**Cooperative investing**

I’ve been turning over an idea in my head these last few weeks. At its most simple, it’s an idea that might help normal working people try to catch up with the ever-growing wealth of the rich.

First off, allow me to paint a picture of how the working people of Britain saw their wealth and influence improve throughout the 20th century. If you want to skip straight to the idea, click [[here]].

**Part 1: The century of the working man**

In the United Kingdom, the 20th century belonged to the working man. It was the century in which working people found themselves holding if not all the cards, then enough of them to make a decent run of things. Industrial growth was dramatic and ever reliant on the hard graft of the working classes. It was also the century during which organised labour got its act together. The power of unscrupulous employers and rentiers begun to be reined in by that of worker solidarity. In politics, we saw the rise of the Labour Party as the defender of the working classes.

Militarily, the nation state was at the height of its power with conscripted armies running into the several millions at times. During WWI and WWII, the UK dedicated a huge proportion of its economic activity to the waging of total war, an experience with lasting effects on the economic thinkers of the time [Note 1]. But in the monstrous size of 20th century armies lay also their biggest weakness; even the grandest of armies would melt before the enemy if it lacked the tacit support of the lower classes, just as Tsarist Russia experienced in 1917 (<http://www.bbc.co.uk/history/worldwars/wwone/eastern_front_01.shtml>). The strength of the British government was ensured by the loyalty of its humble tommies.

After 1945, thankfully few Brits would die defending ol’ Blighty. Although countless millions still lived in poverty, the working class saw their living standards rise dramatically through the post-war era. This came thanks to an expanding economy that still depended heavily on manual labour. There were skilled jobs aplenty, and the pay and conditions of those jobs were successfully defended and improved upon by the trade unions.

The children of the working classes often entered skilled and professional careers. By the end of the century around half of the UK considered itself middle class (https://www.theguardian.com/news/datablog/2016/feb/26/uk-more-middle-class-than-working-class-2000-data). For those who couldn’t find or were unfit for work, an ever-expanding social safety net was introduced. Houses were being built, and were much more affordable than today (see my blog on this topic).

For the working man, the 20th century was by no means perfect. For every skilled worker with a pension plan, there was someone else struggling to make ends meet. For every sector that saw growth and investment, there were others in decay and decline. Yet, on average, the picture to be painted is an *improving* one, all thanks to the ever-increasing value of elbow grease, hard graft and an honest day’s work. The rising value of working and middle class labour provided for steady(ish) real-terms wage growth until the 1980s.

I suppose what I am saying is that the 20th century for the working classes represented a happy sort of paradox. Work was at once the source of their enslavement and their empowerment. Enslavement in that only by working gruelling days at the mine or factory could they pay their way in life. Empowerment in that it was the value of <i>their labour</i> that was fuelling an expanding economy and ever-rising standard of living.

**Part 2: A slave to the wage**

From here on, I am going to lump together the working class and a significant proportion of the middle class. Let’s call these people the “wage class”. These are the people whose income derives mostly, usually overwhelmingly, from salaries and wages in return for their labour. This encompasses even more people than you might guess. An apparent high-roller with BMWs on the gravel driveway may be so far under water with mortgages and car loans that two months out of work would leave him or her filing for bankruptcy.

But most of the wage class aren’t high rollers. Most of the wage class are just doing their best to pay the bills and mortgage (if they’re lucky) or rent, allowing for a holiday and keeping a little aside for a rainy day. And I do mean a “little”: in 2018, the UK household savings ratio fell to 4.9%, its lowest level since 1963 (<https://www.independent.co.uk/news/business/news/uk-household-saving-ratio-2017-ons-inflation-income-expenditure-a8279016.html>). Meanwhile, real wage growth is stagnant (see Fig 5 of housing blog).

During the 20th century and early noughties, this wage class way of life wasn’t so bad. If you put in forty years of hard work your employer would reward you with a comfortable, final salary pension. Yet this way of life now feels like a distant past. Defined benefit (final salary) pensions have all but disappeared. Companies have cleverly offloaded pension risk onto you, the worker, and now it’s all about defined <i>contributions</i>, not benefits; what you <i>put in</i> is defined, what you <i>get out</i> at the end is anyone’s guess. Anyone under 50 who bumbles through life without paying their pension much attention will get a nasty shock when they reach 65 and hope to retire.

If we’re all going to be living much longer, it’s likely the government will keep pushing back pension ages. Of those born today, 20-30% of them are expected to live past 90 years old ([https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2014to2016 Figure 7](https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2014to2016%20Figure%207)). Who knows, perhaps a future government will only allow us to retire once we can prove we are no longer fit for work?

**Part 3: When work doesn’t pay**

There have been two main trends in the UK economy since the 1970s: Firstly, there’s been a huge decline in the relative importance of industry as an employer (https://ftalphaville.ft.com/2018/04/17/1523941200000/The-decline-in-manufacturing--charted/). Secondly, market reforms were introduced in the 1980s ostensibly to stimulate the economy through debt-fuelled growth and increased private-sector competition.

How did our wage class fare in this deindustrialisation and market liberalisation? Well, they are able to enjoy the latest advances in technology such as in medicine, transport and telecommunications brought about by an economy that kept growing, at least until 2008. But the economy was growing <i>before</i> these changes, so it’s hard to say whether financial reforms or new forms of employment were the cause.

The wage class have certainly been <i>big</i> users of one aspect of market liberalisation: that of easy credit. Modern finance has turned out to be somewhat of a double-edged sword. Easy credit has allowed the wage class to maintain a high standard of living today through loans and credit cards, whilst inflicting financial self-harm in the long term. Meanwhile, the banks reap the rewards of heavy interest payments and defaults (until it causes a Financial Crisis, at least).

Many would argue that in raw economic terms, the UK wage class has seen their quality of life erode, or at least stagnate, in the period since market liberalisation and deindustrialisation. The wage class’s share of the UK economic pie has been shrinking, although the growth of the pie itself has managed to just about offset this. Since the 1980s, many “good” (well-paid, safe) working class jobs have disappeared. The trade unions, whose power to improve the lot of the working class was so great throughout most of the 20th century, seem to have lost both their power and their appeal (<https://www.economist.com/blogs/economist-explains/2015/09/economist-explains-19>). In fact, union members in 2018 are much more likely to be middle-class professionals in the public sector than working class (<https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/616966/trade-union-membership-statistical-bulletin-2016-rev.pdf>).

To be sure, new jobs <i>have</i> been created in this liberalised world, but often for the working class these are jobs with fewer career prospects and on insecure contracts. For the middle class, the cushy pensions have disappeared and both adults in a family have to work to cover the bills.

So if the economic pie has been growing but the wage class’s slice is getting smaller, where is all the money going? The answer is simple: to capital.

**Part 4: Get rich by owning stuff**

Whilst the wage class has been quietly carrying on much as they have done since 1945, the richer part of society has been very busy. The rich (or aspiring rich) have always understood that not only can you get paid for the time and skills you provide, i.e. your <i>labour</i>, but there is also money to be made by owning <i>stuff</i>. Quite a lot of money, it turns out.

Owning stuff is referred to as <i>capital</i>, and includes cash, shares (including owning your own business), bonds and property, as well as what are known as “tangible factors of production” such as machinery (including robots), production equipment and software.

With the liberalisation of investing and finance in the 1980s, owning stuff became a lot easier. Those with the money and knowledge have been making fantastic returns through the stock market (<https://www.fool.co.uk/investing/2014/10/24/the-ftse-100-will-always-beat-you/>), property (link to my blog) and the smorgasbord of financial products available to the savvy investor. Digital technology is making access to such products easier than ever.

All around the world, labour is losing out to capital. Labour is capturing a smaller percentage of all income now than it did in the past (<https://www.economist.com/finance-and-economics/2013/10/31/labour-pains>). This is not supposed to happen; economists since the 1950s have tended to assume the flow of income to labour as being constant. This means that in recent years productivity gains have disproportionately flown towards the owners of capital instead of towards a broader growth in wages. Simply put, since the 1980s in the UK we’ve seen the rich getting richer and the wage class if not getting poorer, then not seeing any improvement in their standard of living. That’s a lost generation of wage growth hoovered up the rich.

The wage class is overwhelmingly reliant on the value of their labour to provide income. The relative value of that labour is no longer increasing at anything like the levels we saw in the 20th century. Machines in factories that were once run by skilled workers are now automated, only requiring a skeleton staff of engineers to run them. More and more menial and time-consuming tasks will soon be completed by artificial intelligence (link to google duplex). Some argue we can create more services jobs to offset this automation. But as the growth of the services industry since the 80s in the UK shows, over-reliance on services leads to low productivity growth (<https://www.ft.com/content/1c57dcb0-aa89-11e7-ab55-27219df83c97>).

It's possible that the emergence of private companies earning monopoly profits for the provision of public goods (think trains, energy, water, healthcare) has also caused money to drain away from the taxpayer to shareholders, private equity and hedge funds.

**Part 5: Train up or lose out?**

So what’s the solution to the falling value of labour? Successive British governments seem to believe there is only one solution: “Education, education, education” : those were the three things Tony Blair promised to focus on in his 1997 election campaign. The <i>average</i> value of labour is falling, but if you train up, go to university, you’ll land yourself a well-paid job in a high-tech sector. And it’s not just the UK; this has been the policy followed in many developed countries in recent years (with countries like Germany being the exception).

Education is of course essential for the success of the economy, but this is not a modern phenomenon and the importance of academic study (as opposed to on-the-job training) has been overstated (see *23 Things They Don’t Tell You About Capitalism* by Ha-Joon Chang).

In the UK, the Labour government made it a keystone policy to get 50% of young people going to university. Even in a scenario where this is achieved and every single graduate finds a skilled, professional job (far from guaranteed), this still leaves the obvious question: what of the 50% of society not attending university? The fact that the Labour party, traditionally the party of the working class and the “bottom” 50%, was so obsessed with university attendance is another story in itself (footnote: I recommend “Listen, Liberal” by Thomas Frank for his treatment of how the US Democratic party abandoned the working class – the parallels to the Labour Party in the UK are obvious).

If you’re in the non-university 50% of society (the figure for higher education attendance was the highest ever at 49% in 2015/16 [4]), is it likely that you’ll ever be able to become a programming guru or robotics engineer? If not, then is this your fault given that at least a significant portion of your intelligence was doled out to you at birth anyway (general estimates are upwards of 30% [5])?

We’ve seen how labour’s share of income is decreasing despite the increased university attendance of one half of society. If education isn’t working, what else could government do to stimulate real wage growth? They could reinstate higher levels of taxation of the rich that have been swept away since the 1970s. However, politically this seems very unlikely to happen. This finally brings me, you’ll be relieved to know, to the idea I hinted at in the opening paragraph of this meandering essay.

**Part 6: A quiet revolution in investing**

What we need is for the wage class to follow the example of the rich because, as we all know, if you can’t beat ‘em, join ‘em. If the economy is geared so that more and more of the income generated through improvements in productivity are funnelled to the owners (to capital), we need a way for the wage class to <i>become</i> the owners [Note 2].

To be sure, being paid for work is essential to the economic success of the wage class. Except for the very few professions that pay their practitioners so well that no matter how fast they burn through the cash they’ll always end up wealthy, the key for most is to break the wage-slave cycle as soon as is possible. That means putting aside as much of their income from labour as they can afford into some kind of investment.

Beyond being rewarded for the shares they owned in companies, the small amount of capital owned by an individual could be clubbed with the small amounts from many other individuals, and together they would have real influence over the running of the companies they were invested in.

Imagine an investing cooperative that takes up a position within a FTSE 100 company. They pressure the board to improve the pay of their workers whilst reining in executive pay. Such a cooperative would give a voice to a class that often feels powerless in the face of big business. The investment cooperative would exercise collective bargaining of <i>capital</i> in a similar way as do trade unions in the collective bargaining of labour.

The cooperative could be wholly-owned by the investors and run democratically through elections and referenda. It could have a constitution to ensure certain basic rights and objectives are maintained, such as the cooperative’s role in fair pay for workers in the companies in which it invests.

At this point, you may be thinking this all sounds like something that governments should be doing, not a cooperative. It should be governments that enforce improvements in pay and conditions, that create taxes to redistribute wealth, and it should be governments that take ownership of certain key industries or infrastructure to be run for the public good. My humble opinion is that the government is <i>not</i> doing nearly enough of this right now. What is needed is a quiet revolution in investing that allows the wage class to claw back some of the gains made by the richest members of society.

Other readers may think this all sounds a bit Marxist, workers owning the means of production, etc. However, the cooperative would rely on funds from individual investors, all of whom would seek to gain financially from their investment, both in gains in share price and dividends as well as through eventual improvement in pay and conditions for workers (if they happened to work for a company in the portfolio). The investors would be responding to financial incentives, and would vote to elect a leadership competent in managing their investments; it would remain a firmly capitalist venture, but capitalist in ways perhaps not seen before.

I know that many of the things I am suggesting this cooperative do can already be done by individuals. Anyone can buy a share in a listed company, attend AGMs and cast their vote on key decisions. There remain two main problems with this approach. Firstly, it is daunting for the ‘man on the street’ to buy shares directly. It requires experience, time and usually a broker (who of course wants some money for the trouble). There do exist relatively low-cost online brokers, but their underlying motive will always be to profit from your custom.

An investment cooperative could manage the technical side of investing, and with economies of scale could do so at low cost [Note 3], returning any profit back to its investors. Joining the cooperative could be made as straight forward as possible, with simple, clear information on the risks and benefits. Secondly, although every vote counts, by clubbing together your interests with a large number of other investors you are much more likely to influence the decisions of a company. Only by owning large stakes within companies can real change be effected.

You may worry that investing is a risky activity. It definitely is possible to lose money through investing in shares (directly or through a cooperative). However, data shows that diversified investments, if held for the long-term, are very likely to provide positive returns [Note 4].

**A way forwards**

I believe that an investment cooperative has the potential to allow members of the wage class to both profit from the benefits of an expanding economy in the same way as their richer counterparts, and to be a new source of influence and power in pursuit of fairer pay and conditions for workers throughout the UK.

I’d more than welcome any criticism or suggestions to take forwards the ideas I’ve laid out. You can get in touch via the comments below or by emailing me on mail@davidjwatson.com.

[Note 1] It does well to think that nationalisation in the UK came out of the experience of war, where an astonishing proportion of UK economic activity was funnelled into government hands, perhaps justly so in WWII, but more controversially when thinking of the killing fields of 1914-18 Flanders.

[Note 2] As we move inextricably towards an automated economy run by robots, there’s a chance it will become harder and harder to make money any way other than by owning the means of production or by governments redistributing the profits of corporations down to their citizens. This is probably in quite a distant future, and currently unimagined jobs will also be created, as I discussed here(LINK), that will replace those that are destroyed.

[Note 3] Vanguard US provides a good starting point as a model for this investment cooperative. It provides low cost “tracker” funds that are owned by the investors. Where it falls short is that there is no democratic structure that allows individual investors to vote on company issues; all shareholder votes are passed by proxy to Vanguard management. Vanguard UK or Nutmeg provide the closest equivalents in the UK, but both are “for profits” ventures and are not owned by the investors in their products.

[Note 4] Barclay’s produced a white paper showing that, since the 1970s, being invested for 12 years always led to a positive return, even if you had bought right before the 2008 crash or the Dotcom bubble.

\* Granted that inequality in the UK has decreased slightly in the last 10 years (see Figure 7 <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2017>) and the richest fifth have actually had the lowest income growth.

[1] The Economist, “Why trade unions are declining”, Sep 2015, URL (accessed 06-04-18): <https://www.economist.com/blogs/economist-explains/2015/09/economist-explains-19>

[2] UK Department for Business, Energy & Industrial Strategy, “Trade Union Membership 2016 – Statistical Bulletin”, May 2017, URL (accessed 06-04-18): <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/616966/trade-union-membership-statistical-bulletin-2016-rev.pdf>

* Professionals more likely to be in unions
* Permanent full time employees more likely to be in unions
* Middle income earners more likely to be in unions
* Public sector more likely to be in unions (13.4% to 52.7%)

[3] Jonathan Cribb, “Income Inequality in the UK”, Institute for Fiscal Studies, URL (accessed 06-04-18): <https://www.ifs.org.uk/docs/ER_JC_2013.pdf>

[4] UK Department for Education, “Participation Rates In Higher Education: Academic Years 2006/2007 – 2015/2016 (Provisional)”, Sept 2017, URL (accessed: 06-04-18): <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/648165/HEIPR_PUBLICATION_2015-16.pdf>

[5] Emily Smith-Woolley et al., “Differences in exam performance between pupils attending selective and non-selective schools mirror the genetic differences between them”, npj Science of Learningvolume 3, Article number: 3 (2018), URL (accessed: 06-04-08): <https://www.nature.com/articles/s41539-018-0019-8>

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