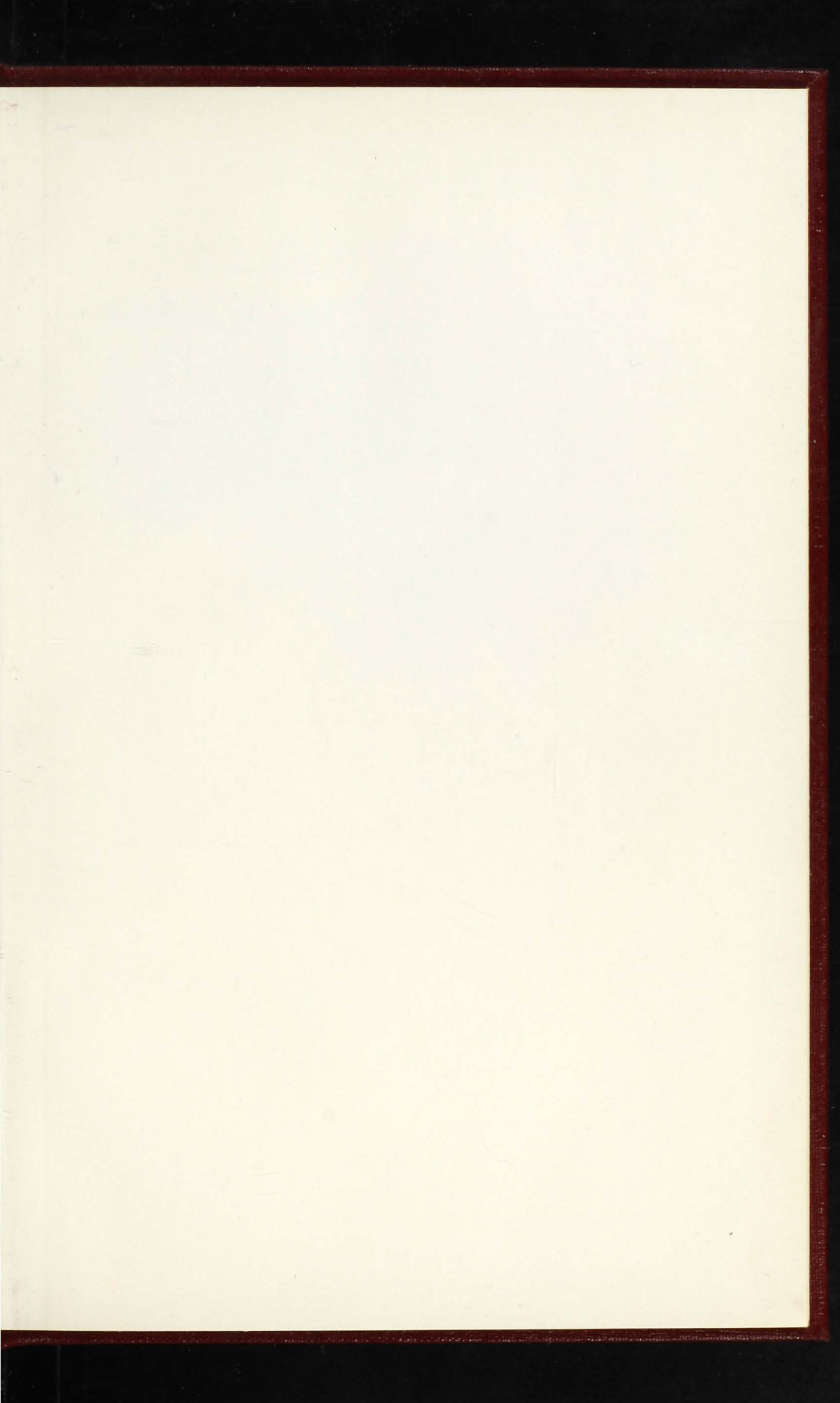


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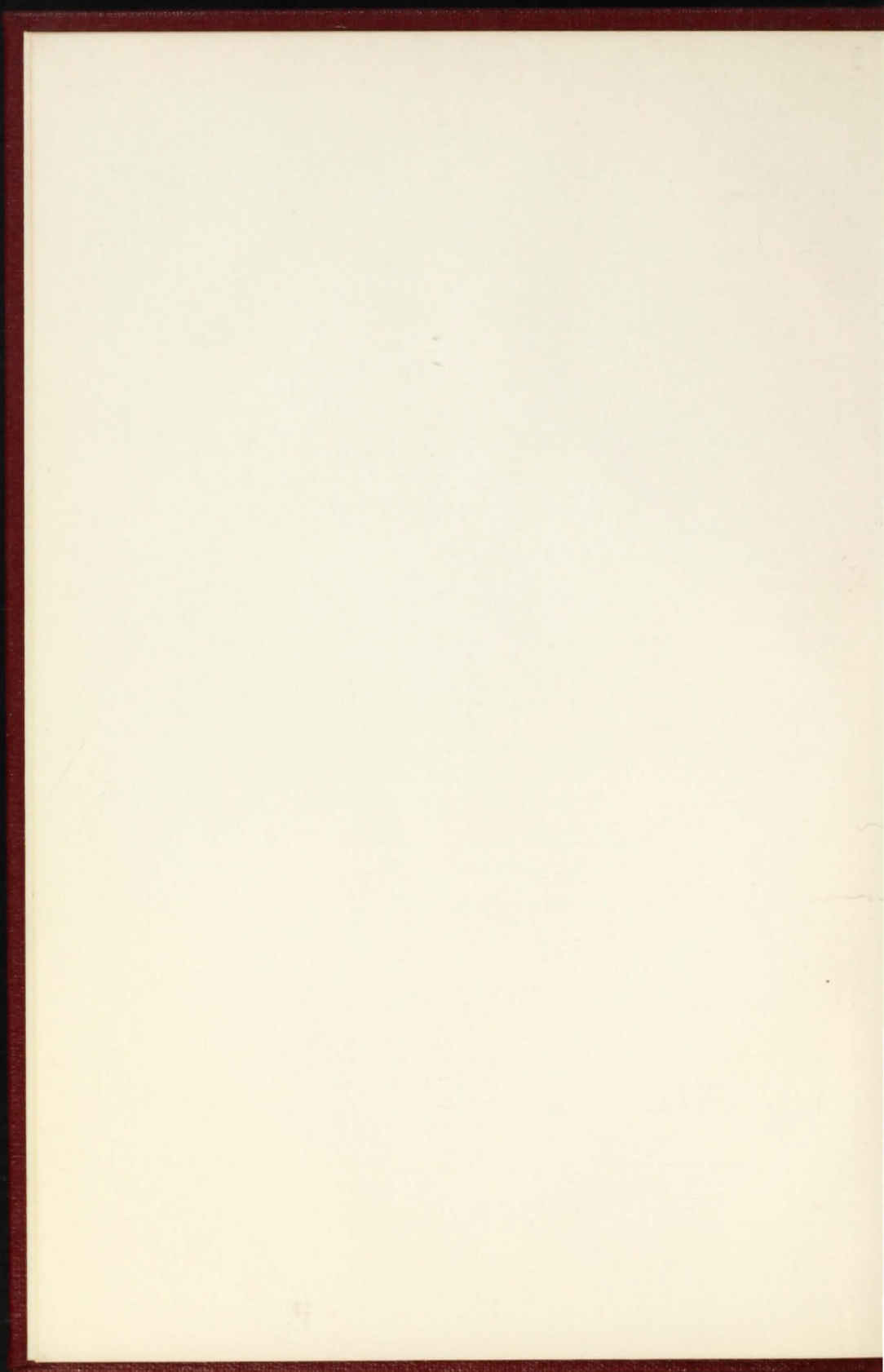


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# industrial common ownership

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David Watkins  
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## industrial common ownership

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chapter	1	introduction	1
	2	the 1976 legislation	2
	3	origins and early developments	5
	4	the new wave	10
	5	small is indispensable	15
	6	towards a common ownership economy	19
	7	summary	23

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this pamphlet, like all publications of the Fabian Society, represents not the collective view of the Society but only the views of the individual who prepared it. The responsibility of the Society is limited to approving publications it issues as worthy of consideration within the Labour movement. Fabian Society, 11 Dartmouth Street, London SW1H 9BN.  
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# 1. introduction

Industrial democracy is much talked about, increasingly written about and starting to be legislated about. Britain has an advanced system of political democracy but a democratically backward industrial system. We are not alone. In all countries where political democracy prevails, industrial democracy is in its infancy, whilst the neo-Marxist countries have come nowhere near realising the democracy of Marx's original vision. A civilised society requires industrial democracy as well as political liberty and no society is properly democratic in which the people do not control their means of livelihood as well as the way they are governed.

Industrial democracy is not an abstraction which is desirable but impracticable. On the contrary, there is an urgent practical need for it. As the Bullock Committee of Inquiry on Industrial Democracy found, there is a widespread conviction that Britain's problem is no lack of native capacity but a failure to draw out the energies and skill of the working population to anything like full potential. The Committee shared this conviction and they correctly concluded that the only way to release those energies, to provide greater satisfaction at work and to raise productivity and efficiency—and thereby the living standards of the nation—would be by involving not just management but the whole workforce in sharing responsibility for success and profitability.

Fabians have been advocating industrial democracy ever since the inception of the Fabian Society and have been contributing to the current debate in no uncertain manner. Jeremy Bray's and Nicholas Falk's *Towards a Worker Managed Economy* (Fabian Society, 1974) was followed within months by *Working Power*, cooperatively produced (appropriately) by the Fabian Working Party on Industrial Democracy and edited by Giles Radice. In 1975, Giles Radice introduced his Industrial Democracy Bill which received a second reading. The Bill was withdrawn conditional upon the setting up of the Bullock Inquiry—a triumph in the use of the Private Members' Bill procedure. The Society sub-

mitted evidence to the Bullock Committee, prepared by the working party and published as *Workers in the Boardroom* (Fabian Society, 1976).

Reactions to the Bullock Report were varied. Feelings in the Labour movement were mixed. The CBI reacted with hysterical hostility and, in a foundering capitalist system, they looked like people in a sinking ship who were more concerned to preserve the privileges of the first class passengers than to save the vessel.

The Bullock proposals relate essentially to large organisations and relatively little attention has been given to democracy in small concerns. Yet, for a quarter of a century, industrial common ownership, more advanced than anything recommended in Bullock, has been quietly and successfully developing among certain small firms. The burden of the argument in this pamphlet is that real industrial democracy means industrial common ownership and that, although it is most immediately applicable to the small firms sector, that does not mean that we can delay examining its application to large organisations.

Industrial common ownership as now practised is not new in concept and originated long before this century. Thinking which was socialist in nature emerged strongly in Britain during the period of the Civil War and Commonwealth, when Gerard Winstanley was expressing it with remarkable force and clarity. The groups styled The Diggers put the thinking into practice by taking over waste land and cultivating it in common ownership and, in 1659, Peter Cornelius produced a clear vision of how production could be organised in a way which was democratic and socialist. All this was two centuries before Karl Marx wrote *Das Kapital*. In an age of cynicism towards both capitalism and such manifestations of socialism as have been so far experienced, common ownership emerges as a long standing expression of human effort which has now caught the imagination of people of a surprisingly wide political spectrum and in countries of vastly differing systems.

## 2. the 1976 legislation

The Industrial Common Ownership Act became law on 22 November 1976. It was a Private Members' Bill which survived all the considerable hazards attendant upon such bills. It received relatively little publicity. Its fundamental importance in democratic socialist thinking together with the innate inability of the Establishment media to recognise any idea relevant to the common good rather than just the good of the Establishment, may have helped limit reporting of it.

The Act has two main provisions. First, it enables the Secretary of State for Industry to provide loans for the development of common ownership and cooperative enterprises as well as to make grants to bodies whose purpose is to encourage the development of such enterprises. The amount of the grants and loans is extremely modest but the principle has far reaching implications. It lays a foundation stone upon which could be built the Cooperative Development Agency promised in both Labour's 1974 manifestos.

Second, the Act provides for the first time a proper legal definition of what constitutes enterprises of a common ownership and industrial cooperative nature. This ends the legal limbo in which common ownership companies and workers' cooperatives have found themselves, whereby they were neither provided for in company law nor in industrial and provident societies legislation.

In its original draft, the Bill made provision to enable conventional companies—that is, those limited by shares—to be converted into common ownership by converting shares into redeemable loan stock. Unfortunately, that proved to be impracticable because existing company law does not provide any machinery for the conversion of shares into loan stock and the provision of such machinery was too complex for a Private Member's Bill. The proposal had, therefore, to be dropped and the conversion process remains less simplified than it might be. That particular difficulty highlights the need for a general revision of company law in a major government bill to take

account of the growing development of common ownership and the increasing demand for the conversion of conventional companies to democratic forms of ownership and control.

As originally drafted, the Bill also made provision to enable shareholders to renounce their claim to the proposed loan stock if they so wished, in which case their loan stock would be treated as a gift to charity, so that there would be no application of capital transfer tax. That also had to be withdrawn as taxation proposals cannot be included in Private Members' Bills. Nevertheless, the proposal resulted in two important provisions being included in the 1976 Finance Act, one giving relief from capital gains tax where firms are converted to what are referred to as "employee trusts" and the second giving relief from capital transfer tax. "Employee trusts" need not be common ownership trusts, but the spirit and intention to encourage common ownership was clear and the two sections are capable of modification in succeeding finance acts in the light of experience with the Common Ownership Act.

### workers' cooperatives and legislation

In a period in which legislation has been one of our major growth industries, the Industrial Common Ownership Act was not an attempt to pass a law embodying a socialist idea in the hope that it would bring about desirable practical developments. On the contrary, the Act was a response in Parliament to industrial and social developments of fundamental importance in the years preceding its introduction. The early 1970s saw a series of spectacular "sits-in" and "work-ins" such as those at Upper Clyde Shipbuilders, at the Fisher-Bendix domestic appliance factory at Kirkby, on Merseyside and at the Norton Villiers Triumph motor cycle works at Meriden. In each case, factory occupations arose because closures and large scale redundancies were proposed by managements in the observance of their first loyalty and legal duty—to capital and not to labour. In each case, workers responded with deter-

mined attempts to preserve their right, denied by the capitalist system, to work and produce wealth.

At Kirkby and Meriden, the occupations of the factories resulted in the setting up of workers' cooperatives to continue production under collective and democratic control. The same thing happened at Beaverbrook Newspapers where a cooperative enterprise was created and produced the *Scottish Daily News*. Subsequently, after a vote by the members which effectively killed the cooperative, the paper failed. None of these workers' cooperatives registered under the Industrial and Provident Societies Act 1965, the consolidating act which governs the formation of cooperative societies which have to be administered through approved rules. That was because there were technical and legal difficulties in that law, relating to their position as cooperatives orientated towards production and producers rather than specifically towards consumers. They all chose instead to register as companies under the Companies Acts 1948-67, under which all limited companies are incorporated, with approved memoranda and articles of association. The cooperatives provided themselves with memoranda and articles enjoining strict participating democracy. The necessity for cooperatives to register as companies rather than as cooperatives demonstrates the inadequacy of existing legislation which caters either for companies or for consumer cooperatives. The new growth of producer cooperatives has produced organisations for which neither category caters satisfactorily. The Common Ownership Act provides a bridge between the two but there is a need for a new and comprehensive companies act to combine the two concepts.

### the ICOM companies

A feature common to all the workers' cooperatives was that they were created in conditions of crisis arising from capitalist failures and with every factor loaded against them from their inception. Firms affiliated to the Industrial Common Ownership Movement (ICOM) have

been building up over a longer period, certainly not in easy conditions but, by and large, in less unfavourable ones. A common ownership enterprise is a self-governing, productive association existing to enhance the quality of life of its working members and to serve the wider community. It is owned and controlled democratically by the people working in it. The workers jointly hire the capital and the return on capital is limited to the minimum necessary to obtain the required amount in prevailing market conditions.

After payment of taxes and provision for re-investment in the enterprise, the remaining profits are used to pay a bonus to working members and for social purposes including the wider community, as determined by the members. The directors or committee of management are directly responsible to the total body of the working members. As there are no controlling shareholders, no takeovers can take place.

The outstanding pioneer in Britain is the Scott Bader Commonwealth at Wollaston in Northamptonshire. It was converted from a family business to partial common ownership in 1951 and to full common ownership in 1963. Allocations from its profits have done much to help finance other common ownership enterprises.

The Industrial Common Ownership Movement was founded in 1958, deriving its inspiration in no small measure from Scott Bader. In 1973, Industrial Common Ownership Finance Ltd (ICOF) was started to provide a non-profit making loan fund to finance developments. ICOF is, in effect, a small common ownership commercial bank. It is a federation of common ownership firms and also has an individual membership. Its primary task is "to help to start new enterprises and to transform existing companies to common ownership." ICOM, together with the Cooperative Union, the Scottish Cooperatives Development Committee and the Cooperative Productive Federation, has been recognised by the government under the terms of the Industrial Common Ownership Act as able to receive grants. All four are recognised as bodies

whose primary purpose is to encourage developments. ICOF has been recognised as a body to administer the official loans. Since 1964, a number of small firms, representing a wide diversification of products and services, have converted to common ownership. An increasing number of firms affiliated to ICOM have been started in common ownership. The passage of the Act has greatly accelerated the number of new starts but the pioneers were in the field well before the advent of legislation. Common ownership has grown apace since the mid-1960s and there is a great potential for expansion. At the time of the Second Reading debate on the Common Ownership Bill in March 1976, ICOM had about 50 firms in associate membership, most of them interested to transform themselves into common ownership. Within months of the Bill becoming law, the number of associate member companies had doubled. Also in 1976, ICOM's model rules for industrial cooperatives were accepted by the Registrar of Friendly Societies and, during that year, 22 industrial cooperatives were registered—more than the total for the whole of the preceding 30 years.

### **the best obtainable system ?**

Although the Labour Party has a specific constitutional commitment to the common ownership of the means of production, distribution and exchange, actual common ownership has featured little in the party's programme. The constitutional commitment is to common ownership "through the best obtainable system of popular administration and control of each industry or service." The method preferred has been nationalisation, which has hardly proved to be unchallengeably the best obtainable system. Rather, it has proved to be state capitalism. In the great coal disputes of 1973 and 1974, the National Coal Board was manipulated exactly like a capitalist monopoly. The British Steel Corporation has approached the very necessary reorganisation of a backward industry in the style of capital employing labour and not of labour employing capital. The state corporations move steadily closer to the cartel arrange-

ments of the multinational corporations and neither workers nor customers have any greater sense of involvement for the common good than have their counterparts in the multinationals.

Whilst producer cooperatives developed in earlier years, they became a backwater in socialist thinking in the twentieth century. The cooperative movement developed primarily as a consumer rather than a productive movement. The general breakdown of the capitalist system and disappointment over nationalisation has generated feelings against remote corporations, both state and private, and a growing movement in favour of common ownership and smaller units.

Common ownership means more than nationalisation by state corporations. It means much more than putting workers on company boards or issuing them with a few shares in firms which employ them. It means far more than schemes for profit or capital sharing, although the demand for such schemes demonstrates the general dissatisfaction with the existing structure and the way it alienates people from their means of livelihood. Much of what is called "participation" is in reality only another way of manipulating people. To improve the quality of life and to release the full potential of people at work, enterprises must have social as well as economic objectives.

The Common Ownership Act and the relevant sections of the 1976 Finance Act have created a new situation conducive to the expansion of small enterprises in a democratic manner. The prospect would be further enhanced by revision of the Companies Acts, use of the National Enterprise Board and the creation of a Cooperative Development Agency (CDA). As yet, no satisfactory means has been devised to apply common ownership to large concerns but this does not indicate that one cannot and will not be created. The government's proposals for decentralisation and industrial democracy in the aircraft and shipbuilding industries could well present a starting point from which the common ownership of nationalised industries could be developed.

### 3. origins and early developments

The first recorded ideas for setting up common ownership enterprises appeared at the time of the English Civil War and Commonwealth and they are so relevant to the situation today as to merit fresh attention. At the very end of the period, in 1659, Peter Cornelius Plockhoy, a Dutchman living in London, wrote a pamphlet entitled *A Way Propounded* in which he outlined a scheme for setting up cooperative businesses. The splendidly descriptive full title of his pamphlet occupied almost the entire title page: "A way propounded to make the poor in these and other nations happy by bringing together a fit, suitable and well qualified people unto one Household-government, or little-Common-wealth. Wherein every one may keep his propriety, and be employed (*sic*) in some work or other, as he shall be fit, without being oppressed. Being the way not only to rid those and other Nations from idle, evil and disorderly persons, but also from all such that have sought and found out many inventions to live upon the labour of others. Whereunto is also annexed an invitation to this Society, or little Common-wealth."

Plockhoy proposed to set up a cooperative commonwealth of farmworkers, craftsmen, sailors and "masters of arts and sciences". It would sell everything it produced and would charge only minimum economic prices. All profits would be used for the common good, better to "eschew the yoke of the temporal and spiritual pharaohs who have long enough domineered over our bodies and souls." Its principle would be "in direct opposition and contradiction to the World where they are accounted the greatest who have the most servants, and not they that do the most service to others."

Members of the society would work a 36 hour week, after having done a stiff 72 hour week during a probationary period. All the society's assets would be held in common ownership but no member would be required to renounce his own property—"everyone may keep his propriety" as the delightful phrase announced in the title. Foundation funds were sought and would be repayable on agreed notice but they would carry no

power, privilege or interest. Privately owned land could be leased to the commonwealth against agreed security and would be "employed for the common welfare without giving interest." Management of the commonwealth was to be through universal suffrage. A "chief governor" would be elected for a term of office of one year and would be eligible for re-election. No governor was "to be chosen for his riches or wealth" and all governors would be bound by rules which would have to be approved by the whole community. Departmental managers, with men and women on an equal basis, would also hold their position for a year at a time, with half of them retiring every 6 months. Accounts were to be published every 6 months or 12 months and any surplus was to be divided among the members.

Rules and laws were to be as few as possible, being "only for necessity, not to take away anyone's liberty" but to be such that the self-seeking "may be discovered and excluded." There was to be total equality of education and opportunity. Housing would be provided for the members, education for both children and adults, a health service for all and welfare for the retired.

The products of the commonwealth, in keeping with the needs of the times, were to be cloth, clothing, footwear and agricultural produce. A large building in London would be a warehouse, trading centre and, to some extent, manufactory. There would be an estate in the country, situated on a river, where farming, fishing and boatbuilding would be carried on. The society would transport its raw materials and products in its own boats between London and its base in the country and would trade in its own ships with other countries.

Published in the middle of the 17th century, Plockhoy's exposition was breathtakingly socialist. Either he and his contemporary radicals were more than three centuries ahead of their time or mankind is pitifully backward in applying collective common sense. The pamphlet was published in the year of the fall of

the Commonwealth, the final reassertion of property power, which destroyed all hope of realising any democratic projects.

### the first cooperators

In the 19th century, the excesses of capitalism inspired the first surge towards common ownership. During the Napoleonic Wars, working men in various parts of the country set up cooperative flour mills, with associated bakeries and bread shops. In 1813, Robert Owen announced in his *Third Deed of Partnership* that all profits beyond 5 per cent on the capital invested in his well established cotton mill at New Lanark were to be laid aside for the benefit of the workers and of the community at large. It was an historic declaration that Labour ought to employ capital instead of the other way round.

When the Rochdale pioneers opened their store in 1844, their intention was to build a complete cooperative community. As the store prospered, however, the retail members became more concerned about the size of their dividend and lukewarm or hostile to the productive side. Later, a move to establish the Co-operative Wholesale Society (cws) as a producers' society was defeated and relations became permanently soured between the cws and the producer cooperatives. This schism between consumers and producers in the mid-19th century led to producer cooperatives becoming a backwater instead of a mainstream in socialism in Britain—in contrast to the situation in other European countries.

Even so, producer cooperatives developed steadily and the situation within the cooperative movement produced a notable example. In a bitter industrial dispute at the cws shoe factory at Leicester in 1886, the management behaved like their capitalist contemporaries and the workers faced the prospect of being starved into submission. They set up their own producer cooperative, which they called the Leicester Cooperative Boot and Shoe Manufacturing Society, later renamed Equity Shoes Ltd. Nine decades after its birth, Equity Shoes is

flourishing. By 1975, sales were exceeding £1 million a year, with a surplus after tax of nearly £80,000 of which about a third was returned to the 200 or so workers and the remainder put in reserve in accordance with the normal practice. Most of the output is sold through Co-operative Retail Societies and there is a full order book with a rapidly expanding export trade. There was steady growth all through the mid-1970s recession—the worst since the 1930s.

### pioneer trade unionists

Among pioneer trade unionists, as among pioneer cooperators, there were divided views about the common ownership of the means of production. The strongest of the early engineering unions was the Journeymen Steam Engine and Machine Makers' Friendly Society, founded in 1826. They repeatedly discussed proposals for investing their funds in cooperative workshops to employ their members who were out of work, but the policy making delegate meetings invariably rejected the proposals. In 1851, the Journeymen's Society amalgamated with others to form the Amalgamated Society of Engineers, later the Amalgamated Engineering Union and now the Amalgamated Union of Engineering Workers (AUEW). Soon after the amalgamation, the Executive Council unanimously recommended to the membership "that all our future operations should be directed to promoting the system of self-employment in associative workshops as the best means of effectively regulating the conditions of labour." The union was already running two workshops in London and negotiating to purchase a foundry in Liverpool. William Newton, architect of the amalgamation which created the union and one of the greatest pioneer trade unionists, was also an advocate of common ownership. He reported in *The Operative* that the London workshops were doing well with "diligent and industrious" workmen who were "becoming as able managers of their own business as those who have presumed to manage it for them before." Nevertheless, the London workshops failed within two years, though that did

not prevent the members of the union from voting, in 1856, in favour of investing £10,000 of the funds in a project for cooperative workshops. Out of the total of about 12,500 members, 2,912 voted in favour with 1,691 against, an interesting pointer to feeling among organised working people at that time in Britain's most fundamentally important industry.

However, it was the minority who eventually won. They kept up a constant campaign and although the matter was discussed for years, it was never implemented. Among trade unionists, the spirit which prevailed was for fighting employers by action on the shop floor and not by competing with them in trade. Like the schism among pioneer cooperators, the conventional wisdom among pioneer trade unionists played its part in stunting the growth of producer cooperatives in Britain.

### endeavour in a hostile environment

Rejection of the common ownership of the means of production by both the cooperative and trade union movements left industrial common ownership to function outside the organised labour movement in a hostile *laissez faire* environment. Even in such an unpromising setting, enterprises developed in an *ad hoc* manner throughout the second half of the 19th century and they lasted in some numbers well into the 1920s. In many cases, practice proved to be weak but the steady and prolonged endeavour was a striking testimony to the permanence of the ideal.

Statistics of the numbers of enterprises, how many people worked in them, what they made or what services they provided, how much trade they did and even whether or not they were genuine common ownerships, are incomplete and confusing. In a paper submitted to a conference on self-management at Cornell University in 1975 and reproduced in *The New Worker Cooperatives* (Spokesman Books, 1976), Derek C. Jones took as his definition those which were registered as industrial and provident societies

and which met the following conditions: that the establishment was autonomous and that the employees could become members by nominal share holdings and on the basis of one-member-one-vote, sharing the profits and participating in decision making at all levels within the enterprise.

On that basis, he divided the development of autonomous producer cooperatives in Britain between 1870 and 1971 into four periods. First, up to 1882, when the debate between consumers and producers was proceeding in the cooperative movement, at the end of which he calculated that there were probably 16 such enterprises. In 1882, consequent upon the *cws* becoming finally and irrevocably committed to consumers, the Cooperative Productive Federation was formed and that marked the beginning of the second period. During its early years, there was a remarkable growth. By 1893, the number of enterprises had increased to 119 and remained of that order until the early 1900s. The actual growth was probably greater than the figures suggest since these are almost certainly underestimates because of the gaps in information. Numbers started to decline in the years preceding the first world war but the movement remained vigorous until and during the war. In the third period, between the wars, a long decline set in and in the fourth period, during and after the second world war, the movement declined dramatically, only a relatively small number of units surviving.

### challenging the Webbs

For many years, the main source of received wisdom about industrial common ownership was in the works of Sidney and Beatrice Webb, notably in Beatrice's *The Cooperative Movement in Great Britain* (1891) and in their joint works *Cooperative Production and Profit Sharing* (1914) and *A Constitution for the Socialist Commonwealth of Great Britain* (1920). The Webbs were hostile to common ownership enterprises and concluded that they could not survive. Superficially, they seemed vindicated by

events before the 1960s, but the growth of common ownership and workers' co-operatives since then invalidates their conclusion. Derek Jones' paper effectively challenges them and it may be concluded that their assertions were based on a faulty assessment of inadequate statistics made by Beatrice in 1891, which they were more concerned to confirm than to analyse in their later joint works. However, their conclusions had immense influence. They confirmed the consumer and anti-producer orientation of the powerful cooperative movement, killed the development of common ownership enterprises for decades and led directly to the system of nationalisation by state corporations.

Ever since its publication, Beatrice's work of 1891 has remained the best known examination of the manufacturing co-operatives of the second half of the 19th century. She examined 54 such organisations and divided them into four categories. First, associations of workers who selected a committee of management from among themselves and all of whose employees were members. Among her categories, those alone qualify to be defined as genuine common ownerships but she found only eight of them, four of which were very small. She concluded, therefore, that they could not survive and their very nature prevented their survival. Her second category consisted of similar associations which had passed out of democratic control and into the control of irremovable managements. That category included four organisations which she described as "comparatively large societies". The third category was comprised of self-governing associations of workers who employed non-members and who were, in practice, small masters. Those were the most numerous and she was able to describe a number in which the employees were exploited ruthlessly. The fourth category consisted of societies where outside shareholders and coop stores supplied most of the capital, in which the workers were encouraged or even obliged to take shares but were disqualified from membership of the management committee. That category included those which Beatrice assessed

as the energetic and successful, but of the 1,274 workers employed in the whole group, only a third were members. The conclusion drawn from those studies was that the general pattern of cooperative evolution in production was from idealistic partnership (which often emerged from industrial disputes) through capital starvation and intense competition to either bankruptcy or some form of joint-stock ownership. She argued that all associations of producers had either to fight each other to destruction or else combine to fix prices and quality, to the detriment of the consumers. Therefore, they were contrary to the public interest and thus anti-democratic.

Those assertions are not proved. Equity Shoes for example, would hardly have achieved its expansion of trade in a depression if it were not meeting the requirements of consumers. Beatrice actually examined the then newly formed Equity Shoes in her 1891 work. She damned it with faint praise and placed it in her first category—organisations which were democratic but which could not survive. It must be added, though, that the Webbs defined producers and consumers in a totally different world from that of today. At the time of their studies, what has come to be known as the consumer society was non-existent and even basic necessities like new shoes were luxuries for a vast proportion of the population.

Sidney and Beatrice reiterated the same arguments in their joint works. In 1914, they felt that the societies which had achieved any marked measure of financial success were mostly those which had departed from the form of self-governing workshops. In 1920, they asserted that all associations of producers that started as alternatives to the capitalist system either failed or ceased to be democracies of producers. They argued, furthermore, that even those few which did not fail became associations of capitalists, making profit from employing workers outside their associations.

Closer examination of the evidence does not sustain those arguments. Their own



criterion of democratic ownership and control was where a majority of the management committee were employees. Of the organisations studied for the 1891 work, only a few were self-governing and only 28 per cent had such committees of management but, far from declining, the proportion increased steadily. By 1936, and again by 1954, the proportion had become respectively 47 per cent and 62 per cent, and both dates were in the locust years of Derek Jones' third and fourth periods of development.

Producer cooperatives have also survived far longer than the Webbs forecast; the Report of the Committee of Inquiry into Small Firms (1963) showed that their life expectancy was substantially greater than that of conventional companies. Where the average age of the longest established conventional small firms was 55 years, that of the longest established producer cooperatives was 75, whilst among the most recently established concerns, the average age was 10 years among conventional firms and 52 among cooperatives. Those figures indicate that organisations studied by the Webbs survived in a way that they stated they could not.

Of course, these figures relate to a smaller common ownership sector than existed at and before 1920, but they are not cited to measure growth but rather the permanence of the ideal, not only in a hostile economic environment but amongst hostile opinion in the whole labour movement. In examining the application of common ownership to the current situation, we must recognise that the conventional wisdom derived from the Webbs' studies is not now valid and may not have been even when the immortal couple handed us the tablets.

## 4. the new wave

The new wave of common ownership was pioneered by the Scott Bader Commonwealth. Its structure has proved to be a model for many others but its unique development also offers other vital pointers to the place of common ownership in present day society. As the pace of technological development threatens both the viability of industrial undertakings and the continuation of democracy through the operations of multinational corporations, Scott Bader—operating in chemicals and plastics, an area of rapid and competitive change—shows that democracy and industrial success go hand in hand.

It was founded as a family business in 1920 by Ernest Bader, a Christian socialist from Switzerland. In 1951 he converted it to a partial common ownership in which his family still retained reserve powers giving them over half the voting rights on key issues. In 1963 the remaining family shares were transferred to the Commonwealth and the reserve powers to a board of trustees. Thus, it came to accord fully with the basic common ownership principle that control must be with a substantial majority of the working members and not with the suppliers of capital.

Because of the need to meet (a) the requirements of democracy combined with efficient management and (b) the requirements of company law, the organisation is not simple. There are two separate companies, incorporated and registered under the Companies Acts. They are Scott Bader Commonwealth Ltd (which owns all the capital) and Scott Bader Company Ltd (which operates the business). All the capital is owned collectively on behalf of the members and is "neutralised"—that is, not distributed among members, there being no individual shareholders. The employees exercise control not as shareholders but as members. The firm became the first to register under the Industrial Common Ownership Act.

Overall control operates through a representative structure which has a strong system of checks and balances

designed to ensure permanent democracy. The firm is divided into 15 constituencies, each of which elects one of its members to the Community Council. The Council has the duty to confirm or withdraw the appointment of all members of the Board of Directors and also to approve their remuneration. It elects two of its own members to the Board, has final authority in the event of any disciplinary dispute and administers the welfare budget which provides for sick pay, pensions, home loans, social events and similar.

The Board of Directors derives its authority to run the company from the general meeting of members. It appoints managers to carry out its policy. An additional body of eight elected members, called the Commonwealth Board of Management, is responsible for membership, charitable donations, the development fund and for general philosophical oversight. The constitution states that there must be an agreed ratio between highest and lowest paid; at present this is less than 5:1 before tax. There is an active trade union branch and Scott Bader has consistently paid wages above the current national rate in the plastics section of the chemical industry.

At least 60 per cent of the profits must be retained for taxation and re-investment. The final decision on the proportion rests with the general meeting of members who have consistently retained more than the minimum—generally about 80 per cent. Half of the distributed profits are shared equally among the staff as bonus, a quarter goes to charities and a quarter is made available to finance other common ownership enterprises.

The constitution is necessarily complex but the success of the enterprise has been phenomenal. By 1975, the number employed had grown to 430 and the turnover had increased more than 20 fold, from £625,000 in 1951 to £13.5 million, with a profit of £959,000, of which £851,000 was retained, £54,000 distributed as bonus, whilst charities and the fund established through ICOM for the development of common ownership enterprises

each received £27,000. The Commonwealth had licensees in 19 countries and a financial interest in companies in France, Germany and Sweden. In the same year it won the Queen's Award for Industry for technological innovation of polymer emulsion. By 1977, even with the continuing world recession, sales reached nearly £21 million and profits had well topped the million mark. In 1974 an independent group of economists made a study of its achievements and compared it with its competitors, which include the multinational chemical corporations. On every count—the level of wages and salaries, productivity, the application of health and safety measures and return on capital—the Scott Bader Commonwealth was superior to any of the competing capitalist enterprises. Scott Bader's very success may well produce its major problems. There is a constitutional commitment not to grow beyond a unit of around 350 people and to set up new, independent units if circumstances require growth beyond that limit. The limit has already been passed but just when and where to start another unit could be a very difficult decision. There is also the problem of introducing common ownership into the companies which come under the control of the Commonwealth in foreign countries. But these are the problems of success and not of failure.

### **open books ; social commitment**

Scott Bader was followed first by a trickle and then by a growing volume of conversions from conventional to common ownership. In general, the same two-tier arrangement has been adopted, with one company holding the capital and the other running the business. Open administration and commitment to social objectives far beyond those of conventional companies is a universal feature.

At Michael Jones Community Ltd, a high quality jeweller at Northampton, detailed consultation among the members is a particular feature and goes on continuously. There is a monthly meeting at which any aspect of the business

can be questioned and altered by a majority vote. Every aspect, including all salaries, is open to inspection by any member. A part of any profit not ploughed back is used for charitable purposes. An example of the charitable dispensations was £2,000 given in 1974 to improve the furnishings in a hostel for handicapped people.

Trylon Community Ltd is situated close to Scott Bader in Northamptonshire. About 20 people are employed and they supply a wide range of plastics for artistic and industrial use as well as making moulds and supplying materials for glass fibre canoes. In the memorandum of association, the objects include the advancement of education and the relief of poverty anywhere in the world, regardless of race, creed or colour. There is a special commitment to alleviate poverty in the underdeveloped countries of Africa and Asia. A sum equal to 10 per cent of the salary bill is allocated to a Social Projects Fund, benefiting projects in Nigeria, Vietnam and Honduras.

Airflow Community employs about 200 people in two factories at High Wycombe. They make fans and instruments for measuring the movement of air and gas. There is a thriving export trade and two overseas branches, one near Bonn and the other in Toronto. There is a commitment in the memorandum of association to advance education and the relief of poverty anywhere in the world, regardless of race, creed or colour and to promote community health and welfare and especially the health and welfare of present and former employees of Airflow and their dependents.

### **some snags**

The above examples are drawn from firms which started in the ownership of shareholders and were converted to common ownership. There is a growing number of firms which have started as common ownerships but the experience of two of the earliest—Rowen Community (South Wales) Ltd and Sunderlandia Ltd—demonstrate some of the

snags and some of the lessons which must be learned.

Rowen Community was early in the field. Taking its name from Robert Owen, it was founded in 1965 as a self-governing company with the principal object of employing disabled ex-miners and, because of this, it had charitable status. The fortnightly general meeting of all employees constituted the ultimate authority in all matters. In addition, there was an advisory committee whose function was to safeguard the constitution and which had mandatory powers to veto the sale of the business by members for their own profit and also to veto any sale of the products for military purposes. After many crises in its early years, the firm became viable, making outdoor furniture and diversifying into metal fencing and aids for the disabled. About 15 people came to be employed, mostly disabled ex-miners. But in 1977, despite satisfied customers and full order books, Rowen ended in voluntary liquidation, due to cash crisis caused by a lack of managerial expertise which the general meeting failed to monitor.

Sunderlandia Ltd, a construction company in the north east, was started in 1973 to provide self-governing employment, in a region with exceptionally high unemployment and a great need for modernisation of old houses and the construction of new ones. Like Rowen, it received strong trade union backing from its inception and could not have survived a series of crippling crises in its first years without that backing. There was a closed shop and a maximum differential in remuneration of 1:2 except in the case of apprentices' wages. Capital was provided by stock holders, who included the Scott Bader Commonwealth and well disposed individuals, and there was a loan from ICOF. The source of all authority was the general meeting, of which all employees became members after three months with the firm, and to which the elected board of directors was responsible. The firm successfully executed contracts for modernising and building houses but, in a seasonal and unstable industry with a high proportion

of itinerant workers, the constitution proved defective. With the continuous coming and going of workers whose interest was only transitory, the general meeting was prone to decisions against the long term interest but against which there was no provision for restraint. By 1977, this led to a serious crisis which even produced a proposal among the stockholders that the firm should be changed to a capitalist form, owned by shareholders and controlled through a conventional, authoritarian management. In the event, the situation was resolved by placing more day to day control in the hands of the manager and by tightening up the rules for membership of the general meeting with a proviso that members be required to subscribe a £500 loan. There had always been a financial commitment among founding members and the new rule did not discourage the genuinely involved but it precluded the wrecking of the company by itinerants.

The lessons of these experiences are salutary. Both companies surmounted crises in their initial years which would have brought early death to firms motivated by profit alone and lacking the incentive of a wider idealism. Rowen made an incalculable profit in terms of the rehabilitation of disabled people but it succumbed to a crisis which could have been avoided, demonstrating that idealism is not enough and that a full understanding of management techniques by competent managers subject to informed democratic scrutiny is essential. Sunderlandia demonstrated the danger of a constitution not adapted to the special conditions of the market in which it operated and lacking balancing factors to restrain hasty decisions. It also showed the advisability of having the capital held in trust collectively and not by individual stockholders, even though stockholding carried no voting power.

### common ownership and co-ownership

Common ownership is often confused with co-ownership, although the two are different. Landsmans, at Huntingdon, has a system of organisation quite different

from those described. It is a co-ownership in which the members hold individual shareholdings and not a common ownership in which the capital is held collectively; its structure illustrates the difference between co-ownership and common ownership. Started as a conventional company in 1949, it builds mobile industrial units—site offices, mess rooms, toilets—and operates a hire fleet of its own products. There are about 35 employees, who are the owners of the business as shareholders. In 1964, the two owners sold the business to the new company, Landsmans (Co-ownership) Ltd, of which they became employees. They were paid in non-transferable shares which carried a fixed dividend and voting powers, so that in the early years they retained control. At the end of each financial year, the trading surplus is divided among all the co-owners as a bonus, partly in cash and partly in voting shares. The bonus has usually been 40 per cent cash and 60 per cent shares. Through this system, the previous owners lost control, as intended, after five years and the business then became controlled by the working members. The bonus is paid in proportion to gross earnings, so that the higher an individual's wage and the longer he stays with the company, the greater is his shareholding and thus voting power. The board consists of six directors, three from among the co-owners and three from outside. It is elected by the co-owners, whose voting powers are proportional to their shareholdings. There is also a works committee of six members but, in electing the committee, each co-owner has only one vote. The committee, whose chairman is ex-officio a director, negotiates with the management, has a veto on any dismissals and deals with welfare. There is an automatic three monthly wage review and any percentage increase agreed applies to everyone. Landsmans is affiliated to ICOM and has a social commitment.

### from closures to cooperatives

Factory closures in the early 1970s led to a series of attempts by redundant workers to set up cooperative workshops.

Many did not get off the ground but two notable successes were Triumph Meriden and Kirkby Manufacturing and Engineering. In each case, financial backing was provided by the Labour governments elected in 1974. It was an historic first step by any government to go beyond the corporatist idea of public ownership planned from the top. There was intense opposition, hostility from Tory appointed government advisers, a campaign of hate in the capitalist press and a fair degree of coolness within the Labour movement.

The closure at Kirkby was announced in mid-1974 after a tortuous saga of entrepreneurial failure which had lasted a decade. The workers, producing an unlikely combination of domestic appliances and soft drinks, occupied the factory and the shop stewards drew up *ad hoc* plans whereby management was to be accountable to a small group of workers' representatives. The paramount need was to act fast to save jobs and a permanent co-operative constitution was to be introduced as the enterprise evolved. Against the opinions of its advisers, the government made an initial grant of £3.9 million and a further grant of £860,000 to avert a liquidity problem in 1977. By that time, with a turnover of £7 million and employing nearly 800 people, the cooperative was moving into a profitable and expanding situation.

The closure of the Norton Villiers Triumph motor cycle factory at Meriden with redundancy for all 1,750 workers was announced in 1973. There, too, the factory was occupied and, after protracted negotiations, a cooperative started business in March 1975 with 162 workers, of whom every one over the age of 20 was paid the same wage. They were backed by a government grant of £750,000 and a loan of £4.2 million. The cooperative proved to be under capitalised and was impeded by its inability to purchase the NVT marketing organisation. Early in 1977, a further government loan of half a million pounds was provided for that purchase and a deal worth up to £1 million was negotiated with the General Electric Company further to assist marketing. There were heavy losses

in the first year but by 1977 the work force had risen to 700 and Meriden was becoming viable and export orientated.

No such happy outcome resulted for the *Scottish Daily News*, where heroic endeavour degenerated into gullibility and disaster. The Beaverbrook Organisation's announcement of the closedown of its Glasgow operation with 2,000 redundancies in 1974 brought an immediate move to form a cooperative and buy the plant. Money was raised, the government loaned £1.2 million, Robert Maxwell offered help and the first edition of the new daily paper appeared in May 1975. But, with a boycott by London based advertising agencies and lacking a clear editorial policy, it was in trouble from the start. Internal disputes brought a bitter campaign against the leaders of the cooperative and the members were persuaded that they could only preserve their jobs by giving absolute control to Robert Maxwell. They voted 300 to 12 to do so. Their vote killed the cooperative, the paper and their jobs. The enterprise failed not because it was a cooperative but because it ceased to be one and reverted to elitist values.

### springboard for regeneration

It is now more than three centuries since Peter Cornelius Plockhoy set out the principles of common ownership in *A Way Propounded*, almost a century since cooperative consumers prevailed against producers and diverted the Labour movement away from cooperative production, and over half a century since Sidney and Beatrice Webb seemed to kill the whole idea. Yet, as is shown by the representative examples described here without any attempt to gloss over the difficulties, the common ownership enterprises of the 1970s are firmly founded, surviving through a major recession and increasing in numbers.

Practical developments have spread to a variety of service as well as productive industries, whilst local authorities concerned to create employment have started their own projects. In 1975-76, Cumbria

County, Fife Regional and Wandsworth Borough Councils all initiated projects to encourage common ownership enterprises in their respective areas.

Situated apart from the conventionally termed "private" and "public" sectors of industry, the new enterprises constitute what may now be distinguished as the democratic sector, with the mainstream provided by ICOM firms and the workers' cooperatives springing from the grass roots of trade unionism. The examples quoted constitute only a portion of the democratic sector but they illustrate its main characteristics. A survey of the experiences of such enterprises is now needed. It would be best commissioned by one of the established trusts and could produce valuable guidelines for use in a major expansion of the democratic sector.

Although it is outside the scope of this pamphlet to examine international developments, it needs to be noted that British developments are within the context of a world wide move towards common ownership which is taking place in both capitalist and communist social systems. The Israeli kibbutzim were early in the field. In Yugoslavia, the whole economy is based on self-managed enterprises. In western Europe, France and Italy have major sectors of producer cooperatives and, in Spain, the Mondragon Movement created a remarkable oasis of democracy even in the Franco era and is now of major significance in the economy. In the USA, the Federation for Economic Democracy controls a tax-exempted fund to implement common ownership.

Widespread support in Britain is reflected in the grass roots initiatives and no less in the support given in Parliament to the Industrial Common Ownership Act in unexpected quarters. The sheer relevance of the new wave to the British situation presents a heartening challenge to the Labour movement from which it must not turn aside as it did in earlier years and, if it takes up the challenge, it can provide the country with a springboard for regeneration.

## 5. small is indispensable

All common ownership experience is in small firms and, in considering means for developing the democratic sector, that makes a practical case for giving priority to small firms. There are other reasons. First is the importance of small firms to the whole national situation and the importance which their regeneration has to the regeneration of the whole economy. They employ a half of all the people engaged in manufacturing and constitute nine tenths of all manufacturing units. Many make highly specialised products which are world famous in their own line and the survival of small firm know-how, products and employment opportunities are indispensable to economic survival. In a declining manufacturing sector within a failing capitalist system, many are in real trouble. Britain has a much lower proportion of small factories than any other advanced industrial nation and compares especially badly with countries with which British overall economic performance also compares unfavourably. Only 26 per cent of British workers are employed in factories of less than 200 people, as compared with over 50 per cent in France, Sweden or Japan. Whereas, in 1950, the hundred largest firms in Britain employed 25 per cent of the workforce, today they employ over 40 per cent. The decline among small firms is demonstrably an important factor in the wider failure and a regeneration of such firms is clearly necessary (see also Nicholas Falk, *Think Small: Enterprise and the Economy*, Fabian Society, 1978). Common ownership is a practical way to ensure their survival and expansion.

A further reason for starting here is that no provision for small firms was made in the report of the Bullock Committee of Inquiry into Industrial Democracy. Irrespective of the merits or demerits of the Bullock proposals, the Report only envisaged their application to firms employing 2,000 or more people. The farthest Bullock went was to suggest that if its proposals were introduced, then after the experience of three or four years, "it might be possible" for the government to lower the limit to 1,000. It is widely held that small firms are

automatically more democratic than large organisations simply because they are small. In many cases they are, but the assumption that democracy in industry goes automatically with smallness is fallacious. The reports of the Wages Inspectorate of the Department of Employment repeatedly show that in those industries where minimum statutory wages apply—largely made up of small firms and where trade union organisation is weak, as it often is among small firms—there is a large proportion of small employers who consistently pay less than the statutory minimum, which is anyway pretty low. In addition, cases like that of Grunwick have revealed starvation wages coupled with a fascist like attitude to employees. Small may be beautiful in concept but it is frequently ugly in practice.

Common ownership is the only proposal for industrial democracy in small firms. There is a quarter of a century of practice of industrial common ownership. The case for priority in the small firm sector is clear. What has to be decided is the best way to proceed.

### developments without further legislation

The new situation created by the 1976 legislation has limitations. The Common Ownership Act makes available only very restricted resources—£30,000 a year for five years for grants to bodies qualified to advise on the organisation of cooperative production and £250,000 within the same five years for loans to individual enterprises. The 1976 Finance Act, although relieving firms converted to employee trusts from both capital gains and capital transfer tax, does not satisfactorily define such trusts and does not stipulate that they must be of a common ownership nature. The situation is therefore only an experimental one. Even so, some important developments are possible without further legislation.

One development could be in reconstituting workers' cooperatives. Set up as they were in crises, they necessarily took on hurriedly devised structures fitted to

emergency situations. Those structures have served well but they are not long term in nature and they are starting to creak. Through its financial backing, the government is well placed to influence the cooperatives to make more permanent arrangements. The pity is that when both Meriden and Kirkby received second shot aid, the opportunity was not taken to make it conditional upon their adopting constitutions to accord with the Common Ownership Act. The Act was in force and there was the experience of the Scott Bader constitution to draw upon. The government still exerts sufficient control to encourage these cooperatives to draw up agreed common ownership structures within, say, six months. Future aid to any *ad hoc* cooperatives should be conditional upon their adopting common ownership constitutions. It may be that central government is reluctant to loosen the control it exerts under the present arrangements and to hand over to the workers. If so, it should shed any such reluctance, which is contrary to the spirit and intention of the new moves away from centralised control. The cooperatives, by taking on proper common ownership constitutions, would ensure democratic self-management of a permanent form and they would prevent any possibility of their becoming cooperatives run on behalf of the state rather than on behalf of the workers.

Another development which could take place within the existing situation is that better use could be made of the National Enterprise Board. Denounced by Tories as "creeping socialism", the NEB has proved in practice to be more of a pillar of state capitalism. One interesting development is that it has become something of a champion of the small firms sector but it has done little to advance industrial democracy in that sector, even though the advancement of industrial democracy is nominally among its objects. Early in 1977, the Board made its first complete takeover of a small company, a Tyneside firm making transformers and employing about 130 people. The firm was a subsidiary and, although profitable with satisfied customers and good orders,

it was faced with extinction by the bankruptcy of the parent company. The General and Municipal Workers' Union suggested an approach to the NEB. Union and management made a joint approach and within six weeks the Board had assessed the situation and taken over, creating a new firm called Keland Electrics. The new company continued on an entirely conventional basis, albeit with good management-union relations; but though financed entirely from public funds, it had no provision for the members of the public who worked there, apart from the management, to exercise control. This is the normal situation in NEB companies.

The NEB requires all its companies to draw up detailed plans for development. A government directive could be issued to the Board that democratisation be included in company plans, that financial support be conditional upon democratisation and that each company be required to produce agreed proposals to meet its own needs within a given period. In the case of small firms, these proposals could be for conversion to a common ownership structure as defined in the 1976 Act.

Obviously, the NEB would wish to nominate trustees but that need present no difficulties. The invaluable Scott Bader experience could be drawn upon, with its Commonwealth Board of Management responsible for general oversight. Each NEB company could have an elected body with similar responsibility and some, even a majority, of the members could be nominated by the NEB, subject to election by the workforce members of the company.

### **a cooperative development agency**

An essential requirement for creating a really large common ownership sector is a Cooperative Development Agency. Legislation to create one should be a priority. The CDA would have to be provided with ample resources, not only in finance to provide loan capital but also in technical expertise. It should be equipped to assess realistically all pro-



posals for new projects and the expansion of existing ones and its resources should also be adequate for it to initiate new enterprises. It is imperative that it should be a dynamic body and not just a source of cheap finance. Although a CDA has been Labour party policy for several years, long discussions about its shape and purpose between the government and interested parties proved initially inconclusive. Within the cooperative movement, there was an early tendency to look upon the CDA as a means of providing finance which an ailing consumer movement could not raise from any other source. Latterly, as the coop has climbed with growing vigour out of its post-war decline, thinking has moved to a revival of interest in producer co-operation and to a wider view of the purpose of the CDA. Cooperative Members of Parliament were especially strong in support of the Industrial Common Ownership Act.

Given the general acceptance of the purpose of the CDA, there is still plenty of scope for argument about its structure.

It could be centrally directed like the NEB and the older nationalised industries. In that case, those in control would be appointed directly by the government and the whole exercise would be an application of the corporatist idea of public ownership planned from the top. Alternatively, it could have a more democratically constituted controlling body, subject to election through relevant organisations such as the cooperative movement, trade unions, ICOM, ICOF and cooperatives receiving support from the CDA. Supporters of the familiar corporatist system may find this revolutionary and even unnerving but, from a common ownership standpoint, it merits careful consideration.

### helping conversions

Attention has already been drawn to the sections of the 1976 Finance Act which relieve firms converted to "employee trusts" from capital gains tax and capital transfer tax. An employee trust need not be a trust giving control to the workforce

and trusts can be created which, although giving a superficial appearance of employee control, are really devices to avoid due tax whilst perpetuating employer control. The appearance is participation and the reality is a means of manipulating people. The Act was followed by an early attempt in Northern Ireland to create such a trust. The two sections in the Finance Act were inspired by a desire to encourage the conversions envisaged in the Industrial Common Ownership Bill, which was then making its way through parliament. The definition in the latter Bill of common ownership and cooperative enterprises was not finally arrived at until after the Finance Bill had been completed and, since there were no precedents to work on, it was not surprising that different definitions were reached. The Finance Act provisions are complex but it would be straightforward to replace the two sections with new ones in a future finance act, substituting the definitions contained in the Common Ownership Act.

Governments of different complexions have been contemplating revisions of company law for some years. With the growth of producer cooperatives, there is need to consider a new consolidating act to combine the Companies Acts 1948-67 with the Industrial and Provident Societies Act 1965, as well as with the Industrial Common Ownership Act.

Limited companies are governed by the companies acts, within which they have to be incorporated with approved memoranda and articles of association. Cooperative societies have, instead, to adopt approved rules and are governed by the Industrial and Provident Societies Act, itself a consolidating measure which replaced all previous legislation for co-operatives. However, the act is wholly designed for consumer and not for producer cooperatives. For that reason, the new workers' cooperatives found that they had to register under company and not cooperative legislation. Until the advent of the Industrial Common Ownership Act, the common ownership enterprises also had to register as companies because, in spite of their cooperative

nature, they did not qualify as cooperatives within the law.

For the prevention of abuses, it is illegal for any company to purchase its own shares from shareholders although the shares can be purchased by any other company. In practice, the law did not prevent "insider trading" whereby shareholders could form new companies to purchase and deal in their own shares for their personal enrichment as opposed to furthering the corporate interest. The law does mean, however, that when a conventional company is converted to common ownership, a new company has to be set up to purchase the capital and hold it in trust for the operating company. Conversions could be simplified if legal means with adequate safeguards were provided for the conversion of shares into redeemable loan stock. Conversions into common ownership can and do take place within existing law but the procedure is clumsy. A consolidating Bill to include all the above provisions would be massive and complex but the existing situation is, in any case, already complex. The choice is not between the complex and the simple but between different complexities and the decision has to be as to whether modifications to existing acts would be more or less helpful than a general consolidation.

# 6. towards a common ownership economy

Alongside the case for priority in small firms, there is also a strong case for extending common ownership to large organisations. A third of the total United Kingdom workforce are employed in large enterprises. These enterprises account for a very large part of the commanding heights of the economy and, to make any real impact, the democratic sector must be extended through industrial common ownership in large as well as small concerns.

Large organisations may be restructured but they are here to stay. Neither sentiment in favour of small firms nor their regeneration will alter a heavy dependence in the economy on technologies requiring large resources. Large organisations have great problems arising from their authoritarian system of management, so the need to improve the quality of life at work is greater in large companies and the need to release the full potential of those working in them is not less. The problem is that there is no experience of industrial common ownership in large units and that little thought has been given to producing it. The Bullock proposals are specifically for large enterprises in the private sector but they exclude common ownership, which was not in the Committee's terms of reference. The terms of reference were to advise on industrial democracy in the control of companies through representation at board level. The Committee soon found that changes at board level are not by themselves sufficient and that active participation is vital at every level for an extension of industrial democracy. However, self-managed enterprises and industrial common ownership were precluded from their deliberations and their central proposal, relating to the composition of boards, excludes any means to make workers members rather than employees, to neutralise capital or to ensure control by a majority of working members rather than by people supplying capital. This is the appearance rather than the reality of democracy.

Nevertheless, the Bullock proposals are important and radical. In the absence of common ownership experience in large

organisations, they should be implemented. The likelihood is that a few years of their implementation would demonstrate that industrial democracy requires industrial common ownership. Meanwhile, a full examination should be opened, using Bullock as its starting point, as to how common ownership may be extended to large enterprises. However, early implementation of Bullock seems unlikely. With rabid opposition in every place of power where the privilege of capital is rated higher than the democracy of labour, the most that a government without a parliamentary majority would likely to be able to achieve would be an act whose implementation would be left at the discretion of employers. A Tory government would mean no bill at all. Either way, the failure to draw out the nation's full energies and skills would continue and the need for a really wide application of common ownership in the national economy would become increasingly urgent.

## the John Lewis partnership

The only large commercial organisation officially embodying democratic control is the John Lewis Partnership. About a fifth of its capital is held outside so it is not a full common ownership but, with the outside capital at fixed interest and the whole of the remainder held in trust, it may be considered comparable for the purpose of argument. With over 23,000 members and sales approaching £440 million a year in more than 80 supermarkets and department stores, it shows that the principle of worker ownership can be applied to large companies. With a commitment to "democratic accountability of the management to the managed, not just as a theory, but as a hard fact of everyday commercial life" (*About the John Lewis Partnership*, 1973), it shows that democratic management can be applied to large concerns. Famous for the high quality of its goods and services and expanding steadily, it shows the practical success of democracy.

Principles embodied in the constitution are that no worker should receive less

than a decent living; that capital should receive a modest, fixed interest; and that profits should be distributed among management and managed alike in proportion to pay. Like Scott Bader, it has a complicated structure, designed to meet the requirements of democracy combined with efficient management in the market in which it operates. The following is a necessarily brief summary of the system of control.

Control is vested in the Chairman and two other authorities, the Central Council and the directors of the trust. The Chairman is chairman of the trust, to which he nominates the vice-chairman and 5 other of the 12 directors; the remaining 5 are nominated by the Central Council. The Council is financially independent of the management, four fifths of its 130 or so members are elected by the members and any member may be a candidate, the appointment of the non-elected members is in the power of the Chairman. Normally, the Chairman is nominated by his predecessor, he is the chief executive and all principal executives are responsible to him. The main balance to the very great power exercised by the Chairman is with the elected members of the Central Council, who can remove him from office by a two thirds majority. There are branch councils, which are local versions of the Central Council and there are also branch committees, to which only members not holding any managerial responsibility can belong and for which rank and file members only can vote. There is a Central Registrar and Branch Registrars whose duties include checking that all operations are constitutional. The constitution requires a *Chronicle* to be published in each branch and a *Gazette* to be published centrally. Even anonymous letters are published and they must be answered from the appropriate quarter if an answer is required. Trade union relations are good with proper observance of negotiating procedures but subject to the general weakness of trade union organisation in retailing.

Although the constitution has clearly served well, neither the concentration of

power in the hands of the Chairman nor the hierarchical method of his appointment would suit a full common ownership. The nature of his position derives from the nature of the founding of the partnership, created through two trust settlements made in 1929 and 1950 by John Spedan Lewis who had inherited the business and was the first chairman.

From the start the constitution has been subject to review, always towards increasing democracy and latterly towards strengthening institutions and reducing dependence on personalities. With the growing need to examine common ownership in relation to large organisations, the John Lewis experience is a necessary area for study.

### **nationalised industries**

The nationalised industries are the obvious starting point for extending the system into large organisations. They are already in a form of common ownership, their boards being responsible for operating them on behalf of the nation and their finances ultimately the responsibility of Parliament. In the monopoly position of many of the industries, the maintenance of overall parliamentary control of financing would be no contradiction to the principle of self-management, although a fundamental review of the control of financial responsibility within each industry would be requisite. Suggestions for direct representation of employees on the boards were often made during the debates on nationalisation in the late 1940s. The idea was rejected almost with contempt and not one of the earlier nationalisation acts included any provision that workers should even share in, leave alone control, the management of their industries. The first move was in the steel industry in the late 1960s, when three steelworkers were appointed to each of the then four divisional boards of the British Steel Corporation, but their duties were non-executive and very limited. In the subsequent reorganisation of the industry, they became slightly less restricted and the procedure for their appointment became marginally more

consultative but they remained without any real power.

Not until the Aircraft and Shipbuilding Bill of 1976 were specific proposals to promote industrial democracy included in a nationalisation measure. British Aerospace were instructed to report to the Secretary of State within six months of vesting day, and thereafter as required, proposals for the most efficient management and decentralisation as well as for the effective promotion of industrial democracy. The differing structure of the shipbuilding industry made it possible to give farther reaching instructions to British Shipbuilders. They were required, additionally, to make proposals to decentralise management and decision making, to separate profit centres on a regional basis as well as in relation to sales, pricing, production, manpower policy, industrial relations and responsibility for financial performance. The next step should be to go on to introduce the common ownership form of management to make the management responsible more to the workforce than to the government and to introduce it to all nationalised industries. To produce democratically manageable and viable units without fragmentation, the industries might be divided into branch and regional units with cooperative relationships each with the other and with the central authority. The best method would be for each industry to formulate its own proposals. No legislation would be necessary to enable them to do so, since the government could use its existing powers to issue directives to each board to produce proposals in consultation with the trade unions. Some of the resultant proposals might require legislation but it would be no more than amending legislation to existing nationalisation statutes.

An example of such legislation is the Post Office Act 1977, which resulted from a joint report prepared by the management and the unions at government request. It is a single page Act, simply increasing the Post Office Board from 12 to 19 members. It is being implemented by appointing 7 management members, 7 put forward by the Council

of Post Office Unions and 5 independents. The responsibilities of the independent members will include the representation of consumers.

In any monopoly, the safeguarding of consumers' interests is a difficult issue, irrespective of the nature of the control of the monopoly. Where the scale of operation requires a monopoly or where there is a *de facto* monopoly arising from collusion among supposedly competing operators, the case for nationalisation is that it makes the monopoly publicly accountable. A nationalised corporation is accountable to the appropriate minister, who is answerable to parliament, so that parliament retains ultimate control over appointments and also over the finances. Additionally, there is the provision of consultative councils as watchdogs of consumers' interests. A notable consumer success within this system was that achieved by the Post Office Users' National Council in 1977, when they forced an inquiry into the profits of Post Office Telecommunications. The profits were clearly shown to have exceeded the level allowed by the Price Code and the Corporation was compelled to make a rebate to telephone subscribers. Even so, customers of nationalised industries do not, by and large, feel effectively safeguarded by the machinery for their protection, many not even being aware of its existence.

Dividing monolithic structures into cooperative branch and regional units would add a new dimension but it would not diminish the need for independent representation of consumers' interests and does not purport to do so. The requirement would remain for the safeguards provided by overall parliamentary control of financing, by strengthened consumer councils and by the powers of the Price Commission.

### **the trade unions**

Wherever there have been moves towards industrial common ownership, there has been trade union interest and, frequently, active involvement. The workers' co-

operatives sprang from grass roots trade unionism and there has been trade union involvement in the inception of other enterprises ever since the conversion of Scott Bader. But the expansion of the democratic sector will need more than this sort of *ad hoc* approach. There is little national awareness about industrial common ownership in the trade union movement and even a measure of suspicion about it. The suspicion is unjustified but that will have to be demonstrated. There is an urgent need for a campaign to inform the trade union movement about common ownership and to obtain their full support.

Plenty of schemes have been devised for profit or capital sharing whose main purpose is to condition people to accept control over their lives by capitalists; attempts to weaken trade unionism are usually part and parcel of such schemes. Experience of this sort of manipulation has sowed trade union suspicion that industrial common ownership could be another such device. In fact, because it is the means for labour to employ capital, it is the most effective counter to such devices. But its advocates have a job of work to do in making that known and accepted. There is also widespread feeling that the independence of trade unions would be compromised by workers' participation through seats on the board. The dilemma is that if the employees' representative is to be effective, he must become involved in the company's decision making process but that if he is effective, he becomes too closely identified with management and loses the confidence of his constituents. This further confirms that the Bullock proposals, on their own, are the appearance rather than the reality of democracy and that they need to be supplemented by common ownership to achieve the reality.

For all the suspicions within the movement, the TUC set out a case for employee representation on company boards as long ago as 1966, in their evidence to the Donovan Commission on Industrial Relations, and the proposition was officially adopted by Congress in 1974 in the report

*Industrial Democracy*. To some extent, that TUC report was a forerunner of the report of the Bullock Committee, whose terms of reference included particularly taking the TUC report into account. Meanwhile, the AUEW (whose predecessor the ASE was a pioneer in the promotion of cooperative workshops) has made a cautious return to support for them. The 1976 National Conference adopted as policy that the union would consider on its merits any appeal for financial assistance in the setting up of further workers' cooperatives and they added that it might be useful if the TUC were to reach an understanding with the Cooperative Bank for advice and, where suitable, financial assistance for such projects.

Cooperative ownership of production is wholly relevant to the basic principles of trade unionism, wholly relevant to the cooperatives set up by trade unionists and wholly relevant to the official trade union proposals for industrial democracy. Given the need to make the movement more aware of it, there is no reason to believe other than that they would be prepared fully to support it.

Formed when parliament was unrepresentative of the nation and was used as an instrument of class war against working people, the trade unions were always based on the principles of policy making and control of the executive by the entire membership. They were democratic long before parliament itself became democratic and they provided the main force which brought democracy to parliament. As they helped channel the power of the people to move British politics to democracy in the nineteenth century, so they can play a vital part to channel that power to move British industry to democracy in the twentieth century.

# 7. summary

Cooperative ownership by working people of the enterprises in which they work is one of the most long standing concepts in socialist thinking and there is more than a century and a half of its continuous practice in various forms. Producer cooperatives became a back water in socialism in Britain in the twentieth century, but they are re-emerging strongly in the new wave of industrial common ownership enterprises and workers' cooperatives. This new democratic sector is demonstrably relevant to the country's basic economic problem and the following paragraphs summarise the points already set out for action to expand it.

The new wave has both demonstrated important successes and revealed problems. A comprehensive survey needs to be commissioned to examine and compare the various enterprises and to assess the lessons of their experience. Such a survey could be sponsored by one of the established trusts.

High priority needs to be given to gaining the full support of the trade union movement. There is relatively little national awareness in the trade unions about industrial common ownership but there is no reason to suppose that their support would not be forthcoming. The workers' cooperatives sprang from grass roots trade unionism and individual unions have been involved in the formation of other common ownership enterprises. Full and committed trade union support would do more than almost anything else to advance cooperative production.

All government aid to cooperatives should be conditional upon their adopting constitutions in accordance with the definitions of the Industrial Common Ownership Act 1976. Existing workers' cooperatives should be restructured to come into line with the Act. When the National Enterprise Board takes over or intervenes on a controlling scale in companies, the companies should be converted to common ownership.

For a really effective expansion, a Co-operative Development Agency is essen-

tial and legislation to carry out the long standing Labour Party commitment to create one should be a priority. The CDA should have a democratically constituted controlling body, subject to election through appropriate constituent bodies, rather than be wholly government appointed in the corporatist fashion.

The Finance Act 1976 relieves companies from capital gains tax and capital transfer tax on conversion to what are termed "employee trusts". Such trusts need not have cooperative structures and the Act is open to abuse through the creation of trusts which give an appearance of democracy although they are really devices to avoid due tax and to perpetuate employer control. The relevant sections of the Act should be amended to make relief available only to companies converted to constitutions as defined in the Industrial Common Ownership Act.

A good deal of attention has been given to the need for a general revision of company law and attention should now be directed to revisions to facilitate conversions to common ownership. Provision is required for the conversion of shares into redeemable loan stock and for a possible major consolidating act to combine the Companies Acts 1948-67 with the Industrial and Provident Societies Act 1965 and with the Industrial Common Ownership Act.

The priority for common ownership is among small firms and all experience is in small firms but the need for it in large organisations cannot be neglected. The proposals of the Bullock Committee of Inquiry into Industrial Democracy are a radical step towards democracy in large firms in the private sector but, without neutralisation of the power of capital as in common ownership, the proposals will produce the appearance rather than the reality of democracy. The proposals should be implemented and studies set in hand to use them as a starting point for the application of common ownership to large companies.

Nationalised industries are the obvious starting point for extending cooperative





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## **industrial common ownership**

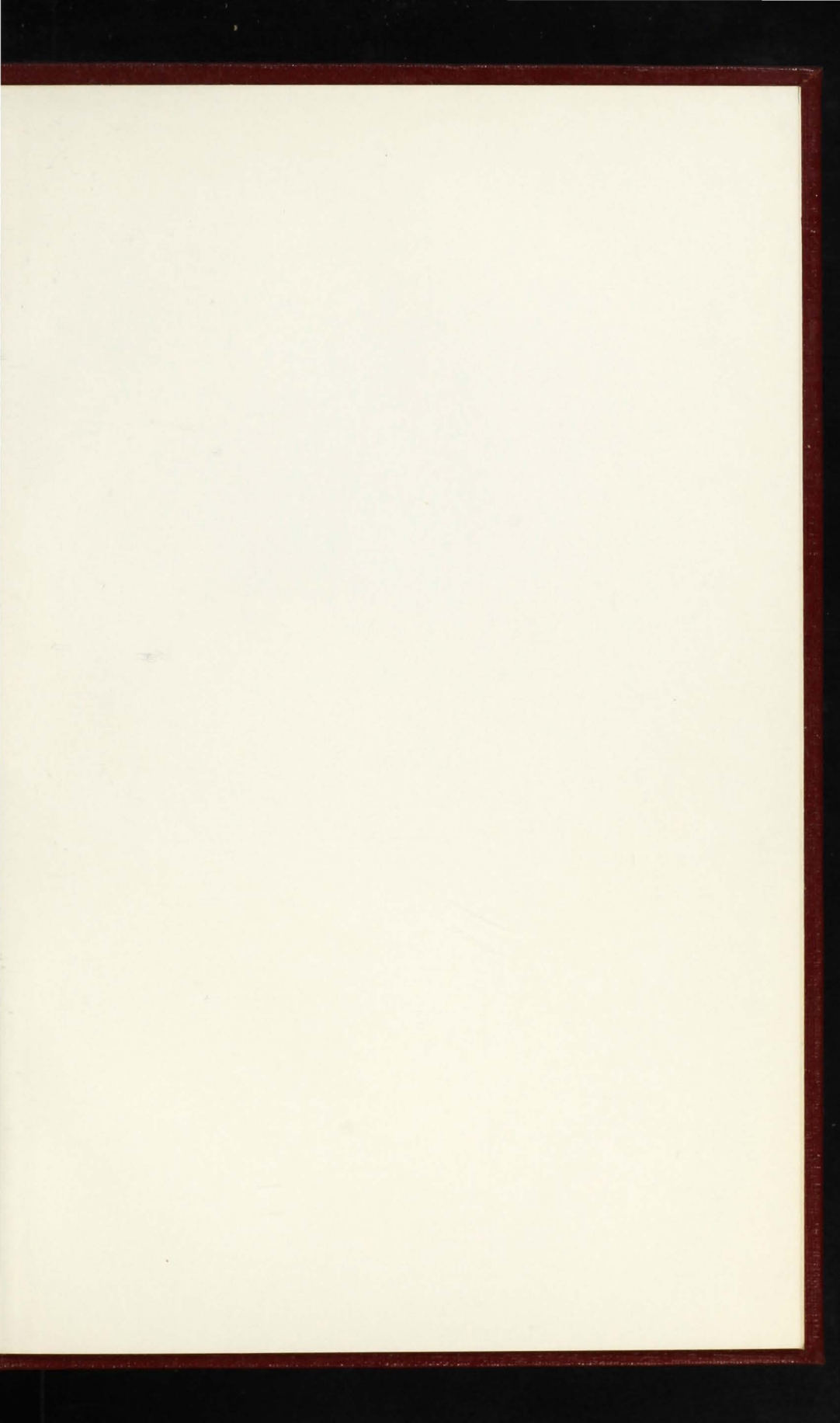
In this pamphlet David Watkins outlines the revival of interest in the democratic ownership of enterprises by the people working in them. He looks at some of the examples in practice, describes the legislation already enacted and discusses methods to expand the democratic sector. To date, practical experience has been confined to small units and the pamphlet goes on to discuss means to extend it to large organisations. The author argues that industrial common ownership is the most advanced form of industrial democracy yet devised and that it merits urgent attention as a practical alternative to Britain's dying capitalist system.

## **fabian society**

The Fabian Society exists to further socialist education and research. It is affiliated to the Labour Party, both nationally and locally, and embraces all shades of socialist opinion within its ranks — left, right and centre. Since 1884 the Fabian Society has enrolled thoughtful socialists who are prepared to discuss the essential questions of democratic socialism and relate them to practical plans for building socialism in a changing world. Beyond this the Society has no collective policy. It puts forward no resolutions of a political character. The Society's members are active in their Labour parties, trade unions and co-operatives. They are representative of the labour movement, practical people concerned to study and discuss problems that matter.

The Society is organised nationally and locally. The national Society, directed by an elected Executive Committee, publishes pamphlets and holds schools and conferences of many kinds. Local Societies—there are one hundred of them—are self governing and are lively centres of discussion and also undertake research.

Enquiries about membership should be sent to the General Secretary, Fabian Society, 11 Dartmouth Street, London SW1H 9BN: telephone 01 930 3077 (01 222 8877 from Spring 1979).



### Industrial Development and Planning

The Government of India has set up a committee to study the various aspects of industrial development and to make recommendations thereon. The committee has submitted its report to the Government and the same is being considered. The committee has also set up a sub-committee to study the various aspects of industrial development and to make recommendations thereon. The sub-committee has submitted its report to the committee and the same is being considered. The committee has also set up a sub-committee to study the various aspects of industrial development and to make recommendations thereon. The sub-committee has submitted its report to the committee and the same is being considered.

### Indian Society

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