

2005 Postscript to “Economic Democracy: A Worthy Socialism that Would Really Work”
(written for a Spanish anthology that includes the Spanish translation of my 1992 article)

Context

“Economic Democracy: A Worthy Socialism that Would Really Work” laid out a model that was to form the basis of my book Against Capitalism, published by Cambridge University Press in 1993.¹ The article, like the book itself, was a theoretical response to the triumphalism of the TINA crowd (There Is No Alternative) that followed the collapse of Soviet Union and the rejection of socialism by its satellite states in Eastern Europe. “A Worthy Socialism” was intended to demonstrate rigorously that there is an alternative, at least in theory: an economically viable form of socialism that would be more democratic than capitalism and at least as efficient. Against Capitalism made the same point, but extended the argument further. Economic Democracy would be not only as efficient as capitalism and more democratic, but also more rational in its growth, more stable, more egalitarian, less prone to high unemployment, more ecologically friendly. I was sick of hearing even progressives say that “we are going to have to stop using the term ‘capitalist economy’ as if we knew what a functioning non-capitalist economy would look like.”²

In 1998 I was approached by a publisher to do a more popular version of Against Capitalism, less oriented to professional philosophers and economists, more accessible to students, labor organizers and other sympathetic non-academics. I agreed, and began what I thought would be quick and easy project.

The project was not so “quick and easy.” The result, After Capitalism, did not appear until 2002. It was longer in coming than I had anticipated. I had to do more than update statistics and alter the style. For the world had changed significantly since the early 1990s, and,

as a result (I came to realize) my own focus had changed. My thinking had become (and remains) more praxis-oriented than it had been earlier. Moreover, this change of focus suggested certain supplements to my original model.

The World Has Changed

History has not moved along the path foretold a decade or so ago by so many confident prognosticators. In particular:

- The socialist experiments have not all collapsed.
- The neoliberal experiments have failed almost everywhere.
- A new resistance movement has come into being.

In the early 1990s it seemed to most people that socialism was over, at least for the foreseeable future. The socialist experiment in the Soviet Union had failed. The various attempts that had been undertaken in Eastern Europe to modify, humanize, and make more efficient the basic Soviet model had been brought to a halt. It seemed only a matter of time, the interval presumed to be short, before Cuba, China, Vietnam and North Korea would abandon their socialist pretenses and join the capitalist club. But they didn't.

Cuba, despite a further tightening of the embargo, went through a very difficult “special period,” but has seen its economy rebound significantly.³ Vietnam and especially China have done more than survive. Vietnam has seen its economy grow rapidly, despite the million or so citizens killed by the Americans and their (our) puppet-regimes and the millions of gallons of

poison sprayed on their countryside. China has succeeded over the last quarter century in lifting more people out of poverty than any country has ever done in human history, and, at the same time, has established itself as one of the world's major economic powers.

It should be noted that all three of these countries, which still identify themselves as socialist, have introduced market mechanisms into their economies—as the theory underlying Economic Democracy recommends.⁴ By way of contrast, the North Korean economy remains relentlessly non-market, and continues to deteriorate--as the theory underlying Economic Democracy predicts.

It is not the economies of the countries that continue to profess socialism that have collapsed (as was so widely predicted) but the economies that most fervently embraced the new capitalist orthodoxy. More precisely, the greatest economic disasters of recent years have been those on the extremes—on the one hand, North Korea, which refuses all concessions to the market, and on the other hand, those countries that most avidly privatized, deregulated and liberalized. Clearly, the euphoria that once informed the neoliberal project has evaporated, as those countries that followed the U.S. Treasury/IMF/World Bank prescriptions have all experienced either sharp decline or, at best, minimal growth: the countries that once comprised the Soviet Union, Eastern Europe, Mexico, Haiti, most of Central and South America, most of Southeast Asia, almost all of sub-Saharan Africa—the list goes on and on.

Not many would have predicted a dozen years ago that nations would still be calling themselves socialist today, nor that neoliberalism would have so quickly discredited itself. Fewer still would have predicted the breadth or composition of the opposition that has emerged. At the time I was writing “A Worthy Socialism,” there was no sign of resistance to resurgent global capitalism. Then, in 1994, came the Zapatista uprising in Chiapas, and five years later, in

Seattle, “five days that shook the world.”⁵ A global resistance movement has come into being.

This movement is quite different from the Marxist guerilla movements that had existed almost everywhere in the Third World during the four decades following World War II and from the Communist and Socialist political parties that were prominent in most of Europe during that period. It comprises a strange mix: students, veteran activists, trade unionists, feminists, environmentalists, anarchists, anti-militarists and more—people unified by no common ideology, but somehow committed to a common project—a “counterproject” to that of globalizing capitalism. The coming to power in Latin America recently of governments elected by majorities who are sick of the old formulae has added yet another dimension to this global movement.

Theory with a Practical Intent

Because of this counterproject, my work has become more praxis-oriented than it was before. My orientation has remained theoretical, but the focus is now theory-with-a-practical-intent rather than theory-with-a-theoretical-intent. The point is no longer to refute a theoretical objection (that there cannot exist a viable socialism) but to offer a model that can play a role in clarifying praxis.

The movement for global justice is powerful in its critique of the existing order, and it is visionary in its ideals, which go well beyond the rather “economistic” vision of earlier struggles for socialism. (While still concerned with alleviating poverty and ending economic insecurity, the new vision also embraces gender and racial equality, the preservation of indigenous cultures, the preservation of our planet from the ravages of global capitalism and more.) But this

movement lacks a clear conception of an alternative economic structure. There remains a large gap between the articulated vision and a specification of structural reforms that would realize this vision.

Currently there is much discussion within the movement about both globalization and localism. (“Think globally, act locally” is a popular slogan.) Much is being written about reforming international institutions and also about preserving and developing local economies. Curiously, there is far less discussion about changing radically the economic structure of the nation-state. In some circles the project seems pointless, since (it is said) the nation-state is—or should become—obsolete. This view is mistaken. For if we think seriously about alternatives to capitalism—which we must, if we are to get at a central cause of our global malaise—we see that the most important structural reforms apply in the first instance to the internal constitution of nation-state.

Marx was right about this. Although anti-capitalist activists must never lose sight of the international dimensions of the struggle, we must “win the battle for democracy” in our own countries⁶—not to dissolve national boundaries, but to transform our states into non-rapacious entities that can address the real problems of our own citizens while at the same time giving aid and comfort to those involved in similar struggles all over the planet.

The model set out in “A Worthy Socialism” is a model for a national economy. I now see the point of the model is three-fold. First of all, it can serve as a non-utopian ideal that can be rationally defended, to ordinary people and activists, but also to economists, political scientists, philosophers and other serious scholars. The global justice movement must be able to defend itself against the charge of economic naivety. It is important to undermine the hegemony of conventional wisdom.

Secondly, the model suggests concrete reforms for which the movement can struggle now, reforms that are rooted in the present but point well beyond the present. Just as Marx and Engels, in The Manifesto, advocated concrete reforms that were far from revolutionary, so should we. There are reforms that could be put on the political agenda now that do not challenge the rule of capital directly, yet put in place institutions that could become central to a post-capitalist society. (Marx and Engels noted, as should we, that any reform list would have to be tailored to the specifics of the country in question.)

Thirdly, the model and the arguments that can be marshaled on its behalf help us make sense of the myriad economic “experiments” of the twentieth century. We can see why the early socialist experiments failed. We can see the limits of social democratic reform. We can see why the introduction of capitalist elements into socialist economic structures need not be read as retrogression. We can see how we, as a species, might be learning from our past mistakes, and that there are grounds for optimism regarding our collective future. (Another world is not only possible, but, as Arundhati Roy has so eloquently put it, “On a quiet day, if I listen very carefully, I can hear her breathing.”⁷)

Supplement I: Government as Employer-of-Last-Resort

The basic model of Economic Democracy as set out in “A Worthy Socialism” features three institutions: workplace democracy, a (largely unregulated) market for goods and services, and social control of investment. In the article I refer to “Keynesian inefficiency,” i.e. unemployment. I point out that unlike capitalism, Economic Democracy does not require unemployment. Under capitalism, unemployment serves as the fundamental disciplinary

mechanism, whereas under Economic Democracy the work incentives are positive, since one's income is tied directly to the economic performance of the enterprise. I assert that public control of investment should make unemployment less of a problem.

I now think that this mechanism is insufficient. Structural unemployment is on the rise almost everywhere in the world. The problem must be confronted directly. It is true that Economic Democracy does not depend on unemployment for its health, but it is equally true that there is no automatic tendency toward full employment in a worker-self-managed economy, no more than under capitalism. Unless there is state intervention, there will be significant unemployment. In fact, since there is considerably more job security under Economic Democracy than under neoliberal capitalism, the unemployment problem might be even worse under Economic Democracy—as it is in those European capitalist economies lacking neoliberal “labor flexibility.” (The Right is not wrong in saying that firms are more likely to hire when they can easily fire.)

This problem can be addressed in part, as I indicate in “A Worthy Socialism,” by making job creation a priority on par with profitability in the allocation of investment funds. That is to say, when democratic firms approach banks for investment grants, priority is given to those whose business plans look economically sound and include job creation. While this may make the problem of unemployment less severe than under capitalism (since capitalist investment gives no weight to job creation *per se*), I am no longer convinced that this solution is sufficient. I now propose a fourth institution: the government as employer-of-last-resort. The government should stand ready to give a relatively low-paying job to any able-bodied person who wants to work but cannot find any other satisfactory employment.

This is not, on the face of it, a radical proposal. It has been championed on occasion by

social democratic parties—although not, to my knowledge, ever implemented. For good reason. Such a program cannot work under capitalism. Workers become emboldened in a full-employment economy and make “excessive” demands on their employers, who must either take a cut in profits (not good for investor confidence) or pass on the costs to consumers (not good for them, or, more importantly, for finance capital, which stands in horror of inflation).

It can work under Economic Democracy. It should be part of the basic model. It should also be put on the short-run reform agenda. Almost everyone agrees that able-bodied people should work. The Right has been adept at exploiting this well-grounded working-class moral intuition. (Unemployment compensation is a second-best solution.) The Left should seize the high ground in this debate, and force opponents to explain why full-employment cannot be guaranteed in our present society.

Supplement II: An Entrepreneurial-Capitalist Sector

Although Marx’s critique of capitalism remains unsurpassed, there is an important economic issue which Marx neglected completely and which “Worthy Socialism” treated rather perfunctorily, namely the function of entrepreneurship in society. Marx’s analysis of capitalism focuses on the capitalist qua capitalist, i.e. as the provider of capital. This is a passive function, one which can readily be taken over by the state—as is the case in our basic model. There is no need to bribe those with excess funds at their disposal to save rather than consume, so as to make funds available for investment. It makes more sense to generate society’s investment fund directly, by taxing the capital assets of enterprises. That portion of the surplus that would have gone to private banks as interest payments or to stockholders as dividends goes directly to a fund

earmarked for investment. The capitalist “middle-man” is eliminated. Society no longer has to worry about private investors “losing confidence” in the economy, refusing to invest or sending their savings abroad in search of more lucrative opportunities, thus plunging the economy into recession. Society gains a degree of economic stability impossible under capitalism.

Petty Capitalists

Well and good, but there is another role played by some capitalists—a creative, entrepreneurial role. This role is assumed by a large number of individuals in a capitalist society, mostly by “petty capitalists” who set up their own small businesses, but by some “grand capitalists” as well, individuals who turn innovative ideas into major industries and reap a fortune in the process. Clearly, any society that aspires to be technologically innovative and dynamic must provide incentives for this kind of initiative. It is quite clear from the experience of Soviet socialism that such incentives were sorely lacking in that model.

From the beginning I have argued that Economic Democracy should allow for a “petty capitalist” sector. Although workplace democracy should be the norm throughout society, it is unreasonable to demand that all businesses conform to this norm. The petty capitalist, after all, works hard. He is anything but a parasite. It takes energy, initiative and intelligence to run a small business. These small businesses provide jobs for large numbers of people, and goods and services to even more. True, they are often exploitative of their workers (and themselves), but this problem would be greatly reduced if these businesses had to compete for workers with democratic firms, and if, in addition, the government stood by as an employer-of-last-resort.

Moreover, it is clear from experience that as difficult as it is to set up a small private

business (witness the high failure rates), it is even more difficult to start up a new cooperative enterprise. In both cases initiative and business skills are necessary. But a “cooperative entrepreneur” needs additional skills of a more interpersonal nature, since she cannot hire and fire at will. Indeed, she must subordinate her own will to the will of the collective. Perhaps someday these skills will be so widespread that society need not rely on the initiative of petty capitalists to keep its small business sector vibrant, but that time has not yet come.

Grand Capitalists

Petty capitalists may provide important services to society but they do not provide much in the way to technological or organizational innovation. Here we must confront a more difficult question. Should Economic Democracy also allow for “grand capitalists,” individuals who run large, dynamic companies? Initially I didn’t think so. I was inclined to think that the entrepreneurial function of the large capitalists could be readily enough socialized. After all, most basic research in advanced capitalist societies is funded by the government. Most innovations come from government or university laboratories, and even those generated in the “private sector” tend to come from scientists and engineers who are employees of these private companies, not from the owners. Moreover, the Mondragon cooperatives’ impressive record of keeping abreast technical innovations and even contributing their own demonstrates that it is possible to socialize the entrepreneurial function. Why permit a real capitalist class to exist, a wealthy class that might form an alliance with the petty capitalist class and undermine the democratic, socialist character of society?

I am no longer persuaded by this line of thought. For several reasons. First and

foremost, I am no longer convinced that an entrepreneurial capitalist class need pose a serious threat to a society in which democratic workplaces are predominant. If the arguments set out in my article are correct, then democratic firms, when they have equal access to investment capital, need not fear competition from capitalist firms. On the contrary, since capitalist firms must compete with democratic firms for workers, they will be under considerable pressure to at least partially democratize their own operations, by instituting, for example, profit sharing and more participatory work relations.

Moreover, there are rather simple legal mechanisms that can be put in place to keep this class in check. The basic problem with capitalists under capitalism is not their active, entrepreneurial role (which relatively few capitalists actually play), but their passive role as suppliers of capital. Economic Democracy offers a transparent, rational substitute for this latter role—the capital assets tax. So the trick is to develop a mechanism that would prevent the active, entrepreneurial capitalist from becoming a passive, parasitic one. But such a mechanism is easy enough to envisage: a simple, two-part law stipulating that a) an enterprise developed by an entrepreneurial capitalist can be sold at any time, but only to the state, for a sum equal to the value of the assets upon which the capital-assets tax is paid, and b) the enterprise must be sold when the owner retires or dies. (No bequeathing it to heirs.) When the state purchases an enterprise, it turns it over to the enterprise's workers, to be run democratically. (In the case of a “joint venture” among several entrepreneurial capitalists, the government acquires the shares of the retiring members until it becomes majority owner, at which time the remaining owners are bought out and the firm democratized.)

That is to say, an entrepreneur can develop a business, make as much money from the enterprise as he is able, cash out at any time for any reason, but when he wants to cash out, he

must sell the business to the state. The capitalist-entrepreneur does not retain any residual claim on the enterprise, no stock that will generate a permanent income flow, no control over the new management. Our capitalist-entrepreneur can spend the proceeds of his sale on luxury goods. He can give away as much as he wants. He can start a new business. What he cannot do is purchase stocks or bonds or other speculative financial instruments—for no such instruments exist in our society.⁸ Our investment capital is generated by the capital assets tax, not from private savings. What he (and his class) cannot do is convert profits into income-generating assets, thus concentrating ever more means of production into ever wealthier private hands.)

Such an arrangement provides amply incentives to entrepreneurial capitalists to engage their talents productively, while a) blocking their transition to passive capitalists (capitalists qua capitalists) and, at the same time, b) generating new worker-run enterprises. Using entrepreneurial capitalists to perform the latter function is quite reasonable, given the fact (noted above) that it is easier to democratize an existing enterprise than to create a democratic firm from scratch. Their being well-rewarded for this socially useful function need not pose a threat to an appropriately-structured socialist economy.

An Aside on China

Although entrepreneurial-capitalists may pose no threat to the socialist character of our society, why do we need them? Perhaps we don't. Perhaps some societies don't, but others might. Developments in China have influenced my thinking on this subject. Although most people on the Left decry the development of capitalism in China, few have thought carefully about the problems involved in making the transition from an inefficient non-market socialism to

a more viable market socialism. How do you generate the small businesses previously non-existent? How do you transform woefully inefficient and overstaffed state enterprises into high-performance firms? How do you provide jobs for those rendered redundant by these reforms?

Of course, if one is convinced a priori that “market socialism” is an oxymoron, one need not think about this problem at all. One can seize the moral high ground and denounce all such developments—without offering anything beyond platitudes as an alternative.⁹ But if one takes the problem seriously, one realizes that allowing a class of entrepreneurial capitalists to develop makes sense, even from a socialist perspective. To be sure, safeguards to prevent the entrepreneurial-capitalist class from entrenching itself as a permanent, dominant class need to be put in place. They are not yet in place in China, but since most capitalists in China are entrepreneurial (unlike the situation in advanced capitalist countries) and since the reform process is still very much in flux, one need not be wholly pessimistic about China’s future.

A Transition Consideration

A final consideration in favor of incorporating an entrepreneurial capitalist class into the structure of Economic Democracy derives from the transition problem. Theory-with-a-practical-intent requires that we be able to give an account of a transition from capitalism to socialism that is at least minimally plausible. We need to be clear that the old models--popular insurrection, general strike, guerilla warfare--no longer make sense:.

But if we try to imagine a transition from an advanced capitalist society to Economic Democracy, we notice something interesting: those companies that would be, technically, the easiest to expropriate and democratize are those for whom ownership and control diverge most

widely, namely those companies whose stocks are publicly traded. These also happen to represent the “commanding heights” of the economy—not in the Leninist sense of being the materially strategic industries (energy, steel, communications, transport, etc.) but rather, in the sense of being the key economic actors in our increasingly globalized economy. Stock ownership is widely dispersed in “public” corporations. Most owners have no knowledge whatsoever of the inner workings of “their” companies. They are wholly passive capitalists—if they are capitalists at all and not just worried citizens with their retirement savings invested in these nebulous entities. (I have in mind here my own country, the United States. The situation may be different elsewhere. The basic point I wish to make, however, is independent of country-specific details.)

Suppose for a moment that a severe economic crisis occurs, causing a meltdown in the stock market—not an implausible assumption. Suppose a government is swept into power with a mandate to solve the problem—“the problem” being the evaporation of those retirement hopes and dreams. It would be a simple matter for the government to offer to offer guaranteed pension annuities in exchange for these now near-worthless stock certificates. Indeed, the government could offer to buy anyone’s existing stock at a price well above the existing market value. In short order the government could easily gain controlling interest in the commanding heights of the economy—and could then turn these firms over to their employees, to be run democratically.

(The massive Savings and Loan crisis that engulfed the United States in the late 1980s followed the first part of this scenario. The government “bailed out” more than a thousand such enterprises, assuming control, paying off debts with taxpayer money. These firms were effectively nationalized, although nobody used the word. The assets of value that remained were

quickly sold off to private bidders. Needless to say, no thought was given to reconstituting the sector as a network of employee-run and credit associations—although, technically, this could have been done. Nor did anyone say “we can’t afford” such nationalization. Indeed, it was precisely the government’s willingness to spend this money that prevented the crisis from triggering a major depression.)

I do not offer this scenario as a prediction, but rather to make a point about capitalism under socialism. If, in addition to democratizing all publicly-traded companies, the government instituted a capital-assets tax, nationalized the banking system, and committed itself to being an employer-of-last-resort, we would have a version of Economic Democracy. The economy would no longer be capitalist, and yet there would still exist a capitalist sector. Not only would petty-capitalist businesses still exist (whose owners would be grateful to have had a major depression averted), but also all those capitalist enterprises, however large, that are privately held, i.e., whose stocks are not publicly traded. There would still exist a capitalist sector, and yet the new economy would no longer be capitalist. It would be something far better than capitalism

Supplement III: Socialist Protectionism

Before examining this claim, let me add one more supplement to my earlier model, this one dealing with economic relations between an Economic Democracy and other nations. “Globalization” wasn’t much talked about at the time “A Worthy Socialism” was written; now (it sometimes seems) economists and political philosophers talk of little else.

The first point to observe is that changing the internal structure of an economy from capitalism to Economic Democracy would, in and of itself, radically alter the nature of cross-

border capital flows. There would be no “run-away shops” under Economic Democracy, at least not in the democratic sector, nor would there be much cross-border investment. No group of workers will vote to relocate their enterprise to a lower-wage part of the world—or anywhere else, for that matter. Investment funds would also remain within the nation, since they are publicly generated and are allocated to regions of the country. Workers are no longer threatened by plant relocation; the country no longer has to fear capital flight.

There remains the matter of trade. Economic Democracy is not averse to trade. Autarchy is not its ideal. Indeed, among countries of comparable level of development, trade can be “free trade,” i.e., no customs, no duties, no quotas. We want our industries to be under competitive pressure to produce efficiently, to adopt the most appropriate technologies, to offer the most desirable products. Such competition, while not wholly unproblematic, is essentially constructive. Such “fair trade” is to be encouraged..

When trading partners are of significantly different levels of development, the situation is fundamentally different. There is nothing constructive about wage competition—seeing who can do the most work for the least money. There is nothing constructive about competition that undercuts a nation’s environmental protection laws. There is nothing constructive about poor-country domestic industries being destroyed by vastly more productive foreign enterprises. These malevolent forms of competition should be blocked—and can be by a policy of “socialist protectionism.”

Countries have had much experience with protectionism, by no means all of it bad. Every developed country in the world has engaged in protectionism. (Dogmatic free-traders want to “kick away the ladder” that has proved so successful to so many countries.¹⁰) When poor countries import from rich countries, they should impose tariffs on those goods that threaten

their agricultural base and their developing industries, and use these proceeds to hasten their own development. (Such a tariff policy must be applied intelligently and honestly--not so simple in practice--but historical experience suggests that a) this can be done, and b) the alternative is worse.)

When a rich country imports from a poor country, it too should impose a tariff, one designed to offset the competitive advantage the poor country enjoys because of its lower wages or laxer environmental standards. Rich country workers should be “protected” from unhealthy competition. But this should be “socialist” protectionism, a protectionism that benefits workers in both countries. Specifically, the tariff collected on an imported good should be rebated to the country of origin—either to the government, if it is genuinely committed to improving the health and well-being of its workers, or to labor unions there, or other NGOs, so committed. As a result of this policy, consumers in rich countries will have to pay higher prices for poor-country imports than they would under free trade. But they do so, knowing that they are both protecting their own workforce and refusing to take advantage of the misery of others. These two considerations, both rooted in social solidarity, go together.

To be sure, there is a downside to this policy for the poor country. Since, as a result of the tariff, prices of their commodities are higher, the quantities they sell will be less. Employment in export industries will suffer. The income received from the tariff rebates may not offset the sales loss.

These are difficult problems for the short-term, and must be addressed by phasing in the tariffs selectively and over time, but the long-term perspective is clear. In the long run, wage-competition is not good for workers in either country. In the long run, competition that undercuts environmental regulations is not good for workers in either country. In the long run it

is not good for poor countries to devote their best land and most valuable resources to satisfying the cravings of rich-country consumers, nor is it good for them to have their domestic agriculture and industry decimated by vastly more productive foreign technologies.

If a rich country is serious about reducing global poverty (as one would expect an Economic Democracy to be), it should engage in strategies that benefit poor countries directly. These are not so hard to specify: Make “intellectual property” freely available to poor countries—no patents on drugs or technologies. Offer scholarships to technical schools and universities. Engage in joint projects with researchers in poor countries to develop “appropriate technologies.” And, of course, stop insisting on unrestricted access to their markets. Rich and poor countries alike should be “protectionist.”

On the Superiority of Economic Democracy

I have claimed that a country structured as an economic democracy would be a) economically viable and b) more desirable than capitalism. In “A Worthy Socialism” I concentrated on the first claim, since the “impossibility” of socialism was being widely proclaimed at the time. In my subsequent books I have developed the second claim in considerable detail. Let me offer a brief sketch of the main arguments, for they highlight consequences of the proposed structural alterations that are not always obvious. Indeed, it might seem that the structural changes that define Economic Democracy, which leave us with an economy that does not look so very different from the one we have today, fall far short of addressing the real problems confronting humanity.

This misgiving is not baseless. If we simply change our economic institutions, but

change nothing else, we will not resolve the problems confronting our species. The changes proposed here democratize the economy. But the outcome of a democratic procedure depends on the decency and wisdom of those exercising their democratic rights. If the citizens of an Economic Democracy are predominantly racist, sexist, homophobic, mindlessly consumerist anti-environmentalists, then the democratic workplace will be rife with discrimination and the allocation of investment funds will ignore ecological concerns. Structural economic reform is not a magic bullet. There is much serious work to be done by other elements of the counterproject that is no less important than the project of structural economic reform.

It is equally true, however, that such changes as advocated here can be expected to have, in and of themselves, a number of positive consequences and to make possible even more. Things become possible under Economic Democracy that are not possible under capitalism.

Let us consider briefly the following problems that appear to be (and are) endemic to capitalism: economic inequality, unemployment, overwork, poverty, and environmental degradation.

Inequality

Economic Democracy is a market economy, so there will be inequality. Some firms will do better than others, depending on the quality and dedication of the workforce, the intelligence of management, and luck. Within an enterprise, some will be paid more than others. It is up to the worker councils to set pay scales, but they will likely allocate greater shares of the firm's net profit to those with greater responsibility, higher skill and more seniority. The overall level of inequality, however, can be expected to be much less than under capitalism, for three basic

reasons.

First of all, since salary differentials must be justified to the workforce, the differential between highest paid and lowest will be much less than under capitalism. Democracy tends to be more egalitarian than authoritarianism. It is worth observing that the salary of the President of the United States, our highest paid government official, is \$400,000 a year, a sum that would strike the CEO of a major corporation, who may well make thirty times that amount, as pitifully small. A rough calculation: if the differential between highest and lowest paid within a firm is five to one (surely enough to motivate) and the profit-per-employee differential among firms is five to one (again quite substantial), the gap between the highest and lowest incomes in society would be a twenty-five to one—far from equality, but not remotely comparable to capitalist inequality. (In the United States, some 8,000,000 households earn less than \$9,000 per year, while some 400 households reported incomes of \$90,000,000 in 2002. That is a ratio of ten thousand to one.)

Secondly, although high executive salaries are often the focus of attention in discussions of domestic inequality, the really big money under capitalism comes from property ownership—dividend and interest payments derived from stocks and bonds. These sources of income would be virtually non-existent in Economic Democracy. (If Bill Gates, the world's richest man, stopped working altogether, but continued to receive a modest 5% return on his estimated holdings of \$50 billion (2004), he--then his heirs, then their heirs, etc.--would continue to receive \$2.5 billion per year—forever.)

Thirdly, since investment funds are dispersed annually to regions on a per capita basis, rich regions do not tend to get richer while poor regions get poorer (or at least richer less rapidly)—as is the historical tendency under capitalism.

Unemployment

Having the government of an Economic Democracy serve as employer-of-last-resort, as outlined above gives us full-employment economy. Unemployment is irresolvable under capitalism, for reasons already discussed.

Overwork

It might seem paradoxical that unemployment should correlate positively with overwork (not enough work coexistent with too much work)—but of course this “paradox” is no mystery to those of us who live under capitalism. The greater the threat of unemployment, the easier it is for owners to extract more work from their employees. This is particularly true in neoliberal countries, where employees can be fired at will, but the pressure to work longer and harder exists as well in social democratic countries, where job security is higher, since enterprises in these countries must compete with the enterprises of neoliberal countries.

One might think that this problem would persist under Economic Democracy, even if the unemployment problem were solved and our workers were protected from “unfair” competition from abroad, since market competition still exists. This is not so. It is important to understand why not.

For structural reasons, competition among democratic firms tends to be less intense than among capitalist firms. Whereas capitalist firms tend to maximize total profits, democratic firms tend to maximize profit-per-worker.¹¹ As a consequence, competition tends to be negative rather

than positive. Firms do not want to lose market share, but they have little incentive to expand rapidly, for expansion means hiring more workers—with whom they must share their increased profits. Thus firms are ever vigilant to adopt the most cost-effective technologies, develop the products that consumers want, and work efficiently, but their workers do not face the threat of a hostile takeover or brutal downsizing—the sort of threat that encourages overwork. Indeed, workers in a democratic firm can make the choice to work less, not more, without fearing for their firm's demise. This will mean a cut in income, or, if a more productive technology is introduced, less of an income gain that would be otherwise possible, but since both consumption and leisure are desirable goods for workers, such a choice might well be made. (Notice—a capitalist firm has no incentive whatsoever to offer workers more leisure, unless their pay cut would more than compensate. Struggles over the length of the working day, the amount of vacation time, etc. have always been class struggles, pitting workers against owners.)

Poverty

Like unemployment and for the same reason, domestic poverty is endemic to capitalism. If unemployment were not degrading, it would lose its disciplinary effect. Full employment under Economic Democracy, when combined with social-democratic pension and child-support measures, solves the problem of domestic poverty. Our policy of socialist protectionism together with the other policies mentioned in the discussion of that policy address the problem of global poverty.

It should be noted that the global goal of Economic Democracy is not a world wherein everyone consumes at the level of currently rich countries. This level of consumption is not

sustainable. That is the “bad news.” The “good news” is that such a level of consumption is not required for human flourishing. Scientific research confirms what common sense and all the major religious traditions affirm: money does not buy happiness. Once basic needs are met (including the need for meaningful work), there is no correlation between consumption and happiness.

Environmental Degradation

There is a fundamental conflict between capitalism and ecological sustainability. Capitalism is inherently expansionary. Every firm is under the imperative: grow or die. The system as a whole requires growth for its health and stability. If the economy is not growing, private investors lose confidence, refuse to invest or invest elsewhere, thus throwing the economy into recession.

Capitalism is inherently expansionary. The ecological “carrying capacity” of our planet is not. Economic Democracy is not. A democratic firm does not have to keep growing, so as to satisfy its owners or fend off hostile takeovers. Although democratic firms will continue to look out for new, more productive technologies, workers have options that do not exist under capitalism. They can, as noted above, take their productivity increases in the form of more leisure. They can reorganize the workplace to make jobs more meaningful. In the presence of an environmental movement that strives to convince people to consume less, workers may well be motivated to choose these latter options over consumption.

Citizens might also insist that investment funds be made available to firms that want to design more environmentally-sound products or install more environmentally-friendly

production processes. (As noted at the beginning of this section, the structural changes that define Economic Democracy do not guarantee such important goods as moderation in consumption and sustainable development, but they do make them possible.)

Update on Economic Experiments

“A Worthy Socialism” makes reference to a number of then-current economic experiments. It is worth revisiting these, if only briefly.

Yugoslavia, which has served as an inspiration for much early theorizing about worker-self-management, is no more. The country was coming apart as I wrote the article. The wreckage is now complete. A great and hopeful experiment has come to an end.

I noted at the time that “the problem in Yugoslavia does not appear to be an excess of workplace democracy.” That statement still stands. I know of no study of the Yugoslav disaster that claims worker-self-management to be a crucial factor. The theoretical perspective underlying Economic Democracy suggests that major fault lay with another feature of the Yugoslav model--its allocation of investments. It is quite clear that Yugoslavia did not exercise the control over investment correctly.

First of all, Yugoslavia, like many other low- and middle-income countries, succumbed to the temptation to borrow large amounts of the low-interest “petro-dollars” that had accumulated in the late 1970s as a result of the OPEC price increases, so as to avoid confronting difficult domestic choices. It thus found itself, like so many other countries, in a financial crisis when the low interest rates turned sharply upward in the early 1980s.

This policy mistake was greatly compounded by the central government's allowing

republics excessive autonomy in generating and allocating investment. Predictably, the gap between the more developed and less developed regions widened, setting the stage for the regional and ethnic tensions that soon exploded.

Another sad story: In “A Worthy Socialism” I cited the remarkable turn-around of Weirton Steel, which, threatened with closure, had been purchased by its employees, making it the largest employee-owned enterprise in the United States. The good times did not last. Weirton’s twenty-year experiment in worker-self-management ended in 2003, in bankruptcy.

Of course the U.S. steel industry has been plagued with bankruptcies, more than thirty in the last few years—but that is not the whole story. The Weirton failure cannot be taken as evidence against worker-self-management, for a more basic reason: Weirton was not a worker-self-managed enterprise. It was worker-owned, but not worker-controlled (precisely the opposite of the enterprise structure in Economic Democracy). Although Weirton’s workers owned 100% of the company’s stock, they held only three of the thirteen seats on the company’s Board of Directors. (Because the workers had to borrow so much to acquire control, financial institutions providing the loans insisted on this condition.) How did the Board perform? One of its members, who served for eleven years, has written about his experience in a book whose title reveals its basic thesis: *Board Betrayal: The Weirton Steel Story: Failed Governance and Management Hand in Hand with Arthur Andersen*.¹²

In contrast to the sad stories of Yugoslavia and Weirton Steel, there is Mondragon, which I labelled in my article, “an unequivocal success.” Thirteen years later, I would say the same. The Mondragón Corporación Cooperativa (MCC) is now Spain’s seventh largest corporation, with sales in excess of 10,000 million euros. It employs some 70,000 people (far more now than the 20,000 reported in my article), half of them in the Basque Country, 39% in other parts of

Spain, 12% abroad. (Job creation remains a fundamental goal of the organization.) It now has a university with some 4000 students, a network of professional and vocational training centers, and ten research centers. Among its many citations for excellent is its listing by Fortune Magazine in 2003 as one of the ten best companies in Europe to work for.

MCC has been criticized for not implementing its cooperative model fully. Only half of the 218 companies and bodies that now comprise MCC are cooperatives; those outside the Basque region tend not to be. MCC argues that it has been difficult to set up the external enterprises as cooperatives, partly because many of these are joint ventures, partly because of the cooperative laws in other areas, but mainly because successful cooperatives require members who understand and are committed to cooperative culture, something which is impossible to obtain over a short period of time. They point out, however, that in accordance with a General Assembly resolution passed in May 2003, efforts have been undertaken to enable non-member employees to participate in the ownership and management of their companies.¹³

Despite the fact that MCC is an island in a capitalist sea—and is thus shaped in part by the battering of those capitalist waves, it remains empirical evidence of the first order that large, technically-sophisticated, economically-efficient democratic enterprises are possible.

Concluding Summary

The basic model set out in my article has not been discredited by subsequent events. I remain convinced that Economic Democracy is indeed “a worthy socialism that would really work.” It represents a viable alternative to capitalism that can orient our understanding of real-world economic experiments of past and present, and suggest concrete reform possibilities worth

fighting for now.

The more concrete specification of the model adds the proviso that the government serve as an employer-of-last-resort and a policy of socialist protectionism. This more concrete specification also allows for a capitalist sector, certainly a petty-capitalist sector, but perhaps also, depending on conditions, an entrepreneurial-capitalist sector of “grand capitalists.”

Economic Democracy is not a world where the lions lie down with the lambs, where all is peace and harmony, where all problems disappear. But it represents a qualitative advance beyond what we have now, beyond capitalism. It would be a healthier, happier place for almost everyone. Despite such setbacks as Yugoslavia and Weirton Steel, there is no reason to think that such a society, indeed, such a world, is impossible. It is more than merely possible. “On a quiet day, if I listen carefully, I can almost hear her breathing.”

NOTES

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1. A Spanish translation appeared in 1998 as *Mas allá del capitalismo* (Santander: Sal Terrae), a Chinese translation appeared in 2003 (Beijing: Renmin University Press).
 2. These words from the well-known philosopher and public intellectual Richard Rorty, writing in the widely read liberal monthly, *Harpers* (May, 1992).
 3. Those with memories might wonder why the embargo was tightened after the collapse of the Soviet Union, since it was Cuba’s ties to a hostile super-power that was the ostensible justification for the blockade in the first place. It is clear now that another motive has always been operative: the threat of a good example. Cuba, although poor, has become a fully literate society with First World health and mortality indices. It has accomplished this feat without capitalism.
 4. Of course it is much debated as to whether these countries still are socialist, particularly China, but when viewed from the perspective of Economic Democracy, the capitalist-restoration thesis appear less than convincing. For more on the question of China, see my "Successor-System Theory as an Orienting Devise: Trying to Understand China," *Nature, Society, Thought*, vol. 17, no. 4 (2004): 389-413.

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5. The title of a fine book by Alexander Cockburn and Jeffrey St. Clair, subtitled Seattle and Beyond (London: Verso, 2000).
 6. Cf. Karl Marx and Friedrich Engels, *The Communist Manifesto*, first part of Section II.
 7. Arundhati Roy, *War Talk*, (South End Press, 2003), p. 75.
 8. A capitalist in our society might want to invest in foreign markets. This need not be prohibited, although income from such investments could be highly taxed.
 9. For a representative example of this approach, see Martin Hart-Lansberg and Paul Burkett, *China and Socialism: Market Reforms and Class Struggle* (New York: Monthly Review Press, 2005).
 10. See Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective* (Anthem Press, 2002) for a forceful statement of this argument.
 11. Neither of these maximization strategies, much discussed in the theoretical literature, is strictly observed in practice, but the tendencies to which they point are real.
 12. Phillip Hartley Smith (Ladelsheet Publishers, 2003). For a briefer but concurring analysis, see John D. Russell, "Lessons from the Recent Failure of Weirton's ESOP," *Labor Notes* (May 2004).
 13. This and the other information on Mondragon has been taken from www.mondragon.mcc.es, accessed June 9, 2005. A visit to this frank but inspiring website is recommended. (There, for example, you will learn that the Catalonian co-operative Ecotècnia, part of the MCC and engaged in the manufacture and operation of wind-powered generators and solar power installations, achieved a turnover of 183 million euros in 2004, thereby quadrupling its sales over the last two years.)