A vehicle for equality

Modern capitalists understand the ideas of the co-op but, as at Rover, they only apply them for profit

"Company directors who take big risks and achieve big success deserve big rewards." That's what Patricia Hewitt, the trade and industry secretary, said at the British Motor Show last year, and I think you can guess who she was talking about. The directors of Rover certainly got their big rewards. We all now know about their big success. But big risks? It was as obvious then as it is today that the only people in the business who were subject to no risk at all were the ones being rewarded for risk-taking. They would walk off with millions, whatever happened to the company. An inability to distinguish between the risks to which people expose themselves and the risks to which they expose others appears to be the defining disease of modern capitalism.

I don't often find myself standing up for the car industry, but it's hard not to share the general outrage about what has happened at Rover. The four directors, who bought the company for £10, are reported to have siphoned, quite legally, £40m out of the fuel tank. The taxpayer has had to throw the same amount at Rover's suppliers to prevent them following it round the U-bend. And the money that could have funded generous redundancy payments and filled the hole in the pension fund has been frittered away.

The problem here is easily identified: there was a conflict between the interests of the men who ran the business and the interests of those who worked for them. As long as the directors could escape with their huge pay packets, they had little incentive to ensure that their employees escaped with anything at all.

Rover, we are told, was a special case. In companies in which the principal shareholders

and the executives are different people, problems like this should not occur. The shareholders will reward the managers for looking after their capital in a responsible fashion. But in truth, because of the opportunity costs of capital, shareholders and executives have a common interest in securing jam today rather than jam tomorrow. The owners reward the executives for profit rather than investment, so the managers sacrifice the future to the present. It's arguable that the staggering returns the high-street banks made this year should not have been treated as profits at all, but as the money that might protect them, and us, against bad loans when the next recession arrives.

Is this really, as the proponents of the model always claim, the best way of running a business? Would the Rover workers not have been better off had they, rather than their bosses, bought the plant for a tenner in 2000?

For a country widely credited with inventing the idea, the UK is remarkably hostile to workers' cooperatives. In one form or another, they have existed since the division of labour began. But it was our own enlightened capitalist Robert Owen, who formalised the idea. The workers' communities he founded in the early 19th century soon collapsed. We still have one very large workers' co-op (the John Lewis Partnership) and hundreds or, if you count professional partnerships, thousands of smaller ones. But the manufacturing co-ops Owen envisaged are few and tiny. The reason, we are always told, is they are simply not as competitive as hierarchical capitalism. Given that there is no law against forming them, why, if they are such a good idea, have they not outcompeted the standard business model?

There is, I think, an interesting answer to this question. If the principle on which workers' co-ops are organised (ownership of the company by its employees) is uncompetitive, why are so many big companies now mimicking it, by turning their executives into shareholders? Their incentive schemes recognise, like the co-ops, that people who own part of the business will make sure it works. Of course, the schemes are mostly confined to the executives, who tend to be more mobile than the rest of the workforce. Being pegged to profits, they do little to encourage the executives to invest. So they don't address the conflict of interest. But the central idea of the co-op is now a standard feature of corporate capitalism.

In several other countries, workers' co-ops, in which all the workers have a stake in the business and a voice in its decision-making processes, have flourished. After the Argentinian economy collapsed in 2001, about 160 businesses were taken over by co-ops. Some of them have done so well that the owners, who had been unable to make them pay, are now suing the workers in the hope of taking the factories back. One of the reasons for their success, according to the Washington Post, is that they have dropped their "higher-paid managers from the payroll". (How often do you read that in the Post?) The money that would have been snaffled by the executives has instead been reinvested.

Dutch and Danish farmers have survived the invasion of the superstores because, unlike British farmers, they process and market much of their produce cooperatively, and so can bargain collectively. They can also achieve economies of scale, which is why British people eat Danish butter and Danish bacon. The Mondragon co-op is now the biggest industrial group in Euskadi (the Basque country) and the seventh biggest in Spain, with 71,000 workers. Altogether, workers' co-ops around the world employ about 100 million people.

There are problems with the model, however. The Harvard economist Michael Kremer has used some elegant maths to show how dividends are, in effect, transferred from the more productive workers to the less productive, and how worker democracy can militate against innovation and efficiency. The greater the capital investment, he shows, the greater the potential inefficiency, which could explain the scarcity of manufacturing co-ops. Co-ops, in other words, suffer like hierarchical firms from conflicts of interest. There are other constraints, too: the lack of access to capital (keeping the business in workers' hands means keeping absentee owners - and their money - out) and the lack of opportunities for capital (you can't move it around as freely as other shareholders can). The Mondragon co-op appears to have overcome both problems, by establishing its own bank, which circulates money among its 200 affiliated businesses, and by encouraging diversification.

It is also clear that co-operatives can be as predatory as firms owned by absentee capital. As a solution to exploitation, they present the same problem as anarchism: internal democracy can be accompanied by external oppression. But while a company run by its workers has just as great an incentive to nail us to the wall as a company run by absentee capital, at least within the firm wealth is widely distributed. An economy dominated by co-operatives would be a more equal one than an economy such as ours.

As far as Rover is concerned, it is hard to see how a workers' co-op could have made a bigger cock-up of the business than its bosses did. Next time a company is sold for the price of four pints of beer, the workers should pick up the bill.