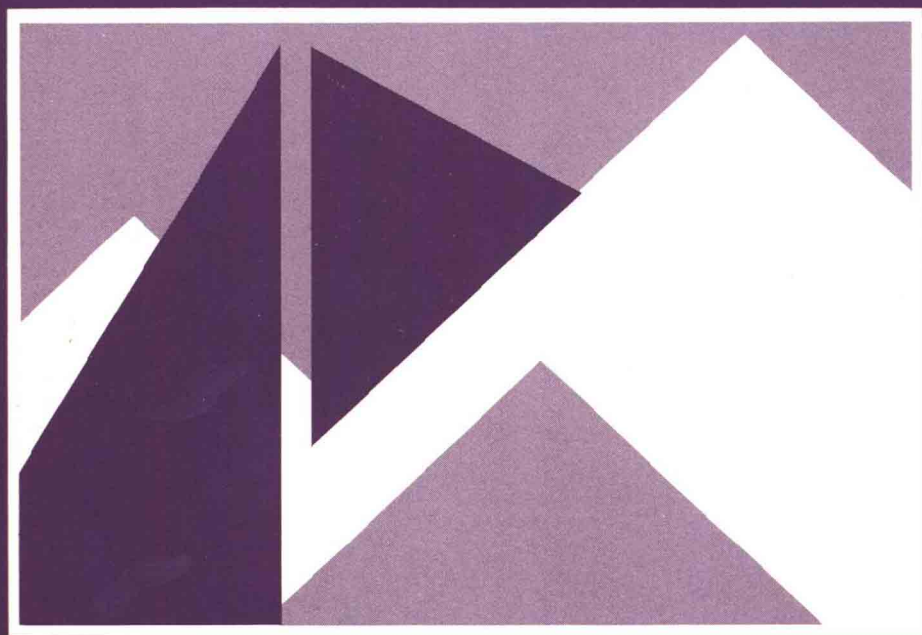


# INDUSTRIAL DEMOCRACY

## Strategies for Community Revitalization

Edited by  
Warner Woodworth  
Christopher Meek  
William Foote Whyte



A SAGE FOCUS EDITION

# **INDUSTRIAL DEMOCRACY**

## SOME OTHER VOLUMES IN THE SAGE FOCUS EDITIONS

6. **Natural Order**  
Barry Barnes and Steven Shapin
8. **Controversy (Second Edition)**  
Dorothy Nelkin
14. **Churches and Politics in Latin America**  
Daniel H. Levine
21. **The Black Woman**  
La Frances Rodgers-Rose
24. **Dual-Career Couples**  
Fran Pepitone-Rockwell
31. **Black Men**  
Lawrence E. Gary
32. **Major Criminal Justice Systems**  
George F. Cole, Stanislaw J. Frankowski,  
and Marc G. Gertz
34. **Assessing Marriage**  
Erik E. Filsinger and Robert A. Lewis
36. **Impacts of Racism on White Americans**  
Benjamin P. Bowser and  
Raymond G. Hunt
41. **Black Families**  
Harriette Pipes McAdoo
43. **Aging and Retirement**  
Neil G. McCluskey and Edgar F. Borgatta
47. **Mexico's Political Economy**  
Jorge I. Dominguez
50. **Cuba**  
Jorge I. Dominguez
51. **Social Control**  
Jack P. Gibbs
52. **Energy and Transport**  
George H. Daniels, Jr., and Mark H. Rose
54. **Job Stress and Burnout**  
Whiton Stewart Paine
56. **Two Paychecks**  
Joan Aldous
57. **Social Structure and Network Analysis**  
Peter V. Marsden and Nan Lin
58. **Socialist States in the World-System**  
Christopher K. Chase-Dunn
59. **Age or Need?**  
Bernice L. Neugarten
60. **The Costs of Evaluation**  
Marvin C. Alkin and Lewis C. Solmon
61. **Aging in Minority Groups**  
R.L. McNeely and John N. Colen
62. **Contending Approaches to World System  
Analysis**  
William R. Thompson
63. **Organization Theory and Public Policy**  
Richard H. Hall and Robert E. Quinn
64. **Family Relationships in Later Life**  
Timothy H. Brubaker
65. **Communication and Organizations**  
Linda L. Putnam and  
Michael E. Pacanowsky
66. **Competence in Communication**  
Robert N. Bostrom
67. **Avoiding Communication**  
John A. Daly and James C. McCroskey
68. **Ethnography in Educational Evaluation**  
David M. Fetterman
69. **Group Decision Making**  
Walter C. Swap and Associates
70. **Children and Microcomputers  
Research on the Newest Medium**  
Milton Chen and William Paisley
71. **The Language of Risk**  
Dorothy Nelkin
72. **Black Children**  
Harriette Pipes McAdoo and  
John Lewis McAdoo
73. **Industrial Democracy**  
Warner Woodworth, Christopher Meek,  
and William Foote Whyte
74. **Grandparenthood**  
Vern L. Bengtson and Joan F. Robertson
75. **Organizational Theory and Inquiry**  
Yvonna S. Lincoln

# INDUSTRIAL DEMOCRACY

(Strategies for  
Community Revitalization)

Edited by  
Warner Woodworth  
Christopher Meek  
William Foote Whyte



**SAGE PUBLICATIONS**  
Beverly Hills London New Delhi

Copyright © 1985 by Sage Publications, Inc.

All rights reserved. No part of this book may be reproduced or utilized in any form or by any means, electronic or mechanical, including photocopying, recording, or by any information storage and retrieval system, without permission in writing from the publisher.

*For information address:*

SAGE Publications, Inc.  
275 South Beverly Drive  
Beverly Hills, California 90212

SAGE Publications India Pvt. Ltd.  
M-32 Market  
Greater Kailash I  
New Delhi 110 048 India



SAGE Publications Ltd  
28 Banner Street  
London EC1Y 8QE  
England

Printed in the United States of America

## Library of Congress Cataloging in Publication Data

Main entry under title:

Industrial democracy.

(Sage focus editions ; v. 73)

Includes index.

I. Urban economics. 2. Community development,  
Urban—United States. 3. Industry—Social aspects—  
United States. 4. Employee ownership—United States.  
5. Urban renewal—United States. I. Woodworth, Warner.  
II. Meek, Christopher. III. Whyte, William Foote,  
1914- .

HT321.I53 1985 338.973'009173'2 85-11741

ISBN 0-8039-2476-3

ISBN 0-8039-2477-1 (pbk.)

FIRST PRINTING

## CONTENTS

Foreword	
Russell B. Long	7
Preface	11
<b>Part I. The Problems of Economic Dislocation: An Overview</b>	<b>13</b>
1. New Approaches to Industrial Development and Community Development	
William Foote Whyte	15
2. Problems of Industrial Plant Shutdowns	
David Moberg	28
3. Options for Reindustrialization: Brownfield Versus Greenfield Approaches	
Staughton Lynd	49
4. Problems of Economic Deterioration	
Bennett Harrison and Barry Bluestone	64
5. Absentee Ownership, Industrial Decline, and Organizational Renewal	
Christopher Meek and Warner Woodworth	78
<b>Part II. Revitalization Through Labor-Management Cooperation</b>	<b>97</b>
6. The Emergence of Community Labor-Management Cooperation	
Joel Cutcher-Gershenfeld	99
7. Achieving Labor-Management Joint Action	
Warner Woodworth	121

8. Labor-Management Committee Outcomes: The Jamestown Case	
Christopher Meek	141
9. Labor-Management Structures in the Large City	
Robert W. Ahern	161
<b>Part III. Forms of Community-Worker Ownership</b>	<b>179</b>
10. The Potential of Employee Ownership	
William Foote Whyte and Joseph Blasi	181
11. Worker-Community Collaboration and Ownership	
Christopher Meek and Warner Woodworth	195
12. Saving Jobs Through Worker Buyouts	
Warner Woodworth	221
<b>Part IV. Prospects for Revitalization: Barriers and Resources</b>	<b>243</b>
13. Policy Strategies for Labor-Management Cooperation	
Joel Cutcher-Gershenfeld	245
14. Financing Employee Ownership	
Corey Rosen	261
15. Labor Policy and the Changing Role of Government	
Joseph Blasi	277
16. Theory and Practice of Community Economic Reindustrialization	
Warner Woodworth, Christopher Meek, and William Foote Whyte	297
<b>Index</b>	<b>305</b>
<b>About the Contributors</b>	<b>307</b>

## FOREWORD

Over the past dozen years, I have sponsored a number of bills designed to encourage the use of Employee Stock Ownership Plans (ESOPs) as a technique of corporate finance. I am happy to report that Congress has found the concept sufficiently attractive to approve several tax incentives designed to promote employee stock ownership in the American workplace.

It is my hope that this idea has now taken root and that in future Congresses we will see a continued expansion of policies that encourage Americans to own a stake in the enterprise in which they spend a good part of their working lives. I am convinced this is an essential component of the very fabric of American society and I am encouraged by the widespread use of ESOPs in a variety of circumstances.

Those contributing to this book bring to the issue of community economic revitalization a wealth of experience and concern. This is a difficult and perplexing problem, and one for which no one person has all the right answers. Yet each of these authors recognizes the potential of labor-management committees and worker ownership as common themes around which a workplace and, indeed, a community can rally in formulating a strategy for economic revitalization.

The evidence indicates that employee stock ownership has the potential for creating a work environment and a reward system that can bring out the best that both the American worker and the American workplace have to offer. It can also lay the groundwork for a style of management based more on commitment than control. Commitment is dependent upon a sense of participation. However, for the most part, the opportunity for economic participation has thus far generally been limited to jobs alone. Worker ownership through ESOPs provides an opportunity to participate in capital ownership.



## THE BEST USE OF ECONOMIC DEVELOPMENT FUNDS

In terms of motivation, the merits of a worker-ownership community revitalization policy can be summarized easily: Ownership counts. It summons up a common determination to succeed and ensures that the company's success is shared with those on whom that success will largely depend.

The increased use of ESOP financing for development financing reflects a return to incentive economics. The coupling of development programs with worker ownership can result in a more production-oriented work force. That, in turn, helps to ensure that scarce economic revitalization dollars are invested so as to get the most "bang for the buck."

In addition to ensuring that the benefits of economic revitalization financing are more widely dispersed than through traditional means, ESOP financing also helps to create the circumstances in which assisted companies are better able to survive and in which taxpayer-provided development loans are more likely to be repaid.

An encouraging and growing trend is reflected in the number of U.S. companies experimenting with labor-management committees, participative management, quality circles, and other programs designed to enhance the quality of work life. Employee stock ownership can help create an environment in which companies are more likely to establish such programs. These programs can have a beneficial effect not only on productivity but also on job satisfaction, individual dignity, community cohesiveness, and general mental health.

## COMMUNITY-RESPONSIVE ECONOMIC DEVELOPMENT STRATEGIES

One of the greatest failings of our free-enterprise system is its hostility to the marginally profitable company. Employee ownership of such firms brings with it a way to correct that glaring deficiency, a deficiency that has devastated entire regions as marginally successful companies all across the nation have closed their doors.

As any free-market economist will tell you, it is the essence of capitalism to allow—indeed, to encourage—financial capital to seek its

highest return. It is this "invisible hand" that serves as the driving force of a market economy. By that measure, plant closings make perfectly good economic sense, particularly to those who own capital and to those financial managers hired to oversee that capital on their behalf.

But to those who neither own nor manage—to the workers and the communities who must live with the effects of such closings—the fact that market signals are being followed is faint comfort, particularly when they must cope with swollen welfare rolls and deficits, overburdened state and local relief efforts, increased health and emotional problems, and other repercussions, including the ripple effects of additional unemployment resulting from generally weaker consumer demand.

This is not to suggest that ESOP financing should be utilized in all cases, or in companies that cannot be made profitable. Quite the contrary; a company that is not market responsive, a company that cannot meet its competition and turn a profit, should not put its employees in the position of owning that company. ESOP-type financing is not intended for losers.

It *is* intended, however, for those losers and for those marginally profitable firms that, with employee participation in ownership, can become winners. It is intended for those willing to sacrifice now in order to work for a brighter future.

### **NEW OPTIONS, OPPORTUNITIES, AND OUTCOMES**

Employee stock ownership brings a healthy new dimension to the community economic revitalization process. It enables those affected to examine the issue in a different frame of reference, one in which the effect on them becomes much more real, and one in which they can realize how important their contribution is to the company's success.

Employee stock ownership is for those who believe in the worth of the individual worker and who see the rank and file as the root source of quality, creativity, and productivity. In short, employee stock ownership is intended for those employers and employees who are ready for a new and renewed American workplace, and a new way of thinking, and for those who are prepared for a new array of options, opportunities, and outcomes.

Yet there is much more to the concept of ESOP financing than community economic revitalization. If we in this nation continue to rely solely on traditional techniques of corporate finance, those techniques will continue to concentrate capital ownership further into an already overly concentrated ownership pattern. That would show a great failure of foresight on our part, because not only will we continue to have an inequitable form of free enterprise in the United States, we will also have a form unsuitable for imitation abroad.

This nation needs a more hopeful model—a working model of what we would advocate for other nations. We need to show people all over the world how the increasing prosperity of our private property economy spreads out and reaches Americans in all walks of life.

I urge you to get involved in this crucially important debate. A good way to start is to begin to transform the American workplace. I challenge you to begin the process of making it more humane, more people oriented, and more “us” oriented.

Just as a stream can rise no higher than its source, the American workplace can only be as good as the ideas and ideals that are brought to it. In searching for strategies for community economic revitalization, seek to make the workplace as good as you would have this country be. Dare to be a showcase and others will follow your example.

What employee stock ownership legislation suggests is not a destination, but a new direction, a direction I am convinced the U.S. economy must take if we are to be true to our ideals and realize our full potential as a nation.

—*Senator Russell B. Long*

## PREFACE

The devastating impact of industrial decline in communities throughout the United States, a crisis of major proportions that began in the early 1980s is the subject of this book. Our objective is to explicate the newly developed field of theory and practice for countering this industrial decline and subsequent deterioration of the quality of community life. We begin with an overview of the problem of economic dislocation, followed by an exploration of the social responsibility of corporations to surrounding communities. Analytical contributions by selected authors then survey several models for coping with economic decay. The final section of the book compares these alternative strategies according to critical variables, assesses their impact, and offers an intriguing paradigm for future research and social change.

This book will be of major interest to several groups. (1) Those who are teaching and doing research in such disciplines as sociology, economics, community psychology, labor relations, and management should find this book useful both as a reference and a textbook that offers an introduction to the potential of industrial democracy and social change for upper-division or graduate-level courses. (2) The book will also serve the market of practitioners working on the problems of socioeconomic depression. It should prove to be a valuable resource for labor leaders, managers, and interested parties of the public sector, including city planners and state and federal economic development officials.

—*Warner Woodworth*  
*Christopher Meek*  
*William Foote Whyte*



## **PART I**

### **THE PROBLEMS OF ECONOMIC DISLOCATION An Overview**

The five chapters in Part I outline the basic problems to be addressed in subsequent sections of this book. William Foote Whyte begins by introducing a new pattern for local economic development in the United States, an approach that stands in marked contrast to traditional strategies. The new strategy emphasizes grass-roots initiatives and regional resources rather than intervention from above, at the more macro level.

David Moberg graphically captures the plight of the victims of plant closings: workers, their families, and their communities. The financial, social, and emotional costs of conglomerate interests that supersede community needs are reported as the author reviews the flight of main-line industry from the Northeast and Midwest.

Staughton Lynd, a historian and attorney, explores in Chapter 3 the advantages of a "brownfield" model of reindustrialization over the "greenfield" approach of most community economic developers. Suggesting that "big steel's" complaints about obsolescence and non-competitiveness are largely rhetorical, Lynd advocates his view that the costs to industry and communities are overwhelmingly in favor of brownfield modernization, and that, when coupled with ethical and political values about the good society, the choice is clear.

In Chapter 4, Bennett Harrison and Barry Bluestone advance their hotly debated position about why plants close and the corporate logic behind decisions to shut down operations and abandon communities. The "capital shift" theory advanced by the authors is based on important data about disinvestment and deindustrialization, data the authors have amassed not only to pinpoint the causes of plant shutdowns but also to debunk the standard myths that defend executive decision making.

In Chapter 5, Meek and Woodworth trace the problems of community economic disintegration to the issue of absentee ownership. They point

out that in contrast to historical patterns of solidarity among local entrepreneurs, workers, and communities, today's business climate has broken up these formerly unitary relationships. Control has slipped from community hands and shifted to the executive boardroom, often thousands of miles away from the community in question. The authors conclude by laying the groundwork for the next two sections of the book, introducing the strategies of labor-management cooperation and worker ownership.

# 1

## **NEW APPROACHES TO INDUSTRIAL DEVELOPMENT AND COMMUNITY DEVELOPMENT**

William Foote Whyte

**A new pattern of organizations and strategies for local economic development is emerging in the United States. This pattern places the emphasis upon local and area initiative and resources, stimulated and supported by the local, state, and federal governments. Because the principal actors in these development strategies are still learning their new roles, there has naturally been much confusion and waste in the process; yet we are seeing here and there solid and even sometimes spectacular achievements. It is our purpose to show the potential of this new pattern through examples of successful development projects achieved by local people, with the essential assistance of government officials, from the village level to Washington.**



## THE OLD AND THE NEW PATTERNS

In traditional terms, decentralization means passing down authority and responsibility from the national government to lower levels of government—and the lower the better. As we see it, successful local development projects will continue to depend upon actions taken at national and state levels, yet these actions involve a major shift in the roles of these higher levels of government. Instead of doing things for and to local people, federal and state officials are beginning to devise programs designed to help local people to do things for themselves. In this new framework, successful projects are those that achieve a skillful combination of federal and state support, and guidance with local initiative and resourcefulness.

The new pattern also involves a major shift in thinking about the process of creating jobs. In traditional thinking, the responsibility for job creation rests fundamentally with the private sector. Government can help only by providing infrastructure and public services, and by easing the tax burden on existing firms or on firms that are lured to establish themselves in a particular governmental jurisdiction. The profit motive is considered the principal if not the only spur to economic progress, and therefore government should do only those things that help the private firm maximize profits. High profits lead to high investments, and high investments create jobs.

The emerging new pattern is based upon the implicit assumption that the old pattern is not working. In the first place, the traditional organs of government, from central to local, do not seem to be doing a very effective job in creating the conditions for the growth of employment. At the local level, the traditional development strategy has involved cutthroat competition between one state and another or one municipality and another as each tries to offer incentives that will attract new plants. Although each state may be forced into competition in order to protect itself against raids by other states, clearly such strategies yield no overall benefit to the national economy.

Increasingly, critics have come to question profit maximization as a guiding principle for economic development. This is not to question the importance of profits per se, but rather to distinguish between profit maximization and profits as a limiting condition. If a firm is to survive in the long run without government subsidy, then obviously it must earn enough income not only to cover its operating expenses but also to build reserves for investment so as to remain competitive; but this is not the same as saying that investment should necessarily go to organizations that will yield the highest profit.