companies will need funds to finance investment and provide jobs, and it appears possible that trade unionists asked to collaborate with the national assessments might be expected to accept a declining share of the earnings of industry without the words "income policy" or "restraint" being mentioned.

**Convince Voters**

Investment will be sustained by public investment; but increased profits will also be needed. The problem is to convince the voters that trade unionists will be willing to collaborate in the proposed assessments. The economists say that incomes policies are needed if expansion is not to lead to inflation. Dividends were limited between 1948 and 1951 and in 1966 and 1968 and between 1972 and 1978; but trade unionists know that a temporary delay in the distribution of dividends merely means that profits accumulate on behalf of shareholders. In its 1969 report *Agenda for a Generation* the Labour Party asked why shareholders should be entitled to an increased level of income as the process of capital accumulation in industry proceeds; but it abandoned controls over dividends, just as it did in July 1978 when Mr Callaghan wanted trade unionists to limit wage claims to 5%. It is an intractable problem; and the NEDC declared in 1963 that "a policy for prices and money incomes can only succeed if those concerned are convinced that restraint by one section of the community will not merely result in gains for other sections".

It would be logical for a Labour Government to seek a socialist solution. In proportion as companies operated on a co-operative or common ownership basis restraint by wage earners would no longer "merely result in a gains by other sections of the community". The Labour Party is committed to encouraging the conversion of companies to a co-operative basis, and in proportion as it placed more emphasis on this commitment in its campaign it would strengthen its economic strategy and make it more convincing. Trade unionists would be more likely to collaborate with the national assessment if their restraint merely meant profits accumulating on behalf of workers. In time, with the prospect of a significant number of large as well as small companies being converted to a co-operative or common ownership basis, pressures might develop against unilateral wage increases that disturbed the pattern of relative earnings. The interminable appeals for restraint might become unnecessary. Wage bargaining might become a matter of negotiation between different kinds of workers instead of a battle between capital and labour; and there could be much discussion among trade unionists about the distribution of the surplus earnings of companies and the 'most equitable distribution that may be possible" of incomes.

**Inflation Problem**

The problem of inflation is unlikely to be solved by penalising companies that pay wage increases regarded officially as excessive. That would be too much like punishing success as with an excess profits levy of the kind proposed in 1953. Nor would it be likely to help solve the problem to promote profit sharing, employee shareholding schemes and the like. Trade unionists would still be likely to press for a larger slice by pressing wage claims. But with companies organised on a co-operative or common ownership basis or "socialised" and run in the interests of the workers and the community, there would be less point in pressing wage claims and more point in discussing the distribution of surplus earnings.

James Meade and other economists have recognised the relevance of co-operative production to the problem of controlling inflation. He has suggested, as in his book *Wage-Fixing* (London, 1982) that if large companies were converted to a co-operative basis there might be some danger of exploiting the consumer. This is something that could be avoided if there was some consumer participation in the surplus earnings of such large co-operatives and this could also help to prevent price rings and ensure competition. Fluctuations in the earnings of capital intensive co-operatives could be dealt with in the same way as with companies: by prudence in distribution. And the Mondragon co-operatives have shown that industrial co-operatives can respond as effectively as companies to changes in demand. If Labour were to place much more emphasis on the development of industrial co-operatives it could do much to make its proposed assessments more convincing. With the retained earnings of such co-operatives accumulating on behalf of the workers there would be little point in trade unionists resisting the assessments.

## 4) INDUSTRIAL CO-OPERATIVES AND THE TRADE UNIONS

Over the last hundred and fifty years, the trade unions have grown enormously in power as the most effective way of protecting the interests of the working class against exploitation in a capitalist economy. Some of them, such as the TGWU and the AUEW, have a commitment to promote co-operative production in their rules; but they have been compelled to fight to protect the living standards of their members in a capitalist economy. Historically, they have from time to time supported efforts to promote co-operative production, but as such efforts in the nineteenth century often ended in failure the trade unions have tended to become more cautious about co-operative production.

In recent years, however, there has been a revival of interest in co-operative production and the TUC has shown a cautious interest. The TGWU has taken more interest than most other unions in co-operative production, and was actively involved in the formation of the Triumph motor cycle co-operative at Meriden in 1975, and in the formation of Kirkby Manufacturing and Engineering in Kirkby near Liverpool in the same year. In 1975, a TUC report on industrial democracy paid some attention to the development of industrial co-operatives. In recent years the TGWU has been active in support for the Unicorn shirt co-operative in Taunton and in the development of industrial co-operatives in Wales, such as the Bargoed blouse co-operative.

### Liaison Committee

The TUC/Liaison Committee's 1982 report on *Economic Planning and Industrial Democracy* commended workers' co-operatives as a way of extending industrial democracy; but for some reason that is not clear suggested that they were bound to be small, that the role of industrial co-operatives in British industry was likely to be a limited one. In March 1983, a further report from the Liaison Committee, *Partners in Rebuilding Britain,* did not mention industrial co-operatives at all. Yet a significant extension of industrial co-operatives could make industrial democracy more effective than it can be through the provision of information, through consultation and through representation while industry continues to be run on a conventional capitalist basis.

The Wales TUC has taken a more active interest in industrial co-operatives than has the TUC itself. It took a party of Welsh trade unionists to visit Mondragon in

February 1981, and later published a study on *Co-operation and Job Creation in Wales.* It has established a resource centre with support from the government and from the EEC to promote the development of industrial co-operatives in Wales. In February 1983 it organised a conference on industrial co-operatives at which the Mondragon co-operatives were represented. One of the participants was Jan Kees Looise, one of the authors of the 1980 report from the Netherlands Trade Union Research Foundation on industrial co-operatives called *Working in Co-operation.* Another was Mr William Callaghan from the Economic Department of the TUC.

**Trade Union Support**

In Holland, the trade union federations FNV and CNV are active in their support for industrial co-operatives, and their report calls for them to be financially helped both by trade unions and by government. An EEC report on *Prospects for Workers' Co-operatives in Europe* published at the end of 1981 said that there were some 16,000 workers' co-operatives in Italy at the end of 1979 compared with 329 in Britain in September 1980. Moreover, the number in Italy was increasing rapidly with only 320 new registrations in 1970 but 2,148 in 1979. The three major federations were promoting about 430 new co-operatives a year which provided around 17,000 new jobs annually. It also reported that the number of industrial co-operatives affiliated to the French Confederation increased by about a third in the 1970s, to 726 in April 1980 employing about 32,500 people, and that the total number of industrial co-operatives in France was probably about 900.

It may be that the greater number of industrial co-operatives in France and Italy than in Britain is partly due to greater trade union interest. Some trade unionists argue that a large increase in the number of industrial co-operatives might result in a reduction of interest in trade union membership, on the ground that there would be less need for workers to fight for wage increases with the earnings of the co-operative coming to them anyway. On the other hand, there would be a significant increase in the opportunity for trade unionists to exercise a really effective influence over their working lives. The role of trade unions might tend to change somewhat with less interest in wage increases and more interest in relativities and in what should be done with surplus earnings, and in ways and means of increasing productivity. Common ownership would enable them to secure the full fruits of their industry and the most equitable distribution thereof that might be possible.

## 5) THE LABOUR PARTY AND COMMON OWNERSHIP

Since it adopted its present constitution in 1918 the Labour Party has been committed to the extension of common ownership. At that time the Co-operative Party had jsut been formed, and in the early 1920s many of the Building Guilds were organised as co-operative productive societies: there was much discussion of industrial democracy. Nevertheless, the Labour Party in the following decades tended to give priority to practical problems, such as the reduction of unemployment and the nationalisation of certain basic industries. Clause Four of the Labour Party constitution tended to become identified with wholesale nationalisation, partly because it suited certain newspapers to promote this view, but also because the Labour Party did little to clarify the implications of its own constitution.

Most members of the Labour Party recognised that there were many forms of common ownership, including state, municipal, and co-operative; and although

Clause Four made no mention of nationalisation it was widely associated with that. Few co-operative productive societies were formed, and although there were many resolutions at party conferences calling for the implementation of Clause Four there was little serious discussion of ways and means of encouraging forms of common ownership, other than state ownership. Labour had nationalised certain basic industries and created the National Health Service by 1951, and then rather wondered what it should do next when it had the opportunity. "Shopping lists" were drawn up; but Labour's programme in 1959 included few proposals for more nationalisation. Nevertheless, Hugh Gaitskell took the view afterwards that Labour lost out partly because thousands of voters identified socialism with wholesale nationalisation, and did not like the concentration of power that it seemed to involve. He proposed that Clause Four should be abandoned because of the way it was interpreted by the public. His proposal was rejected by the Party, but his new statement of aims, which was accepted, did little to clarify Labour's aims.

**State Shareholding**

In *Signposts for the Sixties,* emphasis was placed on public investment and state shareholding in capitalist companies on the B.P. model, but this was hardly a way of extending common ownership if the companies concerned continued to be run for the profit of private shareholders. Many socialists were concerned about the "Morrisonian Corporation", and felt that it hardly offered the "best obtainable system of popular administration and control". There were experiments with workers' representation on Boards, in the Post Office and in the steel industry. In the 1970s, there was considerable disucssion of industrial democracy, and of workers' representation on the boards of capitalist companies, culminating in the report of the Bullock Committee in 1977, but this again was hardly a way of extending common ownership. In 1974, a report on company law recommended workers' representation on company boards, but did not get around to discussing ownership or dividends or the distribution of company earnings. In the late 70s, there was some discussion of planning agreements with capitalist companies, and of workers' shareholding in capitalist companies, either individually as promoted by a Labour Government in 1978, or collectively through funds. There was, also, some discussion of the role and control of pension funds.

There was in the late 70s an increased interest by the Labour Party in industrial co-operatives, following the formation of many small co-operatives by the Industrial Common Ownership Movement; the formation of the Meriden, K.M.E. and *Scottish Daily News* co-operatives in 1975; the Industrial Common Ownership Act of 1976; the Co-operative Development Agency Act of 1978; and the increased publicity given to the successful Mondragon co-operatives in Spain. In 1980, the Labour Party published a discussion pamphlet on *Workers' Co-operatives,* which called for the establishment of a Co-operative Development Advisory Board to supervise and encourage the conversion of companies into co-operatives.

**Workers' Co-operatives**

It suggested that this could be arranged either by the agreed and voluntary purchase of the shares of a company for its employees with public support, or, in some cases, as when a closure or a take-over appeared likely, or, when conversion was demanded by the employees, by a compulsory purchase of shares with public support. Such compulsory conversions were opposed by the Co-operative Party, the Co-operative Union, and the Co-operative Development Agency as inconsistent with the voluntary character of the co-operative movement. The pamphlet suggested that gradual conversions might sometimes be arranged, as through the issue of bonus shares to workers in respect of ploughed back profits over a period of years.

This pamphlet was followed by a statement on workers' co-operatives that was approved by the 1981 Labour Party Conference and by the inclusion of a number of proposals to encourage workers' co-operatives in *Labour's Programme 1982.* One was that there should be "major tax concessions", to encourage the formation of workers' co-operatives, and tax reliefs to encourage voluntary conversions. Other proposals included support for ICOM and other co-operative organisations, for an extension of co-operative educational and training facilities, for more local co-operative development agencies, and for the national Co-operative Development Agency. Other commitments included an extension of the powers of local authorities to help co-operative development, the establishment of a Co-operative Investment Bank, and of a legal right, with safeguards, to compulsory conversions when demanded by the employees of a company.

In the campaign document, *The New Hope for Britain,* also in March, "generous encouragement and help to worker co-operatives and local enterprise boards" was promised together with an extension of the powers of local authorities, the establishment of a Co-operative Investment Bank, and new rights for workers to convert their firms. A Co-operative Party pamphlet, *The Co-operative Opportunity* published in February 1983, called for the encouragement of workers' co-operatives without mentioning tax changes, and opposed compulsory conversions.

The theme of this report is that the Labour Party needs to place *much greater emphasis* on encouraging the co-operative form of common ownership, so as to make the Labour Programme more attractive, and the Labour Party identified less with wholesale nationalisation: also, because of the relevance of co-operative development to the task of making Labour's economic strategy as convincing as possible.

It may be that such a greater emphasis on the relevance of co-operative development and a move towards an Owenite or co-operative approach to common ownership could be helped by a merger between the TUC/Labour Party Liaison Committee and the National Council of Labour so as to bring greater co-operative impact on policy making.

## B) *ENCOURAGEMENT OF INDUSTRIAL CO-OPERATIVES*

### 6) CO-OPERATIVE PRODUCTION IN BRITAIN

The growth of co-operative productive societies in Britain in the nineteenth century was much slower than that of consumers co-operatives. There were some spectacular failures, such as the Ouseburn Engineering Co-operative, which was promoted by Dr John Rutherford, a prominent co-operator, a doctor of medicine, and a Congregationalist Minister, but lacking in experience in industrial management. It produced some excellent marine engines, but collapsed in 1875, and many trade unions and established co-operatives lost much money, as did the Scottish Co-operative Ironworks, which failed in the same year. But some other productive societies were more successful : such as Walsall Locks, formed in 1873, and still going strong with sales of more than £1 million; NPS Shoes of Wollaston, Northants, formed in 1881, and Equity Shoes of Leicester, founded in 1886, and employing more than 200 worker members today, with sales of over £2 million.

The Co-operative Productive Federation was formed in 1882 and was very active in promoting productive societies in the 1890s, when Thomas Blandford was secretary. There were about a hundred productive societies at the turn of the century, but the number had declined to 89 by 1944, of which 41 were affiliated to the Federation. The Federation at this time published the *Co-operative Productive Review* and audited the accounts of affiliated societies. Few new productive societies, however, were formed after 1960, and the number of member co-operatives had fallen to 8 by 1980, when the Federation merged with the Co-operative Union.

## ICOM

In spite of the decline of the Federation, interest in co-operative production has greatly increased in the last ten years in Britain, as in many other countries. Interest in workers' co-operatives in Britain was stimulated by the conversion of the Scott Bader company to common ownership in 1951, and by the work of the Industrial Common Ownership Movement since 1971. ICOM was founded by Ernest Bader and Harold Farmer in 1958, and since the publication of its Model Rules in 1975 there has been a dramatic increase in the number of workers' co-operatives in Britain. There were only about a dozen workers' co-operatives in membership of ICOM in the summer of 1975. More than 600 workers' or industrial co-operatives had been registered by the end of 1982, and they were employing about 7,000 people. The great majority of these used either the ICOM Model Rules or the ICOM Model Articles for a Company Limited by Guarantee without a share capital.

Early in 1983 new ICOM co-operatives were being formed at a rate of about one a day and the number of failures was only about 2½% of the number of new co-operatives formed, a rate much lower than that for small companies. Professor Derek Jones of Hamilton College, Clinton, New York, analysed the performance of some of the older co-operative productive societies in Britain a few years ago and concluded that their survival prospects were rather better than those of comparable companies and that the small numbers of such co-operatives was due not so much to failures as to the small number of new co-operatives formed.

While the number of new workers' co-operatives is now increasing rapidly, the number of retail consumers' co-operatives is being reduced so that ICOM already has more than twice as many affiliated co-operatives as the Co-operative Union. The Co-operative Union, which caters for all kinds of co-operatives and not only consumers' co-operatives, set up a Co-operative Productive Committee after its merger with the Co-operative Productive Federation in 1980. The Co-operative Union affiliated to ICOM; and ICOM affiliated to the Co-operative Union; and ICOM also affiliated to CICOPA the Workers' Productive Committee of the International Co-operative Alliance, and to CECOP, the organisation of workers' co-operatives in the EEC.

## Local Agencies

In 1975, ICOM promoted a Common Ownership Group in the House of Commons, and also an Industrial Common Ownership Bill which was sponsored by David Watkins M.P. and became an Act in November 1976. It provided not only definitions of co-operative and common ownership enterprises but also grants of £30,000 a year for five years for organisations concerned with the promotion of industrial co-operatives. ICOM also helped to promote Section 137 of the Inner Urban Areas Act of 1978 which authorised local authorities to support local co-operative development agencies, and by the end of 1982 there were about 70 of these producing *Co-operative Development News* which was distributed by the Co-operative Union. ICOM works increasingly closely with these local agencies, and also with London ICOM Ltd, and ICOM North in Newcastle, and by 1983 had become a more effective national organisation of co-operative productive societies than the Co-operative Productive Federation had ever been.

The Industrial Common Ownership Act of 1976 also made available £250,000 for investment in industrial co-operatives, and these funds were allocated to Industrial Common Ownership Finance Ltd (ICOF) in Northampton and supplemented funds already being made available by the Scott Bader Commonwealth. The record of the repayment of loans by co-operatives to ICOF and to the Co-operative Bank has been better than of the repayment of loans by conventional companies.

The Scottish Co-operative Development Committee was established in 1977, with support from the Co-operative Union, the Scottish TUC, the Scottish Council of Social Services and from the Department of Industry under the Industrial Common Ownership Act of 1976. The Highlands and Islands Development Board also has been active in promoting co-operative development. The national Co-operative Development Agency was established in 1978 by the Co-operative Development Agency Act with support from all parties. In principle, it is concerned with the promotion of co-operatives of all kinds, but in practice, has concentrated on workers' co-operatives. It is not able to provide co-operatives with funds, but it gives advice on co-operative financing and has produced its own Model Rules, which are a shortened version of the Model Rules of the Co-operative Productive Federation. The Wales TUC established a Resource Centre in 1983 to promote industrial co-operatives with support from the Wales Development Authority and from the EEC. Local organisations such as the Greater London Enterprise Board and the West Midlands Enterprise Board have been able to provide finance as well as advice on co-operative development, but are concerned also with promoting other kinds of enterprise in seeking to reduce unemployment.

Other organisations, such as the Co-operative College, the Plunkett Foundation for Co-operative Studies, the Society for Co-operative Studies, and the Co-operative Party, also take an interest in the promotion of industrial co-operatives. But the main factor in the growing interest in industrial co-operatives during the last 10 years probably has been the work of the ICOM. Other factors have been the publicity given to the experiments at Meriden, Kirkby and Glasgow, and to the publicity given to the more successful co-operatives based at Mondragon.

## 7) INDUSTRIAL CO-OPERATIVES AND COMMON OWNERSHIP ENTERPRISES

As we have seen, the words "common ownership" are used in the Labour Movement and generally in a very broad sense, covering state and municipal ownership, and all kinds of co-operatives. At the same time, they are used by ICOM in a much narrower sense to describe a particular kind of workers or industrial co-operative. In order to be clear about the different senses in which the words can be used it is necessary to be clear about what is meant by a co-operative.

Co-operatives can be defined as organisations that observe the six basic principles laid down by the International Co-operative Alliance at its 23rd

Congress in Vienna in 1966. Some of these principles, may be observed also by other organisations: such as that of open membership without discrimination on political, religious or racial grounds. It is, also, a matter of principle that co-operatives should allocate a proportion of their earnings to education, and that they should collaborate with each other. But there are two principles that distinguish a co-operative from a company: that the return, as well as the liability of the shareholder, is limited: and that voting is equal instead of in proportion to shares held.

**Surplus Earnings**

Because the return paid on capital by a co-operative is limited, any surplus earnings will have to be distributed in some other way. Such distribution will vary with different types of co-operatives, and in accordance with who its members are. For example, in a workers' co-operative they are distributed in proportion to the value of work contributed; in a consumers' co-operative, in proportion to the value of goods purchased; in an agricultural marketing co-operative, in proportion to the value of farm produce supplied; in a housing co-operative, funds resulting from economies are used to reduce rents; in an electricity co-operative, to reduce charges paid. In a credit co-operative, members are both lenders and borrowers, and while interests rates may vary the return paid on capital will be limited so that economies will mean that borrowers can borrow more cheaply. In a community co-operative, surplus earnings are not distributed to members, but are re-invested to provide employment for the members of a community.

All the surplus earnings of co-operatives do not necessarily have to be distributed to members. For example, workers' may participate in the surplus earnings of consumers' or agricultural co-operatives in order to increase incentive. In Britain, it has been traditional for consumers to participate in the surplus earnings or profits of co-operative productive societies, and the community may participate, as with the Scott Bader Commonwealth. The International Co-operative Alliance insists that for an enterprise to be a co-operative legal forms are not important, and it is essential that co-operative principles are observed, particularly a limited return on capital and equal voting.

When the 1976 Industrial Common Ownership Act defined a "co-operative enterprise" it made no mention of co-operative principles. It said that a co-operative enterprise was one "owned and controlled by those working in it". This was too narrow and too broad: too narrow because there are many kinds of co-operatives as well as workers' co-operatives; and too broad because it made no reference to co-operative principles, so that any little company could issue some shares to its workers and claim to be a "co-operative enterprise". Nearly all the shares might continue to be held by one man, and he might continue to receive nearly all the profits; nevertheless, he might legally be entitled to describe the enterprise as a "co-operative", and derive any tax or other advantage resulting from such a description.

The Industrial Common Ownership Act also defined a "common ownership enterprise". In this case, it called for equal voting, and for a prohibition on the distribution of residual assets to members on a winding-up. It declared that a common ownership enterprise must either be registered under the Industrial and Provident Societies Acts, or as a company limited by guarantee without a share capital. Unfortunately, the Act was worded in such a way that the Scott Bader Commonwealth did not quality as a common ownership enterprise and it was certified as a "co-operative enterprise". Certification as a common ownership enterprise helps ICOM co-operatives when borrowing from ICOF.

**Workers' Ownership**

In discussing co-operatives and common ownership, it is important to distinguish between workers' co-operatives and various other forms of worker participation and ownership. There is often an element of employee shareholding in various profit sharing, co-partnership and capital sharing schemes; but if co-operative principles do not apply they are not co-operatives. The word "co-ownership" has been used by the Scott Bader Commonwealth, but it is more often used for co-partnership and employee shareholding schemes of the kind advocated by the Liberal Party. The organisation Job Ownership Ltd., which was formed in 1978 to promote Mondragon type co-operatives, has been promoting "job ownership companies" in which the workers vote equally, but hold ordinary shares carrying an unlimited return. This conflicts with the co-operative principle of a limited return on capital. Such companies may provide an interersting example of worker ownership, but they cannot be regarded as co-operatives.

The National Freight Corporation has provided another interesting example of worker ownership as the buy out was by many of the workers as well as by the management. The performance of the company seems to have improved, but it is not a co-operative as both voting and the distribution of profits is in proportion to shareholdings. An enterprise may be said to be community owned; but this can be somewhat ambiguous in that the community may be the working community, as with the Scott Bader Commonwealth; or the word may refer to the broader local community, as with a community co-operative. The words "communal ownership" and "commune" usually are used in respect of organisations in which people live, as well as work together – as on a kibbutz. They can be regarded as a kind of co-operative or "common ownership enterprise", but they are a distinctive form of organisation, and it is appropriate they should have a distinctive name.

**Narrow Meaning**

The words "common ownership" are used by ICOM in a very narrow and restricted sense as a particular kind of worker co-operative. ICOM argues that to qualify as a "common ownership enterprise" the shares of a worker co-operative need to be restricted to workers with no outside shareholding and no hired labour; that the distribution of residual assets on a winding up to members should be prohibited; that personal shareholdings by members should be not more than one per member so that most capital is loan capital; and that all saving by the co-operative should be "collective saving", without any member participation in the growth of assets, so that saving by the co-operative is sacrifice by the members.

A workers' co-operative of this kind is sometimes called a "collective". The use of the words "common ownership enterprise" to describe it, is to use them in a sense very different from the broad sense in which they are used in the Labour Party to cover various forms of state, municipal and co-operative enterprise. The use of the words "common ownership" in two very different senses can cause a certain amount of confusion when common ownership is discussed; but as not very much can be done about it the different ways in which the words can be used need to be borne in mind.

## 8) CO-OPERATIVE CONSTITUTIONS COMPARED

The great majority of industrial co-operatives formed in Britain since 1975 have used either the ICOM Model Rules or the ICOM Model Articles for a Company Limited by Guarantee without a Share Capital: with or without minor modifications. Very few have used the less restrictive and more conventional Model Rules of the Co-operative Productive Federation, though some have used the shortened version of the CPF Model Rules prepared by the Co-operative Development Agency. It would appear that the ICOM Model Rules had important advantages over those of the CPF; but the situation is not quite as simple as that.

One advantage of the ICOM Model Rules was that they were very short and simple. A second advantage that ICOM had was the zeal and dedication of its Council. A third was a grant of £20,000 a year for five years under the Industrial Common Ownership Act while the CPF received nothing. The CPF Model Rules though long are more accomodating. Co-operatives using them can not only issue their members with as many shares as they are willing to take, up to the legal maximum of £10,000 worth; they can also issue shares to outside individuals or to organisations such as consumers' co-operatives or trade unions. The CPF Model Rules also allow co-operatives using them to issue their members with bonus shares to enable them to participate in the growth of assets when earnings are ploughed back; and allow them to distribute residual assets on a winding up in any way they like. It can be argued that the CPF Model Rules are sensible in allowing a co-operatives to issue their members with substantial numbers of shares and to issue them with bonus shares to enable them to participate in the growth of assets; and that the ICOM Model Rules are wise to exclude outside voting shares and to prohibit the distribution of residual assets on a winding up to shareholders in proportion to shareholdings. There are no Model Articles for workers' co-operatives to be registered as companies limited by shares, although agricultural co-operatives are sometimes so registered.

### Outside Shareholdings

Outside shareholding cannot be a problem in consumers' co-operatives because we are all consumers; but they can be a problem in workers' co-operatives because outside voting shares can tend to undermine the cohesiveness of a workers' co-operative and democratic control by worker members. Nevertheless, workers' co-operatives sometimes raise outside share capital because they need the capital, because the resources of members are often limited, and because they tend to need more share capital per member than agricultural or consumers' co-operatives. Greater risks may also make raising share capital more of a problem. Many of the old productive socieities affiliated to the CPF and to the Co-operative Union raised some of the capital they needed by issuing shares to established consumers' co-operatives or to trade unions. In some countries, such as Singapore and Denmark, workers co-operatives are sometimes controlled in effect by trade unions providing much of their capital. In France, where productive societies have long been stronger than in Britain, outside shareholdings have been found necessary at times. A parallel problem is that of hired labour. The original members of a co-operative may seek to exclude new workers from membership. Thus, the Sohrab Cycle Manufacturing Co-operative in Lahore is properly registered as a co-operative, and has about a dozen worker members and produces very good bicycles; but as it hires about three thousand other people, it operates very much like a conventional company.

With the very successful Mondragon co-operatives, outside shareholdings are not allowed, and all workers are entitled and expected to become members. With ICOM co-operatives, outside shareholdings are also not acceptable — except in very small co-operatives, as the Industrial and Provident Societies Act requires that co-operatives should have at least seven members. Outside shareholdings are clearly a problem; but it would be eased if the UK Industrial and Provident Societies Act allowed co-operatives to issue non-voting redeemable preference shares in the same way as companies, and in the same way as co-operatives can in the US and Canada. It is odd that UK co-operatives should not be allowed to issue non-voting preference shares in that worker co-operatives are associations of workers, not associations of investors, as are companies. Indeed, it can be argued that as voting in co-operatives is equal and not in proportion to shares held, *all* co-operative shares should be non-voting with voting exercised through vote-carrying Certificates of Membership, as in some US co-operatives. But so long as UK legislation requires that all co-operatives shareholders should have votes, it is easy to understand ICOM's insistence that shareholding in ICOM co-operatives should be restricted to workers.

### Shares Restriction

It is less easy to understand why ICOM should insist that shareholding in ICOM co-operatives should be restricted to one share per worker member, so that the share becomes a kind of membership certificate instead of a means of raising capital. Such a restriction appears to ignore the experience of the international co-operative movement over the last hundred years. Virtually all the hundreds of millions of members of co-operatives affiliated to the International Co-operative Alliance hold substantial numbers of shares in their co-operatives. The co-operatives *need* to raise share capital from their members because they need their own capital to provide a basis for borrowing.

The restriction of the shareholdings in ICOM co-operatives to one share per worker member means that virtually all their capital has to be loan capital. This necessarily tends to have an adverse effect upon borrowing capacity and trade credit. If an enterprise has been able to build up substantial reserves of its own capital, as the Scott Bader company had when it was converted in 1951, then there is no problem about dispensing with personal shareholdings. Some co-operatives get grants of one kind or another from public sources which provide them with needed own capital; but the vast majority of co-operatives world wide need to raise what share capital they can from the personal savings of members. Personal shareholdings are the normal way in which co-operatives raise initial risk capital, and it is odd that the Labour Party booklet on *Workers' Co-operatives* should commend the achievements of the Mondragon co-operatives and then reject their methods on the ground that they involve individual shareholdings, which are normal in British consumer co-operatives and in other co-operatives around the world.

### Residual Assets

It may be that ICOM co-operatives restrict shareholdings to one share per worker member mainly because the UK Industrial and Provident Societies Acts allow the distribution of the residual assets of a co-operative to shareholders in proportion to shareholdings on a winding up. This conflicts with the basic co-operative principle of a limited return on capital, and allows the worker members of the co-operative to participate in the growth of assets in proportion to capital contributed, instead of in proportion to work contributed. The restriction of shareholdings to one share per member means that if the worker members participate in the growth of assets at all they will at least participate equally and not in proportion to capital contributed. The ICOM Model Rules, however, prohibit any member participation in residual assets on a winding up. This is a wise provision. However, rules about the distribution of residual assets may be amended, and so long as the law allows it the residual assets even of ICOM co-operatives may be distributed to shareholders in proportion to shareholdings.

This is in direct conflict with the principle of a limited return on capital, and has a number of other disadvantages. For example, it means that a large gap may develop between share values and asset values and provide an incentive to premature dissolution. Thus, Bristol Printers Ltd was wound up in July 1977 after 68 years trading. Its shares could only be redeemed at a value of £1 so long as the co-operative was trading; but they became worth £28 each when it wound up. It was not surprising that the eight worker members and most of the outside shareholders voted in favour of winding up in spite of substantial assets.

The way in which the UK Industrial and Provident Societies Acts allow the distribution of the residual assets of co-operatives to shareholders in proportion to shareholdings exposes consumer worker and other co-operatives to take over bids for their assets. Following such bids, the shareholders of co-operatives may receive very much more than the nominal value of their shares because of the gap between share values and asset values. This aspect of co-operative legislation also tends to undermine the arguments in favour of allowing interest on co-operative shares to be deductible for profit or corporation tax purposes. The 1955 Final Report of the Royal Commission on the Taxation of Profits and Income argued that co-operative shares are rather like loans, and that interest on co-operative shares should be deductible for tax purposes in the same way as interest on loans. But if co-operative shares may increase in value 28-fold they are not quite the same as loans, and if the Industrial & Provident Societies Acts continue to allow the distribution of the residual assets of co-operatives on a winding up to shareholders in proportion to shareholdings, the tax authorities might decide that interest on co-operative shares should not continue to be deductible. This could cost UK consumer co-operatives £2 million a year. It is not surprising that the Co-operative Union, as well as ICOM, is in favour of legal prohibition of the distribution of the residual assets of co-operatives to shareholders in proportion to shareholdings.

**ICA Debate**

In France, Italy and other countries, co-operative legislation prohibits the distribution of the residual assets of a co-operative to members on a winding up. Distribution to members in proportion to work contributed, or to purchases would not conflict with the principle of a limited return on capital; but it would be likely to be difficult to arrange. It could be difficult to track down the records of pay or of sales by co-operative over a long period of years; and if a shorter period was used this would be unfair to some members. It is much simpler to prohibit altogether the distribution of residual assets to members. When co-operative principles were debated at the 23rd Congress of the International Co-operative Alliance in 1966, an Italian resolution proposed that such prohibition should be a co-operative principle. This was withdrawn in favour of a long Belgian resolution, which included the same point among others, and which was lost.

Many co-operators believe, however, that the prohibition of the distribution of the distribution of the residual assets of co-operatives to members on a winding up should be regarded as a co-operative principle.

There may thus be a link between the ICOM restriction on shareholdings to one share per member and the ICOM prohibition on the distribution of residual assets to members. Minimum shareholdings are often low in consumers' co-operatives; but it is very unusual for co-operative rules to impose a maximum. If the law on the distribution of residual assets by co-operatives were changed a co-operative share would become very much like a preference share or like a loan with variable interest. Interest on a co-operative share may be partially cumulative, but because it is variable and depends upon profits being made the borrowing capacity of a co-operative is likely to be be better with a significant amount of share capital than with virtually all capital loan capital. With a change in the law on residual assets there would seem to be no good reason for ICOM co-operatives continuing to restrict shareholdings to one share per member.

**Collective Saving**

But to say that the distribution of the residual assets in proportion to shareholdings on a winding up should be prohibited is not to say that member participation in the growth of the assets of co-operative through the issue of bonus shares should be prohibited. ICOM argues that all saving by ICOM co-operatives should be collective saving without any member participation in the growth of assets when earnings are ploughed back, so that saving by the co-operative is sacrifice by the members. What might have been partly saving on behalf of the members is made wholly collective saving on behalf of the co-operative.

Collective saving is clearly important for co-operatives and helps to strengthen them financially; but saving will not be maximised by making it wholly collective, because the members may not be prepared to make the necessary sacrifices. If it is recognised that some personal as well as collective saving is necessary in co-operatives it does not seem logical to argue that all saving by the co-operative should be collective after initial capital has been raised by personal saving. After all, for the members of an industrial co-operative to participate in the growth of assets through the issue of bonus shares is much the same thing as distributing a cash bonus and persuading the members to re-invest it. It is a kind of compulsory saving. Even with the Scott Bader Commonwealth there has been some recognition that workers are entitled to participate to *some* extent in the growth of assets when earnings are ploughed back, in that generous ex gratia payments were made to members leaving when about a hundred workers left at the beginning of 1979.

Between 1929 and 1970 the John Lewis Partnership grew to a very large size by distributing bonuses to its partners in the form of non-voting marketable preference stock instead of in cash. The Partnership now employs more than 25,000 people. It has paid bonuses wholly in cash since 1970 partly because stock distributed had been liable to personal tax on its nominal value, which was often higher than its market value. The Mondragon co-operatives have achieved high investment in the same kind of way as the John Lewis Partnership, by distributing bonus shares to their members at the end of the year instead of cash bonuses.

**Mondragon Example**

The Rules of the Mondragon co-operatives provide that when profits are exceptionally high in relation to wages there should be a higher proportion of collective saving and less workers' participation in the growth of assets; and that such member participation should not be greater than 70% of profits. This is necessary because the law requires that at least 30% of profits should be allocated to educational and social purposes. When times have been difficult – as when unemployment in the Basque Provinces has been about 16% – the Mondragon co-operative have distributed substantially less than 70% of profits in bonus shares – sometimes less than 40%. Although provision is made for member participation in losses it is clearly prudent for co-operatives as well as companies to be cautious about distributions in difficult times: and imprudent to distribute an excessive amount of bonus shares of uncertain value as Landsmans Services Ltd. did in Britain a few years ago.

The Mondragon practice of providing for some worker participation in the growth of assets when earnings are ploughed back can be compared to the practice of small companies that plough back a high proportion of earnings and pay little in dividends. The shareholders benefit from the growth in the value of assets instead of from dividends that are liable to tax. The difference with Mondragon is that it is the *workers* who benefit: and in proportion to work contributed, not in proportion to capital contributed.

If bonus shares can be issued by a workers co-operative to its worker members free of personal tax this will clearly encourage it to plough back earnings and issue such bonus shares instead of paying a cash bonus that is liable to tax. A tax concession of this kind introduced in France in 1978 has done much to help capital formation in French industrial co-operatives; but a similar tax concession introduced in Britain in the same year applied only to companies issuing bonus shares to their workers and not to co-operatives. On the other hand, wholly collective saving is likely to lead to under-investment as Professor Jaroslav Vanek has shown in the case of Yugoslav enterprises, and with industrial co-operatives in which saving is wholly collective. In Yugoslav enterprises the ownership of assets is vested in society, but surplus earnings are distributed to the workers, who exercise control. It is not surprising that such enterprises sometimes tend to distribute too much, and to plough back too little.

**Co-operative Unity**

Any worker co-operative is likely to plough back as much as it can in its early years in order to protect members' jobs by building up reserves; but this ploughing back is likely to be rather more if there is some worker participation in the growth of assets. How much there should be is much more a matter of wise management than of co-operative principle. It may be, therefore, that there will come to be rather less controversy in the co-operative movement in Britain about matters such as co-operative saving being wholly collective, and about shareholdings being restricted to one share per member. ICOM is to be congratulated warmly on having promoted such a large number of co-operatives – in spite of the effect of a high proportion of loan capital on borrowing capacity and trade credit, and in spite of wholly collective saving affecting capital formation. If the distribution of the residual assets of co-operatives to shareholders in proportion to shareholdings is prohibited by law, ICOM co-operatives may tend to raise share capital from worker members in the conventional way; and if co-operatives are able to qualify for the 1978 tax concession about the issue of bonus shares free of tax ICOM co-operatives might take advantage of tax concession. They might even raise some share capital through the issue of non-voting preference shares if co-operatives were able to issue such shares, and if institutions or individuals were prepared to provide the capital.

In any case the extent of personal shareholdings and the extent of collective saving, should be a matter of the free choice of the members of co-operatives, and should not be regarded as a matter of co-operative principle. If a co-operative is able to raise the capital it needs by saving out of earnings and by borrowing, and without personal shareholding by members, and with all saving collective it is fully entitled to do so. Moreover, if they wish to do so worker co-operatives are fully entitled to use all surplus earnings for social purposes of one kind or another, instead of distributing bonuses either in cash or in shares. In the Scott Bader Commonwealth, for example, half the surpluses available for distribution go to good causes, such as help for old people locally, aid for developing countries, and support for research into muscular dystrophy: with the other half, distributed equally among worker members. With community co-operatives all surpluses are ploughed back to provide employment, and without any distribution of bonuses. With the Mondragon co-operative a proportion of profits has to be allocated to education and to social purposes as is required by law. With some ICOM co-operatives surpluses are used wholly for social purposes.

If there should be a significant growth in the number of industrial co-operatives there would need to be much discussion among trade unionists about how their surplus earnings should be distributed. They are normally distributed to worker members as a bonus on wages and salaries, either in cash or in bonus shares. In the CPF productive societies they have been divided traditionally between workers and customers; and if some consumer participation were required by law in large industrial co-operatives it would help to prevent the emergence of monopolistic tendencies, a matter that has caused concern to Professor James Meade. The law might, perhaps, also require the allocation of a proportion of distributed surpluses to social purposes chosen by the workers, especially if the tax system was generous to co-operatives with regard to undistributed surpluses.

In the Mondragon co-operatives, the highest paid receive not more than three times the lowest paid, or, in very exceptional cases, not more than four and a half times. At Scott Bader, the highest paid receive up to seven times the lowest paid. If a significant number of enterprises were to come to be organised on a co-operative basis, and if wage bargaining were to tend to become bargaining between different kinds of workers on relativities, there might be a tendency for the earnings of industrial co-operatives to be distributed each according to his need more than to each according to his work. Indeed in a co-operative economy, there might be competition among trade unionists in the exercise of the Christian virtue of restraint. Such greater equality of remuneration should not be imposed by the state or it might tend to undermine incentive; but it might develop by the free choice of the workers. Some members of ICOM co-operatives are already very restrained, and seem to think that there are more important things in life than collecting money. If collective saving springs from such social impulses, it is wholly commendable.

## 9) DEMOCRACY AND EFFICIENCY

It is suggested sometimes that industrial co-operatives are likely to be less efficient than conventional companies because of amateur management, inadequate capital, or delays in democratic decision making. Dr Henk Thomas and

Mr Chris Logan have, however, shown in their book *MONDRAGON: An Economic Analysis* (Allen & Unwin 1982) that industrial co-operatives can be significantly more efficient than comparable companies, partly because the workers are highly motivated, so that less supervision is needed. In this, they compare the performance of the Mondragon co-operatives with that of competing companies in many different ways.

The first of the Mondragon co-operatives was established in 1956 and now employs more than 3,000 people making cookers, refrigerators, washing machines, and other domestic appliances. There are now around a hundred industrial co-operatives and they are linked with Eroski, a flourishing consumer co-operative, with housing co-operatives, agricultural co-operatives, co-operative schools, a co-operative social security system, and a co-operative bank, the Caja Laboral Popular, which helps to channel community savings into co-operative development. About 20,000 jobs have been created, and the industrial co-operatives are characterised by high investment and high technology, achieved by ploughing back a high proportion of earnings.

Some of the older productive societies in Britain have been efficient enough to survive for around a hundred years: such as Walsall Locks and Equity Shoes and NPS Shoes in Wollaston, a few hundred yards from the Scott Bader Commonwealth. The economic performance of the Scott Bader Commonwealth, converted in 1951, compares favourably with that of competing chemical companies. The John Lewis Partnership, which has 25,000 members and paid a bonus on wages of 16% or £17.2 million in 1983, applies the co-operative principles of a limited return on capital and equal voting, and should therefore be regarded as a co-operative.

**Accountability**

Some other co-operatives with distinctive structures have been less successful. For example, Kirkby Manufacturing and Engineering was formed at the beginning of 1975 with the help of a £3.9 million grant from the Labour Government. It collapsed shortly before the 1979 election in spite of a fairly good demand for radiators. This experiment was described in detail by Professor Tony Eccles in his book *Under New Management* (Pan 1981). He said that the system of single channel worker representation through the trade union movement ripped K.M.E. apart from the inside, and resulted in role confusion and anguished immobilisation.

In an industrial co-operative there is normally two-channel representation. The worker members elect their Committee of Management or Board of Directors through co-operative machinery, while the workers are also entitled to information, consultation and representation through trade union machinery. The experience of K.M.E. suggests that it is important to draw a clear distinction between representative and executive roles, and that it is not wise to try to make co-operative democracy operate through trade union machinery.

One of the more important reasons for encouraging the formation of industrial co-operatives and the conversion of companies into co-operatives is that common ownership helps to increase management efficiency *because* management is accountable to worker members. It may be that this accountability, which can bring to workers a belief that they can influence decision making, is more important in encouraging workers to identify with the enterprise for which they work than is participation in the bonuses that result from the efficiency. Workers may be consulted and provided with information, and be represented in conventional companies and representative bodies may sometimes have effective power as with the Glacier Metal Company; but it is common onwership that makes the management formally accountable to the workforce, and not to outside shareholders.

There are other ways of extending worker participation, as through co-partnership schemes, and autonomous work groups, such as the Coventry Gang system, described in an ICOM pamphlet. But in all such schemes in conventional companies, management is accountable to a board which in turn is accountable to the shareholders. In a common ownership enterprise the situation is basically different because management is accountable to the workforce.

Scott Bader Commonwealth

One common ownership enterprise which has received considerable publicity in recent years is the Scott Bader Commonwealth which employs around 400 people and produces plastic intermediates, polyesters and resins at Wollaston in Northamptonshire. It was founded in 1920 by Ernest Bader who came to Britain from Switzerland in 1912. It was converted to common ownership by the transfer of the shares of the company as a gift to a company limited by guarantee without a share capital, the Scott Bader Commonwealth. Most of the shares were transferred in 1951 and the remainder in 1963 when Mr Bader retired as Chairman. At least 60% of the profits of the operating company are ploughed back and equal bonuses are distributed by it to its employees. The same amount is paid to the Commonwealth company which distributes it to various good causes chosen by the worker members. The chairman of the operating company, Mr Godric Bader, is chairman for life, and the elected Community Council is represented on the board of the operating company with other appointments to the board confirmed by the Council.

Brian Parkyn, one of the original founder members of the Scott Bader Commonwealth, has pointed out in his book *Democracy, Accountability and Participation in Industry* (Bradford 1979) that it is difficult to measure the extent to which common ownership has contributed to the company's "excellent commercial and financial record" and to good human relations. He says that there has been a "good deal of company loyalty and a low labour turnover" and that there has been "a remarkable amount of freedom of expression and a good deal of straight talking". The success of the Scott Bader Commonwealth has done much to inspire the Industrial Common Ownership Movement which has been so largely responsible for the development of industrial co-operatives in Britain over the last ten years.

Mr Parkyn in his book recognises the importance of drawing a clear distinction between the role of a policy making board and that of a full time professional management, that of a supervisory board and an executive board. So did the International Co-operative Alliance in its report on *Contemporary Co-operative Demoncracy* for its 24th Congress in Hamburg in 1969. So did Mr James Leonard, Secretary of the Co-operative Productive Federation, in his 1975 pamphlet on *Co-operative Demoncracy in Industry.* Similarly, the Mondragon co-operators insist that the Director General or Chief Executive of a co-operative should have adequate powers but at the same time be fully accountable to the Board and to the General Assembly. The success of any co-operative or other enterprise depends upon the quality of the management, upon the extent to which management efficiency is sustained by accountability and the extent to which all those working in the enterprise are committed to its success.

## 10) FORMATION OF NEW CO-OPERATIVES

It is easier for a group with savings to spare to hire labour than for a group with time to spare to hire capital. That is why people seeking to launch a new enterprise usually choose the conventional capitalist form, rather than the co-operative. Those that do choose the co-operative form of enterprise often lack capital and commercial skills, as in financial management and marketing. If these skills are available, one basic problem will be that of raising initial risk capital from members who will receive only a limited return on their capital, and will have one vote however many shares they may hold and whose shares will not be marketable.

Industrial co-operatives may be formed in three ways: as new enterprises; as rescue operations in the hope of saving some jobs when conventional companies have failed or are in financial difficulties; and by the conversion of successful companies or other enterprises. With new enterprises, adequate capital and competent management have to be found together with market research and feasibility studies, and all the risks of building up a new business. In rescue operations it may only be possible to save part of an enterprise, and while marketing may be less of a problem than with a new enterprise, good management and sufficient capital will be very much needed and probably also some public support. With the conversion of successful enterprises the problems should be very much fewer as capital and financial and marketing skills should be available. Yet the number of conversions of successful enterprises has been very small compared with the number of new enterprises started as co-operatives.

### Market Needs

A co-operative productive society needs to produce things that it will be able to sell. Many of those interested in forming co-operatives may wish to produce goods or services that meet a recognised social need; but need cannot be the only criterion. There must also be effective demand. If a Labour Government is successful in bringing about a more equitable distribution of wealth and income this will help to increase the demand for things that meet human needs, and reduce the demand for luxuries and non-essentials of various kinds. But co-operators cannot expect to escape from the message of the market, however wise and competent the next Labour Government may be. That is why co-operative training and education are so important, and why the local co-operative development agencies and enterprise boards supported by local authorities have been so valuable in helping the growth of worker co-operatives in recent years.

One of the reasons for the success of the Mondragon co-operatives is the thoroughness of the professional market research and feasibility studies and training undertaken by their bank before a new co-operative is launched. When local authorities, or organisations such as the Greater London Enterprise Board or the West Midlands Enterprise Board make loans or grants available to new co-operatives their success is likely to depend very much upon the thoroughness of the preliminary training and research. Moreover, such organisations will be basically concerned with reducing unemployment by promoting and supporting new enterprises of various kinds. Sometimes the workers concerned will be reluctant to accept the responsibility that membership of a co-operative involves — as with Austins of Leyton – and may prefer to come to an arrangement with an established concern. A group of people seeking support for a new enterprise may prefer that it should be a conventional company because risk capital would then be easier to raise, or because the original promoters would be more likely to remain firmly in control.

One thing that could encourage people to choose the co-operative form of enterprise would be for the government to protect the real value of co-operative shares by allowing the issue of bonus shares in proportion to shareholdings to the extent necessary to offset inflation, as in some other countries, such as Spain and New South Wales. Investment in co-operatives is discouraged because the real value of co-operative shares falls with inflation.

**Non-Voting Shares**

Allowing co-operatives to issue non-voting redeemable preference shares with partially cumulative but limited dividends related to profits, could also help industrial co-operatives in raising initial risk capital. At the same time a wider use of loans with variable interest related to profits such as those pioneered by Barclays Bank could also help the raising of capital by co-operatives; and schemes for matching loans like those of the Co-operative Bank and of the Highlands and Islands Development Board, are also very important. The subordinate loans with variable interest made available by the French General Confederation of Workers' productive societies have done much to help French industrial co-operatives to borrow in other places.

Another way of helping industrial co-operatives to raise initial risk capital would be to amend the Industrial and Provident Societies Acts, so as to allow co-operatives to pay an unlimited return on initial risk capital for a limited period such as three years; and, thereafter, a limited return based on asset values at the end of the initial period. This would make it possible for quite a handsome return to be paid on initial risk capital by a successful co-operative, while at the same time maintaining the co-operative principle of a limited return on capital. It would be more or less equivalent to launching the enterprise on a conventional basis with a *built in* commitment to convert to a co-operative basis at the end of the initial period.

An arrangement of this kind could be accompanied by tax concessions to encourage investment in co-operatives; but there would need to be safeguards to prevent gains being made by launching an enterprise on a co-operative basis, and then by converting it to a conventional basis. To prevent such manoeuvres there would need to be provisions to prevent the contributors of the initial risk capital getting back more than their original money, with the distribution of residual assets to shareholders, prohibited, and with arrears of tax to pay at rates which would have applied if the enterprise had been organised on a conventional basis from its inception.

The former Conservative Government introduced a number of tax and other concessions to help small enterprises generally to raise intial capital. The problem of doing this seems to be the main reason why those forming new enterprises choose the conventional rather than the co-operative form. If industrial co-operatives are to be encouraged, therefore, it would be appropriate for them to be offered *additional* help, over and above that extended to some enterprises generally. Industrial co-operatives could be encouraged by personal tax concessions relating to investment in co-operatives, by tax concessions with regard to their trading surplusses and to the return paid on their shares, and by capital gains tax and capital transfers tax concessions.

## C) *CO-OPERATIVES AND TAXATION*

### 11) INITIAL CAPITAL

If the number of industrial co-operatives is to be significantly increased the central problem is to encourage new enterprises to be formed on a co-operative instead of a conventional basis. In addition, there is a need to help co-operatives to accumulate capital out of earnings, and a need to encourage companies to convert to a co-operative basis. All these things can be encouraged by tax concessions which are already used to encourage a wide variety of different things considered to be socially desirable.

One change which would encourage investment in co-operatives would be a reduction of personal tax liability on interest on co-operatives shares, as has been proposed by the Co-operative Union for many years as a way of encouraging small savings. Small savings invested in National Savings Certificates or in the National Savings Bank or in Building Societies receive special tax treatment, and co-operators have long argued that interst on co-operative shares should receive similar treatment. A resolution at the 1983 Co-operative Party Conference declared that interest on smaller shareholdings in co-operative should be exempt from personal income tax. This would increase the effective return and encourage investment in co-operatives. If the taxation of interest on co-operative shares was ended altogether and if the maximum shareholding was increased from £10,000 to, say, £15,000 this would further encourage such investment.

**Encourage Investment**

There are other ways in which such investment could be encouraged. An amendment to the 1978 Finance Bill proposed that personal investment by members of co-operatives in their shares should be deductible for personal tax purposes. This would have meant that an individual investing in the shares of his co-operative would only have to find two-thirds of the money needed — up to the extent to which he was liable to pay tax at the standard rate. This again would be equivalent to a higher return on capital for the investor.

The Conservative Government introduced a number of tax concessions to encourage investment in small businesses; but some of them do not apply to co-operatives. For example the "Business Start Up" scheme was introduced in 1981, extended in 1982 and further extended in 1983 as the "Business Expansion" scheme. Under this "outside" investors can get tax relief for investment in the ordinary shares of small business and it was proposed in the 1983 budget that the maximum relief for such "outside" investors should be increased from £20,000 to £40,000.

Industrial co-operatives are excluded from this tax concession because they do not issue ordinary shares carrying an unlimited return to "outside" or other shareholders. However, a comparable tax concession could be made to "outside" individuals or institutions making subordinate loans to industrial co-operatives, with variable interest related to profits. In France, such subordinate loans by the

General Confederation of workers' productive societies help industrial co-operatives to increase their borrowing capacity.

Another way of encouraging investment in industrial co-operatives is to arrange a tax advantage not for the investor or lender but for the borrower. This is the kind of tax concession which has done a great deal to encourage home ownership in Britain. If interest payments on money borrowed are deductible for personal tax purposes this makes it much easier for a householder to borrow on mortgage to buy his own home. Indeed tax incentives to encourage home ownership and insurance have been so popular in Britain that funds available for investment in small enterprises have been lower than they might otherwise have been. Certain partnership and close companies have, however, been able to borrow and have the interest on money borrowed deductible for personal tax purposes. In 1981 this tax concession was entended to industrial co-operatives; but it is something that could be further extended. For example, persons borrowing up to £3,000 for investment in their co-operatives might be given tax relief on interest payments on loans raised to buy shares. Indeed such investment could be encouraged by giving tax relief both to the lender and to the borrower. Relief is already available for worker buy outs.

**Enterprise Allowance**

The 1983 budget proposed an extension of the "enterprise allowance" to help people start up their own businesses. This is an allowance of £40 a week which applies to co-operatives as well as to other enterprises. The scheme could, however be extended so as to apply to all, and the allowance for those starting a co-operative could be increased to £60 a week because co-operatives have greater difficulty in raising initial capital.

It is proposed that the rate of corporation tax for small companies should be reduced from 40% to 38%. It could be reduced to 30% for industrial co-operatives at no great expense.

It is proposed that funds available for the 1981 Loan Guarantee Scheme should be doubled to £600 million. The scheme provides a guarantee for repayment of up to 80% of loans up to a maximum of £75,000. For co-operatives it could be made a guarantee for the repayment of 90% with a maximum of £100,000 – in order to encourage co-operatives and at no great cost.

It is proposed that the Capital Gains Tax relief on the disposal of a business should be increased from £50,000 to £100,000; but this sum could be doubled over and above existing concessions if the business is acquired by the workers. The terms could be even more generous if the enterprise is converted into a co-operative than if it is simply a workers' buy out. If shares are transferred at less than market price there should be a corresponding tax reduction. With regard to the tax free issue of bonus shares to workers, the budget proposes that the maximum should be increased to 10% of earnings up to a limit of £5,000; but co-operatives continue to be excluded from this important tax concession.

**Investment Incomes**

Increased investment in industrial co-operatives is likely to depend not only upon tax concessions designed to encourage it, but also upon the extent to which the tax system as a whole encourages small savings and brings about a fairer dis-of wealth and incomes. One way of achieving this would be to tax earned and investment incomes separately, as happened between 1907 and 1920; and to make the tax on investment incomes much more steeply progressive than that on earned incomes. The special levies of 1948 and 1968 were fairly simple to arrange because investment incomes are easier to measure than wealth. If the Capital Gains Tax and the Capital Transfers Tax were arranged in such a way as to make an appropriate impact on property which does not bring in an income, a tax on investment income *as such* could be a more flexible and effective instrument of redistribution than a wealth tax. If such a tax discouraged saving by wealthy individuals it could at the same time be used to encourage small saving; and insofar as industry was organised on a co-operative basis, saving within industry would be on behalf of the workers rather than on behalf of wealthy individuals.

With a tax on investment incomes as such, those with very large investment incomes might need to pay out of capital to a considerable extent. Two separate taxes should be a more equitable instrument of redistribution than a tax on all incomes, combined with either an Earned Income Allowance or an Investment Income Surcharge. Small incomes from investment could be left untaxed to help small savers accumulate capital out of income : with an additonal exemption for interest on co-operative shares for holders of such shares. In 1969 a Co-operative Party report on taxation proposed that all investment incomes of less than £100 a year should be exempt from personal taxation.

## 12) CAPITAL FORMATION

The inherent difficulty industrial co-operatives have in raising initial risk capital makes it important that they should be helped to accumulate capital out of earnings. It is, therefore, unfortunate that the tax system should discriminate against them, and discourage them from ploughing back as high a proportion of earnings as the companies with which they compete. When a company ploughs back earnings, its shareholders participate in the growth of assets, either through the appreciation of share values or through the issue of bonus shares without tax liability at the time. Capital Gains Tax only arises when the shares are disposed of, which may be 50 years later. But when an industrial co-operative ploughs back earnings, and issues its worker members with bonus shares to enable them to participate in the growth of assets, they are liable to personal income tax at their full personal rates. It is not surprising that industrial co-operatives only issue such bonus shares to a limited extent, and do not plough back as high a proportion of earnings as companies tend to do.

The Finance Act of 1978 provided an opportunity for this anomaly to be corrected. A Labour Government with Liberal support introduced a tax concession enabling companies to issue their employees with up to £500 worth of bonus shares a year without personal tax liability, and with a corresponding reduction in corporation tax liability if the shares were held for 10 years. A Conservative Government in 1980 reduced this period to 7 years, and by 1982 had increased the value of bonus shares that could be issued to £1,250 a year. The purpose of this tax concession was to encourage company employees to identify with the company for which they worked.

### Tax Concession

Industrial co-operatives were excluded from this tax concession on the curious ground that their shares were redeemable. The Inland Revenue recognised that industrial co-operatives provide their worker members with a powerful incentive to identify with the enterprise for which they work, in spite of their shares being redeemable; and then excluded them from the tax concession on the ground that their shares were redeemable. A Conservative amendment to the 1978

Finance Bill to allow the shares issued to be redeemable was rejected by the Treasury; and the Inland Revenue appear incapable of providing any convincing explanation of this vicious discrimination against industrial co-operatives.

In fact, the incentive to identify is much greater in an industrial co-operative in which the workers own the enterprise and participate in its success *directly,* and in proportion to work contributed, than it can be in a profit sharing and employee shareholding scheme in which the workers may hold only a very small proportion of the shares. The Inland Revenue appears to think that an incentive to identify requires a prospect of increased dividends and share values – as if the prospect of a cash bonus related to profit or performance did not provide an incentive because the real value of money is liable to decline. In a contradictory stance, it recognises that the members of industrial co-operatives do have a powerful incentive to identify without any appreciation of share values because rewards are related to work. With the similar tax concession in France there is no nonsense about bonus shares issued having to be irredeemable, and the tax concession has done much to help capital formation. The Mondragon co-operators have recommended that the French system of taxing industrial co-operatives should apply throughout the EEC.

In Britain, amendments to the Finance Bills of 1978, 1980 and 1981 failed to remove this discrimination against industrial co-operatives; and lengthy correspondence by the Co-operative Development Agency with the Inland Revenue failed to produce any convincing reason for excluding co-operatives from the tax concession. As this discrimination had done much to impede capital formation by industrial co-operatives, its removal should be one of the first tasks of the next Labour Government – before it begins to work out the details of the "major tax concessions" in favour of industrial co-operatives.

### Capital Accumulation

One concession which would help industrial co-operatives to accumulate capital out of earnings would be to allow them to pay corporation tax at a reduced rate – as in Spain and Japan, or at a reduced rate for a period of years after registration. Co-operatives in Britain pay corporation tax at 40% instead of at the 52% paid by large companies, but this is not really a tax concession at all. It is simply a consequence of the change from the classic to the imputed system of corporation tax in 1973. This change was of considerable benefit to companies: so the rate for large companies had to be increased from 40% to 52% to maintain revenue. But it was of no benefit to co-operatives, because interest on co-operative shares is deductible for corporation tax; so co-operatives continued to pay corporation tax at 40%. Agricultural co-operatives continue to pay at 40% even if they are registered as companies limited by shares; but the Scott Bader company, the first enterprise to be certified as a "co-operative enterprise" under the Industrial Common Ownership Act, has to pay at 52%.

An alternative to reducing the rate of corporation tax paid by industrial co-operatives would be to make their allocations to reserve deductible for the tax – as in France. In that country, issues of bonus shares are so deductible but, oddly enough, interest on shares is not, so that industrial co-operatives are liable to pay corporation tax insofar as earnings are distributed as interest on shares. In Britain, however, interest on co-operative shares *is* deductible for corporation tax, and making allocations to reserves and issues of bonus shares also deductible *could be equivalent to exempting industrial co-operatives from corporation tax* *altogether, and making their earnings liable to tax only as and when they are distributed as cash personal incomes.*

This clearly would be a tremendous help to industrial co-operatives in accumulating capital out of earnings. It would put them in a position similar to that of consumers' co-operatives in Britain before the Raeburn Report in 1933, when they paid tax on investment income received and on interest on co-operative shares, but not on trading profits. One of the first questions asked in the 1955 Report of the Royal Commission on the Taxation of Profits and Income was why the profits of companies should be taxed at all, and whether it would not be simplier to tax company earnings when they were distributed as personal incomes. It concluded that this would be less than fair to the proprietors of unincorporated businesses and that substantial capital gains might be made; but it did not discuss whether the trading surpluses or profits of industrial co-operatives might be exempt from taxation, or whether this might be combined with a prohibition on the distribution of the residual assets of such co-operatives to shareholders on a winding-up. This would be a "major tax concession" that would help capital formation by industrial co-operatives, and encourage the conversion of the unincorporated businesses and of companies into co-operatives.

**Corporation Tax**

It may be argued that such an exemption of industrial co-operatives from corporation tax might be regarded as unfair by private traders whether incorporated as companies or not. The short answer is that they would be perfectly free to convert themselves into industrial co-operatives. The longer answer is that it is very important to increase incentive and productivity, and to create a situation in which economic expansion does not automatically lead to new wage claims because trade unionists can share fairly in the fruits of the expansion. The 1980 Labour Party report on *Taxation* noted that many large companies pay very little corporation tax. For example, in 1977 the 20 largest companies in the country paid only 3.4% of their profits in "mainstream" corporation tax, and 12 paid none at all. More recent reports indicate that the hundred largest companies in Britain pay very little corporation tax. *Labour's Programme 1982* says that a Labour Government would reduce corporation tax concessions to companies, and if investment allowances and stock relief were cut by two-thirds for companies, but not at all for co-operatives, a considerable number of companies might become interested in converting themselves into industrial co-operatives that were exempt from corporation tax altogether.

A tax concession of this kind of course, would, make it important to ensure that the conversion of companies into co-operatives was not undertaken simply to reduce tax liability, to be followed by conversion back to the conventional company form after a period of years. It would be necessary to introduce safeguards to prevent this. One would be the prohibition of the distribution of the residual assets assets of a co-operative on a winding-up to shareholders in proportion to shareholdings whether registered under the Industrial & Provident Societies Acts or under the Companies Acts. Another would be provisions about retrospective corporation tax liability for enterprises converted from companies into co-operatives, and later, back to the company form, in respect of the period for which the enterprise operated as a co-operative, at a time when there was a significant difference in corporation tax liability between conventional companies and industrial co-operatives. In order to allay Inland Revenue concern about the possibility of the conversion of companies into co-operatives being used for tax avoidance, it would be necessary for the deterrents to discourage the conversion of co-operatives into companies to be much more powerful than the deterrents which at the present time discourage the conversion of companies into co-operatives.

## 13) CONVERSIONS AND TAXATION

The conversion of companies into co-operatives is something that has made very little progress over the last 60 years in spite of the Labour Party's constitutional commitment to common ownership; and very little progress over the last 10 years in spite of the growing interest in industrial co-operatives. Despite a quite inadequate look at company law between 1969 and 1974, the Labour Party has appeared to be content to leave common ownership to the enterprise of people such as Ernest Bader and John Spedan Lewis. The Scott-Bader conversion took the form it did with the vesting of the ownership of assets in a charity partly for tax reasons. Liability to Capital Gains Tax and Capital Transfers Tax has been one of the main reasons for the small number of conversions.

The last Labour Government introduced tax concessions in 1975, 1976 and 1978 with encouragement from ICOM to reduce liability to Capital Gains Tax and Capital Transfers Tax when companies were converted into co-operatives. These tax concessions were described in the Co-operative Development Agency's first booklet *How to Convert a Company into a Co-operative* in May 1979, and in a similar booklet published by the Inland Revenue. Liability to Capital Gains Tax and Capital Transfers Tax could be reduced by the transfer of the shares or the assets of a company to a trust for the benefit of employees; but although the Co-operative Development Agency has received a few dozen enquiries there have only been a limited number of conversions.

The Labour Party might be wise to have a further look at ways and means of encouraging conversions, bearing in mind that in France conversion is much simpler because an industrial co-operative is, in law, a special kind of company, so that it is possible to arrange conversions without share transfers and liquidations, and by making internal structural changes instead. It is possible to convert a company into a co-operative without incurring the French equivalent of Capital Gains Tax and Capital Transfers Tax by making such internal changes while the enterprise remains the same.

### Class of Company

On July 9, 1981, an amendment was moved to the UK Companies Bill proposing that a special class of Common Ownership Company should be created, controlled by and run in the interests of those working for it, instead of being controlled by and run for the profit of contributors of capital. This was rejected by the government on the ground that companies could already convert themselves to a common ownership or co-operative basis if they wished. If such conversions are to be encouraged by tax changes, however, clearly a special class of company would be desirable.

At the 1981 Labour Party Conference, an amendment to resolution 262 about the implementation of Clause Four proposed that the National Executive Committee should set up a Committee to examine the possibility of creating a special class of Common Ownership Company, and encouraging the conversion of companies to a common ownership basis. The amendment was not debated, but there is no reason why such a Committee should not be set up. After all, the party has been committed to common ownership for more than 60 years, and there have been many resolutions calling for the implementation of Clause Four which have been approved, as at the 1982 conference.

Converting a company into a co-operative without share transfers means applying the basic co-operative principles of a limited return on capital and equal voting. This involves first, converting the ordinary shares into non-voting redeemable preference shares with partially cumulative dividends, and, second, issuing the workers with new shares with equal voting. Moreover, it might be convenient for a change of this kind to be implemented in two stages by creating *two* special classes of company: first, a Common Ownership Company, requiring a limit on the return as well as the liability of the shareholder, and the second, the Co-operative Company, also requiring equal voting by worker members.

This is because people who have built up a small business are more likely to be willing to share earnings with their employees and to allow them to participate in the growth of assets than to share control. At the same time, their heirs are more likely to be interested in such bequests as may come their way than in taking over and running the business. Moreover, someone who has built up a business is likely to wish that it should maintain its independence and not have to sell out to a big company to pay Capital Gains Tax and Capital Transfers Tax. It might be, therefore, that a company could first be converted into a Common Ownership Company, making the workers the beneficiaries of the enterprise, and then into a Co-operative Company, placing them in effective control. The creation of two such special classes of company might be included in the consolidating Companies Bill due in 1984.

## D) *CONVERSIONS*

### 14) SMALL COMPANIES

While large numbers of new industrial co-operatives have been formed in the last 10 years with all the problems of finding competent management and raising capital, and all the risks of launching a new enterprise, the number of conversions has been very small. This is in spite of considerable interest, in spite of the procedures for conversion being laid down in the Industrial and Provident Societies Acts, in spite of the tax concessions in the Finance Acts of 1975 and 1976 and 1978, and in spite of the guidance available from the Co-operative Development Agency, local co-operative development agencies, ICOM and other co-operative organisations.

The Labour Party pamphlet on *Workers' Co-operatives* suggested that a Co-operative Development Advisory Board should be created to supervise conversions. Its authors may have been thinking mainly of the possibility of compulsory conversions, though the opposition of the co-operative movement and the conflict inherent in such an approach suggest that it may not be a particularly wise one. A Co-operative Development Advisory Board nevertheless, could, be a very useful institution. Large companies may sometimes wish to hive off a subsidiary which is viable, but not particularly profitable, and may not be particularly knowledgeable about the possibility of turning the subsidiary into an independent co-operative. Rescue operations may need the expertise of a national organisation as well as the help of local agencies. And the voluntary conversion of a successful company into a co-operative may often need professional help.

The John Lewis Partnership was converted in 1929 by Mr John Spedan Lewis making an interest free loan to a new company, the John Lewis Partnership Ltd., repayable over 30 years. The company thus was able to buy the John Lewis, Peter Jones and other businesses at a fair price, which was rather more than £1 million. There was a settlement in trust, followed in 1950 by a second and irrevocable settlement in trust, which vested all the ordinary shares of the partnership company in a trust company so that the whole enterprise was run in the interests of those working in it. With Scott Bader Company, the transfer of shares took the form of a gift, and while this is likely to remain exceptional with conversions encouraged by tax concessions the terms of voluntary conversions might often be generous. That was the case with one of the more recent conversions, that of Richard Baxendale and Sons Ltd., heating engineers of Preston, which was announced in March 1983. In this case the shares of the company were transferred to a trust with provision later for personal shareholdings.

**Fair Terms**

With management buy-outs, the shares of a company are acquired at a fair and agreed price, and when workers are associated in such buy-outs the procedure is the same, with banks sometimes providing much of the money. The Labour pamphlet on *Workers' Co-operatives* suggests that the assets of a company should be purchased at a fair price with support from the public authorities and with loans from banks. When the 1945 Labour Government acquired the assets of various companies to form public corporations compensation was usually based on the market value of shares over a specified period; and in some cases on asset values. Conversions might sometimes be arranged by taxation being used to encourage pension funds to concentrate their investment in the shares of their own companies, thus being in a position ot insist on conversions on behalf of the workers.

Where this was done, the pension funds concerned might later revert to their usual practice of spreading their risks. Indeed special funds might be set up to acquire the shares of companies, as proposed by the trade unions in Sweden and Denmark; and legislation might be introduced to promote the transfer of company shares to such funds with trade union involvement. But if such funds were to lead to common ownership, there would be a need for such company shares to come to be held on behalf of the workers in the companies concerned, so as to provide a direct link between effort and reward and secure for workers by hand and by brain the full fruits of their industry upon a basis of common ownership. Otherwise, the acquisition of such company shares by special funds would no more lead to common ownership than does the acquisition of a wide range of company shares by pension funds.

Conversions might be arranged in such a way that shareholders would sometimes do *better* as a result of conversion. For example, a Labour Government, in order to make its national economic assessments acceptable to trade unionists, might find it necessary to do something about dividends. Legislation on dividends was proposed in 1940; and when Sir Stafford Cripps introduced his White Paper on "Personal Incomes, Costs and Prices" in 1948 most companies observed a voluntary limitation of dividends, and Labour promised to introduce statutory limitation in 1951.

Statutory controls over dividends were introduced in 1966 and again in

1968, though abandoned at the end of 1969 after Labour had promised in *Agenda for a Generation* to look into the question of the statutory limitation of dividends in a broad review of company structure. The controls were reintroduced by Mr Edward Heath in 1972, but abandoned by Labour in July 1978 just when the Labour Government was hoping that trade unionists would be prepared to limited wage increases to 5%. In Australia, a limitation of dividends was agreed by companies in a kind of social contract in April 1983, and was a personal triumph for Prime Minister, Bob Hawke.

**Dividend Restraint**

It must be supposed that some kind of restraint in the distribution of dividends will be needed in Britain if the proposed national economic assessment is to work in an expanding economy under a Labour Government. Trade unionists will be aware that the profits resulting from the expansion will accumulate on behalf of shareholders; but the restraint in the distribution of dividends that will be needed, and may or may not be imposed, will be likely to have some effect upon share values.

In such circumstances, companies could be offered the prospect of increased dividends on conversion to a co-operative basis, and a reduction in corporation tax liability. There could be controls over dividend increases over the period of conversion; and the prospect for shareholders would be a higher return with an ultimate limit on this as well as their liability. Conversion might often by accomplished not by the transfer of shares with its accompanying tax problems, but by the conversion of most of the ordinary shares of a company into non-voting, redeemable preference shares with partially a cumulative dividends. At the same time, new shares would be issued to employees with equal voting, also carrying a limited return; with surplus earnings distributed to worker members, in cash or in shares, in proportion to work contributed. Such conversions could be arranged following the creation of new classes of Co-operative Company and Common Ownership Company under company law through the proposed consolidating Companies Act of 1984.

Conversion thus would offer a company the prospect of substantially lower corporation tax, combined with the prospect of some increase in dividends under the national economic assessment, in return for a permanent limit on dividends some time later, in the name of control of inflation in spite of economic expansion. Such an increase in dividends would be a necessary aspect of conversion in that voluntary conversion needs to be on agreed terms, and to take account of prices that have been paid for shares on the assumption that unlimited dividends would continue to be paid, and in accordance with the calculations of analysts. Nevertheless, such an increase in dividends would not necessarily tend to result in a greater inequality of incomes if steps were at the same time taken to tax separately, earned and investment incomes, and to make the tax on investment incomes rather steeply progressive. The result would be that while small shareholders would get quite a handsome return on their capital taking account of the price paid, large individual investors would be likely to find themselves paying more in taxation as they did in 1948 and 1968. The Stock Exchange might become a very much duller place with ordinary shares likely to become more like preference shares; but industry might become a more lively and interesting place with workers owning their own enterprises, and even allowing themselves some time to wash at some sacrifice in earnings if they felt so inclined.

## 15) A GRADUAL APPROACH THROUGH PARTICIPATION

The 1980 Labour Party pamphlet on *Workers' Co-operatives* suggested that in some cases the gradual conversion of companies into co-operatives might be arranged by "voting shares equivalent to re-invested profits being paid into an employee fund controlled collectively by the workers". This kind of employee shareholding could easily be a prelude to the gradual conversion of a company into a co-operative. It is similar to the idea of the Co-operative Development Agency under which "Employee Participation Companies" are formed with the employees gradually acquiring collectively the shares of the companies for which they work. In Canada, company-based credit unions sometimes acquire collectively the shares of the companies for which they work, in the hope of turning them eventually into co-operatives.

In France, the conversion of companies into co-operatives, which usually happens as a result of an initiative by the employer, is arranged by the workers acquiring the shares of the company over 5 or 10 years. About 78 of French industrial co-operatives, or 11% of those affiliated to the General Confederation, have been formed by conversions. In Britain, Harold Farmer, one of the founders of ICOM, transferred all the ordinary shares of his printing company to a co-operative society, of which the workers were members while the preference shares continued to be held by the family.

It is estimated that a quarter of a million employees obtain shares in their companies each year free of tax through profit sharing and employee shareholding schemes, encouraged by the tax concessions introduced by a Labour Government in 1978 with Liberal support, and later extended by the Conservatives. The tax concession has not encouraged companies to convert themselves into co-operatives because of the discriminatory and absurd exclusion of co-operatives from the concession on the ground that their shares are redeemable. A Labour Government could not only remove this ridiculous discrimination, but also provide additional incentives to encourage companies operating such schemes to convert themselves into co-operatives. This would involve converting outside shares into non-voting redeemable preference shares with partially cumulative dividends on agreed terms, and arranging for the shares held by workers to carry a limited return and equal votes.

### National Freight

In recent years there have been an increasing number of management buy-outs, and with some of these shares have also been issued to workers. One of the more successful of these buy-outs was that of the National Freight Corporation. The Labour Party, at the time of the publication of *A New Hope for Britain* in March 1983, was somewhat uncertain what to do about it. It should not necessarily restore the situation of exactly what it was before. Instead, it could socialise the company or convert it to a co-operative or common ownership basis. This would mean that voting would become equal instead of in proportion to shares held, and that dividends paid on shares would be limited, with any available additional surpluses being distributed, in cash or in shares, in proportion to *work* contributed. Appropriately, also, there would be public representation on the board so as to reintegrate the company into the public transport system. Swedish experience suggests that equal voting and the distribution of surpluses in proportion to work is likely to be more satisfactory than voting and participation in profits in proportion to shareholdings.

There is considerable interest in industrial co-operatives in the USA and they have been actively promoted by the Industrial Co-operative Association of Somerville, Mass. There have been successful plywood co-operatives in Oregon for many years; and the *Peoples Express* airline has shown that co-operatives can compete effectively with large companies. But in recent years, and especially since the Tax Reduction Act of 1975, there has been much more interest in the gradual promotion of workers' ownership through Employee Stock Ownership Plans or ESOPs.

**Tax Advantage**

In an ESOP company shares are held in trust on behalf of the employees without them having to contribute savings. Because of various tax advantages, they provide also a convenient way for companies to raise capital. Usually, only a small proportion of the shares of a company are held by an ESOP but sometimes, as with South Bend Lathe of Indiana, the company is owned wholly by the workers. An ESOP is not the same as an industrial co-operative, and does not provide the same kind of democratic control, as control is vested in a trust. Moreover, ordinary shares may pass into the individual possession of employees on retirement. Nevertheless, an ESOP is a way in which workers' ownership can be extended, and ESOPs could be converted into co-operatives. Thus all shares could come to be acquired by the ESOP, and shares with a limited return and equal voting could be issued to the workers. The formation of ESOPs could be a gradual way of replacing capitalist ownership by common ownership.

So could the gradual transfer of company shares to special funds as proposed by the trade unions in Sweden and Denmark. A later stage in the process would be for the shares to come to be held on behalf of the workers in the companies concerned, and without any ordinary shares in the hands of the general public. With all the shares of certain companies in the hands of such funds, the system could be analagous to a kind of state ownership.

## 16) LARGE COMPANIES

The conversion of large companies to a common ownership basis may seem to be a long way off; but it is now more than 50 years since Berle and Means pointed out in *The Modern Corporation and Private Property* that power in large companies is passing from shareholders to management as such. As Keynes put it in 1926, with large companies the "general stability and reputation of the institution are more considered by the management than maximum profit for the shareholders". The shareholders must be satisfied with conventionally adequate dividends." Or as Berle and Means asked: "Where is the social advantage in setting aside for the security holder profits in an amount greater than is necessary to ensure the continued supplying of capital and taking of risk? Such extra profits, if given to the security holder, would seem to perform no useful economic function."

As the *Economist* put it in July 1949, "Once capital is raised it is easy for management to slip into the idea of regarding the members of the company as lenders who ought to be satisfied with a more or less fixed rate of return". Or, as the Labour Party put it in *Agenda for A Generation* in 1969, "The time has come to question the claim of the shareholder to an increasing level of income as the process of capital accumulation in industry proceeds". It is noteworthy that in 1967, for example, only 1.7% of industrial investment in Britain was financed by the issue of ordinary shares. It would not be surprising if an increasing number of people should come to ask why the shareholder whose liability has been limited for a hundred years should continue to receive an unlimited return, or why the domination of a growing proportion of world production by multinational corporations should continue indefinitely to pile up fortunes for a few.

**Transnationals**

At the end of 1980, the International Co-operative Alliance in a statement to the United Nations Commission on Transnational Corporations suggested that such corporations would more clearly operate in the interests of the world community if they were encouraged to convert themselves to a co-operative basis by the application of co-operative principles, such as the principle of a limited return on capital. It suggested that the UN Commission should look into the matter when it has finished its work on its Code, which should be sometime in 1983. It commended the unitary system of taxation which can be used to prevent tax avoidance by transfer pricing. Dr Sahlgren, the Executive Director of the Commission, said that he found the suggestion very interesting.

Many directors of large companies claim that they have wider responsibilities than that of piling up profits for shareholders. Although company law does not clearly recognise such wider responsibilities, they say that they have responsibilities to their customers, to their employees and to the community. Those in control of such large companies ought to be considering whether it might not be in the public interest, and in that of the world community, for them to be converted to a common ownership basis; and governments should be considering ways and means of encouraging such conversions.

For example, the governments of third world countries might, as suggested by the International Co-operative Alliance, consider legislation to encourage multinational corporations to give independence to their subsidiaries, paying an unlimited return to their parent organisations for a limited period only, thereafter being run in the interests of, and controlled by, workers and or suppliers and consumers in such third world countries. The UN Commission has been looking at ways and means of "reducing the equity element" of the multinationals in their subsidiaries in third world countries, and of promoting local control and at "fade out arrangements in the legislation of developing countries". Changes in legislation governing multinational corporations are as important as governmental buying into the multinational system.

British company law has been adjusted in recent years to harmonise better with company law in other European countries, and these changes are likely to be consolidated in the Companies Act of 1984. Changes could include the creation of special classes of Co-operative Company and Common Ownership Company under company law. In France and Italy, the European countries in which industrial co-operatives are most numerous, such co-operatives are *already* a special kind of company. Even if Britain were to leave the Common Market, there is no reason why the harmonisation of company law and other forms of collaboration should not continue. In the European Commission and the European Parliament there has been considerable interest in workers' co-operatives, and in other forms of workers' participation, such as workers' representation on the supervisory boards of companies. The European Commission has been working on the provision of more information by multinational and other companies, and on consultation and representation. There could be considerable European and international interest in the conversion of companies to common ownership. The US Senate, as well as organisations such as OECD and UNCTAD, had taken an interest in the role of multinational corporations.

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The difficulty of devising an incomes policy that can be accepted as applying fairly to all kinds of incomes seems to be the main reason why such policies have tended to break down over the last thirty years. The basic problem was well stated by Aneurin Bevan in his last speech in the House of Commons in November 1959 when he said that it was the central problem falling on representative governments in the western world. He said that the problem was:

"How to persuade people to forgo immediate satisfactions in order to build up the economic resources of the country. How to persuade ordinary men and women that it is worth while making sacrifices in their immediate standards or forgoing substantially rising standards in order to extend capital equipment throughout the country."

He declared that the problem had not been solved then; and it has still not been solved twenty years later. The reason is that the sacrifices are being asked of one section of the community in order that resources may be built up on behalf of other sections. To resolve this problem more is needed than increased information, consultation and representation for the workers. What is needed is common ownership.