A PREFACE
TO ECONOMIC
DEMOCRACY
ABOUT QUANTUM BOOKS

QUANTUM, THE UNIT OF EMITTED ENERGY. A QUANTUM BOOK IS A SHORT STUDY DISTINCTIVE FOR THE AUTHOR'S ABILITY TO OFFER A RICHNESS OF DETAIL AND INSIGHT WITHIN ABOUT ONE HUNDRED PAGES OF PRINT. SHORT ENOUGH TO BE READ IN AN EVENING AND SIGNIFICANT ENOUGH TO BE A BOOK.
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Introduction

Within a generation or so after the Constitutional Convention, a rough consensus appears to have been reached among Americans—among white male citizens, at any rate—that a well-ordered society would require at least three things: political equality, political liberty, and economic liberty; that circumstances in the United States made it possible for Americans to attain these ends; and that, in fact, to a reasonably satisfactory degree these three ends had already been attained in America. Such was the state of mind that Alexis de Tocqueville encountered among Americans in 1831.

At the same time, however, some eminent and philosophically minded observers of the human condition believed that the three goals might very well conflict with one another, quite possibly, indeed, must conflict with one another. John Adams, Thomas Jefferson, and James Madison, together with many of Madison’s fellow members of the American Constitutional Convention, were deeply concerned that political equality might conflict with political liberty. This possibility forms a major theme—in my view, the major theme—of Tocqueville’s Democracy in America. Echoing an already ancient idea, in the pen-
ultimate chapter of his second volume Tocqueville asserts his belief that it is easier to establish an absolute and despotic government amongst a people in which the conditions of society are equal, than amongst any other; and I think that if such a government were once established amongst such a people, it would not only oppress men but would eventually strip each of them of several of the highest qualities of humanity. Despotism therefore appears to me peculiarly to be dreaded in democratic ages. I should have loved freedom, I believe, at all times, but in the time in which we live I am ready to worship it.

(Tocqueville [1835] 1961, 2: 385)

While Tocqueville was mainly concerned with the threat that equality—political, social, and economic—posed for political liberty and personal independence, many of the Constitution’s framers had been alarmed by the prospect that democracy, political equality, majority rule, and even political liberty itself would endanger the rights of property owners to preserve their property and use it as they chose. In this sense, democracy was thought to menace economic liberty as it was then commonly conceived—in particular, that kind of liberty represented by the right to property. Like the conflict between equality and political liberty, this potential conflict between democracy and property was also part of a much older debate. In the United States, the concern expressed at the Constitutional Convention has been frequently voiced ever since.
In considering the threat posed by equality to liberty, Tocqueville, like Jefferson and the Framers before him, observed a society in which it was by no means unreasonable to expect, and hope, that male citizens would be approximately equal in their resources—property, knowledge, social standing, and so on—and consequently in their capacities for influencing political decisions. For they saw a country that was still overwhelmingly agrarian: seven of every ten persons gainfully employed were in agriculture, and the citizen body was predominantly composed of free farmers, or farmhands who aspired to become free farmers. What no one could fully foresee, though advocates of a republic constituted by free farmers sometimes expressed worrisome anticipations, was the way in which the agrarian society would be revolutionized by the development of the modern corporation as the main employer of most Americans, as the driving force of the economy and society. The older vision of a citizen body of free farmers among whom an equality of resources seemed altogether possible, perhaps even inevitable, no longer fitted that reality of the new economic order in which economic enterprises automatically generated inequalities among citizens: in wealth, income, social standing, education, knowledge, occupational prestige and authority, and many other resources. Had Tocqueville and his predecessors fully anticipated the shape of the economic order to come, they probably would have viewed the problem of equality and liberty in a different light. For if, in the older view, an equality among citizens might endanger liberty, in the new re-
ality the liberty of corporate enterprises helped to create a body of citizens highly unequal in the resources they could bring to political life.

The question I want to confront, therefore, is whether it would be possible for Americans to construct a society that would more nearly achieve the values of democracy and political equality and at the same time preserve as much individual liberty as we now enjoy, and perhaps even more. Or is there an inescapable trade-off between liberty and equality, so that we can only enjoy the liberties we now possess by forgoing greater equality? Would therefore the price of greater equality necessarily be less liberty?

More concretely, I propose to explore the possibility of an alternative economic structure that would, I believe, help to strengthen political equality and democracy by reducing inequalities originating in the ownership and control of firms in a system like that we now possess—a system that for want of a better term I call corporate capitalism. The last three chapters describe an alternative, explain its justification, and examine some of its problems.

In examining this possibility I have deliberately narrowed the scope of our inquiry into the problem of freedom and equality: first by focusing on political equality, then by focusing on the consequences of owning and controlling enterprises. Important as it is, political equality—equality among citizens engaged in governing themselves by means of the democratic process—is not the only relevant form of equality that might serve as a standard for a good society. And owning and controlling firms is not the only source
of undesirable inequalities among human beings, or even of political inequalities.

Yet narrowing the focus is, I believe, justified on several grounds. For one, the general problem of equality is so complex that perhaps we can deal with it well only by examining parts of it. As Douglas Rae concludes at the end of his masterly analysis of the meaning, kinds, and values of equality:

Equality is the simplest and most abstract of notions, yet the practises of the world are irremediably concrete and complex. How, imaginably, could the former govern the latter? It cannot. We are always confronted with more than one practical meaning for equality and equality itself cannot provide a basis for choosing among them. The question "Which equality?" will never be answered simply by insisting upon equality.

(Rae 1981, 150)

Moreover, of the various kinds of equality that might exist in a good society, political equality is surely one of the most crucial, not only as a means of self-protection but also as a necessary condition for many other important values, including one of the most fundamental of all human freedoms, the freedom to help determine, in cooperation with others, the laws and rules that one must obey. In a somewhat similar way, differences in ownership and control of enterprises, while certainly not at the origin of all forms of inequality, are deeply implicated in inequalities of many kinds: in esteem, respect, and status, in control over one's daily life, in income and wealth
and all the opportunities associated with them, in life chances for adults and children alike. It seems to me scarcely open to doubt that a society with significantly greater equality in owning and controlling economic enterprises would produce profoundly greater equality than exists among Americans today.

Before considering whether an alternative to corporate capitalism might strengthen political equality without sacrificing liberty, we first need to search for a clearer understanding of the relationships between political equality, political liberty, and economic liberty. In my view these relationships have often been misconceived, or asserted in so general a fashion that we can scarcely judge the truth of statements about them. An enormously influential example of what I believe to be a mistaken view of these relationships is to be found in a very great work by a very great writer—Tocqueville himself, in Democracy in America. In the first chapter I examine this view, insofar at least as it can be teased out of Tocqueville's two volumes, and explain why I think his view is in some crucial respects misleading. In the second chapter I set out my conception of the relations between democracy, political equality, and economic liberty. The alternative discussed in the last three chapters may then be seen as an element in a system of liberties and equalities superior to what Americans now possess.
What kind of economic order would best achieve the values of democracy, political equality, and liberty discussed in the previous chapters? To answer this question, I invite you to imagine that we are not only strongly committed to these values but also at an unusual historical juncture at which we confront an exceptional opportunity to create a new economic order for ourselves. What sort of economic order, we now ask ourselves, should we try to create?

Five Goals

Because we wish to achieve political equality, the democratic process, and primary political rights, we insist that our economic order must help to bring about these values, or at the very least not impair them. Among other things, then, the best economic order would help to generate a distribution of political resources favorable to the goals of voting equality, effective participation, enlightened understand-
ing, and final control of the political agenda by all adults subject to the laws. Possibly several different distributions would be about equally satisfactory. Moreover, we are aware that critical political resources include not only economic resources like income and wealth but also knowledge and skills, and the special authority possessed by officials to employ the resources and capacities available to the government of the state.

If we had no other ends than the democratic process, then the requirements of that process would, quite properly, completely dominate our thinking about the economic order. But we may reasonably demand that our economic order also be just. To be sure, political equality is a form of distributive justice: if my argument in Chapter 2 is correct, then democracy, political equality, and the protection of primary political rights are necessary for a just distribution of authority. But the claims of justice reach beyond authority to the distribution of other rights, duties, benefits, disadvantages, opportunities, and claims. Among the spheres to which the requirements of justice apply is, of course, the distribution of economic resources—that is, economic fairness. Now it is conceivable that the distribution of economic resources required for democracy might also prove to be identical with the distribution required to achieve economic fairness. If so, solving the one problem would simultaneously solve the other. But this happy coincidence is by no means certain, and probably rather unlikely. Consequently we would want to satisfy ourselves that our economic order is fair. For, believing
as we do in fairness, or justice, it would be an unhappy contradiction if our political order were fair but our economic order grossly unfair.

Attractive as the goals of democracy and economic fairness are to us, we would be irrational if we were to neglect a third goal. We should also insist that our economic order be efficient, that it would tend to minimize the ratio of valued inputs to valued outputs. For if it were inefficient, then we would needlessly squander our scarce resources and so live more poorly than we need—which is irrational. If we could choose between an economic order that sustains democracy and justice and would also be efficient, or an economic order that could achieve a like degree of democracy and justice but would be highly inefficient, to choose the second rather than the first a people would have to be much more foolish than I am assuming us to be. We would want to distinguish, however, between two kinds of outputs: outputs we as consumers value and outputs we as producers value—or, if you like, values realized in consuming end products and values realized in creating, producing, and distributing end products.

Now suppose that our present economic order and the new one we propose to create prove to be pretty much alike in physical inputs and outputs, productivity, and per capita gross national product, as these are conventionally measured, but differ in some crucial respects in economic institutions. Suppose that at present work is a disagreeable burden for most people; then suppose that by a crucial change in economic institutions work were to become a source of deep and
daily satisfaction for most of us. Even if other outputs and inputs were not thereby affected, would we not become a much richer country than we were? Would not our new economic order be more efficient in creating value than the old?

A fourth goal might now occur to us, and almost certainly would occur to any among us who had read Aristotle, say, or John Stuart Mill. We might want to apply to economic institutions the criterion that Mill proposed for judging a good form of government:

The most important point of excellence which any form of government can possess is to promote the virtue and intelligence of the people themselves. The first question in respect to any political institutions is how far they tend to foster in the members of the community the various desirable qualities, moral and intellectual . . .

(Mill [1861] 1958, 25)

Although this goal is inescapably vague, and both virtue and intelligence are sharply contested concepts, we would hardly disagree on the proposition that if one of two alternative economic orders tended to strengthen beliefs and conduct upholding personal honesty, say, or a willingness to assume responsibility for the foreseeable consequences of one's actions, while the other encouraged deceitfulness and irresponsibility, and if the two economic orders otherwise produced pretty much the same results, then the first would be definitely better than the second.

Even with these four goals, we would hardly exhaust the universe of values relevant to our economy.
Each of us has many other fundamental interests, goals, desires, wants, and values. An economic order that allowed us to achieve our various other goals, and in this sense to expand our freedom, would be better than one that prevented us from doing so. In our economic order, therefore, we will want each of us to be free to acquire whatever economic resources are necessary, and so far as possible sufficient, to advance and protect all our fundamental interests—or if you like, the economic resources necessary for a good life. Suppose we call these our personal economic resources. Perhaps we cannot say exactly how great or of what specific kinds our personal economic resources ought to be, but it would seem clear that we must have a right to gain access to adequate personal economic resources. This right may be what we mean when we use expressions like economic freedom and economic liberty. At a minimum, a right to economic freedom would guarantee a negative freedom: that is, no one would have the right to prevent any other person from exercising the right to acquire personal economic resources whenever an opportunity exists to exercise that right in a way that is not harmful to the equal right of another. At a maximum, such a right would guarantee positive economic freedom; that is, our social and economic order would ensure that such opportunities actually existed for each of us.

A right to economic freedom might lead to results that would fit perfectly with our other goals, but it is not obvious that this must be the case. We recognize, then, that our various goals might not be perfectly
consistent and consequently we may often have to make judgments about trade-offs. Often our binding collective decisions as to public policies would require such judgments about trade-offs, and we would want to be able to make those judgments through the democratic process. We would therefore want to ensure that in accepting trade-offs among our goals we did not seriously impair the democratic process.

If these were our paramount values, what sort of an economic order would we try to construct? To answer this question I am going to make some assumptions that I shall not attempt to justify here. They are, however, highly plausible and may need no further justification.

To begin with, I assume that after contemplating the large body of historical experience with bureaucratic socialism in this century, we would judge it to be fundamentally inconsistent with our goals. In fact, I assume that we would reject any alternative that required highly concentrated power in the hands of central officials of the state. I assume, then, that to people with the five goals I have just described, a desirable economic order would disperse power, not concentrate it. Although important aspects of economic life would be subject to central controls (which I address in Chapter 5), in order to disperse power, control over many important decisions would have to be decentralized among a comparatively large number of relatively, though not completely, autonomous enterprises. In order for decentralization of control to be significant, decisions about inputs, outputs, prices,
wages, and the allocation of any surplus would have to be made mainly or entirely at the level of the individual enterprises.

To achieve a satisfactory level of efficiency, however, the decisions of these relatively autonomous enterprises would somehow have to be coordinated. In an economy as complex as ours, I assume that coordination would require a market system, which would function as a critical external limit on enterprise decisions. For many reasons, such as avoiding undesirable externalities like pollution and preventing collusion among enterprises to exploit consumers, we would also want to establish a democratically controlled regulatory framework of laws and rules, within which the enterprises would operate.

In brief, we would search for an economic order that would decentralize many significant decisions among relatively autonomous economic enterprises, which would operate within limits set by a system of markets, and such democratically imposed laws, rules, and regulations as we may believe are necessary to achieve our goals. Such decentralization would require that significant authority to make important decisions be exercised within firms. The question we must therefore confront is, How should this authority be exercised within firms? I assume that we would reject the notion that firms should be simply extensions of the central bureaucracy of the state—that all significant authority within firms should be exercised hierarchically by state officials. I also assume that we would search for an alternative to corporate capitalism, where authority within firms is exercised hierar-
chically by managers nominally accountable to stockholders. Our problem, then, is to discover a better alternative.

Sketch of an Alternative

I now want to consider a possible alternative: a system of economic enterprises collectively owned and democratically governed by all the people who work in them. By democratically governed, I mean that within each enterprise decision making would be designed so far as possible to satisfy the criteria for the democratic process that I described in the preceding chapter, and thereby to achieve political equality and the protection of primary political rights within the firm. One crucially important feature of self-governing enterprises, then, is that they satisfy the criterion of voting equality; hence each person employed in an enterprise is entitled to one and only one vote. Systems of this kind have been called workers’ cooperatives or examples of self-management or industrial democracy; but I prefer the term self-governing enterprises. Since such an enterprise, like a local gov-

1. In clarifying my ideas on this question I have profited greatly from a number of unpublished papers by David Ellerman, cited in the bibliography, as well as numerous discussions with and papers by students in my graduate seminar on The Government of Economic Enterprises and my undergraduate seminar on Democracy at Work.

2. Although in ordinary American usage both workers and employees are equivalent to “all persons who work directly for wages or salaries in an organization,” distinctions between the two are
ernment, is democratic within limits set by external democratic political controls and by markets, the people who work in the firm might be called citizens of the enterprise.

Because the firm is controlled democratically, the enterprise's citizens determine how the revenues of the firm are to be allocated. Obviously their abstract freedom to allocate the firm's revenues is limited by the need to buy inputs and sell outputs at prices they cannot, except sometimes perhaps in the very short run, unilaterally determine; and by the need to attract and hold a work force; for to use Albert Hirschman's creative distinction, workers may influence the decisions of the enterprise by exit as well as voice (Hirschman 1970). Within the enterprise, its citizens (or their elected representatives or managers to whom they delegate authority) determine wages and decide how surplus revenues are to be allocated. They therefore determine how much is to be set aside for reinvestment, how much is to be distributed to the enterprise's citizens, and the principle according to which these distributions are made.

Such a system of self-governing enterprises should not be confused with others that it might vaguely or closely resemble. Obviously self-governing enterprises only remotely resemble pseudodemocratic

sometimes intended. Here, however, I use the two words interchangeably. Advocates of self-managed enterprises sometimes distinguish between labor-managed and worker-managed systems, but the distinctions are not uniform (Vanek 1975; see also his earlier description: Vanek 1970, 6-7; Schweickart 1980, 52-53; Selucky 1979, 180).
schemes of employee consultation by management; schemes of limited employee participation that leave all the crucial decisions with a management elected by stockholders; or Employee Stock Ownership Plans (ESOPs) that are created only or primarily to provide corporations with low-interest loans, lower corporate income taxes, greater cash flow, employee pension plans, or a market for their stock (Comptroller General 1980, 37 and passim), without, however, any significant changes in control.3

While self-governing enterprises may prove to have several advantages over not only the typical stockholder-owned and management-controlled corporation but also publicly owned and hierarchically run firms, the justification most relevant here is the contribution they might make to the values of justice and democracy. If they were about as efficient as present firms, if they did not diminish fundamental liberties, and if at the same time they were superior in their consequences for democracy and justice, then they would be definitely better. What consequences for de-

3. According to one estimate, 3,000 firms had ESOPs by 1978. Only about ninety could be identified in which “a majority of the equity is owned by a majority of the employees.” Moreover, firms owned by employees through ESOPs “concentrate ownership in managers, since most distribute stock according to salary to qualify for certain tax benefits” (Select Committee on Small Business 1979, 2). An ESOP could, however, serve as a means to a self-governing enterprise if the employees acquired a majority of voting stock that would be held in trust and voted as a block by employees on the basis of one person, one vote. In 1980 the Rath Packing Company was reorganized in this way (Gunn 1981, 17–21).
mocracy and justice could we reasonably expect from a system of self-governing enterprises?

We need to appraise two different kinds of arguments based on democratic values. First, that democracy within firms would improve the quality of democracy in the government of the state by transforming us into better citizens and by facilitating greater political equality among us. Second, that if democracy is justified in the government of our state, then it is also justified in the governments that make decisions within firms (quite apart from any benefits entailed by the preceding argument).

The first argument is more usual among democratic theorists than the second. I now turn to that argument, leaving consideration of the second argument for the next two chapters.

Democratic Citizens
Through Participatory Democracy?

Self-government in economic enterprises is often advocated as a way of creating "participatory democracy" and producing changes in human personalities and behavior that, it is said, participation will bring about. In this perspective, the ideal of the polis is transferred to the workplace, and the enterprise becomes a site for fulfilling Rousseau's vision of political society (as expressed in the Social Contract) or for meeting Mill's criterion of excellence for a government—"that it should promote the virtue and in-
telligence of the people themselves.” Workplace democracy, it is sometimes claimed, will foster human development, enhance the sense of political efficacy, reduce alienation, create a solidary community based on work, strengthen attachments to the general good of the community, weaken the pull of self-interest, produce a body of active and concerned public-spirited citizens within the enterprises, and stimulate greater participation and better citizenship in the government of the state itself (e.g., Wootton 1966; Pateman 1970; and Mason 1982). Should we expect a system of self-governing enterprises to transform human beings in these ways—to make them more democratic, politically active, social, public-spirited, cooperative, concerned for the general good?

The hope for human regeneration through changes in political, economic, and social structures exerts a magical power on the utopian imagination. Forecasts of a new human being produced by structural changes have been made not only by advocates of workplace democracy, but by many others: liberals like Mill, as well as communists, socialists, fascists, and Nazis. Yet these forecasts seem to be regularly discredited by experience—at least in those cases when journalists and scholars have been able to assess that experience. Thus we have not heard much in recent years about the New Soviet Man, while the Chinese worker or peasant who was to consider only the good of the whole society has been replaced in ideology and practice by workers and peasants motivated largely by material incentives. Meanwhile, however, some writers continue to promise that workplace democ-
racy would transform workers into much more virtuous citizens.

The evidence, although incomplete, is mixed. In a study of a Los Angeles high-fidelity equipment manufacturing firm with about a thousand employees, John F. Witte found that the introduction of a planning council, a number of special committees, and work teams, all of which greatly increased opportunities for participation in decisions, led over a fourteen-month period to only a modest increase in average participation. More to the point, increased participation by activists did not reduce their alienation from work; in fact, while alienation decreased for participants in work teams, it increased for participants on the planning council and the special committees. Neither the new opportunities for participation nor participation itself brought about an increase in support for participation. Support actually declined among the activists, partly because of "the disenchantment felt by some council members at the apparent apathy of their fellow workers" (Witte 1980, 149). In a comparison of attitudes among workers in plywood cooperatives in the Pacific Northwest and in conventional (unionized) plywood firms, Edward S. Greenberg found that

the expectation held by many theorists of industrial democracy that self-managed work environments might serve to nurture feelings of cooperation, equality, generosity, and self-confidence in one's fellows is only partly met within the plywood cooperatives. The expectation that such feelings would spill over the walls of the workplace so as to
incorporate society, economy, and government is decidedly not met. . . . Indeed, the findings point to the opposite results.

(Greenberg 1981, p. 40)

In Yugoslavia, the system of self-management has not yet brought about very high levels of political participation, and, as in the United States, the tendency of political participation to increase with a person's level of socioeconomic resources remains relatively strong (Verba, Nie, and Kim 1978, 57–79, 292–93; Verba and Shabad 1978; but see also Oleszczuk 1978). The Yugoslav scholar Josip Obradovic observed a strong tendency for participation in workers' councils to be dominated by experts and managers (Obradovic 1972; Bertsch and Obradovic n.d.). Like Witte he also found that "participants in self-management are more alienated than nonparticipants. Possibly for these workers the direct experience with self-management has been so frustrating that their sense of alienation has become even greater" (Obradovic 1970, 165). One source of their frustrations may well be the tendency of managers to dominate the councils.

Against these findings, however, are some that support at least modest expectations for positive changes. In a study of a West Coast plant producing a "paper-based consumer product" with about 225 employees, J. Maxwell Elden concluded that workplace democracy increased satisfaction, personal growth, and satisfaction with opportunities for self-management; these changes in turn increased political efficacy and
social participation (Elden 1981). Several other studies have led to similar conclusions (these are summarized by Elden, 53–54; see also Bermeo 1982).

Such evidence as we now have does not, I think, warrant high hopes for huge changes in attitudes, values, and character from greater democracy at work. It should be said, however, that all the present evidence is very short-term, since it is derived from studies of workers who were already rather fully formed by their society. We cannot confidently predict what changes in character or personality might ensue, not in the short space of months or years, but over many generations. I cannot help thinking that if their experiment in self-management lasts a hundred years, Yugoslavs will be different in important ways from what they would have been had they continued to live in a command society that was authoritarian not only in politics but in economic life as well. And might not we Americans be different, if in the 1880s we had adopted self-governing enterprises rather than corporate capitalism as the standard solution?

Moral responsibility. Although the consequences for democratic character are problematical, a system of self-governing enterprises does promise one change of some importance for the quality of a people. Complexity and giantism have created such a distance between our actions and their consequences that our capacity for moral action has been dangerously impoverished. Moral action requires an opportunity and a capacity for understanding the consequences of one’s actions and for assuming responsibility for those con-
sequences. Yet when the organizations and other structures in which we make our choices encourage us to displace the adverse consequences on others, while we reap only the benefits, then to say that we are ultimately "responsible" for the consequences of our actions is little more than a philosophical abstraction. Just as guardianship in the government of the state robs a people of its opportunities and capacities for responsibility, so too does guardianship in the government of a firm. Moreover, the structure of American corporate enterprise narrows the domain of moral responsibility to the vanishing point. 4

On our assumptions, self-governing enterprises would operate within a market. It would therefore be a mistake to suppose that they could—or even should—entirely escape pressures toward instrumental rationality and protection of the firm's revenues. It is too much to expect, then, that self-governing enterprises would always act to prevent the displacement of adverse consequences on others. Consequently, like cor-

4. As an example, in 1983 the U.S. federal government in a civil suit against General Motors (GM) contended that the company had sold 1980 X-model cars knowing the cars had hazardous brake defects. The government also contended that requests for information by the Department of Transportation's Office of Defects Investigation from 1980 to 1982 had been answered by GM with "false and misleading statements" (The New York Times, 4 August 1983, A1, and 15 August 1983, A17). Although his later activities may make John DeLorean's account suspect, he did have an insider's view of GM as head of Pontiac, Chevrolet, and finally the entire GM Car and Truck Group, and his comments on the Corvair paint a similar picture (Wright 1979, 63–67; see also Herman 1981, 260–64).
porate enterprises, they would need some regulation by the state. For that very reason, I assumed earlier that enterprises would operate within limits set by such democratically imposed laws, rules, and regulations as the public holds necessary.

Nonetheless, two important differences would help to foster greater moral responsibility. First, self-governing enterprises would in principle eliminate, and surely would in practice vastly reduce, the adversarial and antagonistic relations between employers and employees that foster moral irresponsibility on both sides. Every employee would have a stake in the firm's welfare; actions adverse to the performance of the firm would be hurtful to all. Second, being far more numerous and closer to the average citizen than managers and owners, employees would be more representative of consumers and citizens. Whereas top managers are a minuscule proportion of the public and can more easily escape or absorb the social costs their decisions generate, employees are much larger and more representative part of the public, as consumers, residents, and citizens. They are therefore much more likely than managers to bear some of the adverse consequence of their decisions.

To repeat, a system of relatively autonomous enterprises would require controls external to the enterprise, both by markets and prices and by democratically imposed laws and regulations. Both forms of external control finally depend for their existence and effectiveness on public support. I see no reason why public support for these controls would be less in a
system of self-governing enterprises than they are under corporate capitalism.

Effects on political equality. In the preceding chapter I referred to the classical republican problem of distributing power and property: If property is distributed in a highly unequal fashion, a conflict will tend to arise between democracy and property rights. The obvious republican solution was to ensure, somehow, that property be distributed more or less evenly. In the United States, the ideology of agrarian democratic republicanism promised a unique form of that solution: Factors largely external to the political process—principally a vast supply of cheap land—would ensure that economic resources would be so widely diffused as to promote and sustain a satisfactory approximation to political equality.

As it turned out, however, this solution proved to be historically ephemeral. The new social and economic order that gradually replaced the American agrarian society in the course of the nineteenth century did not spontaneously generate the equality of condition so sharply emphasized by Tocqueville as a fundamental characteristic of American agrarian society. On the contrary, the new order produced enormous differences in wealth, income, status, and power. Clearly a solution to the classical republican problem could no longer depend on the accidental existence of a factor, like land, that was mainly exogenous to the political process. In a system where wealth and income were allocated unequally through the in-
stitution of market-oriented capitalism, to maintain a distribution of political resources favorable to political equality would require that economic resources be either somehow divorced from political life (which the republican tradition assumed was impossible), or else massively reallocated, presumably by the state. Either solution would have generated a perpetual conflict between those who benefited most from the initial distribution and the political forces favoring political equality. Even if a sufficiently powerful and stable coalition of egalitarian forces to execute either policy had developed, political life would have been persistently polarized. In any case, no such coalition ever developed and neither policy was ever executed.

Moreover, it is an open question whether business will turn in a satisfactory performance in a privately owned, market-oriented economy if wealth and income are massively redistributed. Charles E. Lindblom has attributed a "privileged position" to business by virtue of its need for inducements (Lindblom 1977, 170ff.). By privileged, as I understand him, he means that in order to persuade investors and managers in privately owned business firms to perform satisfactorily, a society must provide them with strong inducements in the form of large financial rewards. But a structure of rewards substantial enough to persuade investors and managers to perform their social functions satisfactorily will create a highly egalitarian distribution of wealth and income. In the United States the ideological defense of economic egalitarianism came to be known during the late nineteenth
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century as the Gospel of Wealth and in this century as the "trickle down" theory. Although exaggerated claims are often made for the social contributions of business that result from adhering to the Gospel of Wealth, the notion has a discomforting element of validity. Corporate capitalism does seem to require allocating great financial rewards to property owners. In the United States, given the concentration of ownership, these rewards accrue mainly to a small minority of investors. As a consequence, American society seems to require economic inequalities more extreme than Jefferson could ever have thought possible or permissible among a people with democratic aspirations.

5. In 1969, 1.3 percent of the adult U.S. population, and 5.6 percent of all stockholders, owned 53.3 percent of all corporate stock (Smith, Franklin, and Wion 1973, table 5). And "approximately 5 percent of all families receive about 40 percent of dividend, interest, rent, and royalty incomes, while the lowest two-thirds of families receive less than 20 percent of income of this type" (Schnitzer 1974, 38). Peter Drucker argues, however, that data like these overstate the concentration of wealth and income from wealth because they do not take into account the rapid expansion since 1950, when GM inaugurated a pension fund for its workers, of pension funds that invest in equities and thus acquire ownership of firms. He estimates that in 1974, pension funds owned about 30 percent of the total value of the stocks of all companies traded on the stock market (and predicts that by 1985 their share will be 50 percent). If the pension plans of the self-employed (Keogh Plans), Individual Retirement Accounts (IRAs), and government employees are added, "this amounts to a minimum of 50 percent and a 'most probable' of 65 to 70 percent of equity ownership by the pension funds within the next ten or fifteen years" (Drucker 1976, 12 and 16).
Wishing to escape these difficulties, we might search for a socioeconomic structure that would itself tend to generate a greater equality of condition, what I referred to in Chapter 2 as a self-regulating egalitarian order. With such an order, the tendency toward equality would not have to be sustained over the opposition of a powerful, well-entrenched minority in a polarized national conflict. Instead it would be produced spontaneously by a socioeconomic structure supported by a widespread consensus.

Would a system of self-governing enterprises constitute a self-regulating egalitarian order? Obviously not. Although it is impossible to say precisely how far such a system, operating autonomously without externally imposed reallocations (e.g., by taxes and transfer payments), would verge toward equality in wealth, income, and other resources, it is clear that inequality would tend to arise both within firms and among firms. In self-governing enterprises, the members themselves would decide on the principles according to which wages, salaries, and surplus were to be distributed among the members. Their choice of internal distributive principles would depend on factors that are very far from predictable, including their implicit and explicit beliefs about fairness, which in turn would be influenced by tradition, the prevailing culture, ideology, religion, and the like; and on the extent to which they would find it desirable or necessary to adjust wages and salaries to the supply of and demand for various skills. Although theorists and ideologues may often set forth quite definite views as
to the principles of distribution that workers ought to choose, it is flatly impossible to predict which they would choose.

It is reasonable to suppose, however, that members of self-governing enterprises would maintain wage and salary differentials within their firms at much lower ratios than the ten-to-one, or even twenty-to-one, that exist in American firms. They would also be less likely to provide top executives with the perquisites that increase the differentials even further, in some cases to 100-to-1: bonuses, stock-options, retirement benefits, and salary guarantees—"golden parachutes"—should they lose their jobs after a takeover. Finally, inequalities in income and wealth would be reduced still more because the surplus of a self-governing firm would be shared among all its members, within whatever limits might be established.

6. The argument that high compensation is a reward for exceptional performance does not hold water. A Fortune study of 140 large companies shows little or no correlation between the compensation of the chief executive and performance as measured by return on stockholders' equity. In the ten industries surveyed, only one—metal manufacturing—revealed "much correlation between pay and performance." By contrast "the correlation between size [of firm] and pay, though by no means perfect, is relatively high, and superior to any other single pay correlation tested" (Loomis 1982, 44 and 49). A 1982 survey by The Economist of the 100 biggest companies in Britain led to similar conclusions: "There is still no obvious connection between bosses' salaries and the performance of the companies they run in most of British industry. The size of a company is often a better guide to salaries at the top" (The Economist, 18 September 1982, 75ff.).
through the democratic process in the government of the state.

If we turn from speculation to actual practice we find that although producer cooperatives have adopted a variety of distributive principles, in few cases (if any) do the differences approach those in private firms. To be sure, not many producer cooperatives have followed the example of the Israeli kibbutzim in their adherence to a principle of complete equality (whether lot-regarding or need-regarding) in the distribution of material and cultural resources among the members. And even the kibbutzim have departed from strict equality in the wages they pay to hired workers, who are not members. Although the plywood cooperative of the Pacific Northwest adopted a principle of equal pay and an equal share in the surplus for all members, their hired managers, who are not members, are paid competitive salaries—which are significantly higher than the payments to the members. The worker-managed Mondragon cooperatives in Spain have sought from the beginning to “[limit] differentials from exceeding a three-to-one range between highest and lowest earnings.” In practice, that ratio is not fully maintained, though violations are quite modest: for 98 percent of the members the difference in earnings does not exceed about 4-to-1, and for 90 percent about 2.8-to-1. Of equal significance, the spread in the distribution of wealth among members is also quite narrow (Thomas and Logan 1982, 11, 143–45, 159). Thus the conclusion seems warranted that within self-governing enterprises the distribution of income and wealth would be significantly less un-
equal than it will be in a system of corporate capitalism—as in American firms, for example.\(^7\)

But inequalities will also arise between firms. Differences in markets, changing demand, varying ratios of capital to labor, regional differences in labor supply, and many other factors will create differences in the revenues available to self-governing firms and industries for distribution to their members.\(^8\)

**Conclusion**

A system of self-governing enterprises could not be relied on, then, to create a completely self-regulating

7. In "the largest diversified machinery producer in Yugoslavia, it was a skilled worker who, in 1968, made the highest pay—2,993 dinars per month—more than the general director" (Dirlam and Plummer 1973, 66).

8. Yugoslavia provides plenty of evidence. "Interskill differences within single enterprises, legitimized under the distribution according to work principle, proved less of an ideological problem than interindustry differentials" (Comisso 1979, 108; see also her discussion of the "inequalities issue," 94–115). And Joel B. Dirlam remarks: "An examination of the Yugoslav wage system in 1973 concluded that wage levels varied among industries largely in conformity with average productivity, which in turn could be explained by the capital endowment of the industry. Moreover, those industries with high capital/labor ratios tended to enjoy high wages" (Dirlam 1979, 347). Saul Estrin, who analyzed Yugoslav "intersectoral and interfirm income differences from 1956 to 1974," found large interfirm income differences within each sector. In the entire industrial sector "between 10 and 14 percent of firm-size groups paid on average, less than 50 percent or more than 200 percent of the industrial mean" (Estrin and Bartlett
egalitarian order. Although the magnitude cannot be accurately forecast, interfirm and intrafirm differentials would create differences in personal resources that conceivably might be large enough to have adverse effects both on political equality and on our standards of fairness. To be sure, because the citizen-members of firms would themselves decide on the principles according to which intrafirm differences were determined, presumably intrafirm differences would tend to satisfy their standards. But to the extent that interfirm differences were caused by factors other than effort and skill—by history, geography, society, and luck—results might well seem unfair. Thus to prevent an excessive erosion of political equality and distributive justice, we might want to alter the initial distribution of personal resources generated by the enterprises (by taxes and transfers, for example), or to regulate the effects (for example, by limiting the use of money in politics), or to do both.

The task of regulation and redistribution would be much easier, however, than in a system of corporate capitalism. For one, the initial distribution generated by the enterprises would be much less unequal. Thus while not completely self-regulating, such a system would come far closer than corporate capitalism to the classical republican solution mentioned in Chapter 2, that is, a wide diffusion of economic resources among citizens.

1982, 95). In 1968, the average personal income of workers in the textile industry was one-third that of workers in design and less than 40 percent of workers in maritime transport (Dirlam and Plummer 1973, table 4-1).
Moreover, full and equal citizenship in economic enterprises would greatly reduce the adversarial and conflictive relationships within firms, and indirectly in society and politics at large. In the corporate system, managers are legally bound to act and typically do act on the view that the interests of employees are secondary to the interests of owners. In a system of self-management, in contrast, managers chosen directly or indirectly by workers would give priority to the interests of the citizen-members. In the one theoretical model, managers act so as to maximize net returns to stockholders; in the other, they act to maximize net returns per capita to the citizen-members. Thus the adversarial and conflictive relations inherent to the very structure of the private firm would be greatly attenuated (indeed eliminated in the theoretical model) in self-governing enterprises.

The internally conflictive relations of private enterprise also spill over to conflicts about redistributive policies and the regulation of money in politics. As a small minority of the most privileged members of society, American businessmen—like Kent, Story, and Leigh, who feared that democracy would destroy property—tend to harbor a deep distrust of political equality, majority rule, Congress, and the institutions of democratic government generally (cf. Silk and Vogel 1976, 189–201). Like their predecessors, they seek to use their superior resources—in money, organization, status, and access—to protect their possession of and opportunities to acquire these superior resources. It is hardly surprising, therefore, that reform efforts directed toward redistributive policies and the
effective regulation of money in politics meet with so little success in the United States.

A system of self-governing enterprises would not, of course, eliminate conflicting interests, goals, perspectives, and ideologies among citizens. But it would tend to reduce the conflict of interests, give all citizens a more nearly equal stake in maintaining political equality and democratic institutions in the government of the state, and facilitate the development of a stronger consensus on standards of fairness.
Although political theorists who favor worker participation have often emphasized its potentialities for democratic character and its beneficial effects on democracy in the government of the state, a stronger justification, one with a more Kantian flavor, seems to me to rest on a different argument: If democracy is justified in governing the state, then it must also be justified in governing economic enterprises; and to say that it is not justified in governing economic enterprises is to imply that it is not justified in governing the state.

I can readily imagine three objections to this argument:

1. A system of self-governing enterprises would violate a superior right to property.
2. The assumptions in Chapter 2 that justify the democratic process do not apply to an economic enterprise because decisions in economic enterprises are not binding in the same sense as decisions made and enforced by the government of a state. Furthermore,
because employees are generally not as well qualified as others to run a company, the principle of equality does not hold, and the argument for the democratic process falls. Whereas, on the contrary, a government by the best qualified, that is, a system of guardianship or meritocracy, is justified by the marked differences in competence. Rule by corporate managers, it might be argued, is such a system.

3. A tendency toward oligarchy, hierarchy, or domination operates so strongly in economic enterprises that democracy would prove to be a sham in any case. Thus the effort to inaugurate the democratic process within firms is essentially a waste of time.

In this chapter, I address these objections in turn.

Property Rights

As to property rights, transferring control over the decisions of a firm to its employees, it might be objected, would violate the right of owners to use their property as they choose. If, however, this objection assumes that people have an inherent right to establish and maintain economic enterprises in their present corporate form, and that any attempt to replace this form with another would violate that right, then the argument runs headlong into all the difficulties described in Chapter 2. Moreover, if a right to property is understood in its fundamental moral sense as a right to acquire the personal resources necessary to political liberty and a decent existence, then self-
governing enterprises would surely not, on balance, diminish the capacity of citizens to exercise that right; in all likelihood they would greatly strengthen it. Even if property rights are construed in a narrower, more legalistic sense, the way in which a self-governing enterprise is owned need not necessarily violate such a right. As we shall see, it could entail a shift of ownership from stockholders to employees.

Are Decisions Binding?

However, can the assumptions set out in Chapter 2 as justifying the democratic process reasonably be applied to economic enterprises? For example, do economic enterprises make decisions that are binding on workers in the same way that the government of the state makes decisions that citizens are compelled to obey? After all, laws made by the government of a state can be enforced by physical coercion, if need be. In a democratic state, a minority opposed to a law is nevertheless compelled to obey it. But a firm, it might be said, is nothing more than a sort of market within which people engage in voluntary individual exchanges: workers voluntarily exchange their labor in return for wages paid by the employer. Decisions made by the government of a firm and by the government of the state, however, are in some crucial respects more similar than this classical liberal interpretation allows for. Like the government of the state, the government of a firm makes decisions that apply uniformly to all workers or a category of workers:
decisions governing the place of work, time of work, product of work, minimally acceptable rate of work, equipment to be used at work, number of workers, number (and identity) of workers laid off in slack times—or whether the plant is to be shut down and there will be no work at all. These decisions are enforced by sanctions, including the ultimate sanction of firing.

Have I now understated the difference? Unlike citizens of a state, one might object, workers are not compelled to obey managerial decisions; their decision to do so is voluntary. Because a worker may choose to obey the management or not, because he is free to leave the firm if he prefers not to obey, and because he cannot be punished by management for leaving, some would argue that his decision to obey is perfectly free of all compulsion.

But an objection along these lines exaggerates the differences between a worker's subjection to decisions made by the government of a firm and a citizen's subjection to decisions made by the government of the state. Take a local government. A citizen who does not like a local ordinance is also "free" to move to another community. Indeed, if a citizen does not want to obey her country's laws, she is "free"—at least in all democratic countries—to leave her country. Now if a citizen were perfectly free to leave, then citizenship would be wholly voluntary; for if a citizen found "voice" unsatisfactory, she could freely opt for "exit." But is not "exit" (or exile) often so costly, in every sense, that membership is for all practical purposes compulsory—whether it requires one to leave a coun-
try, a municipality, or a firm? If so, then the government of a firm looks rather more like the government of a state than we are habitually inclined to believe: because exit is so costly, membership in a firm is not significantly more voluntary or less compulsory than citizenship in a municipality or perhaps even in a country.

In fact, citizenship in a democratic state is in one respect more voluntary than employment in a firm. Within a democratic country, citizens may ordinarily leave one municipality and automatically retain or quickly acquire full rights of citizenship in another. Yet even though the decisions of firms, like the decisions of a state, can be enforced by severe sanctions (firing), unlike a citizen of a democratic state, one who leaves a firm has no right to "citizenship" (that is, employment) in another.

Like a state, then, a firm can also be viewed as a political system in which relations of power exist between governments and the governed. If so, is it not appropriate to insist that the relationship between governors and governed should satisfy the criteria of the democratic process—as we properly insist in the domain of the state?

Let the firm be considered a political system, one might now agree. Within this political system, however, cannot the rights of workers be adequately protected by labor unions? But this objection not only fails to meet the problem of nonunion workers (who in the United States compose about 80 percent of the workforce); it also implicitly recognizes that in order to protect some fundamental right or interest, work-
ers are entitled to—have a right to—at least some democratic controls. What, then, is the nature and scope of this right or interest? To say that its scope is limited by an equally or more fundamental right to property runs afoul of our earlier analysis. On what grounds, therefore, must the employees’ right to democratic controls be restricted to the conventional (but by no means well-defined) limits of trade unions? Is this not precisely the question at issue: Do workers have a fundamental right to self-government in their economic enterprises? If they do have such a right, then is it not obvious that, however essential conventional trade unions may be in reducing the impact of authoritarian rule in the government of a firm, an ordinary firm, even with a trade union, still falls very far short of satisfying the criteria of the democratic process?

Does the Strong Principle of Equality Hold?

In Chapter 2, I argued that the democratic process is justified by the strong principle of equality. But if the strong principle does not apply to business firms, then the case for self-governing enterprises is seriously, perhaps fatally, damaged, while the case for rule by the best qualified—the "guardians," to use

1. Ellerman contends that even in self-governing enterprises, trade unions would be important, particularly in performing the functions of a “loyal opposition” (Ellerman, “The Union as the Legitimate Opposition,” n.d.).
Plato’s term—is correspondingly strengthened. The government of large American corporations, I suggested earlier, could be seen as a form of guardianship. Although managers are nominally selected by a board of directors, which in turn is nominally chosen by and legally accountable to stockholders, in reality new managers are typically co-opted by existing management which also, in practice, chooses and controls its own board of directors (Herman 1981). Guardianship has also been the ideal of many socialists, particularly the Fabians. In this view the managers of state-owned enterprises were to be chosen by state officials, to whom the top managers were to be ultimately responsible. In most countries, in fact, nationalized industries are governed by some such scheme. One could easily dream up still other meritocratic alternatives.

Thus in theory and practice both corporate capitalism and bureaucratic socialism have rejected the strong principle of equality for economic enterprises; explicitly or by implication they uphold guardianship. Because of the overwhelming weight of existing institutions and ideologies, probably most people, including many thoughtful people, will find it hard to believe that employees are qualified to govern the enterprises in which they work. However, in considering whether the strong principle of equality holds for business firms, it is important to keep two points in mind. First, while we may reasonably compare the ideal or theoretically possible performance of one system with the ideal or theoretical performance of another, we cannot reasonably compare the actual
performance of one with the ideal performance of another. Although a good deal of the discussion of self-governing enterprises that follows is necessarily conjectural, my aim is to compare the probable performance of self-governing enterprises with the actual performance of their current principal alternative, the modern privately owned corporation.

Second, as we saw in Chapter 2, the strong principle of equality does not require that citizens be equally competent in every respect. It is sufficient to believe that citizens are qualified enough to decide which matters do or do not require binding collective decisions (e.g., which matters require general rules); of those that do require binding collective decisions, citizens are competent to decide whether they are themselves sufficiently qualified to make the decisions collectively through the democratic process; and on matters they do not feel competent to decide for themselves, they are qualified to set the terms on which they will delegate these decisions to others.

Except in exceedingly small firms, employees would surely choose to delegate some decisions to managers. In larger firms, they would no doubt elect a governing board or council, which in the typical case would probably be delegated the authority to select and remove the top executives. Except in very large enterprises, the employees might constitute an assembly for "legislative" purposes—to make decisions on such matters as the workers choose to decide, to delegate matters they prefer not to decide directly, and to review decisions on matters they had previously delegated as well as the conduct of the board
and the managers in other ways. In giant firms, where an assembly would suffer all the infirmities of direct democracy on an excessively large scale, a representative government would have to be created.

Given the passivity of stockholders in a typical firm, their utter dependency on information supplied by management, and the extraordinary difficulties of contesting a managerial decision, it seems to me hardly open to doubt that employees are on the whole as well qualified to run their firms as are stockholders, and probably on average a good deal more. But of course that is not really the issue, given the separation of ownership from control that Adolf Berle and Gardiner Means called attention to in 1932 in *The Modern Corporation and Private Property*. A recent and much more systematic study reports that 64 percent of the 200 largest nonfinancial American corporations are controlled by inside management and another 17 percent by inside management with an outside board, or altogether 81 percent of the total, with 84 percent of the assets and 82 percent of the sales (Herman 1981, table 3.1). Although the percentage of management-controlled firms might be less among smaller firms, the question remains whether workers are as qualified to govern economic enterprises as managers who gain their position by co-option—thus producing a sort of co-optive guardianship.

This question raises many of the familiar and ancient issues of democracy versus guardianship, including the grounds for believing that the putative guardians possess superior knowledge about what is best for the collectivity, and also superior virtue—the
will or predisposition to seek that good. It is important therefore to distinguish knowledge about the ends the enterprise should seek from technical knowledge about the best means for achieving those ends.

As to ends, the argument might be made that self-governing enterprises would produce lower rates of savings, investment, growth, and employment than the society might rationally (or at least reasonably) prefer. As to means, it might be contended that self-governing enterprises would be less likely to supply qualified management and for this and other reasons would be less efficient than stockholder-owned firms like American corporations.

**Ends: Savings, investment, growth, and employment.** How then would a system of self-governing enterprises affect savings, investment, employment, and growth? For example, would workers vote to allocate so much of enterprise earnings to wages that they would sacrifice investment in new machinery and future efficiencies? Would firms run democratically by their employees be more shortsighted than firms run hierarchically by managers? American corporate managers are frequently criticized nowadays for an excessive emphasis on short-run as against long-run returns (e.g., Bluestone 1980, 52). Would self-governing enterprises accentuate the sacrifice of deferred to immediate benefits, to the disadvantage and contrary to the collective preferences of their society? If so, would not the particular interests of workers in an enterprise conflict with the general interest?

Purely theoretical analysis by economists, whether critics or advocates of worker-managed firms, is ulti-
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mately inconclusive. Advocates of self-management agree that in contrast to conventional firms in which managers seek to maximize total profit for shareholders, the worker-members of self-governing firms would seek to maximize the per capita income of the members.² In view of this, some critics reason, members would have no incentive to expand savings, production, employment, or investment unless the effect were to increase their own per capita earnings; and they would have a definite incentive not to do so if they expected that by doing so they would reduce their own earnings. These critics therefore conclude that in some situations in which a conventional firm would expand in order to increase returns to shareholders, worker-managed firms would not.³

². For example, see Vanek 1970, 2–3; Jay 1980, 17.

³. These and other theoretical arguments are summarized and evaluated by Estrin and Barrett (1982); for a well-known early theoretical formulation see Ward (1957, 1958, 1967). One theoretical argument can be illustrated as follows. Assume a firm with 100 members, a daily output of 100 units—each selling at $200 a unit, and costs for nonlabor inputs (equipment, buildings, materials, etc.) of $150 a unit. The total return available for distribution to workers is $5,000, or $50 per member. Assume that by doubling the workforce (and thus membership), output would rise to 150 units at the same unit cost. Although the amount available for distribution to members would rise to $7,500, the share of each member would fall to $37.50. Thus (unless they were altruists) the members would be unwilling to expand their firm’s employment and membership. If, however, they were legally permitted to, they might try to hire additional workers at a wage low enough to protect their own current earnings; in our example, such a wage would have to be less than $25. A specific case of this kind was the system of worker-controlled cooperatives in Peru (Stepan 1978, 216ff.).
Advocates of self-governing firms reply that in an economy of self-governing firms, the problem of employment is theoretically distinguishable from the problem of investment and growth. In the theoretical scenario just sketched out, expanding employment is a problem only at the level of the individual firm. At the level of the economy, however, it would be dealt with by ensuring ease of entry for new firms. If unemployment existed and enterprises failed to respond to rising demand for their product by expanding employment, new firms would do so; hence both investment and employment would increase. As to investment, except in the circumstances just described, members of a self-managed enterprise would have strong incentives to invest, and thus to save, whenever by doing so they would increase the surplus available for distribution to themselves (cf. Jay 1980, 17–27; Schweikart 1980, 73–74, 103–36).

In the real world, however, these comparisons between theoretical models do not take us very far. As Peter Jay remarks:

So far we have been comparing the rational investment behavior of workers' cooperatives with the rational behavior of idealized capital enterprises working according to textbook optimization. If we actually lived in the latter world, we would hardly be considering the problem discussed in this paper at all.

(Jay, 20)

Turning then to the domain of practical judgment, it seems likely that in the real world, self-governing
enterprises might stimulate as much savings, investment, and growth as American corporate enterprises have done, and perhaps more, because workers typically stand to incur severe losses from the decline of a firm. If we permit ourselves to violate the unenforceable injunction of some welfare economists against interpersonal comparisons, we can hardly deny that the losses incurred by workers from the decline of a firm are normally even greater than those investors suffer; for it is ordinarily much easier and less costly in human terms for a well-heeled investor to switch in and out of the securities market than for a worker to switch in and out of the job market. A moderately foresightful worker would therefore be as greatly concerned with long-run efficiencies as a rational investor or a rational manager, and perhaps more so.

This conjecture is supported by at least some cases in which, given the opportunity, workers have made significant short-term sacrifices in wages and benefits in order to keep their firm from collapsing. They did so, for example, at both Chrysler Corporation and the Rath Packing Company. And when workers own the company their incentive to sacrifice in order to save it is all the stronger. As a worker in one of the plywood co-ops put it, "If things get bad we'll all take a pay cut. You don't want to milk the cow, because if you milk the cow, there's nothing left. And we lose the company" (Zwerdling 1980, 101).

Perhaps an even more relevant example is that of Mondragon, a complex of more than 80 worker cooperatives in Spain. During a period in which the Spanish economy was expanding generally, the sales
of the Mondragon cooperatives grew at an impressive rate, averaging 8.5 percent from 1970 to 1979. Their market share increased from less than 1 percent in 1960 to over 10 percent in 1976. The percentage of gross value added through investment by the cooperatives between 1971 and 1979 averaged 36 percent, nearly four times the average rate of industry in the heavily industrialized Basque province in which Mondragon is located (Thomas and Logan 1982, 100-105). Moreover, when a recession in the Spanish economy led to declining profits in 1981, “investment [was] squeezed, but the workers [were] prepared to make sacrifices to keep their jobs, digging into their own pockets to keep the balance sheets in shape” (The Economist, 31 October 1981, 84). Members chose to contribute more capital rather than cut their wages. Thus the members of one co-op voted to increase their individual capital contributions by amounts that ranged from $570 to $1,700, depending on wage level. Nor have the self-managed enterprises of Yugoslavia on the whole followed the theoretical model advanced by critics of self-management. Though the causes are complex, with some exceptions they have not sacrificed investment to current

4. Dirlam and Plummer comment that the self-managed enterprises “do not (contrary to Ward’s model) appear to reduce output when prices rise, but they set their prices to cover costs, including fixed cost . . . and akontacija wage—if they can obtain it. They may try to cut employment to improve the firm’s financial position, but only in circumstances where private owners would probably follow the same course” (1973, 57). The akontacija is in effect a monthly wage, as distinct from a periodic (usually annual) bonus visak allocated in successful firms from the surplus over planned costs.
income but, on the contrary, have maintained very high levels of investment.5

A final observation on the problem of savings, investment, employment, and growth: The introduction of self-governing enterprises could be accompanied by the creation of new investment funds operating under democratic control. Although a system of self-governing enterprises of the kind suggested in this chapter differs in crucial ways from the proposals for wage-earner funds advanced by the Swedish Social Democratic party, that proposal is relevant because of its emphasis on funds for investment. Often called the Meidner Plan after its author, Rudolf Meidner, who developed it with his colleagues in the research bureau of the national trade union organization or LO (Meidner 1978), the proposal was

5. According to one estimate, until recently Yugoslav investment may have run as high as 35 to 40 percent of the national income (Sirc, in Clayre 1980, 166 and 194; see also Rusinow 1977, 127). However, this extraordinarily high rate was at least partly attributable to rates on long-term loans that kept the real interest rate low or negative; the failure to enforce penalties for nonpayment of loans (including short-term loans that bear higher rates); the practical absence of bankruptcy as a deterrent; and the “political” nature of many loans (Estrin and Bartlett 1982, 90–93; Dirlam and Plummer 1973, 183). Many Yugoslav economists concluded that the rate of investment was excessive, and exacted too high a cost in consumption. In the mid 1960s, a debate on this question (and others) erupted between “conservatives” who blamed market forces and “liberals” who saw a need for strengthening market forces even more (Rusinow 1977, 126ff). Despite frequent reforms in the system of banking and credit, by 1983 the economy was in deep recession, and the 1983 economic development plan called for a cut of 20 percent in public investment (The New York Times, 9 January 1983, 6).
adopted by the LO in 1976 and, in altered form, by the Social Democrats in 1978. As revised by 1980, the proposal would require the largest firms—altogether about 200 companies—to set aside each year 20 percent of their profits in the form of “wage-earner shares” that would carry voting rights. As a result, ownership of these firms would gradually pass to the employees. At a 10 percent rate of profit, for example, wage earners would gain majority ownership in about thirty-five years.

However, the wage-earner shares would not belong to individual workers, as they do in employee stock ownership plans, nor to the workers of an enterprise collectively. Instead, the shares and therefore the voting rights would be transferred to various national and regional funds, which would be governed by representatives elected by wage-earners—all wage-earners, it should be added, not only those employed by the 200 or so contributing firms. A firm’s employees would never control more than 20 percent of the voting rights in their own firm, whereas an increasingly larger share would accrue to one of the representative bodies. With a powerful, unified, and

6. In an attempt to meet objections to the original Meidner plan, by 1980 the plan had become quite complex. The description given here is partly drawn from an unpublished paper by Peter Swenson, “Socialism on the Democratic Agenda: The Swedish Proposal for Labor Ownership and Control in Industry” (1980). I want to express my appreciation to Peter Swenson for allowing me to use the information in his paper. I have also profited from a paper by Bo Gustafsson, “Co-determination and Wage Earners’ Funds, the Swedish Experience” delivered at a conference on The Limits of Democracy, Perugia, 26–28 April 1983.
inclusive trade union organization and a history of success in using centralized national bargaining to equalize wages and a centralized government to socialize incomes, the Swedish labor movement and the Social Democratic party are disposed to favor a more centralized solution than the system I am suggesting. The important point, however, is that the funds are intended not only to provide "economic democracy" but also to ensure a greater supply of capital for investment.\textsuperscript{7}

Much closer to the idea of self-governing enterprises described here is a proposal introduced in Parliament by the Danish Social Democratic party in 1973 (Ministry of Labour 1973). The proceeds of a payroll tax covering most Danish firms (about 25,000) would be divided, in effect, in two parts. One part—the smaller—would go to a national investment and dividend fund that would be used both to strengthen Danish investment and to provide a social dividend to Danish workers. Virtually every worker would receive certificates from the fund in an amount proportional to the number of years worked but not to the employee's wage or salary. The certificates would be nonnegotiable, but an employee would have the right to withdraw the value of his certificates after seven years or at age 67; upon death their value would be paid to the employee's estate. The other and larger part of the proceeds from the payroll tax would re-

\textsuperscript{7} Although the Social Democrats muted their support in the 1982 elections, in 1983 they undertook to implement the plan by legislation, despite massive and clamorous opposition from businessmen and some white-collar workers.
main in the firm as share capital owned collectively by the employees, who would vote as enterprise-citizens, that is, one person, one vote. The employees' share of capital, however, and thus of voting rights, would not be permitted to increase beyond 50 percent—presumably a provision to reassure private investors. Like the Meidner Plan in Sweden, the Danish proposal is intended to achieve several purposes: greater equalization of wealth, more democratic control of the economy, and, definitely not least in importance, a steady supply of funds for investment.

Thus it is not inconceivable that workers might enter into a social contract that would require them to provide funds for investment, drawn from payrolls, in return for greater control over the government of economic enterprises. If self-governing enterprises proved to be better matched to the incentives of workers than hierarchically run firms, and thus more efficient, a system of self-governing enterprises might be a prescription for economic growth that would surpass even Japan's success—and leave recent American performance far behind.

Means: Managerial skills. A disastrous assumption of revolutionaries, exhibited with stunning naivete in Lenin's *State and Revolution*, is that managerial skills are of trivial importance, or will arise spontaneously, or will be more than compensated for by revolutionary enthusiasm. The historical record relieves one of all need to demonstrate the foolishness of such an assumption. The question is obviously not whether self-governing enterprises would need managerial
abilities, but whether workers and their representatives would select and oversee managers less competently than is now the case in American corporations, which are largely controlled by managers whose decisions are rarely open to serious challenge, except when disaster strikes, and not always even then (Herman 1981). If a system of self-governing enterprises were established it would be wise to provide much wider opportunities than now exist in any country for employees to learn some of the tools and skills of modern management. One source of the Mondragon cooperatives' success lies in the prominence they have assigned to education, including technical education at advanced professional levels. As a result, they have developed their own managers (Thomas and Logan, 42–74). In the United States, at least, a significant proportion of both blue- and white-collar workers, often the more ambitious and aggressive among them, aspire to supervisory and managerial positions but lack the essential skills (see, e.g., Witte 1980). Efficiency and economic growth flow from investments in human capital every bit as much as from financial capital, and probably more (cf. Denison 1974). A system of self-governing enterprises would be likely to heighten—not diminish—efforts to improve a country's human capital.

If in the meanwhile skilled managers are in short supply, self-governing enterprises will have to compete for their services, as does Puget Sound Plywood, a worker-owned cooperative. The president and members of the board of trustees are elected by and from the members, who all receive the same pay.
However, the president and board in turn select a general manager from outside the membership “because he can command pay that is far in excess of what he could realize as a shareholder [i.e., as a worker-member]. . . . The qualifications for being a general manager are not what one would normally gain from working in a plywood mill. So we usually employ the best person we can find in the industry” (Bennett 1979, 81–82, 85).

Means: Efficiency. Unless self-governing enterprises were less competent in recruiting skilled managers, they should be no less efficient in a narrow sense than American corporations at present. And unless they were more likely to evade the external controls of competition and regulation, they should not be less efficient in a broader sense. I have suggested why it is reasonable to expect neither of these deficiencies to occur.

Yet if self-governing enterprises can be as efficient as orthodox firms, why have they so often failed? As everyone familiar with American and British labor history knows, the late nineteenth century saw waves of short-lived producer cooperatives in Britain and in the United States. Their quick demise convinced trade union leaders that in a capitalist economy unionism and collective bargaining held out a much more realistic promise of gains for workers than producer cooperatives. In both countries, and in Europe as well, labor and socialist movements largely abandoned producer cooperatives as a major short-run objective. Most academic observers, including labor
economists and social historians, concluded that the labor-managed firm was a rejected and forlorn utopian idea irrelevant to a modern economy (e.g., Commons et al. 1936, 2:488).

In recent years, however, a number of factors have brought about a reassessment of the relevance of the older experience (cf. Jones and Svejnar 1982, 4-6). These include the highly unsatisfactory performance of both corporate capitalism and bureaucratic socialism, whose failings have stimulated a search for a third alternative; the introduction and survival—despite severe difficulties—of self-management in Yugoslavia; some stunning successes, such as the U.S. plywood cooperatives and the Mondragon group; formal economic analysis showing how a labor-managed market economy would theoretically satisfy efficiency criteria (Vanek 1970); growing awareness of the need to reduce the hierarchical structure of the workplace and increase participation by workers in order to increase productivity; and the seeming success of many new arrangements for worker participation, control, or ownership in Europe and the United States.

In sum, it has become clear that many failed labor-managed firms had been doomed not by inherent weaknesses but by remediable ones, such as shortages of credit, capital, and managerial skills. Moreover, in the past, producer cooperatives have usually been organized in the worst possible circumstances, when employees desperately attempt to rescue a collapsing company by taking it over—often during a recession. It is hardly surprising that workers may fail to save a
firm after management has already failed. What is surprising is that workers' cooperatives have sometimes succeeded where private management has failed. For example, it was from the failure of privately owned companies that some of the plywood co-ops started (Berman 1982, 63).

I have also mentioned the Mondragon producer cooperatives in Spain as an example of success. They include their nation's largest manufacturer of machine tools as well as one of its largest refrigerator manufacturers. During a period of a falling Spanish economy and rising unemployment, between 1977 and 1981, employment in the Mondragon co-ops increased from 15,700 to about 18,500 (Zwerdling 1980, 154ff. and The Economist, 31 October 1981, 84). Unless they are denied access to credit—the Mondragon complex has its own bank (Thomas and Logan, 75–95)—self-governing enterprises have a greater resiliency than American corporations. For in times of stringency when an orthodox private firm would lay off workers or shut down, the members of a self-governing enterprise can decide to reduce their wages, curtail their share of the surplus, if any, or even contribute additional capital funds, as at Mondragon. As these and other cases show, self-governing enterprises are likely to tap the creativity, energies, and loyalties of workers to an extent that stockholder-owned corporations probably never can, even with profit-sharing schemes (cf. Melman 1958).

Although rigorous comparisons of the relative efficiencies of labor-managed and conventional corporations are difficult and still fairly uncommon, the best
analysis (Jones and Svejnar 1982) of a broad range of experiences in a number of different countries appears to support these conclusions: participation by workers in decision-making rarely leads to a decline of productivity; far more often it either has no effect or results in an increase in productivity (see also Simmons and Mares 1983, 285–93).

How Much Internal Democracy?

Often the effects of more democratic corporate structures have been greatly exaggerated by both advocates and opponents. Yet just as the democratization of the authoritarian structures of centralized monarchies and modern dictatorships has transformed relations of authority and power in the government of states, so there is every reason to believe that the democratization of the government of modern corporations would profoundly alter relations of authority and power in economic enterprises. Relationships of governors to governed of a sort that Americans have insisted on for two hundred years in the public governments of the state would be extended to the hitherto private governments in the economy.

If too often exaggerated, it is nonetheless a grievous mistake to underestimate the importance of democratic institutions in the domain of the state. It is similarly a mistake to underestimate the importance of authoritarian corporate institutions in the daily lives of working people. To be sure, democratic structures
do not escape Robert Michels’s “iron law” that organizational imperatives create a thrust toward oligarchy. But Michels’s “law” is neither iron nor a law. At most it is a universal tendency in human organizations; and it is often offset, if never wholly nullified, by the universal tendency toward personal and group autonomy and the displacement of strictly hierarchical controls by at least some degree of mutual control. It is not unreasonable to expect that democratic structures in governing the workplace would satisfy the criteria of the democratic process neither markedly worse nor markedly better than democratic structures in the government of the state.

Conclusion

My arguments in this chapter have shown, I think, that the main objections to democratizing economic enterprises are not adequately supported by analysis and evidence. It is not true that self-governing enterprises would violate a superior right to private ownership. It is not true that the assumptions justifying the democratic process in the government of the state do not apply to economic enterprises. Nor is it true that democracy in an economic enterprise would be a sham. If these objections are invalid, then a country committed to the goals I described in Chapter 3 would choose to extend democracy to economic enterprises. The prevailing view among the people of such a country might be something like this:

If democracy is justified in governing the state,
then it is also justified in governing economic enterprises. What is more, if it cannot be justified in governing economic enterprises, we do not quite see how it can be justified in governing the state. Members of any association for whom the assumptions of the democratic process are valid have a right to govern themselves by means of the democratic process. If, as we believe, those assumptions hold among us, not only for the government of the state but also for the internal government of economic enterprises, then we have a right to govern ourselves democratically within our economic enterprises. Of course, we do not expect that the introduction of the democratic process in the government of economic enterprises will make them perfectly democratic or entirely overcome the tendencies toward oligarchy that seem to be inherent in all large human organizations, including the government of the state. But just as we support the democratic process in the government of the state despite substantial imperfections in practice, so we support the democratic process in the government of economic enterprises despite the imperfections we expect in practice. We therefore see no convincing reasons why we should not exercise our right to the democratic process in the government of enterprises, just as we have already done in the government of the state. And we intend to exercise that right.
By committing itself to a system of self-governing enterprises, a democratic people would take an important step toward attaining the goals of political equality, justice, efficiency, and liberty, both political and economic. They would, of course, continue to face many problems that this structural change would not resolve or even ameliorate. These—the problems of any complex society in a complex world—are naturally beyond the scope of my concerns here.

For example, it seems obvious that a system of self-governing enterprises of the kind described here would still require the central government to exercise authority over many important matters: military and foreign affairs, fiscal and monetary policy, social security and medical care, regulation of externalities judged harmful in comparison with regulatory costs (food, drugs, pollution, etc.), and so on. It might also be desirable for the central government to adopt and implement policies bearing on investment, savings,
general economic growth, and sectoral growth or decline. Finally the central government would need to ensure relative ease of entry of firms, not only for the sake of fairness but also to prevent monopolistic exploitation of consumers. Thus a system of self-governing enterprises, no matter what their form of ownership, would not reduce the central government to a mere nightwatchman practicing a laissez-faire policy. Nor would such a system prove to be functionally equivalent either to a Proudhonian anarchist society based on autonomous associations of workers, a market, and free contracts, or to a society decomposed into completely independent and self-sufficient communes.

Four problems, however, are particularly germane to the argument that self-governing firms could make a significant contribution to a democratic society's goals.

Fairness

Although what constitutes a proper standard of equity or fairness in the distribution of economic re-

1. Even in Yugoslavia, divesting the central government of control over fiscal and monetary policy left it with inadequate means for combating inflation, unemployment, foreign trade deficits, and individual and regional inequalities in wealth and incomes. As Dirlam and Plummer remark, “The 1971 constitutional amendments made the functions of the central government so limited that it would be difficult to imagine Professor Milton Friedman or William Buckley, Jr., withholding their approval” (1973, 186).
sources is endlessly debatable, it would be very hard to develop a reasoned argument that the prevailing distribution of wealth and income in the United States satisfies defensible standards of equity. Few people, in fact, attempt to justify economic inequality as equitable. Even Robert Nozick, who perhaps among recent writers advances the strongest argument against governmental interference with existing property rights, conspicuously avoids doing so. Yet many people who might agree that the prevailing distribution is inequitable would justify it as necessary to efficiency, growth, and full employment. Even among those who hold that the high degree of economic inequality now prevailing is not strictly necessary to ensure business performance, many would agree that because of trade-offs between equity and efficiency, any justifiable redistribution would still have to fall considerably short of reasonable standards of equity (Okun 1975).

In an economy like that of the United States at present, economic performance does seem to require forgoing a very large measure of distributive justice. But if, as I have just suggested, an economy of self-governing enterprises, though by no means fully self-regulating, would make it easier to disperse income and wealth much more widely, then it would also be more equitable. To be sure, even if all enterprises were self-governing, the resulting distribution would not satisfy moderately strong standards of fairness—for example, John Rawls's proposal that no departure from equality in distribution should be permitted unless it improves the lot of the worst-off (Rawls 1971).
If a country were to adopt self-governing enterprises as its model, therefore, its people might also want to see whether they could agree on some general principles of equity in distribution, however rough these principles might be. In applying the principles—by means of taxes and transfers, for example—they would no doubt want to consider possible conflicts between distributive fairness and other important values, including efficiency and growth. But since it would be foolish for me to try to prescribe here the specific solutions a country ought to adopt, much less to predict the pragmatic solutions it would be likely to adopt, I shall not do so.

The important point is that major inequalities in wealth and income in countries like the United States do not flow from interfirm or interindustry wage differentials. They are caused primarily by two other factors: a highly concentrated ownership of property and very large payments to top corporate executives whose decisions are, for all practical purposes, independent of all effective external controls. By dispersing income from ownership more broadly and by bringing executive salaries and bonuses into line, a system of self-governing enterprises would produce a more equitable distribution of wealth and income. By enacting inheritance taxes large enough to prevent the hereditary transmission of wealth, a country could provide a still fairer distribution of life chances among all its citizens.

While a system of self-governing enterprises would not be sufficient to create a perfectly just society, it would enable a country to enjoy a far greater mea-
sure of distributive justice than Americans are likely to achieve under their present system of corporate capitalism.

Ownership

How should self-governing enterprises be owned? Four possibilities are particularly relevant: individual ownership by members of an enterprise; cooperative ownership of an enterprise by all its employees; state ownership; or ownership by "society."

Individual ownership. In some producer cooperatives each member owns one share in the firm; owning a share entitles the worker to one vote. This arrangement upholds the principle of one person, one vote, and together with other features provides a basis for democratic control over decisions. Unlike firms in which employees own shares in varying amounts and accumulate votes proportional to shares owned, then, the ownership of a single share and thus a single vote respects democratic criteria.

However, as David Ellerman has argued, worker cooperatives based on share ownership may confront a fatal dilemma: If they are financially unsuccessful, they go under; but if they are successful, as the worker-owned plywood cooperatives of the Pacific Northwest have been—indeed spectacularly so—then their shares become so valuable that prospective new members often cannot afford to buy their way in.²

2. "In the better plywood co-ops, a share can be priced in the $60,000 to $80,000 range" (Ellerman 1982, 15).
while members who want to leave the company, particularly on retirement, will prefer to sell their shares to the highest bidder, a process that may lead to a takeover by outsiders and destruction of the cooperative (Ellerman 1982; Zwerdling 1980, 95–104).

Furthermore, if the high market value of the shares excludes potential new members, a cooperative may be undermined in a more subtle way. Because members have not wanted to dilute the value of their shares to make it possible for new members to join, some of the plywood cooperatives (like some of the Israeli kibbutzim) have resorted to hiring wage laborers who, not being members, are distinctly second-class citizens in the enterprise (Zwerdling, 102–3).

Cooperative ownership. To remedy this difficulty and at the same time to affirm the cooperative nature of an economic enterprise, Ellerman and others contend that the workers in a firm should own it cooperatively as a group, a solution adopted by the Mondragon cooperatives in Spain (Thomas and Logan 1982, 7, 149–61; Ellerman 1982, 13–17). Under this scheme, the rights pertaining to ownership are not distributed to individual workers but are vested in the workers as a collectivity. As in any territorial democratic unit, the rights of citizenship in the enterprise are determined not by ownership but by membership. Just as citizenship in a democratic country entitles one to full and equal rights as a member of the polity, but does not entitle one to claim ownership of an individual share of the country’s wealth, so too in a cooperatively owned enterprise members have full and equal rights but cannot lay claim to a share in the assets or net
worth of the firm to dispose of as they choose. Thus instead of receiving transferable shares of stock, each enterprise-citizen is entitled to an "internal account" to which an allotted share of surplus revenues (after wages and other costs, of course) is allocated. Workers might be required to pay a fee in order to acquire membership in the cooperative, in which case their fee creates an initial balance in their internal accounts.³ At the close of an accounting period, such as a year, the surplus (or loss) is allocated and credited (or debited) to the internal account of each employee.

If the cooperative prospers, the value of the internal accounts, of course, increases. Although these balances, unlike stock certificates, are nontransferable, members are ordinarily entitled to draw on them, within limits designed to protect liquidity. Thus an employee who leaves or retires will not be faced with the task of finding a buyer for his share, as in the plywood cooperatives, but will be able to withdraw the balance, perhaps over a period of several years.

State ownership. Another alternative is the familiar socialist solution of state ownership. This alternative is, however, clouded by the history of state ownership both in socialist thought and in practice. For the arguments given by socialists and others to justify state ownership ordinarily have also justified denying

³. As of 1982 in the Mondragon Cooperatives "the fee is around $5,000, with about 25% down and the remainder being paid by payroll deductions over a two-year period. On average, the entry fee covers about 10% of the costs of creating the job" (Ellerman 1982, 10).
to state-owned firms the degree of autonomy that self-governing enterprises would need. Thus after a decade or more of debate over the extent of worker participation in nationalized industries, in 1944–45 the British Labour party flatly rejected the notion that workers were entitled to participate directly in governing state-owned firms (Dahl 1947).

As support for bureaucratic socialism has declined, however, some socialists have considered the possibility of combining state ownership with worker control. David Miller proposes that after acquiring ownership of an industry the state could then lease the firms to the employees, who could then operate them as self-governing enterprises (Miller 1977, 475). Among other advantages this solution symbolizes the public nature of economic enterprises, in contrast to ownership by employees, whether individually or cooperatively, which still retains a strong flavor of private ownership. Symbolic effects are not necessarily trivial, and if a system of self-governing enterprises were inaugurated by a socialist party in a country with a relatively strong socialist tradition, this solution might be attractive.

Symbolic state ownership, however, has its own difficulties. If, on the one hand, state ownership were purely symbolic, then no legal rights whatsoever would be vested in the state, and the government would possess no authority to intervene directly in the activities of the firm to protect the general, public, or social interest. A government could always intervene, of course, by general legislation; but presumably it could do that even without symbolic own-
ership. If, on the other hand, state ownership were to convey legal authority to intervene directly, the autonomy of the firm would tend to be undermined. For in those circumstances it is unlikely that an initial commitment to permit firms to operate independently of the government would long be honored. Given legislative, executive, and bureaucratic pressures to protect the public interest, it is difficult to see how enterprises would avoid becoming politicized and transformed essentially into government agencies. In the end, then, state ownership might prove to be far from symbolic, while self-government would have become so. A solution intended to avoid bureaucratic socialism might instead drift steadily toward it.

Social ownership. According to “the most famous legislative act of the postwar era in Yugoslavia,” later incorporated into the 1963 constitution,

the State ceased to be the formal owner of the means of production, which became “social property.” The workers in each enterprise became, in effect, trustees of the share of this socially owned property committed to their hands in the form of machinery, buildings, etc., exercising their trusteeship through elective organs: workers’ councils . . . and management boards.

(Rusinow 1977, 58)

4. A special form of social ownership, not discussed here, is by trade unions, as with Histadrut in Israel or, much more indirectly, the Employee Investment Funds in Sweden.
Because the employees of a firm do not own its assets but hold them in trust for the society, they cannot, for example, sell off the assets for their own benefit (Dirlam and Plummer 1973, 22). But since Yugoslav society is an entity with no means of acting except through its specific institutions, all the rights, powers, and privileges ordinarily associated with ownership must be lodged in specific institutions. Thus social ownership cannot escape what Najdan Pasic calls "the basic dilemma of public ownership: . . . [and] therefore the basic dilemma of socialism: who controls the great economic power materialized in public property and social capital?" (Pasic, in Rusinow, 328). Among the institutions that speak authoritatively on this question in Yugoslavia, the Party and the government of the state—whether of the federation or of the republics—are crucially important. Because the structure, duties, and authority of the self-managed enterprises are determined by statutory and constitutional law, sovereign authority over the enterprises seems to rest de jure with the state and de facto with the leadership of Party and state. As a result, ownership of enterprises by "society" is almost entirely symbolic. Since even the prohibition against selling off assets is enforced by the state, here too the distinction between state and social ownership is shadowy.

5. "Business consideration may dictate that some of the assets be sold, but the amounts realized must be kept for use of the enterprise. If the enterprise fails, liquidation can take place, but only under public supervision" (Dirlam and Plummer 1973, 22).
However, because the Party-state leadership has since 1950 created and maintained one of the most decentralized economies in the world, it might be contended that Yugoslavia rebuts my previous argument about the probable dynamics of state ownership. The paradox of the Yugoslav system is that this unusually decentralized economy, which not only permits but also probably achieves a higher degree of democratic control within economic enterprises than any other economic system in the world, was imposed and continues to be enforced by a nondemocratic regime. Yugoslavia is thus a mirror image of Western democratic countries: in Yugoslavia the democratic process is required in the governments of economic enterprises but not, or at least not much, in the government of state; in democratic countries, the democratic process is required in the government of the state, but not, or at least not much, in the governments of economic enterprises.

Self-management, originally imposed in Yugoslavia in 1950 for a mixture of pragmatic and ideological reasons, may now be so firmly entrenched that the Party-state leadership could not abolish it without destroying its own legitimacy. Even so, as Dennison Rusinow’s detailed account of the rapidly changing Yugoslav experiment from 1948 to 1974 reveals, the dominant role in deciding, more or less unilaterally, what the fundamental political and economic structures of Yugoslavia are to be is retained by the leaders of Party and state, who ordinarily act in and through the Party Congresses. To be sure, social groups, interests, ideologies (within the broad rubric of Marx-
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ism), and national identities are often reflected both within the party and in legislative assemblies of the localities, provinces, republics, and the federation. Yet the Party-state leadership has never tolerated organized opposition to its policies, programs, or ideology, or submitted itself to open electoral competition (cf. Rusinow, 261, 330-32, 346).

The example of Yugoslavia suggests three conclusions. First, we cannot infer from Yugoslavia's experience what the dynamics of "social" ownership would be in a system with the range of political rights, pressure groups, parties, ideologies, and institutions characteristic of countries governed by systems of polyarchy. Second, because the rights, powers, and privileges of ownership cannot be directly exercised by "society" but must be vested in a society's institutions, in practice "social" ownership guarantees that leaders who control the government of the state will play a powerful role in shaping the institutions of self-management. Third, "social" ownership does not automatically solve the problem, as Pasic puts it, of "how to prevent self-management from perverting 'social property' into 'group property' through appropriation of effective ownership rights by the professional cadres or even the workers who [manage] it" (in Rusinow, 328). In one sense, every democratic unit is "private" in relation to other units, even more inclusive ones. Insofar as an economic unit is governed by its workers, it cannot be governed by others. Thus in Yugoslavia "social ownership" is effectively converted into the cooperative ownership of the workers in the particular unit. How
much would it actually change things, then, if the Yugoslav constitution were to prescribe cooperative rather than social ownership of economic entities?

Adventages of cooperative ownership. Cooperative ownership avoids the problems arising from the need to dispose of individually owned shares, as in the plywood co-ops; yet like individual ownership it provides more protection for the autonomy of the firm against bureaucratic control by the state than would state or, in all likelihood, “social” ownership.

State and social ownership intensify one additional problem that is rarely confronted explicitly: What constitutes an appropriate entity for self-government? Quite beyond the question of workplace democracy, in democratic theory generally the problem of the unit is quite formidable; indeed, it may admit of no satisfactory theoretical solution (Dahl 1983). In any case, the problem must be faced if economic enterprises are to be democratic. Concretely, if “enterprises” were to be self-governing, what would constitute an “enterprise”? If a “workplace” is to be democratic, what is the “workplace”? Often a self-governing enterprise could easily be defined at the outset, particularly if it is converted from an existing firm as in cases like the Vermont Asbestos Group, South Bend Lathe, or Hyatt-Clark Industries, Inc., which was converted from General Motors’ New Departure Hyatt Bearings division.

But suppose certain workers within an enterprise claim a right to form their own independent, self-governing unit? Must such a claim be granted auto-
matically? Why so? Must their claim not satisfy certain criteria? If so, which ones? Imagine that in the Widget Producers Co-op a unit that makes hardware for the widgets is highly capital intensive. The workers in the hardware unit wish to form an independent hardware co-op. What is more crucial, they also want to assume full control of the machinery and equipment for making hardware. Are they automatically entitled to claim the Widget Co-op's capital equipment for their own use? Or must they pay for it, say, from their own revenues?

Under either state or social ownership, criteria for a suitable unit would have to be established by law and enforced by the state—rather as the National Labor Relations Board (NLRB) must determine what constitutes an appropriate unit for collective bargaining. In Yugoslavia, the Constitution of 1974 in effect destroyed the enterprise as it had existed since 1950, completing the gradual evolution of "work units," created in the late 1950s and since 1971 called BOALs (Basic Organizations of Associated Labor), into the central legal entity of the economic system. . . . Net income from economic activities was now BOAL income, its use and distribution with few restrictions under each BOAL's control; the enterprise had no income of its own.

(Rusinow, 328-29)

As with the NLRB and the collective bargaining unit, the determination of what constitutes an appropriate economic entity for self-government is not so much beyond practical solution as simply difficult and bur-
densome: the NLRB has had to create a vast and formidable body of case law on the matter of the proper bargaining unit.

Cooperative ownership offers the possibility of a less legalistic solution to this problem. Suppose that any group of workers would be legally entitled to become an independent, self-governing cooperative provided they could acquire the assets they need for their work, by purchase, lease, rental, or whatever. If, for example, the workers in the hardware unit could arrange to buy the capital equipment they need from the Widget Co-op by means of long-term loans repayable from surplus revenues (as occurred under the ESOP financing package for the Rath Packing Company, Hyatt-Clark Industries, and others), they would be entitled to do so. An independent hardware co-op might contract to supply gadgets to the Widget Co-op, just as Hyatt-Clark contracted to supply bearings to General Motors. Thus simply by negotiating a contract, the parties could settle a complex question that under state or social ownership would require a decision by a regulatory agency of the state.

Capitalism or socialism? I imagine that some people will not know which of these forms of ownership they prefer until they first answer what they assume to be a prior question: Is it capitalist or is it socialist?

But is this question fundamentally important? Surely the key question is not how a proposal is to be labeled but whether and how much it would help a people to realize their fundamental values. No doubt some ideologues will disapprove of a system of self-
governing enterprises unless it can be classified as capitalist; others will disapprove unless it can be classified as socialist. Alas for such simple and rigid ideological views, in the case of cooperative ownership the correct answer is either, both, and neither.

Under cooperative ownership the members of a self-governing enterprise would—as individuals—lack most of the rights thought essential to private property, such as rights to possess, use, manage, rent, sell, alienate, destroy, or transmit portions of the enterprise. Of course, individual shareholders in a private firm also lack those rights as regards the property of the firm; they possess them only as regards their own shares. In a self-governing enterprise, the members might possess all these rights collectively; but they would not possess them individually. In that sense, a cooperatively owned self-governing enterprise would be both public and private: public in relation to its individual members and private in relation to all nonmembers. If you were a member your share of the surplus would belong exclusively to you in the sense that you and only you would be entitled to it; but you could not sell or otherwise transmit your share. Your share would be your personal property, so to speak, but not your private property. Viewed from one perspective, then, a self-governing system would look something like capitalism; viewed from another, it would look more like decentralized socialism.

Attempting to locate such a system within one of these two conventional categories will not, I think, prove fruitful. Speaking for myself, I would not be
greatly distressed if advocates of capitalism were to view it as a new and better form of capitalism, and socialists as a new and better form of socialism. But I know that theological disputes cannot be dismissed so cavalierly.

Leadership

The question of leadership has always been difficult for advocates of democracy, and not least for its theorists. To portray a democratic order without leaders is a conspicuous distortion of all historical experience; but to put them into the picture is even more troublesome. Whether by definition, by implication, or simply as a fact, leaders, as individuals, exercise more direct influence on many decisions than ordinary individual citizens. Thus the superior influence of leaders violates strict criteria for political equality. Given the influence of leadership and a strict interpretation of democracy, many people find it tempting to follow Michels in arguing from the inevitability of political inequality to a non sequitur, the inevitability of oligarchy.

Because leadership is a general problem of democratic theory and practice we should neither expect nor require self-governing enterprises to solve it better, either in theory or in practice, than other kinds of democratic organizations, including local and national governments. Although some writers have tried to justify workplace democracy on the ground that it will be more participatory, more egalitarian, and
generally more democratic than the democratic process applied to the state has so far proved to be, the justification given in this book does not hinge upon such a claim. For my argument is that self-government in work need not be justified entirely by its consequences, for, as in the state, it is justified as a matter of right. And just as the imperfections of the democratic process in the government of the state do not justify abandoning democracy in favor of guardianship, so its imperfections in economic enterprises would not justify our accepting guardianship as better in the government of economic enterprises.

Yet it is of little comfort to say that people have a right to govern themselves disastrously: in such circumstances a people might prefer, and choose, not to exercise that right. In self-governing firms, how would the problem of leadership display itself? Up to this point we have discovered no reason to expect self-governing enterprises to be more poorly governed than American corporations. For example, in selecting executives, employees should be at least as competent as either stockholders or cooptative management in firms with hierarchical, authoritarian structures, and there are cogent arguments that employees in self-governing enterprises would do a better job of selecting managers. (I shall return to this point in a moment.) No doubt executives, because of their special skills and opportunities, would tend to exercise more influence on many matters than rank-and-file members, and to this extent self-governing firms would violate strict criteria of political equality and the democratic process. But then so do virtually
all other democratic organizations, and there is no reason to think that self-governing enterprises would satisfy democratic criteria less than other organizations, including local and national governments.

However, these conclusions by no means cause the problem of leadership to disappear. In particular, any proposal for a system of self-governing enterprises must confront the question of innovation. How are new products to be invented, new processes developed, new systems produced and marketed? How are new economic organizations to be created—whether firms, units within firms, subcontractors, or the equivalent of the Yugoslav BOALs? These are the tasks of entrepreneurship—or, within firms, what one writer has called "intrapreneurship" (The Economist, 17–23 April 1982, 68 and 67–72 generally). How are they to be performed? As long as self-governing enterprises remain a small part of an economy, the task of entrepreneurial innovation might be left to others, even though that neglect would hardly promise well for the growth of the self-governing sector. But if self-governing enterprises were ever to become the standard form, they would have to take on the job themselves.

If innovation were to prove a continuing problem in an economy of self-governing firms, then entrepreneurship could be cultivated by offering special short-term incentives. An organizer of a new firm, for example, might have a grace period of five years or so within which the firm would be exempt from any requirement of self-governance. At the end of the grace period, however, the firm would have to be
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converted into a self-governing enterprise, possibly under a standard national charter.

There are, however, at least three reasons for thinking that self-governing enterprises could handle the challenge successfully. First, self-government may be particularly suitable for smaller firms, and smaller firms are the seedbed of innovation. Despite the mystique of the giant manufacturing firm, neither manufacturing nor the giant corporation represents the growing edge of a modern economy. Since the mid 1960s, the thousand largest firms in the United States have reduced their labor force, while “more than the whole of the [net new] fifteen million private-sector jobs created since then have come in smaller firms”—“more than the whole” because the number of jobs created during the period exceeded the net remaining at the end of the period. In addition, “[the] majority of new extra jobs at any one time [are] in firms less than five years old, even though more than half of new small American firms disappear out of business in their first five years” (Economist, 68). In the United States, Japan, and Britain between 1967 and 1976, manufacturing firms with two hundred or more employees reduced employment, while in these three countries small firms grew. In fact, in both Japan and the United States the fastest rate of employment growth took place in firms with fewer than ten employees. And more than two-thirds of the world’s major inventions over the past fifty years have been discovered by individuals or small businesses (Economist, 67-68).

Second, the style of management typical of the
large American corporation (and many smaller ones as well) is ill-suited to innovation and growth. Authoritarian leadership in the government of a firm suffers from many of the practical defects of authoritarian leadership in the government of the state. At the one extreme, authoritarian leaders stifle criticism, suppress opponents, cut themselves off from intelligence, and, because effective checks to their power are lacking, adopt and adhere to policies that lead to failure. Though leaders in the automobile industry possess far less power than rulers in authoritarian states, and their mistakes have been infinitely less costly, their insistence on building traditional large cars in the face of strong indications of consumer preference having shifted to smaller cars resembles other, more famous failures of authoritarian leadership, such as Stalin's disastrous collectivization of agriculture, Hitler's invasion of the Soviet Union, Mao's Cultural Revolution, and Castro's re-creation of a one-crop economy.

At the other extreme, leaders with strong hierarchical authority are inhibited from gaining an adequate understanding of their most precious resource for productivity, innovation, and growth: their own work force. Because the remoteness of authoritarian leadership in a firm is combined with bureaucratization, reliance on technical analysis, insistence on abstract criteria of performance, and the pursuit of short-term profits to enhance the reputation, salaries, and bonuses of the executives, the orthodox hierarchical management of American firms has become a prescription for economic decline. By contrast, self-
government would virtually compel managers to concern themselves, as Japanese executives tend to do, with the loyalty, welfare, and productivity of their employees.

Our present system hardly begins to tap the potential of the labor force for energy and creativity. How close to a maximum contribution, within humane limits, does the average American employee perform? Whether the actual figure is 1 percent or 20 percent, it is surely far short of what is possible—as the gap in performance between poorly motivated and highly motivated workers has shown in a thousand studies. Is it not reasonable to think that democratic leadership will go further in helping to achieve that potential than authoritarian leadership can ever do?

The third reason for believing that self-governing enterprises could deal successfully with the problem of innovation is the Empresarial (or entrepreneurial) Division of the cooperative bank created by the Mondragon Cooperative Movement. The cooperative bank (Caja Laboral Popular [CLP]) has been a highly successful financial institution that in less than a quarter century has become Spain’s twenty-sixth largest bank, with 120 branches, over a thousand workers, and a half-million customers. Its ability to accumulate savings has been so great that by 1982 its lending capacity had begun to exceed the needs of the cooperatives (Ellerman 1982, 21).

Among other activities, the CLP lends funds to new cooperative enterprises, which are created in the following way. Within the CLP, the Products Department of the Empresarial Division continually ex-
plores possibilities for new markets and products. These "prefeasibility studies" are assembled in a "product bank," which is kept current for reference by new enterprises. Typically, a new enterprise is begun by a group of workers who approach the CLP with a proposal for a product (which may or may not already be in the product bank) and a leader or promoter-manager whom they have designated to work with the CLP. For eighteen months to two years the promoter-manager then works with an advisor in the Products Department to perform a feasibility study, perhaps revising the group's original ideas as to a marketable product. If the proposal then looks promising, the CLP enters into a contract with the group, and the Promotions and Intervention Department of the Empresarial Division helps the group through the difficult process of launching their cooperative. Under the guidance of the Empresarial Division, that process has proved to be strikingly successful:

Even allowing for cultural and economic differences, the record of starting over a hundred firms, including some of the largest producers in Spain, in the last 25 years with only one failure must be seen as a quantum leap over the quality and type of entrepreneurship represented in America where 80 to 90 percent of all new small businesses fail within five years.

(Ellerman 1982, 4)

6. In Ellerman's judgment "the Mondragon feasibility studies are considerably more sophisticated and reliable than even the better ones produced by, say, American MBA's" (1982, 32).
Transition

A system of self-governing enterprises along the lines I have sketched would, I believe, appeal to a people committed to equality with liberty. A wise people, however, would wish for evidence more convincing than abstract arguments seasoned with a few examples of the sort presented here. A practical people would want to know how such a system could best be brought about. A people committed to democracy and political liberty would want to ensure that the transition would respect the democratic process and primary political rights.

Two possibilities would no doubt occur to such a people. One would be to facilitate the takeover by employees of firms in financial difficulty. For example, local and central government agencies could assist the transition with loans, guarantees, and reduction or remission of taxes. The expansion in the number of self-governing firms brought about in this fashion would then provide additional experience with which to appraise advantages and disadvantages, and to indicate a need for changes in the standard structure or in public policies. The experience, however, would be rather lopsided—taking over a failing firm is hardly a fair test. It would therefore be desirable to undertake a more vigorous and valid experiment by bringing about self-government in a few typical firms in several industries. A country might do so, for example, by government takeovers followed by the sale of a firm to employees and reconstitution as a self-
governing enterprise, and by the establishment of an adequately funded bank for self-governing enterprises.

If broader experience were to confirm the initial judgment, a country could then proceed to move much more boldly. Drawing on the Swedish and Danish proposals, for example, the legislature could enact a law requiring that a percentage of revenues, profits, or payrolls be set aside, partly to fund the bank for self-governing enterprises, partly to bring a steady transition to self-governing enterprises. By means of income and inheritance taxes, the residual concentration of wealth could gradually be dispersed. In this way a country could in due time bring about an economic order that, while operating within a relatively stable structure of laws and regulations, would generate a wide distribution of authority and economic resources, and thus provide an appropriate social and economic foundation for a democratic order.
Epilogue

Tocqueville believed that equality, desirable though it may be, poses a standing threat to liberty. But if self-government by means of the democratic process is a fundamental, even an inalienable right; if the exercise of that inalienable right necessarily requires a substantial number of more particular rights, which are therefore also fundamental and inalienable; and if a certain equality of condition is necessary to the political equality entailed in the democratic process, then the conflict, if there be one, is not simply between equality and liberty. It is, rather, a conflict between fundamental liberties of a special kind, the liberties people enjoy by virtue of governing themselves through the democratic process, and other liberties of a different kind.

Among these other liberties is economic liberty, which Americans have generally understood to include a personal and inalienable right to property. Applied to an economic enterprise, ownership carries with it a right to govern the enterprise, within broad limits, of course, set by the government of the state. Transferred from the operation of farms and small businesses to the large corporation, ownership rights have given legality and legitimacy to undemocratic governments that intrude deeply into the lives of many people, and most of all the lives of those who
work under the rulership of authorities over whom they exercise scant control. Thus a system of government Americans view as intolerable in governing the state has come to be accepted as desirable in governing economic enterprises.

I have sketched here an alternative form of government for economic enterprises that holds promise of eliminating, or at least reducing, this contradiction. A system of self-governing enterprises would be one part of a system of equalities and liberties in which both would, I believe, be stronger, on balance, than they can be in a system of corporate capitalism. But whether many Americans will find this vision attractive I cannot say. For we Americans have always been torn between two conflicting visions of what American society is and ought to be. To summarize them oversimply, one is a vision of the world’s first and grandest attempt to realize democracy, political equality, and political liberty on a continental scale. The other is a vision of a country where unrestricted liberty to acquire unlimited wealth would produce the world’s most prosperous society. In the first, American ideals are realized by the achievement of democracy, political equality, and the fundamental political rights of all citizens in a country of vast size and diversity. In the second, American ideals are realized by the protection of property and of opportunities to prosper materially and to grow wealthy. In the first view, the right to self-government is among the most fundamental of all human rights, and, should they conflict, is superior to the right to property. In the
second, property is the superior, self-government the subordinate right.

As a people we are divided among ourselves in the strength of our commitment to these conflicting ideals; and many Americans are divided within themselves. I cannot say whether a people so divided possesses the firmness of purpose and the clarity of vision to assert the priority of democracy, political equality, and the political rights necessary to self-government over established property rights, economic inequality, and undemocratic authority within corporate enterprises.


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Tocqueville pessimistically predicted that liberty and equality would be incompatible ideas. Robert Dahl, author of the classic *A Preface to Democratic Theory*, explores this alleged conflict, particularly in modern American society where differences in ownership and control of corporate enterprises create inequalities in resources among Americans that in turn generate political inequality among them as citizens.

Arguing that Americans have misconceived the relation between democracy, private property, and the economic order, the author contends that we can achieve a society of real democracy and political equality without sacrificing liberty by extending democratic principles into the economic order. Although enterprise control by workers violates many conventional political and ideological assumptions of corporate capitalism as well as of state socialism, Dahl presents an empirically informed and philosophically acute defense of "workplace democracy." He argues, in the light of experiences here and abroad, that an economic system of worker-owned and worker-controlled enterprises could provide a much better foundation for democracy, political equality, and liberty than does our present system of corporate capitalism.

"Tocqueville worried that the equality fostered by democracy would ultimately pose a threat to liberty... Dahl says that Tocqueville's fear was misplaced: it's equality that's in trouble, and the only way to save it and democracy is to extend the principles of political democracy to the business enterprise... it's the argument that counts, and that's worth taking seriously."

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