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Antidotes to Labour Market Monopsony?

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Abstract – Purpose

We show that employee ownership is more efficient than control by external capital owners/employers. This complements the empirical evidence for benefits of employee ownership surveyed by Mygind and Poulsen (2021), Kruse (2022), and Dow (2003), and the normative/political case for democratising work made by Ellerman (1975, 2022), Ferreras et al. (2022), Piketty (2022) and others. Of course, ~~who have neglected the~~ efficiency issues ~~that~~ are usually important in economic evaluation.

Abstract – Design/methodology approach

Worker mobility or 'exit' is generally costly, so employers with residual control have monopsony power to exploit workers with non-contractible job utility – who are thus less than perfectly mobile and, in the absence of collective bargaining, lack countervailing 'voice'.

Abstract – Findings

The potential for wasteful conflict and exploitation is inherent in the employment relationship, and socially optimal effort is unlikely to be achieved. We show that economic efficiency in a 'sticky' world (Banerjee and Duflo, 2019) with imperfect information and incomplete contracting actually *requires* residual control by workers rather than just capital-labour parity in 'democratic socialism', so labour should hire capital rather than *vice versa*.

Abstract – Originality/value

The 'labour hires capital' allocation of rights contrasts with the traditional power of capital owners-as-employers who claim the firm's residual income *and* control of hired employees. Such shareholder primacy, which not only deprives employees of their rights of self-determination and generates conflict, also, and less obviously, will generally fail to attain the efficient effort-output trade-off.

Keywords: workplace democracy; employment relationship; economic efficiency

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1. *Introduction*

Empirical evidence on the 'pros and cons' of employee ownership has been reviewed by Mygind and Poulsen (2021) and by Kruse (2022), following the early wide-ranging review by Dow (2003). The more general aim of 'democratising' work and firms in various ways to achieve at least some of the benefits of ownership is discussed in detail by Battilana et al. (2021), and as a component of democratic socialism by Adler (2019) and Piketty (2022).

Here, section 2 provides an account of the problems faced by employed workers – and a number of attendant adverse economy-wide trends that may have contributed to, and/or been exacerbated by, the traditional employment relationship. That relationship has typically existed under shareholder primacy, in the context of the capital managed firm (KMF). In so doing, it complements the empirical evidence and the normative-political case for democratisation.~~,~~ ~~and~~ It also notes that KMF is fundamentally inefficient because employers can undersupply job quality and intangible, non-contractible worker utility due to workers' mobility or 'exit' costs in a 'sticky' world (Banerjee and Duflo, 2019) – with the inefficiency typically being founded on some combination of monopsony power in the labour market and/or monopoly power in the underlying goods market. In section 3, some successes and failures are discussed – resulting from a combination of economic circumstances and differing approaches by unions, employers and legislators. Labour managed firms (LMFs, including but not restricted to, employee-owned firms) are discussed in section 4, under the heading of workplace democracy. In section 5, an array of potential reforms are outlined, alongside quite wide-ranging context and likely consequences. Conclusions are summarised in a final section.

2. *Worker problems from employment*

Employees are typically hired by capital owners (or their representatives) as employers, who claim residual income and control of the capital managed firm (KMF) under shareholder primacy, thus denying basic rights of self-determination to employees although they "…generally invest a major part of their lives, their energies, and their skills" (Piketty, 2022, p.113). As in the traditional 'master-servant' relationship, employees by definition must accept the discretionary authority of the employer since complete contracts under uncertainty are generally infeasible (Reich and Devine, 1981). According to a leading philosopher of work, Anderson (2017, p. 54), "The state has established the constitution of government of the workplace: it is a form of *private government*" where employers' power is "sweeping, arbitrary, unaccountable – not subject to notice, process, or appeal".

This 'loss of control over the labour process' is the first form of alienation according to Marx (Shaw and Waterstone, 2019), and in modern terms essentially follows from the non-contractibility of intangible job utility (or work meaningfulness, as per Hu and Hirsh, 2017). Persistent (though intermittent) voluntary surrender of basic rights of self-determination in an ongoing employment relationship has been compared to voluntary indentured servitude, common in past centuries, but no longer regarded as a valid contractual relationship (Ellerman, 2022). This can be a major issue, since control and autonomy in work activity are major determinants of job quality and satisfaction (Wheatley, 2017; Layard and De Neve, 2023).

Even when there is little organisational or economic justification, employees have traditionally been denied any kind of flexibility or rights to choose their working time and location in most jobs[1]. In non-standard and precarious employment by KMFs, workers have to accept irregular assignments at very short notice, with no consideration of their own time constraints and preferences, and no compensating pay rise (Boushey, 2016; Living Wage Foundation, 2021; Glavin, 2013).

[1] Full-time work was traditionally the only 'choice' on offer for most skilled workers, except in the Netherlands, as discussed below.

In the real and 'sticky' world (Banerjee and Duflo, 2019) where mobility is always costly and so employers have some degree of monopsony power (Reich and Devine, 1981), 'exit' cannot ensure the efficiency usually assumed by economists and others by appealing to obviously unrealistic models of frictionless, 'perfect' competition. In its purest form, monopsony involves a single buyer – in the labour market context, that would be a dominant firm that is the only employer. Assuming no scope to set a specific wage for each individual worker, the marginal cost of labour exceeds the wage rate, and – as noted in a recent review article (Manning, 2021), a monopsonist that cuts wages a little does not lose all their workers. As noted in that review, there have been many studies on the elasticity of labour supply faced by an employing firm. A key is that the labour supply elasticity is not found to be very highly elastic – even for Uber workers with flexible hours (Caldwell and Oehlsen, 2018) – implying potential monopsony power for the employer.

As the Manning (2021) review paper goes on to consider, there is then the question of the extent to which potential monopsony power is constrained, or fully put into operation —with consequentially limited wages and employment, coupled with high profits. If there is a complementary relationship between wages and certain job amenities, monopsony may also systematically under--provide those job amenities (Naidu and Dube, 2024). There are also issues about provision of job amenities being targeted at the marginal worker, rather than the average worker – which could lead to under-provision or over-provision (Naidu and Carr, 2022). Importantly for our case in this paper, those authors go on to argue that workplace democracy might be an effective mechanism to ameliorate the imbalance.

In a competitive market, extra pay should compensate for job disutility – and the classical 'contradiction' or conflict between capital and labour is assumed away. Marsden (2021) defines compensatory pay as actual pay minus pay from working elsewhere, based on the worker's portfolio of relevant characteristics. His analysis expects to find trade-offs between compensatory pay and intrinsic benefits, with systematic differences according to model of firm ownership. This is largely borne out, although some puzzles are found. ~~However, observed compensatory pay is far too low to make any substantial difference to the distribution of job utility.~~ However, ~~O~~on the contrary, Clarke et al. (2022) do not find evidence of compensating differentials in either cross-section or panel data. They report a strong *positive* relationship between earnings, education, and non-monetary job amenities~~better jobs are also better paid~~, ~~and~~ such that "full returns to education on the labour market are underestimated" ~~(Clark et al., 2022), who find a strong *positive* relationship between earnings, education, and non-monetary job amenities~~. ~~Thus~~More specifically, inequality in the distribution of 'full earnings' or monetary earnings plus an estimate of the monetary value of non-pecuniary amenities (job utility or satisfaction) from work is found to be about a third greater than the already large inequality of earnings. Lavetti (2023) highlights some important points to consider about apparent contradictions in the literature. This includes the potential heterogeneity of worker preferences with regard to (sometimes unobserved) job amenities – and, thus, in willingness to pay for these via salary level. Emphasis is also given to the distinction between compensating wage differentials and the effects of imperfectly competitive labour markets, and the potential of matched employer-employee data to disentangle various sources of inequality in wages, and in more broadly defined worker compensation.

'Quality of work' is more important for explaining happiness in the UK than any other factor except mental illness (Layard, 2020), yet undersupply of this non-contractible amenity is as unsurprising as inadequate wages in KMFs with their inevitable leaning towards monopsony power[2]. Under neoliberal policies, shareholder primacy and declining union power in the UK and US since the 1980s (Blanchflower et al., 2021), blatant exploitation of low-paid, often over-worked and unorganised employees in KMFs, particularly in the privatised care and retail

[2] The costs associated with job turnover in a sticky world are likely to fall more on workers than the KMF employer.

sectors, remains common (Bloodworth, 2018). There has been economy-wide stagnation of lower incomes, rapidly mounting KMF power and profit shares, and growing distributional inequality[3]. This has been exacerbated by the 2020-22 Covid-19 pandemic and subsequent double-digit 2022/23 energy and food price inflation. Meanwhile, the top 0.1% in the UK now own nearly 10% of wealth (double the share in 1985), and the top 1% hold nearly 25% of total wealth[4].

Work in the UK is the least-liked voluntary activity for most workers (Bryson and MacKerron, 2017). Non-standard and precarious employment in KMFs, plus gig work and solo self-employment, have been proliferating – with irregular hours, low wages and uncertain income and employment. According to the IFS (2020), "In 1975, 8% of workers were self-employed; by 2019, this had increased to more than 14%. This rise has been entirely driven by 'solo self-employment'…". The backdrop has been more than a decade of austerity and neoliberal policy under successive Conservative UK administrations, alongside the decline of unions and labour bargaining power since the financial crisis of 2007-9 (Standing, 2020). Meanwhile, the tax and benefit system has often worsened poverty and inequality, with the most vulnerable hit by major welfare reductions (Armstrong, 2017; FitzRoy and Jin, 2021). Many jobs are still actively disliked,[5] with over a third of employees saying they have 'poor quality jobs', which are correlated with worse health. Unpaid overtime can undercut minimum wages. According to the TUC (2022b), UK employers obtained £27 billion of free labour in 2021, with nearly 20% of UK workers affected (Sellers, 2019). Guendelsberger (2019) and Jaffe (2021) describe similar problems in US KMFs.

According to the Resolution Foundation (Bell et al., 2020), the lowest paid workers lack most employment rights. This group has suffered most during the pandemic, is usually unable to work

[3] Stiglitz, 2019; Stansbury and Summers, 2020; Standing, 2020; *The Economist*, 2018.
[4] See Dorling, 2018; Wilkinson and Pickett, 2018; Standing, 2020; Layard, 2020, Resolution Foundation (2021).
[5] Spencer (2014, 2015, 2022), Kalleberg (2018), Bryson and MacKerron (2017), Howell and Kalleberg (2019).

at home, and is most affected by the subsequent inflation. Part-time employees, mainly women earning minimum wages (or less), are the most likely to suffer from being underemployed and also from poor non-pecuniary workplace amenities. In a large UK dynamic panel dataset across about two decades, FitzRoy and Nolan (2020) found that only individuals with the highest education and income made noticeable relative gains in life satisfaction over the sub-period from the start of the Great Recession (2007) onwards. In the US and UK, gains from GDP growth in recent years have mainly been captured by a small minority of the richest. Inequality has increased, and poverty persists. Consequently, average subjective well-being (SWB) has failed to rise, or has even fallen, for most people over time[6]. Redistribution to help the poor is needed, but shorter hours and reduction of material consumption by rich people in rich countries are also urgently required to diminish multiple and unsustainable global environmental impacts (Hickel, 2020).

Workers and unions have long campaigned for worktime reduction, usually resisted by KMFs (Costa, 2000; Dolton, 2017). The eight-hour day was only generally accepted when the International Labour Organisation (ILO, 1919) and the 'Hours of Work Convention' were established after World War I, after many decades of campaigning by Marxist and social democratic trade unionists and reformers (Aveling, 1890; Webb and Cox, 1891). Paid summer holidays were only established in France in 1936 under socialist prime minister Léon Blum (Broder, 2021), but then soon spread to Britain and other countries.

Though German hours have declined since 1960, from among the highest to the lowest in western Europe, UK full-time hours have hardly fallen since 1980**,** and male average weekly hours are now second longest in western Europe (after Portugal), although popular worktime

[6] This is known as the Easterlin Paradox because at a point in time, income in a cross-section is (weakly) correlated with SWB, though other factors are more important (Easterlin and O'Connor, 2020; Easterlin, 2021, 2013; Clark et al., 2018; Rojas, 2019; FitzRoy and Nolan, 2020). Other reasons for the failure of SWB to rise are the importance of relative income, and the social and environmental costs of growth, including competitive stress and overwork for individual employees.

reduction can be a Pareto improvement in general equilibrium (FitzRoy et al., 2002). The TUC (2019) reports that:

> "Full-time employees in Britain worked an average of 42 hours a week in 2018, nearly two hours more than the EU average – equivalent to an extra two and a half weeks a year.
>
> For example, full-time employees in Germany work 1.8 hours a week less than those in the UK but are 14.6% more productive. And in Denmark – the EU country with the shortest hours – workers put in over four hours less than UK workers, but productivity in Denmark is 23.5% higher".

Real wages and productivity have hardly grown for most UK workers in KMFs since 2008 under (predominantly) Conservative austerity policies, with consumer debt rising rapidly (Giattino et al., 2013; Castle et al., 2020). In 1979, 71% of UK workers were under collective bargaining agreements, but only 29% in 2019 (Burke, 2019), while average annual real wage growth was actually negative, or -0.2%, from 2007 to 2021, compared to +0.8% for the OECD average (TUC, 2022a). Future prospects will be challenged further by advancing automation and AI – which will likely also replace much routine and less-skilled labour (Benanev, 2020).

3. *Successes and failures so far*

In advanced economies during the first three decades after WW2, full employment and collective bargaining kept wages growing in step with productivity in KMFs with stakeholder goals rather than shareholder primacy, under a Keynesian macroeconomic consensus. That 'Golden Age' ended with oil price shocks, recession, and inflation. However, neither workplace democracy nor co-management were on the agenda in the UK or US. Unions in those countries did not attempt – even in their heyday – to extend the bargaining agenda to issues like overall job satisfaction and employee participation that elude easy measurement. A further contrast was in there being almost no legislation to match continental European co-management and related employee representation. In the Nordic economies especially, strong unions operating in an environment of co-operative industrial relations helped to establish enhanced employee participation and autonomy at work, resulting in these countries being top ranked for job satisfaction and overall life satisfaction[7].

There is extensive legislation to limit employer power in modern economies (and this does surely serve to constrain some aspects of employer behaviour), but such 'private government' still strongly influences work experience and limits autonomy, as many employees can confirm from bitter experience (Chomsky and Waterstone, 2021), and has been aptly described as imposing "autocracy at work" (Estland, 2018). Additionally, "The theme that 'exit is enough' to ensure workers' freedom under capitalism seems to be enduring and cross-disciplinary" (Estland, 2018, p. 796). However, increasing KMF monopoly power, as evidenced by rising mark-ups, industry concentration and profit shares in advanced economies in recent decades, also generally reduces demand for labour and hence worker wages, by up to 20% in the most extreme, US case (Eeckhout, 2021; Stoller, 2019).

In contrast to intangible, subjective worker utility, important components of job quality such as working hours, flexibility, autonomy, pay and participation are observable and hence contractible, particularly under collective bargaining. Unfortunately, such contractible components typically do not constitute all dimensions of job quality. Some employers undoubtedly do seek to promote worker well-being as well as motivation with a fair distribution including 'efficiency wages', profit sharing and participation or 'voice'. However, this is far from guaranteed. Without legislation for enhanced labour rights, it depends on an employer's personal inclinations and benevolence – and altruism contrasts with the usually assumed standard shareholder primacy goals of the KMF (Findlay et al., 2017). ~~Ironically~~Selfish pursuit of profit can be counter-productive, since profit-sharing has long been observed to increase firm

[7] Dorling and Koljonen (2020), Martela et al. (2020), Boxall and Winterton (2015), Gustavsen (2011).

profitability as well as productivity. However, ~~yet~~ profit-sharing is still far from universal (FitzRoy and Kraft, 1986, 1987; Dow, 2003).

KMFs probably dominate due to the high returns they offer to successful entrepreneurs. Though most start-ups fail, survival and success of the remainder in the long run is often due to market power which can also compensate for lack of efficiency and can yield very large returns to the most successful entrepreneurs (Eeckhout, 2021; Stoller, 2019). Since they typically have only an instrumental interest in worker well-being in as far as it contributes to maximising shareholder value or managerial goals, KMFs are likely to undersupply intangible, non-contractible job quality, compromising worker welfare. This will be especially evident in the case of labour market monopsony and/or goods market monopoly. ~~(and not evident in the reviews by Mygind and Poulsen (2021) and by Kruse (2022))~~. Of course, employers who genuinely subscribe to the agenda of corporate social responsibility (CSR) – rather than just treating CSR as a 'buzzword' – will also value employee welfare. However, they are probably a minority – not least due to the term structure of CSR costs and benefits (the former being more near-term, the latter long-term).

4. *Workplace Democracy*

In LMFs, workers elect their managers democratically and appropriate residual income, and in principle can thus attain their optimal job quality and effort/reward trade-off, including part-time and flexible hours whenever preferred and feasible. Dow (2018a, 2018b) develops theoretical foundations for efficiency under employee control. Though employee 'ownership' as entitlement to contractual or residual payments does not necessarily imply residual control or worker participation in management, "Several studies find that the productivity effect is greatest when financial ownership rights are combined with actual control rights" Mygind and Poulsen (2021), p.11). LMFs need not be exclusively worker 'owned' in the above sense when external capital in the form of debt or non-voting equity is 'hired' by workers who retain control with partial ownership, or even without ownership, when labour just hires capital. This allocation of rights has been neglected but is arguably a more efficient alternative to the 'democratic socialism' defined by labour-capital parity in top management favoured by Piketty (2022) and others. Capital markets may be imperfect, and subject to information asymmetries. LMFs are not then immune, of course, from adverse selection and moral hazard. Thus, LMF start-ups and investment might benefit from the support of a public sector bank.

The major advantage of LMFs is precisely their defining feature, that the potentially exploitative and inefficient employment relationship is replaced by democratic control by elected employee representatives. This maintains workers' basic rights of self-determination and is needed to attain their optimal effort-output trade-off in a world with mobility costs and non-contractible job utility. The inherent control and autonomy are compelling political arguments for workplace democracy in LMFs (Spencer, 2022). By contrast, KMFs are fundamentally inefficient – a point which has previously not been given much attention in this particular area of the literature. ~~(which is not discussed by Mygind and Poulsen (2021) or Kruse (2022)), or other critics who focus on normative aspects, such as Ellerman, 2022, or Landemore and Ferreras, 2016).~~

As Dow (2003) and others have shown, the scarcity of 'industrial democracy' or labour managed firms (LMFs) likely results from market failure, rather than any alleged inefficiency of the LMF, for which there is no empirical evidence. Mygind and Poulsen (2021) discuss capital supply problems under worker ownership, albeit without exploring ~~but neglect~~ the possibility that labour can 'hire' rental or non-voting equity capital when worker ownership is limited due to liquidity problems and risk aversion. A fixed rental or share of value added protects such external investors, while voting rights maintain worker control without full 'ownership' or claim to all residual income. Employee participation in managerial decision-making, as in German or Nordic co-determination, or more indirectly via collective bargaining, can benefit workers without ownership, raising motivation and productivity[8]. This provides evidence for the benefits of worker participation and LMFs. Such benefits are related to the advantages of profit-sharing in conventional KMFs found by FitzRoy and Kraft (1987, 1986) and Cable and FitzRoy (1980). Although frequently confirmed subsequently, these benefits were traditionally dismissed on the basis that a single worker would have negligible influence on the performance of a large firm. However, workers who benefit from each other's effort via profit-sharing or ownership shares also have an incentive to co-operate, which should increase with the workers' residual share and be maximised in LMFs, thus raising efficiency, and reducing conflict. However, LMFs or worker-owned co-operatives and employee buyouts are still relatively rare, despite their benefits. This seems to be due to market failure and wealth constraints[9].

Employment can be seen as providing a form of insurance – a constant wage in place of variable market returns under self-employment in LMFs. It may be preferred on that basis, though hours and earnings are actually quite variable, and this insurance is asymmetric. Workers in a failing enterprise can lose their jobs and suffer prolonged unemployment, while the employer or capital owners as residual claimants appropriate most of the benefits from exceptional enterprise success, despite all employees involved sharing responsibility for enabling such success [10].

Various indicators of economic democracy are also positively related to productivity and strongly negatively correlated with inequality[11]. The Nordics are predictably top-ranked, and the USA is bottom. Nordics also top the international life satisfaction rankings, while the UK ranks below most EU countries (Dorling, 2023; Dorling and Koljonen, 2020; Martela et al.,

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[8] Forth and Bryson, 2022; Palladino, 2022; FitzRoy and Nolan, 2021; Guinot et al., 2021; Frega, 2020; Garcia et al., 2019; Hyman, 2018; Martela et al., 2020.
[9] See Vanek (1975), Meade (1972), McCain (1977), Kruse et al. (2010), Michie et al. (2017), Major and Preminger (2019), Dow (2020).
[10] See Jaffe (2021), Guendelsberger (2019), Armstrong (2017), Bloodworth (2018), Lyons (2019), Anderson (2017), and Reich and Devine (1981).
[11] Bua, 2018; Kruse et al., 2010; Blasi et al., 2017; Landemore and Ferreras, 2016.

2020), and has the highest poverty rates and inequality. We should consider whether these links are solely matters of correlation, or whether there is also a component of causation. In so doing, we can appeal to one of the earliest proponents of economic democracy and worker ownership from nearly two centuries ago – the classical English philosopher and economics pioneer, J.S. Mill. Though cited by Ellerman (2022), his case for economic democracy is not mentioned ~~by Mygind and Poulsen (2021) or Kruse (2022), and has been ignored~~ by ~~almost all~~almost others who cite him as a pioneering economist and social philosopher:

> "The form of association, however, which if mankind continue to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and workpeople without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves" (Mill, 1970 [1848], Bk. IV, Chap. VII).

This quote indicates a causal channel between workplace structure and worker satisfaction. Whilst the most direct form of this channel is through job satisfaction, as elaborated upon by Barker and Martin (2011), job satisfaction is a key component of life satisfaction.

5. *Potential reforms, and their consequences*

A key determinant of the scope for reform, and its urgency, is the starting situation. Many existing labour markets exhibit monopsony power characteristics, and these matters have been given extensive theoretical and empirical analysis in the literature – see, for example, Ashenfelter et al. (2010), Manning (2013) and Yeh et al. (2022). Most employing organisations are KMFs, with very limited workplace democracy, whilst LMFs and employee ownership are fairly uncommon. This would not matter, of course, if employees were not facing any substantial problems under the current dominant regime – but we can readily argue that not to be the case. We next proceed to consider particular areas for reform where employee ownership and/or workplace democracy may prove helpful.

A. Working time, hybrid working and productivity.

EurWork (2016) notes that "Employee participation is widely believed to be a major factor affecting employees' welfare, as well as enhancing their opportunities for self-development, work satisfaction and well-being", and that the Nordic nations have instituted the most widespread employee participation (Garcia et al., 2019: Wheatley, 2017). Notably, Denmark has utilised technology-based hourly productivity growth to achieve the shortest average working hours in the EU for full-time workers and optimise their work-life balance (Eurostat). A recent paper by Kamei and Tabero (2023) looks at workplace democracy in an experimental setting, and finds both higher productivity and somewhat more shirking. It concludes that, under workplace democracy, working hours can be reduced without cutting production.

Both profit-sharing and worker ownership (including employee stock ownership plans (ESOPs) and co-operatives) encourage co-operation and mutual monitoring, particularly when combined with participation in decision making, since each worker benefits from the efforts of co-workers. Firms with such broad participation generally have higher labour productivity and less conflict than traditional firms relying on wage employment, and – importantly – can consequently rival the performance of employee-owned firms.[12]

However, only the Netherlands require employees' requests for part-time work to be seriously considered whenever feasible, resulting in far more part-time work by skilled workers than in other EU nations. Indeed, over 40% of employment in the Netherlands is part-time (with an especially high average for women), whereas this percentage is below 30% in all other EU nations and mainly unskilled (and in single figures in about half of them (Eurostat)). As a consequence, the Netherlands has the shortest overall average weekly hours of 30.8 in 2019, nearly three hours less than Denmark and 6½ hours per week below the EU-27 average (the UK

[12] See Fakhfakh et al., 2019; Michie et al., 2017; Blasi et al., 2013, 2017; Kruse et al., 2010; Freeman et al., 2000; FitzRoy and Kraft, 1987.

average being 37.0). Dutch policy has clearly achieved the best possible work-life balance (top of the OECD league, according to Warzel and Peterson, 2021) in a regime of KMFs. ~~All t~~These international perspectives have been under-represented in the prior literature, much of which has focused ~~are missed by Mygind and Poulsen (2021) and by Kruse (2022) in their almost exclusive focus~~ on the special case of employee ownership.

Allowing statutory rights for employees to generally choose their place of work, schedule and working time as flexibly as is consistent with the firm's coherent organisation must be an ultimate goal for national labour and employment interest groups – to achieve a welfare gain through the relaxation of (individual-specific) constraints on workers. Employers would have to seriously consider any request for reduced or flexible working hours (preferred by 95% of survey respondents, WSJ, 2022). In the absence of such rights, choice would be more likely to emerge under employee ownership, and in LMFs with substantial workplace democracy. The Covid-19 crisis – when employers had to allow home or hybrid working for about half of all employees (Warzel and Peterson, 2021) – has surely facilitated this goal even in existing KMFs, which traditionally insisted on often dysfunctional presenteeism (Boushey, 2016). Hybrid working flexibility is the most commonly preferred arrangement (CIPD, 2021).

There is a shortage of evidence so far about the strength of link between LMFs (and/or employee ownership) and hybrid working. However, since hybrid working cuts commuting costs, harmful air pollution and traffic congestion (for remaining commuters), its potential should not be ignored. Some remaining commuters might be encouraged into health-enhancing cycling and walking (and facilitated public transport). With an estimated 100,000 annual UK deaths from physical inactivity (Walker, 2021), as well as expensive morbidity problems, transformative change might bring a substantive and rather wide-ranging positive impact. Such potential seems to justify further research into the hybrid working consequences of competing policy scenarios

– such as KMFs with and without statutory hybrid working rights; and LMFs with substantial workplace democracy (and/or employee ownership).

Plentiful evidence indicates that productivity and well-being can also be increased by reduced working time such as a four-day week, complementing work-sharing to reduce both under- and over-employment but is resisted by KMFs and their political representatives. Contrasting with coexisting UK underemployment (8% of those aged 16-64) and a high economic inactivity rate (21%), 10.24 million (roughly a third of the working population), want shorter hours, though mostly without pay reduction. This may be feasible (Barnes, 2020; Coote et al., 2020; Spencer, 2019, 2022), as a result of the productivity gains from worktime reductions. According to *The Guardian* (2021), UK full-time hours are longer than the EU average and, "A four-day week would reduce those hours, but investment is also needed to ensure that productivity gains follow". The goal of a four-day week, though opposed by KMF employers, has emerged as a new focus for labour which may yet rise to match the salience of the eight-hour day a century and more ago – especially with more LMFs, workplace democracy and/or employee ownership. Growing evidence exists of both increased productivity and job satisfaction with a four-day week in many contexts – see, for example, *The Guardian* (2023). Largescale trials of a four-day week in Iceland, have been described as "an overwhelming success" (Autonomy, 2021).

B. CEO pay and maximum pay.

However, nationwide adoption of a four-day week without extra overtime hours would almost certainly reduce output or GDP, so inflated managerial salaries, capital income and other top incomes would have to bear the brunt of cuts to ensure that a majority benefits, strengthening the case for a maximum wage as a (small) multiple of the minimum or median (Pizzigati, 2018). According to Mishel and Wolfe (2019), the ratio of CEO to median worker pay in US KMFs rose from 20-1 in 1965 to 278-1 in 2019, CEO real pay rose by 940% since 1978, while typical worker compensation rose by a paltry 12%. The UK High Pay Centre (2022) found a

CEO/median employee ratio of 63:1 in Q1 2022, with median FTSE 100 CEO pay of £3.4m in 2021. It also reported that polling shows strong levels of public disapproval for current CEO-to-worker pay gaps – an added justification to consider policy initiatives to reverse sustained trends of increased income inequality. A ratio of 5 or 6 to 1 for top to median income, as in the successful Mondragon worker co-operatives (NYT, 2020), would have a major impact on burgeoning inequality but probably limited effect on motivation and work effort. To implement maximum pay, widespread employee ownership, and higher minimum wages, would probably be more effective than legislative attempts to curtail KMF power.

C. Resilience in coping with difficult times.

The Covid-19 pandemic and subsequent energy price inflation has threatened many, particularly smaller, businesses. The urgent need for government support presented an opportunity for democratic restructuring and subsidised employee buyouts and start-ups (Dow, 2018, 2003; Groot and van der Linde, 2017). Employee incomes could have been stabilized, and default risk reduced, with non-voting equity or variable-interest debt. Unfortunately, this policy opportunity was largely missed – although it should be kept in mind for future crises.

When demand declines, work-sharing with shorter work time for most employees can reduce job-loss and unemployment – and this would be particularly attractive to those who are more risk-averse. Although far from universal, recent examples include response to the Covid pandemic (Giupponi and Landais, 2020), and to the 2008 recession in Germany (Brenke et al., 2011). These arrangements do not require employee ownership but are likely to be optimised in LMFs. Worker bargaining power in KMFs can also be enhanced by co-management, with board level worker representation (Palladino, 2022) or 'voice' at the workplace via works councils (both mandatory in larger firms in Germany), as well as by collective bargaining, and a universal basic income (UBI) (Reed et al., 2022). If sufficiently generous, the latter could facilitate mobility, increase individual bargaining power, and improve average worker-job match over time, as well as obviously alleviating poverty and the effects of fluctuating and uncertain earnings[13]. Piketty (2022) proposes 'democratic socialism' for large firms with half of the management board consisting of employee representatives but does not specify how a tied vote would be resolved.[14] These approaches should aspire to achieve the efficiency of the LMF where workers or their representatives themselves can directly implement their optimal effort-reward trade-off.

D. Potential to ameliorate privilege and poverty?

Proponents of 'stakeholder capitalism' for KMFs neglect the role of investor limited liability, in enabling systematic environmental destruction whilst targeting increased shareholder returns, as documented in depth by Bakan (2020) and Whyte (2020). The combination of limited liability with shareholder primacy or exclusive control rights for KMF owners could be seen as a toxic legacy of privilege from the unconstrained past rule of capital. A desire to rid ourselves of such a legacy strengthens the case for LMFs. Such reform could be supplemented by a UBI (Standing, 2020), together with full-employment fiscal policy in a green new deal (GND), and a complementary job guarantee package that builds in both the living wage and comprehensive training for the unskilled.[15]

Other adverse aspects of the current UK situation should at least provide further impetus for further research into workplace democracy, labour-managed firms and employee ownership. Poverty is widespread even in working families and is strongly associated with mental and other health problems (Tinson, 2020). Child poverty has risen under austerity to around 30%, the highest rate in western Europe, and more than double the rate in Denmark and Finland. Damage

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[13] Empirical evidence for the benefits of a guaranteed income is provided by the Stockton (California) Economic Empowerment Demonstration (SEED) trial, 'the nation's first mayor-led guaranteed income demonstration'.
https://phys.org/news/2021-03-income-employment-financial-physical-health.html
A public sector job guarantee could complement – and reduce the cost of – a UBI to eliminate poverty and unemployment (FitzRoy and Jin, 2018).

[14] In German 'Mitbestimmung' or co-management, capital owners' representatives have the decisive, tie-breaking vote on management boards with equal numbers of capital and labour representatives. Ferreras (2017) refers to a similar scheme as 'economic bicameralism'.

[15] See for example Armstrong, 2017; FitzRoy and Jin, 2018; FitzRoy, 2019; Rivkin, 2019; Standing, 2020; Stirling and Arnold, 2020.

in childhood has lifetime negative consequences (JRF, 2022; Taylor-Robinson et al., 2019). Given that the UK retains a dominance of KMFs, and a low degree of workplace democracy, it might be worth considering whether reform towards LMFs and employee ownership might improve the situation from the *status quo*. In fact, there has been rapid recent growth (in relative terms) in employee ownership and self-employment, although the 1650 employee-owned businesses in the UK still only represent 0.7% of total employees (WPI Economics, 2023). Solo self-employment may be around twenty times larger in scope, but often suffers from uncertain hours and lower pay[16]. The ~~lack~~absence of discussion of these potentially negative aspects of a form of employee ownership in the reviews by Mygind and Poulsen (2021) and Kruse (2022) is indicative of a gap or imbalance in that area of the literature.

6. *Conclusions*

Mygind and Poulsen (2021) (and Kruse (2022)) have made a strong case for employee ownership, and we have added various supporting arguments here. We also highlight the related benefits from easier-to-implement residual sharing and participation in management, which do not depend on redistribution of wealth and risky investment by workers. KMFs enjoy growing market power under weak regulation, particularly in the UK and US. Meanwhile, union bargaining power and labour rights have been eroded under four decades of neoliberal policy with shareholder primacy in most advanced economies apart from the Nordics, and LMFs remain rare. Given a long history of productivity and welfare benefits from profit-sharing, employee participation and ownership, capital owners' exclusive claim to residual income and control in KMFs is inefficient, inequitable, and undemocratic.

[16] Note that employee-owned firms are obviously LMFs, but the latter need not be (entirely) employee owned but can be financed by debt and /or non-voting equity capital. See also footnote 15 above.

Declining labour power has contributed to growing inequality, discontent, and authoritarian populism in reaction against global KMF domination. This has allocated most benefits of growth and trade to a small minority of the rich and super rich, at the cost of stagnating wages for most workers, plus ongoing climate and environmental degradation (Adler, 2019; Chomsky and Waterstone, 2021). We make the case that a non-voting, contractual share of residual income or flexible rental for capital owners could ensure workplace democracy and efficient risk-sharing without expropriation, while preserving entrepreneurial freedom.

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