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Democracy Ends Here: U.S. Collective Bargaining Decline and an Alternative Policy Approach to Business Ownership

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Abstract

In the United States, it seems that we cannot talk about democracy without discussing capitalism and vice versa. However, as soon as we step into work these ideals are simply thrown out the door. If we seek to govern our country democratically, should we also not have a democratic governance structure in our day to day workplaces? Unions have existed in the United States for over 150 years, but as the types of jobs that make up our economy and the demographics of the labor force have changed dramatically, the basic concept of the union has remained static. In turn, the divide between the workers and the owners of capital have increased exponentially. This has implications for inequality in the workplace and beyond.

Is there a better way to give employees collective bargaining power, and if so, what kinds of taxation policy might promote these alternative labor structures? Answering this question will require an understanding of the dynamic changes in the labor force that have led to union membership decline during the late 20th and early 21st centuries when compared to the earlier years of the 20th century. I offer a number of case studies of less traditional workplace practices that may serve as alternatives to existing structures of business ownership and decision making. The alternative approaches I explore include: employee stock ownership plans (ESOP), broad-based employee stock ownership plans (BBESOP), and cooperatives. Finally, I offer a taxation policy proposal that incentivizes businesses to give their employees a share of business ownership.

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1 Introduction

With real wages falling since the 1970's and production continuing to climb, the feeling of discontent among the working class was apparent on both sides of the political aisle this election season. For the first time in recent history, a presidential candidate made shared capitalism a core talking point, the Republican party made expanding employee stock ownership plans (ESOPs) part their official platform, and a candidate who used the term socialist in his party identification had a significant chance of winning the primary. Clearly, working people are ready for some kind of change.

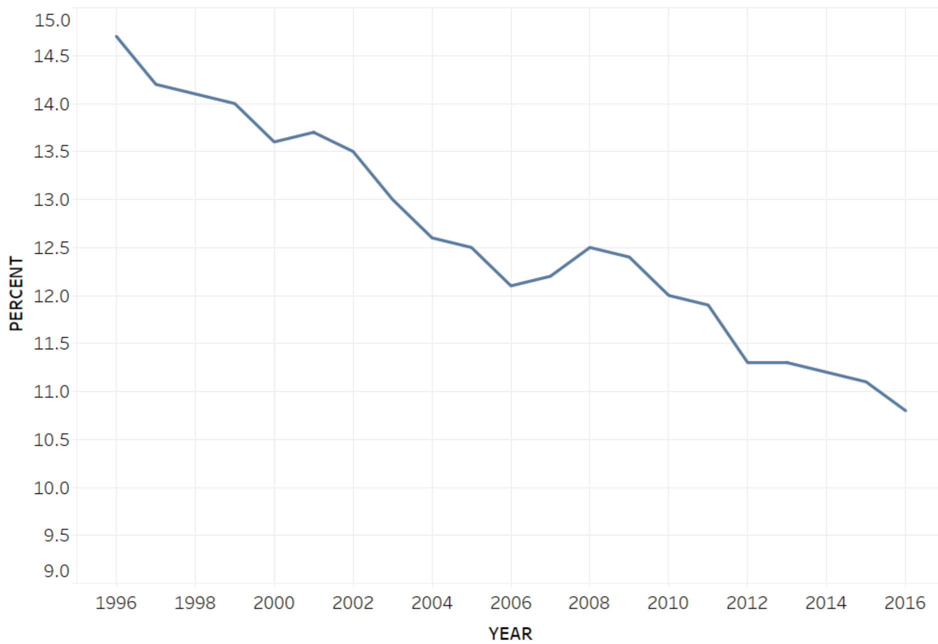
The labor union was born out of a need to reconcile the natural inequalities born out of a capitalist system. It is to no fault of the free market that a dichotomy in power emerges between the laborer and owner of capital. Workers coalesced in an effort to secure safe working conditions, better benefits and wages, and job security. This worked well until the tide began to turn to a neoliberal ideology, and both the labor supply and demand were altered by the civil rights movements and a wave of immigration. The groups who founded unions in the first place were forced out and union membership rates began to decline. Unions do not address the inequalities faced today, especially when it comes to wealth inequality, and they do not go far enough to address the structural changes in our economy. I propose a policy that works in two ways to encourage collectivism in the workplace.

Employee stock option plans (ESOPs) and broad-based employee stock option plans (BBESOPs) both work to bridge the wealth gap, and can serve to give employees a more secure retirement, or cash payouts when the company does well. Cooperatives (Co-ops) can provide similar outcomes, but employees have a greater say in what happens to the company because they also happen to be the owner. While co-ops can take different forms, they are generally the purest type of democracy in the workplace. These policies, modeled after Hillary Clinton's plan for a profit sharing tax credit, add some specifications based on other research in the field aimed at making the plans more effective. In order to understand the importance of encouraging these alternative structures, we must first understand the historical evidence suggesting the need for the collectivist models.

2 Background

The unionization we usually think of is business unionism, which began with the boom in consumerism of the 1950's and lasted into the 1990's. Much of the earlier forms of unions like the trade workers in the early 1900's, also known as craft-based occupational unionism, is a thing of the past since trades like steelworking and mining have been largely phased out by technological progress and globalization (Turner 2001, 12). The labor movement became a substantive force in the political and economic landscape during the second world war and set the precedent for union jobs being good, stable jobs with which one could support a family. During this same time, however, the alienation of certain groups began. Leftists were very quickly pushed out of the labor movement as the McCarthyism of the cold war began to heat up, many of which had been the activist minded folks who had started this form of social movement unionism

Figure 1: Union Membership Rate (All States)



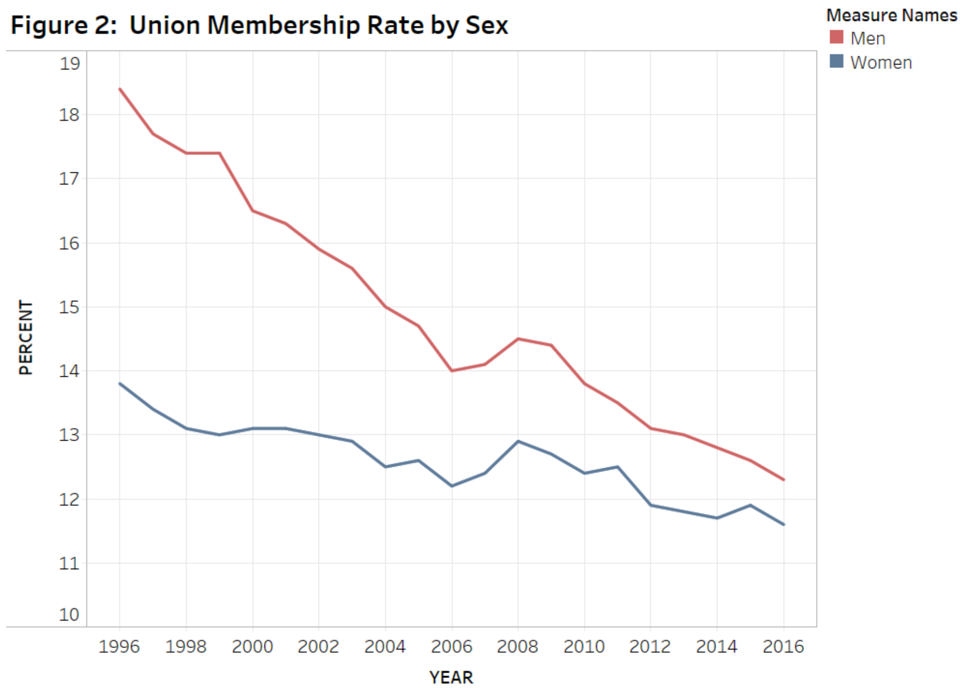
Data represents percentage of nonagricultural wage and salary employees who are union members.
(Source: Hirsch CPS)

(Turner 2001,14).

From here we entered the phase of unionism most are familiar with, business unionism. This form of unionism is the collective bargaining, contractual, and service based system we think of when employees join a union for better health benefits, wages, etc. (Turner 2001, 14). With the loss of the activist left, union membership began to decline as the social movements of the 1960's and 1970's unfolded. The conservatism of business unionism left out a major portion of the workforce as women and ethnic minorities began to occupy sections of the economy that had primarily been filled by white men (Turner 2001, 15). Labor took another hit from the continued push to the right in America and the rest of the world under the likes of Ronald Reagan, Margaret Thatcher, and Alan Greenspan. This was exemplified in one of Reagan's first acts as president wherein he fired all of the air traffic controllers who continued to strike for wage increases rather than return to work in 1981.

It is in this era that we see the dramatic decline in the union membership rate fall at an increasing rate as exhibited in Figure 1. During the past 20 years membership rates have fallen by nearly 5 percentage points or 27%. There were a few upswings, first during the dotcom crash of the early 2000's and again in the lead up to the Great Recession. Even so, we have managed to continue our decline to the lowest union membership rate yet. The highest union membership as a percent of employment occurred during 1954 at 34.8% and has trended downward ever since (Mayer 2004, 18). Figure 3 examines union representation between sexes over a 20 year period. Women have had especially low union membership rates although the gap between the sexes has closed significantly during the most recent decade. However, this may have less to do with equality in the

Figure 2: Union Membership Rate by Sex



The unadjusted percent of wage and salaried workers represented by unions. (Source: BLS Union Data)

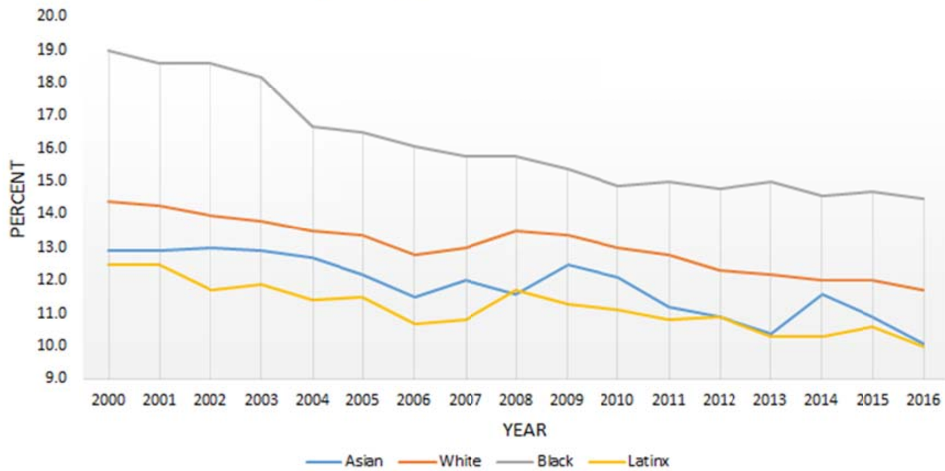
workplace than the much faster decline in male union membership rates.

While the decline in membership has been prolific, certain groups have participated at lower rates than the rest, particularly among groups who were left out in the social movements of the 1960's and 1970's. The exception to this has been among black workers who actually have some of the highest union membership rates now and during the 1960's and 1970's in the public sector. As previously mentioned, the activist-minded people that formed the unions we know today were largely pushed out due to fears of communism during the 1950's. However, the renewed collective attitude formed by the activism of the civil rights movement lead to a revival of the social movement unionism in the public sector (Turner 2001, 17).

In Figure 3 union participation is examined across races. It is not necessarily surprising that Asian and Latinx people have lower union membership rates given the discriminatory behavior that plagues their histories. We have seen discriminatory labor practices towards Asians since the second industrial revolution with the Chinese Exclusion Act, and negative attitudes towards Latinx people and their labor were a major topic of contention during this election cycle.

If we want to see greater collective bargaining power in the United States, especially among private sector workers, it may require a different way of looking at the power dynamic between worker and owner. The basic idea of the union is that there will be enough workers involved that they could significantly slow production in their sphere if they chose to wield their power as a group. The contention with this is two-fold, first, there has to be a significant enough proportion of the workers in the union; second, there must also be a low enough supply of workers that it would be more difficult to

Figure 3: Union Membership Rate by Race



The unadjusted percent of wage and salaried workers represented by unions. (Source: BLS Union Data)

replace the union member than to give them the remuneration they require. As shown by the previous figures, the former is certainly an issue, but what about the latter?

With the movements of the 1960's and 1970's, including a major immigration wave during that period, many women and Latinx people entered the workforce full time. In *Democracy at Work: A Cure for Capitalism*, Richard Wolff writes that three things contributed to the discontent of the working class. The first is the start of the decline in real wages due to technological advancement, which happened at the same time there was an increase in the supply of labor, and a shift to neoliberal economics (Wolff 2012, 39). This combination is deadly to the labor union as it currently exists. The alternative I suggest, which is largely applicable to the private sector but could also be utilized in the public sector, is to incentivize businesses to give their employees partial ownership, which not only gives employees more bargaining power, but also makes them more accountable.

3 Alternatives to Labor Unions

An alternative approach to the traditional labor union is to give employees real power by giving them ownership or stock in a company. There are several ways to go about this, but the three I will be exploring are employee stock option plans (ESOPs), broad-based employee stock option plans (BBESOPs), and cooperatives. An employee stock option plan (ESOP) gives the employee a share of the firm in the form of purchasing or receiving a stock in their retirement account. One very important point is that ESOPs do not take away from the current employees' wages or savings because the stock is granted to them by the company. This is able to be done based on company profit or some kind of loan with a tax incentive (Carberry 2011, 3).

Broad-based employee stock option plans (BBESOPs) are a bit different than the traditional ESOP because they allow employees to buy stock at a fixed price, usually for a specific period of time. The employee usually (but not always) has a certain level of tenure with the company in order to partake in these plans. While BBESOPs are more loosely defined than ESOPs, the academic consensus is that broad-based plans offer these stock purchasing opportunities to at least half of the company's employees. This is different from a traditional ESOP, which must include all employees in the plan (Carberry 2011, 4).

Giving employees stock in a firm does not necessarily mean that they will have the same voting rights as the typical shareholder. In public firms ESOPs do have this level of governance rights, but in private firms it is really up to the company's discretion to decide what level of voting rights it wishes to give to its employees. Similarly to regular ESOPs, public BBESOPs voting rights are available if you still have the shares, however, it's notable that most employees sell shares after purchasing (Carberry 2011, 5).

A cooperative (co-op) can take different forms, but the general idea is that the employee is both the owner and producer. Co-ops take the benefits of an ESOP and BBESOP, but since all members are essentially shareholders they get to determine the governance structure and voting power in the company. This is by far one of the most democratic ways to operate a firm. It is, though, important to note that a cooperative can have varying levels of membership which may not be the same for every person working for the co-op.

4 Studies Regarding ESOPs and BBESOPs

Now why might a company want to operate in this way? It almost sounds as though they are giving away money! This is not the case. Giving employees company stock has actually been shown to increase worker productivity, firm survival, and employment stability (Blasi 2017, 7). ESOPs have the greatest availability of existing literature on performance, and the general consensus is that there is a positive or neutral relationship between performance improvement and shared capitalism (Carberry 2011, 11). On average, ESOP implementation improves productivity by 4% to 5%. However, in the case of a particular large scale study done by the U.S. General Accounting Office, these efforts need to include the employee in the workplace decision-making process, sometimes called complementary high-performance workplace practices (Carberry 2011, 10). The existing literature notes improvement to firm productivity, but with a few concessions: cash payouts, larger payouts, and small firms (Carberry 2011, 11).

Research on risk preferences was conducted by Fidan Kurtulus, Douglas Kruse, and Joseph Blasi using data from the NBER Shared Capitalism Database. Their findings showed that even risk averse employees could benefit from profit sharing (Carberry 2011, 171). They were trying to determine worker attitudes towards compensation types, specifically regarding performance-related pay. What they found was that even risk averse workers would accept performance-related pay, as long as it was not a substitution for base pay. Additionally, they believe that risk-averse employees would benefit from the compensation measures when combined with the complementary high performance workplace practices (Carberry 2011, 164).

5 Co-Op Case Studies

Cooperatives are more difficult to effectively analyze because fewer of them exist and there can be dramatic differences in the structure and business operation of a co-op. This makes it difficult to compare growth and effectiveness among other factors. However, there are a few cases that have been studied to a great enough extent that I can be comfortable using them as counter-examples to the traditional arguments against co-ops. The most common argument is that once a cooperative reaches a certain size, it will begin to suffer from governance and efficiency issues. The second is that co-ops are best suited for the agricultural sector. I offer two case studies to counter these arguments.

Mondragon Cooperative Corporation is a firm located in Northern Spain that has existed since the 1950's (Bateman 2013, 2). It consists of about 250 cooperatives from an array of industries, but most notably retail and finance (Carberry 2011, 241). Nearly 100,000 people are employed by Mondragon, and being a member guarantees employment and a salary even when demand is falling (Carberry 2011, 241). Mondragon is indeed a cooperative of a large scale which many argue is a counter-example to the most common efficiency argument; however, the scope of work done on it by economists still leaves more to be desired (as is the case with most co-op research). This, in turn, means that there is a lack of data and the data that is available is aggregated and sparse (Carberry 2011, 242). Using the data that is available, even with its limitations, Mondragon has been shown to be operating as a sound alternative business structure that has outperformed others within the sector (Carberry 2011, 242).

Two of the measures the writers assessing Mondragon focused on were sales and productivity. They wanted to see how the growth of Mondragon in sales compared to other co-ops in the region and more broadly. What they found was that Mondragon had become the largest group in Basque Country and its self reported seventh largest consortium in Spain statistic checked out (Carberry 2011, 245). In addition to being the largest co-op in Spain in terms of sales and performance, they also found that Mondragon was the ninth largest co-op group in the world (Carberry 2011, 246).

Using aggregate data on employment since 1983, and more complete data from Luzarraga, Aranzadi, and Irizar, the authors found employment had grown by 500% up to 2007, and tripled in the last decade of that time frame. After the recession, however, there was a 9.3% shrinkage in employment (Carberry 2011, 247). While the industrial subsections of Mondragon's co-ops did not grow as much as the overall employment in the company, it still exceeded the job growth by other conventional firms in the region (Carberry 2011, 248). Normalizing investment with respect to workforce size, the authors also found that Mondragon was less volatile than conventional firms (Carberry 2011, 250).

Other cases exist that counter these assertions about the eventual breakdown of co-ops; the Emilia-Romanga region of Northern Italy is a leading example of co-ops making a substantial mark in a region's economy. Cooperatives in the Emilia-Romanga region began to take off around the same time as Mondragon during the 1950's (Bateman 2013, 2). In 2003, the region had the highest proportion of non agricultural workers in co-ops in Italy, and over 40% of the region's GDP was generated by co-ops (Bateman 2013, 2). This number may have gone down slightly since 2003 given the global recession; economist Stefano Zamagni more recently estimated that number to be closer to 30%. Additionally, its per capita GDP is 24% higher than the Italian average (Corcoran 2010, 6).

Not only are Emilia-Romanga's co-ops majority worker owned (an average of $\frac{2}{3}$), but the large number of them (7,500) has undoubtedly contributed to the region having one of the lowest unemployment rates in Italy (Corcoran 2010, 6). From 2003 to 2008 growth in co-ops and membership increased by 30% (Corcoran 2010, 7). While it cannot be determined unequivocally that the causation of reduced inequality in this case is due to these employee owned enterprises, it is certainly notable that the gini score in this region is about half of the European average (Corcoran 2010, 6). Given these notable positive increases in productivity and employment, as well as a reduction in inequality, it is important that the United States follows suit with some of the policies that have helped to allow these enterprises to become successful.

6 Policy Proposal

Shared capitalism as a means to certain economic goals has been discussed by both conservatives and leftists. Support for ESOPs and BBESOPs has been a talking point for Republicans and Democrats alike, albeit to varied extents and with different ends in mind. The Republican party platform for 2016 cited ESOPs as a way to energize free enterprise and enable workers to become capitalists (Blasi 2017, 7). Hillary Clinton suggests ESOPs as a way to induce profit sharing on top of wage increases; in her 2 year tax credit plan employers would receive a credit for up to 15% of the profits they share (Clinton 2015).

One of the underlying factors that makes profit sharing work as a tool for increasing productivity is giving employees a hand in the workplace decision-making process (Carberry 2011,10). This should be an important qualifier in any policy proposals involving stock ownership plans. When workers are benefiting from the work they put in and feel that their voices are being heard, it is logical that it would result in greater workplace productivity. The next qualification I would put on this plan is to include all workers, especially in the case of BBESOPs. I do agree with her plan's argument to limit workers at a certain income bracket, but maybe not to the extent of phasing them out completely (Clinton 2015). This does, however, make sense for large corporations.

The second component of my policy proposal is a tax credit for cooperatives. There is very little existing tax legislation on cooperatives at a national level. Internationally, countries like Italy have existing taxation legislation that allows profits to be tax exempt as long as they are reinvesting it into the co-op (Corcoran 2010, 7). Due to the loose definition of a cooperative and the variety of ways they can be structured, this tax policy is smart to put a stipulation on the legislation. In order to receive this exemption they must be structured as a mutual co-op wherein member labor costs must exceed more than half of the total labor costs (Corcoran 2010, 8).

I suggest we use a similar model which would incentivize employees who wish to buy out a company and run it in a cooperative manner. The length of this exemption would be slightly longer than the ESOP/BBESOP suggestion because the former would be impacting already well established businesses that wish to incorporate a more collective form of business ownership. This exemption would be available to businesses under five years old up to the time they reach this age, with an extension to the full five if the business was acquired in the process of liquidating after filing chapter 11. According to the Bureau of Labor Statistics, half of businesses fail within the first five years, and as such I think that this would be the most critical point in which a tax exemption could be of help–thus a five year time period as opposed to two (Entrepreneurship and the U.S. Economy 2016).

Additionally, I would like to include a credit to workers, which would subsidize their initial investment. In Italy this has already been done, but on a much larger scale. The Macora Act provides a subsidy valued at triple the worker's investment in order to convert an existing firm into a worker co-op. The reason the Italian government does this is to protect workers who would have lost their jobs due to firm bankruptcy or outsourcing (Corcoran 2010, 9). Interestingly enough, this very topic was at the center of the political debate during the 2016 election cycle, but this sort of taxation policy was not suggested by either political party as a way of dealing with globalization. While the cost of these policies would be heavier upfront, they would more than pay for themselves given the research that has already been done on the increased productivity of co-ops, greater job growth, and employment stability, which would inherently stimulate the economy.

The social benefits of reducing wealth inequality would be substantial as wealth would be more evenly distributed in a firm that uses a shared capitalist approach. Giving tax incentives to the working class will have a much greater stimulus effect than giving them to the wealthiest individuals. There would be a greater multiplication in its impact than say, giving a tax break to the wealthiest as President Trump has suggested with a 15% tax rate on corporations who have been shown to be much more frugal spenders (Wolff 2012, 58).

7 Conclusion and Discussion

The purpose of these policy suggestions is not to eliminate the union as a tool for workers to bargain for better working conditions and fair wages; it is simply a suggested alternative approach to a business structure that is becoming antiquated. Workers are getting fed up with the disparity between themselves and their top managers. While unions can be an effective way to bargain insofar as it is utilized by the member, ESOPs and BBESOPs could be far more effective at bridging a wealth gap and to some extent give workers a greater say in their day to day activities.

Co-ops, while similar in achieving greater equality in the workplace, do so by abandoning this traditional business structure altogether. While I do not expect co-ops to replace the mainstream business structure, I do believe they could make meaningful contributions to the economy in a socially conscious way. Emilia-Romanga and Mondragon are great examples of how co-ops can make a significant impact on a region and defy the beliefs held without evidence that co-ops are inherently inefficient after reaching some undefined but large size and only suitable for the agricultural sector.

It is clear that academia needs to compile broader and more complete research especially on BBESOPs and cooperatives. Blasi argues against the free rider claim, which is a genuine concern for any collective good. He states that it is usually negated by policies and social norms that encourage employees to have greater loyalty and work standards (Blasi 2017, 18). Both cooperatives and stock option plans have the additional risk that one would have if they decided to start their own business, however profit sharing is usually and should probably always be on top of regular pay and benefits. The majority of ESOPs have a second diversified retirement or pension plan, and nearly all assets in the ESOPs were from company contributions (Blasi 2017, 19).

Income inequality seems to be the more broadly discussed issue in pop culture rather than wealth. This is important, but the singularly greatest point of inequality lies in capital gains, where the top 10% of households own 80% of financial assets. The rate of growth among the top decile continues to grow at a much faster rate than the middle and lower classes. It is important that we work to bridge the wealth gap–shared capitalist styles of business ownership may be the way to do that.

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