



Testimony in Support of Senate Bill 2871 Senate Labor Committee Submitted by Douglas Hall, Ph.D. May 9, 2018

The Economic Progress Institute supports **Senate Bill 2871, An Act Relating to Labor and Labor Relations -- Department of Labor and Training**, which provides an opportunity for employees affected by plant closings or mass layoffs to furnish competitive bids to purchase businesses otherwise at risk of reducing their workforce.

We learn monthly from the Rhode Island Department of Labor about net changes in employment. Figure 1 shows the annual net change in Rhode Island business establishments, and change in employment at those establishments.

We easily overlook the fact that those net numbers tell an incomplete story. Figure 2 looks at both establishment “births” and “deaths”.

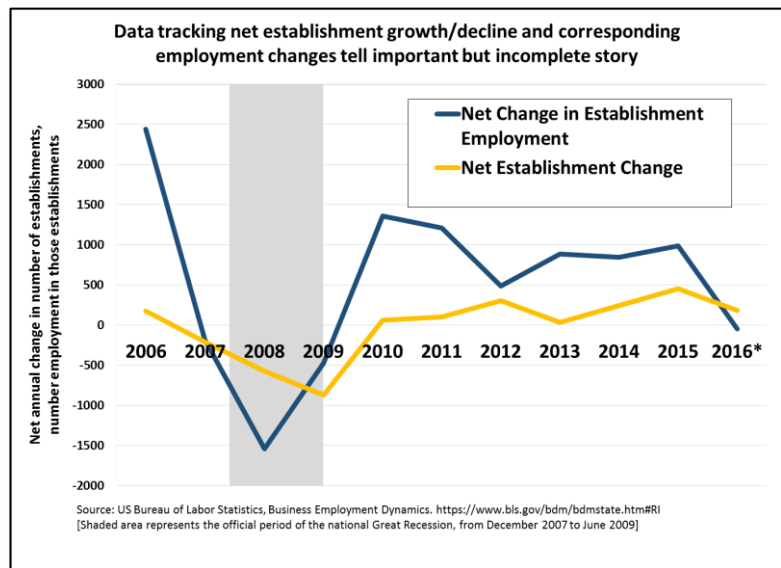


Figure 1

Here we see that each quarter several hundred Rhode Island firms cease to exist, for a variety of reasons, and as they do so, their workers lose their employment (see Table 1 for corresponding employment data).

This bill provides workers with an opportunity to short-circuit this process, by creating worker cooperatives to take control of the enterprise, thereby saving both the business and the related employment.

Certainly not all enterprise deaths could or even should be prevented. There are myriad reasons for

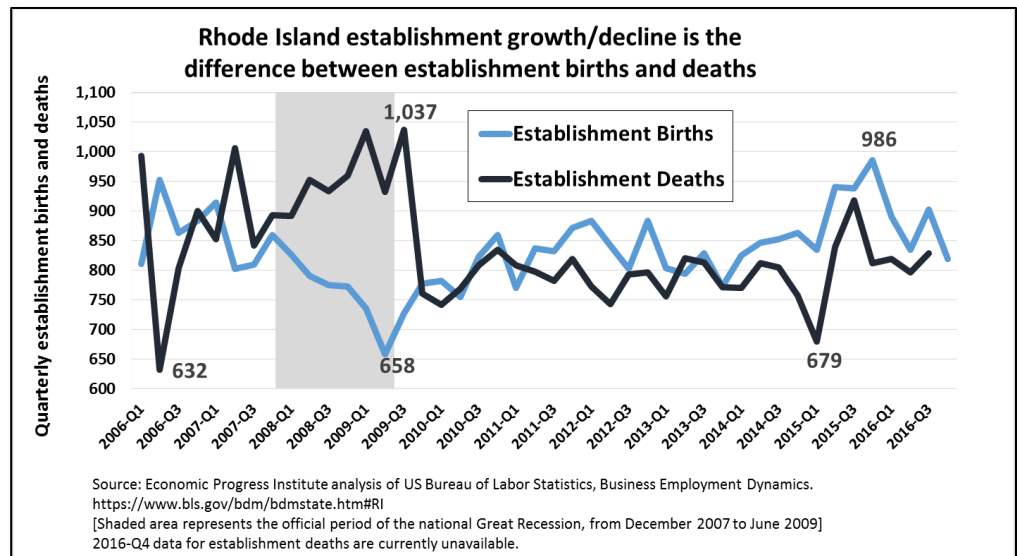


Figure 2

businesses to close their doors. One such factor is the so-called “Silver Tsunami”, as businesses face the retirement of the baby boom generation, including retirements of business owners. In 2013, 52 percent of owners of US businesses were 50 years of age or older, a significant increase from pre-recession levels.¹ After a period of adjustment following the Great Recession, the changing of hands of small businesses in the United States has proceeded at a record pace in recent years.

This bill builds on last year’s legislation enabling the creation of worker co-ops in Rhode Island. Together, these tools provide myriad benefits to workers, their communities, and the state, enabling more prosperous locally-owned economies. Collectively, the potential for these tools to be used as effective catalysts for economic development is considerable.

Most working Rhode Islanders have faced decades of stagnant wages, while those at the top of the income ladder have seen their income (and their share of total earned income) soar. The Center on Budget and Policy Priorities notes that Rhode Island is among the top twenty states for income inequality, measured as a ratio of the incomes of the richest 5 percent to the poorest 20 percent.² These economic trends are the result of decades of policy choices (at both the state and federal levels), including depression of the minimum wage, deregulation of industry and the financial sector, and the erosion of protections for workers to bargain collectively.³ The Century Foundation notes that “these [policies] have allowed wealth to disproportionately concentrate at the top, in

Rhode Island births and deaths of establishments and related employment change				
Date (Quarter)	Establishments		Employment	
	Births	Deaths	Births	Deaths
2006-Q1	811	993	2,510	2,638
2006-Q2	953	632	3,305	1,982
2006-Q3	863	804	4,345	3,183
2006-Q4	883	900	3,270	3,188
2007-Q1	915	852	3,166	2,581
2007-Q2	802	1,006	2,672	2,956
2007-Q3	810	842	2,429	2,729
2007-Q4	859	893	2,489	2,670
2008-Q1	826	892	2,633	2,437
2008-Q2	791	953	2,257	3,144
2008-Q3	775	934	2,657	2,931
2008-Q4	772	960	2,519	3,094
2009-Q1	735	1,035	2,379	2,954
2009-Q2	658	932	2,793	2,418
2009-Q3	727	1,037	2,308	2,950
2009-Q4	777	760	2,329	1,959
2010-Q1	782	741	2,425	2,033
2010-Q2	755	769	2,888	2,331
2010-Q3	823	808	2,357	2,142
2010-Q4	859	835	2,757	2,559
2011-Q1	770	808	1,998	1,926
2011-Q2	837	797	2,447	2,004
2011-Q3	832	782	2,302	2,098
2011-Q4	872	819	2,780	2,288
2012-Q1	884	773	2,200	2,013
2012-Q2	842	743	2,269	2,209
2012-Q3	802	793	2,406	2,574
2012-Q4	883	796	2,642	2,231
2013-Q1	803	756	2,485	2,412
2013-Q2	794	820	2,255	1,904
2013-Q3	829	813	2,650	2,212
2013-Q4	772	771	2,173	2,148
2014-Q1	825	770	2,058	1,807
2014-Q2	847	812	2,382	1,880
2014-Q3	853	805	2,312	2,088
2014-Q4	863	757	2,284	2,416
2015-Q1	835	679	2,014	1,872
2015-Q2	941	839	2,433	2,342
2015-Q3	938	918	2,667	2,443
2015-Q4	986	812	2,610	2,076
2016-Q1	891	819	2,062	2,243
2016-Q2	834	796	2,331	2,141
2016-Q3	902	829	2,152	2,208
2016-Q4	819	N/A	1,987	N/A

Source: Economic Progress Institute analysis of US Bureau of Labor Statistics, Business Employment Dynamics data, <https://www.bls.gov/bdm/bdmsstate.htm#RI>

Table 1

¹ Cited in Patrick McHugh, 2016. *Down Home Capital: How Converting Businesses into Employee-Owned Enterprises Can Save Jobs and Empower Communities*. (North Carolina Justice Center).

² CBPP, *Income Inequality in the States: A Snapshot*. <http://www.cbpp.org/research/income-inequality-in-the-states-a-snapshot>.

³ Shannon Reiger, 2016 “Reducing Economic Inequality through Democratic Worker-Ownership”, The Century Foundation. <https://tcf.org/content/report/reducing-economic-inequality-democratic-worker-ownership/>.

the hands of a select few, leaving less and less left for the vast majority of the nation's workers."⁴

Worker-owned cooperatives provide a mechanism for a more democratic economic system, and as a result, a more fair distribution of wealth, one that reflects the significant gains in economic productivity that have occurred over recent decades. One of the key reasons we find ourselves needing new economic models to ensure a more equitable distribution of wealth is that the ability of workers to collectively bargain for fair wages has been eroded over several decades. The share of workers who are represented by unions has been in decline in Rhode Island, our neighboring states Connecticut and Massachusetts, as well as nationally, for more than a quarter of a century.

We've seen the success of business-ownership at helping build wealth for American business owners. Extending ownership to the workers similarly expands the number of workers who are able to amass wealth (or "build assets") as a result of their ownership share. While this is a positive development in general, it is even more important for communities of color who face disparities in wealth that are even more stark⁵ than the well-known wage and income disparities they face in Rhode Island.⁶ For low wage workers and workers of color, employee ownership through worker cooperatives can be a game-changer that enables the creation of economic power and wealth.⁷

Communities of color in Rhode Island tend to be concentrated in our large urban areas. Because worker cooperatives are inherently local undertakings, their adoption can simultaneously improve the well-being of Rhode Island's minority populations and create community wealth that can transform geographic areas that have faced economic hardship. The Democracy Collaborative notes that worker cooperatives build community wealth by providing quality goods and services to areas underserved by traditional businesses, by retaining and circulating business profits within the community, by fostering strong and healthy communities, and by creating quality, empowering jobs for community members.⁸

Worker-cooperatives are a winning economic model for Rhode Island, helping to empower workers and provide them with a more equitable share of the profits of their labor, transforming communities and helping Rhode Island families – particularly minority families – build family assets that pay intergenerational dividends. For these reasons we urge you to pass this bill out of committee.

⁴ Reiger, *ibid.*

⁵ See Amy Traub, Laura Sullivan, Tatjana Meschede, and Tom Shapiro, 2016. *The Asset Value of Whiteness: Understanding the Racial Wealth Gap*, (Demos and the Institute on Assets and Social Policy) <http://www.demos.org/publication/asset-value-whiteness-understanding-racial-wealth-gap>.

⁶ See Economic Progress Institute, 2015. *The State of Working Rhode Island: Workers of Color*. <http://economicprogressri.org/index.php/2015/12/17/the-state-of-working-rhode-island-2015-workers-of-color/>.

⁷ Democracy at Work Institute and The Democracy Collaborative, 2016. *Taking Employee Ownership to Scale*. <http://institute.coop/sites/default/files/resources/DAWI%20-%20Taking%20Employee%20Ownership%20to%20Scale.pdf>.

⁸ Marjorie Kelly, Steve Dubb and Violeta Duncan, 2016. *Broad-Based Ownership Models as Tools for Job Creation & Community Development*, (The Democracy Collaborative), <http://democracycollaborative.org/content/broad-based-ownership-models-tools-job-creation-and-community-development>.