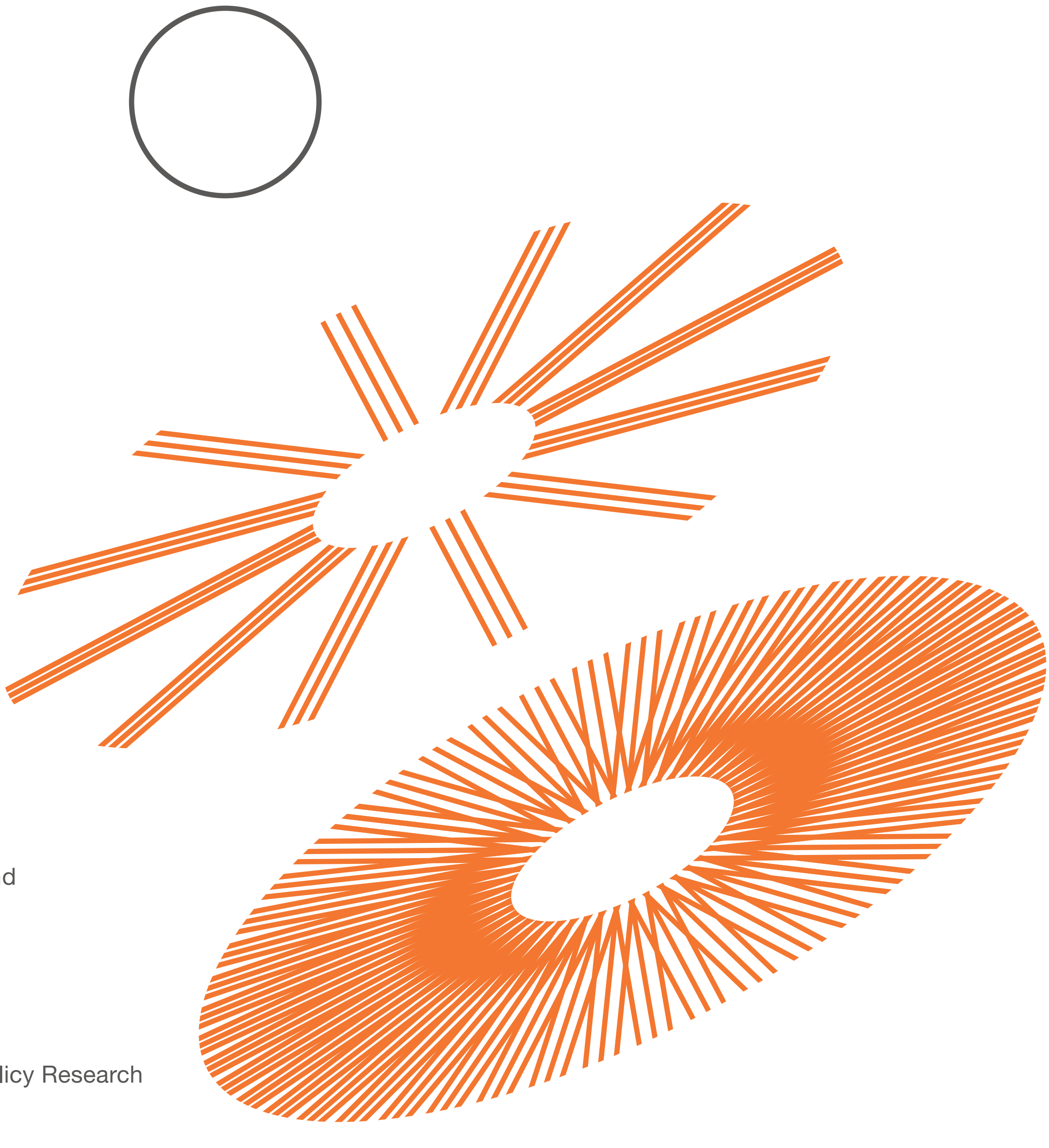
REPORT

FAIR SHARES

SHIFTING THE BALANCE OF POWER IN THE WORKPLACE TO BOOST PRODUCTIVITY AND PAY



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ABOUT IPPR

IPPR, the Institute for Public Policy Research, is the UK's leading progressive thinktank. We are an independent charitable organisation with more than 40 staff members, paid interns and visiting fellows. Our main office is in London, with IPPR North, IPPR's dedicated thinktank for the North of England, operating out of offices in Newcastle and Manchester.

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IDEAS to
CHANGE LIVES

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EXECUTIVE SUMMARY

Too often, people's experience of work is disempowering, lacking dignity and autonomy. One-third of all employees are fearful at work in some way, most feel that they lack a say over the decisions influencing their working life (Gallie et al 2012a and 2012b) and a majority feel disengaged at work (CIPD 2013a). Growing insecurity at work is matched by increasing financial precariousness in the form of the well-publicised squeeze on household incomes, the rise of zero-hours contracts and the growth in jobs paid less than the Living Wage.

The UK also has one of the worst records in Europe for formally empowering employees in decision-making at work – it recently outranked only Bulgaria, Estonia, Latvia and Lithuania among EU countries in an index measuring workplace participation (Vitols 2010: 10). This represents an economic challenge as much as an ethical concern: stark hierarchies of power, esteem and reward at work underpin the UK's poor productivity rates and hold back the wider economy.

This report addresses this widespread employee disempowerment, and the UK's over-reliance on a low productivity, low wage economic model, by exploring how better use can be made of employees' skills and talents. Of course the UK economy has many strengths, and many of its sectors and companies are world-class – its relative weaknesses should not be overstated. Nonetheless, institutional reform can help build more productive, dynamic companies that more equitably distribute reward.

We therefore argue for an expansion of models of 'shared capitalism', which give all workers a claim on the collectively created successes of their workplace, whether through profit-sharing, employee share-ownership, or expanding the co-operative or mutual sector. The degree to which employees feel engaged at work has a substantial impact on workplace productivity, and in this report we set out new measures to ensure that all workers have voice, influence and control in their working lives could benefit both companies and the UK economy as a whole.

Finally, because these steps alone are not enough to break firms out of the low productivity, low-wage trap that too many of them have fallen in to, we make the case for bold economic reforms and new institutions to tackle the deep concentrations of economic power that exist in the UK.

Interrelated challenges: poor productivity and wage stagnation

The average UK worker's output has fallen to 16 per cent below the G7 average, and remains 2 per cent below its 2007 peak, while the proportion of total expenditure accounted for by spending on investment fell to 10.4 per cent in Q2 2013, the lowest level recorded since the 1950s. This suggests that we are not properly harnessing the talents and skills of our workers, or properly investing in the future productive capacity of our economy. Meanwhile, as productivity stagnates, power and pay have become increasingly and unjustifiably concentrated at the top over the last 30 years, as the institutions that acted as countervailing powers[1] in the workplace have weakened, a process accelerated by wider trends of globalisation, demographic and technological change. One consequence has been that the share of wages as a percentage of national income has progressively fallen from around 58 per cent in the early 1980 to 54 per cent in 2011,while profit's share has increased from 24 per cent to 28 per cent over the same period (Lansley and Reed 2013).

1 Galbraith J K (1952) *American Capitalism: The Concept of Countervailing Power*, New York: Houghton Mifflin Company

Perhaps more acutely, if the share of national income going to the wage packet has diminished, it has also become much less equally shared: in 2013 the richest fifth of households had an income 14 times greater than the poorest fifth of households, with the richest 1 per cent now taking home 10 pence in every pound of income earned. By contrast, the bottom half takes home just 18 pence in every pound (ONS 2013b). This reflects a wider phenomenon of inequality: from 1995 to 2012, the UK's richest 1 per cent took 14 per cent of all income growth, while the entire bottom half took just 16 per cent (Plunkett et al 2014). The hierarchical outcomes generated by the design of our current economic institutions has therefore in part contributed to the severe squeeze on median income experienced by non-retired households, which fell by 6.4 per cent between 2007/08 and 2011/12 (ONS 2013c), with incomes predicted to be lower in 2018/19 than they were before the crisis.

Symptoms of deeper economic weakness

These problems reflect the prevailing interests in our economy. The primacy of shareholder interest and the spread of financialisation have structurally unbalanced returns towards a narrow elite: the capture of returns has become detached from the creation of value. Moreover, the banking sector remains a bad master for the real economy, rather than a productive servant. For example, in the run-up to the 2007/08 financial crisis, 85 per cent of bank lending went to either financial firms or property (Weldon 2013), a figure which has changed little since then.

This same degree of 'financialisation'[2] – which distorts the economy sectorally, regionally and remuneratively – has also persisted since the crash. Moreover, despite a welcome if unbalanced return to growth, other structural weaknesses remain: a persistent current account deficit; chronic short-termism underpinning a consistently low investment ratio; high levels of household debt; and an excessive focus on rent-seeking over patient value creation as the route to prosperity.

To tackle these issues, more must be done to properly harness the skills and talents of all employees and give them all due rewards, to ensure that all elements of the UK economy attain the levels of global competitiveness achieved by our best sectors and companies.

Policy recommendations: reforming the UK's workplace and economic institutions

The Coalition government's economic strategy currently lacks the direction and policies needed to rebalance the economy and disperse unjustified concentrations of economic power. Confused about the market and hostile to the state, it will struggle to link rising productivity to increased household prosperity. An alternative strategy is needed to drive all parts of the UK economy towards high-productivity, high-pay models. This new economic agenda should include an extension of the living wage, stronger collective bargaining, a strategy for full employment[3] and a more effective skills and training regime.[4] Corporate governance reforms are also needed to encourage greater long-termism and discourage excessive pay at the top. We therefore support the argument made by the TUC and others for employee representatives to sit on boards and remuneration committees in order to give employees a stake in decision-making and ensure better balance in corporate governance (Williamson 2013). Meanwhile, the state can do more to encourage the expansion of high-productivity, high wage sectors, by

2 See Dolphin 2013
3 See Cooke and Dolphin 2013
4 See Lanning and Lawton 2012

radically extending small and medium-sized enterprises' (SMEs') access to training, technology and investment (Unger and Wood 2014).

These reforms are all vital, but not enough. Reform must also take place within the 'hidden abode of production', in the everyday democracy of the firm: by sharing profits and power[5] to make the best of employees' skills and talents, and introducing bold economic reforms to tackle deep inequalities of economic power in the workplace and wider economy.

Evidence from the UK, Europe and the US suggests that better aligning contribution with reward, and equipping all employees with the capacity to contribute fully in the workplace, enhances competitiveness. In the UK, an in-depth review by the Treasury concluded that widespread employee share ownership boosts company productivity by 2.5 per cent in the long run (Oxera 2007).

A recent and comprehensive review of the impact of profit-sharing on labour productivity across almost 30 European countries found that workplaces with inclusive profit-sharing schemes are 5.5 per cent more likely to report having 'better' or 'much better' labour productivity than the average in their sector (M Williams 2012). Similarly, a review of 40,000 employees in 14 major companies in the US found inclusive shared capitalism models to be strongly associated with increased productivity (4.5 per cent on average) and employee participation (Kruse et al 2008).

However, our analysis suggests that the number of companies offering such schemes in the UK is low, with 16 per cent of companies with more than 200 employees offering a profit-sharing scheme in 2009, yet only 8 per cent of private-sector UK companies with 10 or more employees doing likewise.[6] Moreover, profit-sharing and performance-related pay more generally are concentrated in financial services, and typically disproportionately reward management rather than the average employee. Similarly, employee share-ownership could be stronger: in 2011/12 the total value of shares and options awarded in the UK was £2.7 billion, 11 per cent lower than in 2010/11 and a continuation of a falling trend since 2009/10 (National Statistics 2013). Meanwhile, the percentage of private sector workplaces that use employee share ownership has halved in the last eight years, down to only 10 per cent of workplaces (Van Wanrooy et al 2013: 25).[7]

We need to reverse these trends. The central task is, therefore, to create institutions that can ensure all workers have a share and a say in their work, as well as a stake in the wider economic success of their organisation.

1. A financial stake and a democratic voice for workers

We recommend a **three-point plan** to give all employees an entitlement to a financial stake and greater say in the working life of their company.

1.1. Profit-sharing, to allow employees to earn a greater share in the rewards of success

Profit-sharing recasts power in the workplace by giving employees a claim on profit, while boosting productivity and pay. A profit-share tax relief scheme was introduced

5 See Lawton and Lanning 2013

6 From the 2009 *European Company Survey* (EFILWC 2010), which surveyed more than 27,000 HR managers in Europe.

7 While the figure of £2.7 billion is more relevant, the WERS figure is indicative of a trend that it is important to take steps to reverse to ensure employee share ownership is broad-based.

by Margaret Thatcher's government, but was abolished by Gordon Brown on cost grounds and concerns over tax avoidance. However, the scheme cost only £210 million at the time it was abolished, and while there were concerns regarding its use for tax avoidance, recent policy design suggests that these risks could be minimised or avoided.[8] Given the boost to economic productivity that profit-sharing can bring, we recommend cancelling the planned reduction in corporation tax to instead offer tax relief on profit-sharing as a fairer means of increasing productivity and growth.

Holding the corporation tax rate at 23 per cent rather than reducing it further to 22 per cent would provide an estimated extra £400 million,[9] which could be used to reward all employees and all types of company participating in the profit-sharing scheme, and boost productivity. Moreover, the corporation tax rate would still be 5 per cent lower than it was in 2010.

Recommendation: Create a national tax-advantaged profit-sharing scheme for which all companies are eligible, provided that they introduce a profit-share scheme that is open to, and agreed to by, a majority of all employees. Firms would have to demonstrate the profit-share was democratically agreed in a publicly recordable vote – for example via an annual 'profit sharing agreement' meeting between employees, management and owners. Access to the tax advantage would be contingent on companies having a forum for employee engagement in place, as set out below.

The exact form of the tax relief would be best established between employers, employee representatives and government, but our preferred three options are: making profit-shares exempt from national insurance contributions; allowing employee profit shares to be paid before corporation tax; or allowing companies that share profits an equivalent sum for tax-free investment.

Also, to ensure that companies do not shift pay wholly to profit-sharing dividends, firms would have to cross a profit rate threshold to be eligible for the tax-advantaged share scheme, and the total profit shares themselves would be limited to a fixed percentage of the total gross wage bill.

An indication of the possible impact of this policy can be taken from the fact that in the final five years of the old tax relief scheme, abolished in 2001, the average cost of income tax relief was £172 million pounds a year, with an average of 861,000 people a year receiving a share allocation worth £800. With £400 million of tax relief available, and with an average bonus of £800, a tax-advantaged scheme could now benefit up to 2.1 million people.

1.2. Working life forums in every company to rebalance power in the workplace

Strengthening the democratic voice of employees would provide a double dividend: greater agency for the average worker, and the productivity gains for the wider workforce that greater engagement delivers. The most effective companies already enjoy these benefits: the John Lewis Partnership, which operates a democratic Partnership Council system; Suma Wholefoods, a workers' co-operative and the UK's largest independent wholefood wholesaler/distributor, which has experienced a 15-fold rise in exports over the past decade; large technology firms like Google, whose flat management structure is integral to their operation; and Tesco, whose collective bargaining agreement with the Usdaw union – one of the largest such

8 http://webarchive.nationalarchives.gov.uk/20120609144545/http:/hmrc.gov.uk/stats/emp_share_schemes/aps.pdf

9 Corporation tax raised £39.5 billion in 2012/13. Source: http://www.hmrc.gov.uk/statistics/ct-receipts/corporation-tax-statistics.pdf

agreements in Europe – underpins their business model. However, companies that engage with their staff effectively remain in the minority; reform is required to ensure that all companies fully empower and reward their employees, because the evidence is clear that this is what is best for workers, employers and the wider economy (IPA and Tomorrow's Company 2013). This is all the more vital given the likely future shape of our knowledge-based economy, and the importance of maximising the power of each individual employee.

Recommendation: Every company with over 100 employees should have a 'working life forum' to ensure that all employees have the power of voice and the right to meaningfully participate in deciding how their working environment is organised. While the exact institutional form of these forums would be up to companies and employees to decide according to what best suits their circumstances, large companies should be required to democratically involve their employees, giving them influence over the development of company policies that ensure a balanced working life and decent working conditions. This should be encouraged by government through a new employee engagement review that works with employees, unions and employers to consider how best to ensure all large firms promptly establish their version of a 'working life forum'. For firms with less than 100 staff, as a first step towards building more collaborative workplaces, the threshold for triggering the information and consultation of employees (ICE) regulations should be lowered to 2 per cent. Currently, 10 per cent of employees have to make a formal request, which is too high a number to be effective.

Of course, where workplace democracy is already practiced – for example, where effective collective bargaining agreements with trade unions are in place – the existing arrangements may suffice. However, it should be compulsory for companies that wish to benefit from the profit-share tax advantage to establish a 'working life forum'. What is crucial is that companies move towards ensuring that every worker has a voice and is treated with dignity in the workplace.

1.3. A new foundation to support collaborative workplaces

Building a more collaborative economy requires new forms of co-ordination between employers, employees and the state, with an emphasis on partnership institutions integrated into the labour market which can deliver more egalitarian outcomes while driving up productivity. It will also require a patient cultural shift to make these institutions work effectively and embed them into the fabric of working life.

Recommendation: We recommend establishing a 'social partnership foundation' that would provide training and support to employers and employees to better equip them with the skills and outlook to build successfully collaborative workplaces. The funding and organisation of this foundation should involve cooperation between major trade unions, employer organisations and the government. It is not enough to simply establishing such a body, however. We therefore recommend that this foundation is established by the government convening interested unions and employer groups who want to act together on improving pay and productivity. The visionary Hans Böckler Foundation, which fine-tunes industrial democracy in Germany by bringing together employees, employers and trade unions to train people in collaborative practices, is an exemplar of this approach.

Alongside the new foundation, to support a more balanced, collaborative economy we recommend introducing an 'operating and financial review' that would oblige companies to examine how well their management is empowering their workforce in their annual audit.

We also recommend that government works with unions and employers to identify sectors where collective bargaining agreements can be established – aiming for at least the Living Wage – in return for concrete agreements on steps to improve productivity. For a start, the 11 new sector partnerships the government is establishing in key growth industries should investigate how to incorporate a wage council system as part of their institutional makeup.

Finally, we propose a wider series of reforms to employee share ownership to ensure its undoubted benefits are available to all workers. A quarter of the estimated £615 million the Treasury spent on tax relief for employee share schemes in 2012/13 was on schemes that were not offered to all employees (Lawton and Lanning 2013). We recommend expanding employee share ownership by switching how that money is spent, and through other means.

Further recommendations

- Non-inclusive employee share ownership schemes, such as company share option plans (CSOP) and enterprise management incentives (EMIs), should either be made available to all employees, or have their tax relief redirected to instead extend the tax relief available in share incentive plan (SIP) schemes, which are an all-employee share ownership scheme which delivers all the benefits associated with inclusivity.
- Legislation should be introduced to allow access to employee share schemes to the nearly 3 million employees who work for firms owned by private equity.
- The government should introduce a 'right to buy' option for employees when the company they work for is likely to be sold, dissolved or floated on the stock exchange.
- The tax relief that was previously available for shares held in employee benefit trusts (EBTs) should be restored. Currently, EBTs are treated unfairly by the tax system, as profits are taxed twice – once when they are paid into a trust, and then again when they are distributed to employees.[10] An end to this disadvantage could be funded out of the annual £50 million support fund for the employee-owned sector that the government announced in the 2013 budget.

2. New institutions to disperse economic power

Deep concentrations of economic power cannot be addressed by a bout of 'vulgar Keynesianism'[11] or the stoking of another asset bubble. We argue for a progressive economic programme that patiently democratises the marketplace, embedding new or reinvented institutions and financial instruments in the economy to disperse unjustified concentrations of power, encourage active economic citizenship and better align rewards with contribution.

2.1 Unlocking finance for mutuals, co-operatives and SMEs

The co-operative and mutual sector ensures power and reward for all its employees and members by sharing ownership and profits, while operating democratically. However, given their organisation and limited access to external capital, they require more patient forms of finance if they are to develop effectively. By taking lessons from best practice in leading co-operative sectors globally, we set out ways to unlock finance for mutuals, co-operatives and small and medium-sized enterprises (SMEs) more generally.

10 This means that every £100 of employee trust shares costs £139 in company cash (Ownership Commission 2012).

11 See Lothian and Unger 2012

Recommendation: Working with the co-operative sector, government should consider how to establish a tax mechanism to strengthen co-operative enterprises by creating patient capital funds that are accessible to the co-op community. As in Italy and Spain, legislation should be introduced to ensure that every co-op must, by law, contribute a percentage of its annual pre-tax surplus to a fund for co-operative development which must be invested in the co-operative sector. To encourage strong contribution to the development fund, the government could consider match-funding any contribution that co-operatives make above a certain profit level. The trade body Co-operatives UK has estimated that an expansion finance fund as modest as £25 million over five years could make a significant difference to the sector (Murray 2010).

Recommendation: To increase the provision of forms of capital that are better suited to the needs of the co-operative sector and other non-traditional forms of businesses, we recommend that the Financial Conduct Authority permits co-operatives to issue bonds that can be offered to those of their members who wish to invest in the business. This would be similar to the way in which member certificates are issued by Rabobank in the Netherlands.

Recommendation: In capitalising the British Investment Bank, the government should use part of the funds raised by the sale of publicly owned banks to make capital available specifically for employee-owned, mutual, co-operative and other more long-term-oriented businesses. To address structural gaps in the financing of SMEs[12] the government should also consider how best to incorporate an equivalent of the US Small Business Administration (SBA) into the British Investment Bank. This would extend guarantees to loans made to SMEs by private sector banks, and offer government-guaranteed debt to boost private capital, thereby addressing the funding shortfalls that businesses often face. Equivalent institutions successfully operate in many of the world's most competitive economies, from Germany to Singapore, and suggest there is a role for a more collaborative investment environment in efforts to support SMEs in the UK (see SBA 2013 for further details).

3. Democratising finance

Building a stronger, more inclusive economy will require us to address the concentration and power of finance capital in the economy, to ensure that finance focuses more on long term investment in the productive capacity of the economy. One way to begin this process is to create new institutions of democratic finance that can act as rooted, patient forms of capital that focus on the creation of productive value.

Recommendation: The government, together with a number of partners, should establish a 'solidarity investment fund' – a geographically rooted capital development fund capitalised by employees, trade unions and local government. Quebec's very successful equivalent fund invests in 2,239 companies, has helped to create, maintain and protect 168,577 jobs in the past year, and has over 500,000 shareholders in the province. We recommend that the government, employer associations, trade unions and employee representatives actively consider where and how to introduce a similar scheme in the UK.

Recommendation: The National Employment Savings Trust (NEST) is the UK employer pension scheme for millions of middle- and low-income workers. As such, it has the potential to become a powerful institution of democratic finance. To create a democratically orientated finance vehicle that provides a decent return to savers while providing long-term investment in the UK economy, we recommend that the government introduces an advisory council

12 The relative cost of lending to smaller firms is higher than to larger businesses, and banks are less likely to lend to SMEs when credit is tight, both of which factors work against effective financing.

on ethics, as in Norway's Government Pension Fund; actively examines how it can support the co-operative and mutual sector, which requires patient forms of capital suited to long-term pension funds; and considers how to aggregate local government pension funds to create scale, which is crucial to maximising returns to savers and creating a powerful new investment vehicle for the UK economy.

Conclusion

People deserve an economy that rewards them for effort and treats them with dignity. Even as the recovery takes hold, for too many this is not the economy we presently have. Economic power remains too concentrated, rewards too unevenly shared, and finance too distant from productive investment. Alongside many world-class sectors and companies with significant global competitive advantages, the UK also has too many companies that operate on a business model that offers diminishing financial security for the majority of their workers, in exchange for submitting to a regimented, disciplinary work regime.

Progressives must therefore aim for more, rooting enlarged economic power in the lives of ordinary citizens – freeing people to live lives, at work and elsewhere, marked by human agency, democratic control and a richness of social relations. To achieve this, we must better channel the intense creative capacity that capitalism at its best can engender, and do much more to limit its predatory and inegalitarian tendencies. That requires a progressive economic programme that patiently democratises the marketplace, ensuring that all employees have a stake and a say at work.

This will help address the central challenge currently facing the UK: how to fashion an economy in which everyone shares in the gains of sustainable, productivity-driven growth. A democratised marketplace, with fairness hardwired into it through workplaces that give employees a say in how they are run and a fair share in the rewards of success, is the route to a better economic life. This is not idle utopianism: as evidence in this report clearly demonstrates, workplaces that have engaged employees, inclusive institutional arrangements and more equal forms of reward are more competitive, and have higher rates of wellbeing and stronger productivity levels – exactly the boost our economy needs.

INTRODUCTION

Inequalities in the workplace have many causes, but perhaps above all they arise from a failure in the collective imagination. Arrangements that govern the distribution of power, reward and esteem at work are too often taken to be natural and settled, when they are in fact contingent and malleable, reflecting wider hierarchies of economic power. This report argues for the necessity of re-imagining the institutions that govern the workplace in the UK if we are to build a more equal, productive workforce with stronger, more resilient businesses, and a society of more empowered citizens.

The UK economy does possess many strengths, with leading companies and sectors with global competitive advantage. These significant advantages should not be understated, but it also undoubtedly has relative weaknesses. To correct them, and to fashion an economy in which everyone shares in the gains of growth, will require more than monetary tinkering or 'vulgar Keynesianism'.[13] New and reinvented institutions and financial instruments capable of dispersing unjustified concentrations of power, encouraging active economic citizenship and better aligning reward with contribution must be patiently embedded in the economy. Workplace democracy, 'shared capitalism' models of inclusive reward – whereby all employees can share in their workplace's success and have a powerful voice at work – and finance that better serves production, are the means to pursue this end.

Shared capitalism is about better balancing the interests of employees, managers and owners by giving all a stake in their firm's success, whether through broadened ownership, profit-sharing schemes or the democratisation of finance. By ensuring that reward better reflects contribution, it reasserts the values of reciprocity, mutuality and responsibility in economic life, where inclusive growth is based on patient value-creation, not extractive rent-seeking. A democratic workplace is one in which employees have due influence, information, representation and reward, and have a substantial say over how their working life is organised, individually, collectively and institutionally.[14] Harnessing the talents of all employees, and duly rewarding them, helps build a more equitable, productive economy. Indeed, one of the great strengths of the shared capitalism model is that firms that are more inclusive in how they operate, and that reward their workers, enjoy improved performance, stronger productivity rates and higher employee wellbeing (Kruse et al 2010).

Deep-rooted reform of the UK economy is vital. To understand why, we begin by setting out what the experience of work is like in the UK today, before turning to the longstanding structural issues that confront our economy. In chapter 2 we set out the argument for shared capitalism and democratic workplaces, and in chapter 3 we consider detailed evidence from the UK, the US and Europe about its effects on wellbeing and productivity. A vital insight from this evidence – one that underscores the core argument of this report – is that for equitable financial participation to unlock a workforce's full potential, it must complement existing democratic organisation among employees (Bryson and Freeman 2008). To realise the productivity and wellbeing benefits that the shared capitalism model offers, all employees must have a strong voice at work, agency over their working life and the capacity to participate in the decisions of their firm. Financial participation cannot compensate for democratic exclusion.

However, too many UK workplaces remain marked by deeply unequal access to power, voice and remunerative rewards, to the detriment of the wider economy and society.

13 See Lothian and Unger 2012

14 For more on workplace democracy institutions see Coats 2013.

In chapter 4 we examine the arrangements that govern representation, influence and reward in the UK labour market compared to European competitors, in order to highlight where the UK falls short. In doing so, we indicate where new institutional settlements are required to give employees the chance to lead fuller, more democratic and creative lives at work.

We conclude by setting out how this new settlement can be built. Our approach has two key organising themes: **ensuring every worker has a financial stake and a democratic voice at work**, and **creating new institutions to disperse economic power**. These involve reforms that strengthen democracy in the workplace; build inclusive economic institutions, such as profit-sharing and employee share-ownership; pluralise ownership models by supporting the growth and scalability of co-operatives and employee-owned firms; and democratise finance so that it better serves productive and social ends. Taken together, our aim is to help build workplaces and an economy based on fair reward, democratic voice and creative dynamism. This report aims to outline a patient but far-reaching economic agenda that contributes to the building of a stronger society – one in which power is accountable and resides with people, not monopolised by market or state actors, and in which citizens have meaningful democratic control in all spheres of life, and social relations are founded upon equal standing and respect.[15]

15 See Pearce 2013

1. WORKING LIFE IN THE UK TODAY

Marginalisation and insecurity at work run counter to the ideals and vitality of a decent and democratic society. As William Morris argued, 'No man is good enough to be another's master.' Yet too many experience exactly this condition of powerlessness at work. One third of employees report being afraid in some way at work (Gallie et al 2012a), fewer than half feel satisfied with the amount of involvement they have in decision-making (Gallie et al 2012b), and 37 per cent of workers say they are under excessive pressure either every day or once or twice a week (CIPD 2013b). This is symptomatic of a wider shift towards a more casualised, insecure labour market – one that is exemplified by the growth of zero-hours contracts, with as many as one million people in the UK estimated to be employed on these often arbitrary, disempowering employment contracts (CIPD 2013c).

This burden of anxiety and insecurity has a serious fiscal cost. A 2008 Department for Work and Pensions report estimated that the annual economic costs of sickness absence and worklessness associated with working age ill-health amount to over £100 billion – greater than the annual budget for the NHS at the time, and equivalent to the entire GDP of Portugal (Black 2008: 10). Similarly, the fact that only a third of UK employees report that they 'feel engaged' at work is thought to cost the UK economy up to £25 billion a year in lost productivity (Rayton et al 2012).

Employees lack the institutional support that might enable them to rebalance power in the workplace and address these conditions. For example, the UK was recently ranked ahead of only Bulgaria, Estonia, Latvia and Lithuania within the EU in the European participation index, which measures worker participation at three levels: on the boards, at the establishment level, and through collective bargaining (Vitols 2010).[16] Similarly, trade unions, the traditional means of balancing power in the workplace, remain weak and residualised. For example, only 16 per cent of private sector workers have their pay set collectively, a figure lower than the number that earn less than the Living Wage (20 per cent) – two facts that are likely not unconnected (Van Wanrooy et al 2013: 22). Relying on a weakened union movement to restore workplace balance is, therefore, a risky strategy – yet organised labour remains vital to properly democratic workplaces. Certainly, then, more institutional support for unions is required, including stronger recognition rights and, critically, rights to collective bargaining, to better enable them to rebalance economic power.[17] Given the widespread evidence that an engaged, empowered workforce is essential to company performance, such rebalancing would serve a competitiveness agenda as much as it would one driven by concerns for a more dignified, democratic society (IPA and Tomorrow's Company 2013).

Precarious working conditions have been matched by intensifying financial insecurity. Median income for non-retired households fell by 6.4 per cent between 2007/08 and 2011/12 (ONS 2013c), while the number of workers earning less than a Living Wage jumped from 3.4 million in 2009 to 4.8 million in 2012 (Whittaker and Hurrell 2013). These findings confirm our review of the evidence from the Work Employment Relations Survey 2011 (van Wanrooy et al 2013: 30), in which we found that after the financial crash, those in full-time employment were typically working longer for less in real terms, with a third of workplaces opting out of the EU Working Time Directive. Of course, there are powerful structural forces driving the decline of labour's share of national income.

16 The European participation index compiled by the European Trade Union looks at formal and informal ways of employees getting involved in corporate decision-making. See Vitols 2010.

17 For example, research by Stuart Lansley and Howard Reed (2013) on addressing low pay suggests that extending the scope and power of collective bargaining would close the wage gap (in relation to share of GDP) by 15.7 per cent, more than that achievable by any other measure (see table 2, page 45).

Yet the ways in which a market distributes reward can be shaped so that growth better rewards the entire labour force. For example, despite other European countries facing many of the same structural pressures on wages as the UK, only three countries (Greece, Portugal and the Netherlands) have experienced a steeper decline in pay than the UK since 2008.[18] By contrast, the proceeds of growth in the UK are channelled overwhelmingly to the top. For example, despite the average worker seeing their pay packet fall in real terms, the median total remuneration of FTSE 100 chief executives rose by 5 per cent in 2013 to £4.4 million (Groom 2013), while new research from the High Pay Centre (2013) suggests that the average FTSE 100 boss will have earned more money in the first three working days of 2014 than a typical British worker will have in the whole year.

Yet income inequality looks relatively tame when compared to wealth inequality. For example, the wealthiest three deciles own well over half of all UK-listed shares, while the bottom half of households combined barely scrape above 15 per cent (ONS 2010), and the richest 10 per cent of households have nearly 100 times as much wealth – at least £1 million per person – as those at the bottom.[19] Institutions clearly matter in shaping distribution: stark hierarchies of power lead to deep inequalities of reward.

Such gross and illegitimate inequalities of income and wealth in the UK demonstrate that we are far from a 'shared capitalism' economy that is vibrant, equitable and inclusive. Indeed, such stark differences threaten a fully flourishing democratic life, as deep inequalities inevitably work against the development of an active, empowered citizenship who meet in positions of roughly equal standing. As theorists such as Ed Lewis and Stuart White (2010) have rightly argued, material inequalities reinforce patterns of relational domination that are incompatible with an engaged democratic life. The over-concentration of economic rewards in the UK is therefore both an economic and a democratic concern. To change this, we will require a new institutional framework for our economy – one in which all workers have a stake and a say at work, and in wider economic life.

18 Based on House of Commons Library analysis, cited in http://news.sky.com/story/1127184/wages-uk-workers-in-europes-bottom-four

19 Cited in http://inequalitybriefing.org/brief/who-has-what, sourced from ONS 2012. The term 'wealth' includes, pensions, investments, housing, physical possessions and land.

2. THE CHALLENGES CONFRONTING THE UK ECONOMY

The ways in which work is organised, value is created and rewards are distributed reflects the strengths and interlocking economic challenges of the UK. While the economy possesses many world-class sectors, companies and institutions, there are also structural weaknesses that are preventing it from reaching its potential. Economic power is too concentrated, rewards too narrowly shared, and finance too self-serving and distant from productive investment. This stems in part from the UK's corporate governance code, which – as is widely recognised – fosters a damaging culture of short-termism (Kay 2012). By entrenching the primacy of shareholders in company law, the interests and expertise of a wide range of other critical stakeholders is too often excluded. Corporate governance lacks balance and robust accountability, and does not encourage committed partnerships. Combined with the velocity of share trading and the shifting pattern of UK share ownership (as of 2012, more than half of the value of the UK stock market is owned by investors from outside the UK [ONS 2013d]) this weakens the connection and commitment that shareholders have to the firm they have invested in. Too often, as a result, the patient optimisation of long-term value is sacrificed for the 'quarterly capitalism' pursuit of short-term profit maximisation.

One damaging symptom of this is the UK's chronically low investment rates. For example, while gross corporate dividends rose to a record £25.3 billion in the second quarter of 2013 (Smith 2013), investment rates have fallen to their lowest recorded levels since the 1950s, down to 10.4 per cent in Q2 2013 from 13.5 per cent in 2007 – more than 4 per cent lower than the G7 average (ONS 2013e: 7–12). This picture is unlikely to change while corporate surpluses remain so large.

Underinvestment exacerbates the UK's poor record on productivity and in-work training. For example, the UK's average output per hour is now 16 per cent lower than the G7 average – the biggest gap in 20 years – with the typical worker's rate of output still 2 per cent lower than it was in 2007 (ONS 2013a). As a result, too many firms pursue the 'low road' to growth, by adopting competitive strategies based on a low-pay, low-skills business model (Lanning and Lawton 2012). Without significant supply- and demand-side reform, certain sections of the UK economy risk becoming unnecessarily trapped in a demand-constrained, poorly paid, badly-skilled cycle (Lansley and Reed 2013). The 'high road' to growth – the only way to sustain prosperity in a globally competitive economy – must be based on an inclusive agenda of world-class skills, investment and innovation delivered through co-ordination between the market, state and civil society. Of course, many companies know this and are already acting accordingly; the challenge is to provide the right environment to ensure that all companies follow their lead.

UK businesses are also too often held back by a concentrated and very large domestic banking system that serves itself more effectively than it does the 'real' economy. Recent lending figures underscore this. As of August 2013, there was £2.4 trillion worth of loans outstanding to UK residents from banks, of which only 1.4 per cent went to manufacturing – whereas 34 per cent went to financial institutions, and 10.1 per cent went to real estate and construction (Wolf 2013). This degree of financialisation reinforces regional, trade and sectoral imbalances (Dolphin 2013), hindering attempts to build a more collaborative, balanced and productive economy (Mazzucato 2013: 42). Moreover, the divorce of finance from the productive economy predated the crash. For example, from 1997 to 2007, 85 per cent of the £1.3 trillion in UK domestic loans went to financial companies or property deals (Weldon 2013). There remains, therefore, a pressing need to innovate in terms of financial and legal instruments that can support the growth of more rooted, long-term-focused forms of capital that support value creation rather than rent extraction.

This is made particularly urgent by the fact that a new generation of creative start-ups are surging with energy – there are 4.5 million SMEs today, a rise of 30 per cent since 2000. These enterprises need a more flexible, innovative financial system in order to scale up and expand. Democratising finance, and supporting the rise of alternative finance, is one avenue towards a more pluralistic, competitive financial sector that can better serve a rising generation of entrepreneurs.[20]

The UK's current variety of 'capitalism unleashed'[21] – a financial system that often better serves itself than the productive capacity of the real economy; the restless commodification of social value; hierarchical labour markets that generate gross inequalities – is failing to generate a high-productivity, high-wages economy for all. It has led to high structural unemployment, deep regional and sectoral imbalances, a persistent current account deficit despite the depreciation of sterling, an over-reliance on debt-fuelled consumption for growth, and an overly short-termist corporate sector. Taken as a whole, this indicates the need for a new, more inclusive, productive and long-termist economic model that breaks with the failings of the liberal market economy model.

20 ONS 2013f. Adam Lent of the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA) is also exploring the rise of the micro-entrepreneur.

21 Glyn 2007

3. BREAKING OUT OF THE UK'S LOW WAGE, LOW PRODUCTIVITY GROWTH TRAP

Alternative strategies are needed to drive the UK towards a uniformly high productivity, high pay economy. We know that this is possible because many sectors and world leading companies already operate and compete globally with a high productivity, high pay approach to business. However, extending this to all sections of the economy will require us to advance a number of policy agendas, including an extension of the Living Wage, stronger collective bargaining, a strategy for full employment and a more effective skills and training regime (see Lanning and Lawton 2012, and Lawton and Pennycook 2013). Similarly, corporate governance reforms are needed to encourage greater long-termism and discourage excessive pay at the top, and the state must do more to encourage high-productivity sectors, radically extending access to training, technology and investment to SMEs.

However, these reforms alone are not enough. Reform must also take place within the 'hidden abode of production', in the everyday democracy of the firm: by sharing profits and power to make the best of employees' skills and talents, and introducing bold economic reforms to tackle deep concentrations of economic power. We will now explore the arguments for achieving this by extending shared capitalism models of reward and democratising the workplace.

3.1 Extending shared capitalism

Shared capitalism recasts the balance of economic power in the workplace. Embedding new mechanisms that distribute reward, such as profit sharing, into a firm, ensures that both labour and capital have a strong claim on the proceeds of growth, and a greater say in how the businesses operates. It reasserts labour value and labour's right to a share in that value. Remuneration is dispersed horizontally rather than concentrated vertically, and ownership and the power that it confers is spread widely.[22]

Labour having a greater claim on returns to capital is an idea with deep roots, an argument that has been made by figures from Mill and Meades[23] to Rawls[24] and O'Neill.[25] It is particularly powerful given that the long-term structural trends behind the long-term decline of labour's wage share – globalisation, financialisation, technological change polarising the labour market, shifting demographic trends – are likely to prove difficult to reverse; doing so will certainly require patience and strong, broad political coalitions. If, therefore, we want to address the critical challenge that faces the UK in the short-term – namely, how to ease the strain on living standards by reconnecting economic growth to rising, broad-based household prosperity – we need to embed economic institutions that give individuals a greater shared claim on returns to capital in order to supplement their wage income and disperse power in an egalitarian fashion.

Shared capitalism also addresses the question of ownership, which is central to how an enterprise organises itself and how it distributes power and reward.[26] The economy would be stronger if it were more plural in nature, with greater variety in the forms of business that flourish, and more employees with a direct ownership stake in their workplace. The problem is that the UK's current variety of concentrated capitalism 'doesn't create many capitalists' (Mulgan 2013) Shared capitalism therefore includes a strategy to extend ownership and shift the balance of power in the economy.

22 For more theoretical details see Hsieh 2008a and 2008b
23 Meade J (1964) *Efficiency, Equality and the Ownership of Property*, London: George Allen & Unwin Ltd
24 Rawls J (1993) *Political Liberalism*, New York: Columbia University Press
25 O'Neill and Williamson 2012
26 For more on questions of ownership, see Davies 2009 and Ownership Commission 2012.

The final part of the shared capitalism agenda requires us to directly confront the deep concentration of private economic power in our financial system, which works against attempts to build a more inclusive, productive economy and undermines the flourishing of democratic life. Too often, the sector has acted in a way that consciously disregards democratic norms of reciprocity, responsibility and mutual concern, an attitude that undermines the fabric of democratic life (Lanchester 2013). Moreover, as Thomas Piketty and others have demonstrated, the growing gap between the returns to capital versus returns to labour threatens to entrench a deeply unequal, patrimonial society,[27] with some sections of the economy reliant on rent extraction which is often maintained at the expense of consumers and taxpayers.

The focus must therefore be on encouraging higher investment rates that generate value, not just debt, by increasing the productive capacity of the economy and supporting innovative, socially useful sectors (see Unger 2009). Without institutional reform to root finance in more patient, productive forms of investment, micro-level attempts within firms to redress deep inequalities of power, esteem and reward in the workplace will remain incomplete.

3.2 Democratising the workplace

Democracy is Whitmanesque: it is large, it contains multitudes.[28] Yet its fundamental principle is that individual people should, to the greatest extent possible, be able to consent to or control the conditions and decisions which affect their lives. For democracy to be 'a whole way of life' (R Williams 1958), the same democratic principles that are applied to political authority should also therefore apply to other forms of power that can shape the capacities and conditions of people's lives. Consequently, concentrated forms of economic power should be exercised transparently, must be publicly accountable, and should be dispersed in order to avoid the creation of damaging monopolies. To do so, we must reassert the 'primacy of politics' (Berman 2006) over economic power, using new forms of organisation and institutional power in the workplace.

For if democracy is to be a 'whole way of life', democratic relationships must exist beyond the narrow proceduralism of the electoral process: the spaces of our shared common life, including workplaces, must also be organised according to democratic values (Stears 2011). This necessitates that people meet at work in positions of equal standing, secure in their sense of agency and not dominated in any sphere of life by arbitrary or unjustifiable power. If the workplace is shaped by stark hierarchy, where power is drained upwards rather than spread outwards, everyday democratic life is necessarily circumscribed. A working life marked by powerlessness, domination and insecurity rather than those values central to democratic life – respect, status, purpose, voice – makes it impossible to establish the equality of social relations that underpins a flourishing democracy (Anderson 1999). Undemocratic workplaces fail to take seriously the equal worth of a democratic citizen, and this is too often the case. Any genuine, systemic attempt to make the British economy more democratic and productive must confront this fact.

Crucially, many of the morbid symptoms described above were evident prior to the financial crash, masked only by what transpired to be a chimerical credit democracy and heavy redistributive lifting by a stretched and overly-centralised state (Guinan 2013a and 2013b). Given the fiscal constraints that the UK faces, neither of these strategies

27 See the English translation of Thomas Piketty's *Capital in the Twenty-First Century* (translated by Arthur Goldhammer, 2014, Cambridge MA: Harvard University Press).

28 Whitman W (1855) 'Leaves of Grass', New York

is available any longer, even if we did want to return to a statecraft that was often too centralised, managerialist and transactional.[29] Instead, a future economic agenda should focus on an ambitious programme of institutional reconstruction to give workers the capacity to claim a greater share of the proceeds of growth at source, and to businesses the potential to access a financial system that is refocused on supporting production and innovation. We turn now to a consideration of the evidence in relation to shared capitalism and democratic workplaces, to interrogate whether they can fundamentally help to achieve these goals.

29 For an alternative to this model see Cooke and Muir (eds) 2012.

4. THE EVIDENCE FOR SHARED CAPITALISM

This section considers the evidence for and against shared capitalism. We examine findings from the UK, the US and Europe that suggests that firms that adopt inclusive models of financial participation typically outperform their rivals. Profit-sharing and share-ownership schemes that are open to all employees contribute to increased productivity and higher employee wellbeing (Bryson and Freeman 2008). These forms of shared capitalism can exist within traditional private limited companies – and indeed, many of the UK's most successful PLCs already adopt these practices.

There are, however, alternative forms of ownership that require separate examination: businesses organised on principles that are more directly democratic and egalitarian, whether employee-owned firms, mutuals or co-ops. These are companies owned and run by, and for, their employees, who typically have an equal say in how the business is run, and an equal share of the profits. As their emphasis is on serving their members or workers who contribute their capital, and who own and control them, rather than on providing a return to external investors, they reflect a different, more inclusive way of organising a firm, and typically have more equitable patterns of reward than traditionally organised firms. As the UK seeks a more diverse, resilient economic future, these enterprises bear consideration.

Finally, we explore a vital finding of the literature: for firms and employees to fully realise the benefits of shared capitalism arrangements, workplaces must have channels that support substantive employee participation, voice and agency in how their working life is organised.

4.1 Shared capitalism models

Workplaces that are democratic in ethos and inclusive in reward typically perform better, and have employees who enjoy more meaningful, productive work, than similar firms that are more hierarchically structured. Shared capitalism models contribute to this by reconfiguring the way in which reward for collective effort is distributed by giving all employees a financial stake in their company's success. The benefits of higher productivity therefore flow horizontally to workers rather than gather vertically towards management or external shareholders. It therefore recouples the link between productivity growth and broad-based financial reward.

By aligning the financial interests of employees, managers and owners through broadening and deepening employee share ownership or profit-sharing schemes, shared capitalism models of reward can also deliver a host of positive social and economic outcomes (OTS 2012). These include higher productivity rates and better quality of work compared to equivalent competitors that do not operate such schemes (Bryson and Freeman 2008). In the UK, an in-depth review commissioned by HM Revenue and Customs (HMRC) in 2007 reached similar conclusions: tax-advantaged share ownership schemes increased productivity in participating companies by 2.5 per cent over time (Oxera 2007).

A recent Europe-wide assessment of the effect of profit-sharing and employee share-ownership found that profit-sharing in particular was strongly associated with increased labour productivity. Importantly, the study – which used data from the 2009 *European Workplace Survey,* conducted across 29 countries and in a wide variety of workplaces – stressed that any gains were only achieved when all employees were included in the scheme (M Williams 2012). In another study, firms that made extensive use of employee share-ownership and profit-sharing in the UK were positively associated with productivity gains, particularly when the schemes were both in place (Bryson and Freeman 2007).

Employees who participate in more than one shared capitalism scheme have also been found to have greater levels of self-discretion and have lower rates of absenteeism than non-participating colleagues (Bryson and Freeman 2008).

This positive association between performance and shared reward models is a widely and strongly observed trend. The largest study of its kind in America – which surveyed nearly 40,000 employees in 14 companies – found that employees participating in at least one form of shared capitalism reward structure reported greater commitment and effort from colleagues, more teamwork, better relations with managers and a more positive workplace culture (Kruse et al 2011).

The evidence also suggests that productivity gains from shared capitalism schemes are not achieved through the unreasonable intensification of work: firms with inclusive reward or ownership structures are also associated with better pay and job quality for employees compared to rivals that do not employ shared capitalism structures (Bryson and Freeman 2007). Similar studies have also found that companies that employ inclusive reward systems, in combination with workplace democracy, are also associated with greater job satisfaction and wellbeing (Gallie 2009). Given concerns about the nature of the jobs that are currently being created in the UK – with nearly 80 per cent of all new jobs created since June 2010 being in industries where the average wage is less than £7.95 an hour (TUC 2013), often with precarious employment contracts and conditions – the demonstrated link between *good work* and inclusive reward systems is an important strength of the model. Shared capitalism can, then, deliver a 'double dividend' for employees – providing a greater part of the proceeds of success as well as raising base pay – while driving up productivity and the quality of work done.[30] The key conclusion is that giving all employees a tangible reward for the success of their company, not just through wages, has a positive impact on their productivity and wellbeing, while contributing to improved company performance.

Case study: Google

Fordism – standardised, vertically organised forms of mass production – and its associated patterns of labour organisation have increasingly given way to forms of production and labour association that are more fluid, more reliant on traditional values of 'craft', and horizontal. While there are public policy issues concerning its tax regime, Google's work environment – open and horizontal – reflects many of these changes.

For example, Google's universal ticketing systems allow any employee to file their issues about any issue within the company which are then reviewed to identify patterns or problems. Staff also have the power to act and change conditions without having to wait for consent from managers, while the 'peer bonus' system allows all staff to allocate up to three cash bonuses a quarter to any member of staff who they feel has gone above and beyond what is expected of them in their day-to-day work. Staff can award the 'bonus' independently of management as a way of building up reciprocal bonds of trust and support in the workplace.[31]

30 See Lawton and Lanning 2013

31 http://www.thinkwithgoogle.com/articles/passion-not-perks.html

4.2 Ownership beyond the PLC

How a firm is owned, and by whom, structures its culture, incentives and strategy, thereby shaping the experience of work for employees. While a monocultural PLC business model does appear to dominate in the UK, there is in fact a dense and growing sector of alternative forms of ownership that combine strong business results with more participatory, democratic business styles (Ownership Commission 2012). Employee-owned firms, for example, account for 2 per cent of UK GDP, while the wider co-operative sector is worth over £37 billion, having grown by more than 20 per cent since 2008, in contrast to the wider economy (McQuaid et al 2012). These firms embody the goal of shared capitalism by ensuring that employees, either directly or indirectly, have a significant stake in ownership, and have a democratic voice in how their enterprise is governed and its profits distributed. As a consequence, unlike conventional listed companies which typically prioritise the short-term maximisation of shareholder value, employee-owned firms and co-operatives tend to be better able to make their mission the patient creation of value. Their ownership model therefore allows their operating mantra to be *optimisation*, not *maximisation* (Davies 2012).

The culture within employee-owned and co-operative firms has many positive effects on their performance as businesses. For example, the recent Cass Business School review of employee-owned firms found that they are typically more resilient, create more new jobs and have greater output per employee compared to other types of firm (Lampel et al 2010); the comprehensive Nuttall review (2012) reached similar conclusions. The UK Employee Ownership Index also provides tangible evidence for this, having outperformed the FTSE All-Share companies by an average of 10 per cent a year (Field Fisher Waterhouse 2009). Similarly, the most comprehensive study of employee-owned and 'co-owned' companies (in which employees own a significant stake but not the whole company) in the US found that firms that converted to employee-ownership improved their sales by 2.4 per cent on average, while they also increased their workforces by an average of 2.3 per cent (Blasi et al 2000). Similarly, co-operative workplaces are often associated with increased productivity, better performance and higher levels of job satisfaction (McQuaid et al 2012).

However, co-operative and employee-owned business models are not necessarily suited to every firm. They also tend to be concentrated in small and medium-sized businesses, as well as in knowledge and skill-intensive sectors. Nevertheless, the evidence suggests that they raise individual productivity rates, and can improve overall company resilience and performance compared to traditional business models.[32] Developing the sector should therefore be an aim as part of efforts to create a more democratic, financially inclusive and competitive economy.

4.3 Conditions needed for success

Despite the evidence in favour of shared capitalism models, they typically attract two criticisms. The first assumes that, in firms that have adopted a model of shared reward, less committed workers would benefit to the same degree as the hardest working staff, and hence would be getting a 'free ride' from their colleagues. However, in practice this effect is very limited (Kruse et al 2004). By giving employees a financial stake in their company, shared capitalism ensures that everyone, not just senior management, has a direct interest in ensuring that everyone is working to the best of their ability. Indeed, evidence suggests that staff are more likely to take action against colleagues who are perceived to be 'shirking' if they have a direct interest in all employees working effectively

32 For numerous examples of the benefits of co-operative business models in terms of productivity and resilience, see http://www.uk.coop/sites/storage/public/downloads/homegrown_co-op_economy_2013_final_0.pdf

(Blasi 2004). The second and more substantive criticism is that it exposes workers to undue risk by tying their wage income to the same source as their equity. Any system must, therefore, be designed with this risk in mind, and ensure that pay is not replaced by riskier forms of reward (Lawton and Lanning 2013).

To realise the full benefits of shared capitalism to both individuals and their companies, studies consistently suggest three conditions must be met. First, inclusivity must be central to the design of any shared reward scheme in order to generate the widely observed positive effects on productivity. In practice, this means that schemes must be open to all employees. If rewards for performance are exclusive and targeted at the upper echelon of staff, then the company-wide productivity gains are usually negligible (M Williams 2012).

Second, collectively created profits must be collectively shared. Performance-related pay appears to have little impact on improving overall company performance if reward is based solely on individual effort. Indeed, studies have shown that individual bonus schemes promote competitive behaviour within firms that do not typically support productivity improvements as effectively as collective schemes (Bryson and Freeman 2007). Shared capitalism works by ensuring that all can share in success that is collectively created, aligning incentives and providing all employees with a tangible reward for improved company performance. Concentrating that reward, or ‘individualising’ the process, diminishes its impact.

Finally, and critically, the positive effects that shared capitalism schemes have on wages, job quality and company performance is contingent on the presence of democratic processes of employee involvement (Lawton and Lanning 2013). Workplace democracy is the foundation upon which shared capitalism must be built in order to most successfully achieve stronger company performance and higher employee wellbeing. This is where the chancellor’s recent ‘shares for rights’ proposal was so misconceived.[33] Sustainable productivity gains are built on empowered workers: commodifying their rights represents both a misunderstanding of the notion of a right, and also runs counter to the aim of creating secure workforces in which individuals possess the levels of agency, trust and skill necessary to improve performance. Financial participation must be built on democratic workplaces, rather than acting as a replacement to it. Together, however, the evidence suggests that they are a powerful combination that makes work more fulfilling, productive and financially rewarding, and makes companies more resilient, competitive and successful.

The lessons for the UK are clear. While it has had a reasonable record on financial participation in the past, this has stalled as shared incentives have been removed, and the financial crash has impacted on share option take-up. The decline in shared capitalism models cannot be reversed by the market alone. Instead, the government needs to provide the right structures and incentives for companies to share their profits, while ensuring that any benefits are inclusively and equitably shared, if financial participation in the workplace, beyond wages, is to become part of normal working life.

33 The ‘shares for rights’ plan was proposed in 2012, and would allow employees to give up their statutory rights over redundancy, flexible working and unfair dismissal in order to receive between £2,000 and £50,000 in shares as an ‘employee shareholder’.

5. INSTITUTIONAL POWER
AN INTERNATIONAL REVIEW

Stark inequalities of power and reward in the workplace are not arrived at by chance; they are shaped by the wider institutional architecture of the UK labour market, by how and by whom a firm is owned, and by each company's corporate governance regime. In this chapter we compare how institutions in the UK distribute power and reward in the workplace with the situation in five major European economies – Germany, Sweden, Denmark, France and the Netherlands. These comparisons suggest that the UK's labour market, while it possesses particular strengths, is nevertheless lacking many of the arrangements that are common elsewhere and that are vital to creating truly democratic workplaces with shared models of reward. We also present new analysis of UK workplaces in order to build a picture of their strengths and weaknesses in relation to financial and democratic participation.

A democratic workplace is one in which employees all have reasonable levels of access to information, influence, representation and reward. We will therefore explore three key features of UK working life compared to rival institutional political economies.

- **The power to influence** – both the strategic and the everyday (board-level representation; employee forums or work councils; self-discretion); information and consultation rights.
- **Effective representation** – how employees are formally represented (trade unions and other forms of workplace representation); the coverage of collective bargaining agreements.
- **Shared reward** – the incidence of profit-sharing; employee share ownership; employee-owned firms.

5.1 Influence

The extent to which UK employees feel that they lack control is a striking aspect of the UK workplace. For example, fewer than half feel satisfied with the amount of involvement they have in decision-making (van Wanrooy et al 2013), while only a third say they feel engaged at work.[34] This is compounded by the fact that employees in the UK lack formal channels through which they can exert influence in everyday decision-making. The most obvious institutional gap is the absence, in most workplaces, of work councils or employee forums that have genuine influencing powers. In contrast, 'working life forums', whether union or non-union led, are part of the fabric of firms in the Netherlands, France, and most famously, Germany.

The emphasis on co-determination in Germany's corporate governance model, whereby employees have the right to participate in decision-making in the firm they work for, means that a works council can by law be set up in all private sector workplaces with at least five employees. These councils are forums that enable employees to participate in decision-making and condition-setting in the workplace, with co-determining rights between management and staff which extends to employees having an effective veto over certain aspects of how work is organised. Nonetheless, the remit of the council is for employees to work with employers 'in a spirit of mutual trust for the good of the employees and the establishment' (Bundesgesetzblatt 2009). These councils are not adversarial: they cannot organise strikes, for example. Instead, they are designed to help companies and workers better realise their potential by maximising employees' input in a constructive setting.

34 'Engagement' is defined as being positively present and in control during the performance of work. It is estimated that the UK's poor track record on engagement costs the UK £26 billion each year; the UK is ninth in engagement levels among the world's 12 largest economies. See Kenexa Research Institute 2009 and MacLeod and Clarke 2009: 14.

As such, work councils, which cover nearly half of all employees in Germany (Ellguth and Kohaut 2012), have wide-ranging powers to shape the future direction of their firm and its day-to-day operations in a way that impacts positively on productivity and innovation (Vitols 2005 and Osterloh et al 2006). A further benefit of this model is that they can make pay structures within companies fairer by widening the institutional space for employee voice. For example, a 2007 study by the Rimini Centre for Economic Analysis found that pay is 10 per cent higher on average in companies with works councils relative to comparable firms without works councils – with women and low-wage workers receiving the biggest financial returns (Addison et al 2007). As employees are able to better shape their working conditions, work councils are also associated with a better experience of work (EFILWC 2008) and higher job satisfaction (EWCO 2006).

They are also an effective means of shaping a firm's training and skills policies. For example, work councils in Germany and the Netherlands have a general right to be consulted on training, which allows companies to better tailor their training to what the workforce truly requires. In part, this may explain why the UK's training participation rate is substantially below the most dynamic OECD economies, such as Germany or the Scandinavian countries (Lawton and Lanning 2013). Industrial democracy that emphasises a collaborative training regime is, therefore, an effective component of a high-skills economy in Europe, one that better balances the expertise and power of employees and employers in order to improve company outcomes in a manner that the UK can learn from.

Case study: Tesco partnership agreement with Usdaw

Tesco is the UK's largest private sector employer, with over 300,000 workers. Central to how the firm operates is the partnership agreement it has with Usdaw (the Union of Shop, Distributive and Allied Workers), which provides the company and its employees with a vital space to constructive dialogue and productive co-operation, and which gives a meaningful voice to staff. At the heart of the partnership, which is one of the largest collective bargaining agreements in Europe, are the three levels of staff forums:

- store forum (at the individual store level)
- store director forum (at the regional level)
- national forum (at the national level)

Through these sites of workplace democracy, supported by 4,000 Usdaw representatives, employees have the institutional space and necessary rights to engage in negotiation and consultation with their employer to improve working conditions and practices at Tesco. As a consequence of having the capacity to input into decisions on pay and working conditions, Tesco staff have some of the highest average salaries in the supermarket sector (Engage For Success 2012).

5.2 Representation

Financial participation schemes are most effective when combined with an engaged and well-represented workforce. Yet unlike the most competitive economies in Europe, the UK has no common structure for employee representation, and many workplaces have no formal representation of any kind. This poses serious challenges to the project of building a more participatory, productive economy in which all employees possess a reasonable level of power at work. Strengthening the capacity for representation should therefore be a crucial part of the shared capitalism agenda.

For example, employee representatives on company boards is a normal, visible and effective manifestation of worker voice in Europe. In 17 of the EU's 28 member states, employees have the right to be represented on company boards in firms over a certain size.[35] The UK, in stark contrast, is one of only two EU15 countries where employees have no right to representation at board level. This represents a missed economic opportunity for British business, because where employee board representation is commonplace, companies are glad of their presence. For example, it has been found that over 60 per cent of managing directors in Sweden are pleased with the contribution employee representatives make to board decisions (Levinson 2001), while in Germany they have helped to steer major corporations through the global recession and lent greater legitimacy to the difficult decisions that many boards had to make (High Pay Centre 2013). While board-level representation is not a panacea, it does provide a site for enhanced collaboration on strategic issues between owners, staff and management; it also aids strategic transparency and ensures that decisions are more legitimately embedded in the wider workforce. A famous example of this form of workplace democracy is evident in the John Lewis model (see the boxed text below).

Case study: John Lewis Partnership Council

The John Lewis Partnership is Europe's largest co-owned business, with a turnover of around £6.8 billion. Each employee is a partner, with the business held on their behalf by the Trust. Co-ownership grants employees influencing rights, with branch forums at every store which allow them to discuss local issues and influence decisions at divisional councils. The strategic summit of the company is the partnership council where, again, employees have a democratic voice: partners elect at least 80 per cent of the 82 representatives at the council level. All partners also receive an annual bonus, which is a share of the year's profit; this has varied between 9 per cent and 20 per cent of a partners' average annual salary over the past decade.[36]

The most common form of day-to-day representation is through a recognised trade union, although there are three other forms of commonly recognised representation: an on-site representative of a non-recognised union; a joint consultative committee (a committee made up of managers and employees concerned with consultation rather than negotiation); and stand-alone non-union representation. Yet an analysis of the Work Employment Relations Survey shows that 36 per cent of the UK workforce is not covered by any these structures, while less than half (46 per cent) of employees are in workplaces where there is at least one recognised union. The percentage of all workplaces with any union members fell from 29 per cent in 2004 to 23 per cent in 2011, while the percentage of those workplaces in which a majority of workers are union members fell from 14 per cent to 10 per cent over the same period (van Wanrooy et al 2013). Within the private sector, only 14 per cent of employees are members of a trade union, and unions now have majority membership in only 3 per cent of all private sector workplaces. Rates of unionisation are also declining across most of Europe, albeit more slowly than in the UK, but this is mitigated to some extent by the existence of alternative forms of employee representation. In the UK, however, such representation

35 http://www.worker-participation.eu/Company-Law-and-CG/Corporate-Governance

36 http://www.johnlewispartnership.co.uk/about.html

is, if anything, becoming rarer. For example, WERS analysis shows that just 7 per cent of workplaces have joint consultative committees, and 7 per cent have stand-alone non-union representation (ibid).

Perhaps the starkest contrast is the difference in the scale of collective bargaining coverage. In the UK both the breadth and depth of collective bargaining has declined over the last eight years, and it is increasingly residualised in the public sector. In the UK, 29 per cent of the workforce has their pay and conditions set by collective bargaining, a figure that is significantly held up by the public sector – only 16 per cent of the labour force in the private sector has its pay and conditions set collectively. Traditional union representation in the private sector is therefore residualising, lacking widespread penetration or negotiating clout. Reversing this trend is a critical challenge (van Wanrooy et al 2013).

By contrast, in Germany, 61 per cent of employees are covered collectively;[37] in the Netherlands it is 81 per cent;[38] Denmark, 80 per cent;[39] Sweden, 88 per cent;[40] and in France, a staggering 97.7 per cent. Interestingly, only 9 per cent of employees in France are unionised.[41] However, they have the institutional, cultural and legal support to be able to effectively negotiate – there are obligations on the employer to negotiate, and the terms of industry-level agreements are extended to all employees – which establishes a better balance of power between employer and employee when key aspects of pay and conditions are being set. This enhanced leverage is just as critical as absolute union density – which is not to say that unions should not do more to organise in low-paid and under-represented sectors. What this does suggest, however, is that the wider institutional environment is critical to how economic power is distributed and exercised in the workplace.

5.3 Reward

In the past, the UK has been reasonably successful in increasing levels of financial participation, whether through employee-share ownership or profit-sharing schemes. However, the percentage of private sector workplaces which use employee share ownership has halved in the last eight years, down to only 10 per cent (Van Wanrooy et al 2013: 25). In part this represents the size and incidence of mergers and acquisitions since the crash, rather than a lack of popularity. Nevertheless, it remains a worrying sign of the decline of a broad-based economy, given that share ownership is already heavily weighted towards high-earners (ONS 2013d). Similarly, while the incidence of profit-sharing has traditionally been relatively high in the UK compared to European averages, the 2009 European Company Survey, which surveyed more than 27,000 HR managers in Europe, revealed that only 8 per cent of private-sector UK companies with 10 or more employees offer their employees profit-sharing schemes,[42] while our analysis of data released from WERS findings suggests that profit-sharing remains concentrated in the financial sector,

37 61 per cent of workers in the former West Germany are covered by collective agreements – 54 per cent signed at industry level and 7per cent at company level. In the former East Germany the overall figure is lower, with 49 per cent covered by any agreement. Source: http://www.worker-participation.eu/National-Industrial-Relations/Countries/Germany/Collective-Bargaining

38 http://www.worker-participation.eu/National-Industrial-Relations/Countries/Netherlands/Collective-Bargaining

39 http://www.worker-participation.eu/National-Industrial-Relations/Countries/Denmark/Collective-Bargaining

40 http://www.worker-participation.eu/National-Industrial-Relations/Countries/Sweden/Collective-Bargaining

41 For further details about European trade union rates and collective bargaining coverage, see http://www.worker-participation.eu/National-Industrial-Relations/Countries/France/Trade-Unions

42 http://www.worker-participation.eu/National-Industrial-Relations/Countries/United-Kingdom/Financial-Participation/Basic-Data-on-Profit-Sharing-Employee-Share-Ownership

and mainly benefits management rather than the majority of employees.[43] This means businesses are not capturing the full productivity benefits that a more inclusive reward system offers.

There are a number of wider lessons from both European and American experience in how to promote shared capitalism systems. First, countries with significant levels of profit-sharing typically have legislation in place mandating that companies above a certain size must offer at least one sharing scheme to its employees. For example in France – which at nearly 40 per cent of the workforce has the highest level of profit-sharing – it is compulsory for firms with 50 employees or more to offer at least one scheme. Second, effective government incentives typically support legislation, with tax advantages encouraging firms to deepen their financial offer beyond the legal minimum. This is the case in the leading European countries while in the US employee share ownership is supported by federal tax-relief. Moreover, profit-sharing brings substantial reward. In France, for example, 4 million employees received a total of more than €5 billion in profit-sharing payments in 2003, equivalent to €1,250 for every worker in the scheme (ibid). Although this figure has varied with profit rates over the past decade, it has remained reasonably stable (EFILWC 2010; see also Wilke, Maack and Partner 2007). Shared capitalism can deliver substantial economic bonuses to the average worker. Thirdly, there is a positive correlation between the inclusivity of a scheme and its uptake. In countries where profit-sharing is not widespread in either absolute or relative terms, it is typically because the most common schemes are exclusive and hierarchical, which undermines the purpose and legitimacy of a profit-share in the first place. By contrast, the Dutch and French schemes retain their tax advantage on the basis that they are open to all employees. Universal coverage within the firm is therefore vital to successfully driving greater uptake.

A final important factor is the positive impact that effective employee representation has both on ensuring that companies adopt a profit-sharing scheme in the first place, and that these schemes offer inclusive coverage. In France, regardless of company size, the existence of organised employee representation in a firm doubles the likelihood that a profit-share will also be in place (EFILWC 2010). Similarly, within firms that offer a scheme, employee representation has a strong impact on ensuring that that scheme is broad-based and open to the majority, or all, of the workforce (ibid). Agreeing on the exact nature of the share is an important mechanism for deliberation and goal-setting, accounting for the interests of all employees and owners. For example, in gain-sharing arrangements in France, the details of the share scheme are set down either as part of the collective wage settlement, or agreed upon by a two-thirds majority of staff: democratic consent underpins economic targets. There is a virtuous circle, then, between representation, engagement and financial reward when instituting profit sharing.

The lessons for any policy designed to promote shared capitalism models of reward in the UK are therefore clear. For such an initiative to succeed, companies must be offered an effective incentive to adapt their schemes, one that is tied to clear principles. Any scheme that is tax-advantaged must be open to all employees and weighted progressively, aiming to spread financial reward to all employees rather than act as a mechanism for further entrenching inequalities within the firm. It must not be considered a substitute for a decent wage, but rather as a gesture of dialogue, and a means by

43 IPPR analysis of Work Employment Relations Survey data set, released summer 2013.

which collective effort creates shared reward. However, once these wider principles are set, access to the tax advantage should not be prescriptive: companies should have the freedom to innovate in the form of the share scheme they establish, although the most effective schemes in terms of productivity are based on the active participation and agreement of employees and their representatives. Finally, there is a clear link between compulsory legislation and the uptake of profit sharing. As a backstop, there is a case for considering legislation if the voluntarist approach does not achieve significant results within a specified period.

Case study: Handelsbanken
Handelsbanken is a Swedish bank which has 161 branches in the UK. According to analysis of data from the London School of Business, it is the world's best performing share since 1900. Ten pounds invested in Handelsbanken at the turn of the 20th century would have been worth about £20 million by 2009, a 1.9 million percentage rise. General Electric could only manage a 843,000 percentage rise. Central to the global success of the bank is its egalitarian, inclusive ethos, which is manifested in its *Oktogonen* system (a profit-sharing scheme). Under this scheme, whenever 'profits exceed the average profit level in comparable banks, one third of the "excess" profit is transferred to a fund called Oktogonen. All employees are entitled to a share of the fund, based on years of employment. At the age of 60, employees can withdraw their share of the fund.'[44]

5.4 Alternative forms of ownership and institutions

The co-operative movement in the UK, although a resilient and competitive part of the economy, is held back by undercapitalisation, credit market failures and legislative disadvantages. By comparison, in those parts of Europe where co-operatives are most economically successful, the sector attracts government support and has access to significant capital pools owned and controlled by the co-operative community and dedicated to supporting the establishment of new co-operatives or expansions (Adeler 2008). For example, Italy has more co-operative enterprises per capita than anywhere else in the world, and the country's Emilia Romagna region, where penetration is deepest, is the tenth-richest regional economy in Europe and has the highest GDP rate per capita in Italy (Carson 2009). Italy's highly developed co-operative sector has been supported by the legal requirement, in place since 1992, that co-ops must contribute 3 per cent of their annual surplus to a fund for co-operative development, which co-ops can use for investment. The similar mechanism that operates in Spain has aided the growth of the Mondragon corporation, which is now Spain's seventh-largest company (Bland 2011).

A second important feature of the development of the co-operative economy in these countries is the growth of 'indivisible reserves', created from the cumulative retained earnings of co-operatives, that form a pool of shared democratic wealth for co-ops. These cannot be divided as equity and are permanently owned by the co-operative in order to guarantee financial stability. By rooting finance geographically, the reserve ensures that sustainable stable capital is retained within the enterprise to be re-invested

44 http://www.eurofound.europa.eu/areas/qualityofwork/betterjobs/cases/se04handelsbanken.htm and http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/10264024/Handelsbanken-is-championing-an-old-way-of-doing-new-UK-business.html

in it, thereby securing high levels of future productivity, wage growth and employment. The strength of the indivisible reserve is highlighted by Patrick Lenancker, president of CG-SCOP (the national federation of French co-ops) as a key reason for the success of the sector (Corcoran and Wilson 2010). It is clear why indivisible reserves are so effective: in France, a minimum of 15 per cent of surpluses must, by law, be placed in reserves, although in practice the typical rate is nearer 45 per cent (ibid). Italy and Spain have similar laws, and all three countries back them with significant tax advantages. For example, in Italy a 2001 law made contributions to indivisible reserves 70 per cent tax-exempt for co-ops that do at least 50 per cent of their business with members, and 30 per cent tax-exempt for other co-ops (Forte and Mantovani 2009). Interestingly, while their wider economies have struggled, the co-operative sector in these countries has continued to perform strongly throughout the last decade. The same is true of the UK's co-operative sector (see the case study below)

Case study: Suma Wholefoods

Suma Wholefoods is the UK's largest workers' co-operative, and its employees have democratic control over work and pay. Last year, for example, because the wholesaler made nearly £1 million in profit on a £34 million turnover, employees voted to receive a 5 per cent bonus, which equated to £4,750 each. This was not a one–off: Suma's sales have doubled in the past decade, while its exports have risen 15-fold.[45]

As the above examples demonstrate, the successful development of a more democratic economic ecosystem requires a dense ecology of decentralised institutions that better support investment in the sector, and legislation that recognises the positive contributions that these models make. Such an ecosystem will not be created by chance, or by leaving the market to resolve its own flaws. It will require institutional innovation that redistributes power, combines boldness in policymaking with patience in seeding new arrangements, and a strengthened culture of dialogue and collaboration at work. We now turn to how this agenda can begin to be delivered.

45 http://www.suma.coop/about/

6. POLICY RECOMMENDATIONS
REFORMING THE UK'S WORKPLACE AND ECONOMIC INSTITUTIONS

Workplaces that use shared capitalism systems of reward and operate on democratic principles remain the exception in the UK. The challenge for policy-making is how best to channel the tremendous potential of UK workers and companies into ways of working that are more participatory, equitable and productive, less unduly hierarchical, and that better distribute both power and reward for good performance. This will require the patient building of new or strengthened economic institutions that give employees greater power at work and a fairer claim on rewards, while expanding companies' access to new modes of production and more patient credit. It necessitates a more collaborative form of capitalism, in which government accepts that it can and should do more to shape how companies operate, using 'benign constraints' to bear down on low-quality growth models and providing strong incentives to promote better business practices (Wood 2001). There are of course many world-class UK companies that already do this, and reap the benefits – the challenge is to create the right framework to encourage more to follow their lead. This final chapter suggests the building blocks for this new architecture.

We begin by setting out how every worker can be given a stake and a say at work, both through expanding democratic profit-sharing to ensure that all workers can benefit from their company's success, and by strengthening employees' participatory and decision-making rights at work. Ownership is fundamental to the structure of power, responsibility and reward in the workplace. We therefore propose means of reversing the decline in employee share-ownership, alongside ways to encourage a more pluralistic ownership culture – including supporting the growth of alternative models such as co-ops or employee-owned firms. Finally, to tackle the deep concentrations of private economic power that exist in the UK, which have undemocratic implications for society and result in unproductive outcomes for the economy at large, we propose the creation of new economic institutions that can disperse reward and anchor finance in serving productive ends.

6.1 A financial stake and a democratic voice for workers

The threshold of the workplace should not represent the boundary between an empowered and an unempowered citizenry. Yet, as we have demonstrated, in many respects the UK has fallen behind the most competitive European economies when it comes to ensuring that employees have substantive representation, influence and information at work. This democratic deficit is not only an ethical concern, it is an economic challenge: the marginalisation and disempowerment of large sections of the labour force hinders attempts to tackle the UK's over-reliance on low-skill, low-pay, low-productivity workplaces. Reform must aim to close this gap and ensure that both businesses and average workers benefit from the realisation of the UK's full economic potential.

Reforming corporate governance, extending employee representation at the board level and widening the scope of information-sharing are necessary steps towards a more inclusive, long-term orientated national business model (see Lawton and Lanning 2013, Lansley and Reed 2013). However, while these steps important, taken in isolation they cannot equip workers with the power to shape their working lives on a daily basis, nor can they deliver the productivity gains that effective participation has the potential to deliver. To ensure that workplace democracy becomes an everyday practice rather than an episodic occurrence, new institutions of influence, decision-making and equitable reward must be strengthened or newly created. Trade unions offer an obvious model of democratic influence and organisation in the workplace, and remain a vital force for building a more collaborative, productive economy. Moreover, as Frances O'Grady and others have argued, the shared capitalism agenda offers an opportunity for unions to pursue both a more ambitious but also a more demanding role than they currently play (O'Grady 2013). However, an honest assessment of the current power of unions in private sector workplaces suggests that, while unions should rebuild their strength more widely, our primary focus must be on institutions or forms of organisation through which all workers, whether unionised or not, can exercise power and gain greater leverage.

Similarly, given the current pressures on wages and the decoupling of productivity from rising, broad-based prosperity, new 'countervailing powers' are needed to strengthen the capacity of ordinary workers to capture the reward due to them for value they create. We therefore recommend a **three-point plan** to build an infrastructure of everyday workplace democracy in which all have voice and a stake at work.

6.1.1 Profit-sharing, to allow employees to share in the rewards of success

We recommend the introduction of a national tax-advantaged profit-sharing scheme that firms can access if their profit-share has been democratically agreed to by all employees via a publicly recordable vote. 'Profit-sharing' refers to arrangements under which employees receive, in addition to their wages, a share in the profits of their company on some pre-determined basis. The share allocated varies depending on the level of profit achieved by the company, giving all employees an opportunity to benefit from the success that they have contributed towards. More broadly, in a period when the share of national income that is going to labour is shrinking under continued structural pressure, profit-sharing alters the distribution of returns between capital and labour in favour of the latter. It is a form of economic rebalancing that gives labour a direct stake in how profits are distributed, and that can make a real difference to the household income of the average worker.[46]

Yet despite widespread evidence demonstrating its benefits for both employees and companies, the use of profit-sharing in the UK has stalled in the past decade, only being used by a plurality of companies in the financial sector. Moreover, there is no national policy in place to support its growth, despite the international evidence showing that government policy is the most important factor in determining the incidence of profit-sharing: effective tax incentives are usually required to encourage companies to share profit with their workers. If this powerful element of shared capitalism is to be extended, then this policy gap must be remedied. **As a first step, the government should convene a body akin to the Low Pay Commission, comprised of representatives from employers, employees and academia, with the task of working out how profit-sharing can best be advanced in the UK.[47] It should set an ambitious goal of expanding coverage – to half the workforce by 2025, for example.** Three possible means of incentivising firms to take up profit-sharing include the following.

- Reintroducing income tax exemptions for profit-related pay, or making profit shares exempt from national insurance contributions.
- Allowing employee profit-shares to be paid before corporation tax, effectively reducing company tax bills.
- Establishing a formula that determines the minimum share that employees must receive from companies that participate in profit sharing. Those companies that share profits at a rate above the minimum should be permitted make tax-free

46 For example, around 84,700 staff at the John Lewis Partnership recently received a profit-share equivalent to nearly nine weeks' pay.

47 This argument was advanced by Lawton and Lanning (2013).

investments equal in value to 50 per cent of the sum paid out in excess of the required minimum profit share.

Each form of tax advantage has its particular benefits. We recommend that whichever incentive is agreed upon, it is financed by waiving the proposed corporation tax cut. Keeping the rate at 23 per cent, rather than reducing it to 22 per cent in 2014 as is proposed, would provide an estimated extra £400 million, which should be used to incentivise the uptake of share schemes. As an indication of its possible impact, in the final five years of the old tax-relief scheme, which was abolished in 2001, the average cost of income tax relief was £172 million pounds a year, with an average of 861,000 people a year receiving a share allocation worth £800. With £400 million of relief available, assuming an average bonus of £800, a tax-advantaged scheme could benefit up to 2.1 million people.

Without being cut, the corporation tax rate would still be 5 per cent lower than it was in 2010, and substantially below the G20 average. Moreover, corporate profits are at near-record highs, yet corporate investment remains low – so further corporate tax cuts do not appear to be the most effective means of promoting broad-based growth. Instead, a profit sharing scheme with the capacity to boost the pay packets of nearly 2.5 million employees would provide rewards for strong performance to all types of company regardless of size, deliver proven productivity benefits, and have an egalitarian distributional impact within firms.

As in the French model, to ensure that profit sharing does not displace wage increases, the amount shared should not exceed a fixed percentage of the total gross wage bill. Profit sharing is primarily a means of boosting pay at the expense of shareholders, rather than changing the nature of pay: a limit on profit sharing linked to the wage bill would enforce this.

While the exact nature of any profit sharing scheme is best determined within each company with the involvement and consent of its employees, we recommend that for any scheme to be eligible for tax advantages it must meet the following requirements.

- It must be open to all employees.
- The share must be based on collective, not individual performance.
- The profits shared must not exceed 20 per cent of the total gross wage bill, and annual profit must exceed 5 per cent of a company's equity before employee profit-sharing comes into effect.
- Share payment must be determined by an agreed target. This would typically relate to the company's annual profit, but there should be discretion over what metrics are used: targets concerning output per hour, for example, or turnover size might be more appropriate.
- The format of the profit-sharing scheme must be democratically agreed upon, including the formula for distribution and the targets to be achieved to trigger the share. In France, the details of the share must be agreed either as part of collective bargaining negotiations, or by two-thirds of employees in a company-wide ballot. This requirement should be adopted for any tax-advantaged scheme in the UK, with any profit share the result of negotiations between employees and management, rather than simply imposed, with the final share being agreed to by a publicly recordable vote. This democratic approach has two benefits. First, it embeds employee engagement within widespread financial participation, which in combination are most effective at driving up productivity. Second, it creates an annual dialogue between all members of a company about shared

goals and rewards. In doing so, it gives employees a guaranteed institutional space to organise around, and provides a forum in which employees can participate in collective dialogue with management over how best to improve collective performance – and distribute due rewards as a result.

- A flat share should be the 'default setting'. Any divergence from an egalitarian distribution must be positively agreed by a clear majority of employees (we would recommend a two-thirds majority). Ensuring democratic scrutiny of any agreement helps guard against the emergence of unjustifiable inequalities in how the share is distributed, and ensures that the any non-flat distribution of shares is based on collectively agreed initiatives which aim to incentivise the workforce.
- Firms with 100 or more staff must have an employee 'working life forum' – or a working equivalent such as a collective bargaining agreement – in place before they are eligible for tax advantage.

Finally, if voluntary encouragement does not significantly increase adoption rates, the government should consider setting a clear, mandatory timetable for the introduction of profit-sharing by all firms with more than 100 employees. Many large companies already do have effective profit-share schemes. As a starting point, we recommend that all existing profit-shares must be extended to include all employees by 2020, regardless of whether the company applies for tax-advantage or not. **Second, we suggest that by 2025 it should be compulsory for firms with more than 100 employees to offer a profit-share, which should by then still be eligible for tax advantage.** This would create the conditions under which financial participation can be matched with genuine employee engagement – a combination that demonstrably underpins strong productivity growth and improved company performance.

Profit-sharing in practice: an example

A major British company makes a taxable profit of £160 million. In the absence of a profit-share, the corporation tax bill is £35 million, leaving £125 million for reinvestment or to distribute to shareholders. If £26 million of taxable profits were shared with staff (equivalent to 20 per cent of profits in excess of a 5 per cent return on net equity), the company tax bill would fall to £29 million and £105 million would be available for reinvestment or to pay to shareholders.

If this company had 30,000 staff, the profit-share pot could be distributed as a flat-rate cash payment of £866 to each employee. Alternatively, the pot could be distributed in proportion to individual salaries, but capped to make more money available to lower-paid staff.

6.1.2 An employee working life forum in every workplace, to rebalance power

We believe every company with over 100 employees should have a 'working life forum' to ensure that all employees have the power of voice and the right to meaningful participation in deciding how their working environment is organised. While the exact institutional form of these forums would be up to companies and employees to decide according to what best suits their circumstances – whether a 'works council' type format or through collective bargaining agreements – they should ensure that large companies involve their employees democratically, giving them influence over the development of company policies that ensure a balanced working life and decent working conditions. This should be encouraged by government through a new employee engagement review that would work with employees, unions and employers to consider how best to ensure all large firms promptly establish their version of a working life forum.

The point of the forum is to ensure that all employees – not just those who are organised, or who work at companies that engage their staff effectively – should have a democratic forum for influencing conditions and policies that are intimately linked to dignity at work. Therefore the forum, in whatever form it takes, would democratically involve employees in:

- agreeing key working conditions, including starting times and flexible working and overtime policies
- consultation over company plans
- co-determining with management how aspects of shared company life are organised, such as the design of workspaces, toilets, canteens and so on
- shaping job design and training plans.

Establishing the exact powers the 'working life forum' would have should be a matter for consultation between employers, unions and employee representatives. However, as a minimum it should have stronger powers than the current information and consultation rights that were introduced in 2004, which are generally recognised as too weak.

For firms with less than 100 staff, as a first step towards building more collaborative workplaces, the threshold for triggering the information and consultation of employees (ICE) regulations should be lowered to 2 per cent. Currently, 10 per cent of employees have to make a formal request, which is too high a number to be practical, while too often the arrangements put in place under the ICE regulations are watered down after they are implemented. Procedural rights that are not matched by the ability to enforce those rights are of course inherently limited. These regulations should also be strengthened so that, as Coats (2013: 8) and others have argued, the 'default' provisions of the 2004 regulations should become the minimum standard for all information and consultation bodies in the workplace.

Finally, companies should only be eligible for profit-sharing tax advantage once they establish their agreed version of the forum. In doing so, companies can better engage their workforce – which is critical for improving productivity – while employees would gain a guaranteed space in which their voice can be heard.

6.1.3 A social partnership foundation to support collaborative workplaces

Establishing a more collaborative UK economy will require more than new institutions or workplace rights: it will require a patient cultural shift in order to make these institutions work effectively and embed them into the fabric of working life. **We therefore recommend establishing a social partnership foundation that would provide training and support to employers and employees to better equip them with the skills and outlook to build successfully collaborative workplaces.** In particular, all future employee representatives at board level or in employee-representative roles should have the option of receiving training from the foundation.

The visionary Hans Böckler Foundation in Germany is an ideal operating model. The Foundation is an agency of the German Federation of Trades Unions (DGB) that works with major employer organisations to fine-tune industrial democracy in Germany. The foundation's annual budget is approximately €55 million, two-thirds of which comes from sponsors representing both business and employee representatives, with the remainder coming from the department of education.

We recommend that a similar social partnership foundation is established by the Department for Business, Innovation and Skills, in close collaboration with employee representatives and employer bodies. It should be based on a funding model similar to that of the Hans Böckler Foundation, although at a lesser cost to reflect the smaller size of the UK economy. We also suggest that part of the fee that employee representatives would receive for sitting on company boards should go to the foundation to fund training programmes.

We also recommend that the new foundation establish a Good Work Index, like the one created in Germany by the DGB, as an instrument to monitor employment conditions and job quality. The DGB's index establishes an observable baseline by which companies and employees can judge their job quality against sectoral standards, and which highlights to employers where improvements can be made. The British social partnership foundation should work with employee and employer representatives to create an index that is easily accessible to all UK workers.

6.2 Bargaining and accountability

There is clear international evidence that sectoral bargaining is a very effective way to boost labour's wage share – especially that of the low-paid, as the TUC has argued (Lansley and Reed 2013). Moreover, it represents a form of democratic solidarity in the workplace. Consequently, we recommend that the 11 long-term strategic partnerships[48] that the government is establishing with various key industries should investigate how to incorporate a wage council system into their institutional makeup. Alongside collaborating over skills, infrastructure and investment, these sector partnerships should work with employers, employees, unions and sector experts to set a wage floor and establish wider working conditions as appropriate to the industry. This process should be modelled on the work of the Low Pay Commission, and should seek to identify where it can raise the wage floor – ideally moving as soon as possible towards, or indeed above, the Living Wage as a sectoral baseline. Establishing such wage council systems would provide a double bonus: a chance to boost pay for low- and middle-earners, as well as creating forums for strategic dialogue within sectors for setting out how best to improve labour productivity (Zwick 2007).

To increase accountability, the government should introduce the 'operating and financial review', as the Coalition Agreement promised, with the additional requirement of a managerial audit that obliges companies to examine how well management is empowering their workforce. The companies that are best at employee engagement already impose this duty on managers internally as an effective means of supporting and improving management. At a minimum, the audit should review how effectively management support employee representation and participation in decision-making, and how well they provide transparent financial and operational information to staff. Measures should also be taken to ensure greater transparency in the distribution of company income and remuneration levels across the organisation as part of companies' annual reports (see Lawton and Lanning 2013).

48 https://www.gov.uk/government/policies/using-industrial-strategy-to-help-the-uk-economy-and-business-compete-and-grow/supporting-pages/developing-strategic-partnerships-with-industry

Case study: Shell employee engagement index

Shell's use of a global, real-time 'employee engagement index' allows it to track how its employees feel about their work and support managers to engage staff more effectively. Managers who are not adequately encouraging their team compared to their peers are offered special training to improve the overall performance of the team.

Similarly, Tesco operates a biannual survey of work, 'Viewpoint', supported by the quarterly sample test, 'Pulse', both of which track how staff feel about work and use the data to take action to improve employee engagement.

6.2.1 Spreading ownership to all

Employee share-ownership gives people a direct stake in their firm, and is positively associated with higher productivity and wellbeing (McConville et al 2012), though it is most effective when combined with meaningful employee engagement. In the past eight years, however, the percentage of private sector workplaces using share schemes has halved to 10 per cent, while the benefits of them have remained skewed towards higher income earners. The government should focus on reversing this decline. Any new initiative must be based on the principles of inclusivity, simplicity and ensuring value for taxpayers' money. We therefore recommend that the following steps are taken.

- Where company share option plans (CSOPs) – which are not open to all staff and the use of which has been in general decline since 2000 (National Statistics 2013) – are in place they should either be made available to all employees, or have their tax relief switched to instead extend tax relief to share incentive plan (SIP) schemes. (CSOP cost the government £45 million in tax relief in 2012/13 [OTS 2012]). There currently are low-paid workers enrolled in CSOPs, at ASDA for example, so it is clearly practicable for such schemes to be open to all employees, rather than just management. The SIP scheme, in contrast to CSOP, is an all-employee share ownership scheme which delivers all the benefits associated with inclusivity. It also requires employees to hold shares for a number of years before they are able to benefit from the tax advantage, which encourages more long-term commitment.
- The Enterprise Management Initiative (EMI) scheme currently offers generous tax advantages that are effective at supporting smaller companies recruit and retain employees. However, it is currently not open to all staff, even if they work in companies that meet the qualifying criteria. EMI should be made open to all employees, or its tax advantage should be removed and shifted to SIPs. Again, the Treasury should consult with SMEs and other stakeholders engaged in managing employee share-ownership on how to design a more inclusive EMI tax advantage before it considers switching spending.
- Legislation should be introduced to allow the nearly 3 million employees who work for private-equity-owned firms to access employee share schemes. This group includes many workers, such as those at Boots and Debenhams, whose schemes were abolished when a buy-out occurred. It should be noted that there is widespread support across the political and business spectrum for expanding access to share schemes in private-equity-controlled firms, from Centre Forum to ifs ProShare.

Employee-owned firms embody many of the principles and benefits of shared capitalism. They go beyond employee share-ownership by making all workers genuine co-owners with strengthened decision-making powers. Moreover, because all employees have a direct stake in the success of their firm, they often outperform traditionally structured companies. Importantly, there is growing support from across the political spectrum for promoting what is typically a more inclusive, democratic business model. To build on that cross-party consensus, and on the momentum generated by the Nuttall review (2012), we recommend the following measures.

- The government should develop a 'right to buy' option for employees when the company they work for is likely to be sold, dissolved or floated on the stock exchange. Employees should be given first refusal, and if more than a minimum proportion of employees (10 per cent, for example) registered an interest they should be given a reasonable amount of time to put together an offer. Employees and owners should be given the necessary information and resources to explore whether a 'buy-out' is a feasible option, including the likely pricing, process, timetable and benefits of employee ownership (as proposed in Lawton and Lanning 2013).
- The tax relief that was previously available for shares held in employee benefit trusts (EBTs) should be restored. Currently, EBTs are treated unfairly by the tax system, because profits are taxed twice – once when they are paid into a trust, and then again when they are distributed to employees. This means that every £100 of employee trust shares cost £139 in company cash (Ownership Commission 2012). An end to this disadvantage could be funded out of the annual £50 million support fund for the employee-owned sector that the government announced in the 2013 budget.
- A fully costed proposal for relief from capital gains tax when the controlling share of a business is sold into an indirect employee ownership structure is currently out for consultation from HMRC; we would recommend its introduction.

6.3 New institutions to disperse economic power

6.3.1 Unlocking finance for the mutual and co-operative sector

The co-operative sector often struggles to access capital vital for growth, because their structure does not necessarily prioritise short-term profit maximisation as the enterprise's primary goal, whereas finance typically seeks maximum short-term returns (Hayes 2013). If the sector is to prosper and achieve scale, the wider financial architecture supporting it must become more innovative, larger and more attuned to its needs. New financial and legal instruments are therefore required to support enterprises – instruments focused on patient value-creation rather than solely on short-term profit-maximisation. Greater working capital must, however, be brought in in a way that does not compromise traditional co-operative values.

We therefore make the following recommendations.

First, working with the co-operative sector, **government should consider how to establish a tax mechanism to strengthen co-operative enterprises by creating patient capital funds that are accessible to the co-op community.** As in Italy and Spain, legislation should be introduced that ensures that every co-op must by law contribute a percentage of its annual pre-tax surplus to a fund for co-operative development which must be invested in the co-operative sector. This would help to create a pool of patient capital that better serves these businesses' needs. To encourage strong contributions to the development fund, the government could, for example, match-fund any contribution that co-operatives make above a certain percentage of their total profits. Co-operatives UK have estimated that an expansion finance fund as modest as £25 million over five years could make a difference to the sector (Murray 2010).

Second, the wider financial sector should be encouraged to innovate in their provision of capital to the co-operative sector and other non-traditional forms of business. For example, **the Financial Conduct Authority should permit co-operatives to issue bonds that can be offered to those of their members who wish to invest in the business.** This would be similar to the way in which member certificates are issued by Rabobank in the Netherlands.[49] Similarly, social enterprises are a growing sector of the economy, and typically operate on democratic principles and inclusive models of growth. **The Bank of England should encourage banks and other lending institutions to include investment in social enterprises as part of prudent portfolio management.** Italy's Banco Popolare Etica, among others, provides finance for other social organisations and enterprises yet, apart from the Co-operative Financial Services,[50] no bank in the UK has made comparable social investments. Banks should be encouraged to diversify their investment into this area.

Finally, the government should introduce legislation to encourage the growth of co-operative guarantee societies. These are private guarantee institutions that enable SMEs to come together to offer partial guarantees on the loans they then take out from banks (Morrisroe and Goodman 2013). Guarantee societies are part of the financial landscape for SMEs across nearly every country in Europe, with around two million guarantees issued for a value of €70 billion to over two million customers or businesses in 2009 alone (ibid). Embedding this form of lending arrangement into the economy would be one further step towards creating a more reciprocal form of shared capitalism.

6.3.2 Finance as a useful servant

Shared capitalism at the micro level is about firms that are more democratic and inclusive; at the macro level it is about an economy that is more long-termist in its thinking, and which better disperses concentrations of economic power. Achieving this latter goal will require us to hardwire more collaborative, responsible relationships into the whole economy, not just in the co-operative or mutual sector. In turn, that will necessitate a recoupling of finance to the wider economy, refocusing it on delivering higher levels of investment in the productive capacity of the economy. Lending to SMEs currently remains sclerotic: bank lending to the sector, fell in all but three of last 14 months, having been in decline for five years previously (Jones 2013). Meanwhile, as of August 2013, there were £2.4 trillion worth of outstanding loans to UK residents from banks, of which 34 per cent went to financial institutions and 10.1 per cent went to real estate and construction. The manufacturing sector received only received 1.4 per cent of the total (Wolf 2013). Finance in the UK remains too focused on asset leverage and rent-seeking as the path to growth, which is fuelling an unbalanced recovery based on low business investment and rising personal debt levels.

To address this, reform of the banking sector should act to encourage greater competition, including **fully and swiftly implementing the recommendations of the Independent Commission on Banking set out in the Vickers report**, to discourage rent-seeking activity, and raise the long-term investment rate in the economy. Addressing market failures in

49 http://www.state.nj.us/state/programs/pdf/faith-based-social-innovation.pdf

50 http://youngfoundation.org/wp-content/uploads/2012/10/Growing-Social-Ventures-2011.pdf

business lending will, however, require institutional innovation in the formation and allocation of capital and greater collaboration between the banking sector and the government. Without effective reform to ensure that finance better supports the productive capacity of the economy, British capitalism is likely to remain wedded to an unbalanced, financialised and unequitable model.

We therefore make the following recommendations to help make finance better serve the needs of businesses and wider society by taking a collaborative approach which is focused on long-term value-creation.

The UK's banking sector lacks competition in key areas such as SME financing: 85 per cent of SME's bank accounts are serviced by the largest four banks, which continue to be cautious in the supply of credit (UK Parliament 2013). By contrast, in Germany 60 per cent of business loans are accounted for by a dense network of 400 public savings banks, known as *Sparkassen*, and 1,258 credit co-operatives. Indeed, the large commercial banks provide only 14 per cent of such loans.[51] A first step to greater competition is to encourage the entry of new challenger banks, and break up the concentration of economic power that the big four represent, which is not working to the advantage of businesses or consumers. Similarly, though it would of course take effort and patience to create a local banking network, it is worth considering that in 2010 just over 40 per cent of all loans to SMEs were provided by *Sparkassen* in Germany.[52] These banks have an obligation by law to invest primarily in local enterprises, with any large trading surpluses created through local investment retained for reinvestment in the local economy, which creates a virtuous circle of rooted investment in local economies. This suggests that regional banking competition must be supported by effective regulation and supportive institutional frameworks. While the German model cannot and should not be transplanted wholesale to the UK, the German experience does demonstrate that greater institutional competition can better channel investment towards productive concerns. **As a starting point for the UK, we recommend that the proposed new regional banks that the Labour party has advocated play a similar role to the *Sparkassen*.[53] They should have a statutory commitment to supporting their local economy by investing primarily in local enterprises and reinvesting any large trading surpluses back into the region's economy.**

To better support long-term investment and the financing of SMEs, when capitalising the British Investment Bank, the government should use part of the funds raised by the sale of publicly-owned banks specifically to make capital available for employee-owned, mutual, co-operative and other businesses with a more long-term focus. There are a variety of existing lending institutions that could act as models for the British Investment Bank, such as the Alternative Bank in Switzerland, the Citizens Bank in Canada, the GLS Bank in Germany and the Banco Popolare Etica in Italy. As Geoff Mulgan (2013) has documented, these institutions combine profitable investment strategies with often radical principles based on transparency, commitment to egalitarian outcomes, and a focus on supporting locally rooted production over financial speculation.

51 http://www.civitas.org.uk/economy/SimpsonSparkassen.pdf
52 http://www.compassonline.org.uk/wp-content/uploads/2013/05/Compass-Plan-B_21.pdf
53 While accepting it is neither possible nor always wholly welcome to transplant the different institutional arrangements of the political economy of other nations directly.

Finally, to address structural gaps in the financing of SMEs,[54] the government should also consider how best to incorporate an equivalent of the US Small Business Administration (SBA) into the British Investment Bank. This would extend guarantees to loans made to SMEs by private-sector banks, and offer government-guaranteed debt to boost private capital respectively. These strategies are effective at addressing the funding shortfalls that businesses often face. Equivalent institutions successfully operate in many of the world's most competitive economies, from Germany to Singapore, which suggests that a more collaborative investment environment is vital to properly supporting SMEs in the UK.[55]

6.4 Democratising finance

Ensuring that the banking system becomes more competitive and supportive of the wider economy is vital. However, to address the deep concentrations of private power that a financialised economy has created, it is also important to support new forms of democratic finance that are more locally-rooted, participatory and focused on long-term, inclusive value creation. We therefore recommend establishing one new institution of democratic finance, and reforming an existing one so that it can help disperse economic power and give all citizens a stake in a more pluralistic, competitive economy.

6.4.1 Establish a 'solidarity investment fund'

One example of such a fund is the Quebec Solidarity Fund, constituted in June 1983 as a geographically-rooted capital development fund governed by a social logic and mandated to promote and protect decent jobs in a viable, rooted local economy, rather than simply pursuing short-term profit maximisation. The fact that profit-maximisation is not its main goal is not to say that it does not perform this function very effectively – indeed, it has achieved very positive returns over its life, and is a classic example of 'obliquity', whereby goals are best achieved indirectly (Kay 2011). As of May 2013, the Fund's thirtieth year, an investor holding its shares would have received a 10 per cent return over the last 10 years and a 6.9 per cent annual return over the last three years. It achieves these results while investing in 2,239 companies, and has helped to create, maintain and protect 168,577 jobs in 2012/13.[56]

Meanwhile, before any company receives investment from the Quebec Solidarity Fund, it must past a strict audit in terms of decent wages and participation standards. The Fund neatly combines financial participation with democratic action: it has over 500,000 shareholders, many of them through trade union links, and members are actively encouraged to recruit new investors into the fund. Indeed, over 2,000 volunteers were given training to be ambassadors for the Fund last year. This social ethic is evident in the Fund's guiding principles:

- to invest in suitable companies and provide them with services to create, maintain and safeguard jobs
- to support the training of workers to allow them to increase their influence on the economic development of Quebec
- to stimulate Quebec's economy through strategic investments, and
- to foster awareness and encourage workers to save for their retirement and contribute to the development of the economy by purchasing Fund shares.[57]

54 The relative cost of lending to smaller firms is higher than to larger businesses, and banks are less likely to lend to SMEs when credit is tight; both factors work against effective financing.

55 For further details, see SBA 2013.

56 http://www.fondsftq.com/en/a-propos/qui-sommes-nous.aspx

57 http://www.fondsftq.com/en/a-propos/qui-sommes-nous.aspx

Given the success of the Quebec Solidarity Fund, and its ability to promote long-term growth in a more equitable manner, we recommend that the UK government consider trialling a regional equivalent, with support from local authorities, trade unions and interested businesses.[58]

6.4.2 The National Employment Savings Trust – a vehicle for democratic finance

The National Employment Savings Trust (NEST) is, in a very real sense, an institution of democratic finance, as it holds the savings of millions of middle- and low-income workers in common. Moreover, once the introduction of auto-enrolment is complete in 2018, it is estimated that NEST will have upwards of 9 million savers, giving it the potential to reshape the pensions market if it is directed effectively. For instance, it already appears to have driven down pension fund management fees in the private sector (Johnson et al 2010). The question therefore is how far it can go towards becoming a democratically orientated finance vehicle that provides a decent return to savers while providing long-term investment in the UK economy.

We therefore make the following recommendations.

- **As a first step, NEST should establish an advisory council on ethics to ensure that its funds are invested appropriately.** As a model, the Government Pension Fund of Norway has successfully used such a body since 2004.
- Given that NEST will be seeking long-term returns for its savers, there is an obvious fit with the often more patient investment strategies of the wider co-operative sector. **NEST should therefore explore ways of using its investment weight to proactively support the co-operative and mutual sector.**
- Finally, to tackle leakage from the pensions system, evidence from the world's best-ranked pension systems such as Denmark[59] and Australia (Higgs and Worthington 2010) suggests that consolidating pensions to achieve scale, and efforts to reduce the potential of rent-seeking intermediaries (Davies 2014),[60] are the most successful means of securing long-term success in fund management.[61] **We therefore recommend that the government actively explores ways to encourage the consolidation and scaling of the UK pension market to capture the efficiency and expertise that scaling has produced in other countries. The UK government should start by looking at the 89 local government schemes, which together hold almost £200 billion worth of assets (McPhee 2013), and consider consolidating them where appropriate in order to harness economies of scale.** More widely, it should examine where it is possible and appropriate to fold public pension schemes upwards into NEST. These moves are made particularly vital by the fact that the UK pensions industry remains too fragmented to provide investment for much-needed large-scale infrastructure projects (McClymont and Tarrant 2013). A scaled-up NEST pension fund has the potential to create a large, collective, democratically orientated finance vehicle

58 Interestingly, there is growing interest in a Welsh solidarity fund, both in the Welsh government and in the union movement. Wales would therefore appear to be a good place to begin innovating in the institutional framework of finance to support more long-termism and anchored investment in productive concerns, and consideration should be given to how to introduce a solidarity investment fund to Wales.

59 http://www.pensionfundsonline.co.uk/content/country-profiles/denmark/119

60 As an example of rent-seeking, a 'worker saving £100 a month in a pension scheme for 46 years with a 1 per cent charge would lose around £170,000 from their pot during their working life. Those facing charges of 1.5p in the pound would lose £230,000. More than 186,000 pension pots with £2.65billion of assets are subject to an annual charge of more than 1 per cent, double the national average.'
Source: http://expas.org/cap-pension-fees-save-100k/

61 Source: Melbourne Mercer Global Pension Index, a respected yearly ranking of national pension systems. The index is a collaboration between the Australian Centre for Financial Studies, the state government of Victoria, and Mercer.

that can invest in the long-term productive capacity of the economy, while providing a robust retirement income for millions of middle- and low-income retirees.

A commitment to institutions that support democratic finance is one way to make capital more locally-rooted, open to democratic participation, and focused on long-term value creation. In doing so it can redistribute economic power and give all citizens a stake in democratic workplaces and a more pluralistic, competitive and equitable economy.

CONCLUSION

Power – economic, social, cultural, political – is too often used to cast as natural and permanent what is often an arbitrarily hierarchical order. A spectre of legitimacy is thus lent to social and economic inequalities that militate against rich, democratic relationships emerging both in the workplace and in wider society (Bourdieu 2005). The progressive democratic challenge when it comes to the political economy is, therefore, to insist on the essential malleability and unnaturalness of settled economic and political relations. In doing so, it opens space for the reimagining of economic institutions as means to disperse power, esteem and reward far more widely and equitably, while better rooting finance in the productive economy. The goal should be to ensure that people benefit from greater power, capability and purpose in their workplace, with their working lives free from 'the twin evils of riches and poverty, mastership and subjection' (Cole 1956).

What is required, then, is a patient but nonetheless thoroughgoing reform of our political economy to make it work better for the majority of people. Accommodation with the existing settlement will not suffice if we want to address the twin long-term challenges of increasing productivity and investment and improving living standards. To disperse power, democratise the workplace and make finance a more productive servant, a new institutional framework for the economy is required. Similarly, if it is to succeed then shared capitalism needs a new and different statecraft – one less satisfied with ameliorating the stresses of our current economic model, and one more focused on local empowerment and kinetic experimentation in democracy. The goal is a change in how power, esteem and reward are distributed at work, based on democratic, egalitarian principles. This reflects a wider rethinking of the *point* of equality, moving away from a static notion of distribution towards a richer conception of equal economic power and human agency in all fields of life. It is a bold programme. Yet the deep structural weaknesses of the UK economy require a similarly systemic response.

The Coalition will struggle to advance this agenda while they remain sceptical of the state's capacity to redistribute power effectively, and naïve about the market's potential to dominate. By pursuing an economic strategy based on retrenching the state, extending the market and commodifying the social, they appear to lack the tools or the political will to radically alter the distribution of economic power – despite the fact that doing so could generate higher productivity, growth and wellbeing.

For progressives, institutional conservatism tempered by sporadic bouts of 'vulgar Keynesianism' cannot achieve the radical, programmatic dispersal of economic power that is required. Instead, a focus is needed on building new institutions of democratic wealth and influence in the economy that can drive innovation, competitiveness and a future of broad-based prosperity for all. While there are of course significant vested interests that would resist the democratisation of the economy, it is a challenge worth pursuing. As Raymond Williams (1989: 18) argued, 'to be truly radical is to make hope possible, rather than despair convincing'.

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