

The Rise and Fall of Employee-Owned UK Bus Companies

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Privatization of the UK municipal bus services during the early 1990s led to a substantial part of the bus sector having high levels of employee owners. This provided interesting sites for exploring many features of financial and organizational participation in these companies. A subsequent cycle of economic concentration led to a wave of mergers and takeovers, and the demise of many of these employee-owned organizations as independent entities, though high levels of employee ownership persist in some of the four companies that now dominate the sector. Drawing mainly on secondary sources (especially the extensive study by Pendleton et al. at Bradford University), this article shows how the form of employee ownership developed by key actors at the formation stage succeeds in resolving many of the trade union and management concerns arising from previous examples of substantial employee ownership, and identified in previous research. However, the demise of most independent employee-owned companies has raised theoretical and strategic issues of their viability during periods of economic concentration.

Introduction

This article examines some issues in the privatization of the UK municipal bus services during the early 1990s. A significant level of employee ownership was enjoyed by many companies during this period, some with 100 percent employee ownership. These moments of euphoria were rapidly followed by the most ruthless competitive climate seen in any economic sector during the Thatcher period. Inevitably this resulted in mergers and takeovers, and a high degree of concentration in the sector, so that now three or four

companies dominate the bus transport business in the UK. This article reviews some of this experience based largely on secondary sources – especially the extensive study by Pendleton et al. (1993, 1995a, 1995b) at Bradford University. It goes on to examine issues raised by this experience, for employee ownership and trade unions.

The Wider Picture of Employee Ownership

Employee ownership has developed considerably in many countries, particularly in the USA, where there has been a very high level of growth since the early 1970s. In the late 1980s, 10.8 million of the 43 million employees in private corporations were in employee stock ownership plans (ESOPs); there was a total of 10,000 significant ESOPs, and 1000 of these were in the larger public corporations which dominate US economic life. The average employee ownership of these enterprises was 12 percent. A large proportion (almost 30 percent) of the Fortune 500 industrial companies, and 20 percent of the Fortune 500 service companies had significant employee ownership (Blasi, 1988). This upward trend was promoted by a raft of fiscal and legislative measures making it attractive for both companies and employees to invest in employee ownership. Thus ESOPs are tax-efficient schemes for employee ownership, based on trusts that borrow money (usually from a bank) to buy shares for employees. The loan is gradually repaid (tax free) from company profits (also from share dividends), and the shares are gradually allocated to workers (individual accounts). In most schemes employees progressively gain control of more shares, so it is possible that more ESOPs could eventually be majority employee owned. In the late 1980s, 10 percent or 1000 ESOPs were majority employee owned with voting rights passed through, however only about 100 ESOPs operated ‘one person one vote’ rules. The employee-owned companies include some large and interesting ones: for example Weirton Steel is a 7000-employee buyout of a bankrupt steel mill, they managed to restructure the business and it is still profitable in a declining US steel sector.

The picture in Europe is less well developed, but there is considerable interest in extending employee ownership in many countries (see PEPPER, 1991, and the references to the PEPPER reports in the editorial to this issue of *EID*). In the UK most of the majority

employee-owned companies are due either to owners selling up to their workers, or privatizations of state assets. The largest incidence of the latter has been in the bus sector as municipal bus companies were privatized under Thatcher during the late 1980s and early 1990s. Estimates of UK numbers are difficult but there are probably about 1000 ESOPs, of which about 30 have significant levels of employee ownership (> 25 percent). During the 1990s there were over 20 employee-owned bus companies in the UK – this has been reduced to four due to an intense period of concentration in the sector.

Employee Ownership in the UK Bus Sector

Motivation for forming a majority ESOP (an ESOP with majority or extensive employee shareholding) in the UK is that it provides a vehicle for a collective endeavour which has tax advantages and facilitates the raising of loans from financial institutions for the purchase of a company from a public body or private individual or a company. There was also some government support (Department of Transport) for some measure of employee ownership in privatization, partly to extend share ownership, but also to help incorporate workers into the privatization programme. The main alternative in many cases has been management buyouts which either use loans or a combination of loans and venture capital; the venture capital route does not fit so well with extensive employee ownership and workplace democracy, and thus there may be financial limitations on the size of business fundable solely by loans. It has been argued that ‘insiders’ have an advantage in buyouts (e.g. Paton et al., 1989), and in many of the bus ESOPs formed, the trade unions inside the companies played key roles in their formation.

While there was considerable variation in ownership structures and the rights associated with each stakeholder, most of the bus company ESOPs comprised an employee benefit trust (EBT) which purchased shares of the new company using an external loan; a profit sharing trust (PST) is also set up so that company profits can be paid in and gradually used to purchase shares for employees from the EBT (which can use this income to pay off its loan). Many employee-owned bus companies also used direct purchase of shares (usually by senior staff). Provided certain conditions are met, PSTs (which are used extensively in business for managerial

staff) have tax advantages for employees acquiring shares in this way.

The ownership structure split between managers and workers has been an area of contestation between financiers and managers on the one hand, and trade unions and local authorities on the other; although some companies have a 49 percent/51 percent employee/management split, there is wide variation from majority manager owned to majority employee owned. But in most cases there has been an extremely high level of worker financial participation well over 50 percent and sometimes 100 percent.

Types of ESOP

Pendleton et al. (1995a) distinguish between three types of ESOP.

Technical ESOPs

These are formed mainly by top management for technical reasons to improve benefits or the operation of conventional share incentive schemes (for tax advantage, etc.), that is, there is no trade union or general employee involvement.

Paternalist ESOPs

These are formed by senior managers through management buyouts or manager-owners facing a succession crisis (no obvious successor within family) and wanting to sell the company to their staff. In both cases there is a desire to incorporate the workers into the new firm and secure their commitment to it. Thus typically these types of ESOP may involve extensive financial participation but little democratic participation beyond the conventional trade union models.

Representative ESOPs

These are typical of the employee-owned companies arising from the privatization of municipal bus services. They have usually been

initiated by trade unionists, and formed in collaboration with managers. There have been substantial levels of financial participation (employee ownership), and democratic participation in representative forms but little in direct forms.

This article is concerned with this third type since this represents the most developed form of employee ownership in terms of both financial and democratic participation, thus it provides the most interesting evidence of how managers, trade unionists and workers experience employee ownership.

Ways of Viewing Employee Ownership

Quite different views of employee ownership can be identified and these views often change as an enterprise moves through critical phases in its development (see Spear and Voets' [1995] study of 18 Dutch enterprises with varying degrees of financial and democratic participation). In this Dutch study a crisis in a business often provoked organizational and financial changes which could lead to workers adopting traditional business values, instead of democratic values. Similarly, at such times the workers sometimes decided to sell their shares to an outside financier, with workers deciding it too risky to continue holding shares and/or time to take a profit.

This led to temporary forms of employee ownership which may be termed 'transitionals'. A similar idea applies to employee ownership which forms only a minor part of the shareholding. Such phenomena represent a willingness of workers to accept entrepreneurial risks and subsequent benefits or view employee ownership as part of remuneration, and they thereby constitute a major break with industrial relations and industrial democracy traditions. Traditionally, it has only been managers who had these privileges, but increasingly trade unions, especially in the USA, are bargaining for employee rights to the benefits associated with risk – for example, the United Airlines deal where productivity gains in a failing airline were traded for the future benefit of employee-owned shares.

It is worth differentiating between the two poles of a continuum of types of employee ownership, namely:

1. employee ownership as workers' financial investment;
2. employee ownership as workplace democracy.

Different types of workers may adopt different views of an employee ownership opportunity, and they may change their views over time. It is more likely that a predominance of the former view will give rise to 'transitionals' while the latter view may in some cases result in degeneration. However, a major factor in influencing these views is the meaning with which the employee ownership scheme is imbued by its creators and by management within the enterprise. This will in turn influence structural factors such as the proportion of workers involved, percentage of shares employee owned and the existence of voting rights and participative structures for workers.

Trade Union Concerns

While these views will undoubtedly influence trade unions' views of employee ownership, there will be additional issues which concern them. Thornley (1983) describes some relatively positive experience in Italy, while Brannen et al. (1976) identify many problems and difficulties, though many of these will have been associated with the more adversarial model of industrial relations prevalent 20 years ago. Table 1 identifies some major concerns.

In the employee-owned bus companies the balance appears to have been towards the advantages, partly because there had been some success in resolving some of the problems identified in the second column. For example, the conflict between employees as

TABLE 1
Trade Union Concerns about Employee Ownership

For	Against
More information	Role conflicts (represent employees vs employee share owners)
More influence	Representation conflict (employee-director vs union representative)
Extends union role/influence	Trade union independence compromised, tainted by involvement in management
Fits with new unionism	Smaller role for collective bargaining, unfamiliar shift from adversarial role
(more constrained, partnership oriented, less conflictual)	New participative structures undermine union role

shareholders and *qua* employees has been moderated by new unionism's more pragmatic stance and longer term view; similarly, becoming employee shareholders may have shifted the views of employees to the long term, for example the case where management was criticized for awarding a pay rise rather than investing in new vehicles. The representation conflict has been dealt with by first ensuring that in many employee-owned companies trade unionists resigned their office prior to taking up board positions; and that in most cases employee directors did not usurp the trade union role of communicating with members. In most bus company cases new participative structures were not introduced, apart from employee directors – although as Pendleton et al. (1996) note, total quality management (TQM) schemes are far more prevalent in employee ownership bus schemes but generally these do not increase direct participation.

Managers have been concerned that workers and trade unionists do not interfere with their 'right to manage', and this has generally been the case in the employee-owned bus companies for operational issues; while a more cooperative development of strategy has been secured (to the advantage of both managers and trade unionists).

The Entrepreneurial Process

One of the most distinctive features of the employee-owned bus companies was related to their formation process, in which trade unions played an important entrepreneurial role. This was in at least two ways. The first was a political role, where unions used their influence to manage a more advantageous situation for their bids in the privatization process – though this may have been more a question of reducing the disadvantage of employees in the buyout process. This contribution was facilitated by the fact that most employee-owned bus companies emerged from Labour-controlled local authorities, where one would expect trade unions to be well connected.

Unions also had an organizational role – they were often a key part of a buyout committee, and helped mobilize staff to take part and make a commitment (including finance) to the buyout.

This entrepreneurial role extended beyond the formation period. One former trade union convenor became the new company's

development director with a role of helping to identify target companies and sell the employee ownership model. A more significant indication of this role is in the informal interorganizational networks of trade unionists that provided support and advice for newly privatizing municipal companies. A formal expression of this network was the Centre for Employee Ownership and Participation (CEOP) – a trade union-dominated organization which held annual meetings discussing and promoting employee ownership, and provided a basis for advice and support. It was also able to assist in providing access to specialist advisers with considerable experience in the employee-owned/coop sector.

Other stakeholders play important roles at this stage; as mentioned, Labour-controlled authorities help to open the privatization process to employee-owned tenders; professional advisers can also play important roles in allowing the exploration of employee-owned options (see Paton et al., 1989). And banks or other funding bodies are significant in terms of the conditions which they apply to employee-owned initiatives – for example in insisting directors (including employee representatives) give personal guarantees on loans.

As Cornforth et al. (1988) argue in relation to worker coops, the formation process is crucial in determining the type of enterprise created (its values, behaviours and structures, and future development paths). As we discuss later, this formation process also influences the form that employee ownership takes.

Constructed Employee Ownership

Conventionally, economic theory regards employee ownership as a factor influencing motivation and economic performance. Traditionally it has not generally differentiated between forms of employee shareholding, and certainly not on the effects that the same form of employee ownership may have. However, organizational participation is often seen as complementary in its effects to financial participation (see Defourny and Spear, 1995), and more recent economic modelling of employee ownership (following Pierce et al., 1991) regards a sense of ownership as an intermediate variable in explaining the effects of employee ownership. The approach here goes further in regarding employee ownership as socially constructed by key actors in the entrepreneurial formative

phase. Thus there is a spectrum of possible forms of employee ownership ranging from workers' financial investment to workplace democracy, and the form that it takes is determined to a large extent through the negotiated activities of major actors in establishing the structures and culture associated with employee ownership. Furthermore, this is a dynamic process where the meaning of employee ownership is reproduced through the dynamic relationship between structure and culture, which changes as the enterprise develops, and faces crises, and makes changes.

If one considers what form employee ownership can take, and what gives it meaning, there are a variety of choices over structures, roles and culture which take shape largely through the formation process. These factors include the level and distribution of share ownership among workers, the nature of ownership rights (and their relation to control rights), how these rights are exercised, the roles of employee-directors, the form (direct/indirect) of workplace democracy, its relation to trade union forms of representation, communication and control, limits to managerial rights to manage, and so on.

In the UK bus sector it is clear that employee ownership tended to take a form which served the mutual interests of trade unionists and managers, namely the key people in the formation process (Pendleton et al., 1995b). In the following section the key areas in the construction of forms of employee ownership are examined to show how this mutual interest has been served.

Key Areas in Employee Ownership Construction

The following areas represent key structural features in defining the form of employee ownership that emerged in the UK bus sector.

Ownership Structure

The percentage of workers involved was high, and control rights were associated with shares; in some cases this was even on a one person, one vote basis; however, in other cases, due to external stakeholders (especially banks) managers gained substantial control (e.g. 49 percent/51 percent employee/manager splits).

Managerial Roles

The managerial prerogative was generally preserved, particularly in day-to-day operations. The existence of employee-directors in many ESOPs meant that strategic decision-making was more of a joint activity; this may have led to more cooperative relations and longer term views, possibly enhancing managers' capacity to promote this, but relying on their skill in presenting such a case. In many cases managers' positions were protected for several years through the ownership of 'golden shares'.

Trade Union Roles

The trade union role was preserved and collective bargaining retained; though in the post-privatization era this was decentralized to bargaining at company (or agreement) level. Thus trade unions continued to be concerned with traditional issues of the protection of and benefits for employees, but their concerns were expanded to a certain extent to include the employees' shareholder interests to the extent that this represented a form of remuneration. In many cases they also extended their influence over other organizational power bases (either formally or informally), such as the trustees on the EBT and employee-directors. They also gained greater access and control over information, and in many cases were able to disseminate this at branch meetings, though employee-directors also had a communication role.

Employee Benefit Trust

The role and powers of EBTs were generally rather limited, although they did control large amounts of shares. Trustees were generally elected by workers (sometimes via trade unions). But EBTs did often have a guardian role to ensure that employee concerns were protected in key decisions.

Governance

Most bus ESOPs had employee-directors, usually in a minority; they often had strong links with trade unions, for instance they were trade

union nominated, or ex-trade unionists. Trade unions often had observer roles on boards (Pendleton et al., 1996).

Form of Organizational Participation

Trade unions and management both accepted little change to operational working practices regarding participation – there was very limited direct participation by employees in decision-making, representative participation was preferred.

Trade Union Membership

Traditionally, trade unions have been very concerned that the different models of industrial democracy underlying conventional (adversarial) trade unionism organizational democracy (as in worker cooperatives) would be inconsistent and would undermine their links with their members. As Pendleton et al. (1995b) argue there are concerns that union structures will be replaced with other forms of participation and, second, that there will be a shift towards worker capitalism. But evidence (Pendleton et al., 1995b) has found that trade union membership has continued to be extremely high in employee-owned bus companies, and attitudes remain positive when compared to publicly owned and privatized bus companies. One of the major conclusions is that through trade unions' major role in constructing an appropriate form of employee ownership (consistent with their ethos) they have been able to resolve these concerns.

Effects of Competition and Concentration

The bus sector has gone through a period of intense competition including 'bus wars' in many areas (direct and intense competition on similar routes – one of the most extreme cases was in Darlington where buses were run free by one operator). It is now dominated by three or four major, public limited companies, which have taken over numerous smaller companies (see Table 2). A survey of the bus sector in 1993 (by Capital Strategies) found that 30 percent of the sector enjoyed substantial employee ownership (22 bus

TABLE 2
Transport Contracts by Ownership Groups

Ownership Group	Contracts	Percentage of All Contracts	Workers	Percentage of All Workers
Firstbus	24	20.0	11,273	24.7
Stagecoach	25	20.8	9258	22.5
Cowie Group	22	18.3	3558	8.6
Municipals	15	12.5	5892	14.3
Go Ahead Group	13	10.8	2240	5.4
MTHL Holding	4	3.3	1090	2.6
National Express	2	1.7	3036	7.4
Other privately owned	10	8.3	1845	4.5
ESOPs	4	3.3	2385	5.8
Translink NI (govt)	1	0.8	600	1.5

Source: T&G (1997). Totals do not add up to 100 percent due to rounding up and down.

companies). But by 1997 this had been reduced to three of the four ESOPs that were totally independent (accounting for 1 percent of market): Preston Bus, which is 100 percent owned by its workforce; South Yorks Transport (Mainline, which has two agreements) is mainly an employee-owned company although Firstbus owns a 20 percent stake; and Southampton, which was considering a bid from Firstbus. But municipally owned and the smaller privately owned companies also play a role. The process of concentration of ownership seems to have peaked but changes of ownership still continue.

However, employee ownership still continued in 15 cases (18.75 percent), but there were 16 cases (20 percent) which used to have some employee ownership and now had none (T&G, 1997). Some of those retaining a degree of employee ownership are currently owned by one of the big private operators. This includes Yorkshire Rider, which sold out to Badgerline in 1994, who in turn merged with GRT to make Firstbus. Similarly, employees held 25 percent of the shares in GM Buses North between April 1994 and April 1996 and even though it was subsequently acquired by Firstbus, some workers are still shareholders. Other cases retaining some measure of employee ownership include: Busways (now part of Stagecoach), Calderline (now Firstbus), Cambus Cambridge (now Stagecoach), Kingfisher (Huddersfield) (now First-

bus), Midland Bluebird (now Firstbus), Rider (York) (now Firstbus) and Yorkshire Rider (Craft) (now Firstbus).

Clearly, once concentration has begun large and public limited companies have advantages in takeovers due to their ability to raise finance. Employee-owned companies suffer a number of organizational and ideological difficulties; first, raising finance may well require bringing in outside shareholders, which will probably challenge existing control rights as well as the philosophy of workplace democracy; second, it will require resolving issues such as how to extend employee ownership in a group of companies (e.g. governance), how or whether to extend employee ownership in a company not currently employee owned, and so on; third, there are agency problems (see Spear, 1998) associated with a large number of decision-makers reaching such a strategic decision and these may be exacerbated by the rules incorporated at the formation stage to protect employee-owned companies. (For a discussion of similar issues regarding producer cooperatives in the early part of this century, see Bennett, 1984.)

One of the strategies of employee-owned companies has been to take up defensive stakeholding in another bus company via a minority shareholding, or to allow a larger competitor to take a minority shareholding in the employee-owned company as a way of building alliances to reduce competitive pressures. A strategy of building such alliances exclusively among employee-owned companies was restricted since competition law limited the possibility of neighbouring employee-owned companies to form an alliance or merge to avoid the establishment of local monopolistic positions. The threat of business decline in the face of extreme competition has forced most employee-owned companies to take part in the merger/takeover wave but as a result employee ownership has become diluted and less important.

Given the nature of extreme competition and concentration, it is understandable that employee-owners accept the sale of their shares and the 'protection' of a large company *rather than* risk losing their jobs *and* shares in a bus war.

TU Issues – Pay and Conditions

Pay and conditions in the industry are fragmented and depressed as a result of deregulation and privatization (T&G, 1997). Pay is locally

negotiated, and regionally diverse. There appears to be a two-tier pay structure developing based on local operating conditions, vehicle types and length of employee service. Comparisons between pay in different types of companies are difficult because profit-related pay (PRP) is frequent (75 percent of cases) and employee ownership benefits are not taken into account in the T&G survey (also, with so few ESOPs, generalizations are problematic). There has been a general reduction in premiums and reduced remuneration for overtime, shiftwork and so forth. ESOPs are at the bottom of hourly rates of pay for drivers (along with Stagecoach), above average for minibus drivers and top for coach drivers.

There has been a general decline in terms and conditions of employment. Basic working hours are more likely to include unsociable working hours without extra payment. There have also been cuts in paid tea breaks and meal breaks. Holidays related to length of service are now less common. There have been cuts in sick pay entitlement and levels of sick pay and the introduction of unpaid 'waiting days' (prior to entitlement to sick pay). ESOPs are less likely to have contractual overtime (required), and guaranteed overtime (usually at higher pay rates); they are more likely to pay for tea breaks, and are around average for paying for meal breaks; they had one of the lowest holiday entitlements; they did not have 'waiting days' for sick pay entitlement.

Thus no clear evidence emerges of ESOPs being able to resist competitive pressures (often intense) to raise their pay and conditions above the norm.

Conclusions about Employee Ownership

There are many interesting findings that emerge from a consideration of the recent experience of employee-owned bus companies. First there are quite different views that may be taken of the experience – from workplace democracy to financial investment. And these views can lead to quite different forms of employee ownership depending on the negotiated outcomes of key stakeholders in the formation process and subsequently. Thus the form taken in employee-owned bus companies serves the mutual interest of trade unions and managers (and to a lesser extent local authorities and financial bodies) and this can be seen in the key areas of constructed employee ownership (such as union roles, employee-

director roles, etc.). In order to achieve this, trade unions have taken the initiative and demonstrated a novel entrepreneurship pattern.

Unfortunately, achievements within the enterprise were unable to overcome weaknesses of the employee ownership form in the face of extreme competition leading to concentration. Nonetheless, the outcomes for many employees may be considered very positive financially and positive in terms of dismissing traditional trade union fears of employee ownership. This is theoretically interesting both regarding ways of viewing employee ownership and trade union roles, and in terms of raising issues concerning interorganizational relations and employee ownership.

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