**Workplace Democracy in a New Age of Capitalism?: Why Investors Should Take Notice**

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*Introduction and Context*  
One of the most striking quotes about the enduring and dominant nature of capitalism is that it is “easier to imagine the end of the world, than it is to imagine the end of capitalism.”[[1]](#footnote-2) Capitalism’s ability to adapt and re-invent itself in response to various crises has frustrated its most ardent critics. While each crisis has threatened to overturn the system, a new system still broadly falling under the broad umbrella of capitalism emerges. The biggest example is perhaps the New Deal in 1930s United States as a response to the Great Depression, which was underpinned by the desire to maintain the system in the long run.[[2]](#footnote-3) This kickstarted the dominance of social democracy, symbolised by the welfare state, which itself faced crises of inflation and unemployment in the 1970s, paving the way for contemporary neoliberalism. Contemporary times, reeling from the effects of the 2008 Financial Crisis, has thrown up yet more hurdles for capitalism, as the valorised union between capitalism and democracy in liberal democracies seems to under a severe crisis of legitimacy, and environmental limits pose significant questions to the core tenets of capitalism.[[3]](#footnote-4) Given the current trajectory of unyielding increases in income and wealth inequalities and global temperatures, it appears evident that the current socio-economic system is unsustainable. It appears evident that investors who are looking long-term can no longer bank on traditional strategies, and must anticipate changes and act accordingly.  
  
How, or in which direction, will capitalism attempt to adapt to respond to this challenge? Responses have ranged and varied[[4]](#footnote-5), but one increasingly popular approach is to restructure the firm[[5]](#footnote-6) and give workers a greater share of the capital. In its highest and purest form, this represents a workplace democracy where the ownership of capital is spread equally amongst the workers, therefore ensuring equal control of the firm and non-hierarchal relationships. Greater and more convincing evidence is emerging showing that workplace democracies not only are economically resilient in the face of crises, but have significant positive knock-on effects. The task of this paper is to elucidate what workplace democracies are, what its benefits entail, and why investors should pay special attention to this form of workplace organisation. Most of the data in this paper are gathered from academic sources, including scholarly case studies of workplace democracies around the world.  
  
*What are Workplace Democracies?*  
Workplace democracies exist in various different forms and organisations, but exhibit important similarities and aspire towards similar goals. Case studies in the scholarly literature on workplace democracy show that while workplace democracies inevitably differ in scope and extent, they exhibit roughly two primary features - the equal and shared access to capital and the institutionalized democratic participation in decision making. This means that there is worker self-ownership and self-management, where the workers collective decide the direction of the firm and other important details. Workers participate in the deliberative process of the firm, and have unrestricted avenues to not only voice their concerns but actively steer the direction and policies of the firm.  
  
This differs from the traditional structure of the firm, which philosopher Elizabeth Anderson describes as “private government”, where property and decision-making is confined to a particular section of the firm, and the “owners” of the firm are not the ones that work within the firm.[[6]](#footnote-7) The property and produce of the firm is not owned by the workers, but instead belongs to an external force that does not contribute to the production process, the shareholders. This creates power asymmetry in governance, regulation and the firm’s direction, and Anderson argues that workers are ultimately subject to the arbitrary will of the property-owning employers. For example, as described by political scientist Alex Gourevitch, workers can get fired for getting into relationships or other personal matters with those the shareholders disapprove of, or also could be effectively forced to work for longer hours or for less pay due to insecurity around losing their job.[[7]](#footnote-8) The inherent social, psychological and economic exit costs that come with exiting a firm are not accounted for, and workers having no share of the capital are in a weaker bargaining position. The power imbalance is greatly on the side of the capital owners, who exert their dominance through professional managers or “bosses”, in a steeply hierarchal organisation. Workplace democracy therefore emphasises the workers’ right to collectively participate in the decision-making in these areas instead, and bring democratic principles and institutions to places outside political institutions. Workplace democracies still retain many characteristics of conventional firms, for example still needing to generate profits to survive.

The specifics of how these workplace democracies are structured differ, and there is no one ‘true’ structure of a workplace democracy. They consequently each exhibit different strengths and weaknesses, as the principles are adopted to differing degrees. There are however, flagship examples. Mondragon Corporation in the Basque region in Spain is frequently cited as the success story of workplace democracies, being the tenth-largest company in Spain and employing over 70,000 people across different sectors. The company is completely worker-owned, as shares of the company are split evenly across the workforce.[[8]](#footnote-9)  
  
*Why Workplace Democracies?*  
The benefits of workplace democracies can be split into roughly two categories. Firstly, benefits of the structure itself, as a more democratic organisation is by itself ethically just, or manages to correspond more to the values like freedom or equality. Ferreras and Landermore argue that if we take democracy to be the just form of political organisation in states, then we should apply that standard to other forms of organisation in society, including the workplace.[[9]](#footnote-10) Various scholars argue that workplace democracy increases the republican freedom of workers, as they ensure there is no arbitrary domination by capital owners.  
  
This paper however, instead focuses on a separate type of benefit. There has been literature showing the practical benefits of workplace democracies, in helping workers developing several positive norms or behaviour. Perry shows how workplace democracy can help reduce racial and ethnic prejudices and divides by removing the division between management and workers in task-designing, allowing for more interaction between workers of different races and ethnicities.[[10]](#footnote-11) This clarifies and eliminates existing prejudices in the decision-making process, resulting in workers having less a discriminatory attitude towards other races and ethnicities. Palladino’s study also shows how increased worker ownership of shares helps to address the great disparity in share ownership between races in the United States today.[[11]](#footnote-12) Sobering’s study focuses on gender, where she observed a shift in gendered organisational practices in Argentina.[[12]](#footnote-13) She cites that while the structure of workplace democracy does not render gender irrelevant, it instils and cultivates a more meaningful and informed gendered practices. This is made possible as workers from different genders are allowed to discuss and participate in decision-making in a workers’ assembly, and are hence able to communicate their gendered concerns with each other. Piñeiro's has investigated workplace democracies in Venezuela, finding a “very strong connection between degrees of each cooperatives’ workplace democracy and its members’ collective consciousness”, where workers viewed “the interests of others in the participatory community as their own”.[[13]](#footnote-14) His study finds that the “degree of members’ solidarity towards the local communities where they are located (their local social consciousness) is significantly tied to the level of workplace democracy in their cooperatives.”   
  
The reflections given by the workers in Piñeiro’s study are worth reading, as they detail the self-transformation workplace democracies bring to them. One member of a workplace democracy said that this organisational structure made her “feel like a better human being. The cooperative changed [her] life. Before [she] was afraid to talk to people, now [she] even gives [her] opinions to [her] husband and feel more secure when [she] run[s] errands.”[[14]](#footnote-15)  
  
There are also practical effects on the economic lives of workers. Flagship workplace democracy Mondragon Corporation in Spain has strict wage regulations that goes through periodic democratic processes. The ratio between the pay of executive workers and field or factory workers averages around 5:1, though for most workers, this ratio is even smaller because there are few Mondragon worker-owners that earn minimum wages as most jobs are more specialized and are classified at higher wage levels.[[15]](#footnote-16) This curbing of economic inequalities is also closely correlated to curbing climate change, as multiple studies have found that in terms of consumption it is the wealthiest slices of societies that by far cause the most carbon emissions.[[16]](#footnote-17) Additionally, Alves finds that workers in workplace democracies in Uruguay have stronger job security.[[17]](#footnote-18)

There has also been scholarly attention on whether these normative benefits can spread beyond the workplace and benefit society in general. This is known as the “spillover hypothesis”.[[18]](#footnote-19) The basic logic behind the spillover hypothesis is that the workplace can work as a “training ground” for larger societal democracy, where the worker learns and practices participative practices in the workplace, as well as positive norms and behaviour. He proceeds to internalise these norms and practices, and applies them outside of the workplace as well. This could eventually spillover and help build a democratic society overall. Miller, for example, argues that because the worker consistently deliberates about the consequences of his actions, it creates a “moderating” and “moralizing” effect. This makes participants of a workplace democracy assume a more “public role”, excluding choices that are regarded as “narrowly self-regarding” and “repugnant to the moral beliefs of their society.”[[19]](#footnote-20)  
  
There exists healthy empirical evidence backing the spillover hypothesis. Timming and Summers’ study of workers in 27 European countries show that workers’ participation in workplace democracy enhances their perception of democracy, trust in political institutions, and commitment to democracy, and thus contributes to a “readiness to engage with democratic governance at the societal level.”[[20]](#footnote-21) Piñeiro’s study found that 56.5 percent of workers surveyed in his study felt that they had better relations with their neighbours after joining the workplace democracy.[[21]](#footnote-22) His study concludes that while the spillover effect is not as strong as the effect within the workplace itself, economic exchange between workplace democracies can help bring us towards a society built upon “democratic, egalitarian and solidaristic principles.”[[22]](#footnote-23) Pateman's influential study on workplace democracies in Yugoslavia found that workers had greater political efficacy, defined by trust in government and their belief that they can understand and influence political affairs.[[23]](#footnote-24)  
  
In the contemporary period where there exists considerably large income inequality between capital owners and workers[[24]](#footnote-25), as well as a large income gap between genders[[25]](#footnote-26) and races in certain communities[[26]](#footnote-27), workplace democracy could provide a possible panacea to these ills. Adopting the practices of workplace democracy could ensure that the firm is sustainable in the long run, by ensuring capital owners or shareholders are not solely focused on their short-term financial returns and ignore the worker dissatisfaction or racial and gender prejudice that could return to hurt the company in the future. They could already be hurting the profits of the company, as various studies have shown how firms with lower gender diversity for example performed relatively poorly financially.[[27]](#footnote-28) These principles shares similarities and could dovetail the trend of the growing number of companies practicing credible stakeholder engagements or dialogues, to ensure that the shareholders of the companies are not insulated from the interests and knowledge of workers and the community at large. If the spillover effect leads to a strengthening of civil rights and freedoms in the community, this could in turn lead to greater economic gains. A 2018 study found “clear evidence” that economic growth and the protection of civil rights at strongly correlated, arguing that "engagement makes business sense when civic rights are under threat, as means to ensure economic growth and better outcomes for people.”[[28]](#footnote-29)  
  
Moreover, studies show that workplace democracies are more resilient in the face of economic crises as compared to non-workplace democracies. Bajo and Roelants’ study found that worker co-operatives, an important form of workplace democracy, were more resilient in the face of the 2008 Financial Crisis.[[29]](#footnote-30) They studied four different worker co-operatives in four different countries, including the aforementioned Mondragon Corporation. They found that due to the larger numbers of people in the critical decision-making process, they have fewer problems with perverse incentives and are less likely to be lead to debt traps. They conclude that "cooperatives tend to have a longer life than other types of enterprise, and thus a higher level of entrepreneurial sustainability. In [one study], the rate of survival of cooperatives after three years was 75 percent, whereas it was only 48 percent for all enterprises... [and] after ten years, 44 percent of cooperatives were still in operation, whereas the ratio was only 20 percent for all enterprises.”[[30]](#footnote-31) This long-term entrepreneurial sustainability is certainly desirable, and will be elaborated on in the following section as the paper considers the implications for investors. Others have argued about the increased efficiency of workplace democratic practices, stating that “[p]articipation is not only more desirable, it is also economically more viable than traditional authoritarian management. Econometric measurements indicate that efficiency increases with participation.”[[31]](#footnote-32)  
  
This paper is aware that there exists competing evidence to the claims presented here, and by no means wants to give the impression that there is some form of “smoking gun” evidence in favour workplace democracy. Claims of normative benefits and the spillover hypothesis have to be validated by empirical studies in the social sciences, and it simply in the nature of the field that evidence is rarely one-sided and straightforward. While this author sticks by the general argument behind the large benefits of workplace democracy, it is beyond the scope of this paper to address counter-arguments. This paper’s main aim is to address investors, and reasons why workplace democracies and their potential rise would be of interest to them.  
  
*Implications for Investors*  
A glaring observation that investors reading this might notice is this - if all the shares are owned by workers within the company themselves, what place does this leave for investors? There are no shares left for investors to purchase, and no method to inject capital into projects like this. Nevertheless, if the foresight of this author is correct, there will be a trend towards proliferation of partial workplace democracies, that have some practices that resemble workplace democracy, as the next evolution of capitalism. It is these partial workplace democracies that might be of interest investors, and what the rest of this paper will be referring to.  
  
Examples of partial workplace democracies include the concept of a “holacracy” has been taken up by retail company Zappos. The concept stresses a flat management structure, where there are no traditional “bosses” and decisions are made by the relevant personnel, and not infringed on by others in the company.[[32]](#footnote-33) There are explicit ‘rules of the game’, perhaps comparable to the constitution of a nation-state, that all in the company must follow. Holacracy advocate Olivier Compagne states that “[s]eeking people’s consent or reaching consensus is not the required threshold for decisions to be made in a Holacracy governance meeting, and the rules of the game will prevent much of that from entering the picture at all, or quickly discard it when it does.”[[33]](#footnote-34) Holacracy does not directly correspond to a perfect workplace democracy for several reasons, one being that it leaves out the question of the actual ownership of the shares or capital (a curious fact is that Zappos is still owned by retail giants Amazon) and therefore does not ensure that workers have shareholder control over important decisions. Nevertheless, it has in its internal governance structure practices that resemble a perfect workplace democracy more than that of a conventional firm, like a flat hierarchal structure that emphasises worker self-management. This allows it to reap some of the benefits of workplace democracy.  
  
Another example is profit-sharing systems like in Swedish bank Svenska Handelsbanken, who have a employee-owned, profit-sharing foundation named Oktogonen. Oktogonen own more than 10 percent of the bank's shares, making it the largest owner. If the bank is found to show better results than its peers, a provision is made to the foundation, and therefore the profits are shared by the employees. While this of course is in many respects insufficient to be called a workplace democracy and has seen setbacks in recent times[[34]](#footnote-35), the benefits are evident. The organisational model has created a strong, “cult-ish” loyalty culture within the staff[[35]](#footnote-36), thereby ensuring not just that the staff will put in more effort for the firm, but that they will be less tempted to leave in times of crisis. This loyalty culture also mirrors the “collective consciousness" mentioned in the previous section, and it would not be surprising if the same benefits were achieved.  
  
Indication of politics swinging towards encouraging partial workplace democracy have already sprung up in industrialised countries. Senator Elizabeth Warren introduced a bill in 2018 to [give workers the right to vote](https://www.congress.gov/bill/115th-congress/senate-bill/3348) for forty percent of all corporate board seats, with a companion bill in the House by Representatives introduced by Ben Ray Luján of New Mexico. Senator Tammy Baldwin of Wisconsin introduced a similar bill that would entitle workers to elect one-third of the seats.[[36]](#footnote-37) The Labour Party in the United Kingdom has also proposed policies that move in this direction, proposing that large firms set up “ownership funds” that allows workers to own a slice of the shares of the firm.[[37]](#footnote-38) These firms are to introduce new shares which are to be collectively owned by the workers, diluting the existing shares. This is perhaps unsurprising given that economic inequality is an unprecedented levels in these societies, and partial workplace democracy could be introduced to temper these inequalities. While it might be overly optimistic to expect a proliferation of full workplace democracies in the near-term future, ideas to institute policies to create partial workplace democracies are already in place or are at least on the political agenda. There might be opportunities for investors to invest in these partial workplace democracies, and this paper suggests they do so for two reasons. Firstly, this encourages and supports the spread of this form of workplace organisation, which if the spillover hypothesis holds, will encourage the spread of democratic norms, ideas and practices. This should perhaps make our communities more vibrant, and increase the solidarity in our communities. A more equal distribution of shares would start to rebalance the highly unequal share ownership found in many countries today. Palladino finds that as of 2019, nearly “50 percent of American households own some stock, though only 14 percent directly own stock. Forty-six percent of Americans own stock indirectly, though a pension account (46.6 percent), mutual fund (9.8 percent), or trust fund (3.9 percent). But only 37 percent of households have total stock holdings over $5,000, and only 25 percent have holdings worth over $25,000.”[[38]](#footnote-39)  
  
Secondly and perhaps more importantly to investors, investors will want to consider investing in partial workplace democracies to capitalise on the practical benefits that this form of organisation brings. As shown in the previous section, companies that have democratic practices and policies are more resolute in the face of economic crises, and look towards the long-term. With the increasing attention on income and gender inequality, climate change and other structural issues, companies that seek to maintain organisational governance structures that exacerbate these problems might be in for a rude shock. For example, with the looming threat of climate change, several analyses, for example from left-wing think tanks in the United Kingdom, have pointed to workplace democracy as part of a Green New Deal. They argue that by democratising investment, private fossil fuel giants like Exxon would be unable to proceed the way they have before.[[39]](#footnote-40) Given that investments in traditional, non-renewable fossil fuels have been unprofitable, as seen by Blackrock's recent 90 billion USD loss[[40]](#footnote-41), and recent scholarship showing that much of the profitability of these companies rely on explicit or implicit government subsidies that are coming under greater public scrutiny[[41]](#footnote-42), it would seem that private fossil fuel companies are unsustainable long term investments. With the political winds blowing towards increased worker ownership of funds or profit-sharing initiatives, investors might want to consider changing track and looking away from traditional companies under threat from these changes and looking towards more sustainable alternatives. Partial workplace democracies fit this profile, given the reasons listed above.  
  
Moreover, if future trends point towards companies incorporating these democratic practices within their organisational and governance structure, companies that resist this trend could be showing that they are inflexible and are unwilling to adapt. This should alert investors interested in the long-term health of the company, as it shows inflexibility not associated with steady financial health.  
  
*Concluding Remarks*  
This paper has sought to explain what workplace democracies are, how they impact workers within them and community around them, and why investors should pay attention to them. What is worth highlighting at this point is that while the principles of workplace democracy remain valid and beneficial, not all cases are the same and their effects vary. It is important for investors to understand the socio-economic and political context of the community the partial workplace democracy is based in, and perhaps some of the history or internal mechanisms within the company. Nevertheless, the weight of the evidence behind the benefits of workplace democracy is impressive and substantial, and any company moving in this direction deserves commendation for its boldness and possible foresight.  
  
The analysis of this paper is based upon the historical context of contemporary capitalism coming under threat from climate change, income inequality and political uncertainty. While scholarly attention seems to have focused on the changes in the macro-economic structure, micro-economic changes have been underway as well. While previously shareholders were considered the only relevant parties a firm had to pander to, increasingly stakeholders have had more voice in the firm’s direction. If the next step is an institutionalised change in the governance structure of firms, democratic workplace practices could be in vogue sooner than expected. With the various benefits described in this paper, investors might not want to slouch any longer and begin to take notice.

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2. Robert Heilbroner, “The Worldly Philosophers: The Lives, Times and Ideas of the Great Economic Thinkers” *Touchstone*, 7th Revised Edition (1999). [↑](#footnote-ref-3)
3. Wolfgang Streeck. "The Crises of Democratic Capitalism." *New Left Review* 71 (2011), 5-29; Wolfgang Streeck. “How Will Capitalism End?” *New Left Review* 87 (2014). [↑](#footnote-ref-4)
4. For one other example, that has unfortunately been largely confined to academic rather than public discourse, see steady-state economics. For example, in Herman E. Daly, “Economics, Ecology, Ethics: Essays Toward a Steady-state Economy”, *San Francisco: W.H. Freeman*, 1980. [↑](#footnote-ref-5)
5. I will use the terms firm, company or corporation interchangeably in this paper, as it does not affect my analysis. An overview of some of the proposals to introduce more workplace democracy will be elaborated on later. [↑](#footnote-ref-6)
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