

Humane Privatisation: Worker Co-operative Initiatives in the Public Sector¹

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The situation is common in many developing countries. A developing economy, still coming out painfully from the productive limitations of mass agriculture; long years of colonialism or fiscal siphoning off from regional peripheries to cores. Capital investment typically flows away from these territories towards the heartland of North America and Western Europe. Employment is precarious and risk capital hard to come by. The provision of services directly related to one's quality of life - such as energy, telecommunications, water, housing, education, health and social security - fall also within the ambit of the state, often out of simple default. All this in the context of an expanding population, with many consumer tastes and habits influenced by the Western world.

In these situations, it is inevitable to find the state playing a key role in the development process. The responsibility to provide employment and to create productive investment in the absence of local or foreign capital predisposes the state towards assuming a major role in the economy; one which is broader and wider than that of the stewardship and monitoring effected by states in more developed economies. The outcome is usually a bloated public sector with substantial levels of underemployment, and a sprawling parastatal sector with under-productive or inefficient corporations and utilities whose running expenses and losses are justified on the basis of political and social arguments: jobs, strategic industries, basic needs provision.

Such arguments were seen essentially to be valid for many years, but recently a fundamental reappraisal of their soundness has been under way. A sweeping fiscal reform exercise is now going on in many developing, often debt ridden states. The discourse has now shifted from one of social justice to economic efficiency; from jobs to value for money; from workfare to downsizing and appropriate manning levels. A combination of factors is to blame for this policy realignment:

- the often flagrant excesses of existing public enterprises;
- the conditionalities imposed by World Bank structural reform;

- equally strict terms imposed by the liberalisation policy of the European Union and/or the World Trade Organisation;
- the corrupt practices of officials occupying senior posts in organisations which often benefited from artificial prices and privileged monopoly situations;
- the outcry from consumers for reform and client-friendly workplace practices.

The effect has been a strong pressure on governments in developing countries to open the door to privatisation policies. They have been asked to push back the frontiers of the state; to encourage the full and free participation of private capital; to shift underutilised labour into the leading economic sub-sectors where more value added was to be made and where market forces, and not government ministers, would guarantee efficiency. The results have been amply documented, and so many countries today experience the pains of transition towards a more market driven economy.

One sector which has borne the brunt of these changes has been the hard core public sector. With massive layoffs expected, various governments embarked upon job creation strategies to try to prevent a sudden escalation of unemployment and of the social fragmentation that this brings along with it. These have included:

- new and attractive packages to attract foreign investment;
- extensive human capital formation drives with larger numbers of young people encouraged to consider higher and further education;
- family planning programmes;
- marketing, fiscal and technical support for small entrepreneurs;
- and
- new leases of life to micro, small and medium scale enterprises.

The promotion of co-operatives has been a natural component of this strategy: the initiative in favour of self help; the unleashing of entrepreneurship and the idea of industrial democracy enshrined in co-operativism ensure that such a form of organisation appeals to political incumbents from every hue on the political spectrum. In some instances, calls have been made

for preference to be given to co-operatives in the externalisation of public services². However, the formula resorted to has suggested that co-operative members could not continue to remain public servants. Indeed, notions of communal organisation within the public framework fell from favour after the collapse of the Soviet Empire and its economic regime in 1990. Co-operatives were private sector organisations subject to market forces.

I would like to present an alternative model of worker co-operative organisation which is neither wholly private nor wholly public. It is a quasi-co-operative structure which seeks to bring together certain selected principles of public sector employment looked upon favourably by employees - particularly good and secure wages, a reliable career and seniority path, security of tenure - along with the discipline, efficiency and economy of operating in a free market. It is a scheme built on the recognition that given the right incentive package, the lazy and indifferent public servant can become a highly energetic and industrious worker. Indeed, many public employees have no qualms in shamelessly going about their tasks as self-employed individuals even during their regular hours of paid public sector employment. They are already well versed in the rudiments of costing, obtaining raw materials, maximising returns from equipment; obtaining credit; concealing income from the tax department. Furthermore, the option allows a gradual exposure to competitive pressures and a steady induction to the rigour and demands of the free market.

I have had the opportunity to present details of this pioneering scheme in a number of international fora which have brought together officials involved in the promotion or management of worker co-operatives. It appears that somewhat similar schemes were envisaged in Spain and in various Latin American countries in the early 1980s, but only as part of a gradual transition towards full privatisation. The Malta model, if we may call it so, has, in contrast been pronounced a form of 'humane privatisation'. It is presented as an end in itself and not as part of some dark political ploy to advance towards privatisation. It appears as an original recipe which sets out to reap certain advantages of privatised work - the sense of pride in one's work, the need to follow market prices to secure contracts, and the closer association

between reward and effort, for instance - but without going all the way. Strong trade unions ensure that workers will continue at all costs to enjoy that sacred cow: secure tenure.

Enter the co-operative formula: a formula so simple that many simply cannot understand it. An association of producers which is premised on the democratic principle of one person, one vote. A community of workers who will not sacrifice the basic human quality of control (over one's work, over one's organisation and over one's development) for the sake of satisfying the obvious imperative of earning a living. In the case of public employees hailing from the same department and engaged on a common project, these are, for all intents and purposes, already an "occupational community" with those elements of social cohesion and interaction, leadership and followership, necessary to establish a sound and effective team.

The Two Schemes

The schemes, which were announced by the former Malta Prime Minister in May 1996, consist of two recipes. Workers may progressively graduate from one to the other as their co-operative experience proves a positive one and as their risk and entrepreneurial orientation matures.

The first option - so called Scheme A - is quite far reaching and provides public employees with the option to take unpaid leave for the period during which they can work in a co-operative framework as if they were independently self-employed.

The second option - Scheme B - encourages public employees to enter into specific arrangements with their respective heads of department in such a way that internal sub-contracting becomes possible. In other words, this allows departmental heads to offer workers internal sub-contracting and its associated possibilities of profit sharing. This without having to devise weird ways of incentivising employees for jobs well done, and on time. The workers concerned continue to receive their usual wage but this is actually an advance payment on the contract being worked. The Department charges the co-operative a pre-negotiated commission and thus also stands to gain from this arrangement.

Both schemes allow a free return of the persons concerned to their respective grades within the public service. Both schemes are operated on a group basis. At least seven public employees

must band together and be registered as a 'provisional co-operative'. Extensive preliminary discussions, the drafting of a statute (in the case of both schemes) and the negotiation and finalisation of detailed costings (in the case of scheme B) are first necessities. Once the co-operative is registered and set into motion, the co-operators are to exercise strict collective decision making and financial management, under the overall supervision and monitoring of the Board of Co-operatives. The allocation of surplus to general reserves, collective reserves, dividends and patronage refund has to be in accordance to the national co-operative legislation.

Both schemes guarantee to the employees that they are still public employees and as such they continue to enjoy all the rights and conditions of employment that their colleagues enjoy. These include security of tenure, notional increments, seniority and progression in the grade and pensions. These rights and benefits are guaranteed by considering the time that such employees spend in such co-operative conditions as 'leave on grounds of public policy'. Public employees also benefit from current provisions in the local Competition Act by having the option to enjoy the 'right of first refusal' on government tenders, as long as there are clear guarantees that such work will be performed exclusively by state employees. All public employees can apply, except for those above Salary Scale 8 (the Assistant Principal level). This is done to prevent a brain drain from the top ranks of the civil service and to hedge against possible role conflict situations.

Background Context

How such a pioneering scheme came to light is an interesting question and a pertinent one to other countries experiencing similar pressures towards privatisation and liberalisation.

Malta experienced various initiatives in favour of worker participation in the 1970s. The Labour Government of the time was inspired by the self-management experience of the then Yugoslavia and was anxious to embark on a labour policy which secured trade union co-operation and industrial peace in local socio-economic development. Such inroads included the introduction of full worker control into the local ship-repair dockyard, and worker-directors on a number of parastatal

corporations. Once introduced, these initiatives developed their own momentum and the demonstration of support for workplace democracy became an important policy position for all political parties.

As a result, in 1987 the newly elected Nationalist Government felt obliged to set up a high-powered committee to study the manner in which worker participation could be strengthened and developed. But by the time this committee had completed its work, more than five years had passed. The worker-director fever had passed (to be rekindled with the return of a Labour Government in 1996), self-management had become increasingly dubious with the recurrent economic non-viability of the Malta Dockyard, and neither workers nor trade unions were asking for worker participation schemes any more. The report only provided weak suggestions, focusing on voluntary employee involvement schemes in the private sector, employee shareholding in parastatal enterprises, and promotion of co-operatives. A Support Unit to assist such projects was recommended and eventually set up in 1994³.

Hence, the drive in favour of co-operatives ended up as the spearhead of a new wave of worker participation initiatives. In 1996, and again in 1997, a record number of co-operatives were registered, most of these being worker co-operatives and reversing a trend in favour of service co-operatives - mainly in the agricultural sector - which had been dominant for 50 years.

This impetus was partly triggered off by a parallel development in pluralism and devolution in central administration, with the setting up of the first local councils in Malta. These were granted the liberty of contracting out works and services to both the public and the private sector, after a brief period when they were obliged to assign all their work to government departments. The outcome of this was that most government departments found themselves being elbowed out of the lucrative local council market by more competitive private firms that promised to perform the required jobs well, cheaper and on time. This sent shock waves through the public sector, and rendered the level of under utilisation still higher than it had been previously. Indeed, this indirect form of privatisation would more likely have led to demands for the deployment of public employees, away from the cocoon of the state where they

were now idle, and towards a private sector complaining of a very tight and inelastic labour market which was making it difficult to recruit labour and causing an unwarranted increase in wages and salaries. The then Prime Minister appointed a Task Force to investigate how to incentivise public employees in the context of local council devolution; its report, submitted in February 1995, recommended a voluntary transfer of public sector employees to co-operative status for up to five years, with a new agency whose task would be to secure contracts and assist in their satisfactory completion.

This threat of privatisation was probably well recognised by the trade unions. These are very strong in the local public sector and resisted tooth and nail any attempts at neo-liberal privatisation. They were significant players in hammering out the details leading to the two co-operative schemes, and keen to register their support and even to own the co-operative drive⁴. The five-year limit was dropped and no procurement agency established, since the Central Office of Co-operatives, via the Co-operative Support Unit, could offer its services in this area. By August 1996, three months after the two co-op schemes had been announced, there were some 25 different groups of employees interested particularly in scheme B⁵. Only two such co-ops (scheme B type) have so far been registered - on 2nd September 1996 and 14th October 1997⁶. These two first public sector co-ops - the first engaged in the manufacture of traffic signs and the painting of road markings (with 15 worker-members) and the second engaged in furniture production (with 8 worker members) - are reaping handsome profits⁷.

Problems

It is important to scrutinise these recent and quite radical developments from a detached viewpoint. Quite a number of concerns have been expressed in relation to these schemes, and the proper resolution of these may be the critical juncture to their further pursuance. The concerns may also throw critical light on the fact that the schemes have so far only been taken up by a score of public employees. This may prove true particularly under the present Labour Government which will certainly appraise these schemes in a more critical light. Some of these

concerns have been expressed in the media, mainly by trade union officials and members of the Labour Opposition, who have, since October 1996, replaced the Nationalist Party in government. Others have been collected personally from my various discussions with members of co-operative societies, public employees and the Maltese at large.

- The erosion of 'trade union and worker consciousness'. Trade unions in particular are not so sure that workers will continue to regard themselves as workers when they have started experiencing work as a co-operative. Will they support their colleagues in industrial action? Will they join their erstwhile comrades in a sympathy strike called by their union?⁸
- The intentions of both the previous Nationalist and the current Labour Government might have been less positively inclined towards workers co-ops and more in favour of measures which would encourage public employees to move to the private sector without incurring the wrath of the trade unions in the process. In spite of all the guarantees, the ultimate objective might still be to dismantle the over-manned public sector⁹.
- Setting up worker co-ops and then leaving them at the mercy of a free and ruthless market may be a sure recipe for catastrophe. How can co-ops ever match the capital and financial base of a private entrepreneur? How can they ever keep pace with the need to update machinery and technology as do their private competitors? What will be the fate of a co-operative dwarf alongside private giants?¹⁰
- It is common knowledge that many public employees perform lucrative productive activity on the side. Much of this has remained invisible for income tax purposes. If such employees forego working in the underground economy and instead transpose their working time to their co-operative, the extent of their declared earnings would increase.

- Those engaged in a worker co-operative may be exposed to a substantial degree of peer pressure. The attraction of good earnings may cause members to oblige each other to work much harder than the average. Those considered as stragglers or laggards may be denied membership in the first place and targeted for possible expulsion if already enjoying membership rights. Such a decision may also follow if the productivity of a worker-member falls for example because of an accident.
- There is a second dimension to interpersonal differences. What will be the future of those public employees who do not opt to join their comrades on a co-operative adventure? The fraction of the workforce which adopts the co-operative formula will certainly increase its output, and thus take over the work which used to be performed by their departmental colleagues. Is it fair to re-deploy these elsewhere?¹¹

Conclusion

I was pleasantly surprised to find out that public sector employees have started setting up co-operatives. In this way, hopefully, lethargy and indolence will decrease, as well as stop the squandering of public funds ... So, let's hope that we will start reaping the good results of these co-operatives, just as the worker members will also reap part of the fruit of their labour as profits.

A letter to the editor which captures some of the hopes put into these novel co-operative experiments in Malta¹². There is an opportunity to make positive-sum gains: restoring decent levels of efficiency to the public sector and providing it with higher status; value for money to customers, particularly local councils; income for effort for the workers themselves; apart from the experience of self-help and collective self-control. We offer this model for the consideration of co-operative movements elsewhere. We invite local and international associations to explore how to improve this scheme still further. We await a clear declaration from the present Labour Government on its opinion regarding the worthwhileness of persevering with this scheme.

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- 1 An earlier version of this paper was prepared for a Seminar on the theme of Worker Co-operative Developments in the Mediterranean Region held in Malta in December 1996. The seminar was organised by the Malta Board of Co-operatives for the European Committee of Worker Co-operatives (CECOP) as part of the MEDCOOP Project, with sponsorship from the European Commission (DG XXIII).
- 2 Eg. ICOF Newsletter, Vol.4, No.2, October 1996, p1, UK Industrial Common Ownership Finance Ltd.
- 3 For more details, consult Zammit, E.L. (1996) 'From self-management to co-operatives in the contours of worker participation in Malta over two decades' in G. Kester & H. Pinaud, eds Trade Unions and Democratic Participation in Europe, Aldershot, UK, Avebury, pp119-126.
- 4 Eg 'The setting up of co-ops', General Workers' Union Page, L-Orizzont, 22/7/96, p16.
- 5 Press Release by the former Parliamentary Secretary responsible for Co-operatives, Dr Joe Cassar, 2/9/96.
- 6 'First public sector co-op set up', L-Orizzont, (Maltese Daily Newspaper), 3/9/1996, p2.
- 7 'Government Co-operative Members record Lm3,000 profit in a month', The Times, 15/10/96, p13.
- 8 A point made by a Public Services Section Delegate of the General Workers' Union at an Extraordinary General Conference of the GWU. See Report in L-Orizzont, 27/7/96, p6.

- ⁹ A comment attributed to Charles Buhagiar, now Minister for Works & Construction. Reported in *Kullhadd*, (Maltese Weekly newspaper) 25/8/96. A similar comment was made previously by Lino Spiteri, now Minister of Finance. See 'Why Aren't there more Co-operatives?', *It-Torca*, (Maltese weekly newspaper) 21/1/96, p8. The present Labour Government has also set into motion the partial privatisation of key state monopolies.
- ¹⁰ 'Telekoperattivi', letter to the editor, *L-Orizzont*, 8/3/96.
- ¹¹ Most of these objections have been raised by TeleMalta Corporation employees as well as those at the Roads Department, when discussing the co-operative option in Spring 1996.
- ¹² 'Public Employees and Co-operatives', letter to the Editor, *Kullhadd*, 17/11/96, p40.