

In Labour's Policy Review?

by Paul Derrick

At the beginning of April the 1988 Co-operative Party Conference approved unanimously a motion which called on the Party to "undertake a major study on ways and means of encouraging the conversion of companies to a Co-operative or common ownership basis" and to "ensure that there is a significant input of Co-operative ideas and principles, particularly in the field of the economy, into the Labour Party policy review."

The Labour Party in this review needs to move clearly in an Owenite or Co-operative direction if it is to clarify its socialist purpose and turn its socialism into a vote winner. Its 1986 statement on *Social Ownership* and its 1988 statement on *Democratic Socialist Aims and Values* did not do as much as they might have done to make clear what the Labour Party means by socialism or to discourage the press from identifying socialism with wholesale nationalisation. In the policy review Co-operative aims and techniques of organisation must be considered: here are some of the items for the agenda of that consideration.

Social Ownership and ESOPs

The Labour Party statement on *Social Ownership* seemed to imply that employee share ownership plans or ESOPs could be a form of social ownership; but few members of the Labour Party regard Marks & Spencers as an example of social ownership because employees hold some of the shares. Even if employees hold a high proportion of the shares through an ESOP, it is hardly social ownership in that the workers participate in ownership as investors through employee shareholding and not *as workers*, as in a worker's Co-operative.

Employee shareholding may be a useful stage in the process of converting a company to a Co-operative or common ownership basis if the shares are held collectively through a company limited by guarantee. Mr Bryan Gould has taken an active interest in ESOPs and suggested in his Robert Owen Lecture on March 1st and at a CRS conference on Social Ownership on March 12th that the development of ESOPs could lead to the "socialisation of the company". He needs to explore the process of socialisation in more detail if companies are to be run in the interests of the workers and the community in the kind of way envisaged by Robert Owen. Bryan Gould is working on a new book and it is to be hoped that this will draw a clear distinction between employee shareholding and common ownership.

The Basic Co-operative Principles

The two basic Co-operative principles which distinguish a Co-operative from a company are, first, equal voting in primary societies instead of voting in proportion to shareholdings as in a company and secondly the principle of a limited return on capital. The distribution of surplus earnings in some other way necessarily follows from the principle of a limited return on capital; and many Co-operators also regard the prohibition of the distribution of residual assets to members as a principle. The other three principles listed by the International Co-operative Alliance in 1966 - open membership, the allocation of funds to education and training and collaboration with other organisations operating in the same kind of way - do less to distinguish Co-operatives from companies.

Most Co-operatives are formed as new enterprises and the conversion of companies into Co-operatives is unusual in most countries. Sometimes, as in France, the process may take some years. Sometimes, as with the Scott Bader Commonwealth in Britain, the shares of a company may be held by a company limited by guarantee organised on a Co-operative basis. The Co-operative Development Agency has encouraged this kind of thing by developing what it calls an "Equity Participation Co-operative" in which employees hold collectively some of the shares of a company while others are held by outside investors. If the latter are non-voting redeemable preference shares Co-operative principles can be observed.

"Clause Four" - the Co-operative Implications

The Labour Party's "Clause Four" calls for common ownership to "secure for workers the full fruits of their industry"; and this would seem to require a permanent limit on the return to, as well as the liability of, company shareholders. This would be applying to companies the basic Co-operative principle of a limited return on capital. This was called for in a resolution approved unanimously at the 1988 Annual General Meeting of the Christian Socialist Movement. Common ownership also, of course, requires the application of the other basic Co-operative principle of democratic control.

The application of Co-operative principles to companies, presents many problems and it will be interesting to see what the Co-operative Party will propose in its major study. In the case of transnational corporations there are international problems; and Stan Newens M.E.P. discussed the need for measures to cope with these corporations in the EEC at the Co-operative Party Conference. One could be their socialisation so that they are run in the interests of workers and consumers by a wider application of Co-operative principles and socialists should take a much more active interest in ways and means of doing this.

Tony Benn M.P. says that more work is needed on common ownership. David Blunkett and Bernard Crick in an unofficial statement on *Labour's Aims and Objectives* seem to be content with a mixed economy. Alastair Campbell in his book on *The Democratic Control of Work* envisages capitalist ownership being replaced by workers' ownership but without saying much about how this is to be achieved. On the Labour Left there is a great deal of talk about the need to struggle for socialism without any very clear indication of what the struggle is for.

Relevance to Economic Strategy

The Labour Party needs to clarify its socialist purpose partly because it is highly relevant to its economic strategy. The Party is committed to reducing unemployment by one million by the end of the first two years of a Labour government through economic expansion; but over the last forty years the problem of reducing unemployment through economic expansion has been that of controlling inflation in an expanding economy. It is not surprising that trade unionists should not be willing to accept restraint in wage claims in an expanding economy if the incomes policy is clearly not applying fairly to all incomes.

As the NEDC put it in 1963 "a policy for prices and money incomes can only succeed if restraint by one section of the community does not merely result in gains by other sections." However, restraint by wage earners is bound to mean gains for shareholders if companies are run for the profit of private shareholders. The incomes problem can only be solved by tackling the ownership question, by a "fundamental change in the pattern of ownership" as Mr Hattersley put it at the 1985 Labour Party Conference. That is by replacing capitalist ownership by common ownership through a wider application of Co-operative principles.

Common Ownership Companies?

The Labour Party has called for measures to help Co-operative development as in its "Co-operative charter" in 1985 and in its statement on *Social Ownership* in 1986; but encouraging conversions presents a bigger problem. One possibility would be to create a special class of Common Ownership Company with a permanent limit on the return as well as the liability of its shareholders. If such companies were allowed to pay corporation tax at a reduced rate or were exempt altogether this would encourage conversions. Consumers' Co-operatives were exempt from taxation on their trading surpluses between 1894 and 1933 and paid at a reduced rate between 1972 and 1984. Some agricultural Co-operatives are exempted from corporation tax and workers' Co-operatives could be too, and pay tax only when earnings were distributed.

This would help capital formation by workers' Co-operatives and if the law prohibited the distribution of residual assets to members, as Co-operative law does in many countries, the revenue would not suffer in that corporate earnings are distributed sooner or later as personal incomes. Common Ownership Companies, as noted above, could also be exempt from corporation tax in the same kind of way or pay at a reduced rate. For the Co-operative principle of equal voting to apply, the worker members of such a Common Ownership Company would need to vote equally; and it might be an advantage for outside shareholdings to be non-voting redeemable preference shares. Priority, however, should be given to the application of the principle of a limited return on capital so that Common Ownership Companies are run in the interests of the workers and the community, as envisaged by Robert Owen.

Conversion to common ownership might well prove attractive to companies threatened by take-over bids. ESOPs are sometimes used as a defence against take-overs; and "golden shares" are sometimes used in the same kind of way. Thus when the Nestlé company was bidding for Rowntree, the prospect of being taken over was not welcome in York. But if Rowntree had been able to maintain its independence by converting into a Common Ownership Company and transferring ownership to its employees, it might have been happy to do so. There are a growing number of management and employee buy-outs; and conversion to common ownership might be made an attractive way of resisting predators. If the residual assets of Common Ownership Companies were not distributable the independence of the company would be maintained.

Gradual Conversions?

Mr George Coyder has suggested in his recent book *The Just Enterprise* that after a period of years, companies might reasonably be required to convert their ordinary shares into preference shares carrying a limited return, so that the company was run in the interests of the workers and the community in the kind of way envisaged by Robert Owen.

Berle and Means pointed out in 1932 in *The Modern Corporation and Private Property* that power in large companies tends to pass from shareholders to management and that it was illogical for shareholders to be paid more than was needed to ensure an adequate supply of capital. J.M. Keynes made a similar point in 1926 in *The End of Laisser Faire* about there being no need to pay the shareholders of large companies more than conventionally adequate dividend; and Archbishop Temple, James Callaghan and others have pointed out that it is immoral for shareholders whose liability is limited to be paid more than a limited return. Company directors talk about their responsibilities to their

customers and their employees and the community; but company law lags behind industrial practice and it may be that by the end of the century many will recognise that Robert Owen was right in arguing that companies should be run in the interests of the workers and the community.

The Mondragon Co-operators have shown that the economic performance of industrial Co-operatives with worker members participating in the growth of assets, but not in residual assets, can be better than that of conventional companies. The Labour Party should clarify its socialist purpose by moving firmly towards an Owenite or Co-operative conception of socialism.

The Author

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