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Democracy and the Economic Order

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 understanding, 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 . . .
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> *(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 hierarchically 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.[1] 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*.[2] 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

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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 intelligence 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 democracy 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.
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> *(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 consequences. 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, Al, 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 institutions 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 inegalitarian distribution of wealth and income. In the United States the ideological defense of economic inegalitarianism came to be known during the late nineteenth 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.[5] 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.[6] 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 unequal 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.