

Working Democracy

How the Democratic Economy Can
Transform Workers' Wellbeing

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Executive Summary

This report examines the role of the democratic economy in the UK, focusing on the models of co-operatives and employee-owned businesses (EOBs). Initially, this paper exposes the inadequate situation for workers in the UK, citing low pay, poor benefits, and low employee engagement as key deficiencies. Following this, it briefly outlines the rich history of democratic business in the UK before focusing on the current state of the sector and how it has been affected by government policy. I then track the unique benefits of democratic businesses for workers and their wellbeing, as well as the contribution to this form to the wider economy. I argue that such benefits derive from the institutional dynamics worker ownership and participation in decision making that these models involve, and include increased productivity, a more equitable share of profits for workers and a sense of autonomy and creative expression.

This field of enquiry is particularly pertinent under the current Labour government, which has committed to doubling the size of the co-op and mutual sector by the end of the Parliament. This report therefore makes recommendations for the government to move closer to this goal, ensuring all proposed policies are compatible with constraints on public spending.

Key Takeaways:

Recommendation 1: The government should incentivise the growth of the democratic business sector through a CGT exemption on the sale of businesses to employee ownership trusts, in cases where the board of trustees are elected by the workers.

Recommendation 2: The Department of Education should work with OFQUAL to ensure relevant A-level curricula cover democratic business, to raise the profile of the sector.

Recommendation 3: To prevent democratic businesses demutualising, the Treasury should utilise its power to implement an indivisible reserves scheme, whereby any funds left in a democratic business at the point of it winding-up must be transferred to an enterprise with similar principles.

Recommendation 4: To increase worker's representation at large firms, the government should mandate employee representation on the boards of companies with over 1500 employees, making up at least 25% of board members.

Recommendation 5: The British Business Bank should help finance co-ops and EOBs with high growth potential.

Section 1: The current state of worker's wellbeing in the UK

The prevailing stagnation of life satisfaction for workers in the UK is often alluded to in popular discourse, whether from the perspective of a burgeoning mental health crisis, slumping wage growth or a general lack of agency in the workplace. However, one innovation I hope to achieve with this policy report is to consider these correlated issues in an overarching framework, acknowledging the interconnectedness of financial, health-related, and psychological woes, and seeking to address these problems collectively. In this paper, I define worker's wellbeing as existing on a continuous scale, with the aim being to move towards a more equitable, democratic, and productive environment for the working population.

A key reason for the worsening of overall wellbeing is the windfall of economic decline that workers have borne the brunt of. A worrying aspect of this breakdown is anaemic wage growth, such that in 2023 real wage growth “stalled for the longest period for which comparable records exist, dating back to at least Victorian times” , with a real terms rise of just £11 since 2007, the worst fall in wage growth out of 19 OECD countries since the financial crisis¹. Productivity has also slumped to an average of 0.4% per year since the crash, suggesting that issues of economic decline are systemic and that perhaps the running of workplaces themselves requires reconsideration. With inflation exceeding the Bank of England's 2% target by 1.6% in October 2025², rising prices make the squeeze felt by falling wages even more acute.

Financial fairness and work benefits

Evidence suggests that the macroeconomic climate discussed above is helping to reduce people's ability to live as they were. A Living wage foundation report found that the proportion of jobs paid below the living wage in the UK increased to 15.7%

¹ 'Real wage and productivity stagnation', Stephen Machin, *Oxford Review of Economic Policy*, Volume 41, Issue 1, Spring 2025, p. 107

² House of Commons Library, *Economic indicators: Key statistic for the UK economy*, 25th November 2025

between 2023 and 2024³, suggesting that not only are wages failing to keep up with inflation on average, but that this affects the lower end of the income spectrum disproportionately. These wage conditions have helped contributed to the situation where 8.1 million working age adults were living in poverty in 2023⁴, with 11% of adults now reporting not being able to heat their homes⁵ and 3.2 million households reporting cutting back on food when hungry⁶. The CIPD's Good Work Index report found that well under half of manual workers were able to pay their bills without issue in 2025, again reflecting inadequate pay for this demographic. Similarly, 59% of workers with disabilities reported at least some difficulty paying their bills, compared to just 40% of men without disabilities, seeming to illustrate that inadequate wages often fall upon those with the least capacity to cope⁷. Interestingly, this report found higher pay satisfaction significantly correlates with higher productivity⁸, initiative, and mental wellbeing, which undermines the idea that laziness or poor resilience is responsible for lower productivity, instead lending weight to the view that workers can have the resources to be more diligent when their material circumstances are secure.

In terms of work benefits, the CIPD found that reduced hours were not available for 45% of workers, sabbaticals for 61%, and term-time hours for 80% which would particularly aid working families who struggle to find care for their children during the school holidays⁹. I would argue that these allowances for workers would likely benefit employers with more stable employee mental health and thus greater capacity to apply effort, but management seem slow to extend this principle beyond the successes of flexible and remote working we have seen since the Covid pandemic.

Gender inequity

The gender pay gap remains an undesirable feature of working life in the UK, reducing opportunities for many women to achieve reasonable living standards and closing avenues for their personal development. The latest ONS figures find that the median hourly pay for women was 12.8% less than men in April 2025 for all employees, with 78% of employers reporting median hourly pay as higher for men this year¹⁰. Women are also significantly overrepresented in low paying jobs, being

³ Living wage foundation, 'Employee jobs paid below the real living wage 2024' p.4

⁴ Joseph Roundtree Foundation, *UK Poverty 2025: The essential guide to understanding poverty in the UK* p. 6

⁵ IFS, *living standards, poverty and inequality UK: 2024* p.5

⁶ Joseph Roundtree Foundation, *UK Poverty 2025: The essential guide to understanding poverty in the UK* p 13

⁷ CIPD, 'Good work index 2025' p.8

⁸ *Ibid* p.10

⁹ *Ibid* p.10

¹⁰ House of Commons Library, 'The gender pay gap', 17th November 2025 p. 4-6

50% more likely to be paid less than the living wage compared to men¹¹, and 22% less likely to have no difficulty paying bills¹². Aside from the worsening of living standards for women this inequity implies, I think the overall legitimacy of unequal workplaces is brought into question by these findings. I would argue that a dignified workplace would be one where all employees are treated as equals, and their financial rewards were based on their performance. Moreover, denying women the opportunity to progress in their careers in the same way men have historically stifles productivity, which the UK economy is seemingly in dire need of.

Mental and physical health

It is commonly accepted that, particularly since the pandemic, the UK has undergone a sharp rise in acute mental health difficulties. This issue has largely been discussed in the context of those unable to work, but within the working population many are critically anxious and stressed. The CIPD found that 59% of the workforce feel they are sometimes or often under excessive pressure, with a quarter of employees saying that work negatively impacts their mental health¹³. Moreover, average absence levels have increased by 62% between 2022 and 2024 per employee, with the leading cause of long-term absences being mental health at 41%, while stress was a causal factor in over a quarter of sickness absences¹⁴. We can observe that, even having considered a broader increase in mental health illnesses, workers seem to be being put under more stress year on year. With macroeconomic factors reducing profit margins for business owners, the increased workload looks to be falling on employees, lending weight to the view that a restructuring at the corporate level is needed to reduce excessive stress on workers with the additional benefit of improving their productivity and gradually turning the economic picture around.

Lack of Ownership and autonomy

The majority of the UK workforce who are not management have little opportunity to participate in decision making within their own company and are rarely able to contribute thoughtful ideas. Only 37% of UK workers in one study said their managers consider employee input in final decisions. Contrasting this, 93% of those who did report managerial consideration of employees reported achieving their job

¹¹ IFS, *living standards, poverty and inequality UK: 2024* p.4

¹² CIPD, 'Good work index 2025' p.8

¹³ *Ibid* p 20,30

¹⁴ CIPD, 'Health and wellbeing at work', 2025 p 3

objectives, 81% suggested more improvements and 86% helped others beyond the required level¹⁵. I would argue this helps to demonstrate that the traditional workplace environment is often one where workers' potential for creative participation is left dormant, and consequently they see work as a means to getting paid, but no more, evidenced by the fact that 45% of employees report not look forward to coming into the workplace in one study¹⁶.

I will go on to argue that even small improvements in this area would unlock productivity gains, while working to make decisions less arbitrary and hierarchies less rigid and overbearing. In areas such as local government, accountability, broad participation in decision making is seen as inalienable, yet the principles of individual autonomy and reducing arbitrary control are rarely applied with much rigour to the workplace. Accountability and broadened participation could be seen as a moral end in themselves for individual development and ownership, but also pragmatic since they scrutinise policy, usually encouraging better outcomes when someone's position of influence is contingent on more broad, popular agreement.

Section 2: The democratic economy, past and present

In this section, I will define the specific corporate structures present in the democratic economy, narrowing this paper's focus onto co-operatives and employee owned businesses. I will briefly review the history of the cooperative movement in the UK, before examining the scope and extent of the current democratic economy. This section will also examine recent legislation and fiscal policy affecting the sector, helping to understand the growth of some forms of democratic business over others.

This report uses the term 'democratic economy', as a broad umbrella for business forms existing in the UK that involve some level of democratic decision-making or employee ownership. The pillars of the democratic economy are co-operatives, mutuals, and employee-owned businesses, which all have distinct characteristics but also many overlaps, such that many organisations could fit into multiple categories. This report will lay particular emphasis on the benefits of worker co-operatives and employee owned businesses for workers' wellbeing.

¹⁵ CIPD, 'Good work index 2025' p. 29

¹⁶ <https://uk.greatplacetowork.co.uk/workplace-wellbeing-report>

A co-operative is an organisation “controlled by its members to meet their shared needs”¹⁷, with the European Cooperative Society outlining that there must be one vote per member of a cooperative¹⁸. Within this definition there exists a wide variety of types of co-operatives, with the predominant form in the UK being the consumer cooperative, a business where any customer can become a voting member. This form generated £16.3 billion pounds for the UK economy in 2025¹⁹ and makes up a majority of co-ops. While consumer co-ops are beneficial to workers indirectly through producing more equitable outcomes for local communities, this paper will emphasise the role played by worker co-operatives. Worker co-operatives are organisations where decisions are made by employees rather than unelected managers or owners, and thereby structurally benefit workers both financially and by providing purpose and creative expression. Much of the data used as evidence in this report includes all forms of co-operatives, thus I have tried to be clear which forms statistics refer to and the implications for my argument.

Employee-owned businesses are those where employees are the majority shareholders, often including some form of employee representation in decision making. This can either be done through employee ownership trusts (EOTS), where trustees manage a company’s assets with the employees as beneficiaries, or through direct individual ownership of shares, or through a combination of the two. These businesses give workers a large stake in their own enterprise, encourage productivity, higher pay and often leading to increased participation in decision making.

History

Understanding how the co-operative movement in the UK has been used throughout history to improve the lives of workers can provide insight into the model’s utility for the same ends today. The Rochdale Pioneers formally defined cooperative principles and launched the first consumer co-op in 1844²⁰ as an explicit response to dire poverty in Lancashire during that time, with life expectancy as low as 21²¹. The goal was articulated as “improvement of the social and domestic conditions of the members” and marked a success in providing employment and cheap goods for a community when state assistance was hard to come by. This can be applied today to the poverty

¹⁷ *Co-operatives UK, 'Co-operative and mutual economy report', 2025 p. 11*

¹⁸ *Bright Blue, 'Mind your business? Expanding Democratic Business in the UK' p. 5-6*

¹⁹ *Co-operatives UK, 'Co-operative and mutual economy report', 2025 p. 25*

²⁰ *Vera Zamagni, "A worldwide historical perspective on co-operatives and their evolution", in Jonathan Michie, Joseph R. Blasi and Carlo Borzaga (eds.), The Oxford Handbook of Mutual, Co-Operative, and Co-Owned Business (Oxford: Oxford University Press, 2017), pg 8*

²¹ *Bright Blue, 'Mind your business? Expanding Democratic Business in the UK' p. 32*

alleviation aspect of wellbeing gains through the democratic economy, focusing on helping those below the poverty line into reasonably paid employment. Despite the founding of co-operative ideas in this country, a movement of worker run co-ops has struggled to take hold compared to other countries, with the publicly limited company being disproportionately dominant compared to many of our European peers²². In 2025 there are just 372 worker co-ops in the UK, palling in comparison to the Mondragon Cooperative in the Basque region of Spain employs around 85,000 people²³. This co-operative network was introduced during a deep recession and boosted employment in the region, suggesting that this model can be learned from - even in a far less drastic economic downturn. This also supports the view that the aim of growing the number of worker co-ops is a fairly modest ambition, reducing scepticism over their ability to scale.

Co-ops – previous policies and role in the economy

One of the main pieces of legislation affecting co-operatives in recent times was the 2014 FCA act, which sought to add legal legitimacy to co-operatives and differentiate their typology from conventional businesses. The conditions for being defined as a co-op were a submission to the financial conduct authority who would determine their bona fides, partly based on the provision that applicants were not principally spending profits on interest or dividends to shareholders²⁴. This act allowed co-ops to gain access to banking more easily, where previously they would have had to set up a subsidiary conventional business²⁵, however it still lacked a clearly defined, stringent definition of a cooperative including the criteria of one member one vote, leaving it open to exploitation by conventional businesses aiming to gain the attached benefits of the definition.

The 2023 Co-operatives, Mutuals and Friendly Societies act allowed the treasury to introduce indivisible reserves schemes for co-ops. These would be locked assets that couldn't be used to pay shareholders even after the winding up of the business. If enacted, this would reduce the threat of a buy-out leading to demutualisation and employees losing all their previous agency and benefits, while the act would make this a voluntary opt in scheme, allowing workers to weigh up the trade-offs between demutualisation and short term increased investment for themselves.

²² *The Ownership Commission, 'Plurality, Stewardship and Engagement', 2012 p.14*

²³ *Virginie Pérotin, 'The Performance of Workers' Cooperatives', 2012 p. 2*

²⁴ *Bright Blue, 'Mind your business? Expanding Democratic Business in the UK' p.112*

²⁵ *Ibid*

In the UK in 2025, Co-ops of all kinds make up 73% of the democratic economy²⁶, generating a total annual income of £42.7 billion, with membership surging 9.5% in the last year to 16.6 million, thanks in no small part to the Co-op Group's 1.2 million new members²⁷. As mentioned, worker co-ops are a relatively small proportion of the UK's democratic economy, despite a modest growth of 1.6% in 2025. I would argue there is huge potential to increase their share of the democratic economy toward the levels of other European countries, since worker co-ops provide involvement for employees in decision making than other forms .

There has only been a modest growth in the number of co-operatives in 2025 at 0.9%, but what sets them apart from conventional businesses is their tendency to last a lot longer as start-ups, with a 109% greater survival rate after 5 years when compared to conventional businesses²⁸. This trend is repeatedly seen in academic literature across the world, with co-operative expert Virginie Pérotin finding clear evidence that worker co-ops tend to preserve or create jobs at times when conventional businesses make layoffs, suggesting an ability to navigate economic stress, thus explaining better relative success in the turbulent initial 5 years of a start-up²⁹.

Interestingly, Co-ops saw a growth in number of 1.2% during the covid pandemic of 2020-21³⁰, making them four times less likely to have stopped trading under the unprecedented stress of lockdown, strengthening the view of their advantage in longevity and navigation of stressful economic environments.

Employee-owned Businesses: Previous Policies and Current Trajectory

The coalition government passed the 2014 Finance Act, which included policies recommended by the Nutall review. The act provided a legal definition for Employee Ownership Trusts, a form of employee ownership where assets are managed on behalf of employees, while allowing transactions from business owners selling shares into these trusts to be exempt from Capital Gains Tax. Firms could then award shares worth up to £3,600 to each employee each year free from income tax. These generous incentives for retiring business owners to transfer their business to employees at market value helped create the stellar growth I will discuss later. This is evidenced by the fact that 21% of employee-owned businesses arose as start-ups prior to 2015,

²⁶ *Co-operatives UK, 'Co-operative and mutual economy report', 2025 p.10*

²⁷ *Ibid p. 16*

²⁸ *Ibid p. 16,17*

²⁹ *Virginie Pérotin, 'The Performance of Workers' Cooperatives', 2012 p. 31*

³⁰ *Co-operatives UK, 'Co-op Economy 2021' p. 4*

while this figure was 3% in 2020 with 69% of employee owned businesses arising from sales from business owners³¹.

In 2024, the current Labour government implemented necessary reforms to this act whereby former owners cannot retain control of the company post sale, the trustees must be UK residents and the distribution paid to trustees shouldn't exceed market value. This helped prevent misuse of the finance act to allow business owners to avoid tax but remain the key decision makers in their company, while also ensuring the dividends received by employees reflects their collective effort to raise the share price through performance, incentivising productivity³².

In the most recent budget of November 2025, Labour decided to only exempt half of the CGT on the transaction for the seller, with the other 50% having to be paid by the EOT if those shares are eventually sold-on³³. While it's perfectly reasonable for the Government to want to raise revenue to fund necessary actions like removing the two-child benefit cap, it seems strange that they would disincentivise the creation of EOTs by business owners given their manifesto commitment to increase the size of the co-op and mutual sector by 50%. Furthermore, the size of the pot would reduce for employees as CGT would be paid by the trust if shares were sold by trustees, potentially leaving workers worse off and slightly reducing the incentive for productivity.

Since the 2014 finance act and the introduction of tax incentives for owners selling into EOTs, employee ownership in the UK has increased drastically. In the last year alone, the sector grew by 30%, and has grown by 16% on average each year since 2011. When compared to the miserly 2.2% growth over the same period for PLCs, this demonstrates a clear link between policies incentivising EOTs and the market following accordingly. Conventional businesses can also increase their level of employee ownership through the longstanding Save As You Earn (SAYE) scheme of 1980, whereby companies can offer shares to workers lower than market value, with an exemption on CGT up to £11k and savings being refunded if the stock price decreases. This scheme was utilised by 380,000 employees in 2021 with a total value

³¹ Bright Blue, 'Mind your business? Expanding Democratic Business in the UK' p. 63

³² <https://www.gov.uk/government/publications/changes-to-the-taxation-of-employee-ownership-trusts-and-employee-benefit-trusts/taxation-of-employee-ownership-trusts-and-employee-benefit-trusts#:~:text=This%20will%20give%20legislative%20confirmation,benefit%20from%20favourable%20tax%20treatment>

³³ <https://www.gov.uk/government/publications/capital-gains-tax-employee-ownership-trusts/capital-gains-tax-employee-ownership-trusts-relief-reduction#:~:text=This%20measure%20supports%20the%20public.section%20236H%20has%20been%20claimed.>

of £2.59 billion, allowing better financial outcomes for workers and providing them with a stake in their business which helps boost effort³⁴.

Despite making up just 0.1% of the economy, these businesses drive around 2% of total economic activity, no doubt due to the increased incentives of employees to receive higher bonuses from the trust based on their performance, with none of the surplus being distributed to external shareholders. This point is further evidenced by one study finding that 17% of EOBs meet robust growth criteria including growth in sales, employment and profit over 5 years, compared to 11% for conventional businesses, suggesting that the strong economic performance of EOBs isn't just a short-term increase, rather that the structural factor of retaining capital within the business for investment and incentivising employees through dividends produces growth for the long-term.

Section 3 : How the Democratic Economy can Improve Worker's Wellbeing

Having outlined the current problems affecting worker's wellbeing in the UK and the role democratic businesses currently play in the economy, I will now evidence my argument that an increase in the size of the democratic economy would improve the level of worker's wellbeing.

Productivity

As previously discussed, there has been a prolonged lack of productivity growth in the UK. It would be beneficial for workers if productivity was increased within their businesses, since their wages would increase as a result, decreasing their risk of financial insecurity or even poverty. Furthermore, if employees had more say in how profits were distributed, it seems logical that their share of the gains from this boosted productivity would likely increase at the expense of shareholders or senior executives, further serving the interests of workers.

³⁴ *Bright Blue, 'Mind your business? Expanding Democratic Business in the UK' p.17*

Evidence from the Employee ownership knowledge program finds employee owned businesses to be 8-12% more productive than conventional businesses, and 25% more likely to have seen profits increase in the last five years³⁵. The causal logic behind EOBs outperforming conventional firms is a high for workers to achieve higher returns, both egoistically and for their peers, since more of these profits will be distributed to employees through an ownership scheme. As Bartek Staniszewski and Thomas Nurcombe point out in a report by Bright Blue, this evidence seems to undermine the idea that employee ownership and control encourages free-riding, due to less perceived risk of being fired by peers. In fact, in a 2010 study of 14 corporations, employees in EOBs were more observed to be more likely to hold colleagues accountable for free-riding behaviour, likely because this would reduce the size of the profits from which all employees could benefit³⁶. Therefore, these improved incentives for productivity could reduce the need for supervision by management and improve economic performance. Importantly, an Ownership Commission report from 2012 points out that employee ownership should be accompanied by increased employee participation if the productivity improvements are to be redistributed, leading me to the recommendation that high performing EOBs should be encouraged to adopt some employee representation if worker's wellbeing is to be maximised³⁷.

Increased physical and mental health

Co-ops and EOBs are more likely to provide adequate health provisions and monitor employee wellbeing, seemingly on the understanding that supporting baseline health needs returns greater long-term productivity as well as altruistic concerns. This logic is reminiscent of theories justifying broader social democracy, where individual people are seen as the most important unit for investment through public services with the view that this leads to long term growth. Extending this analogy, social-democratic policies were largely only possible when the franchise was extended to the economically insecure people they would benefit, so we could extrapolate that increased employee democracy would increase the demand for health benefits.

Co-ops are leaders in taking measures to support employee mental health, with 93% enshrining a right to disconnect outside work hours³⁸. Similarly, EOBs are more than twice as likely to give employees access to mental health resources when compared to

³⁵ *EO Knowledge Program, 'People powered growth', 2023 p. 7, 10*

³⁶ *Bright Blue, 'Mind your business? Expanding Democratic Business in the UK' p. 120*

³⁷ *The Ownership Commission, 'Plurality, Stewardship and Engagement', 2012 p. 72*

³⁸ *EO Knowledge Program, 'People powered growth', 2023 p. 15*

non-EOBS³⁹. Evidence of altruistic intent amongst co-op employees can be seen in their expressed core principles for the enterprise, with one survey finding “supporting the wellbeing of members” was employee’s highest ranked reason for working cooperatively⁴⁰. Even in EOBs where workers aren’t always represented democratically, it seems their increased bargaining power as owners often leads to better benefits, for example being 3 times more likely to support career breaks or sabbaticals, with grounds for leave often being health related⁴¹. We can infer a correlation between these measures and improvements in employee’s satisfaction with their working lives in democratic businesses, with 73% of respondents in a survey by the Employee Ownership Knowledge Program reporting higher job satisfaction⁴², and 90% being pleased with their working conditions⁴³. Overall the institutional logics of employee ownership and representation seem to allow for greater health outcomes, while an attitude of health investments paying off in the long term appears commonplace in the democratic sector.

Purposeful work and creativity

A concrete ownership stake in their enterprise appears to embed more feelings of purpose and fulfilment in employee’s careers. Employees at 78% of EOBs were able to influence strategic decisions at least once per month⁴⁴, with 94% of co-ops allowing employees to engage in all-employee votes to influence governance and policy⁴⁵. One could argue that that such decision making is enhancing for the individual, that views on the broad strategic vision of an organisation while taking part in day-to-day operations creates a more rounded skillset while also allowing for decision-making informed by practical knowhow and expertise. Adjacent to this point, American General Social Survey’s gold-standard dataset included evidence that employees in organisations with high employee ownership were 52% more likely to feel a strong sense of pride in their organisation⁴⁶. A sense of ‘buy-in’ or homogeneous drive to a common goal is often cited as an essential component of high performing collective. But if we were to take a cynical view, employees in large traditional firms may only posture this way to increase their chances of promotion or higher favour with management, while I would posit that intrinsic motivation for success might be more likely to arise through the institutional logic discussed earlier.

³⁹ *Ibid* p. 11

⁴⁰ *Sharing like we mean it* pg 12

⁴¹ *EO Knowledge Program, ‘People powered growth’, 2023 p. 11*

⁴² *EO Knowledge Program, ‘People powered growth’, 2023 p. 13*

⁴³ *Employee Ownership Association, ‘Robust Growth Champions’, 2023 p. 32*

⁴⁴ *EO Knowledge Program, ‘People powered growth’, 2023 p. 11*

⁴⁵ *Ibid* p. 15

⁴⁶ *Bright Blue, ‘Mind your business? Expanding Democratic Business in the UK’ p.83*

When more employee's faculties for strategy and organisational improvement are engaged and channels for discussion become more open, the likelihood of effective ideas arising within the company often increases too. Of course, this is beneficial for worker's indirectly through growth, as bottleneck issues could be solved more easily with more people working on such problems, however I would argue that the act of creative expression can also be meaningful in and of itself and contribute to overall satisfaction for workers. Staniszewski and Nurcombe note that a 2011 study found workers with high levels of employee ownership to be 44% more likely to make a suggestion at least once a week⁴⁷, indicating a changing mindset towards contributing to a project and away from an atomised mentality. The EO knowledge survey found that EOBs were 50% more likely to invest in R & D in the last 5 years, spending 12% more on average on training schemes compared to conventional firms⁴⁸. This is likely due to the retention of profits within a business that employee ownership necessitates, as excess returns are less likely to be transferred externally to shareholders.

We can therefore see that through a combination of increasing net concentration on a company's strategic vision, and retaining profits internally, democratic businesses are frequently suited to producing innovative ideas. This could be especially beneficial in areas of cutting-edge research such as science and technology, where any sense of hierarchy preventing bottom-up innovation could be eroded by employee involvement.

Equity and Pay

Due to the absence of external shareholders and less room for executives to take large salaries, co-ops allow higher wages and financial benefits to be given to employees all else being equal. This can be seen through the fact they are more than 4 times as likely to be accredited living wage employers *vis a vi* conventional businesses⁴⁹, while EOBs have a higher minimum annual wage than non-EOBS by around £2,900 in the UK on average⁵⁰. Adjacent to this, ambitious workers have been observed to become fairly wealthy through receiving bonuses from EOTs, the likes of which pay out bonuses double the size of non-EOBS on average. This does work to undermine the caricature of employee ownership dogmatically producing flat distributions of

⁴⁷ Bright Blue, *'Mind your business? Expanding Democratic Business in the UK'* P. 8

⁴⁸ EO Knowledge Program, *'People powered growth'*, 2023 p. 10

⁴⁹ Co-operatives UK, *'Co-operative and mutual economy report'*, 2025 p. 1

⁵⁰ EO Knowledge Program, *'People powered growth'*, 2023 p. 12

income, instead suggesting that striving can be rewarded while the baseline needs of all workers are usually also accounted through high minimum wages.

New data from Co-ops UK also shows stark improvements in fairness of pay for women in democratic businesses. Women lead 24% of top 100 co-ops compared to 9% of FTSE 100 companies, while the gender pay gap is 7.5% in co-ops compared to 12% on average in the UK⁵¹. Though not yet fully redressing the balance, these results demonstrate democratic businesses' twofold higher likelihood to support D & I considerations⁵², enforced by the mechanism of member voting since roughly half of the workforce is likely to be female.

The evidence of a greater proportion of profits being granted to workers in a more equitable fashion in democratic businesses reflects an extended model of the institutional logic previously discussed. The theoretical model I outline draws similar mechanisms to the 'selectorate theory' in comparative political science as developed by Professor Bruce Bueno de Mesquita, which assumes political actors' primary objective to maintain office and must distribute goods to those that keep in them in power to survive, either private goods in a less democratic system or public goods in a large democracy. I argue that this can these models at the state level could be tentatively applied to much smaller organisation.

In a traditional PLC, the defining motive of executives, repeated in popular culture to the point of cliché, is to maximise shareholder value. When shareholders and members of the board can remove an executive from power, her main concern must be to appease them with a large share of profits, effectively buying them off with 'private goods'. Here, executives' performance would chiefly be evaluated by delivering benefits to the employees, which would encourage the same focus on product quality and customer service as before, only now with the added regard for workers and their wellbeing. Hence the crux of my argument is that worker's will be better off when this basic logic is followed.

Moral benefits

In my view, democratic businesses align with broadly held moral principles such as freedom from arbitrary power, the right to democratic representation and economic justice. I think moral justification for these forms is not limited to socialist or leftist

⁵¹ WPI, 'Exploring the Potential of the Employee Ownership Business Model' 2023 p. 17

⁵² EO Knowledge Program, 'People powered growth', 2023 pg.12

thought, finding alignment with liberal, and even free-market libertarian strands of philosophy, while more conservative arguments have also been explored though not in this report⁵³. Importantly, I think the institutional and empirical analysis of the benefits of these forms can be assessed on their own merits regardless of if you accept the following moral claims, and readers are under no obligation to align with my specific views to see the wider utility of these business models. My aim with this brief section is to show that democratic business could potentially find support across the political spectrum, not to lecture readers with abstract moral prescriptions.

Fundamentally, co-operative principles were first enumerated to address the dire material conditions of the industrial period in Britain, and I think they still serve the function of reducing inequality effectively. From a pragmatic point of view, profits that otherwise would have been paid to wealthier stakeholders can be used to prevent people falling into poverty in a more democratic system. Whether this is motivated by genuine altruism, or just by leaders within a business appeasing a democratically active workforce to remain in power, the logic of worker ownership and representation leads to safety nets being built against deprivation, often stepping in where the work of the state has been inadequate.

From a more liberal or republican perspective, the freedom of individuals from arbitrary decision making is an end in itself. The opportunity to hold management to account encourages meritocracy and transparency, while the right to influence decisions affecting one's own life provides a sense of dignity and agency that is revered in other realms of British society such as electoral politics.

Finally, even someone who upholds ideas of economic independence and freedom from state intervention would likely accept the right of workers to organise in line with their own interests, as a fundamental tenant of a free-market view is the right to choose where and who to work for. Allowing workers, the choice between a conventional business and a democratic one increases personal freedom, while co-ops and EOBs can be viewed as organic, decentralised bodies that don't rely on the state for survival.

To conclude this section, we can see that the structural makeup of co-ops and EOBs produce numerous benefits for the employee's wellbeing. Firstly, the added incentive to produce more value when employees have ownership stakes produces higher

⁵³ Stanisewski and Nurcombe aptly outline centre-right justifications for expanding democratic business, and I would refer any readers of this political persuasion to their report : *Bright Blue, 'Mind your business? Expanding Democratic Business in the UK'*.

productivity, as well as deeper innovation at every rung of the hierarchy. Furthermore, the maintenance of profits within the company leads to greater internal investment, and improved financial benefits for employees, including provisions addressing mental and physical health. The spirit of fairness combined with an inbuilt structure of accountability produces more equitable outcomes, both in terms of gender and in disparities between workers and executives, while employee involvement produces intangible benefits such as pride, purpose, and creative expression. Finally, democratic rights and employee ownership provide moral goods such as personal agency, solidarity, and the freedom to choose, leading me to the conclusion that a growth of the democratic economy would greatly positively impact worker's wellbeing in the UK.

Section 4: Recommendations

Recommendation 1: Provide Capital Gains Tax exemption for the sale of a Businesses to an EOT, when the board of trustees is elected by the employees

Following the Government's decision to reduce CGT relief on the sale of businesses to an EOT by 50%, it would be unreasonable to lobby the government to reverse this decision so quickly. However, an opportunity now arises to incentivise the growth of the most democratic form of employee-owned business, the worker co-op. As mentioned, a mere 372 worker co-ops currently exist in the UK, and these businesses usually operate on a model of direct worker democracy, with most decisions going to a referendum of employees. This can lead to trouble scaling the business, and leads to long deliberations over policy, potentially disincentivising business owners from transitioning their company to such a model.

However, there is a precedent in other countries for workers electing the board of a subsidiary company, but not managing day to day decisions, for example Staniszewski and Nurcombe point to the Dutch co-op FriesLandCampina who's employees elect a majority of the board⁵⁴. A system like this mirrors the representative democracy we enjoy in national politics, where each member would have a right to vote in new members of the board every 3 years, creating a high level of democratic accountability with a less deliberative, slow decision-making framework.

⁵⁴ *Bright Blue*, 'Mind your business? Expanding Democratic Business in the UK' p. 117

Introducing a total CGT relief, with the same safety guards against misuse the government issued in 2024, would maintain the current uptake of standard EOBs, while increasing the number of more democratic EOBs for those business owners who can accept are more radical business model. Since worker co-ops are especially difficult to set up as start-ups, this could drastically increase their number, addressing the strange absence of this model in the UK economy and provide increases in wellbeing for workers through a growth-friendly internal structure and high levels of employee decision making.

Objections to this proposal might include concerns over the fiscal cost of an exemption, as well as a differentiated CGT relief between conventional EOBs and those with elected boards resulting in complexity and the potential for abuse. However, fiscal cost is likely to be minimal in the short term since very few of these specific transitions currently occur, while a change like this may require less political capital than one might think given the commitment to co-operative ideas in much of the parliamentary Labour ranks. All measures brought in in 2024 to combat tax avoidance through the existing EOT scheme could be applied to this novel scheme, while additional measures to ensure elected board members have actual power should be thought through.

Recommendation 2: The department of education should work with Ofqual to ensure that A-level Economics and Business curriculums cover democratic business models

Democratic business models are rarely understood by aspiring economists and business leaders of university age, this is somewhat understandable given the predominance of the PLC in the UK business landscape, but alternative organisational structures should be covered for a variety of reasons. One is that, while students should be free to disregard democratic models if they so wish, questioning business orthodoxy would likely aid their analysis and challenge any received assumptions about economics.

A lack of understanding of models such as co-ops and EOBs lead to a lack of expertise amongst lawyers and business experts later down the line, making legal proceedings more complicated and finance more difficult to acquire for burgeoning democratic businesses. Meanwhile, aspiring entrepreneurs with an interest in social justice who may otherwise have started a democratic business are currently unlikely to be exposed to the model early enough, reducing opportunities for the sector's growth.

Recommendation 3: The Treasury should use its power to allow co-ops to opt into a scheme preventing demutualisation after the business has wound-up

As mentioned previously, the 2023 Co-operatives, Mutuals and Friendlies act permits the treasury to set up a scheme whereby co-ops and mutual can opt to lock their assets in the form of indivisible reserves, which cannot be cashed out to shareholders even if the business is sold. Instead, the indivisible reserves would have to be transferred to a co-op or mutual with similar principles.

Though a small policy decision, this could have a substantive effect, since it would prevent co-ops and mutuals being bought up by private equity and their co-operative principles revoked, potentially having adverse effects on the wellbeing of members. This would be particularly important if businesses within the sector continue to scale, and investors believe they can profit from buying and demutualising businesses with growth potential. Consequently, less business deaths would occur in the co-op and mutual sector, helping fulfil the Labour government's pledge to double the size of the sector.

Recommendation 4: Enforce employee representation on the board of companies with over 1500 employees

In Germany, conventional companies with over 500 employees must have one third of their board elected by employees, rising to 50% when over 2000 employees⁵⁵. In their report from 2023, Bright Blue's Bartek Staniszewski and Thomas Nurcombe recommend a policy whereby employees can petition for a referendum, and a large majority would result in one board member being employee elected. While being greatly inspired by this concept, I would argue that social-democratic principles necessitate governments to act in the interests of working people, sometimes against the interests of capital.

Therefore, I think the absence of employee representation should be addressed slightly more firmly, mandating 25% of a company's board be employee representative if the company has over 1500 employees. This seems reasonable, firstly given the tiny portion of businesses it would effect, with just 0.72% of UK employers having more than 250 employees, meaning 1500 would be a minute

⁵⁵ Bright Blue, *'Mind your business? Expanding Democratic Business in the UK'* p. 72

fraction of that figure⁵⁶. Additionally, when companies become so large, employee representation becomes all the more necessary to combat the interests of increasingly powerful shareholders and ensuring basic necessities are maintained for workers. Furthermore, these measures are far less demanding than in Germany, where evidence suggest that firms adopting employee representation saw labour productivity increase by 2-8% between 1994 and 2014⁵⁷.

A clear objection here would be that this proposal may deter investment, or that it undermines property rights and incurs on business freedoms. I think these arguments are undermined by the proportionally minute number of firms this would affect, being implemented as a safeguard for corporate overreach in very large organisations and not imposing unreasonable demands on smaller conventional businesses who arguably already face high regulation. Regulatory standards for already apply across the British economy for health and safety or environmental impact, so I would argue mandating a modest amount of employee ownership in the largest firms doesn't mark a deviation from an accepted role of government in the economy.

Recommendation 5: Utilise the British Business Bank to help finance the growth finance the growth of Co-ops and EOBs

The Government should utilise the already existing British Business Bank to help provide finance for small co-ops and EOBs with high growth potential. The bank already supports thousands of SMEs, undermining the idea that this could be seen as increasing government interference in the market or increasing spending. Instead, a proportionate amount of funds could be redirected to support co-ops and EOBs, who are often disadvantaged in receiving finance compared to traditional SME.

Objections to this idea could be that investing in democratic businesses would increase risk exposure for the bank as these forms are not heavily invested in by private banks. However, I would argue the lack of finance is broadly a result of a lack of knowledge about the forms, while the resources required for researching them may be seen as too costly for private banks given the small share of the economy democratic businesses occupy. However, as we have seen growth and productivity are stable in this sector and therefore fit the same criteria for investment as traditional SMEs for a public bank with more of a focus on positive externalities.

⁵⁶ <https://www.gov.uk/government/statistics/business-population-estimates-2025/business-population-estimates-for-the-uk-and-regions-2025-statistical-release#:~:text=there%20were%2038%2C435%20medium%2D sized,of%20the%20total%20business%20population>

⁵⁷ Bright Blue, 'Mind your business? Expanding Democratic Business in the UK' p. 131

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