Robin Blackburn

Economic democracy: meaningful, desirable, feasible?

To some, economic democracy is self-evidently a good thing if it means spreading economic opportunities more widely, giving workers a greater say in the workplace, and allowing communities to participate in the investment decisions that shape their future. Indeed, a classic argument has it that political democracy – universal suffrage, civic freedoms, and all that is needed to make them practical and effective – will work better if accompanied by 'social' or 'economic' democracy. Absent the latter, real civic participation will be low and big money will corrupt the political process, especially in complex societies where commercial networks can shape political agendas and the cost of campaigning is high.

While few deny the need to reform the way elections are run and financed – a source of recurrent scandal in nearly every rich country – another line of thought would challenge the conclusion that it makes sense to aim for economic democracy. The very phrase is thought to be a contradiction in terms, or a category mistake. Economic processes are too complex to be governed by votes and electioneering. Governments can and must lay down some basic ground rules, but, as Friedrich Hayek showed, they lack the locally specific information required to run complex enterprises effectively, still less to plan the entire economy. On the one hand, consumer needs are too intricate and changeable; on the other, the myriad of specific investment opportunities at the local level can never be known at the planning center.

While Hayek's critique of central planning was in many ways compelling, it failed to acknowledge the extent to which markets rely on the wider social context in which they are embedded. It also did not demolish the argument that public initiative and collective resources are necessary to meet large-scale and manifest threats.[1]

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1 I sought to address Hayek's argument in "Fin De Siècle," in Robin Blackburn, ed., *After the Fall: The Failure of Communism and the Future of Socialism* (New York: Verso, 1991).

Votes can be effective if directed at a few, simple large-scale choices – alternative policy packages – on a national or even global scale. Ideally, this political democracy would extend to such basic concerns as how best to address climate change or improve public health. In principle, voters would also decide the scope of taxation and of social programs. But there is a widespread sense that prevailing power structures and interest groups narrowly constrain actual outcomes. Economic democracy might be a way to allow greater, more effective citizen input.

Political democracy is based on the principle of one person, one vote. In national politics this principle is easy enough to apply, and one might imagine it playing some role in a more democratic global order. But how would the idea of one person, one vote translate to the everyday economic world?

When I took the equivalent of Economics 101 we still used Paul Samuelson's classic textbook. It opened with the observation that we could think of markets as a sort of electoral process in which dollars work like votes. When a consumer makes a purchase, or a businessman an investment, their dollars function like votes in favor of what they choose. Aggregated across the economy, these 'votes' steer output in one direction or another.

But dollars, unlike votes, are not equally distributed among the citizenry. In the postwar period, the heyday of that textbook, such an objection seemed weaker because both wealth and earnings had undergone a 'great compression.' CEOs did not like to be seen taking too much out for themselves and, instead, showered their employees with benefits.

We all know that things stand very differently today. Most of the gains since 1980 have been garnered by the rich and the superrich – not the top 1 percent of households, but the top 0.1 percent and 0.01 percent. If we take residential property out of the equation, the concentration of wealth is even greater: the top 1 percent own half of all corporate securities and money-market bonds, while half of U.S. households own no productive property at all.[2]

Such plutocracy is especially difficult to justify when it derives, as it now so often does, from chief executives being extravagantly rewarded for indifferent or even negative results, or from backdated options, or from monopolistic forms of financial intermediation. Eliot Spitzer, the New York attorney general, revealed systematic abuse of the latter sort in investment banking, fund management, and insurance in the years 2002 – 2006. These investigations led a Republican Senator, Peter Fitzgerald of Illinois, to describe the U.S. financial services industry as "the world's largest skimming organization."[3]

Basically, the corporate-securities and money-market instruments not owned by the very rich are held by institutions, supposedly in the interests of millions of middle-class holders of 401(k)s or members of employer-sponsored pension and health plans. This institutional wealth, however, constitutes 'grey capital,' since the property rights and privileges it confers are very unclear. It gives leverage not to the beneficiaries, but to financial and

2 Thomas Picketty and Emmanuel Saez, "Income Inequality in the United States, 1913 – 1998," *The Quarterly Journal of Economics* 118 (1) (2003); Gérard Duménil and Dominique Lévy, "Class and Income in the U.S.," *New Left Review* 30 (November – December 2004): 105 – 133, 112.

3 John Plender, "Broken Trust," *Financial Times*, November 21, 2003.

corporate executives whom the beneficiaries have no way of controlling.[4]

Moreover, the classic function of capital markets and financial institutions was to direct capital to where it could most profitably be invested. In the era of financialization they have discovered another vocation: to sustain the momentum of sales by reorganizing and extending credit networks. Large companies like General Electric and Ford now have profitable finance arms, which lend money or devise leasehold arrangements in order to facilitate product sales.

For their part, the swanky investment banks display great interest in mortgages and consumer debt – especially those of the risky subprime variety because they attract the best rates. They purchase huge amounts of this debt, repackage it in credit derivatives, slice it up into ten tranches according to their degree of risk, hedge each tranche according to a different formula, and sell on the resulting collateralized debt obligation (CDO) to pension and mutual funds.

This practice has been very profitable, but in a changed business climate the magic could evaporate.[5] Instead of helping to sustain demand, it could squeeze it remorselessly, as interest rates rise and bad debts inflict losses on the holders of the CDOs. Regrettably, elected governments have only deregulated financial institutions to allow the party to continue.[6]

The financial inflation of demand is essentially a way of putting purchasing power into the hands of consumers without redistributing wealth toward them. In addition to challenging the inflation of demand (and the way it masks the growing inequality in wealth), we must also ask ourselves how much we control what we demand and how that demand is met.

To a certain extent the consumer is sovereign, since rivalrous corporations must attempt to ingratiate themselves more successfully with consumers. But to represent this consumer-oriented commercial complex as economic democracy would be very much a step too far. Naomi Klein's *No Logo* and Joel Bakan's *The Corporation* furnished vivid accounts of corporate marketing to condition our desires. As Klein and others revealed, an insidious barrage of advertising shapes consumers' views of what they want and need – beginning at a young age. Children's peer-group rivalries direct taste, and their 'pester power' mobilizes adult spending. Even those with miniscule incomes on the global periphery of capitalist exchanges are entangled in this consumer logic.

This is not to say that the consumer's needs are entirely unreal. The need for food, clothing, and shelter are certainly real. But they can be met in a myriad of different ways, each of which will reflect cultural taboos or socially instilled ideals of what is satisfying and appropriate.

Consumers also have very little say over how demand is met. We can trace this phenomenon back to the origins of capitalism in the sixteenth and seventeenth centuries. Commercialized agriculture had put money in the hands of farmers, landlords, merchants, profes-

4 Robin Blackburn, *Banking on Death or Investing in Life: The History and Future of Pensions* (London: Verso, 2002).

5 Michael Gibson, "Understanding the Risks of Synthetic CDOs," Federal Reserve Bank, Working Paper No. 36, 2004.

6 Andrew Glyn, *Capitalism Unleashed: Finance, Globalization and Welfare* (Oxford: Oxford University Press, 2006); Robin Blackburn, "Finance and the Fourth Dimension," *New Left Review* 39 (May – June 2006): 39 – 72.

sionals, and even day laborers, enabling them to buy exotic luxuries like sugar, tobacco, spices, dyestuffs, cotton, and coffee. But it was enterprising merchants (grocers) who decided to meet that demand by organizing plantations staffed with indentured servants and slaves. As Thomas Holt observed, the English housewife buying a packet of sugar by means of her penny-votes was helping to set in motion a gigantic new social order based on the antithesis of individual choice and freedom.[7] If you like, a certain type of economic democracy was breeding another type of economic bondage and tyranny.

We continue to live in a world where the apparently innocent acts of the Western consumer are linked to sweatshops and the depletion of scarce vital resources. The difficulty with dollar power is not only that it is very unequally distributed but also that it only confers a second-order say, leaving the corporations and capital markets to make most of the crucial decisions about how demand will be met. Governments can regulate, but they are often too remote, too ignorant, and too clumsy to make any difference. Social movements can agitate, but their boycotts tend to have only a momentary impact. Corporations are flexible and have staying power; public concern is fickle. It can tire of activist stridency and succumb to the determined wooing of any apparently contrite corporation.

How can we construct a responsible economic democracy? How can more participate in the making of economic decisions? How can we distribute economic resources more fairly and thriftily? While we will never be able to construct institutions that guarantee ethical ways of producing and consuming, some arrangements may facilitate responsible behavior and social justice, just as too many of today's institutions do the opposite. In the following sections, I will present some negative and a few positive examples.

The nonstatist socialist Left of the twentieth century – especially of the latter half – was drawn to the idea of workers' self-management. When Tito's Yugoslavia broke with Stalin, it turned to this concept as an alternative to a command economy. For a while it worked rather well, and by the late 1960s the country was beginning to bring a measure of prosperity to most regions. But Yugoslavia remained a one-party regime, and even though it exercised a comparatively mild dictatorship, this political situation hobbled democracy in the enterprises as much as anywhere else.

A further problem was that even where managements were genuinely responsive to the workforce, what of those workers who were not employed at all, or who were employed by other enterprises? This problem became acute in the 1970s and 1980s when significant unemployment surfaced. Enterprise managements were quite solicitous of the interests of core workers, but not of those who were casually employed or unemployed.

And if two enterprises had different ideas about regional priorities, would the company with the most employees have to prevail? Obviously, the absence of real democracy in the wider society meant there was no legitimate arbitrator. But even moves toward a little more democracy did not help; indeed, it was

7 Thomas Holt, "Marking Race, Race Making and the Writing of History," *American Historical Review* 100 (1) (February 1995): 1 – 21, 7. See also Robin Blackburn, *The Making of New World Slavery: From the Baroque to the Modern, 1492 – 1800* (New York: Verso, 1997).

accompanied by aggravated nationalism in the Federation's constituent republics.

Because these self-management structures had such limited power, it would be absurd to hold them responsible for the tragedy that unfolded in the 1990s. But what transpired demonstrated that fairly positive microgovernance arrangements do not necessarily add up to a good solution to macroeconomic problems, which included, in this case, inflation, regional inequality, and unemployment.[8]

The German system of *mitbestimmung*, or comanagement, whereby workers are represented on the second of a two-tier management board, presents similar difficulties. With this system Germany overtook the United States, in 2005, to become the world's largest exporter. But Germany's other indicators of macroeconomic well-being, especially a stubbornly high unemployment rate of around 10 percent for the last two decades, tell a less inspiring story.

Another version of enterprise-level economic democracy is employee share ownership plans (ESOPS). One can make a case for employees holding some stock in their employer. Such ownership might give them some channels of information and the prospect of a share of the profits. But there are also big risks. When Enron collapsed in 2001, its employees held, on average, about half of their 401(k) savings in the form of Enron shares. Therefore, they lost not only their jobs but also half of their savings.

Although the unhealthy nature of such concentrated risk has led to greater caution, many U.S. employees still hold too much of their 401(k) savings – over a quarter on average – in their employer's stock. Employee stock ownership has been high at a number of troubled corporations – such as United Airlines – where employees were offered stock in exchange for wage or benefit cutbacks. This example points to another common problem: employers often find it easier to issue stock than to stump up cash when contributing to employee savings plans.

Neither does possession of such corporate securities give employees added leverage. In fact, it sometimes seems to increase their exposure to employers' blackmail: 'Abandon your benefits or see your job and savings destroyed.' Furthermore, the modern corporation is so vulnerable to the capital markets that small-scale individual shareholding already confers only what are known on Wall Street as 'subordinated' rights of ownership. Otherwise put, individual shareholders have little clout: they are at the end of the line of those with a claim over a company's assets.

The most successful example of employee self-ownership and self-management is the Mondragon Cooperative Corporation, based in the Basque country of Spain. Mondragon grew from eight cooperatives in 1960, employing 395 worker-members, to ninety-two cooperatives in 1980, employing over 18,000 worker-members. By 2004, the group was Spain's seventh-largest corporate entity, with combined assets of 18.6 billion euros and 70,000 worker-members. The group produces electrical goods, automobile components, machine tools, and furniture. It has a construction division and a retail chain, and maintains important research and training programs.

Crucial to the post-1980 growth and diversification of the group has been a

8 Robin Blackburn, "The Break-up of Yugoslavia," *New Left Review* 199 (May – June 1993): 100 – 119.

bank, the Caja Laboral Popular, which supplies overall financial coordination and planning, and an Enterprise Board, which guides each new start-up. By 1995, Caja had 1,380 employees and was a major force in the Basque region.

In the early days, the small size of the group, and the shared Basque and Catholic background of most members, eased the tasks of governance. Once the group grew larger and more diversified, however, finance made a crucial contribution to its expansion and coherence, exerting a certain discipline on each of its constituent enterprises. In the late 1980s, overall leadership of the entire group was vested in a Cooperative Congress, representing every constituent cooperative, and in an elected Standing Congress Committee.[9]

Mondragon is still only an island of community collectivism within a capitalist context, but it is a more plausible stepping-stone toward economic democracy than other variants of self-ownership or self-management. Mondragon employee-members have some concentration of risk, but the now quite diversified nature of the group's assets and activities has served to reduce this. The ability of Mondragon to sustain growth, to defend an egalitarian pay structure, and to make provision for the educational and cultural needs of its members, notwithstanding the pressures of globalization, is certainly an achievement and belies the determinism of 'flat world' prophets like Thomas Friedman.

But Mondragon, framed by the wider Spanish and global context, is at best an incomplete recipe for a whole society. Any strategy for a more democratic economic order would still have to reckon with the corporate organization of the modern capitalist economy, and the greatly unequal distribution of productive wealth.

Another path toward greater collective participation in economic decision making stresses the potential role of regional or municipal government. Dynamic local economies often display the benefits of cooperation among local governments, universities, and businesses. On the one hand, enterprises can count on social inputs that would have been too costly for any given concern to have paid for by itself, while, on the other, such enterprises know they must ensure that the whole community shares in their success. China's Township and Village Enterprises draw on such logic and have made a large contribution to the country's overall advance. But, often, much depends on a local notable and his connections, with little scope for genuinely democratic feedback.[10]

The Brazilian city of Porto Alegre, and its attempt to develop 'popular budgets,' offers a different model of local mobilization. In the 1990s the Brazilian Workers Party (PT) won the city's election and decided on a model of extended civic participation that would begin rather than end with their assumption of office. While the PT had its own ideas about how the municipal budget should be raised and spent, it handed detailed deliberation and implementation over to

9 See Robert Oakeshott, *Jobs and Fairness: The Logic and Experience of Employee Ownership* (Norwich: Michael Russell, 2000), 448–493; and the website of the Mondragon Cooperative Corporation.

10 Jean Chun Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley: University of California Press, 1999); Angus Maddison, *China's Economic Performance in the Long Run* (Paris: OECD, 1998); Chun Lin, *The Transformation of Chinese Socialism* (Durham N.C.: Duke University Press, 2006), 106–107.

assemblies in every district where citizens could voice their own priorities and concerns. The system was so popular that it even survived the 2005 elections in which the PT lost its majority on the municipal council.

Today about fifty thousand people in a city of 1.5 million play an active role in the budget process. Although this number represents less than a tenth of the adult population, it still reflects greater civic participation than what one would find in most states, where only a third or a half of the population even vote, let alone play a direct role in shaping collective decisions.

It is worth noting that participation is higher in the city's small, manageable neighborhoods than in its large, anonymous central district. The system's real limitation, however, stems from the constraints on the municipal government's ability to raise revenues. Even though local authorities often aim to stimulate local production, they are revenue-consuming rather than revenue-producing entities. If it is to have real substance, economic democracy should be about organizing wealth production as well as the disposal of the wider economic surplus.[11]

One of the most innovative attempts to construct an economic democracy in and against a developed capitalist context was – and to some extent still is – the Swedish welfare state, or the 'Swedish Home.' The architects of this system, Gosta Rehn and Rudolf Meidner, were economists for the LO, Sweden's main trade-union federation. Influenced by John Maynard Keynes and James Meade, the two men understood that they would need to think through welfare and corporate finance together if Sweden was to maintain high employment levels and avoid inflation. Remarkably, their model succeeded in delivering on both fronts for a long time. The same cannot be said about other European welfare states, where monetary stability was achieved at the expense of a long and debilitating toleration of high unemployment levels, which affected younger workers, older workers, and ethnic minorities the most.

The Swedish welfare state also guaranteed its citizens secondary pensions and health care. This policy is a significant departure from the more prevalent formula, which offers private corporations tax incentives to take on the task of supplying social insurance to their employees. Corporate welfare has proved to be a trap for employees, depriving them of their promised benefits and threatening their jobs, as once-famous companies plunge into bankruptcy and entire industries – steel, airlines, automobile, and telecoms – stagger under the burden of pension and health entitlements. The corporate pensions crunch has destroyed many good jobs. In their place are now McJobs – low-wage, insecure service employment.[12]

The cornerstone of the Swedish model was the annual national wage-bargaining round. This device allowed for a debate on social priorities while safeguarding high levels of employment. High employment rates are, of course, positive, but they can result in inflation when the bargaining power of key workers is strong and their wage demands high. The wage round ensured a degree of restraint in wage demands from the best-placed workers in return for new

11 Marion Gret and Yves Sintomer, *Porto Alegre : L'espoir d'une autre democratie* (Paris : n.p., 2002).

12 I document this process in Robin Blackburn, *Age Shock : How Finance Is Failing Us* (New York : Verso, 2006), chap. 3.

social guarantees. But this still left the problem of well-placed corporations garnering superprofits because their employees had moderated their claims. Meidner's response to this issue set the scene for an ambitious attempt to bring about a new dimension of economic democracy, one which did not seek to suppress the market but rather to democratize the investment process.

Meidner's proposed resolution was to establish strategic social funds – 'wage-earner funds.' These funds would be financed by a 'share levy' on the large corporations that were going to benefit from the wage-bargaining round. In other words, to prevent the excess profits from going solely to shareholders, the corporations would have to donate shares equivalent to a fifth of their annual profits to a regional network of wage-earner funds. A portion of these funds would go to an enterprise-level body run by the employees, who would thereby acquire a growing stake in their employer. But the bulk of the funds would be channeled to the regional network, representing local communities and trade unions. The shares acquired by the funds would not be sold but held to generate future revenue. The funds would also be able to influence the large corporations by voting their stock at AGMs. In exchange, the corporations would gain from publicly provided coordination and services, and a healthy and well-educated workforce.

The Meidner plan was a response to a specific challenge, but it is not difficult to see that it might have given a novel twist to the classic left-wing dream of an equal and self-governing society, in which workers by hand and by brain would assume the leadership of society. Unfortunately, Sweden did not fully adopt the plan, even though the LO endorsed it in 1976. Indeed, the federation's normally stolid ranks greeted its passage at that year's conference with cheers and rounds of the "Internationale." The membership of the Social Democratic Party was also enthusiastic.

The party leadership, however, did not share Meidner's vision, and did a poor job of commending it to the Swedish people. Meidner's plan was very radical; they were not. In hindsight, aspects of the plan were also ill-advised. The management committee of the funds should, perhaps, have been solely responsible to all the citizens of a locality, with no special position for trade unions. The proposed structure aroused fears, even among trade unionists, of excessive concentration of power in the hands of trade-union leaders. The privately owned media ran quite a successful campaign focusing on this issue. But the modifications made by the Social Democratic leaders went in the wrong direction and handed control of the funds to financial technocrats. Opponents of the plan also played up the fact that private-sector workers would get ahead of public-sector employees.

When the social funds were eventually set up in 1982, the corporate contributions were quite modest, and no longer furnished a means whereby citizens could channel future revenues to social objectives or regional growth.[13] Moreover, Sweden faced a severe financial crisis in the early 1990s, and the Rehn/

13 The best overall account of Meidner's strategy is found in Jonas Pontusson, *The Limits of Social Democracy* (Ithaca, N.Y.: Cornell University Press, 1992). The original plan for wage-earner funds is set out in Rudolf Meidner, *Employee Investment Funds* (London: Allen & Unwin, 1978). For an account of the struggles over its implementation see Jonas Pontusson, "Sweden: After the Golden Age," in Perry Anderson and Patrick Camiller, eds., *Mapping the West European Left* (London: Verso, 1994), 23 – 54.

Meidner model did not emerge unscathed. Rehn and Meidner had stepped down long before, and their advice had not been heeded anyway. The social funds, by this time, controlled 7 percent of the shares quoted on the Swedish stock exchange. They were wound up, and the proceeds used to establish a string of scientific research institutes.

But even in its diluted form, the Meidner plan helped propel Sweden to the forefront of the knowledge-based economy. Since Meidner, however, the corporate contribution he sought to raise has been in decline, whether in the shape of taxes or employer-sponsored health and pension plans. Increasingly, we live in societies resembling the French *ancièn regime* before 1789, when the wealth of the feudal aristocracy was largely exempt from tax – now it is the holdings of the corporate millionaires and billionaires. Other signs reminiscent of the age of Louis XVI include the spirit of *après nous le déluge*, the reliance on lotteries, and the emergence of modern variants of 'tax farming' – laws that oblige citizens to pay their taxes (pension contributions) to commercial fund managers rather than to an accountable public body.

But the taboo on effective taxation of corporate wealth is the most crucial sign of a reign of privilege. Meidner's share levy, unlike so many modern taxes, was extraordinarily difficult to evade. Those who stowed their shares in a tax haven would not escape the measure. On the other hand, it was not at all punitive. Unlike traditional corporate taxation, it did not subtract from the cash flow or resources that the enterprise needed for investment. It modestly diluted shareholder wealth without weakening the corporation as a productive concern.

The wage-earner fund proposal reflected the thinking of an earlier generation. Meidner was not born in Sweden but arrived there as a refugee from Nazi Germany in 1934. The notion that workers and citizens should together tame the corporations by acquiring a steadily growing and across-the-board collective ownership was an echo of ideas – notably that of *sachwertfassung* ('realization of value') – that Meidner imbibed in his youth as a *juso* (Young Socialist) from the debates of German and Austrian Social Democratic economists, like Rudolf Hilferding and Karl Polanyi.

With his strong sense of the practical workings of the market economy, Meidner devised an economic democracy defined by the redistribution of *capital* rather than, as with most Social Democrats, simply the redistribution of *income*. On the other hand, his approach did not concentrate power or ownership in the central state but diffused it across a regional network of social funds, responsible to their local communities. From its very origins the scheme was designed to maintain employment levels and assure macroeconomic balances. According to a recent assessment, even the truncated version of the scheme had this effect.[14] Thus Meidner avoided the reproach directed at most locally focused projects (e.g., Mondragon, Yugoslav self-management): that they have been good for particular working collectives or communities, but not for the general interest.

Even after three or four decades, Swedish welfare remains comparatively generous, and Swedish unemployment is only a little over a half of the core EU rate. Swedish parents have ac-

14 For a very positive assessment of the practical effect of Meidner's ideas, see Philip Whyman, "Post Keynesianism, Socialisation of Investment and Swedish Wage Earner Funds," *Cambridge Journal of Economics* 30 (1) (January 2006): 49 – 68.

cess to better child care, and Swedish women have better-paying and more flexible jobs, than are to be found in other advanced countries. But Sweden no longer has a reserve to meet the rising costs of an aging society. Following the stand-off of the early 1980s, the leaders of Swedish Social Democracy began to see Meidner as an embarrassment, a relic of a bygone age. He was consigned to the shadows, and no part of his thinking was more disdained than the wage-earner funds.

It is now a long time since governments of the Left have dared to tackle the corporations and ask whether their owners might be obliged to contribute more to the wider society, without which their own profits would be impossible. Yet without such an attempt how can we check escalating inequality or finance pressing public expenditures? Meidner's attempt to safeguard the 'Swedish home' has been the most far-sighted attempt to think through the 'financial democracy' needed to underpin 'economic democracy,' understood as encompassing a more egalitarian distribution of property, contributing to more generous social outlays, and restoring a degree of social control to an accumulation process now gripped by a heedless and destructive consumerism.[15]

15 I outline the case for a Meidner-style pension regime at the EU level in "Capital and Social Europe," *New Left Review* 34 (July – August 2005): 87 – 114.