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rather start by giving a few examples to illustrate why and how the issue of workers' control has become so relevant in recent class conflicts all over Europe, and also to show why long drawn out struggles for control have never and nowhere led to complete success.

There were times when the working class could act on the assumption that there were heaps of ready cash in the bosses' safes or the corporations' banks. Traditional union action rested on the hypothesis that the employer, if pressed hard enough, will eventually give in and grant higher wages and better working conditions. Traditional working class action assumed the corporation's finances and the system as a whole to be flexible. But this assumption no longer holds true. Flexibility has been organized away and replaced by rather rigid planning of all the factors on which production depends. Thus :

- the quickened pace of technological innovation calls for advance planning of the corporation's future investment;
- the greater weight of fixed capital compels long term financial planning of amortization, depreciation, reserves and financial costs;
- increased international competition forbids unforeseen higher costs to be offset by higher prices;
- rigid financial planning also calls for rigid predetermination of labour costs.

This overall rigidity of modern management policies tends to jeopardize the traditional bargaining power of labour unions. Wages nowadays tend to be predetermined; and not only wages, but also the working process itself. Therefore, management tends to react very sharply to unforeseen wage demands that would jeopardize the corporation's financial planning. Unplanned wage demands tend to be considered as a direct attack on the logic and the balance of the capitalist system. Both management and the State tend to fight such demands by accepting a trial of strength and head on clashes with the working class.

Of course, if we fight hard enough, we can force the corporations to give us a little more than they would like; we can temporarily throw the capitalist system out of balance and make small inroads into the plans and the profits of corporate capital. But experience has taught us that this kind of success can be temporary only. Within a relatively short time, one of two things will happen :

(a) capitalists may consider that the profits which the new wage rates leave are not attractive enough and that they, the capitalists, have not sufficient power to take away from the working class what it has just won. In such a situation, the bourgeoisie will close down plants, fire part of the workers, organize a recession : capital will go on strike and wait until the working class is sufficiently weakened to become submissive again.

(b) the alternative to this extreme solution is more common : within a relatively short time, capitalists will restore what they consider to be attractive rates of profit taking away at least part of the wage increases which were won.

There are various ways of taking them away. For example :

- rising prices will reduce real wages;
- work will be intensified and part of the workers laid off ;
- those who remain will have to work faster and harder;
- the work process will not only be increased, it will be "rationalized", which means : new equipment will be installed, skilled work will be replaced by unskilled work, the evaluation of skills and of jobs will be made according to new criteria.

In a word, workers will be made to pay dearly and heavily for their increased wages. Their subjection to the so-called scientific organization of the work process will become more and more rigid.

As you know, the new time and motion measuring systems break down the act of working into minute motions and don't allow for individual variations in work speed, nor for any kind of individual bonuses of any importance. Wage rates are negotiated when the system is introduced and are not open to revision. Management is intent on making long term deals with the union and on using the union as a kind of police that will see to it that the workers fulfill their part of the bargain. Wage increases are planned in advance as part of the deal and shop floor rebellion against working conditions tends to be answered by lock-outs.

Thus scientific management is closing the trap on the workers. We are now finding out that in the past the process had an artisan quality to it : work speeds and piece rates could be tampered with to a certain extent. But no longer. Management policy has become global and so has the subjection of the workers. Working conditions tend to be rigidly predetermined and cannot be influenced any longer by individual meddling.

Workers thus will remain at the complete mercy of despotic and arbitrary managerial decisions unless they win sufficient power on the factory floor to refuse new work speeds, new definitions of skills and of rates : unless, in other words, they win direct power over the work process. That is what workers' control is mostly about, at first sight. We need control over the working process in order to prevent managements from taking away from us with one hand what they grant with the other hand. We need control, of all, for strictly economic reasons, so as to counteract the power of management to impose more and more exhausting work and deteriorating working conditions in exchange for some meager wage raises. But if this is so, then it also must be quite clear that the struggle for control will be even fiercer, even more merciless

than the struggle for wages. The struggle for control, even more than the struggle for increased wages, aims at checking the profit which capital can make on labour. Therefore management will fight demands for control with all overt or covert means. In the same way as management will grant higher wages when they can't help doing so, only to try and take them away at a later stage, in the same way management may grant, at certain moments, powers of control only to try and destroy these powers at a later stage, either by force or through manipulation. Control is not something that can be won once and forever. It is something which, once won even partly, will have to be defended in ceaseless fierce battles, or lost again. Genuine workers' control is something intolerable to capitalist management, however enlightened it may pretend to be, because genuine workers' control attacks the very source of domination and exploitation of labour by capital.

An important point, for the moment, is to emphasize that the struggle for workers' control is of necessity an extremely bitter struggle which cannot be won and which cannot even be waged within the traditional frame work and ideology of the Unions.

To make this point clear, I'd like to submit a few critical considerations about the history and the limitations of the Union movement. Originally, the Unions developed out of the workers' need for self-defence and self-organization. At their beginnings, when they were still genuine organs of the workers' self-organization, Unions tended to be quite radical. We still witness this radicalism wherever a new Union is built up from scratch through the initiative of rank and file militants. This happened in recent years in Detroit with the DRUM and the Revolutionary Black Workers' League.

This type of revolutionary and politically radical union movement, however, has become something exceptional. Overall, the big national Unions everywhere are nowadays institutions who see it as their task not to overthrow nor even to question the capitalist system, but to defend the interests of the working class within the frame work of the capitalist system. This change of attitude, of course, can be historically explained: for decades, there was no concrete prospect for a proletarian revolution in the West. The working class proved incapable of overthrowing the system. Top union leaders understandably felt that it was pointless to insist on revolutionary demands that could not be pushed through in the absence of a revolutionary situation. Though some of them did not completely discard the hope that such a situation might arise again, they thought it was realistic in the meantime to fight for things that could be won right away, such as better wages and some improvements. The intelligent capitalists openly or discreetly encouraged this realistic attitude: bargaining over demands is cheaper than fighting over them. Fundamentally, then, corporate capital became reconciled to the existence

of labour unions and showed willingness to recognize them officially, but on two conditions:

1. Unions must voice demands only that are realistic, that do not call capitalism into question, that are negotiable.
2. Once an agreement has been bargained out, unions must stick to it and prevent the workers from breaking it.

Wherever these two conditions have been accepted, labour unions have turned into permanent institutions holding legal rights and responsibilities: they have become permanently structured and therefore hierarchical and bureaucratic organizations; they hold tremendous bargaining power, but they also hold the power to discipline and to police reluctant workers. As institutions holding institutionalized power within the capitalist state, union bureaucracies of course showed less and less inclination to jeopardize their self-interest by stimulating demands and aspirations that are incompatible with the logic and the power structure of the capitalist system. Demands that could not be won by bargaining and by juridically defined forms of action, were considered pointless. Demands that have no chance of being accepted by capitalist managers were thus eliminated from the outset. They were eliminated because top union leadership would not engage in risky and losing battles. Realism thus led union leaders to translate all demands that sprang up from the rank and file into propositions that would prove acceptable and negotiable by the representatives of Capital. The objective function of labour unions has thus become a function of ideological and political mediation.

Union leadership has become a conservative force.

Now, the question which we must ask ourselves is: can this type of centralized and bureaucratized unionism wage an effective struggle for workers' control? The answer to this question is an apathetic "No". Labour unions that feel responsible for discipline at work; labour unions that feel responsible to the capitalist managers for keeping the factories going; labour unions that commit themselves not to resort to strike action as part of the bargain they have entered; in one word labour unions that behave as institutional mediators within the capitalist society, are inherently incapable of leading an effective struggle for rank and file demands for control — except if control itself can be institutionalized and controlled by and subordinated to regulations that will make it ineffective. This is a point which has been well documented in Western Europe as well as in the United States.

Of course, some people will object that the labour unions' leadership has become conservative and timid only because the working class itself is apathetic. Union bureaucrats everywhere, including my country, like to assert that the masses would not understand and accept a more

aggressive and combative union policy. Facts prove these assertions to be false. The truth is that the bureaucratic machines of institutionalized labour unions are very much afraid to lose control over the working class since the unions draw their institutional force and bargaining power from their ability to keep the labouring masses under control. Most top union leaders are frightened at the wild and uncontrollable demands and outbursts that would explode from the rank and file if the workers were free at any moment to gather and to discuss and decide what their grudges are, what they wanted to do about them and how. And this is precisely what would happen if genuine workers' control were fought manently from below without control and mediation from above.

At present and as long as the centralized and bureaucratic structure and organization of the big unions will persist, it is practically impossible to know how the working class really feels about its condition in the factories, offices and in society. The impressive number of wildcat strikes which have been developing in recent years do however point to the fact that an untapped potential of combativeness and of radicalism exists, a potential which the traditional structure of labour unions tends to repress. Let me give you a few examples of this.

In Great Britain, e.g., more than 80% of all strike actions in recent years were wildcat. These strikes were and are called by shop stewards, not by the unions themselves, on issues relating to wages and to workers' control. Some people of course will say that these issues are always specific and do not prove great radicalism and class consciousness. Quite true: after all, more than half of the British working class vote Conservative.

The question we must ask, however, is: what political and class consciousness would the working class have if their national organizations were as democratic and as aggressive as the elected and revokable militants on the shop floor? We have no idea about this, but there is an interesting story which I'd like to tell you about the dangers of taking so-called working class apathy at face value.

In the early '60's, a British professor of sociology by the name of Goldthorpe made an extensive investigation of the Vauxhall workers at Luton. He wanted to find out what class consciousness they had left, how they felt about their work, about wages, about life generally and what chances there were that acute conflicts should break out in a well-managed and advanced factory. Professor Goldthorpe had about 80% of the Vauxhall workers interviewed individually. His investigation lasted two years. His conclusions were very optimistic: he found the Vauxhall workers to be completely integrated into the system. They had, so he said, no deeply felt grudges. They were rather satisfied with their wages.

They neither liked nor disliked their work; they looked at it as a rather boring but inevitable part of their life. They didn't want to give it much thought. Their general attitude towards work, according to Professor Goldthorpe, was to perform it so as to get rid of it; they wanted to forget about it at the end of the working day, to go home, to watch television, to grow vegetables in their garden, to fiddle around in their homes. Their working life was rather marginal to them and what really mattered to them, was their life at home, which was their real life.

Therefore Professor Goldthorpe concluded that class consciousness was practically non-existent at Vauxhall's, that the workers were behaving according to middle class patterns and that class struggle belonged to the past.

The Goldthorpe report was still at the printer's when a few militants got hold of a resumé of Professor Goldthorpe's conclusions. They had this resumé mimeographed and handed out a few hundred copies. A week or so later; the Daily Mail printed a report about the profits that had been made by Vauxhall. The net profit for that year amounted to about £900 on each worker, and this net profit had been sent back to General Motors in the U.S.A. This piece of news also was circulated among the workers. The next day, something happened which the Times reported as follows:

"Wild-rioting has broken out at the Vauxhall car factories in Luton. Thousands of workers streamed out of the shops and gathered on the factory yard. They besieged the management offices, calling for the managers to come out, singing the 'Red Flag' and shouting 'string them up'. Groups attempted to storm the offices and battled the police which had been called to protect them." The rioting lasted for two days."

Now this is what happened in an advanced factory where the union was strong and where 80% of the workers had been interviewed and been found to lack class consciousness. What does it all mean? Does it mean that Professor Goldthorpe was stupid? It certainly means that Goldthorpe made a major mistake: he interviewed each worker separately and found each worker to be individually resigned to, if not reconciled with, his condition. And then he concluded that all these thousands of individual resignations made for a collective apathy. And then something happened which he had not thought of: all these workers who had said individually "that's how life is, there is nothing much that can be done about it", all these workers started to discuss things among themselves. They started to discuss them because the conclusions of Mr. Goldthorpe were circulated in the factory. And as they discussed things, they found out that all felt alike: they felt apathetic but frustrated; they were apathetic because, as individuals, in their individual isolation and loneliness, no one could do anything to change things. But when people

start talking about their loneliness, their frustration, their powerlessness, they cease to be isolated and powerless. They start melding into a group which holds immeasurably greater power than the added up power of all those who compose it.

In other words, it was the very investigation of Mr. Goldthorpe about the lack of class consciousness which helped tear down the barriers of silence and of isolation that rendered the workers apathetic; it was the Goldthorpe investigation which stimulated an explosion of class consciousness and combativeness.

This is by no means an isolated example. As a matter of fact, wherever extensive interviews and investigations have been made inside factories, these investigations have been followed within a very short time by violent outbreaks and spontaneous strikes. What happened at the Vauxhall works in Luton also happened at the Firestone plant in Oslo, (Norway). It also happened at the Ford plant near Cologne (Germany), where the head of the local union had complained for years that wages, working conditions and labour relations were so good that there was nothing much that the union could do in the factory. It so happened that the head of the Ford union died and was replaced by an inquisitive young militant. This new man decided to have a more thorough look at things. He handed out questionnaires, inviting the workers to say freely how they felt about a variety of issues: about working conditions, about working speeds, about piece work, about the foremen. The replies were devastating. The immense majority of workers complained bitterly about the working speeds, monotony, nervous exhaustion, about the lack of breaks, about the despotic behavior of the foremen. A summary of the replies was circulated. And a week later, when management announced that the assembly lines would have to be sped up provisionally, just for two days, the whole factory broke out into a strike for the first time in fifteen years.

The same kind of story could be told about the Alfa Romeo car factory at Milan (Italy), about the shipyards at Genoa (Italy), about the Pirelli tire factory at Torino (Italy), about the steelworkers at Dunkerque (France). What does it all mean? First of all, it shows that when workers are given a chance to discuss and decide among themselves in open gatherings, the grudges and the claims which they want to voice, their demands and their methods always prove more radical than what top union leadership has expected. Free discussion and exchange within the rank and file about factory life almost inevitably lead up to violent outbursts of protest and to unforeseen strike action.

What lesson are we to draw from this? The lesson, I suggest, is that a potential of frustration and of revolt lies permanently dormant within the working class and that, in so-called normal periods, no one knows

how deeply the working class feels oppressed, exploited, frustrated, and dominated. No one knows about it normally: neither the union leadership, nor the workers themselves. We do not know about it because there are no words to convey and to make clear how we feel. We have no words to speak about our oppression, our distress, our bitterness and our revolt against the exhaustion, the stupidity, the monotony, the lack of meaning of our own work and of our life; against the contempt in which our work is held; against the despotic hierarchy of the factory: against a society in which we remain the underdogs and in which goods and enjoyments that are considered normal by the other classes are denied to us and are parcelled out only reluctantly, as though they were a privilege. There are no words to say what it is and how it feels to be workers, to be held subject, to be ordered around by people who have more and who pretend to know more and who compel us to work according to rules they set and for purposes that are theirs alone. There are no words to say all this because the ruling class has monopolized not only the power of decision-making and of material wealth; they have also monopolized culture and language. They are not only taking away from us our strength, our health, our labour and the meaning of work; they also take away from us the means to communicate, including the words, the language we speak. There are no papers, no movies, no books about factory work and life. The work and life in the factories — and also in the huge offices — is something this society doesn't want to hear about. For decades the ruling class has sentenced the working class to live in terrifying silence. They have sentenced the working class to be prisoners not only of rules and laws that cannot be discussed or questioned, but also to be prisoners of an estranged language, of a language which is pervaded with values and with an ideology in which there is no room for working class feelings and values.

It is because the working class is silenced that explosions of discontent always come as a surprise and always are violent. It is because there are no words to express desires and no means to make them come true that a resort to violence is a way of saying: enough is enough, we won't play by the rules any longer, we won't take any more of it. Violence is the first and necessary step by which the oppressed refuse their oppression. Violence expresses effectively a total and immediate refusal of the established order and of its discourse. But sporadic violence remains a substitute for the effective destruction of this order. Last year, after days of violent strike action and street riots, the Fiat automobile workers at Torino invented a magnificent slogan. It said: "What do we want? Everything." All right: we want everything right away, we want to overthrow capitalism, abolish all inequality, build a society of equals, we want to change life. But how do we go about it? Outbursts of violence are but the first and indispensable step toward it. But they are not enough. They liberate us momentarily but they don't

change things. Changing things requires effective and sustained action, and sustained action requires a method and an overall view as to the ends and means of struggling.

So then, we have to ask again, what are we really fighting for? What does workers' control really mean to us? I submit that it means much more than improving working conditions in this or that factory without changing anything else. To make this clear, let us assume that we work in plants and offices that produce napalm for the war in Vietnam, miniature radio transmitters for the C.I.A., canned food containing chemical additives that may damage peoples' health, pornographic magazines. Are we capable of saying something like: "I don't mind producing napalm and pornography as long as it pays and as long as the job is not too hard"? I suggest none of us is capable of saying such a thing, though many of us are actually engaged in doing such things. How can this be explained?

The explanation, I submit, lies with the division of labour. Labour is divided both socially and technically. It is divided socially insofar as there are those who have wealth, power and higher education and who make the decisions; there are those who have only a higher education and who loyally serve the powerful and get certain privileges; and then there is the mass of those who have no wealth and no education, or a technical or specialized training only, and who fulfill the sharply defined and rigidly predetermined tasks which they are given. There can be no question about not fulfilling the task: the worker must take it or leave it. He is compelled to do it not because someone is ordering him to do so, but because the process of production has been organized in advance so as to give each labourer one precise and narrowly limited job to do without any possibility of change. This sharp limitation and narrow specialization of jobs does not mean that there is no place for initiative and responsibility; the job may call for inventiveness, hard thinking and sustained concentration. But things are organized in such a way that no one knows enough about the other aspects of the process of production to be able, at his job, to wonder what he is really doing; things are organized in such a way that no one, at his job, is capable of taking initiatives and making decisions that would call the overall process of production into question. In other words, every job holder is a cog in the machine; every job holder is responsible only for the work that is assigned to him and not for the overall product that will grow out of it. Responsibility for the overall product lies with a handful of top managers only; and once they have made their decisions, they organize and divide the work process in thousands of fragmented and predetermined little jobs so as to have everyone comply with their decisions without really knowing what they are all about.

In one word, the technical division of labour, that is, the way in which the jobs are parcelled out, is not only an organization of production: it is also a technique of domination, a device to keep workers ignorant and to keep them in subjection. This is ever more true nowadays than fifty or one hundred years ago. Nowadays, the tremendous increase in the productivity of labour and the potentialities of automation make very possible a total and radical transformation of the work process: repetitive jobs could be abolished in most places; where they cannot yet be abolished, they could be performed alternatively and for short periods only by everyone; multilateral training and comprehensive education could be made accessible to all; the barriers between manual and intellectual work could be torn down; rotation of jobs, collective debate on and responsibility of the methods of production and the quality of products could be made the rule. Free time could be tremendously increased and become socially creative if waste, parasitism and militarism were eliminated. All over the advanced capitalist world, the working class as a whole has and each worker individually has much more insight, skill, knowledge, know-how and creative capacities than they are allowed to show in their jobs. All over the advanced capitalist world, an unbearable discrepancy develops between the stupidity, fragmentation and irresponsibility of jobs and the actual or potential creativeness of job holders. It is an obvious fact that capitalist management cannot call upon the creativeness of the working masses: this would be incompatible with the right of hiring and firing people, to which management clings. Why should the masses put their creativeness at the service of bosses who will make the workers unemployed if they become more efficient and more productive? Why should reduced costs and increased efficiency be our concern if what we produce is wasted, if there aren't enough jobs for all, if our right to earn a living is made dependent on our willingness to make useless and destructive things like weapons, fin tails and moon rockets? Why should we want to be creative in our work if it doesn't serve the needs of the people, but only the need of Capital for growing profits?

Capitalist management dare not call upon the creativeness of the masses for fear of having all these questions explode. To prevent them from exploding, the division of labour is so organized as to make people feel more ignorant and incompetent that they are, so as to keep them in subjection and to divide them by arbitrary barriers and differentiation of status and salary. The difference between skilled and unskilled workers, between workers and technicians, between technicians and engineers, is arbitrarily created as a technique of domination and of fragmentation of the working class. Everyone knows from experience that this hierarchic division is irrational and senseless, that there is no such thing as a hierarchy of competence, that the competence of a worker is not smaller, but only different from the competence of a technician, that

wage differentiation does not rest on merit, on performance, on efficiency, but on social criteria, and that education serves much less to increase a man's competence in production than it serves to breed social attitudes and conformity to the values and ideology of capitalist society. It is not only from certain famous and inspiring Chinese examples that we know workers can be even more helpful and efficient than engineers in improving the quality of machine tools or the process of making steel.

In my view, when we speak of workers' control, we speak of the capability of the workers to take control of the process of production and to organize the working process as they think best. To organize the work process in such a way as to stop it from being oppressive, mutilating, soul-destroying and health-destroying; to organize it so as to allow for the maximum display of each worker's initiative, responsibility, creativeness; to organize it so as to replace forced labour and authoritarian division of labour by free cooperation.

Ultimately, there is no difference between workers' control and workers' power. Workers' control is one step, a first and partial step towards seizing power within and over the process of production. The struggle for workers' control is a struggle for power and therefore it can be waged effectively only if it demonstrates in itself our capacity of exercising power over the process of production. To demonstrate this capability, there is no need to wait for anyone's approval or agreement. There are recent examples, in France and Italy, where workers started rotating and swapping jobs which they considered to be interchangeable, though 14 different wage rates were applied to these jobs. And they demanded equal pay for all. There is the famous example of the Pirelli tire factory at Torino where the 5000 workers of a huge complex plant established new work speeds without any technician's or engineer's help and had the whole factory run clockwise at varying speeds, just to prove that they were capable of making it function smoothly their own way and that piece rates were nonsense. The notable "reverse strikes" in Western France and in Japan, showed that public transport workers on strike could make public transportation a free service.

In all these and many other instances, the workers did not demand control as something that can be granted to them by the bosses; they struggled for control by simply taking control of the factory or of the shop and by having it function their way. Indeed, control is not something to be asked for and given: it is something to be taken.

Therein lies the great superiority of struggles for control over traditional trade unionism. A strike for control is different from all other strikes because strike action in itself is already an exercise in workers' power. It is different from traditional strikes because the workers don't go home and wait until their spokesmen have made a bargain with management. In a strike for control, the separation between spokesmen and workers,

between the delegates and the masses tends to disappear. In a strike for control, the masses themselves, the workers' assembly decide what can and must be done here and now. Such strikes are exercises in workers' democracy, in workers' self-government and self-determination. They produce their organs of self-government, like workers' councils and workers' committees, committees that are responsible only to the general assembly of the workers, delegates that can be recalled at any moment. All forms of bureaucracy, of representative democracy, of delegation of power are liquidated in these moments of self-organization and of direct democracy. In such moments, repressed needs and aspirations explode; the working class experiences its ability to master and modify the work process. It refuses domination by management and by the State as well as by Union or Party bureaucracies. It undergoes, in one word, a revolutionary experience; and if action lasts long enough; if it is not stifled by bureaucratic control from above; if the workers who gather and debate freely in open assemblies have time to produce new leaders and vanguards, workers' councils will spring up which are the specific organs of collective, revolutionary self-organization and of collective power.

But neither the workers' councils, nor the factory or shop committees, nor the workers' power they stand for can prevail unless the political power of capitalism is broken, unless the capitalist state itself is overthrown and the capitalist relations of production and division of labour abolished. The struggle for workers' control must develop in an all-out attack against all forms of hierarchy, against all forms of monopolization of power and of knowledge, against all forms of domination and of bureaucracy, including the so-called socialist state bureaucracy, or whatever power the workers have won in action within the factories will be broken and rendered meaningless in a very short time.

The workers' councils and committees that spring up during mass action and wield effective power over the production process, these councils and committees cannot become lasting organs of dual power within the present system. They cannot coexist for long with the power of capitalist management and of the capitalist state. They can coexist with them only antagonistically, in periods of acute struggle that must take the form of a trial of strength. If such a trial of strength is not rapidly won by the working class; if it is not carried forward by political vision and organization; if it does not transcend itself into a generalized all-out offensive for a completely new society, then the organs of workers' power or workers' control must inevitably degenerate.

As we have seen recently again in Italy, there can be no protracted draw, no uneasy truce between organs of workers' power and the power of capitalist management. There can be no coexistence between these two opposed and unreconcilable powers because their trial of strength, if it is not won all-out by the working class, must end up in bargaining

and in a settlement. And a settlement will only be accepted by management if its terms fit into the logic of capitalism and allow management to win back undisputed power. Moreover, settlements are necessarily compromises, compromises must be negotiated and negotiations cannot be conducted by the workers themselves, but only by delegates speaking on their behalf. These delegates may win some improvements and some new rights for the workers. They may win token rights of control on behalf of the workers. But the right of workers' control by the workers themselves will never be won within the present system. It will never be won because, as I said above, the present division of labour splits up the workers of any factory, differentiates them hierarchically, isolates each group from all the others, prevents the free flow of communication, plunges each individual in harassed loneliness. All the capitalist firm may be willing to grant is control by appointed delegates on behalf of the workers. But delegated power of control is something totally different from direct collective power. Delegation gives rise to a new group of mediators who will tend to be offered privileges, bureaucratic and institutionalized status, so as to keep the workers under their control.

You may then ask: what then is the point of fighting for workers' control if it is realizable only in a different social system? The answer is twofold:

(1) As Max Weber said, it is only by pursuing the impossible that we will make what is possible come true. It is only by fighting for genuine workers' power as we see it that we will corner management into granting us rights and conditions that would never have been granted if we kept asking for it politely and reasonably. Token rights of control are better than nothing if we are able to use them to keep the fight going for full genuine rights. Improvements such as job enrichment are better than nothing if we are able to use them to keep questioning and fighting the division of labour everywhere. And they are better than nothing because workers who are not intellectually, morally and nervously destroyed by work will be ready for more advanced struggles involving their way of life inside or outside the factories.

(2) And an even more important point is the results of the struggle for workers' power cannot be measured by its immediate outcome. The main result of this struggle is that it changes people, it changes ourselves. It is something like a self-educational process. Through it, we discover the working class' capability of self-organization, of self-determination, of control over the production process. We discover that workers are by no means as incompetent as the division of labour wants to make them feel, that competence is, to a large extent, a myth maintained by those who rule us and by an educational system which is instrumental in dividing people, not in educating them.

Every struggle for workers' power that involves large numbers of people; every struggle that results in the formation of workers' councils

and committees, in open assemblies, in free debate, in the exercise of direct democracy and of collective power, every such struggle prepares the working class to become the ruling class and to abolish all extraneous forms of power from above.

Of course, the genuine organs of workers' power that spring up during struggles will not and must not outlast every struggle. They will wither away when the battle is over, when a compromise has been made. But they will spring up again more powerfully at the next opportunity. They will have formed new militants and new natural leaders. They will be indispensable organs of dual power during and after a socialist revolution. They will be necessary if we want to build a socialism in which the state withers away, in which political power is checked and balanced by the direct democracy of the councils.

All this, of course, leads us far beyond the question of workers' control proper. But I think we have to look beyond and put the struggle for control in a strategic perspective. Without such a perspective, without a political instrument that will link the struggle for control to the struggle for workers' power in and over society, this struggle cannot go beyond the stage which it has reached in Great Britain and in which it has been blocked for years: an uninterrupted chain of wildcat strikes which effectively paralyzes production and effectively weakens British capitalism, but without changing the pattern of production and the class nature of society.

If we want to go beyond this stage, we need a political, strategic and theoretical vision and an instrument for producing it and for co-ordinating struggles.

INDUSTRIAL EFFICIENCY UNDER MANAGERIAL
VS. COOPERATIVE DECISION-MAKING: A
COMPARATIVE STUDY OF MANUFACTURING
ENTERPRISES IN ISRAEL

The development of industrialism has been accompanied by managerial-hierarchical control over industrial work. Indeed, it has been generally assumed that industrialism and managerialism are necessarily linked, that each is in some way necessary for the other. It is not only of historical interest to know whether this association merely reflects parallel development or involves a necessary interrelation. In contemporary social thought, a mystique of technological determinism is often seized upon to explain or criticize social phenomena. Thereby, responsibility for the character of the industrial corporation and its consequences is assigned to technology (e.g., the computer). Man, individually and in groups, is viewed as the servant of the machine, the latter being endowed with initiative and direction of its own. The machine Golem dominates the scene, shapes society, and leaves to each man only the task of adapting himself to the social forms that are machine-dictated. Since the managerial mode of industrial organization is seen as a prime example of technology-determined social form, the intelligent man's problem is, essentially, how to adapt to managerial organization. One aim of this paper is to challenge the mystique of technology-determined social form in the organization of production.

Engineers and administrators in modern industry have a different perspective from that of the mystique of technology. They have a well-developed tradition for selecting among alternatives in production methods and hence know that men shape technology by the criteria that are applied in designing technology. With respect to modes of decision-making, however, the concept of major alternatives is underdeveloped. The textbooks and handbooks on the organization of production give no instruction on other than managerial styles of administration.

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Little attention is paid to the possibility that alternatives to managerial control may compare favorably in economic efficiency and/or be desirable on other grounds. Yet, in American industry the number of administrators has risen steadily, per 100 production workers, from 10 administrative employees in 1899 to 38 by 1963. Moreover, this growing cost of decision-making has not been necessarily correlated with growth in productivity.¹ Hence, it is reasonable to expect that as the rising cost of managerial decision-making becomes onerous, someone will be interested in developing less costly ways of making production decisions.

Also, managerial control has included qualities of competitiveness and expansionism that are disliked by many people as ways of interpersonal relations. But if these qualities are integral to managerialism which, in turn, is viewed as essential to modern industry, then there would seem to be little choice - except to discard industrialism itself.

A related issue occurs in the developing countries where there are options with respect to the selection of types of industry and industrial processes. What are the options, if any, with respect to the organization of production, with respect to decision process? Or, are there substantially none? Does the introduction of industrial production require the use of the managerial-hierarchical mode of decision-making? This paper is intended as a contribution toward broadening perspectives on options for organization of production.

Managerial vs. Cooperative Decision-Making

Apart from relatively primitive societies, the managerial mode of organization is clearly the dominant one, worldwide, in private as well as publicly owned enterprise. The managerial mode of decision-making may be identified by three primary features. First, there tends to be an occupational separation between decision-making and producing. Especially in firms beyond the workshop size, those who mainly do decision-making have distinctive occupational roles from those who primarily do production work. This differentiation is reinforced and formalized by unionization, for then the "bargaining unit" differentiates those who do the production work from those who do decision-making. A second feature of management is the hierarchical organization of decision-making. At the peak of successive layers of fewer and more powerful decision-makers, there is the final decision-maker, the person whose decision cannot be vetoed by anyone else. A third feature of managerial organization is the built-in criterion of enlarging the scope and intensity of decision-making as the priority objective for the enterprise. In this perspective, money making is the form

of profit is a necessary, but not a primary objective in its own right.

What sort of alternative is conceivable--as against the managerial mode of decision-making so defined? First, decision-making could be done by those who also do production work. This is feasible especially as decision process is differentiated between particularized decisions concerning details of work, and condition-setting decisions which define major goals, criteria for design, or limits (like product class) within which an enterprise is to operate. Thus, decisions about the choice of class of products, or decisions about major capital expansions are made infrequently. All persons in an enterprise have a stake in such choices and can conceivably participate in making them. Once defined, such condition-setting decisions become the boundaries within which detailed operating decisions can be made by administrators and technicians. In a non-hierarchical organization, work assignments, including the administrative and technical posts, can be subject to final decision, including removal and replacement, by the general body of persons engaged in an enterprise. Finally, it is conceivable to operate industrial facilities according to primary criteria like providing useful work and regulating volume of output to serve specified social priorities--instead of profit maximization or extension of managerial control.

These analytically abstracted contrasts in types of decision process define key elements of a cooperative as against the conventional managerial mode of production organization.

A Comparative Study in Israel

Such variation in mode of decision process is found within Israel where, in addition to a considerable population of industrial firms under managerial control, there is also a population of 170 industrial enterprises that are operated under a cooperative decision process. The latter group of enterprises are located in the cooperative communities called Kibbutzim. There are 230 such communities in Israel* of which 170 operate industrial enterprises with 20 to 250 persons working in each unit. These cooperative enterprises use modern machine technology and techniques and are engaged in a broad

*Total Kibbutz population: 1949-63, 500; 1964-80, 900.
Annual Statistical Abstract of Israel, Central Bureau of
 Statistics, Government of Israel, Jerusalem, 1949, 1965.

array of manufacturing industries: metalworking, chemicals, various types of machinery production, tools, home appliances, woodworking, food processing, instruments, electrical goods, plastics, and others.²

In view of the wider theoretical interest in the problem of alternatives for decision-making on production, I decided to inquire into the comparative industrial efficiency of enterprises operating under managerial as against cooperative control. How efficient can an industrial enterprise be under cooperative control? In terms of accepted criteria of labor and capital productivity, and profitability, can there be an efficient alternative to managerial control over industry?

In Israel, such an analysis could be performed within one country. Thereby two sets of industrial enterprises could be examined, differing markedly in organization, but all operating under similar conditions of language, government, currency, markets, prices, types of population engaged in the enterprises, and the like. Accordingly, after 1963 I did the necessary field work in Israel with the cooperation of the Israel Institute of Productivity and the Kibbutz Industries Association.

It is well-appreciated that there is some degree of variation among nations in "styles" of industrial administration. However, average national industrial efficiency, as in productivity of labor and capital, is determined decisively by relative costs of labor and machinery to industry, which, in turn, regulate the cost-minimizing intensity of mechanization. It is significant that Israeli industry is permeated with personnel trained in the United States and Western Europe, and the Israel schools of business and technology emulate the same models, as do industrial associations and others who have continuing access to the literature of modern industrial management. From this standpoint, therefore, Israeli industry shares in the knowledge and practices of western industrialism.

The criteria for the selection of enterprises for this study were that each should represent a technically modern industrial operation, including substantial capital investment, and producing standard products for sale in an open market. Of course, it was essential that the enterprise administrators in each case should make available the required data for analysis. In the case of the Kibbutz enterprises a special criterion was applied: Kibbutz enterprises that involved more than about 10 percent of hired employees were not to be included in the sample. During the last years, numbers of Kibbutzim, endeavoring to enlarge their industrial output, sought to employ persons on a temporary basis. This

arrangement sometimes continued. Since this introduced an employment relationship in what was formerly a cooperatively operated enterprise, industrial units that had this characteristic were excluded from the sample.

Procedure

About 25 industrial enterprises were contacted, and it was possible to develop a paired sample of 12 enterprises, 6 of them under managerial control and 6 under cooperative control. These enterprises were matched with respect to industry and product. It seemed important to include in each group enterprises that produced similar products, hence using similar raw materials, similar manufacturing technologies and processes, and selling their products in similar markets.

The list of industries represented by these two groups of enterprises, and the capital investment in each enterprise are shown in Table I. The plants manufacturing tools mainly made metalworking tools. The manufacturers of instruments produced equipment for commercial and home use. The diecasting shops in the sample were mainly engaged in zinc diecasting. The plastic plants produced diverse products by plastic moulding. The two machine shops in the sample were mainly operating batteries of automatic screw-machine lathes. The canning factories both processed comparable sorts of locally grown fruits and vegetables.

In terms of capital invested, each type of enterprise led in three industrial pairs. However, the median capital investment was £I, 847 for the managerial firms and £I, 1,866 for the Kibbutz factories. (The large size of the managerially-controlled diecasting plant produced a substantially larger mean value for capital investment in the managerially controlled enterprises as a group.)

The enterprises under study were selected by a purposive, stratified sampling method. It was necessary to "pair" the enterprises by industry (product class) thereby requiring a selective dropping of "unpaired" firms. The resulting sample represented a variety of industries, industrially important product classes, and diverse technologies and skills. This sample was selected solely on the basis of industrial type and without any a priori knowledge of operating characteristics of individual enterprises. Each enterprise is an independent entity. The data from each enterprise came from the ordinary records of operations which were checked for comparability of definition of data categories. Moreover, the data came from unpublished records, which were examined after the sample was

Table I
Capital Investment of Each Matched
Enterprise in This Study

Industry	(£I 000's)	
	Managerial Decision-Making	Cooperative Decision-Making
Tools	942	647
Instruments	753	8,393
Diecasting	20,953	461
Plastics	330	2,656
Machine Shop	335	1,077
Canning	6,746	4,148
Media.	£I 847	£I 1,866
Average	5,010	2,897
Ranking	3	3

No. sets where
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selected. Prior to the analyses for this paper, there were no data on the comparative input-output behavior of the sampled firms.

In each of the sampled firms it was possible to obtain parallel sets of data from the financial and production records.* These data were all for the same year, between 1963 and 1967. The actual year is not disclosed in order to shield the identity of the enterprises.

There are special features of accounting data for the cooperatively administered enterprises. The cost of labor in the managerially controlled enterprise is measured by wages paid. In the cooperatively administered enterprise no wages or salaries are paid, there being no internal money exchange within the framework of the cooperative community. (Money is used in the economic relations of the cooperative community to the rest of society and for recording inputs and outputs in the component enterprises of the cooperative community.) The cost of labor, as part of the cost of production in the Kibbutz enterprise, was measured by using an accounting category which the Kibbutzim calculate regularly and carefully: the "cost of a day of labor." This means the average cost of maintaining a person in the cooperative community per day of labor worked. This statistic reflects the sum of all expenditures for consumer goods and services during a year divided by the total number of man-days worked in the various production sections of the cooperative village economy. The resulting figure is the best available estimate of the cost of using labor by a Kibbutz enterprise and was accordingly used for accounting purposes in these calculations. (The Kibbutz "cost of a day of labor" has tended to equal or exceed industrial wages in

*For each of the sampled enterprises I secured the following data from their balance sheets and profit-and-loss statements: capital invested, value of fixed assets, sales and profits. These data categories are the ordinary sorts of financial records that are kept by industrial firms. In each instance, the financial statements were private, unpublished data. The following employment data were also obtained: administrative personnel, production man-hours per year. The accountants or bookkeepers made the data available, being directed to do so by the responsible administrators of each enterprise. In each instance I checked for consistency of definition of the data categories, and in several enterprises I found it necessary to reclassify the data in order to assure consistency. The data, arrayed for all the enterprises, were altered by an unstated factor--thereby shielding the identities of the cooperating firms while retaining proportional relationships.

managerial enterprise.)

In the cooperative enterprises, "capital investment" : "fixed assets" do not include the cost of land. The land is rented, not purchased. Therefore, the rent appears as a current expense in the annual costs of operations. This feature has no determining effect on the main results of this investigation.

The cost of capital is a significant factor in all industrial enterprises and has special importance as it affects capital investments, degree of mechanization and availability of working capital. The cooperative and the managerially controlled enterprises must obtain capital from essentially the same sources. The Israeli government facilitates low interest rate loans to certain new enterprises, especially to preferred industries locating in development areas. Foreign investor, managerial enterprises have been the main beneficiaries. For the rest, however, both the managerially-controlled and the cooperative enterprises obtain capital from the ordinary private capital market. A check on the structure of loans in a number of firms showed that the sampled firms were paying ordinary capital market interest rates. In this respect, however, the cooperative enterprises may gain an advantage insofar as they are a part of a larger cooperative community. Thus, the industrial enterprise that is part of the Kibbutz has the automatic standing of being backed by the population and assets of the entire cooperative community. This gives the cooperative enterprise an advantage in credit ratings, apart from other considerations that a banker uses to decide on lending his money. This is akin to the credit advantage of a borrower enterprise that is part of a large firm with diverse assets.

Industrial efficiency is measured here in terms of: productivity of labor, productivity of capital, profit generated per production worker, and the cost of administration. Labor and capital productivity reflect on the efficiency with which key industrial inputs are utilized. The general competence of enterprise administration in optimizing outputs in relation to inputs is reflected in the profit that is generated per production worker. Lastly, the manpower used for administration measures the outlays made for the productionally necessary function of decision-making: Who can do it at lesser cost?

Results

The comparative productivity of labor in managerial and cooperative enterprises was measured by contrasting output (net sales) to inputs (production worker manhours). These data

(Table II) were calculated for the sampled enterprises on an equal weighting basis. This procedure is significant for the purpose of the investigation. If the total sales in each set of enterprises were divided by total production worker man-hours, the result would assign substantial weight to the enterprises in each group that were larger than the others. The present objective, however, is to contrast types of enterprises. Therefore, the enterprise is necessarily the unit of observation, and the productivity of labor and other measures of efficiency were calculated separately for each enterprise, then grouped with median and average values shown for the managerial and cooperative groups.

The results appearing in Table II show that the cooperative decision-making enterprises had median sales ~~per production worker~~ ~~of \$1,076~~ ~~25 percent higher than the~~ ~~\$I 10.76~~ for the managerially controlled enterprises. It is important that the sales statistics do not simply reflect undifferentiated money-valued sales. They represent quantities of similar products sold in similar markets, and therefore at similar prices, for each set of enterprises.

A second measure of productivity was that of productivity of capital (Table III). This was measured in two ~~ways~~ ~~output (profit) as percent of input (capital invested), and output (sales) as a percent of input (fixed assets).~~ ~~of the~~ ~~cooperative enterprises median profit was 12.9 percent of~~ ~~capital invested as against 7.7 percent for the~~ ~~managerially controlled enterprises.~~ ~~These measures of capital~~ ~~productivity reflect the overall effectiveness of the use of~~ ~~fixed assets for generating output for sale. In this respect~~ ~~the cooperative enterprises outperformed the managerially~~ ~~controlled firms by 47 percent greater profit/investment, and~~ ~~by 33 percent greater sales/fixed assets.~~

In order to gain another view of the overall effectiveness of the administration of these enterprises, I measured net profit per production worker (Table IV). In these terms, the cooperative enterprises showed a median profit per production worker of \$I 1,912, 115 percent greater than the \$I 899 for the enterprises under managerial control.

A further contrast for these two sets of enterprises is given in Table V, showing the comparative cost of administration. This is measured in terms of the number of administrative employees per hundred production workers. In the cooperative enterprises, the median value was 1.3; the

Table II

Productivity of Labor
(Sales Per Production Manhour)

Industry	Managerial Decision-Making		Cooperative Decision-Making	
Tools	BI	7.88	BI	6.31
Instruments		13.64		12.67
Diecasting		15.48		14.71
Plastics		5.40		14.26
Machine Shop		5.66		13.26
Canning		14.08		13.97
Median	BI	10.76	BI	13.01
Average		10.36		12.53
Ranking		1		2

No. sets where
each type enter-
prise leads.

3 - almost equal

Table III

Productivity of Capital
 (a) Profit as Percent of Capital Invested
 (b) Sales as Percent of Fixed Assets

Industry	Managerial Decision-Making		Cooperative Decision-Making	
Tools	a)	.659	a)	.021
	b)	2.9	b)	3.7
Instruments	a)	.300		.0195
	b)	2.5	b)	4.7
Diecasting	a)	.038	a)	1.125
	b)	1.1	b)	3.6
Plastics	a)	.024	a)	.095
	b)	3.4	b)	4.3
Machine Shop	a)	.117	a)	.200
	b)	2.5	b)	2.6
Canning	a)	.026	a)	.164
	b)	2.96	b)	2.6
Median	a)	.077	a)	.129
	b)	2.7	b)	3.6
Average	a)	.194	a)	.271
	b)	2.6	b)	3.6
Ranking		2		7

No. sets where
 each type enter-
 prise leads:

3 - almost equal

Table IV

Efficiency of Management
(Net Profit Per Production Worker)

Industry	Managerial Decision-Making		Cooperative Decision-Making	
Tools	BI	3,190	BI	118
Instruments		2,880		556
Diecasting		1,335		4,350
Plastics		74		2,771
Machine Shop		463		2,287
Canning		461		1,537
Median	BI	899	BI	1,912
Average		1,401		1,937
Ranking		2		4

No. sets where
each type enter-
prise leads.

Table V

Cost of Enterprise Administration
(Administrative Staff Per 100 Production Workers)

Industry	Managerial Decision-Making	Cooperative Decision-Making
Tools	12.1	19.2
Instruments	24.0	15.4
Diecasting	21.5	21.2
Plastics	26.5	24.1
Machine Shop	11.1	13.3
Canning	18.3	14.2
Median	19.9	17.3
Average	18.9	17.8
Ranking	2	2

No. sets where
each type enter-
prise has lower
value

2 - almost equal

same relationship for the managerially controlled enterprises was 19.9.

In sum: the cooperative enterprises showed higher productivity of labor (26 percent), higher productivity of capital (67 and 33 percent), larger net profit per production worker (115 percent) and lower administrative cost (13 percent).

The relative performance of the two types of enterprises may also be viewed by ranking the position of each of the firms in the study with respect to each criterion. In Table VI, there is an entry M (managerial) in the Tools industry row under the Labor Productivity column. This means that for the labor productivity criterion in the Tools industry, the managerial enterprise was the better performer. Again, under Labor Productivity for the Instruments industry, the managerial and cooperative firms were almost equal, with the managerial unit being somewhat better than the cooperative, hence the designation in the Table as M-C. Similarly for the rest of the Table.

Discounting the 2 almost-equal performances (M-C or C-M), in 15 one-criteria cases the cooperative units were better than the managerial units, where the managerial units led. By industry type, only in the Tools case was there a clear first for the managerial type in more than two criteria. In ranking under efficiency criteria, the cooperative units led in capital productivity and profit per production man-hour were ahead in labor productivity and broke even in cost of administration.

Analysis of Results

The data assembled here bear upon three widespread assumptions: first, that there is no workable alternative to the managerial form of control for industrial activity; second, that even if there were an alternative, the widespread mode of organization is inefficient; and finally, that technology itself sets the requirement for managerialism. Whatever constraints may be assigned to the data of this paper, it is evident that they do not support these familiar themes. Evidently, there is a cooperative mode of organization that is a workable alternative to managerialism for industrial operations, and the use of machine technology does not itself exclude the use of cooperative decision making.

However, some reservation is in order for interpreting the data of this study for the second proposition. It is not warranted, given the characteristics of the data, to infer any general statement as to the degree or predictability of relative

Table VI

Summary Ranking of Managerial (M) vs. Cooperative (C)
Enterprises By Criteria of Efficiency

Industry	Labor Produc- tivity	Capital Produc- tivity	Profit per Production Worker	Cost of Adminis- tration
Tools	M	M C-M	M	M
uments	M-C	M C	M	C
Diecasting	M-C	C C	C	C-M
Plastics	C	C C	C	C-M
Machine Shop	C	C C-M	C	M
Canning	M-C	C M-C	C	C

Note: The M,C designations in this table may be used as rank values in the sign test of significance of difference, single-tailed. Were the Cooperative enterprises, as a group, significantly more efficient than the Managerial enterprise, with 15 of the former and 7 of the latter emerging first in the various measures of industrial efficiency? Chance factors alone would produce the Cooperative lead at probability .067. This gives confidence in the inference that the sampled Cooperative enterprises, as a group, were significantly more efficient than the others. See S. Siegel, Nonparametric Statistics for the Behavioral Sciences, McGraw-Hill, New York, 1956, pp. 68 ff.

efficiency of cooperative vs. managerial decision-making in industrial operations. Thus, while the enterprises examined tend to show greater efficiency for the cooperative units as a group, the limitations on the data (number of units, single time and single locale of observations) point to the following as the relevant inference: cooperatively administered industrial enterprises can be, as efficient, or more efficient, than managerially-controlled units. This, albeit qualified, inference suggests that the cooperative organization of industry can be a workable option for some societies. What characteristics of cooperative organization account for its apparent effectiveness in industry?

The main differentiating features of cooperative organization of production include the following. (1) Authority for major decisions is vested in all the participants; there is no occupationally-codified separation between those who decide and those who do the work. (2) The mode of internal decision-making is based upon mutuality and is essentially democratic, as against the hierarchical organization of managerial control. (3) In the cooperative organization there is formal, institutionalized equality and anti-inequality in decision-making and in consumption through the pervasive system of sharing final authority in decision-making and in consumption. This contrasts with the managerial pattern of differential, competitive individual gain (i.e., one man's gain, to be a competitive gain, must include another's relative loss). (4) Finally, the cooperative enterprise is oriented toward enlarging its output and affording participation in useful work for members of the cooperative community, rather than profit maximization or expansion of managerial control.

The above-mentioned characteristics of the cooperative organization have not been ordinarily linked to industrial efficiency. Indeed, some of these features are often presumed to lead to industrial inefficiency. It seems appropriate at this point to examine each of the above features of the cooperative system in light of their possible consequences for industrial efficiency.

Participation and Democracy in Control: In the cooperative industrial enterprise, final authority over basic decisions -- products, capital investment, number of workers -- is vested in the general body of workers in the enterprise and in the cooperative community as a whole. Responsibility for organizing implementation of basic decisions is the task of democratically elected enterprise administrators who are required to report regularly to the general body and to justify their decisions and proposals.

As a consequence of cooperative control, the workers in these enterprises tend to have interest and concern about technical conditions of work which is rare in the managerially controlled enterprise. Thus, instead of the suggestion box and individual money rewards for particular technical suggestions, the cooperative industrial enterprise operates with a fairly sustained free flow of communication among all members of the enterprise, both in production and administration.

The cooperative enterprises deal with mechanization and automation of production in ways that contrast with the managerial firm. Thus, the elimination of a manual work task by mechanization benefits all concerned in the Kibbutz-managed enterprise since the gains are shared by all. Also, the Kibbutz industrial enterprises usually operate under conditions of labor shortages relative to goals for enlarging production. As a result there is little problem of having useful work available for people whose tasks have been mechanized. Furthermore, each person knows that the members of the cooperative care for each other. There is little likelihood here of producing a situation where a particular work skill, no longer required, could cause a person to be discarded, no longer needed or wanted. Such an event contradicts the essential conditions of mutuality and cooperation in the Kibbutz.

Equality in "Income:" In the cooperative enterprise, the principle of equality in major decision-making is paralleled by a code of consumption equality--more exactly, consumption without money exchange and on the basis of need, community capability, and in accordance with mores of anti-inequality and material non-ostentation. There are no problems of wage systems administration since there are no wages. The cooperative enterprise has no trade union relations problems or costs in the absence of an employment relationship. Production workload problems are usually resolved by the working group in terms of mutual understanding of what is an acceptable day's work, taking into account the capabilities of production equipment and the requirements of the enterprise.

Instead of individual financial incentives, the people in the cooperatively controlled enterprise receive an acceptable level of living, the right and duty to participate in mutual decision-making, mutual care and esteem--especially for carrying group decision responsibilities. For example, the Kibbutz enterprise gets the benefit of wide-ranging cooperation among its members owing to the use of extra-workshift hours on behalf of the enterprise. Frequently, when some of the administrators or workers of an enterprise eat dinner together in the community dining room and discuss the problems of the work place,

this is not an "overtime" task that requires special payment would be the case in a managerially controlled enterprise where work is done by employees. Though discussions on enterprise problems in the dining hall of the cooperative can be lengthy, it is unthinkable to "charge" for this, for there is no theory, category, or procedure by which such a "charge" could be made.

It is commonly assumed that the presence of individual money incentives combined with opportunity for rising in a managerial hierarchy comprises a very powerful incentive system for efficiency in industry. In the Kibbutz there is no differential income reward for varied work. Therefore election to a post of administrative responsibility confers status only. Also, it is ordinarily assumed that the managerial decision process, because of the attraction of individual gain, uniquely produces a major incentive to minimize costs in production and to maximize net return to the enterprise. The administrator of the cooperative enterprise does strive for efficiency, and meeting enterprise goals of profit, output, and employment, for that is the requirement for his status. However, in contrast with the managerial system, success in Kibbutz industry administration does not necessarily bring accretions of decision-power. For rotation of administrative personnel is a general policy in cooperative enterprises. This produces a sophisticated administrative cadre because people with these talents are moved among administrative tasks within and among enterprises. The unwritten code of the cooperative community often requires that administrators do manual production work as one of their rotating responsibilities.

Among the administrators and technicians in the cooperative enterprise, there is considerable pressure to have good personal relations with the other men in the workplace. This is owing to the fact that only by mutual agreement are major decisions made and effectively implemented.

None of this is to say that in the Kibbutz community all men are equal. Work tasks differ. Differences of ability make for inequality of responsibility, and those who bear it receive the esteem and attention of their fellows while having to devote typically more than average hours to their work. In the cooperative community one's standing, the degree to which others take you seriously, means a lot. The use of a vehicle often goes with some administrative jobs and that gives a fringe-benefit of mobility as a result of simply doing the work. But the vehicle goes with the job not with the man. Identification of the individual with the wider community, and cooperation to achieve its goals, are the main operative incentives

of the cooperative enterprise--in contrast with the individual competitive incentive pattern of managerially controlled production.³ The apparent workability of the cooperative form of organization in production suggests the importance of greater understanding of the worth of non-monetary and other than direct-work-efficiency factors in influencing productiveness in industry.

Useful Work and Increased Output as Goals: Historically, manufacturing industry was introduced into the Kibbutz communities as a way of providing productive work for men and women who were no longer physically able to work in agriculture. This resulted in selection of industries of a highly capitalized and mechanized sort. In recent years, the design of work places has often been performed with a special eye to human engineering considerations so as to allow older (gradually retiring) members to put in all or part of a day's work in a factory. Among the factories visited by this writer, four of the cooperatively run plants included significant technical innovations in production processes that were developed by the people on the spot. These ranged from unusual sets of jigs and fixtures to special-purpose multi-station machine tools.

A diverse literature in industrial administration, during the last decades, has repeatedly emphasized the factor of integrated operation, especially by securing cooperation among employees, as an efficient means for inducing conditions of stability.⁴ The combined effect of the main features of cooperative organization, summarized above, is to induce automatically a pervasive pattern of detailed cooperation in the performance of work. Such cooperation is the crucial element for stable, hence optimal, operation of a given production system. This is a key factor, in my judgment, for explaining the efficient performance of cooperatively controlled industrial enterprise.

Optimum input-output performance in modern industrial facilities is expected, on both theoretical and empirical grounds, when the unit functions as a stable system.⁵ A stable system is one whose output varies within predictable and acceptable limits. When operations are, in this sense, "under control," there is an optimum production result from the combined inputs of machines, men, and services that constitute the principal inputs of an industrial facility.

The sort of cooperative pattern of workaday functioning that is found in the Kibbutz enterprise is rarely found, or even approximated, in the managerially controlled enterprise. This is owing to the conditions of competitive individual

incentives and competitive bargaining between managers and employees within the managerially operated enterprise. Beyond a certain level of intensity these competitive incentive factors produce conditions which work against stable operation of the production system. Stated differently: competitive managerial rule over production often interferes with the optimization requirements of modern production technology.

This is not to say that stability in production is not obtainable under managerial control. However, the price is usually costly managerial control over production workers (one foreman to ten workers), or the creation of conditions which induce cooperation among production workers, and between production workers and management. The latter can significantly alter the competitive incentive factors that differentiate the managerial from the cooperative mode of decision-making.⁶ Having considered the efficiency effects of features that are unique to cooperative decision-making, we now turn to other factors that may bear on the findings of differences in efficiency between the two types of organizations.

Size, Environment and Ideology: In manufacturing industry it is widely appreciated that large enterprises operate with significant advantages over small enterprises. Larger firms have superior access to capital and technical talent, and usually operate with higher rates of profit. Also, investigations of administrative costs⁷ show that larger enterprises, on the average, have lower administrative to production ratio than smaller enterprises.

The managerially controlled enterprises of this study were all located within or near large urban centers. Therefore, the managers of these enterprises had access to a large and diverse labor pool. By contrast, the cooperatively run enterprises in this study were, in each instance, located on the premises of a particular cooperative community and could draw their labor supply only from the members of that community or from neighboring ones. The cooperative village populations vary in size within a range of 300 to 2000. This is, at maximum, a significantly smaller labor pool than the one that is open to the management of the managerially run enterprises.

In some ways, however, the cooperative enterprises can get advantages that ordinarily accrue to enterprises of large size. For example, the cooperative enterprises have formed joint purchasing and marketing organizations for buying raw materials, machinery and various industrial supplies that are used by many factories. Thereby they get benefits of quantity purchasing and expertise. Similarly, the Kibbutz industries

have set up common marketing arrangements for diverse products.

In the present study, advantages of size for the paired enterprises are substantially balanced out since in three industries the managerial enterprises are larger (tools, die-casting, and canning) and in three the cooperatively controlled units have larger investments (instruments, plastics and machine shop). Therefore, the average differences in enterprise efficiency that have appeared here must be explained primarily in terms of factors that are specific to, and associated with, the contrasting types of decision-making among the paired enterprises. These associated factors include conditions of environment (integration of the enterprise in a wide community), ideology, and motivation.

There are definite relations between the mode of functioning of an organization and the social structure of its wider society. The Kibbutz enterprise is sharply differentiated from the managerial unit by its total integration into the surrounding Kibbutz community. Thus the individual does not differentiate sharply between his role in the enterprise and his role in the community. In a managerial enterprise, an "employee" -- while being a "citizen" of a community, the conventional firm is a work organization, formally unconnected with the family, home, consumption activities, and the provision of various community services. In the Kibbutz, all these functions are integrated and the individual sees them as related parts of one community. As a result members identify with and have a strong commitment to the whole community of which the enterprise is a part. This is a central characteristic of Kibbutz organization, apart from variation in individual behaviors owing to all manner of reasons.

The operation of the cooperative enterprise is strongly influenced by the social structure of the community. The cooperative enterprise is where it is one of the several "branches" of the economy. In a managerial enterprise, when manpower is needed for component work, for example, when manpower is needed for the industrial enterprise for a special task, say to make up for persons away for military training, then, depending on community priorities, manpower from other branches of the community can be temporarily assigned to the industrial enterprise.

When a Kibbutz factory needs the use of special equipment like a tractor for moving heavy machinery, then this equipment and its driver are borrowed from their normal work to do the special task. Thereby, there are no problems of renting heavy equipment, billing, paying for transportation time of the

equipment to and from the industrial location, etc. Similarly, when Kibbutz vehicles go to town the drivers are able to do chores that are helpful to the industrial plant, like picking up or delivering materials or machine parts. Also, the cooperative community often includes manpower for particular tasks needed by industrial administration. For example, if a letter has to be written in a foreign language which someone in the community knows, he is easily asked to do this job and would normally do the task of letter translation and writing during an off hour. A similar task in the managerial enterprise usually requires hiring a secretarial service.

However, integration and commitment of the individual to the enterprise is by no means unique to the cooperative enterprise. The professional behavior and life style of modern corporate executives includes extensive involvement of the individual with his occupational role: work is carried home at night, to the golf course and to the dinner table. As in the Kibbutz enterprise, it is unthinkable to "charge" for this "overtime" (not counting the expense account). This sort of integration of occupation with other facets of life is ordinarily appreciated as contributing to the effectiveness of the managerially controlled enterprise.

It may appear from the above that the managerial and cooperative organizations are more alike than different with respect to commitment of members to the enterprise. The similarity, however, lies particularly in the commitment and integration of individuals who are decision-makers. In the managerial enterprise this means the management. But in cooperative organization this includes the total work group. To the extent that involvement of the individual in responsibility for the enterprise and its purpose affect morale and work efficiency, then the cooperative organizations have an inherent advantage in this respect.

Even allowing for the built-in strengths of cooperative organization, it would be erroneous to infer its competence from the structure of decision-power alone. An important contribution to its competence is the support that comes from the explicit ideology and moral values of the community: mutual care, responsibility, and cooperation. This is different from the ideal value system that permeates the managerial organization, with its affirmation of individualism and competitiveness--values that contradict the operational efficiency requirements of modern productive systems. The conditions of involvement of the individual in the Kibbutz enterprise, and accompanying ideological factors, are important in motivating the individual.

The people working in the Kibbutz enterprise are motivated to feel needed and wanted within the context of the total community. Such feelings, among people who share in a common task, are powerful motivating forces for individuals to give their best in the performance of shared responsibility. The entire social system of the cooperative reflects voluntary participation, voluntary cooperation, and mutual control: these are democratic communities that operate internally without coercion (no courts, no police, no jails), and without money. The Kibbutz approximates--within community capabilities and priorities--the principle "from each according to his ability, to each according to his needs."

The prospect for industrial enterprises in the Kibbutz is reflected in the fact that in a number of cooperative communities the value of industrial production equals or exceeds that of agriculture. This is a turning point for the general development of the Kibbutzim, which began with agriculture as their economic base. Manufacturing industry, even along sophisticated technical lines, can become a new frontier for the further economic development of cooperative communities.

Is there a feature of cooperative decision-making that may, automatically, restrict the size of such enterprises? From the experience of managerially controlled enterprise, it is evident that the size of a unit factory is a separable issue from size of firm. A large firm can be the sum of many factories or divisions, each of "medium" size. The size of a factory, with an array of technology options and markets, can be varied according to the size of a workable decision-making sub-unit, and the capability of acceptable planning and control techniques for regulating the activities of many sub-units.

When cooperative enterprise is organized to take into account the separate function of condition-setting as against particularized (detailed-specified) decisions, then there should be, theoretically, broad limits for conceivable size of enterprise. This expectation is abetted by the known capability of modern data-handling techniques for integrating varied and even far-flung industrial operations. At this writing, I learn that about 50 Kibbutzim are making use of modern data processing facilities for economic, including production, planning, and for control of operations. Computers, appropriately programmed to suit the criteria of integrated economic planning, can be put to work on behalf of the cooperative community, as well as (with differing programs) for the managerial enterprise. This expectation is consistent with the data of this study which are at variance with the idea that the main alternatives for society are either value-oriented or

technology-determined. The assumption is that the latter means individual incentives, inequality, social stratification, an elite rule in the name of technological advance and efficiency. Value-oriented is taken to mean egalitarianism, humanism--meaning, necessarily, anti-technology.

All this, however, is based upon the erroneous idea that technology has a direction or initiative of its own. This theory does not survive close scrutiny. Technology is shaped by using knowledge about nature to satisfy social criteria: hence, change the criteria (durability vs. cost, safety vs. style) and the resulting technology is changed. Several lines of evidence converge on the point that technology can be fashioned to suit man's requirements for life or for war-making, for industrial production to serve private profit-making or adapted to man's sensory-motor abilities. Plainly, technology is man's servant, bearing the imprint of who decides on technology and the sort of criteria that are applied in the process of design. Accordingly, industrial technologies under managerial control bear the imprint of managerial criteria. As cooperative control continues, then, to the extent that its criteria are used to control production, some technology is bound to be fashioned, increasingly, in its image.⁸

Summary and Conclusion

The data of this comparative study in Israel of six managerially controlled enterprises and six cooperative administered enterprises indicate the following:

1. Industrial enterprises of a modern technical sort can be operated under various modes of decision-making. Factory production with powered equipment and division of labor can be efficiently performed without parallel use of managerial decision-making. These findings contradict the mystique of technology-determined form in organization of production.
2. Cooperative decision-making is a workable method of production decision-making in the operation of industrial enterprise.
3. The equal or greater efficiency of operation found in the cooperative, as against the managerially controlled enterprises, is not anticipated from conventional knowledge in economics and industrial management.
4. This investigation does not establish the probability by which cooperative decision-making in industrial production may be, systematically, more efficient than managerial control.

It is demonstrated that cooperative decision-making in modern industry can be as efficient, or a more efficient mode of decision-making than managerial control. This capability is linked to the pervasive motivational and operational effects of cooperation in decision-making: in production, pressing toward stability in operations, and thereby toward optimal use of industrial facilities.

The findings of this comparative study suggest that social scientists, and others engaged in research on organization, ought to explore the problems of cooperative vs. managerial decision-making within various economies and cultural contexts, as well as in laboratory and field experiments. Diverse approaches to these problems, exploring the variability of performance of diverse modes of organization, should add to knowledge and have operational importance--insofar as variation in organization can produce meaningful differences in economic efficiency, or enlarge the available array of options for viable social organization. How much of the experience of cooperative decision-making is relevant to managerial organization, and vice versa, is an open and interesting question.

Footnotes

¹S. Melman, "The Rise of Administrative Overhead in the Manufacturing Industries of the United States 1899-1947," Oxford Economic Papers, 1951; Dynamic Factors in Industrial Productivity, John Wiley, New York, Basil Blackwell, Oxford, 1957; Decision-Making and Productivity, John Wiley, New York, Basil Blackwell, Oxford, 1958.

²A Directory of Kibbutz Industry is published by Kibbutz Industries Assn., 13 Tlomkin St., Tel Aviv, Israel. For background, see E. Kanovsky, The Economy of the Israeli Kibbutz, Harvard University Press, 1966. This volume includes a bibliography (pp. 155-160) that covers principal books and articles on the organization and economy of the Kibbutz.

³Among the relatively few organizational studies that are relevant for a comparison of managerial vs. cooperative decision-making, two are noteworthy: Stephen C. Jones and Victor H. Vroom, "Division of Labor and Performance Under Cooperative and Competitive Conditions," Journal of Abnormal and Social Psychology, 68 (March 1964), pp. 313-320; Bernard M. Bass, "Business Gaming for Organizational Research," Management Science, 10 (April 1964), pp. 545-556, esp. fn. 3.

⁴A fairly extensive bibliography in the field of

organization is found in James G. March (ed.), Handbook of Organizations, Rand McNally, 1965; also, the unusual volumes James L. Price, Organizational Effectiveness, Richard D. Irwin, Homewood, Ill., 1968; and Amitai Etzioni, Complex Organizations, Holt, Rinehart & Winston, New York, 1961.

⁵S. Littauer, "Technological Stability," Transactions of the New York Academy of Science, December 1950; S. Littauer, "Stability of Production Rates as a Determinant of Industrial Productivity Levels," Proceedings of the Business and Economic Statistics Section (Washington, D.C.: American Statistical Association, 1955), pp. 241-8; S. Melman, Decision-Making and Productivity, op. cit., pp. 165-6.

⁶This is one consequence of bilateralism in production decision-making. See diagnosis of bilateralism in L.B. Cohen, "Workers and Decision-Making on Production," in L. Tripp (ed.), Proceedings of the Eighth Annual Meeting, Industrial Relations Research Association, 1966, pp. 290-311; also see data on impact of bilateralism on management in S. Melman, Decision-Making and Productivity, op. cit.

⁷S. Melman, "Administration and Production Cost in Relation to Size of Firms, Applied Statistics," (Journal of Royal Statistical Society), 1954.

⁸See S. Melman, "Who Decides Technology?", Columbia Forum, Winter 1968; Dynamic Factors in Industrial Productivity, op. cit.

Co-ops and Net Margins: Retention vs. Cash Payment

The following is part of a chapter on start-up problems in production and marketing co-ops. This chapter, in turn, is part of a larger work-in-progress on poor-people's cooperatives which will cover organizing, planning, financing and start-up. It is written from the perspective of an organizer.

Producer co-ops have traditionally been plagued by the members' demands to distribute most of the year's earnings in cash. This demand becomes critical in the second or third year after the initial—and hardest—repayments of start-up capital have been made. The desire to distribute net earnings frequently brings the membership into conflict with the management.

Net margins is the portion of earnings in cooperatives which belongs to the members, the patronage refund. It does not include operating expenses, losses, depreciation or debt service. Part of the net earnings will be distributed to members in cash, and part of it must be temporarily retained for the co-op to use as internal financing. This much is a foregone conclusion; everything beyond it presents problems.

The problem of capital retention forces a co-op to answer three general questions: how much; how; and for what? The amount retained and the amount paid out is a decision to be reviewed and authorized every year. The financial instrument to be used, and its terms, is a decision that should first be studied at the same time the by-laws are drafted. The use of retained capital—the funds, accounts, or investments—is determined by policy decisions that will take shape even before the co-op gets underway.

AMOUNT RETAINED

There are two distinct problems at

work when the co-op decides how much to retain. In one respect, the problem of capital retention reflects the members' need for education in business finance. It's not enough to say, "In a co-op, the profits belong to the members." If members refuse to acknowledge the co-op's financial needs and the limits on how these needs can best be met, no one will be able to manage the business—the members included. Their refusal leads management to react by treating the problem in strictly technical—rather than human—terms. From this perspective, the decision about how much may be distributed in cash can be determined by reviewing a series of limiting factors: the amount of working capital needs for the next year; fixed commitments for financial contribution; requirements imposed by the co-op's tax status; etc. These limiting factors cannot be ignored, and members must be able to speak the same language as management when it comes to business finance. But confronting the question on this technical level alone ignores the force of the issue.

The second problem at work when members resist capital retention is an inadequate regular income. Members of most co-ops receive their income in the form of periodic advances against the year's patronage earnings. If members cannot earn a good living as working members, something's wrong. The problem may well be caused by illusions based on unrealistic or incomplete feasibility planning. Inefficient operations or true mismanagement may also be the culprit. The problem might be intensified by differing opinions about what constitutes a good living. Whatever the causes, if members feel their "wages" during the year are too low, they will rightfully pressure to pay out net earnings.

Since some working capital is a non-negotiable need, members will probably accept retention of a substantial amount of patronage earnings. The search for

ways to raise "wages" then moves in other directions, which can damage organizational stability. One way is to increase earnings by expanding the scale of operations (e.g., members of a farm co-op increasing their acres-per-member). The other way is to cut costs by cutting out waste (e.g., members might reason that they don't need a manager). As well-intended as such actions might be, the object of attack should be the source of the problem—anticipated income. The course of actions used as examples above presume an anti-expansion policy. An alternative approach would be to strengthen the membership and integrate new activities.

Some people argue that co-ops are not economically viable and cannot increase members' income significantly. Even if this charge were true (and experience overwhelmingly shows it is false) many co-op advocates insist that the importance of co-ops is not their ability to increase the private income of members. These advocates contend that it is more sensible in the long run and more stable in the short run for members to develop their standard of living as a group by initiating new services to members and/or expanding the group. Of course, this approach will never work unless the members themselves initiate it, as many community developers can attest. Some implications of this strategy for financial operations will be covered below.

FINANCIAL INSTRUMENT

The device that the co-op will use to retain net margins can be selected from a number of financial instruments. This choice will be limited to those devices which are legally permitted for financing out of the business done with patrons. The most common instruments for this purpose are shares of stock, revolving fund certificates, and book credits. External capital, by contrast, is obtained by altogether different devices (such as long-

loans, mortgages, bonds, etc.). The way in which members might invest their own private savings in the co-op should be limited to yet other devices.

Whatever instrument is used for internal finance, three variable characteristics must be decided:

First of all, how will the amount retained be calculated—per hour of work, per unit produced, per dollar of each member's gross earnings, or per capita? This can only be decided after (or in consultation with) an analysis of the methods of production and/or marketing payments the co-op will use. In order to allocate retains, it is further necessary to know the co-op's capital needs and to be assured that they can be met adequately. The method of calculation will also be related directly to the members' regular income.

The second variable is the length of time the co-op can use the retains before they must be repaid. Fixing the term at a set number of years can be risky. But some repayment policy should be established which limits the maximum number of years and which guarantees a minimum number of years. The latter insures some financial resources; the former insures that active members will be the main source of internal financing. The revolving fund cycle for retained patronage capital commonly ranges from three to eight years. When co-ops have no fixed cycle for revolving patronage capital back to members, the board of directors each year has the flexibility to retain or release out an earlier year's retained patronage capital. By-laws frequently empower the board to make an early withdrawal if a member requests it. Early withdrawals are usually discounted, so that the member receives less than was actually retained.

The final variable which is especially important for members is whether they receive interest on retained patronage capital. Paying interest gives members a financial incentive to keep their earnings in the co-op. Annual interest is limited for co-ops to a maximum 8%. Some co-ops that do not pay a fixed rate of interest nevertheless pay interest on the retained earnings from a given year which are revolved back to the members. The interest rate under that system is usually decided at the end of each year when a retain is paid out, according to how much the co-op can afford.

The three characteristics—the method of calculating the amount, the term, and the rate of interest—of the financial

instruments used for retained net margins must be provided for in the by-laws (or other appropriate corporate documents). Once they are fixed, they can be changed; but the process of amendment and revision can be an expensive, time-consuming nuisance. Consequently, these variables are often left for the board of directors to decide. The root problem, as usual, is to clarify and structure the goals and objectives of the co-op; the task then becomes a more technical one of structuring the financial instrument to reflect and enhance those goals and objectives.

USE OF RETAINED CAPITAL

The most immediate and non-controversial reason co-ops need to retain patronage earnings is short-term financing. This applies particularly to the next year's working capital for operating expenses. A second need is long-term financing to expand the services or size of operations and be able to increase the membership. Expansion nearly always calls for outside financing, but the co-op itself commonly provides at least half of the amount required.

The reason it is so essential for the members to provide the financing for these two purposes receives extensive treatment in an earlier chapter. It usually costs less to pay for member financing than to pay for external financing. More importantly, what it does cost comes back to members. And the thinner the co-op's finances, the more it must depend on external financing—a vulnerable position any business wants to avoid.

Another need for retained patronage capital is financing services to support business activities. Support services may be directly related to business (such as education in a co-op whose members haven't been in business before; or child-care when the parents work). Or the support services may be indirectly related to business (such as health care, housing, or a retirement income plan).

Programs for support services in co-ops remain largely underdeveloped. It is commonly argued that they are a good idea but they don't work. This is not a sound argument against support services but rather a reflection of the unsystematic and inadequate attempt to implement them. The dominant ideology and economic surroundings encourage members to meet common needs individually rather than cooperatively. Consequently, the problem of support services must be understood as not just technically determined and limited by internal finances; it

is also politically determined.

The fourth area of need for retained earnings concerns the context in which the co-op does business. This involves not only competitors, suppliers, buyers, creditors, but also the broader economic and political environment. Isolated co-ops have tended to lose their cooperative and participatory thrust; they are short-lived or they get assimilated into their business surroundings.

One way to change this is to foster the organization of similar co-ops, to help finance them if possible. A cooperative of "social" sector of the national economy has been developed in some capitalist countries by capital accumulation for social rather than private interests. Such a process could have an important impact here if practiced by cooperatives which were committed to supporting other co-ops as well as community and regional organizations whose interests coincide with those of the co-op. This approach contrasts with the conservatism and local chauvinism of many community-based economic development groups. But when business opens its eyes wide enough, it sees that survival and growth has a higher priority than momentary profit margins. Co-ops would do well to foster the expansion of other poor-people's and worker-controlled business, community-based development, and other projects intending change in the superstructure and infrastructure related to social interest and local control. Many different activities can contribute to the creation of a favorable climate of development.

AFTERWORD

The four uses for retained capital which have been glossed here could pose a drain on the co-op's capital resources without cautious financial administration. But since public funds are so unreliable, the allocation of even token amounts could have a significant long-range impact. There are three conceivable alternatives for co-ops to develop along the lines sketched here. The co-op itself could expand its scope to that of a CDC. Or the co-op could link-up and coordinate with a separate entity which already exists (e.g., a CDC; a labor union; FEDO). Or the co-op could spin-off a separate organization (such as Técnica Inc., the training vehicle for new co-ops started by the Co-op Central in Salinas, CA). To pursue any of these alternatives clearly raises questions beyond the scope of this article.

—William R. Greenwood

At IGP, It's Not Business As Usual

by Daniel Zwerdling

IGP, a modern, high technology insurance company in downtown Washington, has developed the most important experiment in worker self-management in North America.

For sheer political drama, the board of directors elections last February at the Consumers United Group, Inc., beat the Carter-Ford election cold.

Consumers United — usually called International Group Plans, or IGP* — is the \$60 million, worker-managed insurance corporation just ten blocks from the White House in the financial heart of Washington D.C. Its 340 secretaries, accountants, file clerks, salespeople, and other employees own half the corporation and elect half the board of directors.

The results of the national presidential campaign meant no more than minor political variations. But the outcome of the IGP elections promised a dramatic difference. For the incumbent board was staging a coup of sorts, trying to impose more traditional corporate work styles. Board members were proposing widespread layoffs in a company that forbids laying

workers off.** The board wanted to bring back worker attendance records in a company where keeping track of attendance is forbidden. And the board wanted to give management the power to fire workers in a company where firings are controlled by a worker court.

But the entire board was ousted — and the workers elected a new board with “democratic” views. “It was a major showdown, a turning point,” one insurance clerk told me. “The people — and democracy — won.”

The board elections at IGP went unnoticed in the press. But in just five years this insurance corporation has developed the most important experiment in worker self-management in North America. It's an ongoing experiment, not a finished model; the democratic decision-making structure changes so often, as workers grapple for the “best” system, that by the time this article is printed some of the information may well be obsolete.

Self-management advocates in the United States have never before had a good home-grown example to learn from. While collective groceries sell plenty of

brown rice, and democratically too, they're too small for most people to take seriously. The plywood cooperatives in the Northwest have held on for 20 years, but now many are selling out to conglomerates. The Vermont Asbestos Group proves that workers can take over their company and run it profitably, while keeping the decision making as traditional and autocratic as ever.

IGP, by contrast, is a modern white-collar company using advanced computer technologies in a competitive market. It's a successful corporation that earned about \$1 million in profits last year. Workers at IGP aren't leftist college graduates like workers at so many collectives. Instead they are a typical assortment of middle and lower income office workers — 46 percent white, 43 percent black, two-thirds female, and only a third with college degrees.

Most important, IGP is a firm where rank-and-file employees really do exert fundamental powers. For example, 85 percent of the workers turned out for the board of directors election, an enviable turnout in any political campaign. “Look, just say we are completely in charge of our own jobs from day to day,” a claims clerk told me. “I mean that individuals like myself, making close to [IGP's] minimum wage, make decisions on our own that could affect a whole insurance plan, such as whether certain people are eligible to receive claims or not — decisions which only a manager could make at any traditional insurance company.”

*Consumers United Group, Inc., is the official name for a holding corporation with three subsidiaries: Consumers United Insurance Company, which underwrites the insurance; International Group Plans, which sells the insurance; and International Group Plans Administrators, which services the insurance clients. In practice they operate as one company, and employees refer to the whole operation as “IGP.”

DANIEL ZWERDLING, a Washington-based freelance writer, has written on workplace democracy for publications including the *Washington Post*, the *Progressive*, and *New Times*. A shorter version of this article appeared in *New Times*.

**The policy would be to institute across-the-board pay cuts, rather than layoffs, with the highest percentage cuts for those with the highest salaries. The cuts would be considered loans, to be repaid by the company at 6 percent interest.

The lessons IGP offers are not all about success. It faces some serious problems and has made some tactical mistakes from which self-management activists can also learn. The experience at IGP suggests that the road to self-management will be a difficult and painful process — but then, so is any social change.

The self-management system remains wobbly and sometimes embattled, plagued by managers who resist giving up their traditional powers and by production clerks who don't know how to assert their newfound powers. And despite the dreams of some advocates of worker self-management to the contrary, there are employees at IGP who say they could not care less about making important decisions about their work lives.

"I would love to go back to a traditional company, punching time clocks and being told exactly what to do, when and how to do it," one clerical worker told me. "I just can't stand the confusion anymore."

James P. Gibbons, the current president, founded IGP in 1964 with three partners and an IBM 1401 computer. Gibbons had earned a reputation in New York as a spectacular insurance salesman, and now he wanted to try a new marketing concept. Instead of using a sales network to sell insurance door to door, IGP would sell group health insurance by computerized mass mailings to members of groups — from the Air Force Sergeants Association to the staff of *Family Health* magazine.

The idea took off, and in five years Gibbons had 100 employees handling \$10 million in premiums.

Gibbons says he considered business just a way to make a living while he pursued more cosmic visions of social and political change. He marched — and was twice arrested — in antiwar, anti-poverty, and civil rights protests, and says, "I was marching for the power of people to control their own lives."

"I had always thought I'd sell the business and use the money to set up some sort of foundation, like the Stern Fund or something, and give money to political causes," Gibbons says. He's sitting at his desk, which is one among many in a large room; there are no executive offices at IGP. "But then I started thinking, 'What's the point? Set up another foundation that is trying to change the very people and system that gives us all our money?' It occurred to me what we really had to do was create an economic institution that was self-sufficient. And that," Gibbons says, "is when I became consciously committed to making this company a self-sustaining, living model of social change."

"What I've done," he says, "is to create the first corporate power structure in this country which the employees have the power to change as they want. I'm not talking anything short of a total revolution."

The birth of democracy at IGP was a paradox. Gibbons imposed self-management on the workers as the enlightened monarch of a tiny nation might liberate the

masses by beneficent dictate. One day in spring 1972 he announced he was transferring half the company ownership to the employees in a nonsalable, profit-sharing trust. Six months later he announced that employees would begin electing half the board of directors (Gibbons appoints the other half). And then he began creating a network of employee committees which, he decreed, would gradually make the corporate decisions traditionally reserved for executives.

To understand the evolution of self-management at IGP, you have to appreciate one point: Gibbons never pursued self-management for self-management's sake. "Hell no, self-management isn't the end objective, the end objective is maximizing humanness," Gibbons says, "creating an environment of justice, equity, equality, beauty, truth — an environment where each member of the community has the opportunity to grow and develop in his or her own unique way, to self-actualize."

The whole reason for self-management, Gibbons says, "is to give workers the power to protect themselves against arbitrary uses of power by management. But if we achieve self-management without achieving these other goals, I'll consider the experiment a failure."

Most companies around the country that have instituted some form of worker participation have used it as a tool for making the business more successful. The worker participation scheme at Procter & Gamble is so profitable

that management considers it a trade secret, like the method for manufacturing Pringles. But in Gibbons' revolution, the business itself has become the tool — the tool for creating a radical society, "a utopian community," as he puts it. He has proclaimed his goals in a credo, emblazoned on a silver poster and taught to new employees on their first day on the job:

Goal I: To build a lasting economic institution which helps satisfy the real needs of our client organizations ... and to provide quality service ... [while] making enough profit to keep the corporation in existence....

Goal II: To build this institution on a foundation which maximizes the humanness of everyone involved, and which creates a new ethic for economic institutions — an alternative model for business.

"The very idea of creating a humane society within a business institution," Gibbons acknowledges cheerfully, "is an enormous paradox."

Who decides

Gibbons and IGP employees have spent five years groping for a sensible decision-making structure. There have been so many committees created, modified, abolished, then resurrected again that even veteran employees can't remember them all. Today the basic structure at IGP is this:

The *worker teams* are autonomous work groups throughout the company, each with about six

to a dozen employees who perform the same job. Clerks who pay claims to military clients, for instance, work on the military claims team. Although team power has never been defined on paper, in practice the teams are responsible for organizing and managing the company's day-to-day work, and for handling staff hiring and firing.

Each *department* is composed of several teams. Department-level decisions, such as staffing levels and budgets, long-range objectives, and coordinating the work of the teams, are made democratically by a *department operating committee*. The committee includes the *team leaders* (a worker representative elected from each team) and a *department coordinator* whom the team leaders help select. A department coordinator doesn't have the powers of a traditional corporate department head, but he or she is supposed to guide the staff and carry out the decisions of the operating committee.

Each *division* includes several departments. Division-level policies are made by the *division operating committee*, which includes the department coordinators, a representative elected by the workers, and a *division coordinator* elected by the department coordinators. The division coordinator — called a "center forward" in IGP's lingo — is supposed to carry out the decisions of the committee, not give orders like a boss.

The *corporate operating committee* is made up of the handful of top managers who run the cor-

porate business from week to week. It's the least representative committee of all. Except for one member directly elected by the workers, the members are hired by the board. The corporate operating committee reviews all major policies and corporate operating strategies devised by the lower committees before sending them for approval to the board.

The *board of directors* is half chosen by Gibbons and half elected. The board is supposed to be the ultimate decision-making body, the final vote on major policies from investments to sick leave to wage scales.

I've left two of the most important committees until last, because they operate outside this chain of responsibility. The first is the *personal justice committee*, the worker-elected court. "All decisions of the Personal Justice Committee shall be final," company policy says, on disputes over pay, promotions, leave policy, job transfers, anything. The only exception is firings, which employees can appeal beyond the court to a special committee of three worker representatives and three managers.*

The committee that created the court is the *community relations assembly* (CRA), the worker congress. Its 20 representatives are elected by popular vote. At least one CRA representative sits and votes on virtually every committee in IGP, which ensures that at least

*Official IGP policy also guarantees "full protection of your individual rights as a citizen of these United States, in particular freedoms articulated in the Constitution and known as the Bill of Rights."

one direct representative of "the people" votes on every decision.

But the guts of the CRA's job is to formulate all the workplace policies that directly affect employees, from vacation rights to production standards, from hiring guidelines to wages. The CRA doesn't have final say, according to corporate policy, but sends its recommendations for "review" by the corporate operating committee and "approval" by the board.

When I first visited IGP in 1974, I began by asking the employees, "But does it *really* work?" It was a simplistic question that reduced the complex power relationships to an absurd yes or no. For instance, how much power can employees exert over their day-to-day work life? How much power over corporate finances and business? How much power can employees exert over financial questions that directly affect them, such as wages and benefits? And just as important: no matter how much or how little power the employees have available through formal voting, how much power do they actually assert?

When it comes to the day-to-day life in the "economic community," as Gibbons calls it, the rank-and-file employees have enormous power available — and they use it. File clerks making under \$10,000 a year hold an impromptu meeting one morning and vote to revamp the entire central files system, the heart of the corporation. Clerks churning

out new insurance policies take a break to decide who should answer the telephone; they vote to rotate the hated task. A team of researchers, who answer clients' questions about their insurance policies, vote to hire a job applicant they interviewed the day before. The department coordinator hasn't even met her. "A department head," one researcher says, "shouldn't stick his nose into team business."

The worker teams also wield effective control over firing fellow employees, although the power is slightly ambiguous since team leaders and department coordinators also have the power to fire; the company has never firmly resolved just whose power should take precedent. In practice though, the rank-and-file employees have made firing a rare event in this company. A small drama flared one day in the life insurance department, when the team leader tried to fire a worker he said "wasn't producing." He backed down when her teammates marched angrily to his desk and declared he had no right to dismiss a teammate without consulting the team first.

Some employees at IGP complain that it's becoming *too* hard to get rid of troublesome and unproductive employees — "it's kind of scary to stand up to someone you've been friends with and say, 'sorry, you're not working out, you've got to go,'" one claims clerk says. But workers do it. "We fired a dude last week," a mailroom clerk says. "When he didn't carry his load we had to do the extra work. We warned him, had

meetings with him, put him on probation — he wouldn't listen." He appealed to the personal justice committee, but the court upheld the team's decision.

The clerks paying insurance claims and peering in the microfilm machines don't exert direct power over department and division-level policies, since they don't have a direct vote on the operating committees. But most employees I talked with say they aren't interested in worrying about long-term planning and budgeting.

They can, however, exert considerable informal power over department and division decisions when they feel the issues touch them directly. For one thing, there's a company commandment called the "IGP Decision-Making Model": it declares that no decisions may be made until all the workers directly affected have been consulted first. But more important, the workers exert power because there is an assumption at IGP that leaders are supposed to act on behalf of the employees and to watch out for the employees' interests.

"We don't assert ourselves very often by taking initiative," says one claims examiner, "but people resist because they know they have the right to resist." When one department announced it was installing a new computer system to keep track of claims, for instance, the claims team announced they didn't like the system and would refuse to use it. "The computer people were forced to sit down with us and design it the way we liked," one team member said.

Managers who don't respond to the rank and file don't survive in their positions very long. "We called our department head before a meeting of the entire department to air a lot of grievances," one researcher says, "and one of the big issues was, do the people have confidence in the top man? We were terribly, painfully honest with him. We gave him a vote of confidence only to give him another chance."

IGP employees also wield considerable power over the broad

policies that govern their work life through their community relations assembly. On paper, the CRA seems like a glorified employee sounding board — one that has the empty "power" to *recommend* policies — since all CRA policies must be submitted for "review" and "approval" to the corporate operating committee and the board. Many employees at IGP have never taken the CRA seriously for precisely that reason. Since Gibbons created the committee four years ago, CRA repre-

sentatives have suffered occasional periods of inertia, paralyzed by self-doubt as they ponder whether they really have any power.

"We've had a problem trying to figure out what our role is and what our limits are," one representative told me. "Look, none of us have really believed we could ever have the power to do anything important," another says. "I mean, how many of us have ever been on a company committee like this before and been asked to make corporate policies?"

But however powerless these representatives may feel, last year's CRA — workers say it was the strongest they can remember — revised all the major workplace policies and got the disciplinary system working. Gibbons and several board members have consistently prodded the CRA to assert itself more. "The CRA acts like it's asking permission from the [corporate] operating committee," says board member George Allen, a professor in the school of business at the American University. "But I'd like to see the CRA become equal in power to the operating committee."

Viewing IGP through descriptions of the CRA, the teams, and other committees misses the spirit of employee power and freedom there — a spirit that contrasts dramatically with employee feelings at traditional white-collar firms. A claims examiner at Geico, a major insurance company with headquarters in Washington, tells what it's like at her office. "A bell rings at 8:30 and if you're five minutes late they reprimand you," she says. (She is speaking at home

Benefits

Tired of your current job and frustrated by its meager benefits? Apply for any job at IGP and enjoy the kinds of benefits that most of America's 86 million workers only dream about. Formulated and passed by the employee-elected congress and then approved by the board, benefits include:

- ☐ minimum annual wage: \$9,450 plus profits.
- ☐ flexible hours: set your own hours between 7 A.M. and 7 P.M. Some employees work four days a week.
- ☐ no attendance records: everyone leaves a few hours early or takes a whole day off from time to time. As long as you get your work done, no one minds.
- ☐ vacations: no less than two weeks a year, and "no more than the job responsibilities, team, and team leader will agree to." Some workers take a month off.
- ☐ unlimited sick leave: the company pays your full salary for 90 continuous days, then you go on disability. You're guaranteed a job with the same salary whenever you come back.
- ☐ maternity leave: three months at full pay.
- ☐ tuition paid: take a course at a local university that relates somehow to your work, and the company will pay you back. "I'm taking psychology and philosophy," a files teamleader says, "so I can better understand the 'girls.'"
- ☐ first crack at job openings: all vacancies are offered to IGP employees first.

If your team votes to fire you, you're not yet out in the cold. You can appeal to the employee court while receiving full pay. If you do leave, you can start over at a new company with good will and a clean slate. IGP won't put any negative information in your personnel file. ■

because "I'd get fired if I talked to you at the office.") "Clerks aren't supposed to drink coffee at their desks and they're not supposed to talk, unless it's about business. Supervisors assign us our work each day, and if we ask questions they tell us 'It's not yours to wonder why, just do as you're told.' I ask questions anyway, and they've classified me in my personnel file as an 'insubordinate.'"

At IGP clumps of workers sit on their desks, drinking coffee and chatting about a recent CRA vote to reimburse workers for meals, transportation, and even babysitting fees if they work after hours or on weekends. Work in one department comes to a noisy halt when the research team throws a baby shower for one of the teammates; the department coordinator doesn't scowl, he takes some wine and a piece of cake. There's no morning bell at IGP. "I've been coming to work at noon lately because I'm training some horses every morning at a stable," a researcher in the life insurance department says. "I stay and work until 8 o'clock."

My Geico acquaintance has "never even met the company president" — but Gibbons and three top managers take 45 minutes one morning simply to meet with an angry IGP employee who has questions about disciplinary procedures "which just can't wait." And workers at Geico are afraid to speak out. I dropped by the IGP board of directors campaign assembly last year and heard one candidate, a 24-year-old claims clerk, declare that "Gibbons has been feeding us a lot of

bullshit and it's about time the people bring it to a halt." He received some healthy applause; then everyone adjourned to a conference room for a wine and cheese party and the vote.

Ups and Downs

There's a sharp dichotomy at IGP between the daily world of work and the world of business. When it comes to making decisions about what insurance packages to market, what strategies to use, and what investments to make, the rank-and-file employees have little voice.

The theory behind the structure at IGP has been that "employees don't have any business making decisions about finances if they don't have financial expertise," one researcher explains. Instead, representatives accountable to the rank and file are supposed to make such decisions. Until a couple of years ago, financial decisions were handled by a finance committee, most of whose members were elected from each department. But it didn't work. For one thing, in the effort to be as democratic as possible, membership was rotated so often that individual representatives couldn't build up enough knowledge of the committee to play a meaningful part. To make matters worse, many of the representatives had little financial background, and the company made no effort to provide training.

"Frankly, the meetings were terribly frustrating," one elected representative told me. "Half the time I didn't know what they were

talking about." Both these factors increased the tendency of the chief financial officer, the chairman of the committee, to "play the cards close to his chest," as one finance committee member recalls. "He controls the books, he controls the figures — so he'd make a recommendation and we had little choice but to nod our heads. We should have been more forceful, I know," the representative says, "but we were intimidated."

Since then the finance committee has faded away. Now most of the power to make financial and marketing decisions rests with the corporate operating committee, far from the rank and file, although there are still a few possibilities for direct worker involvement. The chairperson of the CRA votes on the committee, but so far none of the chairpersons have learned enough about the business to take an active part. And the board of directors, which is half elected by the employees, does have the power to reject operating committee decisions. A few years ago, the directors acted like a rubber stamp — "one year the Board hardly even met," recalls board member George Allen. Recently the board has been asserting itself more and more as the voice of "the people." When managers on the operating committee insisted that they should control wage scales, for example, the board insisted that it would make the final decisions. "The operating committee is mostly managers," one board member explained, "when the people should have a large say in deciding wages."

Workers at IGP do exert substantial power over financial issues that touch them directly. The CRA drafted the last major wage scale revision, after consulting with "the people"; it was changed little by the board. CRA representatives also selected the company-paid health insurance plan, one of the most generous packages at any company in Washington.

And when really crucial financial policies come up, the board turns over the decision to the entire work force for a vote. It was the rank and file who voted to establish the \$9,450 minimum annual wage, and it was the workers who decided how to divvy the profits. Most managers, not surprisingly, wanted to apportion profits as a percentage of salaries. But the rank and file, the two-thirds earning under \$11,000 a year, voted to split the profits equally, to president and mail-room clerk alike.

Now the caveat: despite the successes at IGP, the self-management system does not work as well as it might. For every team that asserts its autonomy and power, employees point to a team that shrinks from responsibility. For every decision that a committee reaches by democratic vote, workers point to a committee that waffles and submits to the decision of a self-styled boss. "There isn't one department in this community where the philosophy is even half working," Gibbons says with frustration. "This place," says Larry Bonner, a former member of the

top operating committee, "is a mass of contradictions."

And the contradictions are nourishing worker discontent. The corporation preaches trust, maximizing humanness, and a new quality of work, yet the absentee rate is increasing, turnover is high (up to 15 percent during the last few years), and some departments are mired in chronic backlogs and sloppy work. You can read the discontent in managerial memos that float around, talking about "tremendous tensions, anxieties, character assassination, and balkanization." And you can read the mood in the only graffiti scrawled on the men's room stalls. "IGP employees need to organize a union to protect and increase their working conditions," a dissident wrote in bold blue. "Self-management is a clever farce to keep wages low." About 25 percent of the work force apparently agrees — and told a company-wide survey in 1975 that IGP needs a union.

Workers at most companies, the social surveys tell us, are discontent with the status quo — their lack of power, their isolation, their alienating role as a cog in a vast corporate machine. But at IGP, the workers' discontent stems from change; normal corporate power relationships have been turned upside down. Self-management at IGP has put power and responsibility up for grabs; and neither the managers nor the rank and file have ever been trained by this society to handle it.

What training and skills are needed for a self-managed en-

terprise to fulfill its potential? Advocates who have worked with democratic decision-making institutions emphasize some characteristics that make a self-managed enterprise strong. To begin with, workers need a sense of personal confidence, responsibility, and autonomy to manage their work and to make decisions on their own. An IGP employee, formerly a telephone operator, explains her plight: "At Bell Telephone we had to raise our hands just to ask permission to go to the bathroom. But at IGP we're supposed to do everything on our own. No one tells us anything." "The fact is," says a file clerk who used to work at the post office, "a lot of people need a boss standing over them, telling them exactly what to do."

While workers in a self-managed firm need independence, they also need to feel responsible to the collective. "I thought self-management meant you can get your work done whenever you want," one policy issue clerk told me. She was angry that her team reprimanded her for taking three days off during a hectic week. "That's not self-management," Gibbons writes in one of the two-page philosophical treatises he occasionally passes among the employees, "that's anarchy!"

And if committees are made the cornerstone of decision making, employees must master the art of listening to others, sharing opinions openly, and hammering out a consensus acceptable to the whole group. In some of the countless IGP committees, members talk at

once and can't hear what the others are saying, or they shrink from saying anything at all and let one or two members dominate. I attended CRA meetings that accomplished nothing because representatives straggled in 45 minutes late, and team meetings that wasted time because workers felt too nervous to say what they really felt. No wonder two-thirds of the workers told the 1975 survey they think most committees are a waste of time — "God so loved the world," reads the sign on one worker's desk, "that he didn't send a committee."

Yet, "The problem is not in having committees," George Allen writes in the company newspaper, "but in how they operate." Committees of top managers aren't much better off. I watched managers on the corporate operating committee spend an hour trying to figure out why they tended to ramble instead of focusing on specific topics. They finally realized they had never prepared an agenda.

Many employees do plunge into the democratic decision-making process — over 40 percent of the workers at IGP have served on at least one committee. But as in any organization, from the PTA to SDS, when a minority of the participants take on most of the burden they get exhausted before long. "After six months here, you just burn yourself out," says Jane Suppan, a researcher who has belonged to the CRA and many other committees. "And you still have your normal work to put out."

(Continued on p. 76)

The Employee Trust

When IGP's founder and owner, James P. Gibbons, decided to give away half the corporate stock to the employees, he discovered it wasn't all that easy. Worker ownership and control are so rare in this country that there aren't any legal structures set up to achieve them. Gibbons couldn't just give away his stock, it turned out, without paying astronomical gift taxes.

"It took us almost two damn years just to work out the arrangement," recalls George Allen, a veteran member of the board of directors. "There just weren't any models to follow." What finally emerged: Gibbons doubled the shares of IGP stock from 250 to 500. Then he — technically, the company — "sold" half the stock, or 250 shares, to a special employee trust. Any employee who works at IGP more than six months is automatically a member of the trust until he or she leaves.

The trust didn't give the company any cash for the stock; instead it gave the company an IOU to pay back the value of the stock, plus 6 percent interest, over approximately a decade. The value of the stock was fixed at around \$1.7 million, based on an independent appraisal of the company's book value.

Now, each year, the board of directors votes to distribute a certain amount of the corporate profits to the workers, by transferring it to the trust. Under IRS regula-

tions, the company can give the trust a maximum amount of profits each year equal to 15 percent of the corporate payroll. Last year, for instance, the corporation made about \$1 million profit, and the board voted to transfer half a million to the employee trust, which was somewhat less than 15 percent of the payroll.

But since the employee trust is still paying off its IOU for the stock, it immediately pays back 50 cents of every dollar of profits that the board transfers to it. The company doesn't pay taxes on the profits that it gives to the trust, nor on the money it gets paid back.

Each employee gets credited with an equal share of the profits each year; a manager earning \$30,000 a year gets the same dollar amount as a mail clerk earning a third as much. Employees don't actually get to take their profits home although they may borrow up to 25 percent of the profits they've accumulated at merciful interest rates — 8 percent compared to the more than 11 percent they'd pay at a bank. When employees leave IGP, they will get their share of the profits in one of three ways: all at once, spread over five to ten years, or in the form of an annuity purchased from a life insurance company. They'll also get a portion of the current book value of IGP's stock — based on how long they've worked there.

I met one young claims clerk who serves on so many committees that she occasionally does her insurance work over night, and gets no sleep. She's an extreme case, but reflects the dilemma. "Even if we wanted to participate in decision making," says a woman with two children, "we can't afford the time. We've got to get home and put supper on the table."

While many employees feel overwhelmed and confused by their sudden rise to power, managers at IGP feel uncertain about their fall from it. Consider the qualities that mark a good manager in a self-managed enterprise — "Damn it, don't think of yourselves as managers, think of yourselves as leaders," Gibbons fumes at an operating committee meeting. "*Manager* implies control; *leader* implies government with equal rights." As self-management advocates emphasize, a good leader shares information with the rank-and-file employees, delegates power as much as possible, inspires and motivates workers rather than giving orders, and, most important, sees his or her role as working on behalf of the workers, not over them.

"Now you tell me," Gibbons says with a sigh one day, "where you can find leaders who have administrative and insurance experience who also believe in these democratic values? Right — nowhere."

"Managers are afraid and confused here because they lose the power of being the boss," says Del Clark, a former member of the corporate operating committee.

More than a dozen top managers — *leaders* — have come and gone since I first visited IGP in 1974, largely because they couldn't handle democratic-style leadership. "At my last job if a secretary so much as talked back to me I could have said, 'Shazam, you're fired, finished,'" one department coordinator says. "But now at IGP if I try to boss someone around I could be fired, or at least deposed. After 20 years in the cutthroat business world, it's hard suddenly having to accept a secretary or mailroom clerk as equals."

And most leaders at IGP complain that group decision making takes too much time in a business that demands quick action; and unless all the members of a committee are doing their required part, they're right. Some leaders have become so afraid of crossing the line between providing leadership and imposing dictatorship that they shrink from exercising any initiative at all. "And then," one division center forward says, "inertia sets in."

"I'm telling you, it's absolutely impossible to make every decision democratically," says Del Clark, who used to be center forward of the largest division in the corporation, with 200 employees. "Our committee would take three weeks trying to solve a problem I could have solved like that" — he snaps his fingers — "in a couple days, and we'd get 99 problems a week. The department heads on the committee would all agree to do certain jobs during the week, and then at the next meeting they'd say they didn't have time. So if I took

action on my own I'd be accused of being a boss. If I didn't the work wouldn't get done and as division head I'd be blamed for it. I got so frustrated and confused," Clark says, "I just had to resign." Now Clark works in a nonleadership position, doing what he calls "busywork."

Put employees together with managers who are equally unprepared for self-management and you have a vicious circle. Teams, the CRA, and other committees don't meet their responsibilities, and the work falls behind. Tensions rise as people sense the system isn't working; instead of asking themselves how to solve it they blame their leaders for failing them. The leaders blame the rank and file for dragging their feet and withdraw in defensiveness and secrecy. The workers become more hostile ... "and then we all ramble along in no real direction," one researcher says.

The stalemate inevitably ends when a strong leader, usually Gibbons — impatient and furious at the breakdown, frantic for the system to work — plunges into the power vacuum and imposes his own solutions. I watched Gibbons undercut his own carefully nurtured democratic structure many times, pleading, "This is a business, we've got to go on." He solves the immediate crisis but contributes to a more profound crisis in the long run: cynicism.

"We have no power to do anything, really," a team leader scoffs after Gibbons has intervened in her department to solve a work backlog. "Uncle

Jimmy tells us we have the freedom to do what we want, but then he just goes ahead and does what he wants anyway."

"I feel like I'm really suffocating here, we've got no influence over anything," a claims clerk told me. Then she paused — "well, I guess it depends on a person's initiative. I'm the type of person who doesn't ever do anything. I mean, they say you can do things here, but I don't believe they really feel you can do it."

"Lots of us come from such up-tight work or school environments that it's hard to eye a less structured situation without suspicion," one employee wrote in the company newspaper. "Knowing only gross manipulation by employers or instructors, we expect it... We look for the fine print, sure that we're being had.... At least the old system clearly defines the enemy. Are we strong enough to risk a system where there may not be an enemy, other than our own cynicism?"

Many employees do acknowledge that when the system doesn't work as it should, they are at least partly to blame. "The mechanisms are all here, the freedom and power are all here for us to really take control and run this company the way we want," a young claims examiner named Kurt Carr told me — before he became elected department coordinator. "Why don't we? I don't want to call it ignorance. Let's call it lack of education — lack of education in democracy."

Learning self-management

Education in democracy is one area where IGP has failed the employees. The transition to self-management is expected to be difficult, but Gibbons neglected to make it smoother by creating long-term training programs to teach employees self-management values and skills. True, IGP has made some attempts at education: new employees take orientation courses in the philosophy and finances of the business, and at one time the board of directors held seminars with workers to teach them how the employee trust works. Over the years the company has hired various consultants to help committees work more effectively — and now the company has its own in-house team of troubleshooters who float from crisis to crisis, attempting to teach employees how to tackle problems and solve them on their own.

But these sporadic attempts to spread a little democratic or financial knowledge among the work force have failed, as Gibbons acknowledges: "I'm tired of these ad hoc, hit or miss, part-time efforts to solve problems. We need a long-term training program, and I want someone to get to work on it full time." But he adds in the same conversation: "People don't understand that we don't have the luxury of time for all this training. We're not an educational institution, we're a business, and we have economic problems that have to

"God so loved the world," reads the sign on one worker's desk, "that he didn't send a committee."

be solved." But that may be a deception. The time the workers would divert to self-management training, say a couple of hours each week, may be vastly outweighed by the time they now waste in ineffective committees and in complaining.

What kinds of training programs could IGP develop?

1 Regular seminars for all employees on the history, philosophy and experiences of self-management. If workers at IGP learned there were historical roots to Gibbons' visions — if they knew that workers in Yugoslavia as well as plywood cooperatives in the Northwest were grappling with the same sorts of problems — they might feel more grounded in a movement, rather than alone and adrift.

2 Regular seminars on how the business operates, from marketing insurance packages to investment finance.

3 Regular forums, perhaps once a month, where top leaders could discuss the current financial status of the business, key issues up for debate in the corporate operating committee or the board, and could answer questions from the employees.

4 Weekly meetings between CRA representatives and their "constituents," to share more immediate information about possible grievances or problems, policies pending in the CRA, and new policies that employees would like to propose.

5 Methodical training in the art of group decision making, for every committee from the work

teams to the board. The training should be handled by full-time employees skilled in group dynamics.

6 Special training for every leader — teaching techniques from the art of chairing a meeting to demystifying technical information so the rank and file can understand it.

What are the prospects for long-term education and training at IGP? The question is synonymous with a more fundamental one:

What are the long-term prospects for self-management at IGP? For although the tensions are healthy — they indicate the corporation doesn't squelch people but nourishes intellectual and emotional ferment — they are reaching a stage where they will move people in one of two directions: toward a more stable and smoothly working self-management structure, or back to a more traditional corporate hierarchy.

"We're at a critical turning

point in this community," Gibbons acknowledges, "where the experiment is up for grabs. The people here have the power to throw me out, throw out all the values I stand for, even piss on me if they want."

For a time last year it seemed as if Gibbons' values would be thrown out. The company, like the nation, is constantly swinging through varying political moods, and last year was the year of the conservatives. To begin with, IGP

Selecting Managers

For two years starting July 1974, the 340 employee-owners of IGP conducted an astonishing experiment: they elected most of the top managers. From the time Gibbons transferred half ownership of the company to the workers, the community had been debating how to make its leaders more accountable to the rank and file. The board of directors had suggested forming an employee-elected committee to nominate a slate of candidates for each management spot, leaving the final choice to the corporate operating committee. The worker congress (the CRA) had suggested forming a committee composed of management to recommend a slate, leaving the final choice to employee elections. But the policy that became company law was Gibbons' idea, and it gave workers the most power: the workers would nominate the candidates, a joint worker-and-management committee would certify which

ones were professionally qualified, and then the rank and file would select the final choice.

In one department, the 30 production clerks who process insurance policies for clients like the National Council of Senior Citizens, a \$2 million account, elected an affable former supermarket cashier as department head. He trounced a candidate who knew far more about the insurance business but who, one clerk explained, "was always stepping on the people's toes."

In the military department, which handles insurance for members of the Air Force Sergeants Association, the former department head, a retired military officer with a reputation for barking commands, wasn't even nominated. "Sure I would have liked to continue as department head," he said. "But if the people here don't like you, you don't have a chance in hell to succeed."

Over the next two years, employees at IGP elected and deposed numerous team leaders, department heads, and even division coordinators (called center forwards). The elections were embroiled in controversy from the start — partly because some workers were opposed to the principle, partly because the elections were not always handled well.

"The elections have become personality contests," a proof-reader in the advertising department told me. "We've elected some very nice idiots to run some of the departments." Employees did not elect any "idiots," but they did elect some leaders more for their personalities than for their administrative abilities. Some of these leaders floundered badly, contributing to low morale and "chaos," as many workers put it.

In some departments, competent, experienced leaders became

faced considerable financial pressures: after ten years of spectacular growth the company's income began leveling off, partly because of the national economy and partly because, after years of dominating the mail order health insurance market, IGP began to face some stiff competition.

Although the corporation was making a profit, some employees felt it wasn't making enough, especially at a time when some long-term debts were coming due. And

employees were tiring of the constant changes in Gibbons' experiment. "People tend to be a lot more conservative when things keep changing," one researcher says. "They need something secure and stable to hold on to. And here," he laughs, "what you write about us today will be totally different six months from now."

The rank-and-file employees voted their mood in last year's board elections: they defeated the "liberal" candidates and elected a

Washington bank president and an IGP manager known for his traditional, straight-line approach to business. Gibbons, who in the past had appointed such people as a Marxist economics professor and a civil liberties lawyer, picked three top managers with conservative fiscal reputations. "I figured it was time to put some financial knowledge on the board," he recalls.

To a point, most employees seemed to approve of the new cli-

scapegoats for deep-rooted problems that weren't their fault. And the election process suffered from inconsistency: in some departments a leader was elected as soon as the spot became vacant, while in others the top operating committee installed a leader with little explanation and without an employee vote. Some teams and departments were leaderless for months if the employees couldn't find a candidate whom they were willing to elect.

"The elections came too much, too fast," says a former board member who helped set up the process. "It was an awful lot of political activity all at once for a place that's never had it."

"I just don't think most people here are qualified — I don't think I'm qualified — to decide which people are qualified to serve in top leadership positions," a researcher added.

So last summer the worker congress, the top operating committee, and the board all voted to revamp the leadership selection process. Here's how it now works:

The rank-and-file workers still elect their team leaders by popular vote. But their direct participation ends there. To select a department coordinator, a joint worker-management "search committee" certifies a slate of candidates who are professionally qualified for the post; then the team leaders in that department and the other department coordinators elect one from the slate to become department coordinator. Division center forwards are chosen by the same process: after a search committee picks a slate, the department coordinators in the division and the other division center forwards make the final selection.

If president Jim Gibbons leaves the company, the board of directors, the corporate operating com-

mittee, and the CRA will elect a new president.

"It's a good system," one claims examiner told me. As the community policy says, the people doing the electing now are "completely informed about the expected duties and performance of the leader." Every six months, each leader will be "evaluated" — and ratified or deposed — by essentially the same process. If the workers in any department or division think their leader is doing a bad job, a majority can petition for a special evaluation any time they want.

"I think the people should elect all the leaders some day in the future," a team leader said, "but not until they're all really educated and informed. And that kind of education hasn't been dealt with. You can't allow people to vote who don't understand what the effect of their decisions will be." ■

mate. The CRA and the board revamped the election process so rank-and-file employees had far less power in selecting top leaders; and workers started putting more pressure on fellow employees who took too much advantage of liberal leave. "The place has the feel of a Republican administration," said Kurt Carr at the time. "The company is really cracking down now and become more conservative, and putting emphasis on the bottom line. But I think it's a healthy thing for democracy here in the long run. Things were getting too chaotic. We just have to be careful that it doesn't swing too far in a conservative direction."

But the climate did swing too far — as top managers began to argue that IGP's obsession with democratic values and workplace freedoms was damaging the corporate profits. When a board resolution called for the end of some of IGP's basic workplace freedoms, however, the political mood swung back. The managers were ousted from the board, and now a new group of directors known for their "liberal" and democratic outlook sits in control of the corporation. Gibbons' new appointees will be especially important. One is Dr. Michael Maccoby, a self-management specialist who helped design the joint United Auto Workers and Harman International Industries shopfloor democracy project. The other two are rank-and-file workers. "I'm saying, 'let's put people on the board again who will implement people policies, and not just think about profits,'" Gibbons says.

The events at IGP last year —

the widespread conservatism, culminating in the effort by top managers to toss out fundamental worker powers and freedoms — suggest that the firm confronts a difficult paradox: As the workplace democracy grows stronger and employees feel more assertive, workplace democracy itself may come under increasing attack. For until last year most employees, including top managers, went along with Gibbons' visions even if they grumbled under their breath. "Nobody in this company comes right out and says to Jim's face, 'democracy sucks,'" a former board member told me. But as more and more employees feel assertive, those who oppose Gibbons' goals are boldly speaking out. And the strongest opposition is among the leaders, who feel they have the most to lose.

"I came to IGP hoping to make vast sums of money," a former member of the corporate operating committee told me, "but I've finally accepted the truth. This is not a company where any of us will get rich. Do you know that Jim could make \$1 million a year if he wanted, yet when the board tried to raise his salary from \$50,000 to \$100,000, he threatened to quit? There are no stock options for us; a guy making \$25,000 a year will leave with the same money after 20 years as a mailroom clerk making less than half as much. We don't get power here, or prestige — most of us don't even have a private office. Democracy is nice," he said, "but I'm not sure I want it at my business." A few months after we talked, he quit.

Ironically, one of the major obstacles to full self-management at IGP will continue to be its most dynamic force — Jim Gibbons himself. The employees at IGP never asked for self-management. Most probably never even dreamed of it. Gibbons alone dreamed the self-management vision, imposed it on the employees, and with his charisma made it work. But now Gibbons' role is starting to stunt self-management's growth, for the employees can't quite shake the notion of Gibbons as the beneficent monarch, themselves as grateful subjects.

"I know I've got to go," Gibbons says, "because this experiment won't really have worked until it can function without me." He talks about giving his half of the stock and his board of director seats to a trust, which would be controlled by IGP's clients, making the corporation jointly controlled by the workers and the "community" of clients. So far, the plan is little more than a dream, primarily because the clients have shown little interest.

IGP faces questions that every self-managed enterprise must ask and answer. Can a workplace democracy survive if some of the employees don't care to participate? According to the extensive but unscientific 1975 survey, less than half the employees who responded wanted "a lot of say" over selecting management, and not even one-third said they wanted "a lot of say" over hiring and firing fellow workers and deciding how corporate funds should be spent. The company

confronts serious problems because not enough workers take an active part, yet some employees argue that demanding worker participation is itself an anti-democratic rule. "Participation does not mean that everyone *must* participate," writes George Allen. "It only means that each person is given the *opportunity* to do so."

Can a workplace democracy survive if some employees, including its leaders, actively oppose it? Should the company hire only job applicants who swear they're committed to Gibbons' goals? Must every employee share the same values for the structure to survive? Some employees suggest careful screening of job applicants: "We certainly don't want to hire people here who are opposed to the whole idea," says one veteran IGP employee. But others argue that rejecting workers who don't embrace the democratic and humanitarian vision in effect *sabotages* those visions.

"What some people are demanding is that we all have to share the same goals," says Fran Heaps, an administrator, "and I say horseshit. As a citizen of this country I don't have to have the same values as my next door neighbor, do I? We have systems and safeguards in this country which give me the right to be who I am. We have systems and safeguards at IGP too. Yes, some managers tried to toss out the system, but the people stopped them — which shows that the system works."

The system does work — better than any other self-managed en-

terprise in the country, and, I would argue, better than any other corporate system in America. Despite the problems and tensions at IGP, 340 rank and file workers and managers are operating a \$60 million corporation — and making a profit — with a degree of freedom, democracy, and equality never before achieved by a

major corporation in the United States. If they're facing problems, every corporation faces problems. The difference is that workers at IGP can shout their complaints and problems if they want, without fear of getting fired. More important, they've got the power to change the corporation. ■

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What makes them think they can run the mine?

Englander
6/75
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Vermont asbestos miners promise EPA and financial backers that their employee-owned operation will turn a profit on higher demand, lower overhead.

Sam Hemingway

The stockholders arrived early for the annual meeting. Slowly they filtered into the auditorium, some walking stiffly in newly-pressed suits, others ambling casually toward empty seats, waving hello to friends in the aisles. It was a day everybody in the room would never forget.

Fourteen months earlier, in February, 1974, the same group had met in a similar hall, in a much different mood, to discuss General Analine & Film Corp.'s decision to close down its 90-year-old asbestos mine in Lowell, Vt., rather than comply with a \$1-million anti-pollution program demanded by the Environmental Protection Agency. The mood of the crowd, most of whom were lifelong employees at the mine, was one of shock and despair.

Half-heartedly someone proposed the workers buy the operation "and run it ourselves, by God!" Someone else suggested they elect a committee to look into the possibility. Half of the people nominated for the committee declined and, embarrassed by the idea, sunk lower into their seats. Finally, 15 persons were chosen and the meeting was adjourned.

Possible dream. The idea that seemed so farfetched to the dejected workers that winter became a reality this spring when the miners bought the GAF operation for \$400,000. Along the way the employees not only secured a year's extension from the EPA, satisfied the demands of seven banks, and won the full faith and credit of the state's bonding authority, but also convinced themselves that they weren't going to fall

flat on their faces. Four asbestos price increases within a year hadn't hurt, nor had a jump in demand following cutbacks by two competing Canadian mines, one gutted by fire, the other damaged in a mudslide.

The reward the miners received for their efforts was a 2,300-acre facility grossing \$7-million a year, complete with machinery and enough accessible asbestos ore to last seven years. In return, the EPA will finally see the required pollution control equipment installed, and the banks will get their money back in five years. And if the now-confident mine owners follow through on their words, the economy of northern Vermont will be boosted by new industry in the area, financed by the profits of their unique employee-owned business.

The workers have reason for confidence. Their new company, Vermont Asbestos Group, Inc. (VAG) already has orders for 57,500 tons for the remainder of 1975, 8,000 tons more than the mine produced in 1973, from major customers such as Dow Chemical, Georgia Pacific and GAF. Furthermore, even after years of research, a synthetic substitute for asbestos used in the textile, construction, and electronics industries, is still on the back burner.

Bought 80% of stock. No wonder, then, that the first annual meeting of VAG was a joyous occasion. Some 180 employees saved their jobs and, in the process, secured a share in the corporate profits from the rock they mine. Once as unfamiliar with the ways of big business as they were with coats and ties, the workers own 80% of the stock—an investment of \$80,000—in a business that should easily show a net profit before taxes of \$1-million in its first year of operation.

"We will have some problems

along the way," admits John Lupien, "but so far they have been minor." Lupien, a maintenance supervisor who headed the original committee, is now chairman of the board of directors.

One of the problems surfaced at the annual meeting. Hourly wage earners, especially the younger workers with low job classifications, were worried that they would be overruled by the "white hats," or salaried personnel. Despite the fact that they hold seven positions on the 15-member board of directors, the workers decided to keep their union affiliation with United Cement, Lime & Gypsum Workers. Their union spokesman has said, however, that it would be hard to strike a company in which members are stockholders.

When the miners first set out to save their jobs, serious misgivings centered around the question: What does GAF know that we don't? And subsequently: Why did GAF agree to sell for a mere \$400,000? Although no one has come up with satisfactory answers, the best guess is that GAF simply wanted to get out of the business.

GAF blames EPA. GAF's stance throughout was that the cost of EPA compliance made future operation of the facility financially prohibitive. "We are a big company," explained Vice President Thomas Dent, "and this is a small division that we acquired 10 years ago in a merger. When we did a cost study to compare profit if we closed down in two years versus profit of continuing operations for at least seven years, adding in the cost of EPA compliance, we found that the price of our continued investment in the plant at that time was higher than the worth of the asbestos. It made sense for us to get out, just as it now makes sense for VAG, with its low

Appraised at \$3-million, Lowell workers paid bargain \$400,000 for 2,300-acre mine and equipment.

was EPA that forced the decision."

Cost studies and corporate planning were far from the minds of Lupien and his committee in the early days of 1974. "We felt helpless and we hated that feeling," Lupien recalls. "We didn't know what GAF's real reasons were for leaving, or what we could do about it. Our instincts told us that the mine should not be shut down and we formed the committee to tell everyone we weren't going to give up our jobs without a fight."

First stop for the group was Montpelier, where they told their story to Governor Thomas P. Salmon and asked for help persuading EPA and GAF to keep the mine open. Salmon

elsewhere, that the EPA based its regulations on — a fine, needlelike fiber that sticks to miners' lungs when inhaled.

Still, knowing that the EPA would be highly unlikely to grant GAF another extension beyond the two that the firm had already exhausted, state officials proposed that GAF apply for a special presidential waiver. The case for a waiver was to be based on economic arguments — averting a national product shortage (Lowell produces over 25% of U.S. demand for asbestos) and widespread economic depression in the area. But GAF, ostensibly reluctant to release data on the Lowell operation, pulled out of the deal before the proposal went to Washington.

"We were apprehensive that another firm would take over and run the mine just as GAF had. Who would stop them if they decided to pull out? One company offered to buy 51%, but there were too many strings attached." — John Lupien

moved quickly, directing Development and Community Affairs head Donald V. Webster "to do everything in the state's power to keep the mine in business." A representative of the state's Economic Development Dept., Richard B. Hamilton, began working full-time on the miners' case and soon came up with an economic impact study.

Closing to cripple area. Hamilton's study showed that the mine had at least a seven-year reserve of asbestos ore that could be profitably mined, if GAF did not high-grade most of it prior to closure. It also predicted that closing the facility would render two communities ghost towns, thrust a whole county into massive depression, cripple several supportive industries (including a state-owned railroad), and cause the loss of nearly \$1½-million in property, income, and sales tax revenues.

The health danger, it appeared, was not as imminent as the EPA had expected. The miners in Lowell were relatively free from the lung ailments often associated with asbestos mining, and doctors in the area backed this up with affidavits submitted to the state's health department. One explanation for this was that the long, stringy fiber mined in Lowell is much different than the type, mined

A search for a mining concern to replace GAF came up empty-handed. A state feasibility study evaluating GAF's engineering data found that the operation could show a moderate profit, if not outweighed by the liabilities of a "shoestring operation."

Gun-shy on new owner. "We were apprehensive about another firm taking over and running things exactly as GAF had," says Lupien. "Who would stop them if they decided to pull out, like GAF did? One company did offer to buy 51% of the business, but there were too many strings attached."

By then it was mid-July and the miners, realizing the only option left was to take the plant over themselves, took a long hard look at the feasibility study and decided it had overstated costs and understated profit potential. Lupien went to state development officials Webster and Hamilton and announced that the group had decided to ask for their own EPA extension, to give them time to raise the funds to buy the operation and install the EPA equipment themselves.

The decision could not have come at a better time. Webster, conscious of the fact that the EPA was worried about the threat of a chlorine short-

age, pointed out to the agency that specialty hooker fiber, used in the manufacture of chlorine, was produced almost exclusively at the Lowell mine. (The plant provides 96% of the world's hooker fiber.) Shortly thereafter, at the end of August, Lupien had his extension, and the miners were on their way to the second stage of the effort: financing.

Ken Huntley, hourly wage earner at the mine and member of Lupien's committee, walked into the Sterling Bank in Johnson, Vt., and asked to see the president, Norman Rolband. Huntley carried with him a list with the signatures of every miner at the plant pledging money to VAG for purchase of the mine.

Rolband, who lives in Eden, Lowell's sister town, took a look at Huntley's list. "Great," he said. "What do you want from me?"

"\$100,000," said Huntley, and gulped.

Sterling banks on miners. Rolband, familiar with VAG's financing problems and that the group had been turned down on similar requests by banks in Boston, New York, and Vermont, was receptive to the idea of Sterling, which has assets of just over \$1.1-million, going to bat for the workers.

"I'm not promising anything, but maybe we can help," he told Huntley. "First, you should get some legal help. You're going to need it."

VAG hired an investments attorney, Andrew Field, of Montpelier, and what followed were five months of hectic, sometimes bitter negotiations. For the banks, the issues were: Where will the initial working capital come from? How do we know what EPA will do next? Who is going to manage the operation? Who will guarantee the loan?

Eventually, with Sterling acting as the lead bank throughout the negotiations, seven banks agreed to a \$1.5-million loan. The First National Bank of Boston and State Street Bank, Boston, put up \$1-million; five Vermont banks — Sterling, Union Bank, Franklin-Lamoille Bank, Chittenden Trust Co., and Passumpsic Savings Bank — came up with the rest.

To seal the deal, VAG, through Hamilton, began negotiations with the Vermont Industrial Development Authority (VIDA), which has the power to insure loans up to 80% of their value. From the beginning,



From farfetched idea to ownership: John Lupien, maintenance supervisor and chairman of the board who led workers' 14-month struggle to acquire mine, estimates they will make \$1-million before taxes during the first year of operation. (Photos: Ted Creighton)

however, the banks had demanded 100% backing on the agreement. VIDA finally consented, with the provision that the Assn. to Boost Lamoille Enterprises (ABLE), a local development corporation, handle the funds and oversee the operation until the loan is repaid.

Lenders want sure thing. "When we first got involved, I really didn't think it was worth the risk," Rolland admits. "We knew that if the deal went through the miners would be getting a bargain. But there was no management track record, no guarantee that the EPA wouldn't mess things up again. Even when the state guaranteed the loan, we still had doubts. No bank wants to be forced to foreclose on a loan, especially if it's the state you are foreclosing on. No, the loan had to be bankable; we didn't want it unless we thought the thing could fly."

To find out if it could, the banks had initiated their own feasibility study, the most extensive of four conducted on the operation. Still, at several points, the banks threatened to pull out of the deal—when the EPA issued new dust emission standards for asbestos tailings, when a dispute erupted over the loan's interest rate, when the banks' insistence on approval of VAG's management was challenged, and toward the end, when a \$200,000 subordinated debenture plan that Field had promised fell through a month before closing. A \$400,000 working capital loan, secured with 90% backing of the Small Business Administration, replaced the debentures and kept the agreement afloat.

Final coup. The seesaw struggle to nail down the final package created one last headache for the workers. Closing date was scheduled for March 12, just three days short of GAF's final deadline, and GAF suddenly announced it would begin shutdown procedures to avoid an EPA non-compliance suit if the deal were not consummated. Acting quickly, the state won an unprecedented two-week extension on GAF's deadline from EPA, and it was a weary group of miners who saw their year-long dream of running the mine themselves come to pass.

Despite the potentially radical manifestations of a company owned and operated by employees, mine management to date shows little deviation from the practices followed by GAF. Lupien, however, has noted a change in the workers' attitudes. Pilferage of small tools and supplies from the mine and mill are now almost non-existent, he reports. "Everyone seems to be trying a little harder. Work is done more carefully and more efficiently. There's an extra effort being made, and you can see it."

There are some variations from previous management procedures, however. The most significant change is a set of monitoring controls whereby the banks and ABLE are regularly apprised of the plant's financial progress through a series of marketing reports and cash flow statements. Otherwise, general policy for VAG is set by a 15-member board of directors comprised of seven hourly wage earners, seven sal-

aried personnel, and one outsider; day-to-day decisions are made by an executive committee, weighted four to one towards salaried employees.

As VAG settles into its role as one of the largest U.S. industrial concerns controlled by workers, two additional advisory boards will be formed. Both staffed with experienced business executives, one will oversee worldwide marketing efforts, the other will recommend investment policies.

Workers become 'businessmen.' But it was up to Jerome Hamman, VAG's new president, to remind the Lowell workers of the significance of their new role. "We are a profit-oriented business," the former president of Vermont American Corp.'s Tap & Dye Div. told the VAG stockholders at the annual meeting. "We are all involved in a unique venture here. But do not forget that our first priority is that we are in business to make money. The whole country is going to be watching how we do."

Lupien, VAG's sparkplug and enduring figure throughout the 14 months since that dismal first meeting, responded to Hamman's message with a sense of pride shared by all those in the room. "A great thing has happened here," he beamed to fellow miners. "I hope it will happen again and again in this country. After all, what better way to fight a recession and make your work meaningful at the same time? All of us have become businessmen today." ■

The author is a freelance writer residing in Waterville, Vt.

Development Finance Is Under Way in Massachusetts

"Money is incestuous," a banker candidly explained to a conference of potential users of the new Massachusetts Community Development Finance Corporation (CDFC). "It tends to go after itself." So those areas that have a high level of economic activity tend to attract additional capital, while those regions experiencing a relative economic decline often lose it. Massachusetts, an old industrial state that earlier benefited from this capital mobility, is now learning that this process has its drawbacks too. Capital that was once routinely reinvested in the state's economy is now flowing to the boom states of the Southwest. In part, then, CDFC represents one effort by the state to keep some of that capital in Massachusetts to finance business development.

One feature particularly distinguishes CDFC from more conventional state efforts to promote industrial development: the corporation will provide equity and debt financing only to ventures controlled by community development corporations in depressed communities. In this manner, the state is also acting to correct the destabilizing effects of private capital movements within the state from poorer neighborhoods and communities to the more prosperous suburbs.

The state legislature passed the law establishing CDFC as an independent public agency a year ago. This past October the legislature approved the sale of ten million dollars worth of general obligation bonds, thus removing the last legislative obstacle to implementation of this unique development finance institution. With the proceeds from the sale the state will purchase all one million shares of CDFC common stock at \$10 a share. In anticipation of that sale, the governor recently named and swore in CDFC's nine-member board. Barring unanticipated problems, CDFC could actually be making investments in a matter of months.

The significance of CDFC is that it represents a new approach to the financing of community economic development. It also means that Massachusetts has joined Minnesota (whose legislature has authorized planning and venture grants to CDCs in the state) as the only states sponsoring community-based economic development programs.

HOW IT WILL OPERATE

CDFC As Venture Capitalist

CDFC will operate somewhat like a private venture capitalist. The corporation will make investments in and seek a profit from young ventures (as well as acquisitions and expansions) that financiers typically consider too risky or unprofitable. Unlike private venture capitalists, who rarely finance such projects, CDFC will only assist CDC-controlled ventures in depressed communities. And where private investors in peak economic periods tend to seek a 25 to 40 percent return (and actually hope for more spectacular profits) to compensate for the high risk associated with any new business, CDFC can assume even greater risk and accept far lower returns. More about that later.

Despite these important differences, CDFC has more in common with the venture capitalist than with grant-giving programs (like the Office of Economic Development's Special Impact Program) that depend on direct governmental appropriations. The state's initial \$10 million capitalization of CDFC represents an investment, not an appropriation. In theory, because of continuing though modest returns on CDC venture investments, the new corporation can operate indefinitely without any future infusion of public monies. Its ability to make new investments, however, will inevitably decline as its capital becomes committed to various projects.

CDFC can use the state's \$10 million investment for two purposes: (1) to invest in various government and corporate securities from which CDFC will derive its operating revenues, and (2) to purchase a broad range of debt and equity instruments from eligible CDC ventures. The latter, of course, constitutes the essential purpose of CDFC.

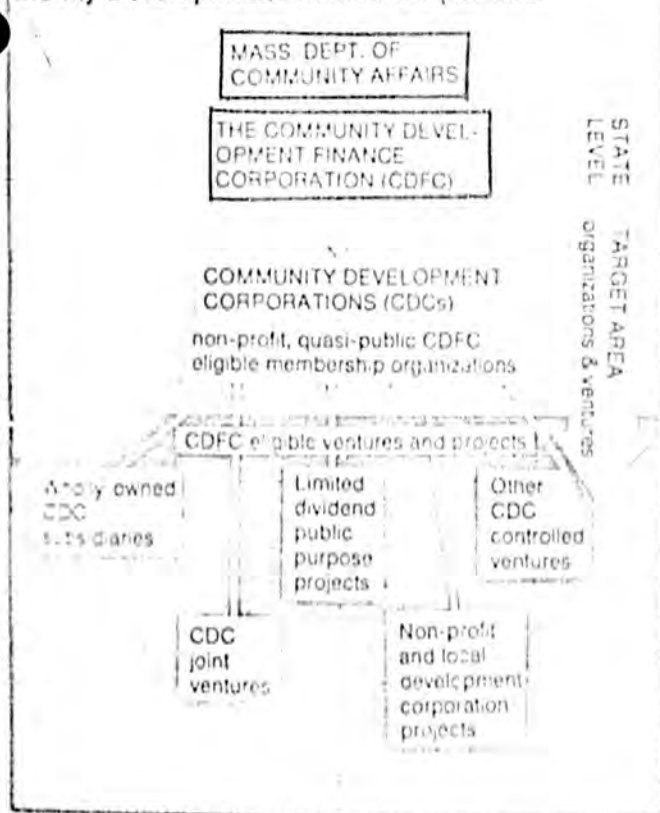
That part of the corporation's portfolio invested in relatively secure market securities should generate at least a 7 percent return. Thus, a \$3 million investment would produce \$210,000 per year—more than enough to pay staff salaries, overhead, consultant fees, and other operating expenses of CDFC. Any remaining surplus will increase the corporation's assets and, consequently, its ability to finance CDC-controlled ventures.

Investing in CDCs

To qualify for the remaining CDFC funds, a CDC must be a quasi-public nonprofit corporation whose membership is open to all residents of the target area

13 years of age or older. Its boundaries must coincide with some set of existing political boundaries—ward, precinct, municipality, and so forth. A majority of the CDC's board must be elected by the membership; others, if any, must be appointed either by elected state and local government officials or by other nonprofit organizations that share the CDC's purpose of promoting the target area's development. Most of these provisions ensure that the CDC is sufficiently public to overcome the state constitutional barrier against the use of public monies for private gain. To ensure accountability, one-third of the CDC board must be elected annually for three-year terms. Finally, the population of a target area must not exceed 115,000 people, it must be considered a blighted area, and the most recent census must indicate that the average household income is at least 15 percent below that for the entire Boston Standard Metropolitan Statistical Area.

Chart 1: Organization of Massachusetts Community Development Finance Corporation



Unlike OED Special Impact grants, CDFC capital will not go directly to CDCs. Instead, CDFC will actually purchase securities in ventures controlled by CDCs rather than invest in the CDCs themselves. The same would be true if CDFC were to make loans to ventures. However, the CDC must act as a go-between in any transaction; it is a conduit for CDFC funds. It is mandatory that the ventures be controlled by a CDC, to "ensure that public benefits and public purposes are maintained." The most substantial control exists if the venture is a wholly owned subsidiary of the CDC, but as a minimum requirement, a CDC must have the power to approve all major venture transactions if the venture is to qualify for CDFC financing.

Despite the wide variety of venture forms that will be possible, most will undoubtedly be organized for profit. However, CDFC could finance nonprofit ventures, such as day-care centers, providing they generate a positive cash flow.

The Role of the CDFC Board

The nine people who sit on the CDFC board are to make all investment decisions. Besides three of the Governor's state cabinet secretaries, the board includes two individuals experienced in investment finance, three CDC members who live in eligible target areas, and one representative of organized labor. All are gubernatorial appointees who serve staggered five-year terms.

The statute establishing CDFC gives the board a great deal of discretion. The dangers and opportunities inherent in such an untested institution, therefore, can appear unlimited, depending upon public faith in the board members and upon the institutional mechanism itself.

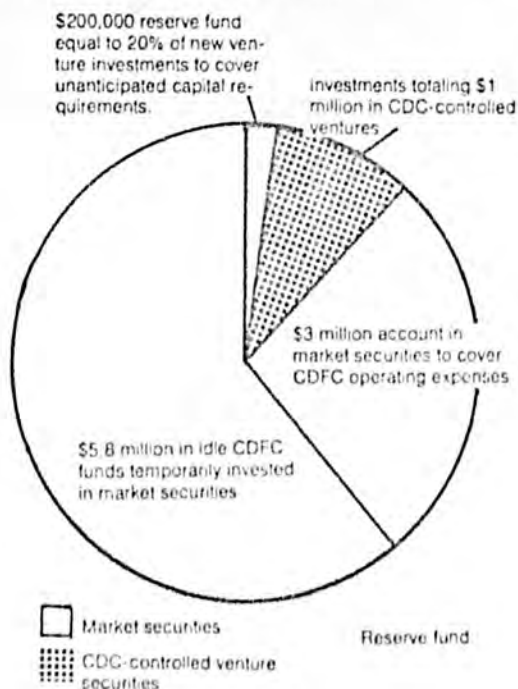
The board could thwart CDFC either by failing to make any investments in CDC ventures or by making bad investments. Both are potential dangers. On the other hand, the board has the flexibility to devise ways to support and sustain with CDFC capital what otherwise would have been chancy ventures. Ideally, it will be true to its mandate and accept lower rates of return if the project has the potential to create permanent, reasonably well-paying jobs in poor communities and increase local capital ownership.

THE CAPITAL STRUCTURE: A HYPOTHETICAL ILLUSTRATION

To continue to operate as a development finance corporation, the board must conserve its capital base. The following is a simplified example of the

kinds of assumptions advanced by the bill's sponsors when they went before a legislative committee on behalf of CDFC.

Chart 2: Hypothetical First Year Allocation of Massachusetts CDFC Funds.



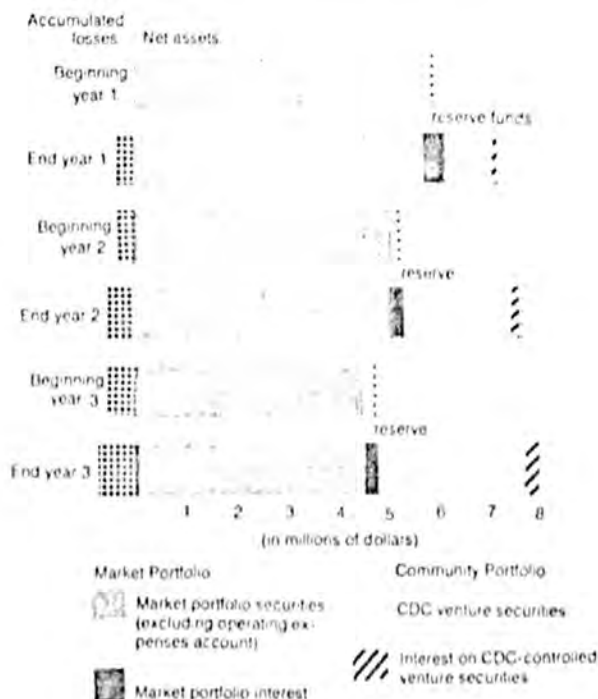
The corporation would begin to operate with the state's investment of \$10 million. From this investment CDFC would have to generate sufficient interest to cover its operating expenses, such as salaries, office rent, and equipment. Consequently, the board might set aside and invest \$3 million in government and corporate securities at the outset, the annual interest from which would pay for these expenses and leave a surplus. In successive years, the initial \$3 million investment should expand enough to cover increasing operating expenses without depleting the corporation's capital base. This initial \$3 million can be pictured as being in a separate account where it would not affect the level of other investments.

During the first year the board might decide to invest \$1 million among five CDC ventures, making \$200,000 available to each. Every time the corporation financed a CDC venture, it would set aside a reserve equal to 20 percent of the investment since

new businesses often develop unanticipated capital needs. The reserve funds would permit CDFC to intervene if necessary, both to protect its own investment and to save the venture itself. To simplify the calculation, we can assume that CDFC placed the 20 percent reserve into the venture immediately. That would bring the first year's investment in CDC ventures to \$1.2 million.

The corporation could expect venture performance to vary considerably. Supposing that one venture completely failed during the first year, CDFC's original \$1.2 million community portfolio would then decline in value to \$1 million. If the four remaining ventures earned 1, 3, 6, and 14 percent, respectively—a 6 percent average—CDFC would realize a \$60,000 return at the end of the year, leaving the corporation with a net loss of \$140,000 on its CDC venture investments.¹

Chart 3: Massachusetts CDFC Investments, Net Returns and Accumulated Losses, Years 1 through 3.



¹ One of two alternative assumptions is hidden within this calculation: either that CDFC's investments have characteristics of both debt and equity — a convertible debenture for example — so that the venture would be paying interest charges, or that the firm could afford to distribute earnings its first year.

The market securities would include all CDFC funds that have not been invested in CDC-conducted ventures. Excluding the separate \$3 million account for operating expenses, the market portfolio would equal \$5.8 million during the first year. If the corporation received 7 percent interest on this account, it would gain \$406,000. After subtracting the community portfolio loss at the end of the first year from the market portfolio gains, CDFC would have produced a \$266,000 surplus despite its one business failure.

Based on its first year's success the board might shift another \$1 million from the market portfolio to back five new CDC ventures in the second year. This would necessitate an additional infusion of reserve funds into the community portfolio. The first-year community portfolio, after the loss of \$200,000 owing to one business failure, would equal \$1 million. Thus after the second round of investments, the community portfolio would equal \$2.2 million, with a corresponding decrease in the market portfolio to \$5,066,000. If the first year's performance was repeated, by the end of its second year (notwithstanding the failure of another CDC venture) the corporation's net worth (excluding once again the operating expense account) would amount to \$7,540,620—a net gain of 3.8 percent over the previous year.

Similarly, in the third year, with \$1 million more of reserves being shifted from market securities to CDC venture securities, and with one more business failure, the CDFC's net worth would climb again—in its time to \$7,824,463.

Of course, these figures ignore the effect of inflation which will reduce the real value of CDFC's capital over time. Also, CDC ventures will undoubtedly perform more inconsistently than described here. Nonetheless, in three years, despite the loss of three ventures, CDFC would have slightly more capital than it had to begin with. Besides illustrating how CDFC might theoretically operate, the example highlights the most fundamental characteristics of this type of institution. Conserving its capital obviously constitutes an important operating principle. Otherwise, like any bank, the CDFC would be forced to make fewer and fewer loans and equity investments and ultimately fade out of existence.

Another important institutional requirement illustrated in the above example is full initial capitalization. Should the state so decide, because of its own pressing financial requirements, it might deposit

some of the \$10 million in its own bank account rather than capitalizing CDFC in full, in order to accumulate interest on CDFC's uninvested funds. But those funds constitute CDFC's market portfolio. Without the interest realized from that portfolio, CDFC would have to draw upon its capital base to cover its operating expenses; it would lose its ability to absorb business failures and tolerate low rates of return from its community venture portfolio. Should the state deny CDFC full use of its market securities portfolio, it would curtail the corporation's ability to take the high risks necessary to launch ventures in depressed areas. Worse still, by forcing CDFC to spend its capital on operating expenses the state would frustrate the development finance concept. Eventually, CDFC would exhaust its capital, forcing the institution either to liquidate or seek operating subsidies from the state.

The above example illustrates still another point: the CDFC must exercise caution in making initial CDC venture investments. But even when it manages a full portfolio of these investments, the corporation would have to continue to maintain a market securities portfolio. This would consist of the corporation's operating-expenses investments, accumulating idle funds, and, realistically, some reserve funds (this latter would be more realistic than the assumption that all the reserves would be invested in CDC ventures). Intermittently CDFC would be doing some buying and selling of CDC venture securities. These too would constitute idle funds that would be temporarily available for investment in short-term treasury notes and the like.

ISSUES AND CONCERNS

Can Success Spoil CDFC?

There is always the possibility that returns from the community portfolio will exceed the planners' expectations. This fortuitous development would increase the corporation's assets and provide even greater capital for CDC venture investment.

Given the public character of CDFC and its special high-risk mission, this sort of success would also justify careful scrutiny. If it was achieved because CDC ventures proved to be better investments than anyone had anticipated, fine. But what if the corporation's success reflected its practice of underwriting what were essentially private businesses that accepted only the most minimal CDC control—the power to pass on major decisions? The law states that this constitutes sufficient control to qualify for CDFC participation even

though the CDC has no ownership in the enterprise. Under these conditions the community might still gain some benefits, such as full-time, year-round jobs paying 150 percent of the minimum wage plus fringe benefits (an objective stipulated in the statute). The venture might also increase the level of local employment, sales, and personal income through multiplier effects. But this low level of CDC control would conflict with another objective of the statute: "to enhance development of capital ownership in the target area."

This apprehension reflects the very real danger that Massachusetts CDCs will lack the resources to develop venture proposals that are strong enough to justify CDFC financing and that under such circumstances the CDFC board might be tempted to participate in ventures with only tenuous CDC involvement. The reason for this is a serious and well-recognized deficiency in the state legislation itself: the absence of financing for the planning and technical assistance necessary to the development and packaging of high-quality venture proposals. CDFC can only finance self-liquidating activities. Unfortunately, few pre-equity planning costs fall into that category even though they are necessary expenditures. Unlike other production inputs (a piece of equipment, for instance) a market survey or a consultant's services are not tangible physical assets: they have no resale value. Thus, if CDFC dispersed pre-equity planning funds for business ideas that later proved unworkable, the corporation would have depleted its capital base. If CDFC actually recorded spectacular profits from its various investments, it would be able to devote funds to pre-equity planning and still conserve its capital base. But the whole idea of the corporation revolves around the board's willingness to finance ventures that offer the promise of only modest returns. As a consequence, pre-equity planning and technical assistance will have to be sought elsewhere—through direct governmental appropriations, foundation grants, or other sources.

Although the governor has consistently opposed new appropriations, his Capital Formation Task Force is expected to recommend pre-equity planning and technical assistance financing for potential CDFC users as part of a broader package of economic development programs. In the meantime, however, CDFC supporters continue to be concerned about the quality of CDC venture proposals that will be submitted to CDFC.

The omission of a strong planning and technical assistance component in the legislation takes on

greater significance when CDFC is specifically compared to existing development finance corporations. Despite CDFC's uniqueness in being state-run and exclusively for CDC-controlled ventures, this sort of public or quasi-public financing corporation is used throughout the world to develop or perfect capital markets. Typically, the task involves three functions: (1) technical assistance, (2) the provision of debt and equity, and (3) the creation of primary and secondary capital markets. The processes which have denied poor communities access to capital have also denied them some of the technical skills and resources necessary to develop good business plans. Thus technical assistance and the initial capital to carry out venture planning represent essential ingredients for the creation of a viable capital market in depressed communities. The political decision to omit this function from the CDFC act will impair its effectiveness by giving a competitive edge for CDFC's limited funds to better established community groups and, possibly, to private business interests.

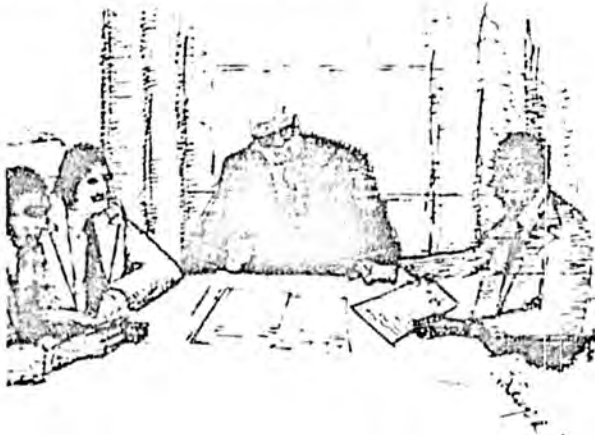
By comparison, CDFC is well designed to fulfill the function of supplying debt and equity. Only time will tell whether its financing will create further private capital investment. But it is fair to assume that with adequate equity, private debt financing will be forthcoming. For example, if CDFC made an equity investment in a CDC venture, a bank might then be willing to make a loan secured in part by the venture's CDFC-financed assets. If the venture proved successful, CDFC would be able to sell its interest in the concern, thereby introducing CDC-controlled ventures to a secondary market. The enabling legislation provides some protection for the CDC in the event CDFC decides to sell its stock in a CDC venture. The act gives the community corporation 120 days to exercise the right of first refusal and subsequently the opportunity to meet any third-party offer to purchase CDFC's securities in the CDC venture.

Margin for Error: The Need for Control

The intent of the CDFC legislation is clear: It was enacted to spur development of the state's most depressed areas by the residents of those communities. Government programs rarely perform as well as their planners anticipated, and antipoverty programs in particular are subject to subsequent efforts by politically dominant interests to dilute or even subvert the original goals. Already the state's Department of Commerce and Development is promoting the program in these words: "Private companies,

with sound business plans in need of front end financing, which are starting or expanding in high unemployment areas, are eligible to apply through any licensed, not-for-profit Community Development Corporation. . . ."

That assertion is technically correct. CDFC supplies numerous opportunities for private business to benefit from the state's capital. The corporation's board is supposed to be responsible, however, for seeing that any benefits enjoyed by private interests result from their more important contribution to depressed communities and neighborhoods in the form of increased capital ownership in the target area, new jobs, and strengthened CDCs.



In some cases CDCs might participate with private entrepreneurs in joint ventures, with the entrepreneur bringing a product and management skills to the partnership. Kentucky Highlands Development Corporation (formerly Job Start) has successfully pioneered this sort of joint venturing. But the CDFC legislation leaves the door open to less advantageous CDC relationships with private business and even leaves room for outright abuse.

As mentioned earlier, the law states that a CDC's ability to pass on major venture decisions provides sufficient, though minimal, influence over the firm to satisfy the requirement of CDC control even though the community organization would not share in the ownership of the venture. The danger that the CDFC board might sanction these kinds of deals has been increased by the absence of pre-equity planning and technical assistance funds. With few good CDC venture proposals coming before it, as stated earlier, the board might be tempted

to finance ventures in which CDCs have no ownership.

The wary might also raise some questions about the legitimacy of participating CDCs. A great effort was made to ensure that eligible CDCs would be democratically run. But the law makes no provision to ascertain whether the CDC really represents the residents of a target area. For one thing, while the CDC must be open to all residents of the area, the law fails to exclude nonresidents from joining eligible area CDCs. This is a matter that the CDFC board could clarify with more rigorous guidelines. Otherwise, there is some risk that phony CDCs (community "fronts" for private business interests that hoped to tap into CDFC's financing) could proliferate. These interests could organize a CDC, propose a slate of sympathetic board candidates, solicit members — some of whom might not even have any connection to the target area — and hold an election. It might all be legal. After their venture was well under way, the corporate parent might arrange to buy back the CDC's share of the business from its hand-picked community board. CDFC would then become a minority partner in an otherwise private business venture.

Of course, such a scenario is contrived. It would be difficult for a businessperson to execute a coup of this scale in Roxbury, for instance, where the local leadership is alert and well informed about developments in the community. However, because of the legislative definition of an eligible target area, it would appear that certain locales could be identified that would be unable to fend off this sort of corporate flimflam. One characteristic of an eligible target area is an average household income at least 15 percent below that for the Boston Standard Metropolitan Statistical Area (SMSA). The legislation's drafters used that criterion because it would include all the areas they felt the CDFC should serve and would remain a good relative measure over time—better, for example, than unemployment statistics.

But the criterion also enables a lot of areas that should have a relatively low priority to qualify for CDFC funds. In 1970, a median family income of \$9,732 would have qualified an area for CDFC involvement.² Obviously, by this standard,

² According to recent HUD statistics, the equivalent (median family) figure for 1976 is \$14,620. However, in determining eligibility the CDFC will use the most recent census, which is currently 1970. It is not yet known how the CDFC board will interpret the legislative language "average household income." They could use median or mean income for either families, families and unrelated individuals, or households.

the wealthiest suburbs would be ineligible. However, opportunists might try to establish phony CDCs elsewhere in the state where community development is not a public concern but where commercial interests instead promote private business development. The statute seems to give the board the latitude to establish alternative statistical criteria consistent with the general intent to serve depressed communities.

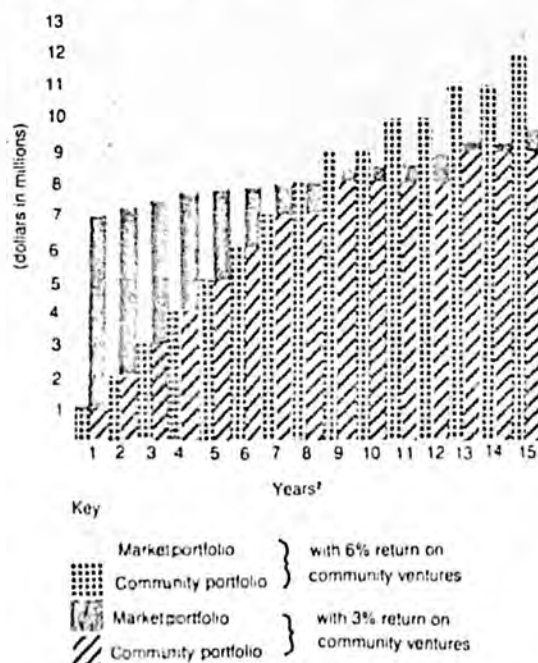
Only the CDFC board—and possibly the courts if it ever comes to that—can keep CDFC funds from being used for unintended purposes. Although the members are all gubernatorial appointees, the initial board appears to be quite sympathetic to community interests. However, CDCs have no guarantee that in future years a governor might not make less appropriate appointments or might not encourage the board to misuse its discretionary power in order to leverage other state efforts to help particular private businesses. In the final analysis, the last line of defense against CDFC abuses will have to be a well-organized group of CDCs that will scrutinize all CDFC investment decisions and fight politicizing the agency and any other questionable CDFC activities.

CDFC's Liquidity and Benefits to the State

If, as we hypothesized, only one in five ventures produces a market return in excess of 9 percent, the corporation will be forced to leave its assets in most CDC ventures unless it is prepared to sell its interest at a loss. Thus CDFC is, to a large extent, locked into its investments. This feature of CDFC has been poorly understood up to now.

There are actually two types of development finance corporations: those that back businesses that have good profit potential and those that back ventures primarily to promote economic development even if the ventures may just barely manage to survive. CDFC belongs in the latter category. The CDFC planners assumed that in only one out of five cases—the business reporting a 14 percent return—would the capital market have failed to invest in a good venture because of prejudices against investing in depressed neighborhoods and the like. With the remaining four out of five, CDFC could recover its assets only by accepting a loss or through some prior buy-back arrangement with the CDC or the venture itself. If in fact CDFC fails to keep capital liquid in such a manner, it will reach a point where its annual injections of capital into new CDC-controlled ventures will diminish year by year.

Chart 4: Growth of Massachusetts CDFC Community and Market Portfolios (excluding operating expenses account).¹



¹ Assumes the failure of one out of five new ventures each year and that the entire \$200,000 annual reserve fund is invested in ventures at the beginning of the year in which the primary CDC venture investment is made.

² Showing the position at the beginning of the year with the \$200,000 loss on the venture failure and the \$200,000 reserve fund investment offsetting each other. Thus a \$1 million dollar community portfolio investment plus \$200,000 in reserve funds appears as \$1 million because the business failure has already offset the reserve funds.

If the corporation proceeded as projected earlier, in the tenth year it would have \$760,000 in its available market securities account—too little to invest another \$1 million in community ventures with the requisite 20 percent reserve. If it thus made no new investments that year, in the following year it again would have accumulated enough to invest in five ventures. Thus after nine years the rate of new CDFC investment in community ventures would decline by 50 percent, from \$1.2 million per year to \$1.2 million every other year. If returns from successful ventures were actually 3 percent rather than 6 percent, the corporation would have to reduce its rate of investment after 7 years and after 9 years would be compelled to wait another 4 years before it accumulated enough interest to place another \$1 million in community ventures. Thus, to maintain the level of activity

sustained during CDFC's early years, it would have to return to the state legislature with a request for additional capital, although it could continue to operate at a lower level without further state involvement.

What Does the State Gain?

After eight years, the legislation allows the state treasurer to sell the state's interest in CDFC. Still, even if the corporation proved to be highly profitable, who would find CDFC attractive as an investment? There is no provision for the distribution of profits, and CDFC's stockholders would lack any control over the corporation's behavior; the state, through gubernatorial appointment powers, exercises sole control over the corporation's board.

Given the low level of anticipated returns and the inability of the state to share in them, one wonders what might motivate even the state to make a \$10 million investment—one, in fact, it cannot even get out of—and then, ten years later, to provide additional capital?

The state receives its return on the "dual balance sheet." By targeting new employers into depressed communities the CDFC will create jobs for people who now receive public assistance. That will save the state money. Individual and business incomes will also generate state tax revenues. One estimate indicates that for every \$15,000 invested in an export manufacturing venture, one job will be created which will in turn represent a total \$3,000 annual return to the state. In the case of an export service, the CDFC investment needed to produce a job and the same return to the state might be as low as \$5,000.

It is this rationale that justifies the development finance approach. Private investors will never take the kind of risks that CDFC can for a 6 percent return because they cannot capture the positive externalities—the savings to the state in reduced welfare and unemployment payments and the growth in tax revenues associated with CDFC's investments. But because of the security offered to traditional private capital sources following CDFC's risky front-end investment in poor communities, the state may succeed in plugging some of the capital leaks that have developed in the state's economy, which would foster both a more equitable distribution of jobs and income, and greater economic stability within the state.

Carl Sussman

Women and Finance Institutions

Discrimination against women in the financial world both in services and in employment has long been a reality. Although women in the U.S. represent 43 percent of the labor force and control through their role as household buyers between 70 and 75 percent of all consumption, they have traditionally been excluded from participation in the world of finance.

The enactment of the Equal Credit Opportunity Act, which became effective in October 1975 and made it unlawful for any creditor to discriminate against any applicant on the basis of sex or marital status, did not erase the bitterness that discrimination had produced. It is the desire to fight it on a productive level that has provided the incentive to establish financial institutions created by and for women.

The idea that women could competently and competitively manage their own funds, and the desire to provide certain services not furnished by the established financial community but valuable to a particular, female clientele, have motivated women over the past few years to form banks and feminist credit unions that specialize in services for women. Like minority banks before them, which have a 73-year-old tradition in this country dating back to 1904 with the founding of the Citizens Savings Bank and Trust Bank and Trust Company in Nashville, Tennessee, the women's banks (which some may not consider minority institutions in the strictest sense) are operating under similar principles of providing access to capital and credit—as well as management opportunities—to a segment of the population that has been denied them for years. This article will discuss the organization of these banks from the perspective of how ideology has been combined with practice.

As of this writing, there are 4 new women's commercial state banks operating with a specific emphasis on serving women, and 18 federal feminist credit unions across the country. Among the variety of innovative services the banks offer are flexible hours, personalized financial counseling services, SOS programs for women in financial difficulties after a divorce or husband's death, and seminars and lectures on financial management. The credit unions offer many of the same services but to a different clientele. All of these are aimed at both easing the knowledge gap between the depositor and

State governments must establish a state manpower services council to review the plans of prime sponsors and make recommendations for coordination and for the cooperation of state agencies.

Title II provides funds to hire unemployed and underemployed persons in public service jobs in areas of substantial unemployment. *Title III* provides for direct federal supervision of manpower programs for Indians, migrant and seasonal farm workers, and special groups, such as youth, offenders, older workers, persons of limited English-speaking ability, and other disadvantaged. This title also gives the Secretary the responsibility for research, evaluation, experimental and demonstration projects, labor market information, and job-bank programs. *Title IV* continues the Job Corps. *Title V* establishes a National Manpower Commission. *Title VI*, added in December 1974 under the Emergency Jobs and Unemployment Assistance Act, authorizes a one-year appropriation of \$2.5 billion for a public service employment program for all areas, not just for areas of substantial unemployment. *Title VII* contains provisions applicable to all programs, such as prohibitions against discrimination and political activity.

*From the Interim Report on CETA of the National Research Council of the National Academy of Sciences.

For a more complete description and analysis of CETA, see the report of the National Economic Development Law Project, Earl Warren Legal Institute, 2313 Warring St., Berkeley, Calif. 94704. Also, for action strategies, write the Center for Community Change, 1000 Wisconsin Ave., N.W., Washington, D.C. 20007 for publications on CETA.

Massachusetts Local Initiative Program

In an adaptation of the Canadian Local Initiative Program to U.S. unemployment problems, 27 Massachusetts community groups and local government sponsors have been awarded over \$1 million in CETA funds to implement innovative job creation programs in their communities. The Massachusetts Local Initiative Program (MLIP) will operate on a six-month experimental basis beginning this summer, under the sponsorship of the Executive Office of Economic Affairs. Projects expected to employ some 300 persons in such diverse activities as cultural summer programming and a community canning project will operate in areas as varied as metropolitan Boston, rural western Massachusetts, and the rock cliffs of Martha's Vineyard.

Utilizing special provisions in CETA legislation that give the Governor the opportunity to fund special employment-creating projects, the Executive Office of Economic Affairs designed the experimental program this spring on the recommendation of, and with assistance from, the State Manpower Services Council (which consists of the chief administrative officers of the state's larger cities and representatives of business, labor, government, and community groups). Individuals, community organizations, and local governments were invited to apply. More than 1,200 Requests for Proposal were distributed throughout the state, and 487 applications were submitted for funds to hire the unemployed on short-term projects that would "contribute in some special way to the quality of life in the community."



Description of Projects

Awards for community service projects range from \$25,000 to \$50,000. One grant will be used to train mildly retarded adults to serve as teachers' aides to seriously retarded youngsters; another will help establish a Cape Verdean Cultural Center for southeastern Massachusetts' Portuguese-speaking community. Other projects selected include a

\$31,000 program to convert an unused three-story synagogue in the Chelsea area of Boston into a bilingual day care center to serve the city's sizable Spanish-speaking population, and a \$42,000 grant to assist the city of Lawrence in fire prevention by hiring special "fire monitors" who will be trained in these techniques as well as in evacuation procedures. Most projects are designed to last the entire 26-week period, and some have the specific goal of becoming self-sufficient by that time.

Among the other grants:

- A Community Hypertension Screening Referral and Information Service project in Roxbury has received \$39,000 to employ 9 persons to screen more than 10,000 residents—at shopping malls, stores, and homes of the elderly—as well as to provide referrals and educational services.

- The Allston-Brighton Residential Improvement project received \$32,581 to employ 7 persons to offer home improvements, at low or no cost, to senior citizens or financially burdened small homeowners.

- A \$44,743 grant to the Jamaica Plain/Roxbury Food Cooperative Community Outreach Project will help establish a neighborhood food co-op and supply food at little more than wholesale prices; it will also provide a center for community activities.

- The Wareham Historical Society plans to hire 8 persons on a \$42,000 grant to finish reconstructing several old historic buildings in the New Bedford area and provide necessary staff to open the sites to the public, hoping eventually to keep the sites open year-round and to train local residents to maintain them.

- With a \$32,000 grant, the Chester Bicentennial Committee proposes to teach several hundred residents traditional handicrafts (crewel embroidery, rug-hooking, and handweaving) as well as to provide marketing training and services to participants.

- A \$44,000 grant to the Gay Head (Martha's Vineyard) Economic Development Project will help train 12 resident Native Americans of the Wampanoag Tribal Council of Gay Head in various aquaculture procedures—shellfish management and water quality maintenance among them—and expects these trainees to be absorbed later into the Tribe's ongoing aquaculture program.

- Women in Agriculture, Food Policy, and Land proposes to hire 13 persons to stimulate local, small-

scale farming in central/western Massachusetts. The project intends to create a community canning center with its \$48,000 grant, which will serve as a model for other such centers throughout the state. Anticipating contracts with local public service food-providers (schools, elderly nutrition programs), the organization hopes to establish a firm economic base for continuing the canning center beyond the MLIP grant period.

MLIP Goals and Requirements

MLIP incorporates many of the concepts of the Canadian Local Initiative Program (see the February 1976 *CCED Newsletter*), which is designed to provide short-term, seasonal employment opportunities, and is meant to encourage individual and community initiative rather than simply to add money to existing state (provincial) or local government services—or even to duplicate these services. Hiring will take place through local Division of Employment Security offices, with employee wages not to exceed the prevailing community wage scale for similar work.

Projects were selected for funding on the basis of their experimental value, as well as the extent to which they met MLIP objectives of providing a good or service to a community that in some way improves the quality of life, is currently needed but unavailable, and at the same time offers productive employment to those certified as eligible for participation in CETA programs. Other criteria for project selection involved human development potential, services to the disadvantaged, lack of duplication of existing programs, significance to the community, linkages to other programs and/or service networks, and the possibility of the project's continuing on an independent basis after the expiration of the MLIP grant period.

Overall program administration will be conducted by the State Manpower Services Council and is designed to be minimal; one of the most attractive features of the Canadian model, in fact, is its reduced bureaucracy. Evaluation of the program by an outside, independent evaluator will begin with the inception of the experiment; a report on the status of specific projects will be issued by the sponsoring agency after three months, with an overall report upon completion of the program in February.

Prospects for Success

The Canadian program has attracted a good deal of attention in this country because of its simplicity, ease in administration, and low overhead

costs, as well as for its unique approach of encouraging project initiation outside of government agencies. But the very nature of the Canadian model that makes it attractive to some is at the same time a drawback in the eyes of advocates of community economic development strategies who view building an institution and establishing a financial base as crucial to having any significant effect in combating joblessness or changing the nature of job creation from a top-down to a bottom-up procedure.

The restriction of the MLIP to short-term, nonprofit ventures, although it does meet some of the more strident demands for jobs, does not offer hope for any long-range effect on unemployment statistics. The grants that were awarded are disappointing in certain respects; only a small number of projects are truly innovative or have any possibility of self-sufficiency, and few provide any primary sector employment. MLIP thus appears to be just one more form of public service employment, even though a small number of the grantees are community-based organizations who have taken their constituency's needs into consideration in submitting their proposals.

Moreover, the MLIP requirement that any revenues generated during the grant period (although not afterward) be returned to the Office of Economic Affairs for use in furthering CETA objectives reduces the ability of the project to generate any degree of self-sufficiency. It likewise limits the possibility for continued employment of participants, since their chances of being absorbed into already swollen municipal payrolls are slim, and no effort will have been made to create an institution to perpetuate these jobs.

(The Canadian LIP is similarly limited, and, with this in mind, officials are contemplating an "Entrepreneurial LIP" for more permanent, profit-making enterprises. In addition, there already exists a long-term job-creation program, the Local Employment Assistance Program (LEAP), whose major objective is the development of employment alternatives for the chronically unemployed through funding projects that have the capacity to become self-sustaining, thus providing more stable employment possibilities.)

Results of the Canadian LIP have been encouraging within the limits of the program goals. A successful experiment in Massachusetts, however limited, could well set a precedent in the United States for community involvement in job development

efforts. Other programs utilizing the Canadian model are under way in North Dakota, Montana, and Utah. Taken all together, these local initiative job-creating programs represent a start to attacking unemployment at a level where the community gets to determine some of the priorities. However, community groups must be wary of some of the other dimensions, such as where the actual control lies, since this is what will distinguish "local initiative" from other, run-of-the-mill government programs.

Cynthia Rose

Projecting Capital Requirements

With all due respect to its other aspects, poverty is essentially a lack of income. Transfer payments—unemployment, welfare, social security—must continue year after year if there is no other program to alleviate poverty. Putting productive capital in place, however, requires an expenditure only once, at the beginning, from which income will be generated over time.

We can therefore relate an amount of income (per year) to an amount of capital (once only) required to generate that income. In this way, we can ask how much money in the form of capital would be required to eliminate poverty among residents of a given area. Similarly, we can ask how realistic are the appropriations made under the Title VII program with the intent of having a "significant impact" on the poverty in selected areas.



Income Deficit

To determine how much income is "needed" in an area, we must have a level of income to which the population is "entitled." Let us assume that amount

INTRODUCTION

With almost 8 million Americans officially counted as unemployed and the likelihood of a return to near-full employment before the end of the decade very doubtful, there are few who question the need for expansion of public jobs programs (PJP'S). Many are calling for a revision of the presently used method of funding and administering of Comprehensive Employment and Training Act (CETA) programs.

PJP's have, in the past, demonstrated substantial employment and economic impact, especially when compared to alternative fiscal tools. Thus, they are likely to be included as at least one component of any countercyclical policy program initiated in Congress. It is equally probable that even the most avid proponents of PJP will argue strongly for revision or complete change in the processes of funding, administration and implementation of the present programs. It is to this "reconstructing" problem with special reference to the Canadian "model" of job creation that this report is addressed.

This report consists of three parts:

1. The legal, philosophical and economic foundation of the presently operating job creation programs in Canada.
2. A brief evaluation of the first three years of the operation of the Canadian programs.
3. The applicability of the Canadian models for use in the United States with special attention given to the problems in operation of current Public Service Employment (PSE) programs in the United States.

The third section also discusses revisions needed to incorporate the Canadian "model" under the existing Titles II and VI of CETA and two optional pieces of legislation.

As a cautionary preface, several relevant differences between the United States and Canada should be pointed out. First, the population (and labor force) of Canada is approximately one-tenth the size of the U.S. Thus, when discussing implementation, funding and administration we must keep in mind that it would take much larger amounts of money and administrative effort to launch a program of similar effectiveness in this country. There are, of course, possible economies of scale to be realized. Secondly, the authorization and funding levels of the Canadian job creation programs are determined by Cabinet decision made as often as twice yearly. Consequently, the funding levels and rules governing the projects (and their administration) are infinitely more flexible than is presently possible under the job creation model we are working with in the United States. The Canadian system is almost elegant in its simplicity while the system under CETA tends to be crushed by its own bureaucratic weight. This problem is addressed in the text.

In 1971 the unemployment rate in Canada was about 6 percent. In response to this situation, the Cabinet made a decision to launch the first of the programs discussed in this study, Local Initiatives Program (LIP), under the aegis of the Department of Manpower and Immigration. The Local Employment Assistance Program (LEAP), the second program described in this study, followed one year later.

THE LOCAL INITIATIVE PROGRAM

As its name implies, the LIP program sponsors projects which originate with the project sponsors themselves. Thus, from the start the various undertakings must have importance and purpose for at least one person in the community and are then subject to approval by a variety of governmental agencies.

In addition to project initiation outside of government agencies, there are two other (and possibly more important) objectives of the program. First, the initial design was to create a program that would reduce the seasonal, regional and area specific unemployment in Canada. Because of certain geographic and industrial characteristics of the Canadian economy, Canada suffers a disproportionate amount of seasonal unemployment. It was at this problem that the LIP program was initially aimed. Secondly, the projects must in some way "enhance the quality of life" in Canada. This is loosely interpreted to mean that the projects must provide a good or service which was previously not available (or unavailable at a reasonable cost) or must utilize facilities which were available but untapped. Projects range from the obvious, such as day care centers, to the innovative, such as provision of tutoring centers for newly arrived immigrants. (A summary list of the types of projects is supplied in Appendix A.)

LIP projects are limited only in that they are not to be profit-making endeavors—any revenue generated from the project is charged against project expenses.¹ Projects can be aimed toward self-support either through revenues generated or support from other funding sources.

Each project application submitted must allow for the provision of at least 15 man-months of employment for persons who would otherwise have been unable to find a job. Projects are accepted only if the type of skill needed on the project is already available among the cadre of unemployed workers in the community. No provision for training is involved—primarily due to the short time span and the availability of alternative training programs through the Canadian Department of Manpower and Immigration.

Every person hired on a project must be referred through the Canadian Manpower Centers—the U.S. equivalent is the Division of Employment Security—and priority is given to those who are receiving unemployment benefits or welfare payments.² Any person who is a citizen or landed immigrant is eligible unless that person is a member of the immediate family of a project sponsor (in this case special permission from the Minister is required.)

¹ There have been, however, proposals to initiate an Entrepreneurial LIP Program so that certain projects with profit making ability and long-range prospects can be funded for longer periods of time.

² The Unemployment Insurance System in Canada differs from the U.S. system in that the employees, government and employers pay into the system. It is not completely employer funded as in the United States.

The LIP wage schedule aims at paying participants the going local wage for similar work (not interpreted as the "Davis-Bacon" wage rate as it often is in the United States). The sponsors and/or project managers can earn up to \$140 per week, while employee participants' earnings just average \$115 per week. In addition, the government contributes \$22 per week to cover administrative costs and "employee" contributions for unemployment insurance benefits.

The maximum funding level provided by the government is presently at \$75,000 for an entire project. This has been reduced from a 1971 maximum level of \$500,000 and a 1972 level of \$200,000.³ The funding levels for the first four "seasons" of the LIP project are shown in Table 1.

TABLE 1.—LIP FUNDING, NUMBER OF PROJECTS, MAN-WEEKS OF EMPLOYMENT, JOBS CREATED, AND COST PER MAN-YEAR

	Total funds (millions)	Number of projects	Jobs created	Man-weeks employment	Amount per man-year
1971-72	\$190.0	5,567	92,231	1,598,006	\$18.83
1972-73	126.0	5,818	85,426	1,874,400	\$16.71
1973-74	72.8	3,401	30,358	626,880	\$16.56
1974-75	85.0	4,191	30,362	624,363	\$17.03

³ Includes extra money appropriated for project extensions: \$40,000,000 in 1971-72, and \$36,000,000 in 1972-73.

It has not been made clear why the overall funding level was lowered substantially between 1971-72 and the present program. Representatives of the Canadian Manpower Office indicated that the decision was political and not based on the "worth" of the program. Apparently it was a step taken to eliminate the large efforts communities were proposing as a means to increase their "revenue sharing" pot. Decreasing the maximum for any one project insured the funding of more and smaller projects.

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The agency responsible for the administration of the LIP program is the Job Creation Branch of the Department of Manpower and Immigration. The application form consists of one page (the flip side is optional) to be filled out by the applicant and forwarded to one of the ten branch offices of the Job Creation Branch. (A copy of the application form is shown in Appendix B). The application sheet asks only for a reasonably detailed budget of salaries and other expenses, along with the expected number of man-weeks of employment and the extra revenues (if any) that the project might generate. The assumption is that the project's justification will come out in the review process and in the active support of the project by the community or province in which it originated.

When the job creation office receives the application it makes photocopies to be sent to the following offices or agencies:

The member of Parliament representing the constituency,
The Canada Manpower Center serving the area,
The Provincial Government,

³ The majority of the projects are funded at a level considerably less than even the reduced maximum of \$75,000. See Appendix A.

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INTRODUCTION

With almost 8 million Americans officially counted as unemployed and the likelihood of a return to near-full employment before the end of the decade very doubtful, there are few who question the need for expansion of public jobs programs (PJP'S). Many are calling for a revision of the presently used method of funding and administering of Comprehensive Employment and Training Act (CETA) programs.

PJP's have, in the past, demonstrated substantial employment and economic impact, especially when compared to alternative fiscal tools. Thus, they are likely to be included as at least one component of any countercyclical policy program initiated in Congress. It is equally probable that even the most avid proponents of PJP will argue strongly for revision or complete change in the processes of funding, administration and implementation of the present programs. It is to this "reconstructing" problem with special reference to the Canadian "model" of job creation that this report is addressed.

This report consists of three parts:

1. The legal, philosophical and economic foundation of the presently operating job creation programs in Canada.
2. A brief evaluation of the first three years of the operation of the Canadian programs.
3. The applicability of the Canadian models for use in the United States with special attention given to the problems in operation of current Public Service Employment (PSE) programs in the United States.

The third section also discusses revisions needed to incorporate the Canadian "model" under the existing Titles II and VI of CETA and two optional pieces of legislation.

As a cautionary preface, several relevant differences between the United States and Canada should be pointed out. First, the population (and labor force) of Canada is approximately one-tenth the size of the U.S. Thus, when discussing implementation, funding and administration we must keep in mind that it would take much larger amounts of money and administrative effort to launch a program of similar effectiveness in this country. There are, of course, possible economies of scale to be realized. Secondly, the authorization and funding levels of the Canadian job creation programs are determined by Cabinet decision made as often as twice yearly. Consequently, the funding levels and rules governing the projects (and their administration) are infinitely more flexible than is presently possible under the job creation model we are working with in the United States. The Canadian system is almost elegant in its simplicity while the system under CETA tends to be crushed by its own bureaucratic weight. This problem is addressed in the text.

In 1971 the unemployment rate in Canada was about 6 percent. In response to this situation, the Cabinet made a decision to launch the first of the programs discussed in this study, Local Initiatives Program (LIP), under the aegis of the Department of Manpower and Immigration. The Local Employment Assistance Program (LEAP), the second program described in this study, followed one year later.

THE LOCAL INITIATIVE PROGRAM

As its name implies, the LIP program sponsors projects which originate with the project sponsors themselves. Thus, from the start the various undertakings must have importance and purpose for at least one person in the community and are then subject to approval by a variety of governmental agencies.

In addition to project initiation outside of government agencies, there are two other (and possibly more important) objectives of the program. First, the initial design was to create a program that would reduce the seasonal, regional and area specific unemployment in Canada. Because of certain geographic and industrial characteristics of the Canadian economy, Canada suffers a disproportionate amount of seasonal unemployment. It was at this problem that the LIP program was initially aimed. Secondly, the projects must in some way "enhance the quality of life" in Canada. This is loosely interpreted to mean that the projects must provide a good or service which was previously not available (or unavailable at a reasonable cost) or must utilize facilities which were available but untapped. Projects range from the obvious, such as day care centers, to the innovative, such as provision of tutoring centers for newly arrived immigrants. (A summary list of the types of projects is supplied in Appendix A.)

LIP projects are limited only in that they are not to be profit-making endeavors—any revenue generated from the project is charged against project expenses.¹ Projects can be aimed toward self-support either through revenues generated or support from other funding sources.

Each project application submitted must allow for the provision of at least 15 man-months of employment for persons who would otherwise have been unable to find a job. Projects are accepted only if the type of skill needed on the project is already available among the cadre of unemployed workers in the community. No provision for training is involved—primarily due to the short time span and the availability of alternative training programs through the Canadian Department of Manpower and Immigration.

Every person hired on a project must be referred through the Canadian Manpower Centers—the U.S. equivalent is the Division of Employment Security—and priority is given to those who are receiving unemployment benefits or welfare payments.² Any person who is a citizen or landed immigrant is eligible unless that person is a member of the immediate family of a project sponsor (in this case special permission from the Minister is required.)

¹ There have been, however, proposals to initiate an Entrepreneurial LIP Program so that certain projects with profit making ability and long range prospects can be funded for longer periods of time.

² The Unemployment Insurance System in Canada differs from the U.S. system in that the employer, government and employees pay into the system. It is not completely employer funded as in the United States.

The LIP wage schedule aims at paying participants the going local wage for similar work (not interpreted as the "Davis-Bacon" wage rate as it often is in the United States). The sponsors and/or project managers can earn up to \$140 per week, while employee participants' earnings must average \$115 per week. In addition, the government contributes \$22 per week to cover administrative costs and "employee" contributions for unemployment insurance benefits.

The maximum funding level provided by the government is presently at \$75,000 for an entire project. This has been reduced from a 1971 maximum level of \$500,000 and a 1972 level of \$200,000.³ The funding levels for the first four "seasons" of the LIP project are shown in Table 1.

TABLE 1.—LIP FUNDING, NUMBER OF PROJECTS, MAN-WEEKS OF EMPLOYMENT, JOBS CREATED, AND COST PER MAN-YEAR

	Total funds (millions)	Number of projects	Jobs created	Man-weeks employment	Amount per man-year
1971-72	\$190.0	5,567	92,231	1,598,000	\$8.87
1972-73	206.0	5,818	85,426	1,824,400	9.07
1973-74	72.8	2,001	30,358	626,880	6.05
1974-75	85.0	1,191	30,362	624,863	7.07

³ Includes extra money appropriated for project extensions: \$40,000,000 in 1971-72, and \$36,000,000 in 1972-73.

It has not been made clear why the overall funding level was lowered substantially between 1971-72 and the present program. Representatives of the Canadian Manpower Office indicated that the decision was political and not based on the "worth" of the program. Apparently it was a step taken to eliminate the large efforts communities were proposing as a means to increase their "revenue sharing" pot. Decreasing the maximum for any one project insured the funding of more and smaller projects.

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The Canada Manpower Center serving the area,
The Provincial Government,

³ The majority of the projects are funded at a level considerably less than even the reduced maximum of \$75,000. See Appendix A.

Other Federal departments which might have an interest, The Constituency Advisory Group, and

The applicant, indicating official acknowledgement of receipt.

Each of the above parties submit their opinion of the project to the Job Creation Branch which then forwards all comments to the Constituency Advisory Group (CAG).

The CAG's were first set up with the 1973-74 program in order to insure local consultation on the proposed projects. Each CAG is composed of 11 members (changed from 9 members in 1973-74) nominated by the local member of Parliament, to represent a broad base of community interests. The CAG's take the inputs of all the parties sending comments and arrange the projects in order of priority for funding. The Federal Government has approved approximately 95 percent of the CAG-recommended projects. It should be pointed out that the Member of Parliament does not have to set up a CAG—if this is the case then the project selection is the responsibility of the program officials (usually in consultation with the Member of Parliament).

Sending the proposals to the other Federal agencies that might be interested is done in order to avoid overlap and conflicting projects in an area. For example, the Interior Department may have been planning a fire road, while the local group who proposed a LIP project to do the same was not aware of the plans.

All plans, due to the seasonal design of the program, must be submitted by Oct. 1 of the year and be ready to begin as early as Dec. 1, but not later than Jan. 31. The maximum length of funding for any one LIP project is 26 weeks, although some have been granted "special circumstance" extensions.

If a project is approved, the sponsor officially becomes an "employer" with all the responsibilities for accounting and payment into the Unemployment Insurance fund (for all participants but the sponsor). The sponsor must then use the Canadian Manpower Centers for the recruitment of all staff and make sure the project is in compliance with all Federal and provincial laws in reference to building permits, licenses and wages. The Job Creation Branch offers help on any and all administrative problems.

The funding of the project is made in installments with an initial payment, covering the first two months of operation, sent with the award. The remainder of the payments are made on a monthly basis depending on whether the monthly reports are received and approved by the Job Creation Branch (and sometimes checked in the field by a member of the Job Creation Branch staff). All of the rules and regulations are carefully laid out in a sponsor's handbook, distributed when the project is approved.

The termination of LIP projects is automatic at the end of the 26-week period, unless the project has become self-supporting or the community (or provincial government) includes it permanently in the budget. The participants do not expect to be retained, as the design of the program is to take care of seasonal employment problems. The participants are, however, eligible for unemployment insurance benefits in that the project sponsor has paid into the fund during the 26-week period.*

*It is worth pointing out that the Job Creation Branch figures out the appropriate rate for each project and takes care of the Workman's Compensation premiums for each project participant.

In sum, the administrative procedures employed in the LIP program appear to be as simplified as possible, while still retaining enough control and review to minimize the possibility of fraud. There are no elaborate rules and regulations, but rather a simple set of guiding principles which are interpreted *ad hoc* when necessary by the staff of the Job Creation Office of the Department of Manpower and Immigration.

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ASSESSMENT OF THE PERFORMANCE OF LIP

The information upon which the brief evaluation of the activities of LIP is based is all of a secondary nature. The author has not conducted nor has he been involved in the data gathering. Much of the information used in this section is provided by the Canadian government in the form of published data on participant characteristic and program costs and should be reliable. Value judgments presented are the sole responsibility of the author and not the "official" word from the Canadian Department of Manpower and Immigration.

ALLOCATION OF FUNDS UNDER LIP

The allocation and distribution of funds under the LIP program is a very simple procedure. An estimate of unemployment is made for each of the 41 economic regions. The difference between this number and the expected number of unemployed persons at a 4 percent "full" employment level is calculated. The number of persons counted as "excess" unemployed is then multiplied by the national dollar allocation per unemployed person. In 1974-75, this figure was approximately \$262. Each of the regions is to receive a minimum of \$75,000, enough for at least one LIP project. This system contrasts with the present allocation system employed under CETA which resulted from compromises reached in Congress over rural versus urban areas and States with high versus States with lower population and unemployment.

PROJECT SPONSORS

As indicated above, there are no special provisions for project sponsors—any individual or non-profit group or agency may apply. Following is a list of the 1973-74 project sponsors cross-tabulated with the type of project activity.

(8)

TABLE 2.—LIP ACTIVITIES BY PROGRAM SPONSORS, 1973-74
[Percent distribution]

Activity	Sponsor									Total
	Local government bodies	Other government agencies	Indian and Eskimo groups	Cultural groups	Religious groups	Service and welfare organizations	Business and labor organizations	Citizens committees	Recreation and leisure organizations	
Building construction	3.5	1.3	3.2	0.9	2.3	2.3	0.4	2.8	3.5	1.6
Public works construction	5.7	1.8	1.3	2.2	2.2	2.4	0.3	1.5	2.6	2.4
Arts, crafts, and forestry	3.1	0.2	0.8	1.4	0.1	0.2	0.3	0.4	1.2	1.2
Arts and culture	1.1	1.2	0.2	1.9	0.2	2.3	0.1	0.2	0.4	1.7
Education	2.2	1.1	0.2	0.5	0.2	2.3	0.3	0.7	0.4	2.5
Immigration	1.1	1.1	1.5	0.7	0.7	6.4	1.1	4.1	1.1	10.2
Social services	1.0	0.2	0.0	0.0	0.0	0.5	0.1	0.1	0.0	0.9
Health services	0.7	0.4	0.1	0.2	0.0	0.5	0.1	0.1	0.9	1.1
Sports and recreation	0.6	0.3	0.0	0.6	0.0	0.4	0.3	0.4	1.2	0.9
Research	0.6	0.3	0.0	0.6	0.0	0.4	0.3	0.4	1.2	0.9
Total	15.0	6.1	7.5	5.6	3.5	13.1	3.3	11.8	11.2	23.0
										100.0

Source: Canadian Department of Manpower and Immigration.

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Land, park and forestry	5.7	.9	1.3	.2	.2	.4	.3	2.6	2.4
Arts and cultural	3.1	.8	.8	1.9	0.1	.2	.3	1.2	1.2
Education	.2	1.2	.2	.5	0.2	.2	.1	.4	1.7
Transportation	1.0	.1	1.1	.2	0.7	.3	.2	0.4	2.5
Health services	0	.7	1.5	0.7	0.7	6.4	1.1	1.1	9.9
Social and recreation	.7	.4	0.1	.2	0	.5	.1	0	10.7
Research	.6	.3	0	.6	0	.1	.2	1.9	.2
Total	15.0	6.1	7.5	5.6	3.5	13.1	3.3	11.8	23.0

Source: Canadian Department of Manpower and Immigration.

The data on the 1973-74 programs shows that individuals are the most frequent sponsors and social services the most frequent activity. A recent conversation with a Canadian LIP official revealed that in the 1974-75 project year, 35 percent of the projects were sponsored by individuals. The stark contrast between LIP and CETA is that only about 21 percent of the LIP projects were sponsored by government agencies. Of those sponsored by government agencies, the majority were related to construction activity. This reflects the fact that LIP funds cannot be used for capital equipment and materials. Governmental units were most able to supply the necessary additional resources. A University of Calgary study of LIP projects showed that 38 percent of the sample projects were receiving funds from other sources—a tangible expression of the willingness of the communities to become directly involved in the LIP projects.

In 50 percent of the cases studied it was found that a public or private agency provided the same or similar services as the LIP project. However, this may not indicate an oversupply since the Calgary study also showed that 81 percent of the users of LIP services knew of no alternative in the community. The bulk of the duplication was in large cities and most of those who were involved in organizations which supplied the same or similar services did not view the LIP projects with disfavor.

An accurate measure of community attitudes toward LIP is difficult to obtain, but a sample cross-section of the communities surveyed showed that about 69 percent were favorable, 25 percent were unaware of the project and 6 percent registered unfavorable opinions.

Economic Impact of LIP

LIP, by design, is a program to reduce seasonal unemployment in Canada and thus its economic impact cannot be judged by simply listing changes in the overall unemployment rate.

About 70 percent of the LIP jobs lasted 24 weeks or less while 30 percent had a tenure exceeding the "regular" seasonal unemployment span in Canada. Estimates made by Prof. Fred Lazar¹ at York University indicate that the LIP program increased the overall level of employment during the winter months between 1 and 1½ percent and reduced the total level of unemployment by approximately 5 percent. These figures assume that each job created under LIP is a net addition to the employment pool. This may not be true if any of the projects would have been undertaken in the absence of the program. Unfortunately, there is not a direct method of measuring this.

One of the most remarkable aspects of the LIP program is the fact that it has created and filled such a large number of jobs in so short a period of time. For example, in the 1972-73 year there were some 86,000 jobs created and filled in less than two months. The program is not as large now but still operates effectively in the given time frame. In order to duplicate this effort in the United States we would have to create and fill almost 1 million jobs in 2 months.

The LIP projects created one year of employment for each \$7,000 expended (see Table 1). There are several reasons for this low figure. First, the wages paid must average \$14.5/week—about 10 to 20

percent less than Canadian national full-time average. Secondly, the administrative costs are minimal, since there is no large public bureaucracy set up to deal with and plan the programs. Thirdly, the projects are labor intensive, and thus only a small percentage of the government funds were used for materials and other operational expenses.

Since the LIP program is specifically designed to take up the seasonal slack in employment, one would expect that most of those who obtained the LIP jobs would come from the ranks of the officially unemployed. The only data the author could obtain relating to employment status prior to a LIP job refers to the 1972-73 year. The information shows a favorable picture, in that 72 percent of the participants were either unemployed or expecting layoff in the immediate future. Table 3 shows the characteristics of the participants by sex and labor force status.

TABLE 3.—LABOR FORCE STATUS AND SEX OF LIP PARTICIPANTS, 1972-73
LABOR FORCE STATUS OF LIP WORKERS IMMEDIATELY PRIOR TO LIP (1972-73)

	[In percent]		Total
	Male	Female	
Employed steady, full time.....	7.2	6.3	6.9
Employed steady, part time.....	1.7	4.2	2.5
Employed full time, expecting lay off.....	5.8	6.6	6.9
Employed part time, expecting lay off.....	2.1	2.8	2.3
Unemployed.....	67.1	46.1	60.6
Housekeeping.....	.7	22.4	7.3
Retired.....	1.1	.5	.9
At school.....	4.7	5.1	4.9
Other.....	5.6	6.0	5.7
Total.....	100.0	100.0	100.0

The classification "at school" might also indicate a favorable employment addition in that these persons were likely to be entering the labor force and certainly all would not have been able to find jobs in the absence of LIP. Further, the housekeepers and part-time workers who came to the LIP projects may have really needed the full-time positions. These "new entrants" may simply have been discouraged by the job market prospects, and therefore part of the "hidden" unemployed.

Although LIP was not designed as an antipoverty program, it disproportionately benefited those most in need of employment and earnings. Some 67 percent of the males in LIP were collecting unemployment or welfare benefits and 43 percent lived in families who had income levels below the poverty line. Drawing persons from public assistance programs has the additional advantage of savings to direct government transfer payments plus the taxes paid by these persons while they are working. The exact amount of savings to the government in the form of reduced unemployment insurance (UI) benefits and welfare costs is extremely difficult to calculate. Some may return to UI after the program and others to welfare. It is, however, safe to assume that the net costs are substantially less than the full appropriations.²

¹ Estimates of the net costs of job creation in the United States have recently been supplied by the Congressional Budget Office. The estimates run from 61 to 74 percent for the initial impact and 54 to 72 percent after 14 months. See "Temporary Measures To Alleviate Unemployment: An Evaluation of Some Alternatives," Congressional Budget Office, 1973.

² Fred Lazar, unpublished, untitled paper, Dept. of Economics, York University, January, 1973.

The University of Calgary study found that 62 percent of the males and 70 percent of the females became unemployed after LIP in 1972-73. This suggests that LIP did not really fulfill its goal of getting to the seasonally unemployed, since one would expect them to return to their regular job at the termination of LIP. However, this finding does not diminish the efficacy of using this model as a counter-cyclical device.

SUMMARY

The above discussion only points out some of the highlights of the program characteristics and employment accomplishments. It is not meant to be a detailed evaluation but rather an aid in understanding the model for consideration as an "export" to the United States.

It is fair to say that, with the amount of money available and the time span given, the Canadian Department of Manpower and Immigration set up an efficient network for the creation of jobs. In addition, the projects are visible and undertaken at the suggestion of the community. Before discussing the possibilities for the LIP model in the United States, the LEAP program is discussed and briefly evaluated.

THE LOCAL EMPLOYMENT ASSISTANCE PROGRAM (LEAP)

One year after the initiation of the LIP program, the Canadian Department of Manpower and Immigration launched another program (again without specific law but at the mandate of the Cabinet). This program, designated the Local Employment Assistance Program, is aimed at the problems of chronically unemployed persons rather than the seasonal disparity goal of the LIP program. The program is described by the Job Creation Branch as "low profile" since, rather than solicit proposals from the public, it employs LEAP agents in the various Job Creation offices to take the lead role in project initiation. This process is usually undertaken with the assistance of any private or governmental agency in the area that is concerned with the problems of the disadvantaged population.

Once target groups and a project are identified, the LEAP staff immediately attempts to integrate participants into the final stages of planning and start-up. This period includes the solicitation of additional funds or other support from both private and not-for-profit agencies. In some instances the LEAP projects have involved the startup of a small business specifically designed to offer a needed good or service and, often, with the intention of the project to become self-supporting. The LEAP staff members have indicated that they turn over management to the participants as soon as possible.

Any person who participates in a LEAP project has access to any of the training programs offered through the Department (analogous to the training programs offered under Title I of CETA).

The target group for LEAP projects is similar to those defined as "disadvantaged" under present U.S. poverty and manpower programs (that is: people who would likely remain unemployed under "normal" labor market circumstances). The brochure for the LEAP program indicates the following:

... the program focuses on the support of a limited number of projects which demonstrate ways of creating long-term employment for persons who are unemployed because—

1. They have limited job skills;
2. They live in a geographic area where job opportunities are limited;
3. They are the subject of racial or cultural prejudices; or
4. They have physical, social or mental disabilities which create barriers to employment, such as chronic dependency, a criminal record, alcoholism, retardation or physical handicaps.

It is obvious that the definition of possible participants for the program can be interpreted as loosely as the Job Creation Branch sees fit. On this count, LEAP is similar to Title II of CETA eligibility criteria.

ADMINISTRATION OF LEAP

Once the Job Creation Branch identifies a geographic area or specific target group, they then work with a local group, a non-profit organization, community or citizen group, voluntary agency, or even an individual is designing a project proposal.¹

The funding level of the LEAP projects cannot exceed \$200,000/year, with a maximum funding of three years: In some instances a startup time of six months and up to \$100,000 is given to the project if longer planning is deemed necessary. The maximum funding level for any one project is \$350,000, although most of the projects are funded at a level considerably less than the maximum allowed.²

Wages paid to participants can be no higher than those prevailing for similar occupations in the area. Federal funds are used for the payment of wages, fringe benefits, employer contribution to unemployment insurance and "reasonable" administrative costs. In some cases, the cost of expert supervision, counseling, evaluation or special training is allowed, as long as it doesn't exceed 20 percent of the total project costs.

Proposals may be submitted at any time of year and the person or group designing the project is encouraged to take time to plan carefully. The project staff of the Job Creation office are assigned to projects to aid in the development as well as participate in the monitoring after the project begins. Close attention is given to each project and a maximum ratio of one monitor to eight projects is maintained.

The LEAP program is basically experimental and funded at a level of approximately \$12 million for the 1974-75 season. This would be equivalent to a funding of approximately \$120 million in the United States—a very small program compared to other social expenditures.

¹ In some instances, spontaneous proposals from groups or committees not identified by the LEAP staff will be considered for funding. This, however, is the exception rather than the rule.

² See Appendix C for a sampling list of LEAP projects and their funding levels.

LEAP SUMMARY EVALUATION

LEAP, as mentioned above, is a small program with an allocation for 1974-75 of only \$12 million, enough to create about 1,700 jobs. LEAP is aimed primarily at the "disadvantaged" and the data available shows that over 70 percent of those hired in a non-managerial role were earning less than the official poverty line. About 14 percent of the non-managers were employed full time prior to LEAP.

The LEAP projects are divided into two categories: "preparation" and "retention" projects. The latter are designed to retain the original participants over the life of the project (up to 3 years) and the former to prepare the participants as soon as possible for re-entry into the regular job market. The funded projects were split about half and half although the preparation projects had a much larger proportion of managers. This reflects the emphasis on training and transition of the "preparation" projects. The majority of the "preparation" projects were sponsored by community agencies, while the "retention" projects were divided somewhat randomly among native groups, cooperative citizen groups, service clubs and the like. Of those who left the project, over 40 percent immediately secured other employment. The next largest category of turnover shows 13 percent in the "disadvantaged" classification.

Reflecting the "investment" nature of the LEAP program is the fact that over 70 percent of the projects were expected to become commercially viable over the funding period (i.e., to become revenue producing and independent of outside financial resources). Whether this will happen is not certain since none have been in operation for the full three-year funding period. The "retention" projects are more likely to become financially independent, while the "preparation" projects, almost by definition are not, since they lose their most experienced and able workers as soon as they can place them in other jobs.

LEAP operates on a community development model, in that the "businesses" are funded in the initial stages by government money. They have neither the credit rating nor the certainty of success that is needed to obtain funding in the private market. The outcomes should be watched closely, since this type of project is being proposed in many States in the form of a State-funded development bank. Many models of this have been put forward, but none have been put into operation in the United States.

PUBLIC EMPLOYMENT PROGRAMS IN THE UNITED STATES AND THE EFFICACY OF THE CANADIAN MODEL

This section of the paper discusses the current efforts in the United States to use public employment programs as a counter-cyclical tool. Special emphasis is given to the problems encountered since the passage of the Emergency Jobs and Unemployment Assistance Act of 1974 (Title VI of CETA). The problems are discussed in reference to the possibility of substituting the Canadian job creation model (LIP) for the present structure.

Although antipoverty job creation models with "transition" goals are important and (in the author's opinion) in need of expansion, this discussion centers on counter-cyclical strategies. In addition, it is possible to at least partially achieve the goals of anti-poverty job creation in the context of a counter-recessional program.

The main goals of a counter-recessional jobs program are: (1) to provide as many jobs as possible for those out of work as a result of cyclical changes in the economy, and (2) to provide stimulus to the economy through increases in purchasing power. There are several secondary but important considerations. Job creation should be done in a manner that will best stabilize the rate of inflation and result in the least displacement of workers already funded under the current State, local and federal budgets. Also important is that the output of the jobs is needed and visible.

Other considerations of PJP's center around the structure and cost of the administrative network and the categories of persons hired. In terms of administration, the simplicity and cost of the operation are most important. In reference to the target groups, the countercyclical strategy considerations are not clear cut since they may conflict with inflation stabilization goals, need criteria and the possibility of prolonging a return to "normal" labor market activity. This will depend on the wages paid and the duration of public jobs. Although detailed discussion of all the above aspects of countercyclical PJP programs is out of the purview of this paper, the factors mentioned above are discussed in reference to the possible use of the Canadian LIP model.

Much of the confusion and criticism of the present PSE programs is misplaced. Those who look at the programs as an antipoverty effort are disappointed. The guidelines are "loose" enough and the pressure for speed of implementation was strong enough to point the program away from an antipoverty stance and in the direction of a purely counter-cyclical posture. On the other hand, those who viewed it as a form of counter-cyclical revenue sharing designed to ease the burden on FICA rolls criticize PSE for the attention given to "transition" requirements and selection of those most in need of earnings. The problem originates from the lack of explicit goals offered in the various titles of the legislation. Further, even if the purposes of various

titles of CETA were explicit, the Act allows the option of transferring funds from one title to another. Any additional piece of legislation or additional funding should certainly make clear exactly what the "intent" of the program is, and to whom the positions should be directed. Presently, the water between Title I's goal of assisting the disadvantaged through training, Title II's anti-poverty job creation and Title VI's countercyclical intention, is very muddy.

The main criticisms of the CETA PJP titles center around the administrative framework, the target groups, the "output" of those hired and the "maintenance of effort" provisions. Each of these is considered in turn.

ADMINISTRATIVE FRAMEWORK OF CETA JOBS PROGRAMS

The manpower and anti-poverty programs of the 1960's created an alphabet soup of programs, strategies, delivery systems, and target groups. All were designed with the intentions of providing needed services, income supplements and training while at the same time guarding against duplication and emphasizing coordination. One would be hard pressed to find a student of these programs who would defend keeping the initial format.

The attempt to coordinate categorical programs under the umbrella of "manpower" was carried through in the form of CETA and its amendments. The basic idea behind CETA was that local governments have a better grasp of the problems and needs of their constituents than does the Federal Government. This premise, however, left unanswered the question of administrative capability. Local governments simply lacked sufficient numbers of staff skilled in manpower program management. As a result the initial CETA programs took much time to get underway. Just as the process was gaining some momentum, new funds were appropriated by Congress. The CETA Title II money came available about July 1, 1974, the same time that the \$250 million additional funds authorized under the Emergency Employment Act of 1971 extension came available. Within another 6 months, the allocations under Title VI of CETA were appropriated. The result of this sudden influx of Federal dollars was enormous pressure on local governments to hire PSE enrollees, often in excess of local agencies' capacity to manage.¹

Several points are important:

1. The sheer size of the legislative provisions, guidelines and regulations literally made it impossible for the Prime Sponsor staffs to interpret whether they were to operate by the "law" or under the Labor Department guidelines—often different in "intent" if not in letter.
2. The time frame not only disallowed the possibility of careful planning but also "forced" many public administrative units to come up with "need" immediately.
3. The amount of money available under Titles II and VI and the EEA extension completely overwhelmed the Title I "training" aspects of CETA—designed to be its central focus.

¹ Many Prime Sponsors were not able to "spend" the appropriated funds within the period of their mandate by the Department of Labor. Many newspaper stories around the country mentioned this fact as an indication of the failure of PSE programs.

4. Following from numbers 1 and 2 above came the problems of inability of the sponsoring agencies to allocate or raise additional money to supplement the wage costs paid by the jobs programs. This simple fact precluded, almost entirely, the use of projects and instead concentrated almost all of the effort in "add ons" to civil service or quasi-civil service rolls. In many cases this led to charges of violation of the maintenance of effort provisions of the law.

The administrative framework of the LIP program offers an attractive alternative to these problems. First, the application forms are one or two pages long and the planning work is done entirely on an *ad hoc* basis by those who will be involved directly in the project. There are no volumes of rules and regulations nor is the likelihood of duplication of effort strong, since all projects go through a Constituency Advisory Group.

Essentially, the LIP program puts the burden of finding community support and other funding on the persons who are proposing a project rather than on bureaucracies already straining under the problems of implementation of CEA titles I and II.

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If the U.S. adopted the LIP "public initiative proposal" approach, it would have to be decided whether existing Prime Sponsor administrative networks could or should handle this type of system for PJP. The U.S. Department of Labor would be a logical possibility to be the fiscal agents of the projects. Due to their experience under categorical programs, Labor Department offices already have the expertise necessary for fiscal management and monitoring procedures. In the author's opinion, Prime Sponsors could best carry through their main function—the planning, design and implementation of training programs—in a much more effective manner if they did not have to deal with the temporary burden of counter-recessionary job creation. They should, however, retain the responsibility for the anti-poverty job creation programs, since this is a direct part of the training and placement efforts of their operations.

The simplicity of administration of the LIP program is due to the application itself, to the approval procedures and to the rules and regulations in general. Thus, LIP operates more efficiently than the current Title VI administration network.

Another administrative function is that of transferability of money under one Title to another Title of CETA. In response to the problems of money for tools and equipment in many of the Prime Sponsor networks, the allocations under Title VI were transferred to Title I programs, usually the "work experience" section. (Title I allows 20 percent administrative costs and Title VI, only 10 percent.) The lawmakers, with all good intentions, indicated that if a Prime Sponsor wanted to engage in more training and work experience programs (including OJT) they could transfer the allocations under Title II to Title I. These provisions were in turn used in the transfer of Title VI funds. The two accomplishments of this transfer were both of dubious value. First, it allowed the Prime Sponsors to allocate a larger percentage of money for administrative purposes. In some instances, this was effective in that it enabled the purchasing or leasing of uniforms, tools and equipment, thereby increasing the likelihood of visible and concrete accomplishments under the program. The option was also made

possible to simply hire more staff to administer the program. No explicit evaluation of this can be made. Secondly, if a Title VI hired person is classified as a "work experience" participant under Title I (and is usually performing the same jobs as those created under Title VI), then that person is later categorized as a "former training program participant" and, under current guidelines, is near the top of the list for participation in any other public job program. In extreme cases, a person hired under EEA in 1971 could have been on the payroll in a Title II program, then transferred to a Title I work experience program and then be placed in line for a Title VI slot. There are documented cases of this occurring in Massachusetts. Although this program-hopping is not against the letter of the law of CETA, it certainly does not conform with the spirit.

Separation of the countercyclical job creation programs from CETA would eliminate this problem. The LIP program gives no priority to previous participants. Again the confusion over the counter-recession or anti-poverty nature of the programs of CETA becomes important.

A final administrative problem in CETA was that of "over-hiring." It is not yet clear how common this has been, but a specific case in Massachusetts will bring the problem to light. In the initial stages of Title VI implementation, the "sub-grantees" (a smaller unit, under the Balance of State Prime Sponsor, left over from the administrative network of EEA) were hiring people at a rate in expectation of full year funding, without awareness of funding overlaps and available lag money. As a result, one of the sub-grantees hired 660 persons when in fact the accounting procedures later indicated that there was only enough money to hire about 550. Thus, the Balance of State Prime Sponsor had to supply—and where they got the extra money is not certain—an additional \$100,000 to keep those people on the payroll. The newspapers called it mismanagement, while the Prime Sponsor defended it with the explanation that the director of the subgrantee's office had been overzealous in response to the mandate to hire. Again, the LIP framework circumvents this problem by giving a specific grant for a specific period of time for a specified number of people. Over-hiring simply could not be a problem.

TARGET POPULATION

(E)?- For all intents and purposes, the restrictions on entry into public job programs became operationally insignificant with the advent of Title VI. The reasons for this are twofold. First, the "transition" requirements were essentially dropped from the guidelines and, second, the entry requirements for unemployed persons were dropped from 30 to 15 days. The bill gave preference to those who had exhausted their UI benefits (up to 65 weeks in some states) and the long term (15 weeks) unemployed. The lifting of restrictive requirements on entry was directly in line with the countercyclical intent of Title VI. However, even though a countercyclical program is specifically designed to aid those out of work due to the recession, other considerations are still important. Persons out of work are not all in the same situation. Some have assets, eligibility for up to 65 weeks of UI, supplemental unemployment benefits, regular seasonal lay offs, and so on. In the extreme, one could say that all the persons who are unemployed have a fractional 3 or 4 percent, would be working if the economy were operating at full

capacity. Thus, the issue of who among the unemployed should be hired is not as simple as it may seem. Methods of selection among the unemployed are tangled with problems. Some are worthy of elaboration, regardless of the model of public job creation.

Nationwide, unemployment insurance benefits average about \$65 per week, with a maximum duration of up to 65 weeks, depending on the state laws. In the United States, UI benefits are paid from state trust funds maintained by employer contributions, and this tax is based on their "experience rating." In addition, employers pay a fixed tax rate to the federal government. This money is used to partially fund federal extensions to the UI program. In the areas of the country which were hit hardest by the recession, the employers' rates are all at or near the maximum possible under the present schedule. Thus, we have witnessed many States which have had to borrow money from the federal trust to pay even the regular state-mandated benefits.

The portion of UI benefits which are funded from the Federal UI trust can be saved, in part, by the funding of a PJP. This represents a net savings to the trust. This "savings" should be considered for use in the funding of PJP slots, possibly by using the Williams amendment to the Social Security Act which allows for use of the federal portion of UI payments to subsidize training endeavors.

Finally, consideration should be given to allowing persons eligible for UI to take their "entitlement" and apply it toward a salary in a PJP slot, if they so choose. If this is not legally possible with the state portion of UI funds, we might conclude that on the basis of need, those who are eligible for state benefits should be last in line, rather than first, for any additional PJP slots.

The net savings benefits of PJP programs emerge more clearly when dealing with the welfare population, since all of the savings accrue to federal or state general funds, and thus, represent a net savings to the general tax-paying public.

In terms of countercyclical strategy there are two other considerations which lend support to hiring those most in need of income rather than anyone who is unemployed. First, the net aggregate demand stimulus is higher if the net increase in the person's income is greater. For example, if a person is collecting \$100 per week in UI benefits and is hired for a \$200 per week PJP slot, we see a net increase in the purchasing power of \$100 per week (a bit less, actually, since taxes must be paid on PJP slots while UI is tax-free). But if a person is given a job who is collecting \$50 per week in welfare or has exhausted UI benefits, we see a \$150 or \$200 per week addition to purchasing power.² These arguments, of course, hold only if the increased income is financed by reducing the budget surplus (enlarging the deficit) rather than by raising taxes to pay for the program.

Another important consideration is that the impact of the recession falls disproportionately upon the lower income segments of the economy. This is well-documented in the literature of economics.³ The implication, on equity grounds, is that a disproportionate amount of the available funds should also be targeted to the lower income groups.

² These arguments are more fully developed in a paper entitled "The Equity, Efficiency and Economic Stabilization Aspects of Public Employment Programs," May, 1975, available from the author.
³ See Edward G. Brander, "The Distributional Effects of Higher Unemployment," *Brookings Papers on Economic Activity*, Vol. 2, 1974, p. 294 ff.

The problems discussed above are not directly addressed by the LIP program; in fact, almost the opposite is true. Those most skilled in "grantsmanship" are likely to obtain funds and these persons are usually the "most employable" and least needy of the unemployed pool. A provision for employment in LIP is that the person be registered with the employment office, even if not collecting benefits. One possible way to solve this problem is to specify that a certain portion of those to be hired in a PJP project come from the following groups:

Those who have exhausted UI benefits;

Those who are on federally funded extensions of UI benefits; and

Those who are collecting in any public assistance program.

In addition, applicants should also be screened on the basis of "family income," rather than on personal income. One could find little support or justification for the spouse of a \$25,000/year executive receiving a position in a PJP.

Use of stricter criteria in hiring would not only make the programs more equitable, but may aid in realizing greater net increases in purchasing power. These criteria could be incorporated in the LIP model through use of a simple formula on the percentage of persons from any of the most disadvantaged groups in terms of present and potential transfer income.

All persons hired in LIP make payments to the UI fund and are eligible to collect benefits if they cannot find a job when the project terminates. Thought should be given to including a provision for continuation of federally-funded extensions for participants in any new PP program or strategy. A variation on this theme is put forward by Michael Wiseman, who recommends a lump-sum bonus for those who find a regular job. The "bonus" would increase the incentive to find regular employment and reverse the alleged negative employment incentive of the current UI system.⁴ This suggestion by Wiseman would be an excellent addition to any PJP, even one operating under the LIP model, since it is unlikely that there will be any shortage in applicants for PJP jobs in the next few years.

Even if the LIP model is incorporated into U.S. PJP programs, target group problems will prevail unless more thoughtful and restrictive regulations are included. Special attention should be given to the supplementation of the PJP funding by the federal UI fund and realignment of the priority groups. Family need and availability of alternative sources of income should be considered in assigning "significant segments."

OUTPUT OF PJP PROGRAMS

Job creation in the public sector has been stigmatized by many as "make work," "leaf-raking," and so on. In some instances the criticisms are fair, and in others it is simply the result of not understanding what the persons involved are doing. This stems from "built-in" problems of the CETA program. The "loose" guidelines and Department of Labor pressures to hire quickly often lead the hiring agents, usually local or State government, to "make work" if they have nothing on the agenda prevented by budget problems. The jobs concentrate an addi-

⁴ Michael Wiseman, "On Giving a Job: The Implementation and Evaluation of Public Service Employment," *Joint Economic Committee, Congress of the United States*, August 1975.

tions to the staffs of service organizations and are essentially invisible to the taxpaying public. Secondly, there have been many cases of nepotism, political rewards or the like. Thirdly, many of the workers (and their output) have not been represented as net additions to the number employed or to the community betterment.

The fact that the vast majority of PSE slots were additions to public sector service organizations is not *per se* negative since the need for public services is still far from saturated. However, the fact that no new money was provided for capital equipment and facilities often precluded the addition of previously unprovided services. The net addition of one or two staff persons to a public sector organization is unlikely to generate any enthusiasm or add to the "output of the agency." This scheme for finding jobs also renders priorities for the function and placement of new personnel to the discretion of the local politicians or bureaucrats. Again, this is not necessarily negative, but certainly not optimal.

The LIP model would take the best of this form of job creation and leave the worst behind. The community organizations and even the public bureaucracies could apply for grants in the same manner as everyone else and, if deemed worthwhile, they would be funded. The LIP model would simply inject a competitive facet into the provision of necessary but absent public services. An additional benefit would be the circumvention of the whole system of civil service, since the jobs would be of limited duration without the polemics of "transition." Much less feather-ruffling of the unions and taxpayers would be provoked.

The issues of "cronyism," "nepotism," and political wards will not be solved by the injection of a new model of PJP. These could be diminished if the projects were smaller in magnitude, if there were no guarantees for continued employment in the public sector, and if projects were subject to a set of rules as simple as those written along with any "breakfast food giveaway" (i.e., any relatives of employees of X company or its advertising agencies may not be etc.). The situation would be further improved if wages paid were less than similar jobs in the private and public sector. In addition, use of target criteria for "long term" unemployed or those under the extended UI benefits would have a minimizing impact on the whole issue.

Most important in relation to the "output" of the PSE programs is the *visibility* question. The lack of popularity of PSE programs, in the author's opinion, centers around the fact that the taxpayers do not see any net addition to the community in terms of facilities or services. The project approach of LIP virtually guarantees visibility by having signs indicating that the work is being carried out under a LIP grant, and by making sure the press is aware of projects. The press then also serves as a built-in monitoring system.

The potential "snowball" effect of visible PJP projects is very large. If one community has renovated old homes, landscaped the park or cleaned up the subway, they are certain to gain favorable publicity. At the same time, the officials in the next town or State are going to be asked what improvements are being carried out in their community. The potential is incredible. One only has to inspect (or use) accomplishments of the PJP's under the New Deal program to realize just how much can be done.

Further, if the projects are planned and initiated by the community (whether by one person or a group) the need must be present. Participation in decisions on the spending of tax money has to be one of the most satisfying experiences that jobless persons can have.

The critics of PSE often argue that the bulk of the projects under any PSE program are projects that the taxpayers would not want badly enough to pay for through increased taxes. This argument is insubstantial on several levels. First, the decisions made in local and state budget committees regarding priorities are certainly not always what the "taxpayers" would choose. Secondly, the tax burden in some cities and states (New York City and Boston, for example) are already so high that even if something in great demand were not already provided, it is highly unlikely that it could be undertaken during the current recessionary period. Finally, those who make decisions concerning the allocation of public funds are not always aware of the real needs. The simple act of project proposal would bring "neighborhood" or individual desires to the attention of at least the advisory group making project decisions.

The use of the LIP model would not contribute to the swelling of public bureaucracies with additions to staffs that often have little marginal impact; it would lend itself to a decrease in the "cronyism" that pervades certain present PSE programs, and would produce visible output in areas deemed important by the general populace, rather than by the local officials or bureaucrats.

MAINTENANCE OF EFFORT

With a recession comes not only a drop in the employment, but also a decrease in the tax revenues of government units. Coupled with this comes an incredible increase in the need for social welfare services, crime prevention, and medical care. The devastating human problems caused by poverty and joblessness are exacerbated by the State and local financial inability to increase services to the necessary extent. In the midst of the fiscal crisis, many of the States sought budget and employment cuts along with tax increases. At the same time they were given large sums of money through the Prime Sponsors to hire persons to work in the public sector. This clearly is not the right fiscal time to inject a massive dose of money and expect strict compliance with maintenance of effort provisions.

As a result, we can easily document the fact that many of the positions created under CETA were simply replacement funding for state or local jobs. There is nothing wrong with revenue sharing, particularly counter-cyclical revenue sharing but not in the guise of a public jobs program.⁵

The model of adding persons to the public payroll within the confines of the civil service system can be a very effective anti-poverty effort, but it can only hope to be effective in times of expanding employment and general economic prosperity. Clearly, we are not enjoying these conditions now, nor are we likely to for several years.

⁵ Legislation to provide counter-cyclical grants to State and local governments was introduced in the present Congress by Senators Humphrey and Muskie and Representative William Moorhead. At the time this study went to press, this legislation, which had been incorporated into H.R. 6247, was awaiting final House action on the conference report.

The LIP project approach virtually guarantees that each and every one of the jobs will be a net addition to the employment pool since none of the projects had even so much as an organizational structure prior to funding. Further, the persons hired had to be taken from the UI rolls and obviously could not be "transferred" from one job title to another in the same governmental unit.

Estimates vary widely on the use of PSE jobs to finance state and local existing positions; some go as high as 80 or 90 percent. If the states and localities are in need of special temporary loans or additional revenue sharing, this should be (and, as rated, is being) seriously considered in Congress, but not under the aegis of a public jobs program. With an explicit goal of job creation and a tacit goal of revenue sharing, any program is likely to do a poor job on both counts.

IMPLEMENTATION OF THE LIP MODEL

It must be mentioned at the outset that there are no provisions in the current CETA legislation which prevent a Prime Sponsor from taking the LIP model and incorporating it into their distribution of funds allocated under Titles II and VI (possibly even under Title I: "Work Experience"). However, present administrative arrangements, voluminous rules and regulations, planning structures and past experience make it unlikely that the LIP approach would be implemented by Prime Sponsors. In addition, the limited jurisdiction of the Prime Sponsors and the fact that the Federal government is not presently a hiring agent precludes any projects which cross Prime Sponsor or state lines. Most important of all is the simple fact that a change in structure takes an enormous amount of effort and the Prime Sponsors are unlikely to embark in a new direction unless they are legally obligated to do so.¹

Alternatives to offering the existing Prime Sponsor network incentives to implement LIP can take several forms. The first is to draft a new piece of legislation which would incorporate the elements of the LIP program suiting the current economic situation. Secondly, revision of the rules and procedures of planning and hiring could be added to any new appropriations for public jobs programs under CETA. Thirdly, a combination of "emergency appropriations" and guidelines with an experimental flavor could be adapted while drafting and planning of new legislation is occurring. Each of these is discussed in turn.

NEW LEGISLATION

Presently there are at least two bills in committee in the U.S. House of Representatives that directly address the question of programs for the provision of additional public service employment. Rep. Daniels introduced a bill which specifically addresses the issue of enlarging and strengthening the countercyclical aspect of the CETA legislation. Rep. Esch has introduced a bill which takes an even broader approach by calling for far reaching changes in both Titles I and VI of CETA.

Under the original Daniels' proposal private non-profit organizations could apply directly to the Sec. of Labor for a grant to implement a public employment project. Under the initial Esch proposal the same agencies would have to apply through the Prime Sponsor network. The Daniels proposal also allows for the Prime Sponsor to apply to the Secretary of Labor, thereby injecting an element of competition into the process of countercyclical funding. It is obvious that the Daniels bill relies heavily on the Canadian model, although

¹ Despite these difficulties, some successful examples of the use of CETA funds for temporary work projects do exist. Some of these are described in "Creating Jobs Through the Project Approach in New England" by William Spring (Joint Economic Committee, Congress of the United States, forthcoming).

Administration could be accomplished through the Regional Offices of the Labor Department and publicity to solicit proposals could be achieved through the media—at no real expense. The recent advertising campaign of a well-known oil company regarding ideas for mass transportation illustrate the incredible response that can be generated by using television to solicit ideas. The solicitation of project proposals might be done in the same manner.

If this emergency piece of legislation is adopted, I would recommend that the previously discussed amendments to the CETA be incorporated. In addition, the U.S. counterpart of the Constituency Advisory Groups could be formulated quickly by either using the present Manpower Services Council or by having each Representative (or Senator) immediately establish area committees to screen and finalize the proposals.

Another useful addition which could be made if a specific piece of emergency employment legislation were drafted and passed would be the inclusion of a provision to keep the funding triggered by the unemployment rate within an area, not the national rate. It is unlikely that the various states or regions will recover from this recession in the same temporal framework. The unequal dispersion of unemployment at the present time well illustrates this point. The provision could then serve as the model for a permanent countercyclical jobs program with one year project tenure.

An emergency piece of legislation would have to give consideration to the present CETA program, particularly Title VI. This could be done by simply not requesting any new Title VI appropriations and by continuing the funding levels of the remainder of CETA.

FUNDING LEVELS FOR COUNTERCYCLICAL JOBS PROGRAMS

In a sense, detailed discussion of the needed funding levels for PJP's under the present economic conditions is academic. The amount of money appropriated for these programs is dependent on the willingness of Congress and the White House to engage in deficit spending. The recent report by the Congressional Budget Committee on alternative jobs programs estimates that 80,000-125,000 jobs are initially created by each 1 billion dollar appropriation.¹ Even if the program were aimed at employing one out of every 20 workers officially counted as unemployed the appropriation would have to be in the neighborhood of 4 to 5 billion dollars for each year. There is no need to go into detail regarding the efficacy of public jobs programs in stimulating employment during a recession, since this is well-laid out in the Budget Office report. The important questions center on the model for providing the jobs and the level of funding. As is argued in this report and summarized in the next section, the Canadian LIP model of employment creation offers a means by which we can circumvent the majority of negative aspects of current CETA efforts.

The funding level needed and the level that is likely to be realized are far apart given the present "mood" of Congress and the White House. To operate a program of the same magnitude as the 1975-76 LIP program would require appropriations of about \$2 billion, while a program to employ even 5 per cent of those currently unemployed would cost between \$4 and \$5 billion. According to the Congressional Budget Office study, a program funded at the \$4 to \$5 billion level would employ between 350,000 and 750,000 persons with a net outlay after 24 months of approximately 53 percent of the total appropriation. An investment of this size will certainly not eliminate the current problems of unemployment, but would represent a sound investment in the future economic and social environment of the country.

¹ Congressional Budget Office, *op. cit.*