

## [Long past time for employee ownership of firms](#) [1]

Written by [Michael G Bell](#) [2] | Monday 29 October 2012



Nominal coalition partners Tories and LibDems disagree on a lot of things, like many married couples, but manage to stay together because the alternatives seem too awful to contemplate. But now it turns out they have found something to agree on, since George Osborne's innovative plan to allow employees to swap some employment rights for shares in their employer is being echoed by Nick Clegg, who is going to announce the creation of an Institute of Employee Ownership this week.

The ASI has been banging the drum for employee share ownership for decades: in 1989 I wrote a report for the Institute called *Incentive Through Ownership* which set out the incontrovertible evidence in favour of it. And just recently I found out that my great-great-great-uncle, Christopher Furness, who built ships in West Hartlepool, had offered his workers shares in the 1880s. But the unions turned him down, just as they have attacked Osborne's scheme.

Strangely enough, they may have been right in 1889: it does seem that owning shares in a very capital-intensive business may not be ideal for employees, because they can't affect outcomes quite so much. Furness couldn't offer tax breaks, not being Chancellor, and anyway there was hardly any tax to break.

Nowadays such schemes usually come with attached tax douceurs: but current thinking says that too may not be ideal. Tax-favoured schemes encouraging widespread share ownership have often led to rapid disposal of the shares in rising markets. Privatizations in the UK in the 1980s and Russia in the 1990s are both good examples. Workers are just as rational as economists, and sometimes more so.

It's the small, entrepreneurial start-up that is the perfect forum for employee shareholding with a free get-out-of-CGT card. And that's just the corner of the economy in which growth would be possible if we could only get the juggernaut of government out of the way. I'm rather against institutionalizing things, although The Adam Smith Institute seems to have made a good fist of it. But if George Osborne and Nick Clegg can stay married for long enough to institutionalize employee share ownership, I'll be the first in line at their anniversary party.

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