



Employee Participation, Job Quality, and Inequality

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Structured abstract

Purpose: to review the effects of employee participation (EP) in decision making, ownership and profit on job quality, worker well-being and productivity, and derive policy recommendations from the findings.

Design: We summarise results of ‘declining labour power’, theoretical arguments and empirical evidence for benefits of EP for job quality, satisfaction, and productivity.

Findings: Worker well-being and job satisfaction are ignored unless they contribute directly to profitability. EP is needed to remedy this situation when employers have market power and unions are weak. The result can be a rise in both productivity and well-being.

Value: We make the case for public sector subsidies for employee buyouts and new co-operative start-ups, as well as legislation for works councils and profit sharing.

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1. Introduction

Employee participation in decision making and firm profit has a long history. ‘Workers’ capacity to influence their jobs is one of the few truly perpetual issues in employment’ (CIPD, 2018). Traditionally, collective bargaining was the main mode of employee influence on wages and working conditions, maintaining a roughly constant labour’s share of growing national income. However, in recent decades, ‘declining labor power’ as described by Stansbury and Summers (2020) has resulted in stagnating or falling real wages for most, with growing inequality, employer market power and profit shares under neoliberal policies in advanced economies, especially the US (Azar et al., 2018; Benmelech et al., 2018; Shambaugh et al., 2018).

Opposing this trend, various forms of employee participation (EP), including share-ownership and profit sharing have proliferated and proved successful in many dimensions, though worker co-operatives, which extend participation to control and majority-ownership by their workers are relatively rare, and wealth constraints have limited their formation and growth.

These developments contrast with the traditional text-book model of ‘competitive’ labour markets where EP is irrelevant because all factors earn their marginal products which exhaust total output, so there is no pure profit or surplus, employers have no power over workers who can easily find equivalent, alternative employment, and it does not matter whether capital hires and controls labour, or labour hires capital. In practice, of course, most firms have set-up and fixed costs, hence initially increasing returns, as well as at least some local monopoly and monopsony power due to costs of mobility and information, and hence earn rents above factor opportunity costs, so there is scope and justification for EP to influence job quality, income distribution and inequality.

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3 The related idea that mobile workers can quickly find alternative jobs has always been a
4 caricature of the real world for all except those with high and transferable skills. Even such
5 individuals have usually invested in location-specific social capital including family, friends
6 and neighbours, which add substantial, subjective well-being costs to mobility in a realistically
7 ‘sticky’ economy, even when prospective wages and job opportunities match or exceed current
8 levels (Banerjee and Duflo, 2019). If home working remains common after the Covid-19
9 pandemic, then such workers will also benefit from much lower costs of job change.

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11 The theoretical case for EP thus follows from costly mobility and the fact that worker well-
12 being which results from job quality as well as pay is just an externality for unscrupulous
13 employers, unless it contributes to profitability, though of course there are many employers
14 who do display various degrees of benevolence or altruism towards their workers, and to some
15 degree, job quality can function like an efficiency wage to raise motivation and productivity.

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17 ~~However, Whilst standard monopsony theory predicts that employees are under-paid (with the
18 equilibrium wage being below the value of the marginal product), employers often may (ab)use
19 their authority and local monopsony power – as indicated by a rise in the mark-up for the USA
20 from 21% in 1980 to 54% in 2019 (page 28 of Eeckhout, 2021)-. Employer power can also be
21 exercised by sacrificing job quality in favour of productivity without raising wages, where
22 employee bargaining power is weak although collective bargaining is needed (Adams-Prassl
23 et al., 2021). Alternatively, as Cooper and Kroeger (2017) outline, unscrupulous employers
24 might undermine system of minimum wages by requiring unpaid overtime, or through a range
25 of other violations that amount to of course such egregious ‘wage-theft’ . is only possible when
26 protective legislation, unions and employee bargaining power are all weak.~~

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28 In section 2, we review evidence for the effects of EP on the quality of work and well-being
29 after four decades of neoliberal policies and declining labour power. We then consider the
30 effects of EP on inequality in section 3. We develop the case for policies to encourage EP,

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3 including tax reform and subsidised employee buyouts in section 4. Conclusions are reviewed
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5 in a final section 5.
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9 10 2. *The effects of EP on job quality and worker satisfaction*

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12 While wages and hours have been traditionally viewed as the main determinants of job quality
13 and well-being from work, intrinsic job satisfaction is a ‘joint product’ of all work activity that
14 has been strangely neglected by economists since prominent early contributions by Blauner
15 (1960), Blumberg (1968), Borjas (1979), Freeman et al. (1979), Hamermesh (1977), Layard
16 (1980), Reich and Devine (1981), and others. Green (2006), Sloane et al. (2013), and Spencer
17 (2015, 2014) contributed to re-launching interest in the topic, and most recently, ‘The declining
18 quality of jobs has emerged as a key challenge for researchers and policymakers in the twenty-
19 first Century’ (Howell and Kalleberg, 2019)³.
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31 ‘Quality of work’ is now the second most important factor explaining the large variation in
32 happiness in the UK, after mental illness and ahead of physical health and income (Layard,
33 2020). As Clark (2015) summarised, ‘workers value more than wages; they also value job
34 security and interest in their work.’ In contrast to such a blueprint, the extremes of abuse of
35 employer power and appalling working conditions in e.g. the low-pay privatised care sector, or
36 Amazon warehouses, have been well documented (Bloodworth, 2018).
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45 Benefits of EP in the form of greater autonomy or control over the work process and resulting
46 job satisfaction have been well documented by Wheatley (2017), and by Pacheco and Webber
47 (2016), using data from the European Value Survey. This follows earlier results by Freeman et
48 al. (2000) for the US, results which are supported by experience with Joint Consultative
49 Committees in the UK (Barry et al., 2018) and with works councils, part of co-determination
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59 ³ The wide-ranging, recent literature on this topic includes Kalleberg (2018), Datta (2019), Graeber (2018), Herzog
60 (2019), Redmond and McGuinness (2019), Wilcocks (2019), Prassl (2019), De Neve and Ward, 2017, Hu and
Hirsh (2017).

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3 in Germany (Bellman et al., 2018; Grund and Schmitt, 2011). Coad and Binder (2014) found
4 direct causal evidence for the effect of autonomy at work on well-being with a structural VAR
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8 analysis of longitudinal German (SOEP) panel data.
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10 Employee owned worker cooperatives, the usual form of labour managed firms (LMFs),
11 potentially provide maximal EP, and generally combine higher productivity with lower labour
12 fluctuation and absenteeism (Dow, 2017, 2003; Michie et al., 2017). There is also evidence
13 (Garcia et al., 2019) for beneficial effects on job satisfaction (JS), though conflicting results
14 have been occasionally found. In a quantitative case-study, higher levels of EP in worker-
15 owned retail stores belonging to the Mondragon collective, were associated with faster growth
16 but lower worker satisfaction, perhaps due to increased stress or disappointed expectations
17 (Arando et al., 2015), while Godard (2001) observed lower satisfaction with some alternative
18 work arrangements such as team work in a small sample of 508 Canadian employees. The
19 effects of EP likely depend on context, and selection effects may be important, but the very
20 extensive evidence reviewed in the above references remains overwhelmingly positive.
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36 Much recent research shows that raising intrinsic JSjob satisfaction can often also increase
37 firm productivity or profitability, like traditional efficiency wages, e.g. by reducing
38 absenteeism and quits and fostering loyalty and motivation, thus reducing the need for
39 hierarchical monitoring (Bryson, 2017; Bryson and MacKerron, 201; Bryson et al., 2017;
40 Krekel et al., 2018), yet management frequently fails to implement these gains, perhaps for fear
41 of losing influence and relative status (Jirjahn and Mohrenweiser, 2015). However subjective
42 (self-evaluated) JSjob satisfaction is a 'joint product' of all work activity, and an important
43 factor in overall employee utility or subjective well-being (SWB), especially since work
44 occupies much of most individuals' waking lives. Treating JSjob satisfaction purely
45 instrumentally as a productivity factor is unlikely to realise the socially optimal trade-off,
46 especially between non-contractible components of JSjob satisfaction and productivity.
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3 Achieving such an optimal trade-off probably *requires* EP due to asymmetric information and
4 incentive incompatibility (FitzRoy and Nolan, 2020b). As shown by the evidence reviewed
5 above, ‘sticky’ labour markets with ‘declining labour power’ and costly mobility have signally
6 failed to halt the ‘declining quality of jobs’ and rising inequality.
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12 Bua (2018) constructs a related index of economic democracy, which is arguably a necessary
13 complement to political democracy⁴, but is strongly negatively correlated with inequality. The
14 UK ranks much lower on this index than most EU countries, and the US is the lowest ranked,
15 with an index value less than half that of the highest ranked countries, Sweden and Denmark,
16 which are also among the leaders in international rankings of life satisfaction.
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22 EurWork (2016) notes that ‘Employee participation is widely believed to be a major factor
23 affecting employees’ welfare, as well as enhancing their opportunities for self-development,
24 work satisfaction and well-being’, and how the Nordic countries have instituted the most
25 widespread EP. This is not surprising since autonomy at work, as a form of EP, implies that
26 workers make decisions relating to their tasks whereas the structure of those tasks would
27 otherwise be imposed by the management hierarchy to favour profit rather than well-being.
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41 Adversarial collective bargaining in the US and UK has traditionally focused on easily
42 observable and ‘contractible’ variables such as pay, seniority and working time. Even in the
43 post-war heyday when union wage differentials in traditional manufacturing were large and
44 persistent, unions made no attempt to extend the bargaining agenda to less easily measured
45 issues such as overall job satisfaction and EP, and there was virtually no legislation to match
46 continental European co-determination and related employee representation. Lack of trust is
47 often a major obstacle, and: “The estimated life satisfaction effects of workplace trust are so
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⁴ Blasi et al., 2010, 2017; Ellerman, 2016; Hyman, 2015; Ferreras, 2017; Herzog, 2019; Cumbers, 2020.

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3 large as to suggest that there are large unexploited gains available for trust-building activities
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5 by managers.” (Helliwell and Huang, 2005).
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8 In contrast, under more co-operative industrial relations in the Nordic economies, strong unions
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10 helped to establish high levels of related EP and autonomy at work, yielding the highest job
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12 satisfaction and overall life satisfaction rankings in these countries (Dorling and Koljonen,
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14 2020; Boxall and Winterton, 2015; Gustavsen, 2011). Denmark has notably utilised hourly
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16 productivity growth resulting from technological progress to attain the lowest average working
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18 hours for full time workers in the EU, in order to optimise work-life balance (Eurostat).
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21 Although some workers struggle to achieve work-life balance without reducing their hours
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23 below full-time levels However, only the Netherlands have instituted employees’ rights to
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25 request part time work whenever feasible. This has resulted in much more part time work
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27 by skilled workers than elsewhere, with the highest overall share, 37.3 %, of all jobs being part
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29 time.
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33 EP, combined with stronger labour market regulation, could increase welfare by giving
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35 employees the right to jointly determine their work-time, -place and -schedule as flexibly as is
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37 compatible with coherent organisation of the firm, a goal which the Covid-19 crisis and
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39 resulting upsurge of home working has surely facilitated. Flexible working time and home
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41 working would reduce commuting costs and emissions, and provide major benefits for families
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43 and working couples with caring responsibilities in the home, who often suffer from serious
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45 time-constraints, yet are rarely offered much needed flexibility or even timely notice of
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47 schedule change by employers in the absence of strong legislative measures (Boushey, 2016),
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49 while the Covid-19 crisis has shown that at least some home working is feasible for at least
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51 50% of many more office workers. Lund et al. (2020) find that there is scope for around 20%
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53 of workers in advanced economies to work remotely 3-5 days per week without substantial
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55 productivity loss, and for a similar further percentage to work 1-2 days per week remotely.
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3 There is much evidence that productivity and well-being can also be raised by reduced work
4 time such as a four-day week, and such reduction can be part of work sharing to reduce both
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6 under – and over – employment (Spencer, 2019). EP and collective bargaining are probably
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8 needed to negotiate optimal local arrangements rather than relying on centralised, one-size-
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10 fits-all regulation. The UK and US, by contrast, have maintained low wages for most, long
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12 hours for many, declining welfare for the poorest, and lower productivity and wage growth
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14 rates than in western Europe (Standing, 2020; Stiglitz, 2019).
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20 Little use has been made of work sharing or reduced hours instead of redundancy and job loss
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22 in the UK and US in response to the corona crisis, in contrast to Germany, where subsidised
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24 *Kurzarbeit* or shorter work weeks instead of redundancy and unemployment in response to
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26 recession has major economic welfare benefits, and unemployment hardly increased ~~in~~
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28 ~~response to the~~ after the financial crisis in 2009 (IMF, 2020). Indeed, as Guipponi and Landais
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30 (2020) make clear, the 2020-21 crisis “...is a textbook case for the use of short-time work”.
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32 Working-Of course, working hours have also declined in the UK and US during the Covid-19
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34 pandemic, but workers are not automatically compensated for reduced earnings. As emergency
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36 unemployment benefits in the US and government support for the furlough scheme in the UK
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38 are phased out, surging unemployment and poverty are predicted, which will further depress
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40 demand and worsen already unprecedented recessions.
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46 On the other hand, just increasing per capita GDP with no decline in work time is widely
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48 correlated with declining social capital and rising inequality, with most of the gains from
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50 growth going to a small minority of the rich and super-rich, and so SWB has failed to increase,
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52 or has even declined, for most people over time.⁵
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58 ⁵ At a point in time, cross sectional studies show a weak, positive correlation between income and happiness, after
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60 controlling for the health, work and social relationships that are more important, and this association, known as
the Easterlin Paradox, is explained by the importance of relative income or ranking, which only changes slowly
over time, for SWB (Rojas, 2019; FitzRoy and Nolan, 2020a; Clark et al., 2018; Easterlin, 2012).

3. *EP and Inequality*

The nature of EP can obviously vary from a minor consultative role in some managerial decisions, to collective decision making or election of top management in labour controlled or managed firms (LMFs). These are not necessarily exclusively employee owned but may include outside equity capital owners with non-voting or minority ownership, but without ultimate control. However, such forms are rare due to the perceived risk of expropriation under minority ownership without residual control. LMFs typically have flatter hierarchies and smaller wage differentials than capital-managed firms (KMFs) of similar size, and thus help to reduce inequality. Employee ownership or profit sharing imply that workers receive part of the surplus which would otherwise be appropriated by capital owners who are generally better off than workers, so such financial participation also reduces inequality.

‘The major version of majority to 100 percent employee ownership in the US is the Employee Stock Ownership Plans (ESOPs)’, retirement plans which do not require workers to pay for the shares and benefit from favourable tax treatment (Blasi et al., 2019). ESOPs contribute to building asset ownership among workers, particularly the lower paid, are associated with better training and quality of work, and hence reduce wealth and income inequality (Blasi and Kruse, 2019), though so far only on a relatively small scale with about 10 million worker participants.⁶ On the other hand, cooperatives, where workers have to invest their own capital, are typically smaller and less capital intensive, with only about 600 cooperatives in the US, compared to 23,000 in Italy. An obvious policy question which we address in the next section is how to promote wider dissemination of worker ownership.

⁶ In its heyday, collective bargaining which maintained labour’s share of national income was a more effective form of worker representation and participation [in productivity growth](#).- [Fichtenbaum \(2011\) uses panel data to show that 29% of the decline in labour’s share of income for the USA between 1997 and 2006 can be explained by a fall in unionisation.](#)

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3 Other policies for directly reducing income and wealth inequality, under what Stiglitz (2019)
4 describes as ‘progressive capitalism’, or Nordic social democracy in European terms (Dorling
5 and Koljonen, 2020), include the much-discussed ‘green new deal’ to approach full
6 employment in transition to a ~~zero-carbon~~zero-carbon economy (FitzRoy, 2019), strong unions,
7 collective bargaining, and competition policy to combat market power. Radical tax reform, and
8 a modest universal basic income, can be interpreted as a form of financial participation for all,
9 whether employed or jobless. A public sector job-guarantee including EP could complement
10 basic income and define a benchmark standard for EP.
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22 A wealth tax is widely supported and essential to reduce current extreme inequality, greater
23 than at any time since the 1920s, with the top 1% now owning 40% of all wealth in the US,
24 and 20% in the UK. In both countries, the total tax system is regressive, so the rich pay a lower
25 share of income as tax than the poor, partly due to lower taxes on capital income than on
26 earnings, and also to indirect taxes such as VAT (FitzRoy and Jin, 2020; Saez and Zucman,
27 2019). A wealth tax and more progressive taxation of capital and labour income at equal rates
28 would reduce the demand for assets, and hence lower currently inflated property, stock and
29 other asset prices, which are the direct result of a long history of ideologically-driven policy
30 mistakes in support of a toxic banking and financial sector (Stiglitz, 2019; Ryan-Collins, 2019).
31 Together with higher wages, this could facilitate employee buyouts of KMFs, though further
32 direct support would be appropriate, as discussed below.
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48 EP, both at firm level and as part of collective bargaining, and including direct financial
49 participation, would help to restore employee power and ensure that workers shared firm
50 specific rents to reduce inequality, while there is abundant evidence that EP, employee
51 ownership and profit sharing (PS) enhance motivation and co-operation and provide both
52 equity and efficiency gains. These gains are related to the benefits of profit sharing found by
53 FitzRoy and Kraft (1987) and Cable and FitzRoy (1980), in traditional, capital-managed firms
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(KMFs)⁷. Workers who benefit from each other's effort in a KMF, from profit sharing or ownership shares, also have incentives for co-operation supported by mutual or horizontal monitoring, and such incentives should increase with the workers' residual share and be maximised in worker-owned co-operatives or LMFs. This again implies less need for hierarchical monitoring, improves information sharing and reduces conflict, resulting in efficiency gains and greater JSjob satisfaction in most cases.

The well-being of workers is a kind of externality for the capital –managed firm (KMF), relevant only to the extent that higher wages or improved working conditions can raise productivity like efficiency wages. While only residual control by workers or their representatives in an LMF or adequate EP can internalise this externality and achieve the socially optimal trade-off between JSjob satisfaction and conventional productivity, much discussion of the LMF has surprisingly neglected working conditions, JSjob satisfaction, and well-being. The basic non-contractibility of JSjob satisfaction combined with asymmetric power in the conventional firm suggest that JSjob satisfaction should increase with EP, and direct empirical evidence has been supplied by Garcia et al. (2019) in a recent example and overview, and by many others, though empirical studies do face problems of interpretation, correlation versus causation, and measurement.

Better known are the potential and often observed productivity advantages of LMFs, since workers have an incentive for mutual monitoring and co-operation under surplus sharing, and hence require less hierarchical monitoring, while KMF employees have to compete for promotion to higher ranked and paid positions by currying favour with their supervisors. This tends to encourage unproductive extra effort or 'playing the system' competing for a fixed number of promotion slots, but inhibits communication, and fosters rivalry instead of mutual

⁷ Extensive further evidence for the benefits of EP, PS, and employee ownership is presented by Blasi et al. (2019; 2018; 2017; 2013), Fakhfakh et al. (2019), Brown et al. (2019), Jones (2018), Hyman (2018), Kruse et al. (2010), Michie et al. (2017), Pérotin (2016), Freeman et al. (2000), Jones and Kato (1995) and many others.

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3 assistance and optimal co-operation. Accordingly, it may actually be wise for employers to
4 take particular care (Charness et al., 2014) in the usage of ranking incentives
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10 4. Policies for EP

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14 Most of the relatively rare LMFs began as co-ops in low capital intensity sectors, and only a
15 few have prospered and grown into large firms, such as the famous Mondragon conglomerate
16 in Spain, or the John Lewis and Waitrose Partnerships (parent company of John Lewis and of
17 Waitrose) in Britain (Michie et al., 2017). Nevertheless, the extensive evidence referenced
18 above generally shows that existing LMFs are more productive and more stable than otherwise
19 comparable KMFs, though this may be influenced by selection effects. LMFs which encourage
20 solidarity amongst employees are also less likely to respond to downturns with layoffs as is
21 usual in the US and UK, but instead share available work with shorter hours for some or all
22 workers, thus providing the secure employment that is a top priority in survey responses (Datta,
23 2019; IMF,2020)⁸. Kurtulus and Kruse (2018) provide econometric evidence – for the USA
24 across the period 1999-2011 – that employee ownership firms also exhibit greater employment
25 stability in the face of negative shocks (be they economy-wide or focused on a specific firm).
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43 Exclusively labour managed firms or worker-owned co-operatives remain comparatively rare
44 in the US for reasons that have been reviewed in detail by Dow (2017). The pure debt finance
45 of firm investment when labour ‘hires capital’ has generally been viewed as too risky in an
46 uncertain environment, and wealth constraints often limit worker ownership⁹. Equity capital
47 without residual control may be vulnerable due to contractual incompleteness and worker
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56 ⁸ The case for labour-management, as necessary to realise various aspects of ‘justice in production’ is also part of
57 a long-standing radical democratic tradition, opposed to both capitalism and non-democratic, state socialism,
58 reviewed in detail by Hsieh (2008), Ferreras (2017), Cumbers (2020) and others, while wide-ranging evidence for
59 the benefits of worker participation and ownership is referenced in footnote 5 above.

60 ⁹ See Vanek (1975), Meade (1972), McCain (1977), Kruse et al. (2010), Michie et al. (2017).

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3 opportunism. In principle, workers in KMFs could achieve majority ownership with an
4 employee buyout, but this rarely happens, due to worker liquidity and borrowing constraints,
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6 difficulties in co-ordinating collective action, which help to explain the relative scarcity of
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8 LMFs.
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13 The crucial role of entrepreneurship in generating new start-up firms, innovation and
14 employment has been neglected in the literature on LMFs. However, it is important to preserve
15 existing entrepreneurial incentives to start new firms, since such start-ups are risky, and usually
16 short-lived, while only a few grow sufficiently to become significant employers, but are then
17 often important innovators as well as job-creators. Thus, a self-employed entrepreneur who
18 invests their own capital and labour to generate 'profit', initially just total revenue in the start-
19 up phase of (solo) self-employment, arguably needs the freedom to hire workers while
20 maintaining control in order to survive and prosper in a generally highly risky activity.
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25 However, EP, profit sharing and co-determination are likely to enhance rather than retard
26 performance as employee numbers rise.
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37 For a group of individuals to start a new co-operative under pervasive uncertainty faces the
38 additional problems of collective decision making and incentives for free riding, coupled with
39 lower expected future rewards, compounded by liquidity constraints and the reluctance of
40 commercial banks to finance risky enterprise, while venture capitalists demand control rights
41 that are incompatible with LMF goals. The social benefits of EP thus provide a strong argument
42 for supporting co-operative start-ups, as well as employee buyouts by public sector banks.
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44 Interest rates have declined dramatically in recent years, which could substantially reduce the
45 cost of debt finance if credit were more easily available on favourable terms. Such banks could
46 offer flexible repayment, deferred during periods of declining revenue, thus essentially
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3 converting traditional debt into a more equity-like instrument, stabilizing employee incomes,
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5 and reducing the risk of default (Dow, 2017; -Groot and van der Linde, 2017).
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9 Since banks essentially create new money whenever a new loan is extended, the process is
10 almost costless, and public banks with welfare rather than profit maximising objectives would
11 thus have no need to charge a positive rate of interest, particularly when market rates are
12 already so close to zero. By accepting an unavoidable, small, residual risk of default even
13 after careful scrutiny, public banks and favourable credit terms can ensure that workers would
14 not have to risk perhaps most of their own savings in a buyout, though a modest equity stake
15 would certainly be an appropriate commitment and incentive. Worker risk of job loss would
16 be further reduced by work sharing rather than redundancy in response to downturns.
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28 Older, more risk averse workers as well as temporary – and some part time – employees might
29 prefer to retain wage contracts even in a majority buyout, but they would also benefit from
30 improvements in work organisation and the elimination of exploitation. Voting rights with one
31 vote per worker, might be restricted to workers with ownership shares, with some minimum
32 share requirement. Since there are always likely to be some remaining KMFs and wage earners
33 in LMFs, it will remain important that sectoral wages are negotiated fairly under collective
34 bargaining with a functioning union organisation. In a growing LMF, new worker/investors
35 would receive smaller shares of a larger total profit (for a given investment), compared to
36 earlier or founder-members who assumed greater risk, as in Meade's (1972) inegalitarian co-
37 operative.
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52 As already mentioned, the benefits of EP can be realised even in conventional KMFs, as is
53 widely observed in the Nordic economies. This suggests that policy to encourage or legislate
54 EP in all firms as part of the employment relationship might be appropriate in the UK and US,
55 where relative labour power has declined most severely. The obvious first step would be to
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3 require all firms above a certain size to institute an elected works council with the power to
4 participate in all decisions relating to working conditions. The works council might be
5 independent of union organisation, as in German co-determination, or integrated as in the
6 Nordic versions (Wilkinson and Pickett, 2018).
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13 A requirement for financial participation or PS in larger firms could reduce inequality and
14 enhance motivation, and be subsidised to some degree, though likely productivity gains mean
15 that explicit subsidies might only be needed to facilitate the introduction of PS. Of course, if
16 PS is beneficial for the firm, any need for mandating it might well be a consequence of the
17 free-rider form of market failure in the presence of group incentives. Whilst a first-best
18 solution could be achieved through co-operation, a lack of trust – perhaps allied to a failure of
19 at least some firms to be well informed about the benefits of PS – is destructive of that
20 possibility and an inefficient Nash equilibrium is the likely result instead. Whilst government
21 mandate would be one method of facilitating co-operation, another is to educate firms about
22 the beneficial effects, for them, of PS. To exemplify the impact of such dissemination of
23 information, employee ownership in Japan saw rapid diffusion amongst Japanese firms – from
24 less than 10% in 1968 to nearly 90% by 1985 (Kato and Morashima, 2002), despite there being
25 no government subsidy to act as an incentive.
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44 Alternatively, PS could substitute for part of the base wage under collective bargaining, and
45 thus facilitate work sharing during downturns. Well- functioning works councils and PS could
46 constitute an alternative to employee buyouts in some cases, particularly in the most capital
47 intensive and hence least attractive firms for employee buyouts.
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54 Management and external equity holders often resist introduction of EP in any form for fear
55 of losing privileged status and rentier income. The rapid rise of inequality in recent decades
56 has been enhanced by abuse of corporate power at the cost of labour income and well-being,
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3 including a dramatic increase in the ratio of CEO pay to average pay, especially in the US and
4 UK, so legislation to oppose this trend and establish EP as a basic constituent of the
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6 employment relationship will be opposed by powerful vested interests, but would be a major
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8 step towards establishing social justice in the most divided and fragile democracies of the US
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10 and UK.
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19 *Conclusions*

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23 ~~Profit maximising firms with little or no participation by workers in either decision-making or~~
24 ~~profits have enjoyed increasing monopsony power, as union bargaining power and labour rights~~
25 ~~have been eroded under four decades of neoliberal policy in most advanced economies, and~~
26 ~~most significantly in the US where market concentration and firm size have both increased on~~
27 ~~average. Capital owners' exclusive claims to appropriate rising profit shares in national~~
28 ~~incomes and control the economy to maximise their own wealth are inequitable, undemocratic,~~
29 ~~and inefficient in the light of a long history of productivity and welfare benefits from profit~~
30 ~~sharing and employee participation. These developments have contributed to rising inequality,~~
31 ~~discontent and authoritarian populism in reaction against a globalised capitalism that has~~
32 ~~allocated most of the benefits of growth and trade to a small minority of the rich and super rich,~~
33 ~~at the cost of lower-paid, precarious workers and looming climate and environmental~~
34 ~~catastrophe. Most of the casualties of the Covid-19 crisis, both medical and economic, have~~
35 ~~been from this group, and predominantly women and minorities, whose 'front-line' work~~
36 ~~requires face-to-face contact, and cannot be done remotely from home, a privilege reserved for~~
37 ~~better paid, white-collar office workers.~~
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58 Based on our up-to-date review of the employee participation literature, we have presented a
59 case that employee participation is an effective means to improve job quality and satisfaction
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3 for frontline workers, and counter the trend of rising inequality which is considered a major
4 threat to democracy. The increase in inequality has coincided with a period of declining trade
5 union density in the UK and USA, alongside a rise in monopsony power indicated by a
6 substantial upturn in the mark-up. Most recently, the pandemic crisis is surely an example of a
7 classic case for "short-time" work, with an underlying context that employee ownership
8 generates more stable employment when the economy is hit by a negative shock.
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17 We have suggested that a free-rider market failure may hamper firms from recognising that EP
18 and PS can be in their interests. This difficulty may be solved via a legislated incorporation of
19 EP and PS as part of the employment relationship, or through the effective education of firms,;
20 As a complement to the underpinning of EP and PS, complemented by radical, redistributive
21 tax reform and public sector banks could be introduced in order to support employee buyouts
22 and co-operative start-ups, while preserving entrepreneurial freedom and returns on ethical
23 investment, monitored and co-determined by those most directly affected.
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Responses to comments in revision JPEO-05-2020-0014.R1

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1. Are you referring to a standard prediction from theory of monopsony (equilibrium wage < VMP)? If that is the case, please replace this statement with:

"as standard theory of monopsony predicts, employees are under-paid (or equilibrium wage is less than value of marginal product)."

If this is a factual statement, please cite studies which provide evidence for your assertions.

This distinction is a really good point. Actually, both dimensions apply – and this is now reflected in the revised version.

2. I am not entirely sure of the purpose of bringing up the Netherland case here.

Some context, on achieving work-life balance, has been added.

3. please cite evidence for this assertion.

The claim has been amended (evidence still appears to be evolving), and a source has been cited.

4. Please cite some recent work on short time work as a response to the pandemic. For example,

Giupponi, Giulia and Landais, Camille. "Building Effective Short-Time Work Schemes for the Covid-19 Crisis," CEPR: VOX CEPR Policy Portal, 2020, <https://voxeu.org/article/building-effective-short-time-work-schemes-covid-19-crisis>

Thanks for this. The example source has now been cited.

5. Please cite a study

This has been done, as an extra sentence within footnote 6.

6. Please use job satisfaction instead of JS.

This has been done.

7. Please cite the literature on promotion tournament/relative performance here. For example, **Charness, Gary; Masclet, David and Villeval, Marie Claire.** "The Dark Side of Competition for Status." *Management Science*, 2014, 60(1), pp. 38-55.

Thanks for this. The example source has now been cited.

8. Please cite

Kurtulus, Fidan Ana and Kruse, Douglas. "An Empirical Analysis of the Relationship between Employee Ownership and Employment Stability in the Us: 1999-2011." *British Journal of Industrial Relations*, 2018, 56(2), pp. 245-91.

Thanks for this. The source has now been cited.

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9. If PS benefits the firm, there will not be any need for mandating it. Need some discussion on "market failure" here. Perhaps introduce a standard free-rider problem under group incentive: the lack of trust destroys the efficient first-best cooperative solution, and instead inefficient Nash equilibrium will prevail. A government mandate facilitates the firm to achieve the first best cooperative solution. In addition, you could certainly suggest that not all firms are well-informed about the beneficial effect of PS, and that governments can play an important educational role of disseminating accurate information of the beneficial effects of PS. For example, employee ownership in Japan was diffused rapidly among Japanese firms in 1970's with no government subsidy. As discussed in Kato and Morishima (2002), the impressive diffusion of Japanese employee ownership plans was in part due to the educational role of Japanese governments.

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Kato, T. and Morishima, M. "The Productivity Effects of Participatory Employment Practices: Evidence from New Japanese Panel Data." *Industrial Relations*, 2002, 41(4), pp. 487-520.

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Thanks for this insightful comment. Some commentary has been added to reflect this dimension, and the source has been cited accordingly.

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10. Based on our up-to-date review of the literature on employee participation, we have presented a case for employee participation as an effective means to improve job quality and satisfaction for frontline workers, and counter the rising inequality, which is considered a major threat to democracy.

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The conclusion has been extensively re-modelled, with a part of it directly reflecting the wording suggested in comment 10 above, and the remainder being hopefully very much in line with the content of the main body of the (revised) paper.