

National Practices in Employee Ownership

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October 14, 2000

Thanks to all the discussants, cited in the bibliography, who have contributed their ideas and research to this paper. The author takes all responsibility for misinterpretation, misconstruction and outright errors.

The purpose of this paper is to survey and briefly describe employee ownership as practiced in national policy. It is based on materials and references supplied by participants in the 1999-2000 virtual think tank online discussion group on national employee ownership policy sponsored by the Ford Foundation and organized by the Capital Ownership Group at www.cog.kent.edu. This paper will focus on the extent and general structure of employee ownership as practiced, even if only by a few firms, rather than upon the equally important but narrower topic of national statutory and regulatory law on employee ownership.

In the scholarship of this field, there is almost no systematic collection of data and analysis outside of Europe and North America, probably because employee ownership is so new that it is not yet clear how it will be used by firms and have an impact on national economic performance. For information on Europe, particular thanks are due to Eric Poutsma and Darryl D'Art for their excellent work on employee ownership in the European context. Their considerable scholarship, patient data collection and thoughtful analysis represent the best kind of comparative study of employee ownership, which yields insight and understanding of how policies may be evolved to fit well with national cultures, economies and politics. To begin to address the information deficit, and to offer a quick reference guide, the Capital Ownership Group website includes a matrix of brief information about employee ownership in some of the world's states. It is available at <http://cog.kent.edu>. Readers may correct or supplement the matrix by joining one of the discussion groups and e-mailing comments to the discussion coordinator.

Employee ownership is an idea that has been around for a long time. Its roots can be traced to the medieval guild system, communal self-help associations, non-Marxist Socialism and utopian movements of the late 19th century. In more modern times, a few leaders and small numbers of followers, captured by the appeal of using collective and cooperative effort to build a better way of life, have been creating "employee-owned economic associations" in many forms for more than a century. Some of those associations still exist today, although they might be unrecognizable to their community-minded founders. Some examples are the Shaker community at Black Lake New Hampshire, Mennonite enterprises in Central America (**Guatemala?**), and Ambridge Steel (created by Harmonites before they moved on to Indiana). In the 20th century, there are examples like Publix supermarkets, currently the largest employee-owned firm in the U.S., and Journal Communications, publisher of the *Milwaukee (Wisconsin) Journal* where 3300 current and retired employees are owners of a wide array of firms in the communication business. A recent report from Trinidad indicated the existence of 25 companies offering stock ownership plans approved on a case-by-case basis without any supporting legislation at all. (1999. "Trinidad Looking at Ownership Legislation", *Employee Ownership Report* 19:3, 13) All of these enterprises were and are owned by their employees and were created without any specific policy support from government. The appeal of employee ownership is strong enough that some voluntary grants of ownership and profit sharing occur spontaneously. ; Most states where private enterprise is supported probably have at least a few "precursor" firms or organizations that practiced some form of employee ownership prior to the existence of any national policy.

1. Governments enact policy on employee ownership for many reasons.

Reasons given by sponsors and government for supporting employee ownership include some combination of those listed below.

Encouraging economic development

Bolivia, Israel, Jamaica, Peru, Zimbabwe,

Keeping labor peace with an incomes (wage control) policy

Sweden

Saving floundering firms

U.S., U.K., Ireland, Israel

Privatizing government-owned enterprises

Bulgaria, Czechoslovakia, Hungary, Poland, Puerto Rico, Romania, Russia, U.K.,

U.S.

Preventing buyouts and closings of smaller firms

U.K.. U.S.

Spreading ownership of wealth

France, U.S.

Encouraging employee loyalty in a tight labor market

Ireland, U.K., U.S.

Improving employee compensation packages

Germany, Netherlands, Belgium

Motivating higher productivity through individual employee efforts

Ireland, U.K., U.S.

Generating higher overall economic productivity through capital investment (deferred consumption through deferred profit sharing creates funds for capital investment)

Sweden, Denmark

Promoting ownership by indigenous people (native-born nonwhites) in a former colonial state where most of the productive assets are owned by former citizens of the imperial power (whites)

Zimbabwe, Egypt

Attracting population

Israel

Ameliorating problems of unemployment by allowing for a variable wage

European Union

Saving jobs

Czechoslovakia, Hungary, Israel, U.K., U.S.

Historical experience indicates that neither business nor organized labor is likely to view employee ownership with approbation when the idea is first seriously proposed. When they find it attractive, it is for different reasons. For labor, it is saving jobs from foreign competition or privatization, and gaining influence in the management of unionized firms. For business, it is a combination of practical convenience and vision of a better business future. Business organizations like employee ownership primarily for its tax shelters, but also for the opportunity for succession planning for privately held firms with no likely heirs, protection from buyouts and closings, encouraging employee loyalty, developing better relations between management and labor, and motivating higher productivity.

And although the idea of employee ownership has an appeal to leftist parties and groups outside of trade unions and Communists, it appeals to the right, too. The first employee stock ownership legislation in the U.S. was passed in 1974, under a Republican president, at the initiative of a Democratic Senator in a Democratic Congress, and both the Save-As-You-Earn stock purchase savings plan and Employee Share Ownership Trusts in the United Kingdom were passed by Conservative governments, in 1980 and 1989, respectively. In Russia and Central Europe, employee ownership was an appealing solution to privatizing large state-owned economies and a safe compromise between the alternatives of selling out to capitalism and preserving the workers' state..

2. National policy has used many forms of employee ownership policies.

With so many possible combinations of motives on the part of government, business, and labor, it is not surprising that governments have tried many different types of employee ownership, and that a state's approach to employee ownership is best predicted by its culture. (Poutsma, 1999a, 1999b)

The techniques, approaches and strategies that have been adopted in national governmental policy and implemented by enterprises include cooperatives, profit-sharing, ownership and management of firms by labor unions, collective share ownership through workingmen's (share-owning funds), employee stock purchases (with or without assistance from the firm), employee share ownership trusts, employee share ownership [pension] plans, employee-directed stock ownership pension accounts and stock options.

Cooperatives

Any country where private ownership is permitted by law may use the cooperative, which is a kind of partnership with many partners who need a governance structure to manage relations among them. Typically, cooperatives are formed with many small craftsmen or producers who own their own tools but need help with specific problems like purchasing or marketing. Typically, each owner has one vote. Occasionally, cooperatives may purchase capital equipment to be shared, but this practice has a checkered history. While many cooperatives have sustained a modest success over many years, they have historically had difficulty getting access to capital and have often foundered on the rocks of opportunism from within or competition from better capitalized conventional firms.

Cooperatives exist in all modern states. They have been especially successful as farmers' organizations in the U.S., which were fostered by national policy, and helped to provide farmers with rural electricity, agricultural research and training, purchasing and marketing services.

Canada is particularly rich in cooperatives, claiming 151,000 employees for 14.8 million members, with assets of \$167 billion in 1996. The Financial Post's top 500 business listings of 1997 included seventeen nonfinancial cooperatives, eight of them patently farm-related. Thirty-six nonfinancial coops or coop associations are listed on the ICA website (thirteen of the thirty six appear to be French-language based, and twenty-eight more are patently financial.

They seem also to be a good match for the cultures, politics and economies of Latin America, where share ownership is not widespread, private property is not always secure, and rule of law is a variable rather than a constant. In the 1980s, Cooperatives in Latin America were heavily promoted by U.S. foreign policy and NGOs, after the failure of large-scale aid projects and disastrously rapid urbanization without rapid economic growth. (Wasserstrom, 8)

Currently, the International Cooperative Alliance (ICA) lists connections in Latin America, to cooperatives in Argentina, Brazil, Colombia, Puerto Rico, and Uruguay. Argentina appears to have with most developed cooperative sector, with nine cooperatives (at least four of which appear to be credit cooperatives or mutual savings societies) listed on the ICA website. Unfortunately, few of these links have information to estimate the magnitude or importance of the cooperative sector..

However, cooperatives may be over-regulated in at least some Latin American countries, where organizers complain of onerous, even prohibitive, governmental requirements for forming cooperatives. (Wasserstrom, 22) Anecdotal evidence from Wasserstrom suggests that coops of poor people may not register with the authorities in order to avoid regulation. A recent U.N. paper made available through the Committee for Advance of Cooperatives observes that governments have in the past often viewed cooperatives as extensions of parastatal (state) enterprises, but that notion has been replaced by the idea that cooperatives are independent entities having no connection with the state. (Cited in May, 1998)

Europe, by contrast, is a veritable nest of cooperatives. Thirty-four European countries have member associations registered with the ICA, and altogether there are over sixty country-related listings entered for Europe on the ICA website, several of them to other sites which represent listings for a single country. **I could go back and visit every one of these sites to compile the information a little better, but I don't have time for this draft.**

Spain, among the countries of the European Union, is the only member reported to have adopted major new legislation on cooperatives. The government adopted a General Law on Cooperatives in 1999, making it easier to form cooperatives and imposing less regulation. Cooperatives are seen as a stabilizing factor: they stabilize employment, provide more training, reinvest more profits and have higher labor productivity. In Spain, they receive favorable tax treatment. (Poutsma, 72) It is reported that more than 300,000 are employed in worker cooperatives in Spain. (1999. "Over 300,000 Workers in Spanish Cooperatives," *Employee Ownership Report*, 19:2, 10). Spain is home to 11,079 large and small labor firms, employing 62,567 as well as the large and diversified Mondragon Cooperative, formed in the impoverished Basque area in 1956. Today Mondragon is an industrial, banking, management and marketing giant in Spain, with 34,400 employees, 70% of them members of the cooperative, exporting 46% of its industrial production in 1997. (Whyte, 1999:478) In governance, Mondragon has become more centralized, and governance is more concerned with money than ever before.

France had over 1300 producer cooperatives in 1984, employing more than 40,000 workers. According to Defourney, *et al.*, this was the second largest cooperative sector in the Western world (p. 199). They were regulated by national law requiring them to distribute at least 25% of their profit as bonuses and set aside at least 15% as a reserve. Members could own varying amounts of shares in the coop, but each member had just one vote in corporate governance. Traditionally concentrated in

construction, printing and mechanical engineers, cooperatives are also found especially in consulting, electrical firms, woodworking and food processing (Defourney, Estrin and Jones, 1985).

Even under conditions of state central planning, cooperatives can flourish if conditions are right. Derek Jones, studying producer cooperatives in three Polish industries during 1976-1978, when Poland was still a centrally-planned economy, found that increasing worker participation in enterprise management or increasing economic incentives had positive effects on productivity. (Jones, 1993)

Here is where additional information on Central European Cooperatives should go.

Poland had extensive experience with producer cooperatives even before the Soviet Union collapsed in 1990. (Jones 1993a) In 1976, there were about 1500 cooperatives, employing about 800,000 workers and accounting for about 10% of Polish industrial output. This represents "by far" the largest producer cooperative sector in Europe, Jones points out. In establishing their management and governance structures and practices, the cooperatives were somewhat sheltered from the state planning agency by their affiliation with non-communist parties which were permitted to exist in Poland but in no other country of the Soviet bloc. Legislation established the basic principles: one vote for each member, voluntary membership open to all and limited return on capital. Typically the firm was governed by a General Assembly of Members which included an average of 80% of the workers, and a council, comparable to a board of directors, with a majority of non-managerial workers. The distribution of the annual surplus was partly set aside for investment and reserves and partly distributed to the workers in the form of an annual bonus and deposits to a savings account with limited withdrawal rights. Workers contributed to the capital of the cooperative when they joined and when they left, they received their capital back. Interest was paid on the share while they were members. However, there was considerable variation among the firms in the extent of participation in governance and profits. (Jones, 477-78) Among Jones' sample of 63 cooperatives, cooperatives with participation and financial incentives outperformed cooperatives lacking those characteristics. (Jones, 480)

Israel is an experienced state in the matter of cooperatives (kibbutzim). Hundreds of cooperatives were formed in connection with the Zionist movement and the establishment of the state of Israel. The leaders of Zionism were products of Socialist politics in their homelands, and they idealistically saw cooperatives as the road to a better economic life. Agricultural cooperatives were established to "make the desert bloom," and amid some failures, many succeeded, built on the devotion and backbreaking labor of immigrants. Then came industrial cooperatives, some fostered on the agrarian cooperatives and others formed in the cities. There were over 1000 agricultural and industrial kibbutzim in 1970. Today, most Israeli cooperatives are organized in two divisions of the trade union organization, Histadrut, (General Labor Council). However, Histadrut has come under increasing criticism for using the cooperatives for national and political reasons rather than protecting and fostering them. In 1991, Raymond Russell found that while Histadrut's announced intention was to support the cooperatives, in fact its control "may have caused irreparable harm to the Israeli urban cooperative sector." (Russell, 1991) The reasons for the decline include too-hasty and ill considered formation of cooperatives to give employment to waves of new immigrants, a financial structure which makes it nearly impossible for new members to buy into the coop, the increasing use of hired labor (as a result of the high cost of membership), a lack of financing and business planning. Histadrut made efforts to reverse the harm done by its policies, but their efforts seem to have been too little, too late. (Russell, 400) Under Histadrut's stewardship, there has been substantial erosion in the numbers and prosperity of the kibbutzim, the cherished economic symbol of Israel, and the only form of labor enterprise directly owned by the people who work in it. By 1988, there were 75 organizations employing a total of 16,562 (1.5% of the labor force), down from 393 enterprises in 1953, and 21,352 employees in 1980-81. (Russell, 390-1) **Raanan Katzir says Histadrut no longer runs industrial complexes but I don't know if he means the industrial kibbutzim or the labor-owned firms. I've sent an e-mail asking. 10/9/00**

Here is where information on coops in the Middle East should go.

Information on coops in Latin America, South and East Asia and Africa goes here.

The ICA has listings for African cooperatives in Cape Verde, Cote d'Ivoire, Namibia, Senegal and Zimbabwe. Of course, many of these are agricultural cooperatives. A 1996 report on Cote d'Ivoire focuses on cotton production coops in URECOS-CI, with 300 cooperatives in 34 unions, and 459 primary cooperatives, organizing 115,879 families. The cotton cooperatives produced 91% of national production of cotton in 1993-94 ("Cote d'Ivoire: URECOS-CI," *INFO-COOP*, 1996). A report from Cape Verde states that many consumer cooperatives were destroyed in the process of economic liberalization, because they could not compete with private firms. But same source also reports that a dramatic rise in production cooperatives is developing. From 1991 to 1995, sixty-two new cooperatives were set up: 11 in agriculture, 18 in semi-industrial sector, 22 in fishery, 4 housing cooperatives and 7 consumer cooperatives. (Mendoca, 1996) Farmers coops from South Africa have

penetrated into Namibia to offer insurance, loans and irrigation to about 1500 Namibian farmers, who appear to be mostly or all, white. The ICA estimates that 37 small cooperatives had developed by 1991 to serve black citizens, but that so far they had remained unregistered because of the complexity of the cooperative legislation. Ten of the cooperatives were known to be credit unions. Cooperative members are mostly women. NGOs were encouraging and supporting many of these unions. (ICA, 1991."Current Status and Development Potential of the Co-operative Sector in Namibia")

With so much of the world still underdeveloped, surely the cooperative organization has a long future. Its flexibility, simplicity and low start-up costs may provide a means for millions to take the first steps in climbing out of poverty. The ability of cooperatives to market their products directly on the Internet has generated dozens of success stories in the past two years. **[Dig in the NYT for these]** The organizational forms and processes are well understood, and national and international governmental organizations seem to have identified the cooperative as a good avenue for fostering development. **What do the experts say on the future of the cooperative today?** Overall, the number of cooperatives continues to grow in all states throughout the world. **(Citation needed)**, contradicting this author's expectation that the cooperative was mainly appropriate as a device for development. The existence of many cooperatives which have created themselves outside a cumbersome legal system suggests that there is a need for simplified regulation to foster the growth of this enterprise form. These "coop irregulars" are likely in particular need of institutional support.

Scholarship on the cooperative tends to blend into scholarship on other kinds of employee ownership. Not all cooperatives use the formula of one-member, one-vote. Some allow voting based on share ownership, though there is often a restriction on how much stock one member can own or how much stock one member can vote.

Beyond the cooperative are forms of employee ownership more suited to the large and complex enterprises of the developed world, and more supportable in stable economies where the rule of law can be depended upon to protect property interests over many years. The developed countries face their own issues regarding the concentration of wealth. What risks and costs may accompany a high concentration of wealth in a developed society? What are the political liabilities? What are the economic costs and advantages? What are the drawbacks for invention and discovery? A few scholars peer into the future, and employ their intellectual tools and skills to forecast what may develop. At the extremes of what is possible, it is easy to predict – too much concentration of capital will result in economic stagnation and a populist revolt. Too little will starve the market for large and important investments or result in state-directed investment.

There are some intermediate possibilities, already underway in some form in perhaps 25 of the world's states, which could spread capital ownership more broadly without threatening the desirable values and arrangements which support today's political and economic order.

Their story is told in the pages that follow.

Profit-sharing

Profit sharing can be in cash or in company shares and it may be available to employees immediately or it may be deferred. Although profit sharing has been bitterly opposed by unions as a risky form of variable wage, dependent on what management says is in the accounts, employers believe it can be a useful motivator for production and a sweetener of relations between labor and management. There seems to be some basis for a meeting of these two views if profit sharing is discussed with employees, offered broadly as an additional, not substitute benefit, formulated in advance and accompanied with feedback as to how the firm is doing. (D'Art, 29)

Strictly speaking, cash-based profit sharing or schemes where stocks can be sold as soon as received do not qualify as any redistribution of ownership, because income from profit sharing can be immediately consumed and does not necessarily lead to any long-term deconcentration of capital ownership. However, it does distribute wealth and it is a form of variable wage. Even this kind of profit sharing sometimes seems to be a "step on the way" to policies promoting ownership. The experience of profit sharing can turn employees' thoughts and understanding to the benefits of ownership, because they can make a connection between the quality and quantity of their work and the pay they receive. Of course, it may be more difficult for them to understand how outside factors can reduce their profit sharing when they are making the same efforts or even efforts improved over what succeeded in the past. On the other hand, the experience of reduced profit sharing can be a motivator for making the effort to understand and respond inventively to the more remote events of global economic life.

In the U.S., profit sharing is tax-advantaged. Contributions up to 15% of covered compensation are tax deductible to the employer, and there are other tax benefits as well.

Does this need more information? U.S. data? U.S. law also permits deferred profit sharing as a pension plan through the 401k, which is discussed later in this paper.

In some countries, however, national policy supports deferred profit sharing. The employer contributes stock or funds which are used to purchase company shares or other shares of companies listed on the stock market. The account is blocked for a specified number of years, and receives favorable tax treatment.

Deferred profit-sharing is practiced in 14 of 15 European Union countries surveyed by Erik Poutsma in 1996 (Poutsma, 1999). The percentage of firms using profit sharing ranged from 57% of companies reporting on the European Participation in Organizational Change (EPOC) survey in France, where it is mandatory for all but small companies, to 3% in Italy. The median was 13%.

Since 1959, France has had compulsory cash-based deferred profit sharing for all firms with more than 50 employees. The accounts are wholly blocked for 3 years, and partially blocked for 5 years. In addition, employers may collectively bargain to establish accounts for each employee to receive shares and payroll deductions to be invested, along with the compulsory profit sharing. Both employees and employers receive tax advantages. Compulsory deferred profit sharing covered 19,000 firms and 5.15 million employees in 1993. (Poutsma, 1999, 61-65).

Finland has had a small program in deferred profit sharing since 1990 (Poutsma, 65).

Share based profit sharing is more encouraging for long-term ownership. Three European countries (Denmark, Ireland, U.K.) report that share-based profit sharing is in use. In the U.K., share based profit sharing is paid into a trust and the shares are not taxable as income if they are held for a specified [**how many right now?**] number of years. (Poutsma, 89)

Ireland has had law supporting deferred profit sharing since 1982. Their law is modeled on United Kingdom law. Companies file approved schemes with the revenue office and establish trusts which acquire shares for employees. All full and part-time (since 1997) employees must be eligible. The trust receives shares or money to purchase shares for employees. Employee accounts are credited with the shares, but for a minimum of two years, the accounts are blocked, meaning that employees cannot withdraw from them. Shares are tax free to individuals if held for three years, and companies avoid paying any taxes on their contributions to the trust. The maximum amount that can be contributed has increased over time, to £10,000 per employee. Today, there are 292 approved schemes, covering 141,350 participants (Poutsma, 91-93) (**of how many Irish firms altogether?**) Eight percent of respondents to the EPOC survey reporting profit sharing.

What Spain had traditionally called “profit sharing” was in fact a 13th month of wages, usually paid sometime in the spring. This was a wage and not true profit-sharing since it was not variable and did not depend on the success of the enterprise, but was simply paid like wages. Spain has some law for share-based profit sharing since 1996. If shares are held for three to five years, the share value and income receives favorable tax treatment, as long as firms offer the shares to all workers not owning more than 5% of the firm. Share income must not amount to more than 30% of wages (Poutsma, 1999, 56). Only 8% of Spanish firms in the EPOC survey report that they have some kind of profit sharing. Poutsma points out that Spain’s relative neglect of share-based compensation is probably a reflection of its focus on higher priorities, especially creating and building up pension funds.

Finally, Denmark has had legislation for share-based profit sharing since 1958, but it was used by only 16 firms in 1993. (COG website, matrix of state characteristics)

In the spring of 1999, Finland was reported to be considering legalizing profit sharing plans which invest primarily in company stock. (“Finland and Sweden Moving Quickly on Employee Ownership, 1999, EOR May/June 1999)

Ownership of firms by labor unions

Undoubtedly, the Histadrut (General Labor Council) of Israel has the most extensive experience of labor unions' direct ownership of enterprises. Its holding company Hevrat Ovdim was established in 1923 by Histadrut to provide support for a pluralistic cooperative sector in the Mandate of Palestine. Today, Hevrat Ovdim is organized into several large divisions, some with hundreds of enterprises within them. One of its main divisions is comprised of agricultural cooperatives, and another contains industrial kibbutzim and other types of cooperative enterprises mentioned earlier, but many larger enterprises are owned and administered directly by Hevrat Ovdim. Some have a hierarchical management style, and some allow for participation from employees. **[What is the current cooperative:administered ratio? Do all enterprises in Hevrat Ovdim today have participative management?] [Raanan Katzir says Histadrut no longer runs industrial complexes but I don't know if he means the industrial kibbutzim or the labor-owned firms. I've sent an e-mail asking.]**

Histadrut's direct ownership of firms began with the purchase of bankrupt and closing privately owned firms – a glass factory and a forge in Jaffa. (Almogi, 133) Holdings of Hevrat Ovdim include a workers' bank, an insurance company, a consumers' cooperative, a medical insurance enterprise that provides care as well as insurance, a public works construction holding company with hundred of construction firms and firms that supply them, a housing construction holding company. The labor-owned sector of the economy is so large that it is called by its own name, "the labor economy." In 1970, it counted for almost 20% of the entire Israeli economy and a little more than 20% of workers in that economy. **[And today _____]**

There has always been a great deal of tension within and around Histadrut's ownership of firms. Should a labor union be an owner? Should a labor union have hired employees working in its enterprises? The tension has been managed by explaining that Israel, and Histadrut within it, are exceptional. Histadrut began in 1922 as a labor organization campaigning for the rights of Jewish workers in the Mandate of Palestine and became the organizational home for much of Zionist political leadership during the struggle and war for Independence. The first duty of Histadrut has been to support the creation and protection of the Jewish state of Israel, (Almogi, 132) and only secondarily is it a workers' protection organization.

The ownership of many and varied firms has not always been easy for Histadrut. From within Histadrut, there has been fulsome criticism on grounds of ideological impurity and betrayal of the working class. Most of the enterprises directly under Histadrut's wing are wholly owned by Histadrut or one of its holding companies, and the workers have no ownership stake. When this practice originated, common ownership through Histadrut with central control was seen as being closer to the ideal of labor control. (Daniel, 34) These "administered" enterprises have generally outperformed the kibbutzim economically, adding to the confusion of the dialogue within Histadrut. (Daniel, 16)

Histadrut has undertaken ownership in a few "mixed" enterprises with private investors, but it imposed such strict requirements for ownership (at least 50%) and control (right to appoint management and be immune from any losses), that it is not surprising to find that "the number of enterprises owned jointly by Histadrut and private capital is quite small ..." (Daniel, 65)

Under United States law, labor unions are not permitted to own enterprises. A few union-owned (**sponsored?**) banks survive from a 1920's movement. These include the **Amalgamated Bank in WDC, which was established by the amalgamated clothing workers. The Union Labor Life Insurance** Company was established by ????? tried in U.S. by Knights of Labor? Banks - **[Ask Steve Clem]**.

Abraham Daniel mentions that there were labor banks in Germany and Austria

Collective share ownership through workingmen's (share-owning) funds

The most extensive experience with workingmen's funds appears to be in Scandinavia, where a Swedish Labor government, seeking to reduce windfall profits in efficient companies which benefited from solidary (collectively bargained, sector-wide) wage policies, required firms to deposit 40% of annual profits into a blocked account at the national bank. The deposits were tax-exempt, and were used for investment and a cash reserve in case of economic downturn, when the accounts could be unblocked. (D'Art, 151-155) Nonetheless, there were economic problems with international competition which increased pressure for production with no increase in wages, erosion of wage values by inflation and a growing sense among workers that they ought to have more of a say in the management of their firms. (D'Art 155) In 1972-78, the Labor government passed a series of laws giving workers in all firms with more than 25 employees rights to representation on the firm's board, more employment security and requirements to justify dismissals, rights to halt dangerous work processes, and in general the right to be consulted on any major business change. (D'Art, 156-158) While this satisfied the desire for more consultation and participation, economic problems remained, particularly a lack of investment needed to keep up with foreign competition. (D'Art, 160) There was also an anticipated shortfall in the National Pension Plan.

In 1971, labor economist Rudolph Meidner was given the assignment of coming up with a plan to address the problem without increasing taxes, unemployment or inflation. His proposal was to transfer shares to employees, to be administered centrally and collectively, but with the shares to be voted by the local union leadership for the firm's employees. Dividend income would be used to purchase additional shares and fund research and education services for local unions and union representatives on boards. Ultimately the fund would benefit all workers upon retirement, and immediately it would create an investment pool to boost the Swedish economy. The Meidner Plan provoked active opposition and criticism from business at a time when the long-lived Social Democratic government was under fire for scandal and nuclear energy policy, and the Social Democrats were unable to pass the plan before they lost the government in the 1976 election. Nor did the plan enjoy widespread public support. (D'Art, 190)

In 1982, the Social Democrats were returned to power, and in 1983, they passed a much weaker version of the Meidner Plan, the Act on Employee Investment funds, which created five regional funds for national supplementary pensions. The funds were financed by profit-sharing and a payroll tax, to be levied through 1990. After 1990, contributions would cease and the policy would be reviewed. Board members for the funds were appointed by government. The funds could buy shares and make loans to coops, but they were prohibited from foreign investments. The funds were required to return 3% on capital to the National Pension Funds. One-half of share voting rights were to be transferred to the local union. The funds were liquidated after the Conservative government came to power in 1991 under Carl Bildt.. None of this had any success in deconcentrating wealth. Capital ownership in Sweden was highly concentrated under the Social Democratic governments through the early 1970's and remains so to this day, even more than in the U.S. or West Germany. In the late 80's, one to three people controlled a majority of the shares at three-quarters of publicly traded firms.

In about the same time framework as Sweden, Denmark also considered creating a workingmen's investment fund, mainly out of concern about lagging investment in an economy which had relied heavily on agricultural exports well into the postwar period. (D'Art, 203) In 1973, the Social Democrats launched a proposal to create a Danish investment fund supported by a payroll tax. The fund would have been governed by a 60-member board including representatives of government, labor, and professional associations. There were detailed provisions covering large firms, small firms and firms in the private sector. Voting rights for shares in individual firms would be exercised by the firm's employees, and all workers contributing to the National Pension Plan would receive shares in the fund. This experiment was strongly criticized by the employers' association and was never enacted into law, not only because of opposition from the employers, but also because of opposition from the Communists, who saw the program as a sellout to capitalism.

In 1980, the Danish Parliament created the Employees' Capital Pension Fund. (D'Art, ca. 232-236) It was governed by a board constituted from the government and the labor unions. Twenty percent of the fund could be used to acquire shares in Danish companies traded on the stock market, and the rest was to be invested in bonds and loans. The Fund could own no more than 20% of any firm. Where the fund owned 10% or more of a firm, a representative from the board should attend meetings and vote the Fund's shares, or voting rights could be requested by the firm's employees. All those employed between 1977 and 1980 were eligible to participate in the fund, and each year, profits are transferred to individual accounts of 2.5 million participants. Withdrawals from the account are frozen until retirement, and when all the participants retire, the fund will dissolve. **[What's the status of this fund now?]**

In the U.S., Scanlon Plan was proposed by Joseph Scanlon, a Steelworkers' local president in the 1930s. This plan created a bonus pool based on increases in productivity. Seventy-five percent of the pool went to the workers, and 25% to the company. A network of departmental production committees of management and workers would create and implement steps for productivity improvements. (D'Art, 1992:35) The plan was tried in a few settings, and some have been in existence since

the 1940's. Since the Scanlon Plan was never copyrighted, it has been adopted and adapted for many enterprises. McAdams and Hawk estimate 2200 gainsharing programs in existence. The 663 they surveyed report 1.3 million employees (1994).

Collective ownership of stocks through union pension plans

Enormous wealth accumulated in pension plans (25% of all U.S. business was owned by pension plans) led Peter Drucker to predict in 1976 that by 1985, the unions would own 50-60% of the U.S. economy (Drucker, 3) and indeed union and other employee pension plans are enormous investors in the U.S. stock market [**Get an estimate of how much today _____**]. However, U.S. fiduciary law increases the risk of liability for trustees of these funds if they deviate from accepted values and judgments for investments, so collective share ownership through union pension funds, while increasing the wealth and security of unionized workers, does little to promote a wider ownership of wealth among union and nonunion workers..

Canada is the home of the Manitoba-based Crocus Fund, established in 1993 by the Manitoba Federation of Labor. 22,000 Manitobans have invested some pension savings in the fund, and the fund reinvests with an emphasis on employee ownership and regional economic development. The fund anchor jobs and capital in the province. For details on Crocus, see John Logue, 2000. "Thinking Globally, Acting Locally: Promoting Employee Ownership at the Subnational Level" and Alan Zundel and Deborah Olson, "Ownership for Everyone: Report on COG Industrial Homestead Policy Discussion Group." Both papers are available at <http://cog.kent.edu>.

Employee stock purchase through the stock market or employer-sponsored savings plans.

Direct stock purchase by employees or grants of stock by employers is possible wherever there is a public stock market. The availability of this opportunity has not resulted in noticeable increases in wealth held by the working and middle class despite more than 100 years of near continuous public stock market activity in the U.S. and U.K. Most employees simply do not receive sufficient income to feel that they can risk their small accumulations in the stock market. Historically, market crashes have annihilated the savings of small investors on more than one occasion in the developed world. Savings accounts and home ownership are viewed as safer investments for those who can afford to risk little.

In all 13 of 15 members of the European Union are confirmed to have some policy for employee share ownership through purchase of stock. In Germany, France, the Netherlands, and the U.K., stock purchases are supported by employees' savings plans which may be set up and matched by the employer. In Germany, there is a good deal of law on employee share holding and investment accounts. Employers may establish savings accounts for share ownership. (Poutsma,77) Almost 2 ½ million employees had savings accounts in 1996, and 2 million owned stock.. [**Out of a work force of how many?**] French law dating to 1967 supports savings for investments by making them exempt from social security tax if the account is blocked for five years. Employees may channel their profit sharing income into these accounts. (Poutsma, 63) If the employer supplements the basic amount, it is tax deductible and the employer receives a tax exemption on investments up to one-half the supplement. Nevertheless, this option is not widely used in France. 2,000 of 26,000 firms with financial participation have savings plans for share ownership. The Netherlands has had tax benefits for investment savings accounts for shares since 1994, and if employers contribute stock to these accounts, it is tax free. Poutsma reports that 11.5% of employees have cash based profit sharing (27% of companies with 10 or more employees), more often than not in connection with a savings account.(Poutsma, 81) United Kingdom legislation dates to 1978, when the Save as You Earn program encouraged a payroll deduction plan to exercise stock options. In 1998, about 1200 savings plan schemes covered about 1.25 million participants.

Sweden has been particularly slow to come to employee ownership. Most of what exists has occurred through employee buyouts of failing companies. Until this year (2000), LO, the Swedish trade union confederation, opposed buyouts and employee ownership in general, preferring to successfully seek other means of influence in companies, including requirements for consultation and participation. Acceptance of ownership was driven by a desire to expand Sweden's internet technology sector, the growing use of stock options as part of a compensation plan and for the privatization of some public services. Per Ahlstrom, personal communication to John Logue, 9/8/2000

Canada has no national legislation providing tax incentives for employee stock purchases, but the province of British Columbia does, and there is continuing pressure for a federal law. As a result, Canada has few employee-owned firms. (Phillips,8)

The states of the former Soviet Union and the Soviet satellite states of Central and Eastern Europe embraced the idea of "voucher privatization" to transfer state assets into private ownership. Voucher privatization was an untested idea, advocated by some Western economic thinkers. Vouchers were issued to each citizen, which could be exchanged for shares. The details and practice varied from state to state, but in general, the approach left employees and citizens with no asset ownership or ownership of assets with no value. As states attempted to pick up the pieces after voucher privatization, some fell back onto employee ownership or management-employee buyouts, most of which were in practice management buyouts, particularly of firms which were not known to outside investors or which received offers from buyers intending to close them down and take

over their markets. This has created a number of firms with some employee ownership, but without access to financial services or management consulting services which could promote their success.

A long-planned sale of Hungarian state assets was modeled on U.S. law. By 1998, almost 300 of the 404 privatized companies include a measure of employee ownership. (NCEO, 1996, online) (cited in May, 1998). [**How is this going?**]

In Russia, direct stock purchase and grants connected with privatization have been a disaster in the face of economic collapse. Seven thousand state enterprises were sold in about two years, (NCEO, 1996) but employee ownership and democratic management have not been supported by the Russian government. In Russia, many employees who were granted stock in connection with privatization sold it quickly, and many others, desperate for funds in the face of a general economic collapse, sold later. Employee ownership declined from 48% in 1994 to 39% in 1997. (Buck, et.al., 460) Employees who held their shares of valuable companies were often forced to sell them later to survive. For most employee share-holders, economic collapse has meant there is no market for their shares. Those who held onto their stocks may have them now because the stocks have little or no market value. In cases where companies did retain value, employees' stocks were willingly acquired at bargain prices by investors with large amounts of capital. National economic policy allowed a flood of foreign-made goods that reduced the demand for domestic products to near zero and forced many firms into massive layoffs. Employee-owned firms were no more resistant to workforce reductions than any other firms. (Buck, et.al., 471) The flood of imports has now been checked, and import substitution is driving a modest recovery. It is doubtful that most of the unemployed workers will go back to work at their old firms, however.

In Krgyzstan, the law requires one-stock one-vote ownership, notes Russell Kleinbach in his report on two employee owned firms there. (1999) In its main elements, the situation for employee ownership in Khyrgystan resembles Russia, as Kleinbach's two case studies reveal. Employees purchased Kyzyl-Kiya Komur, a state owned coal company (100% employee owned, with an annual stockholder General Assembly, electing a board of directors, who appoint a management committee.) Of the former 3500 employees, 400 are still employed. Some of the former employees own stock. The mine's easily accessible coal deposits are nearly exhausted, and it needs capital to develop deeper pits. In addition, it is having difficulty selling its coal, since former customers in Uzbekistan and Kazakhstan are emphasizing protectionism. At Kyzyl Kia Nan, an 87% worker-owned bakery and cannery in Khyrgystan, price regulations make bread baking unprofitable, and there is no market for the shares of departing workers. There are no credit institutions within Khyryzstan to assist employee-owned firms with development. Kleinbach reports, "The Soviet period left the people with cultural values and habits for cooperatively working together but it did not teach them the techniques of local self-management. They have the will and values to survive and develop an economic as well as political democracy. Whether they will gain the technology and the capital to do so remains to be seen."

In Argentina, employees can receive [**government/bank/subsidized?**] loans to purchase shares of privatizing state enterprises. (May 1998) In Jamaica, legislation allowed stock to be bought with pre-tax dollars, but economic setbacks kept workers too close to survival to think about stock purchases.

In Nicaragua, the Chamorro government announced plans to promote employee ownership in its privatization program, but so far only one firm has been privatized. That is the local Pepsi plant, which is 45% owned by the government and 55% owned by the Sandinista political party. (NCEO, 1996) One question is whether the socialist Sandinistas will use their ownership share to promote employee ownership and employee participation. (May, 1998)

China calls its employee ownership "social ownership." In Shandong province, 250 firms were sold to their employees. (NCEO 1997, quoted in May, 1998) In large firms, employees can receive stock ownership. In township/village enterprises (TVs), ownership is shared by the village and the workers. (We know of one firm in China which planned to issue stock to its employees in 1999.)

It was recently reported that Chinese local governments are selling off businesses they owned, and that employee ownership is the most popular policy option. Little is reported about details and specifics of this trend, except that long-term employee ownership is part of the plan. (2000. "The World of Employee Ownership: Former Communist States" *Employee Ownership Report* 20:5, 15) However, a report from a year prior stated that the State Economic and Trade Commission found that sales of enterprises by local governments were causing too many layoffs and worker relocations. (1999. "China Rethinks Privatization; Phillipines, Puerto Rico Move Ahead," *Employee Ownership Report* 9:2, 10)

Stock options

Stock options represent a variation on outright purchase. The options provide employees with a window of opportunity to purchase employer stock at a preferred price. Employees may be required to hold the stock for a specified period of time. Stock options are an increasingly popular form of compensation in these days of fast-moving computer and Internet technology and rising stock market values and high demand for technical skills and knowledge. Options have long been popular as a means of executive compensation in the U.S., and they have been spectacularly reported among Internet startup companies. Options have been extended to more nonmanagerial workers in the U.S. and they are spreading overseas as well. It appears that EU members are beginning to permit the practice, for ordinary employees as well as for executives. A growing number of U.S. and U.K. multinationals are offering stock options to their overseas employees (2000. "The World of Employee Ownership: Multinational Companies," *Employee Ownership Report* 20:5, 15). Many countries have law preventing more than a specific percentage of wages to be paid in stock, reflecting the values of historical experience with recession and depression. In the U.S., Gerald Lawler, *et.al.* reported that 18% of Fortune 1000 companies (The 1000 largest companies in the U.S.), provided stock options to at least 60% of the employees. This compares to a 1999 study by William Mercer reporting 17% of the 350 largest U.S. companies granted options to most employees, up from 5.7% in 1993. (2000. "Employee Ownership and Involvement Gains in Large Companies," *Employee Ownership Report* 20:2, 9)

In Finland, where 127 companies are covered, options are taxed only when they are exercised, and at ordinary income tax rates. There is no tax deduction for the company. Sweden recently abolished a tax on the grant of options. 1999. "Finland and Sweden Moving quickly on Employee Ownership," *Employee Ownership Report* 19:3, 13. The French legislature is reported close to increasing taxation of large gains on stock options while limiting the tax on new companies (15 years old or less) options to just 26%. The normal tax ofr gains on options is 40%. (2000. "France to Change Options Taxation," *Employee Ownership Report* 20:4, 12.

In Jamaica, stock option offers and purchases were supported with tax expenditures. (E)R May/June 1999), but few were able to take advantage of them in a generally bad economy

Even though they have had substantial ESOPs since the mid-seventies (Jones and Kato, 1993), Japan legalized stock options only in 1998, and some companies said they were considering them for executives. ("Japan Makes Stock Options Practical," 1998, *EOR* March/April, p. 14.)

It is reported that the rapidly growing Indian technology sector is now offering stock options to most or all employees. (2000. "The World of Employee Ownership: Developing Nations" *Employee Ownership Report* 20:5, 15)

Latest news on China by private communication is that the township/village enterprises, (TVs) are being converted to "stock cooperatives," which may resemble ESOPs. The initiative for the conversion is local and provincial, rather than national. Hainan Island (**isn't it an enterprise zone?**) is considered a center of this activity. If the new cooperatives are to have access to financial and managerial consulting services, these, too will have to be developed at the local and provincial level, as Beijing appears uninterested in the idea of employee ownership, and even less interested in building support organizations for it.

A recent study by Joseph Blasi and others has found that stock options are an additional benefit rather than a substitute for wages. (Reported in 2000. "The Impact of Stock Options on Workers Compensation," *Employee Ownership Report*, 20:4, 9)

Employee Stock Ownership Trusts

A more financially sophisticated and effective approach to employee ownership is the ESOT, employee share ownership trust. ESOTs can receive direct grants of stock or they can take out loans to purchase stock. In the U.K. and Ireland (since 1982), where they are just beginning to take root, these plans are not conceived as pension plans but as stock ownership plans with a requirement to hold the stock for a limited period. They are established on a voluntary basis by employers, but enjoy support from the national treasury in the form of tax expenditures.

Law supporting direct grants and ESOTs have been adopted in Canada, Denmark (10 firms with employee ownership in 1993, and 6% of EPOC respondents reported employee ownership), Jamaica. Each country has a peculiar and distinctive mix of

legal provisions, yet there are typical patterns.

Typically shares are granted outright by the employer or bought with loans to the trust

Typically, the cost of shares, administration of the plan and interest are tax-deductible for the employers, and employees may also receive a tax break if they hold the shares. It is quite common to do this on a sliding scale, where the longer the shares are held, the greater the percentage of tax deductibility, up to 100%. Typically an eligibility threshold is set in law, requiring that a minimum percentage of long-term or "regular" employees participate before the firm can benefit. Often, a rule of distribution is applied, allowing a maximum ratio of stock ownership between the largest and smallest annual stock purchases in the plan.

There is much variation in the details of these plans, in terms of who, if anyone, must approve a plan, who must be eligible for the plan, what tax advantages are granted to employers and employees, the terms for receiving or purchasing shares, requirements for holding the stock and so on.

In the U.K. and Ireland, since 1989, ESOTs may be structured by statute or approved by the Inland Revenue. A firm may contribute stock to the ESOT and so shelter income from capital gains tax. Costs of setting up the ESOT are tax deductible. ESOTs may borrow money to acquire shares, and the shares must be held for three years to qualify for favorable tax treatment. In 1997, the U.K. provided tax incentives for its ESOTs similar to U.S. ESOP law. In spite of law, only a maximum of 100 ESOTs have been established in the U.K. since 1989, because employers don't like them, banks won't finance them and the tax office is too inflexible. (Poutsma, 89). Nonetheless, there is considerable share ownership in the U.K. through other schemes. Poutsma reports 23% of U.K. firms responding to the EPOC survey have some form of share ownership. (1999:57) Ireland has had similar law for ESOTs since the Finance Act of 1997, and Poutsma reports 4% of EPOC firms offer share ownership. The British Labour government plans to introduce new, more favorable legislation in 2000, which will expand the tax deductible amount which can be contributed to the trust. (Wheatcroft, 2000) The firms have been in existence long enough in the U.K. that their performance in comparison to the stock exchange can be charted. In the U.K., firms where at least 10% is owned with broad employee ownership grew faster than the FTSE All Share Index (26% vs. 21%) in 1997. The five year record showed a 2:1 advantage for investors in firms with employee ownership. ("U.K. Employee Ownership Index Results," 1998, *EOR* (May/June), p. 13)

In Denmark, ESOTs have been little used. In Canada, there are some employee owned firms like (Algoma Steel), and there is a rich cooperative sector.

By contrast in Jamaica, a \$1.8 million grant from the International Development Bank in 1992 funded a large effort to enact appropriate legislation but had little success in establishing employee ownership in a climate of economic tailspin ("Jamaica ESOPs: High Hopes, Disappointing Results," *Employee Ownership Report* (May/June 1999), pp. 1, 8) The idea of stock ownership was foreign to most workers. Inflation and rising interest rates made ownership seem like a poor investment. Unions became more interested in using ownership to gain control of wage increases than in long-term survival of the firms, and employee involvement was not a good fit with the dominant cultural model of hierarchical authority. Another problem was that the distribution rules made it difficult to qualify as a stock purchase plan, the plan preferred by most employers, even those who were willing to offer shares at a preferred price. Lastly, the annual stock purchases of the least shareholder limited the amounts that could be bought by any of the rest.

In Zimbabwe, where the government is eager to use employee stock ownership as a means of spreading ownership of wealth to the indigenous people who were largely excluded from economic and political power before independence, the stock exchange has policies encouraging employee ownership, and 75 firms listed on the stock exchange have established employee stock ownership, mostly in the form of ESOTs. Half of the plans are less than two years old, and the average ownership share is around 4%. The government is encouraging employee stock ownership in state enterprises now being privatized. The Foundation for Enterprise development is managing a USAID project of support and technical advice for the employee-owned firms. (Report on Zimbabwe, 1999)

Shares were distributed and sold for privatizing the economy in Poland, Hungary, Czechoslovakia, Romania. **[More details needed here]** it was more successful in some places than others. **[What about Croatia, Slovenia,?]** In these plans, worker ownership was encouraged by giving employees preferential treatment in the purchase of stock in their companies, but the privatization did not require the employees to hold the stock, and many sold in the recession that followed in the collapse of the Soviet Union.

Czechoslovakia passed legislation in

In Hungary, a stock ownership plan distributed coupons to all citizens for the purchase of stock in privatized state enterprises. Employees were able to buy stock for coupons as early as 1990. A 1992 law allowed for the creation of an Employee Stock Ownership Plan (in Hungarian, MRP) which could borrow money to buy shares for employees, and held the shares until the credits were repaid, at which time the MRP was dissolved. To use this method, at least 25% of employees had to apply for it in writing; 40% of employees had to vote in favor, and employees had to provide at least 2% of capital. Employees had to have been with the company for at least six months, and only firms incorporated in Hungary were eligible (Galgóczi and Hovorka, undated: 4-5) Government loans at low rates were available to help employees buy shares. A 1995 Law on Privatization further established preferential rights for employees to acquire property in their firms. Workers often bought shares in hope of preserving their jobs. Under these arrangements 202 MRPs had been formed by mid-1995. (Galgóczi and Hovorka, 5) However, Galgóczi and Hovorka report, “almost all ESOP buy-outs are in practice management buy-outs,” and because of the need to begin loan repayment already, immediate profitability is a concern, and firms lacked capital for modernization. Many MRPs had a mortgage on their property from a private bank as well as a government loan, further limiting their ability to modernize. Most often, workers were selling their shares by 1992, and the firms had reduced the workforce by one-half or two-thirds. Galgóczi and Hovorka report a variety of experiences in brief case studies, but among their cases, it is rare for the employees to end up as owners still employed by the firm. Buyouts were common, either by management or by outside purchasers, interested in Hungary’s market but not the production facilities. Employees were generally happy to sell their shares, for which there was often no other market. Elected MRP leaders were typically members of management, and sometimes encouraged the MRP so that the firm would be eligible for a low-cost loan. They then gained a controlling interest by purchasing employees’ shares. Galgóczi and Hovorka anticipate that few new MRPs will be formed after privatization is completed, and urge more education and support to the ones that remain.

In Poland, more than two thousand state-owned enterprises were sold to their employees through “privatization by liquidation” (Thompson and Valsan, 38) The old firm is sold to the employees, who receive loans from the government to buy the assets. This includes more than one thousand small and medium-sized enterprises. It is reported that the employees are holding on to their shares longer than in the other former centrally-planned economies. (2000. “The World of Employee Ownership: Former Communist States” *Employee Ownership Report* 20:5, 15) These “insider-owned” firms appear to be performing better than firms privatized by other means. (Thompson and Valsan, 38)

Data collected from 71 firms in Brasov, Rumania revealed that privatized firms, which were mostly owned by workers and their managers, were more adaptable and better performers than state-owned enterprises. (Brouthers, 55) Lacking outside investors, current governments will promote a better economic outcome by breaking up large enterprises and selling to managers and workers, Brouthers argues (57). Reviewing the history of Romanian privatization, Thompson and Valsan (1999) report that after the original voucher plan collapsed because of declining value of the vouchers (Certificates of Ownership) and trading of the vouchers on the street, management and employee buyouts became the preferred method of privatization in Romania, with each sale negotiated through the State Ownership Fund. The “preference” for this method was usually because no other buyers were interested. By early 1996, more than 1500 companies had been privatized, more than 1000 through insider privatization, and another 1600 small and medium sized firms were sold between 1996 and 1998. (P. 51) Thompson and Valsan find that the firms that were bought by their employees between 1991 and 1995 were mostly smaller and medium sized firms, with a median of 560 employees. In their sample of 107 companies, 72 percent are entirely management and employee-owned, and they were mostly the better firms which did not have any international reputation. However, these firms are handicapped by a lack of investment capital. The firms bought by outsiders were planning far greater investment.

Sale to employees was the primary means of privatization in Slovenia. (2000. “The World of Employee Ownership: Former Communist States” *Employee Ownership Report* 20:5, 15)

The Ukraine lagged behind most of Central Europe in privatization. Their privatization permitted the state to remain as an owner, in some cases, even a majority owner. (Estrin and Rosevear, 1128) Reporting on a sample of 150 firms in eight regions of Ukraine, Estrin and Rosevear (1999) find that privatization is not associated with better performance, but that firms owned by workers are among the better performers in the Ukrainian setting (1133). The context of the report is a deep recession which followed privatization. Whether improved performance is due to better management of the employee-owned firms, better information available to insiders in deciding to purchase firms or a legal structure which makes it difficult for outside investors to control firms is not clear.

Observing successes and failures in privatization, Puerto Rico went to considerable trouble to create its own model law. May reports, “The legislation for the Corporación Especial Propiedad de Trabajadores (CEPT), or Special Worker-Owned Corporation, was passed in 1990 and amended in 1992. Workers must own the majority (55%) of the voting shares of stock to

receive the full benefit of the tax credits, and the ratio of the highest paid to the lowest paid

members' salaries must be 6 to 1, or less...profits and losses are allocated across three internal funds. The "reserve fund" comprises a minimum of 20%, and is used for reinvestment in the company. The "social fund" must receive at least 10%, and can be used for projects with a defined "social benefit," such as low-income housing development, scholarships, or community education projects. The members' dividends account constitutes a maximum of 70% of total net income (or loss), and these are further allocated to each worker-owner's internal capital account, which increases in value as the company becomes more profitable...the CEPT law contains incentives and tax breaks to mitigate the effects of long-term economic inertia. CEPT companies can receive tax-deductible donations, and bank income from interest on loans made to CEPTs is tax-exempt. Ninety percent of income from renting to a CEPT (property, plant, and/or equipment) is also tax-exempt, and the worker-owned businesses themselves are exempt from payroll, property, and most municipal taxes. “ (1998) However, this model law is not being used extensively. According to May, approximately 35 CEPT businesses are now operating successfully, but none of them represent true privatization or conversion projects. One third are in the recycling industry. While the law was passed as an economic development tool for privatization, politicians and government agencies have not utilized the CEPT law as intended. (1998)

May reports that the Puerto Rico government has expressed no interest in incorporating employee ownership into its privatization plans, and government banks, public utilities and tax offices are withholding cooperation and sometimes actively placing obstacles in the path of the new CEPT firms. According to May, the government has resisted bids by unions and cooperatives to take over community health clinics slated for closing. Part of the poor reception for worker ownership, May suggests, is that it is a new concept for both the people and the leadership of Puerto Rico. (19) For mutual support, the CEPT businesses formed an association, the Asociacion de Corporaciones Especiales Propiedad de Trabajadores (ACEPT). May reports that although the telephone union remained adamantly opposed to worker ownership, other unions were becoming interested in the idea. May suggests that worker ownership could be appropriately applied in four sectors of the Puerto Rican economy: health care, prison management, waste management/recycling, and telecommunications. She points to models in Canada, Sweden and the U.S. Despite the tepid attitudes of political leadership reported by May, in 1999 Puerto Rico implemented legislation allowing local companies to obtain the same tax treatment for an ESOP that they would in the U.S. (1999. “China Rethinks Privatization; Phillipines, Puerto Rico Move Ahead,” *Employee Ownership Report* 9:2, 10)

ESOPs as Pension Plans

The employee stock ownership plan has been successfully used in the U.S. since it was first permitted in 1974. Today there are more than 10,000 plans covering more than 11.5 million participants. In Europe, the ESOT, with its more flexible withdrawal options, and the safer employee savings accounts seem to be in widest use. It appears that in the European Union, the use of employee ownership as a pension plan is more associated with the cooperatives than with the ESOP trust idea.

Under U.S. law, the ESOP is a pension trust which receives shares from the employer. It can borrow money to buy shares, and repay the loan out of dividend income from the firm. Employees must be vested in the plan after seven years, and they must be compensated for the value of their shares if they separate from the company before retirement, although the details of

purchasing employee accounts can be flexible. When they are 10 years from retirement, employees can begin to diversify the holdings in their accounts. The company stock is formally voted by the trustee, although he/she can be directed by the employees. Contributions to the ESOP, the cost of establishing and administering the ESOP and even principal on the ESOP loan, in some cases, is tax deductible. Income tax on employees' accounts is deferred until they receive the funds. Most ESOP plans have been established in small firms by retiring owners who appreciate the tax shelter, but most ESOP participants are in large firms, with only a small percentage of ownership. Perhaps one-fifth of ESOP companies practice extensive employee involvement through information, training and participation. These firms generally perform better than the others.

In Egypt, Employee Stockholder Associations were legalized in Capital and Market Law 95, passed in 1992. The company may set up a stockholder association (ESA) for all full-time employees. The association can borrow money to purchase shares and repay the loan out of dividends. There are no associated tax incentives. As of July 1997, 41 of 280 ESAs had purchased shares, and 18 of these were in private firms. The rest were privatizing state enterprises. The ESA is governed by employees, and each makes its own rules about the distribution of shares. When employees leave the firm, they receive cash for their shares. Some ESA companies have performed well, but some are not producing enough dividends to repay their loans, necessitating that the company repurchase the shares. Participative management in these firms is virtually unknown.

(“Employee Ownership in Egypt,” 1997, EOR September/October, p. 10. Three years later, it is reported that about 250 former state-owned companies are now partly or wholly owned by their employees. (2000. “The World of Employee Ownership: Developing Nations” *Employee Ownership Report* 20:5, 15)

In 1993, Jones and Kato reported that, in 1988, 91% of firms listed on Japan’s eight stock exchanges had an ESOP, and that the average nonmanagerial employee had an account value around \$14,000. Looking back with data from 1973-1984, Jones and Kato conclude that ESOPs have played an important but overlooked role in Japanese business success (Jones and Kato, 1993). Japanese ESOPs receive no tax incentives, and many of them appear to have been adopted to block foreign takeovers in the 1960s. All full time non-executive employees are eligible for membership. Executives are not eligible. The plans permit withdrawals of stock but at least 1000 shares must be kept in the account and withdrawals must be in round lots of 1000 shares. For most employees, this means they must accumulate shares for more than 20 years. Employees can withdraw all shares and leave the ESOP, but if they do, they may not be allowed to re-enter. A general director, who is a member of the ESOP, votes the shares on behalf of all the members, usually without any direction through voting (Jones and Kato, 354).

Pension Plans and Stock Ownership

U.S. has a number of tax-deferred retirement income stock ownership plans, including the IRS 401k, which can be directed but not withdrawn (with some exceptions) or voted by the employee. The 401k is a tax-deferred profit sharing plan which may be the sole retirement plan for a firm or a supplement to other pension plans. The employer’s plan can offer a range of investments for employees’ accounts; it may provide an employer match for employee savings, and it may include the purchase or contribution of employer stock. Employer and employee contributions are tax-deductible. It may allow for hardship withdrawals or loans based on the employee’s equity in the plan, and the employee may cash in the account upon separation from the company.

Does the form of employee ownership make a difference?

In a review of the literature, Conte finds that individual ownership of shares that can be negotiated is associated with positive productivity effects in manufacturing and positive or neutral effects in construction, but collective ownership of capital has a negative productivity effect in both sectors. Michael Conte, 1992. **[Expand this list of citations]**

3. Different political actors support different kinds of policy.

D’Art argues that employee ownership is rarely proposed for national policy by business interests (203). It just isn’t on their radar. In fact business can raise stiff opposition when the idea is first introduced. Nonetheless, it always engages the thinking of at least a few from the business community, as evidenced by the existence of employer-created employee ownership where there is no support in law or institutions. Louis Kelso, the intellectual father of employee ownership in the U.S., was trained as a traditional economist, and his ideas were received and promoted by a not-very-radical Southern Democrat.

So it is that most employee ownership proposals are initiated by labor or left parties and organizations. (D’Art, 248-9) It was the Labor Party in Sweden and Denmark that promoted the workingmen’s funds. The British Labor Party’s Gordon Brown, Chancellor of the Exchequer, stated that employee commitment is “a vital strength for companies” and he hoped to “double the number of companies in which all employees have the opportunity to hold shares.” In response to labor proposals, the business sector is likely to propose employee share ownership on a voluntary basis.

When the movement is driven by a desire to privatize state enterprises, support for employee ownership comes out of right, as the ESOT legislation was enacted under Thatcher in the U.K., and employee ownership was supported by democratic reformers in formerly communist countries. The privatizers may initially envision that nationalized enterprises will be simply auctioned off to high bidders, but this carries heavy political costs in terms of the prices being perceived as too low or the prospect of massive layoffs and plant closings. Faced with such unpalatable options, conservatives may view employee ownership as a more attractive alternative.

In pre-democracy Poland, people in the author’s acquaintance often expressed concern about inequities in employees taking over ownership of their enterprises, because some enterprises were clearly more valuable and productive than others. D’Art argues that when labor makes the proposal, there is a high concern with equalizing benefits for all workers. What is more he points out, labor dislikes any kind of linkage between pay and performance, even profit-sharing, and accepts this very

reluctantly. They typically do not acknowledge the need for any variability in wages arising from the business cycle. So where labor is strong in the political system, their concerns are substantial obstacles to employees' owning their own firms. As D'Art makes clear, the preferred labor solution is the Scandinavian-style social fund where firm earnings are pooled and shared among all workers. And yet, unions have come around to accept individual share ownership and differential rewards. The Swedish LO has just now (September 2000) accepted that employee ownership is a viable possibility for its union members. The United Steelworkers of America even established an institute to facilitate the development of firms owned by its union members.

Once a proposal is launched, business interests tend to promote ownership at the level of firm or plant. They prefer arrangements where owners and managers give up none of their authority and control and do not have to consult with employee-owners. (D'Art) So, the preferred business solution tends to be some kind of ownership of non-voting shares. Even substantial tax incentives will not move the majority of business owners from the resolve to deny employees control, even if they cannot deny an ownership stake. Logue and Yates found a low incidence of substantial participation in a recent Ohio study (2000, Chapter 3), as have **others, also D'Art**] In the end, business comes around, too. In addition to the tax benefits, small business owners are attracted by the idea of keeping their enterprise going as an independent concern. More than 80% of U.S. ESOPs are established by retiring owners.

Employee ownership is also being promoted by U.S. aid policy to developing nations, which make grants and loans for privatizing contingent on employee ownership.

4. Obstacles/problems for national employee ownership policy

In hard times, ordinary bank savings accounts may have better returns than employee-owned stocks. This was the case in Denmark when the idea was first launched (D'Art, 210-11) In really bad times, many firms can fold through no fault of their own. Even in good times, with all participation and good practice, firms may fail as a result of bad judgement or just plain bad luck. What is the responsibility and obligation of a government that promotes ownership? What policy response can it make? Does it run the risk of being turned out of office for misleading employees? These are important questions, and if government tries to answer them all questions in advance, broader ownership policy may never develop because of the fear that will be inspired just by raising them. After all, no one can predict the future with certainty. However, the history of the postwar period is one of steady overall growth through the business cycles.

Where a supportive cultural setting for ownership is lacking, the obstacles to ownership are still more formidable. Where employees have had direct experience with small entrepreneurship or family farming, they may be quite comfortable with ownership, because they have a model for understanding their individual stake in the firm. Where small ownership has been eradicated or never existed, the people lack any cultural prototype or accompanying value framework for understanding their ownership.

5. Discussion

There are prerequisites for employee ownership: the rule of law, the protection of private property, and at least moderate economic stability. In these conditions, it seems apparent that broadening ownership of wealth through employee ownership will improve the lives of ordinary people and over the long run, inspire a more stable, diverse and productive economy. Employee-owned firms that provide employees with information on the business and their jobs, training in how to use that information and opportunities to act on their knowledge through participation will produce more wealth than would otherwise occur, leading to widespread benefits for the economy, even for traditional shareholders whose shares were diluted by a grant or sale to employees.

However, history tells us that employee ownership won't just happen on its own. A public stock market isn't enough. There must be an organized and systematic way for employees to purchase a significant portion of ownership in their firms and to exercise their ownership rights through participation. This requires state support through tax expenditures or subsidies.

In the same spirit that many privately held and stockholder owned businesses receive encouragement and protection from government, and just as every government provides its business sector, employee owned firms need this minimum:

- Exemption from pension law requirements of diversification of investments. (Menke)
- The ability to borrow money in order to gain a significant ownership stake is key. (Menke)
- Tax deductions for principal are needed to encourage broad ownership. It is, in a sense, the price of ownership. (Menke)
- Tax-free mergers/rollovers for retiring owners. (Menke)
- Institutional support for employee ownership: with support and organization, employee-owned firms are far more likely to flourish. (Rosen; Logue and Yates).
- Rules that require employees to hold stock until they separate from the company.

Not every state leadership sees the possibilities of employee ownership with equal clarity, as Karen May's paper on Puerto Rico makes clear. Where neither the people nor the leadership have any tradition of enterprise, employee ownership may be utterly stalled. Tunnel vision is not a monopoly of the underdeveloped world, however. A good example of a developed state with little sympathy for ownership is Sweden, with its collectivist tradition. The powerful Swedish labor unions required a quarter century to recognize that ownership might have some good uses for their members in a modern economy.

Even more than the Puerto Rican example, Sweden's example shows that if they choose to promote ownership, states will choose the forms that best fit their cultures and that address the culturally understood "right reasons" for promoting employee ownership. This means that the question of what is "right" and "good" for a state will have to be established as much by demonstration and experience as by discussion, since it is a departure from culturally-derived expectations. Eventually a broad consensus may develop, but for now, employee ownership will spread country-by-country, so there is a deep need for country-based and comparative research focusing on countries with similar conditions. Luckily, there is a foundation of national experience and some scholarship already underway. Poutsma suggests that outside the United States and the European Union (EU) states of UK, France, Germany and Italy, little research has been conducted, and that certain aspects of research have been generally neglected, including differences in corporate governance, the differences in schemes of ownership and financial participation, diffusion patterns, business cultural factors, problems of implementation, disadvantages, solutions to disadvantages, small and closely held business, determinants of employees' choices in participation in ownership, work characteristics, social structure, employee opinions, other stake holders' attitudes and opinions, relationships to organizational and industrial relations performance, interaction with other kinds of participation and human resources management techniques, longitudinal analysis, case-study analysis, action-oriented research and integrated model testing. (Poutsma, 2000:104) Outside the EU, research in English, at least, appears to be extremely sparse.

The major experience with ESOPs is in the U.S. and Japan; with mandatory profit-sharing, France; with cooperatives, Israel and Spain; with employee stock purchase through savings, Germany and the Netherlands, and with the ESOT, the U.K. Research and analysis should build on this base, but reach out much further to illuminate the appropriate context, uses and drawbacks of technique.

Privatization in Eastern Europe and Russia provides a powerful demonstration of how employee ownership can go wrong. Thompson and Valan's data revealing that the insider-owned firms planned little investment for the next five years suggests that any initial advantage the management and employees may have had in their knowledge of their firm will be lost through a failure to improve and modernize.

The Russian experience reminds us that without economic stability, stock ownership means almost nothing. There are limits to when and where employee stock ownership will be able to succeed. The cooperative is perhaps a more rugged economic entity, even if its possibilities are more limited, and those employee owned firms that are surviving, often by engaging in any kind of business that will help their employees, seem to have more in common with the early Israeli cooperatives than stock ownership firms. (Logue and Klepikova, 1998)

Looking ahead

Beyond a better understanding of present day experience, scholars, policy makers and practitioners should be weighing some ideas that haven't been much tried. The idea of using the federal discount "window," **[Wasn't this originally from Kelso? But I can't find it in either the Capitalist Manifesto or 80,000,000 Capitalists. I think I recall Dan Bell talking about this.]** the means by which the U.S. Federal Reserve Bank controls the money supply by lending to banks, usually at below-market interest rates, could be dusted off for another look. Why couldn't the Fed set some of that low-interest money aside for employee stock purchases?

Another idea is to take advantage of one-time events to spread employee ownership, as Senator Russell Long wrote a requirement for employee ownership into the nationalization of five failing freight lines when Conrail was created. A current candidate is the Resolution Trust Corporation which took over hundreds of failing banks and savings and loans, bailing them out with \$500 billion in taxpayer money. How about reviving those banks by selling them to their employees or their depositors? Other upcoming one-time events that might be candidates for employee ownership treatment are the deregulation of the energy industry and large scale bailouts, as have already happened in the U.S., Sweden and Russia.

How about a Homestead Act for new capitalists, providing loans, advice and support for employee owners? Just as the Homestead Act fostered a thriving sector of family farms, so a Homestead Act for employee ownership could foster the spread of capitalism through ownership of firms and the commitment and responsibility that go with it. National policy could create a program of matching funds for state, university, community, union and non-profit organizations which support employee ownership. In the U.S., \$250,000 per state would energize programs in more than half the states within a few years, and for less than ½% of current ESOP tax expenditures, a resource for creating and developing employee-owned companies would be vastly improving on the numbers and practices in employee ownership. (Logue and Yates, 2000, Ch. 6).

Along the same lines, national policy could create one or more teaching and research institutes issuing certificates or degrees for managers in the employee-owned sector, training them for the special environment of employee ownership and funding faculty to extend knowledge and understanding.

Another strategy would be to simply establish a special lending facility for employee-ownership, to provide the capital employees need to purchase and develop their firms. There are plenty of prior examples in the U.S.: lending for rural electrification cooperatives, the National Cooperative Bank to provide lending to worker coops, retail coops and housing coops. The Bank was privatized under the Reagan administration, but has survived and flourished as a lender owned by its borrowers. Special governmental lending guarantors (FNMA and SLMA) have been created for other worthwhile national causes: home ownership and higher education.

Shocking news about the cost of administering private pension plans inspires another idea – why not tax private pension plans for excessive administration costs? The tax should be paid by the administrator, not the employees. Some costs are as high as 5% of capital annual, amounting to \$300 billion in the U.S. **[citations needed]** Give a tax credit for the pension plans that beat the average, and use the balance to support employee ownership. This would bring all pensions plans, not just ESOPs, toward responsible trusteeship, and most likely reduce the churning (high turnover) of pension investments on the stock market, encouraging longer-term holdings and lower brokerage fees.

Other new financing vehicles could include private national investment funds like American Capital Strategies and KPS special Situations Fund, which share a preference for employee ownership and employee-owned firms' creating a bank, where employee-owned firms could pool their funds, as Mondragon does. Following the Mondragon model and coupling loans with management advice could create a "factory factory," as one participant described Mondragon. (Cheney,57). At the national level, There could be national labor-sponsored investment funds like Manitoba's Crocus Fund, using members' pension savings to promote employee ownership and socially responsible economic development.(1999 "Crocus Fund Blossoms in Manitoba," *Owners at Work* 11:1, 17.)

Questions:

Will the ESOT trusts, with their relatively short period of blocked accounts, actually enable enough ownership to accumulate to make a difference? Or do employees just cash in their accounts as soon as possible and care little for any participation rights? It would be good to study France and UK in this regard. They have the longest experience.

Is there any future for collective ownership through workingmen's funds? No state has adopted one since the early 80's. Participants in the think tank felt the day for these funds was over in the developed world. Is there any future for the idea in the developing nations? Collective ownership seems to have served as a transition step towards employee share ownership trusts and pension plans in Scandinavia. It did help to gain the attention of employers on share ownership and inspire them to produce alternative proposals which resemble the ESOTs and ESOPs established in national policies today.

Where should employee ownership rank compared to other urgent national priorities in developing nations? Spain has put its national pension fund ahead of cooperatives and employee ownership.

What are the optimum conditions for adoption of enabling legislation? D'Art suggests that the experiences of Sweden, Denmark and Ireland show that initiatives for employee ownership will occur only under a Labor government. His account also seems to show that employers prefer individual ownership to collective, and that their point of view has a certain appeal to voters, since in all three countries, employers' associations made fundamentally the same objections to workingmen's funds for collective ownership, and proposed individual employee share ownership at the level of the firm.

Canada has a rich tradition of collective efforts - cooperatives, ESOTs, ESOPs, Crocus investment fund. Possibly the most variety of any of the world's states. Is it a model?

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