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LABOR CENTER REPORTER

Number 70
September 1982

UNIVERSITY OF CALIFORNIA, BERKELEY
CENTER FOR LABOR RESEARCH AND EDUCATION
INSTITUTE OF INDUSTRIAL RELATIONS
BERKELEY, CA 94720
(415) 642-0323

BUYING AND RUNNING THE COMPANY

by Chris Martinz

In major industries throughout the country, workers are making concessions to management on wages, benefits and work rules. At the same time, the pension fund savings of working people have come to be regarded as the chief source of new capital needed to carry out "re-industrialization" proposals. Management officials are joined by many economists and some legislators in urging that it is essential to use more pension fund capital to pay for the investments required to keep U.S. industry competitive, and to develop new technology.

Will workers actually be able to save jobs by making wage and benefit concessions, and by allowing their pension funds to be invested in re-industrialization proposals? What future returns can they expect to get from their current sacrifices? Can they turn the current demands for more worker contributions to investment into an opportunity to gain greater control over the future of the firm, or of the economy?

Worker ownership of the firm or plant is one way of seeking to gain control over the wealth created by worker savings and concessions. Worker ownership, which is not new in this country, is being used to save jobs by keeping plants operating. Some worker-owners have made significant gains from their investments. They have also been able in some cases to take control of technological change for their own benefit and for the benefit of their communities.

Performance of Worker Owned Firms. Many of the early factories in this country were worker co-ops. More recently, when a slump in plywood prices drove many companies in the Pacific Northwest out of business, workers opened a number of co-ops. Shares in these worker controlled mills originally cost $1,000. In 1978, they were worth over $25,000. In 1977, workers bought out a Vermont asbestos mine which a conglomerate wanted to close. They proved that it could stay open and make profits. Workers at a knitting mill in New York purchased their factory and brought 70 employees back to work. While other textile companies were cutting their operations, the worker owned mill was planning to expand.

In the past decade there have been many economically successful worker buy-outs, providing new evidence to show that workers can purchase a company, save jobs, and even make profits. But worker ownership and control is seldom an easy option.

Obstacles to Worker Ownership. First among many problems to be overcome are laws on incorporation and stock ownership. When Texas International threatened to take over Continental Airlines, employees of Continental tried to borrow money to purchase the company themseves. Because of various laws, their representatives had to obtain permission from the state of California, the SEC and the CAB. Early this year, after intense lobbying by Texas International, federal agencies prevented them from buying the company. Continental employees are now facing lay-offs and demands for concessions. In addition to paying Continential's debts, the new owner wants concessions from workers to help pay back the loans which he obtained to finance this and other takeovers.

Second, it is fairly easy for workers to purchase stock as individuals and this is the way many worker owned companies were started. But problems can develop from this approach. As workers retire, they must sell their stock, and as the stock of the company increases in value, new workers may not be able to afford it. In some of the plywood co-ops there are workers who are owners and others who are not. Also, older workers sometimes become absentee owners. Finally, stock may be held in trust for all workers, but trustees are often managers, and there seem to be few laws which prevent them from abusing their trust and even taking over worker owned companies.

Third, when a company is about to close, workers must raise substantial amounts of money in order to purchase it. In the past decade, workers and communities have combined private funds with some government help. Then private lenders have often insisted that workers have little or no say in managing the company. They have also asked for substantial public contributions to guarantee the loans. They continue these policies despite the successful record of worker run companies--including some that are still forced to pay rates above prime for restricted funds.

The attitude of managers is the next serious long-run problem faced by worker owned firms. When the workers purchase a company, they experience a kind of euphoria. Morale and productivity improve. After a while they find that managers are treating them as if nothing has changed, while they expect to have a greater say in running the company. Discontented workers may sell their shares, as many of the workers in the Vermont asbestos mine did. Worker disappointment may then lead to poor morale and stormy labor relations, as it did in the case of South Bend Lathe, which was otherwise economically successful.

Morale is not the only problem caused by managers' attitudes. Managers at a number of plants have regarded workers' suggestions for change as a challenge to their abilities. They have refused to use ideas which would save materials, make products more attractive, and improve the use of machinery, even when the changes would cost nothing. They expect workers to sustain the company by working harder, even though much more might be gained by working smarter. Thus, poor management has often been a major cause of a company's failure.

Finally, managers may see worker ownership as an opportunity to feather their own nests. The manager of South Bend Lathe, for example, used company profits to buy two new companies which he controls. Workers need more sympathetic laws and better financing. They also need an effective agent to represent their interests as workers and owners.

Protecting Worker Rights. It has often been argued that workers who owned a company would neither need nor want a union. When the workers at South Bend Lathe bought their company they left their union behind. It gave them little aid in their negotiations, and would not approve of concessions which they made on their pensions. Only a few years later they returned to the union and struck for greater control over the company.

Much better results are possible when the union represents workers' interests in all phases of purchase and administration of the company. At Rath Meat Packing Co., in Waterloo, Iowa, the members of the local meat packers' union elect the trustees representing the 60% of company stock which workers are purchasing. These trustees, among them the union president and other officers, have voting rights over an additional 20% of the stock. Workers at Rath have selected a manager and kept an eye on his performance. They have made suggestions which have saved substantial amounts on energy and materials. Under their management the company has made much progress from its previous condition close to bankruptcy.

Even better results could be obtained if workers were able to begin their purchase of the company before it came to the brink of bankruptcy. In some of the smaller steel mills, for example, workers have begun to turn company demands for concessions to their own advantage. At one mill the company has agreed to use savings from wages to purchase new equipment for that mill. In return for their concessions workers get an equal amount of company stock. Thus, wages which workers give up are used to keep jobs in the community not to buy other companies or move plants and jobs to other locations.

Conclusion. The future of worker ownership has become more uncertain in the past two years. Current hard times have put a heavy financial burden on worker owned companies. In addition, support from federal development programs has been withdrawn. Some unions may be able to provide financial resources to worker owners who have proven their ability to compete in the face of serious obstacles. They can provide workers faced with plant closings or demands for concessions with the support they will need to negotiate buy outs. They can help untangle the legal and financial problems. They can also provide negotiators to make sure that workers get a fair return for their sacrifices.

Political action is also important. California Assembly Bill 2839 introduced by Maxine Waters would provide advance warning and some compensation for workers faced with plant closings. Changes in incorporation laws are needed to simplify buy-outs and protect workers' rights. Finally, governments which provide support for private business development should extend similar support for worker-owned ventures.

— Chris Martin