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ON THE LEGAL STRUCTURE OF WORKERS' COOPERATIVES

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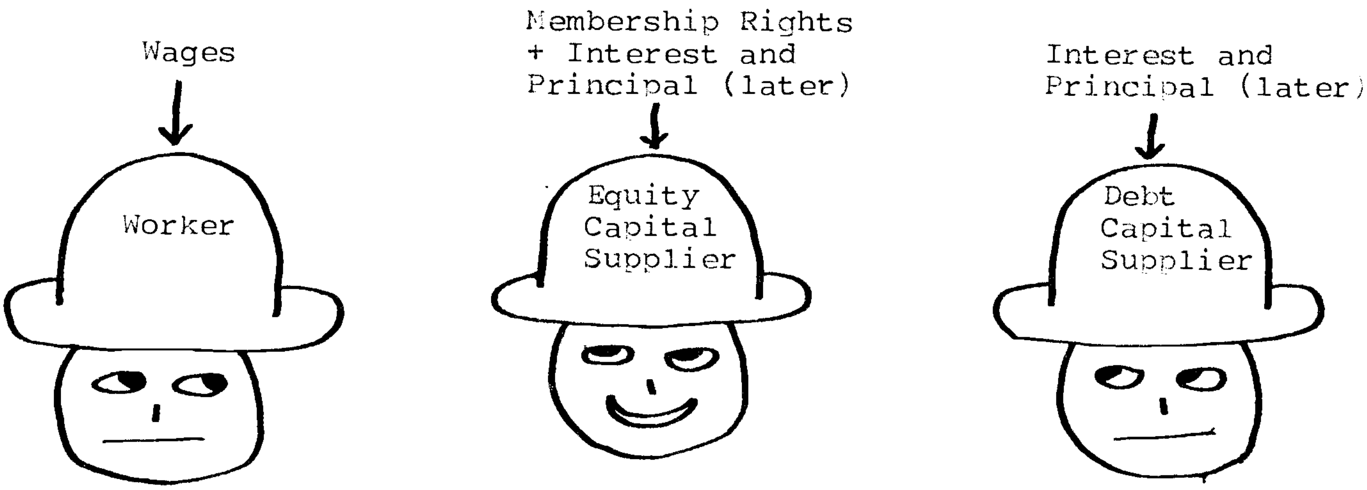
In a conventional corporation, some people work in the firm (i.e., wear a 'hat' labelled "worker") and some people supply financial capital by loaning money to the firm or by purchasing stock (i.e., wear a 'hat' labelled "capital supplier"). As a worker, a person receives a wage or salary, and, as a capital supplier, a person receives the rent or interest on the capital and eventually the principal.

A corporation is an artificial legal person or party that has certain natural persons as its legal <u>members</u> (commonly called the "owners" of the corporation). These people hold the <u>membership rights</u> which consist of: (a) the voting rights (to elect the board which appoints the management), and (b) the rights to the net earnings of the company. In a conventional corporation, these membership rights are attached to a certain type of capital supplier - namely, those who supply what is called 'equity capital' (as opposed to 'debt capital'). They are the shareholders who buy the stock issued by the corporation. The people who wear the capital supplier's hat thus come in two varieties: the equity capital suppliers who buy the stock and hold the membership rights, and the debt capital suppliers who only lend capital to the company by purchasing bonds, debentures, or other IOU-type notes from the company and who do not have membership rights. Since the membership rights are legally attached to a capital supplier role, a conventional corporation is called a <u>capital-ist corporation</u>. This legal structure is illustrated in the following diagram.



<u>CONVENTIONAL CAPITALIST CORPORATION</u>

It should be noted that the equity capital suppliers or stockholders would, on the average, receive at least the interest on their invested capital (and eventually the principal), although in a different manner from the debt capital suppliers. That is, the stockholders would ordinarily receive a rate of return (due to distributed earnings or dividends and capital gains from the retained earnings) at least as large as the interest rate, because otherwise they would choose to loan their money out at interest. They would also ordinarily receive back at least the original 'principal' of their investment when they eventually sell their shares.

There is an entirely different type of firm that is based on a different set of principles. It is variously called a democratic, self-managed, worker-managed, or workers' cooperative firm. The basic idea of a workers' cooperative is that the membership rights (voting and net earnings rights) are attached to the role of worker - not to any capital supplier's role. That is, a person would qualify for membership in the cooperative if and only if he or she worked in the enterprise (and independently of any capital the person also supplied to the firm). Hence, in a workers' cooperative, labor hires capital instead of capital hiring labor. The system of workers' cooperatives has also been called economic democracy, industrial democracy, or workers' self-management.

Workers' cooperatives are based on two broad principles which imply that the membership rights in a firm should be assigned to the people who work in the firm. The first basic principle is the principle of democracy which holds that the people who are to be governed by a government should each have an equal vote in determining that government. When the democratic principle is applied not only in the political sphere but also in the economic sphere of the workplace, then it implies that the people who are to be governed or managed by the workplace government (the management of the firm) should each have an equal vote in determining that management. Since it is precisely the people who work in the firm (not the absentee suppliers or consumers) who are to be managed by the management, the democratic principle implies that it is the workers - in the inclusive sense of both blue and white collar workers - who should have the voting rights (which constitute part of the membership rights). Worker's self-management or economic democracy is thus the industrial version of citizens' self-government or political democracy.

The second fundamental principle is the fruits-of-their-labor principle which holds that people should have the rights to the fruits of their labor. The products or outputs of a firm are the (positive) fruits of the labor jointly performed by all the people who work in the firm. Hence the principle implies that it is the workers who should jointly appropriate the ownership of the products (which are usually then to be sold). The principle, of course, cuts both ways. When people use-up, consume, or destroy property, then the principle implies that they should bear those negative fruits of their labor and thus be liable for those costs. In a productive enterprise, the using-up of the raw materials and inputs, and the use of the machines, buildings, and land represent the negative fruits of the joint labor of the firm's workers, so they should be jointly liable for the costs. The net earnings of a company are obtained by subtracting the costs of the used-up inputs from the revenues obtained by selling the products. Since the fruits-of-their-labor principle implies that it is the workers of the firm (not the absentee suppliers or consumers) who should jointly appropriate the outputs they produced and be jointly liable for the inputs they used-up, the principle implies that the workers should have the rights to the net earnings (which constitute the other part of the membership rights). From the legal viewpoint, it is the company itself that legally owns the outputs and is legally liable for the inputs. Hence, when it is the people who work in a company who are the legal members of it, then and only then do they receive the (positive and negative) fruits of their labor.

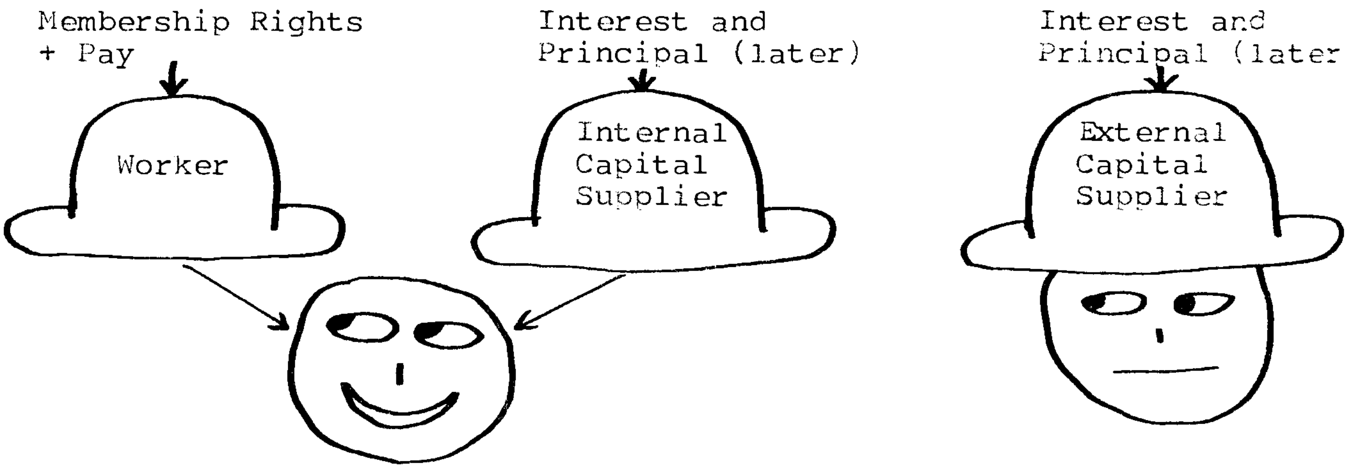
The democratic principle (which is the basis of democratic government) and the fruits-of-their-labor principle (which is supposed to be the basis of private property) imply that it is the people who work in a company who should have the membership rights (the voting rights and the net earnings rights). And both principles apply independently of any capital supplied by the workers. Hence workers' cooperatives are based on principles that are strikingly different from the usual capital-ist principle, legally embodied in the conventional corporations, which assigns the membership rights to certain capital suppliers.

While membership in a workers' cooperative is based upon labor, there are several pragmatic reasons why the members might democratically decide that each member should also invest at least a certain amount of capital in the company. The first reason is that ordinarily it is only by putting up some capital themselves that the workers can hire or borrow the remaining capital in order to buy the necessary machinery, buildings, and other assets. If only some of the members put up the original capital, then they would understandably look upon the other members as 'free riders'. Another reason is that even after a cooperative is a going concern, it is still desirable that both new and old members have a financial investment in the firm so that they will all have a tangible interest in the long term prospects of the cooperative.

This minimum <u>coop deposit</u> would usually amount to several weeks pay. After a new person has been accepted as a worker-member, the coop deposit could be paid all at once, if possible, or deduced from pay over a period of time. It is important to understand that a person is <u>not</u> 'buying' membership rights with the coop deposit. The coop deposit would be simply part of the obligations of coop membership, just as paying union dues is part of being a union member or paying taxes is part of being a citizen. A union member doesn't 'buy' a vote with the union dues, a citizen doesn't 'buy' a vote with the taxes, and, similarly, a coop member doesn't 'buy' a vote with the deposit. It is working in the firm that qualifies a person for membership (on the basis of the principles cited above) - and making the deposit would be one of the democratically agreed upon obligations of being a member.

Since the worker-members have the right to the net earnings, they must decide how much to retain and plow-back into their cooperative, and how much to distribute to themselves as a pay bonus. The retained earnings and the initial coop deposits represent the capital 'internally' supplied to the cooperative by its own members. This internally supplied capital is, in effect, banked in an interest-bearing internal savings account within the company. When net earnings are split into retained and distributed earnings, then the retained earnings are credited to the members' internal capital accounts. When a member retires, resigns, or otherwise ceases to be a member, then the balance in the internal capital account is turned into an ordinary external debt or liability of the company to the ex-member, and the account is closed. This debt could be partly paid off in cash over a period of years and partly with interest-bearing annuities or perpetual bonds. The person could hold the annuities and collect the interest, use them as collateral for loans, or sell them for a lump-sum through a broker.

The legal structure of a workers' cooperative is represented in the following diagram.



WORKERS' COOPERATIVE

The essential feature is that the membership rights are attached to the worker's role (or hat) even though the same people will also supply some capital to the firm (i.e., also wear a capital supplier's hat).

We have described a workers' cooperative as a theoretical model: not as an existent statutory legal form. There is, at present, no standard legal form in America that fits the model of a workers' cooperative. The closest legal entities in the past were the producers' cooperatives which existed in the late nineteenth century and early twentieth century. But the producers' cooperative legislation is poorly drafted, contains a confused mixture of capitalist and cooperative concepts, varies widely from state to state, and is now archaic and rather unusable. Until appropriate legislation has been drafted and passed at the State or Federal level, the best option is to adopt and adapt the most flexible legal form (i.e., the standard corporation by internally restructuring it to function as a workers' cooperative. The internal restructuring involves two important and interrelated components: (1) the <u>internal capital accounts</u>, and (2) the use of the shares as <u>non-marketable membership certificates</u>.

The financial structure of a workers' cooperative with internal capital accounts is illustrated by the sample balance sheets and the sample income statement. The total income to the members is divided into labor income (which they receive by wearing the worker-member hat and the capital income (which they receive by wearing the internal capital supplier's hat). We use the term "income" in the general sense of a wealth increment, which is not necessarily the same as "income" for the purposes of personal income taxes. The labor income is so named because it represents the net market value of the (positive and negative) fruits of the labor performed by the coop members (where taxes are treated as a cost item). The members' capital income is the interest on their internal capital accounts. Each of the two components of income can be divided into a take-home or distributed portion and a portion retained in the cooperative. The labor income minus the take-home pay (wages, salaries, and possibly sales commissions) yields the labor income over pay, which can be split into distributed labor income over pay (pay bonuses) and retained labor income. Since differences between job categories are presumably accounted for in the pay structure and since differences in capital account balances are accounted for by the payment of interest proportional to the balances, we assume that the labor income over pay would be split equally between the members (i.e., in accordance with the number of hours worked during that fiscal year). The retained portion would be split equally between the internal accounts and the distributed portion would be paid out equally (per hour worked). We have also assumed that the members have elected to allow the distribution of some of the annual interest on their capital accounts. Hence the members' capital income is also split into a distributed and a retained portion.

The total of the balances in the internal capital accounts (i.e., the internally supplied capital) is equal to what is usually called the net worth or net book value of the company's capital (i.e., assets minus liabilities or total capital minus externally supplied capital). Hence the change in the net worth between the two balance sheets is equal to the total change in the internal account balances, which in turn equals the retained income shown on the income statement. The depreciation funds must be reinvested (as replacement investment) in order to maintain and replace the machinery and other assets used by the workers - and thus to maintain the same net worth of the company's capital. It is important to realize that the net worth could decrease, and thus the internal capital accounts could be debited at the end of a fiscal year. If the sales revenues are insufficient to cover the projected pay levels and the non-labor costs, then the labor income over pay would be negative. As in the case of a positive labor income over pay, the negative amount would be divided equally between the members by debiting each internal capital account. If that debit was greater than the retained interest in an account, then the account's balance would decrease.

In a workers' cooperative, the members are collectively working for themselves, so they can jointly plan or project their own pay levels for the coming fiscal year. However, planning on a certain payroll and actually meeting it may be two different things. Suppose that there were a slump in sales so that meeting the projected pay levels would lead to a negative labor income over pay. The major non-labor costs which do not require cash disbursements from the company are the depreciation charges. If the workers chose to pay out the unrealistically high planned levels of pay in the face of a sales slump, they they could only do so by paying wages and salaries out of depreciation funds. But then those depreciation funds could not be reinvested to maintain or replace the deteriorating machinery, so the net worth of the company's capital would fall - and thus the internal capital accounts would be debited (since capital account balances = net worth). Hence, if the workers choose to pay wages out of depreciation funds, then they are only choosing to take money out of one pocket (internal capital accounts) to put in the other pocket (take-home pay). The total labor income remains the same. Moreover, by drawing on capital to pay wages, the workers would be reducing the productive capacity of the company, and thus eventually endangering their own jobs.

Let us consider the disposition of the amount which is "labor income" in a workers' cooperative and which is "wages + pure profits" in a capitalist corporation. In a cooperative, the worker-members receive that amount by virtue of being both workers and members. In a capitalist corporation, the workers (called "employees") and the legal members of the corporation (called "owners") are in general two different groups of people, so that amount is split into wages and pure profits. The members or shareholders receive the pure profit solely by virtue of their being members. They also implicitly receive the interest on the net worth, and the pure profits are defined as the difference between the net earnings after taxes and the implicit interest charge on the net worth of the company's capital. In either a coop or a capitalist corporation, the size of that 'pie' (i.e., "labor income" or "wages + pure profits") is determined largely by the customers and non-labor suppliers, not by the workers and/or members. Given the size of that pie, the workers in a capitalist corporation can collectively bargain (through their representatives in the union) with the members or "owners" (through their representatives in management) to try to increase the wage-share of the pie - and thus to decrease the profit-share of the pie. If the workers can increase the wage-share, then that increases their income. It is very important to realize that this last statement is <u>false</u> in a workers' cooperative. In a coop, the workers are also the members, so they receive the entire pie ("labor income" = "wages + pure profits") in the first place. Hence, in a workers' cooperative, it is <u>not</u> true that the workers can 'collectively bargain' with the members (= themselves) to increase their income by increasing the wage-share. Such a procedure would (as we saw above) only transfer income from one pocket (internal capital accounts) to another pocket (take-home pay), and would not increase the total labor income. The "pie" must still be divided (into the take-home and the reinvested portions), but the division is determined by a collective decision of one group of people (the worker-members), rather than by adversary bargaining between two groups of people (the workers and the "owners").

In a conventional capitalist corporation, there is no criterion of membership other than owning shares, an individual can own any number of shares (and thus have any number of votes and portions of net income), the shares are salable, and there are no internal capital accounts to keep track of the capital supplied by the members. Since there is no criterion of membership (other than owning 'membership cards' or shares with the attached membership rights) and since the shares are salable, the original membership of a newly formed capitalist corporation is determined by the sale of these 'membership cards'. A person is a member as many times over (with as many votes and shares of net income) as shares are purchased. The capital paid in for these newly issued membership cards is the original internally supplied capital. There is no need for internal capital accounts to keep track of how much capital is supplied by each member since each share originally sells for the same par or stated value. Hence the internally supplied capital is proportional to the number of shares purchased.

An understanding of how a capitalist corporation is structured indicates how that legal form must be internally restructured in order to function as a workers' cooperative. In any organization, if the membership criteria are other than just 'owning' the membership rights attached to the membership cards, then a person owns a membership card <u>because</u> the person qualifies as a member - not vice-versa. In that case, the membership cards cannot be treated as salable or transferable pieces of property. The 'buyer' of a card might not otherwise qualify as a member, and if a person did satisfy the membership requirements, then the person would receive a membership card and would not need to 'buy' it. That is why the union card a person has as a union member or the passport a person has (or can get) as a citizen is not salable. Therefore, if a corporation is to be internally restructured as a workers' coop, then it must be written into the charter or bylaws that the shares or membership cards are unsalable and non-transferable. Moreover, in any organization with non-trivial membership criteria (other than having 'bought' membership rights), a person either satisfies the criteria or doesn't. There is no possibility of a person being a member many times over. Hence in a workers' coop corporation, a worker-member would be issued one and only one share or membership card - which must be turned back in upon termination of membership by leaving the coop. Since the shares would <u>not</u> be sold in return for internally supplied capital, a coop requires the internal capital accounts to keep track of the capital supplied by each member. With the supplied capital recorded in the capital accounts, a member's share of stock would function - <u>not</u> as a carrier of market value - but as a devaluated non-marketable certificate of membership, i.e., as a coop membership card. For legalistic purposes, each share must have some nominal stated value such as one dollar - so these share/membership cards are called "dollar stock".

We have seen that a corporation can be internally restructured to function as a workers' cooperative by setting up the internal capital accounts and by using shares of dollar-stock as coop membership cards. We should also mention a more elaborate alternative to the dollar-stock part of the restructuring. Some states, such as Massachusetts, have a form of a trust known as a "business trust" (as opposed to an ordinary common law trust). A business trust issues its own trust-shares, and the beneficiaries of the trust are the holders of these shares. Hence, instead of using the corporate shares directly as membership cards, the corporate shares could all be put into a business trust and each worker could be issued one trust-share as a membership card. The internal capital accounts would still be needed as usual in the corporation.

The analysis of corporate structure is also helpful in understanding the widespread but nevertheless peculiar notion of <u>ownership</u> of a corporation or company. It is not the concept of owning assets, buildings, or land that is problematic - only the concept of 'owning' the company itself. A corporation is like a trade union, a voluntary association or organization, or even a democratic community in that it is a multi-person legal party that is comprised of and controlled by its legal voting members. It is the concept of <u>membership</u> - not 'ownership' - that applies to all these multi-person associations, organizations, or parties. Certainly a union, an association, or a community may own assets, but the members of a union or an association do not 'own' the organization itself and the citizens of a community do not 'own' the community as a legal entity. The concept of 'ownership' is not applicable to the relationship between the members and the legal entity itself. It is the concept of membership that is applicable to that relationship.

What then is the origin and the explanation of the widespread notion that the members (i.e., the shareholders) of a corporation 'own' the corporation itself? The answer is that, in the case of a corporation, the membership rights are treated as transferable and salable property rights. It is because the membership rights are '<u>bought</u>' that the membership relation is viewed, in this special case, as an 'ownership' relation. For example, the members of a corporation can completely change by the sale of the membership rights (attached to the shares) from one group of people to another. That is called the 'sale' of the corporation. In other organizations where people own membership cards because they satisfy the membership criteria and thus are members (instead of vice-versa), the membership cards and the attached rights are not legally salable. Thus labor unions, associations, and democratic communities are not 'bought', are not 'owned', and are not 'sold' like corporations.

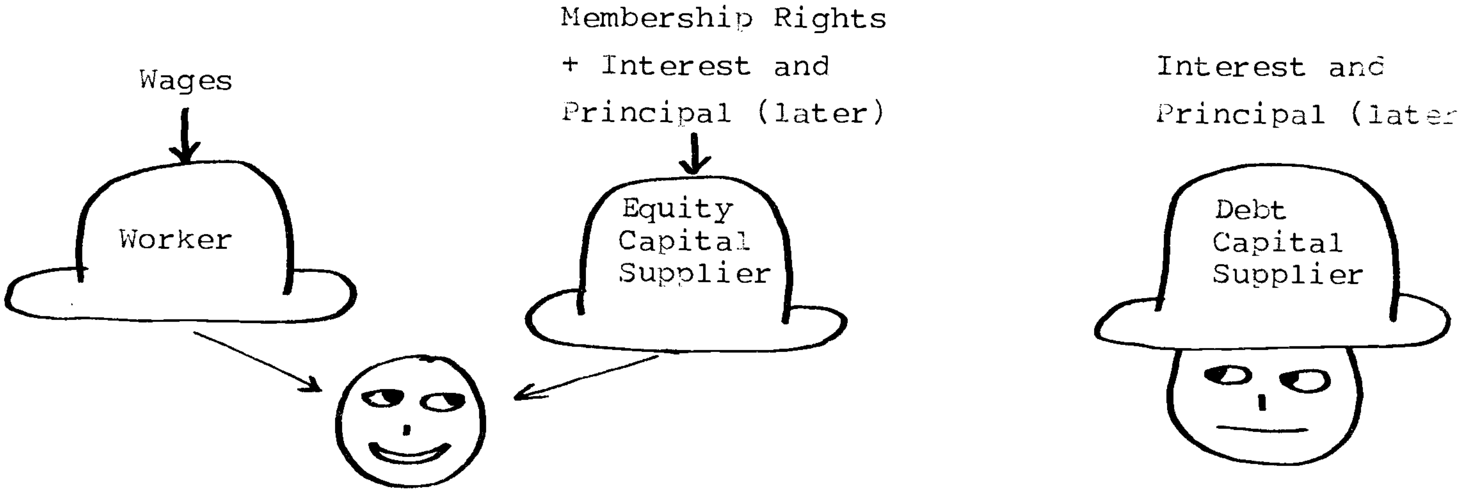
The selling, to the highest bidder, of the membership rights in the economic institutions where new wealth is created insures that it is the wealthy who can control the wealth-creating production process and appropriate the net wealth created. In other words, the legal structure of a capitalist corporation, which assigns the membership rights to the transferable and marketable shares of equity capital, is custom designed, as it were, to insure that the rich get richer. Any alternative legal structure, such as one which assigns the control of a productive process to the people who carry it out and which assigns the wealth created to the people who created it, would fail to further the purpose of making the rich richer.

It is the capitalist principle, of treating the membership rights as salable rights that may be purchased with capital, which gives rise to the notion that the members 'own' the corporation itself. Hence the concept of 'ownership' of a company or corporation is a strictly capitalist notion which would <u>not</u> apply to a non-capitalist institution, such as a workers' cooperative, where the membership rights are not put to traffick. The worker-members in a workers' cooperative do <u>not</u> 'own' the cooperative. This does not mean that someone else 'owns' the cooperative. It means that the membership relation between the members and the cooperative is not a relationship of 'ownership' - since the members did not 'buy' their membership rights. On the basis of the two principles discussed above, the basic membership criterion in a workers' cooperative is <u>working</u> in the enterprise. There may well be other democratically agreed upon obligations of membership such as obeying the rules and putting up a certain minimum coop deposit. A workers' cooperative is a democratic institution, where the working community of the enterprise constitutes the voting citizenry. A workers' cooperative is not a "piece of business property" where each of the workers "owns a piece of the action".

Capitalist society does not teach cooperative principles: it instills the capitalist precept that a company is a 'piece of property' that is 'owned' by the people who have the capital to 'buy a piece of the action'. These capitalist notions are so deeply embedded that many people find it difficult to think of workers' cooperatives in any other terms. For example, the company-ownership concept pervaded and, to some extent, poisoned the old producers' coop movement. Even today, many academic supporters of workers' cooperatives speak of them as being "worker-owned" or, worse yet, "employee-owned" companies. In view of the capitalist origin of the company-ownership concept, the attempt to combat the capitalist mentality by advocating that the workers become the 'owners' of their companies is somewhat akin to attempting to combat racial prejudice by advocating that Blacks be treated as 'honorary Whites'. Many coop supporters (the author included) have used the "worker-ownership" concept because of its immediate psychological appeal - even though that appeal is largely based on capitalist indoctrination. The opportunistic description of workers' coops as "worker-owned" companies will, however, exact a price in terms of moral ambiguity and practical confusion. For example, when a member of a capitalist corporation supplies more internal capital (by purchasing more shares), then the person is buying more membership rights (more votes and more shares of the profits). When the worker-members of a coop think of it as a "worker-owned" company, then they reason, logically enough, that if worker A supplies twice as much internal capital (by depositing twice as much in their internal account) as worker B, then why shouldn't worker A 'own' twice as much of the company, get twice the votes, and get twice the share of the profits as worker B. The answer is that their coop membership rights are based on their working in the firm and are not 'sold' to them in return for internally supplied capital. Since their vote wasn't 'bought' with their capital in the first place, twice as much capital doesn't give twice as many votes. A larger internal account balance would, of course, increase the interest accruing to the account and increase the amount that would be eventually paid back.

While a workers' coop is not properly described as being "worker-owned", that label could be applied to a corporation where the workers own the shares but which has not been restructured as a workers' coop.

An unrestructured employee-owned corporation will be called a <u>workers' capitalist corporation</u>. A workers' cooperative corporation and a workers' capitalist corporation are quite different both in principle and in practice. The basic difference in principle is that, in a workers' capitalist corporation, the workers hold the membership rights <u>because</u> they have, directly or indirectly, supplied equity capital to the company by purchasing the shares of stock - not because they work in the firm. Hence, such a firm is still based on the capital-ist principle that the legal members of the company are those who have purchased the membership rights with their capital. The legal structure of a workers' capitalist corporation could be illustrated as follows.



<u>WORKERS' CAPITALIST CORPORATION</u>

In contrast, a workers' cooperative is based on the democratic and fruits-of-their-labor principles which imply that the workers should hold the membership rights because they work in the firm.

The difference in principles is, of course, reflected in practice. A basic democratic rule is the one-person/one-vote rule. However, the blue-collar, white-collar, and managerial employees would in general buy different numbers of shares so the democratic rule of one-person/one-vote would be violated. An unequal distribution of the shares in a workers' capitalist corporation would also subtly operate against the fruits-of-their-labor principle. Assuming that the number of shares held by each worker is proportional to the worker's internally supplied capital, the net after-tax earnings (which are split equally between the shares) can be conceptually split into the interest on the invested capital plus the pure profits. The interest paid should, of course, be proportional to the internally supplied capital. However, the pure profit represents the labor income over pay, and the total labor income (= pay + 'pure profit') is the net market value of the (positive and negative) fruits of the labor performed by the people working in the enterprise. If worker A held ten times as many shares as worker B, then A would receive (not only ten times the interest, but ten times as many portions of the 'pure profit' or labor income over pay - even though worker A's labor was not in any sense ten times as fruitful as B's.

Even if the original workers started off with equal blocks of shares, this equality would not be maintained over time. As the shares increased in value over the years, new members would be less and less able to afford a full block of shares. New workers who could afford few, if any, of the shares would, in effect, be hired as the employees of the older and/or wealthier workers who owned most of the shares. Moreover, as the less well-off workers faced cash needs or as workers left, their shares would be purchased either by the better-off employees (e.g., the managers) or by outside investors. Over time, the control of the company passes to either a clique of managers or to outside investors. When the employees or managers holding the bulk of the shares eventually retire, then they would usually maximize their return by selling the control of the company to the highest bidder. Hence, in the course of a generation (about twenty years), workers' capitalist corporations almost inevitably turn back into conventional capitalist corporations. In fact, most revert back in shorter periods of time.

Almost all of the "worker-owned" companies in America today (outside of the many small collectives) are what we have called workers' capitalist corporations - which have not been internally restructured as workers' cooperatives. There are several reasons for this. The workers' cooperative movement has been virtually non-existent, although consumer, marketing, and credit cooperatives have enjoyed some success. The old producers' coop laws are archaic, flawed, and rather unusable - and no new up-dated legislation has been passed. Moreover, it requires some rethinking of the corporate structure in order to see how the present-day corporate form can be properly restructured as a workers' cooperative. On the rare occasions when the workers have had the managerial and financial wherewithal to purchase a company's assets and to set-up a new company, then they have lacked that legal information on restructuring in the cooperative form.

Another source of 'worker-owned' companies is the recent legislation on Employee Stock Ownership Plans (ESOP's). The philosophical godfather of the ESOP's is a lawyer, Louis Kelso. In contrast to the cooperative principles of democratic self-determination and peoples' right to the fruits of their labor, Kelso explicitly espouses the capital-ist principle that the membership rights in a business firm should be assigned to the suppliers of equity capital. Kelso wants to turn workers into capitalists - not into cooperators. The ESOP's are supposedly designed to sponsor "workers' capitalism" by providing tax incentives for the financing of workers' capitalist corporations. An ESOP or ESOT (Employee Stock Ownership Trust) is essentially a corporate tax gimmick together with an employee stock pension plan. For example, in the 'levered' ESOT arrangement, the ESOT takes out a loan from a bank which is underwritten by the corporation. The ESOT then uses the money to purchase stock from the corporation and the stock is then used as collateral for the loan. The company's periodic pension contributions to the ESOT are funneled through to the bank to pay back the loan. The tax gimmick is that since the pension contributions count as deferred labor compensation, the company is paying back both the interest and the principal of the loan with pretax dollars (whereas ordinarily only the interest is deductible).

In practice, most ESOT's have not even created workers' capitalist corporations, much less workers' cooperatives. The ESOT's are usually created by the corporate managers who are interested in the obvious tax benefits and who are not particularly interested in transferring power to the employees. The stock may not be voting stock, the stock only gradually becomes 'vested' in the workers' names, the voting rights of voting shares may not be passed through to the workers, and the stock may be only a small portion of the shares outstanding. For such reasons, even some right-wing supporters of "workers' capitalism" have criticized the ESOT's for being little more than a pension plan with an added tax gimmick. If the ESOT's have largely failed in their avowed purpose of creating workers' capitalist corporations, then they are apparently even less likely to generate workers' cooperatives. Even if the ESOT held all of the shares, then it is highly doubtful that the federal legislation on ESOT's (designed to promote "workers' capitalism") is flexible enough to allow the internal restructuring necessary for the company to function as a workers' cooperative.

A workers' capitalist corporation is an unstable hybrid between a workers' cooperative and a conventional capitalist corporation. It is unstable in the sense that if it is not restructured as a coop, then (for the reasons outlined above) it will sooner or later revert back to a conventional capitalist firm controlled by the managers and/or outside investors. We would venture to predict that the present unrestructured 'worker-owned' corporations will revert back to or be sold to conventional corporations almost certainly within a time span of twenty years - and most probably within five to ten years. That has been the fate of the 'worker-owned' companies in the past - and those who do not learn from the mistakes of the past are doomed to repeat them.

SAMPLE BALANCE SHEETS FOR A WORKERS' COOPERATIVE

[dollar amounts are merely illustrative]

Beginning of a Fiscal Year

ASSETS		LIABILITIES	
Current Assets		Loan #1	1,000,000
Cash	500,000	Loan #2	2,000,000
Inventory	500,000	Loan #3	500,000
		Notes	200,000
Fixed Assets		**Internal Capital Accounts**	
Equipment	1,500,000	Original Deposits	800,000
Buildings & Land	2,000,000		
	4,500,000		4,500,000

End of a Fiscal Year

ASSETS			LIABILITIES	
Current Assets			Accounts Payable	100,000
Cash		900,000	Loan #1	850,000
Accounts Receivable		200,000	Loan #2	1,900,000
Fund to Retire Debt		150,000	Loan #3	300,000
Inventory		700,000	Notes	200,000
Fixed Assets			**Internal Capital Accounts**	
Equipment	1,500,000		Original Deposits	800,000
Less: Depreciation	400,000		Retained Income	500,000
	1,100,000	1,100,000		
Buildings & Land	2,000,000			
Less: Depreciation	400,000			
	1,600,000	1,600,000		
		4,650,000		4,650,000

SAMPLE INCOME STATEMENT FOR A WORKERS' COOPERATIVE

[dollar amounts are merely illustrati e]

Over a Fiscal Year

Net Sales Revenues (sales minus discounts)		10,000,000
Less: Manufacturing costs of goods sold:		
Materials	2,000,000	
Pay	5,000,000	
Depreciation Charges	800,000	
Misc. Operating Costs	200,000	
Total Manufacturing Cost	8,000,000	
Add: Beginning Inventory	500,000	
Deduct: Closing Inventory	700,000	
Equals: Manf. Cost of Goods Sold	7,800,000	7,800,000
Gross Margin		2,200,000
Less: Selling and Administrative Costs		460,000
Less: External Debt Interest and State and Local Taxes		240,000
Net Earnings before Corporate Income Tax		1,500,000
Less: Corporate Income Tax		713,500
Net Earnings after Taxes		786,500
Less: Interest on Internal Capital Accounts (Capital Income)		44,000
Labor Income over Pay		742,500
Less: Distributed Labor Income over Pay (Bonuses)		250,000
Retained Labor Income		492,500
Add: Retained Capital Income		7,500
Retained Income		500,000