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## Economic Democracy: The Left's Big Idea for the Twenty-First Century?

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## Abstract

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oversight is I Accept " has begun Reject All in າ for a Show Purposealism nor the political nent of this the left this y thought to :his. Indeed, economy s aims to ne attempt

s a holistic

and integrative project. Second, economic democracy offers an important method for challenging inequality. The expansion of democratic accountability through representation, and particularly the expansion of opportunity for direct participation in economic decision-making is a fundamentally important method of redressing the structural inequality that continues to be a defining dilemma of our societies.

## Notes

<sup>1</sup> For example, see Gar Alperovitz, "Worker-Owners of Amerca, Unite!," New York Times, December 15, 2011; see also Peter Tatchell, "Economic Democracy—The Left's Big New Idea," Red Pepper, December 2011, < <a href="http://www.redpepper.org.uk/economic-democracy-the-lefts-big-new-jdea">http://www.redpepper.org.uk/economic-democracy-the-lefts-big-new-jdea</a>>.

<sup>2</sup> George D.H. Cole, Guild Socialism Re-Stated (London, UK: Leonard Parsons, 1920), p. 12.

<sup>3</sup> In fact, ideas of economic democracy have crisscrossed these traditions. For instance, see, respectively, Cole, Guild Socialism Re-Stated; and Bertrand Russell,

Propose duard X Bernstei Tudor (Cambri ek, Workers' Councils K. Steven n (Oxford, Vincent, akunin on UK: Oxfo I, Principles **Anarchis** of Politi 965). In recel sues: Alex Gourevi 431-454; Richard sophy & Econom <sup>4</sup> Simo -he Guardia <u>protests-</u> world-lis

<sup>5</sup> Richard Wilkinson and Kate Pickett, The Spirit Level: Why Equality is Better for Everyone (London, UK: Penguin Books, 2010).

<sup>6</sup> Robert Dahl, A Preface to Economic Democracy (Berkeley, CA: University of California Press, 1985); see also Robin Archer, Economic Democracy: The Politics of Feasible Socialism (Oxford, UK: Clarendon Press, 1995); David Ellerman, The Democratic Worker-Owned Firm: A New Model for the East and West (London, UK: Unwin Hyman, 1990); and Donald George, Economic Democracy: The Political Economy of Self-Management and Participation (London, UK: Macmillan Press, 1993).

<sup>7</sup> Power itself is, of course, a complex term. See Steven Lukes, Power: A Radical View, 2nd ed. (Basingstoke, UK: Palgrave Macmillan, 2005), for an insightful discussion of these complexities.

<sup>8</sup> A related issue that I sidestep here is the study of the influence that unequal wealth has in affecting the political process, campaign finance reform, and so forth. While this is clearly an important topic, it is more of an issue of political democracy than economic democracy per se.

<sup>9</sup> Paul De Grauwe and Filip Camerman, "How Big are the Big Multinational Companies?," Tijdschrift voor economie en management 47:3 (2002), pp. 311–326.

<sup>10</sup> Char stems (New X York: Bas <sup>11</sup> Dahl es of Justice (New Yo ked a fertile ly discussi Economic democra Rights " "Der Hampton, and Johr lge he Right to **Universi** Workpla 12 Dahl <sup>13</sup> It is i ible across the entir rtance (such as oil), or for firms that are very capital intensive, or for the public sector. It is possible that for these kinds of workplaces some form of co-determination between representatives of internal workers and representatives of the broader society would be more appropriate.

- <sup>14</sup> For example, the Mondragon Corporation, with about thirty thousand members, has a Cooperative Congress which acts like a mini-parliament, composed of elected representatives from every co-op (in proportion to their size).
- <sup>15</sup> Likewise, regulations are blunt but often useful tools for the defense of workers' freedoms. But just like unions, their strength lies in their ability to defend and protect; they are largely inadequate in terms of fostering self-determination.
- <sup>16</sup> Cole, Guild Socialism Re-Stated, p. 20.
- <sup>17</sup> SBA, The Small Business Economy: A Report to the President (Washington, DC: US Small Business Administration, Office of Adocacy, 2008), p. 278.
- <sup>18</sup> The Economist, "The Rich, the Poor and the Growing Gap between Them—Inequality in America," The Economist, June 15, 2006,
- < <a href="http://www.economist.com/node/7055911">http://www.economist.com/node/7055911</a>>.

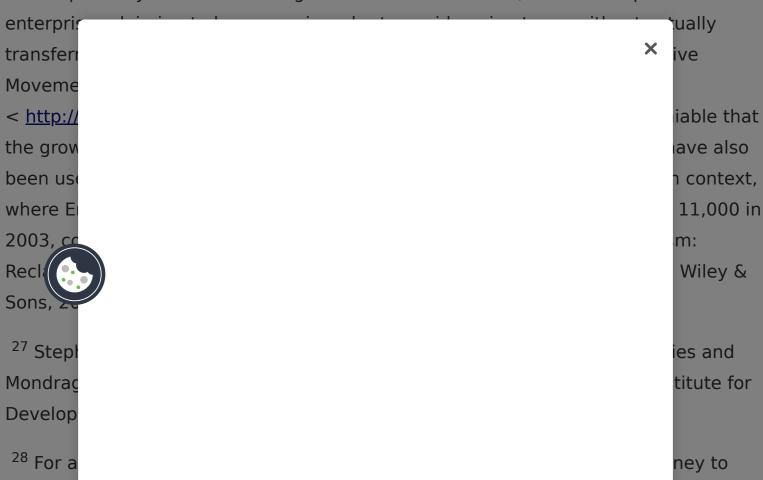


on Representative Government," in John Gray (ed.), On Liberty and Other Essays (Oxford, UK: Oxford University Press, [1861] 1998), pp. 1–128; and Carole Pateman, Participation and Democratic Theory (Cambridge, UK: Cambridge University Press, 1970). However, the evidence for this is inconclusive, Edward Greenberg, "Industrial Democracy and the Democratic Citizen," The Journal of Politics 43:4 (1981), pp. 964–981.

<sup>23</sup> Dow, Governing the Firm.

firms) from

- <sup>24</sup> Ellerman, The Democratic Worker-Owned Firm.
- <sup>25</sup> Beyond these issues, the literature also posits a couple of other potential obstacles to co-op success, such as collective choice problems, Henry Hansmann, The Ownership of Enterprise (Cambridge, MA: The Belknap Press of Harvard University Press, 1996), and entrepreneurial problems, Chris Cornforth, Alan Thomas, Jenny Lewis and Roger Spear, Developing Successful Worker Co-Operatives (London, UK: SAGE Publications, 1988).
- <sup>26</sup> Robin Hahnel, "Venezuela: Not What You Think," Znet,
- < <a href="http://www.zmag.org/content/showarticle.cfm?ItemID">http://www.zmag.org/content/showarticle.cfm?ItemID</a> = 14438>. These numbers should probably be taken with a grain of salt. For instance, there are reports of



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below. Although one often hears the word "investment" being used to describe both of these spheres of action it is useful to maintain a distinction because nowadays the two economic activities of mobilizing people's savings, and actually engaging in real production, are largely separate activities that tend to happen by different people in different places. Zhiyuan Cui, "An Appendix on Savings and Investment," in Robert Unger (ed.), Democracy Realized (London, UK: Verso, 2000), pp. 279–288. If one prefers, "finance" and "investment" could be renamed "financial investment" and "real investment", though I refrain from this usage.

<sup>29</sup> In Canada, this happened in 1990. Jim Stanford, Paper Boom (Ottawa, Canada: The Canadian Centre for Policy Alternatives, 1999), p. 26.

<sup>30</sup> David McNally, Global Slump: The Economics and Politics of Crisis and Resistance (Oakland, CA: PM Press, 2011).

<sup>31</sup> James Crotty and Gerald Epstein, "In Defense of Capital Controls," Socialist Register (1996), pp. 118–149. The basic reason for this is that progressive policy aimed at reducing unemployment tends to be expansionary and so is often accompanied by inflation. It is this inflation that is of particular concern to financiers because it directly devalues their wealth. So financiers who anticipate that progressive policy will lead to inflation often sell off their domestic bonds or dump their domestic currency making it

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- <sup>35</sup> See for example, Paola Sapienza, "The Effects of Government Ownership on Bank Lending," Journal of Financial Economics 72:2 (2004), pp. 357–384.
- <sup>36</sup> Charles Ferguson and Donal McKillop, The Strategic Development of Credit Unions (Chichester, UK: John Wiley & Sons, 1997).
- <sup>37</sup> Alan Lipietz, "The Limits of Bank Nationalization in France," in Lawrence Harris, Jerry Coakley, Martin Croasdale and Trevor Evans (eds), New Perspectives on the Financial System (London, UK: Croom Helm, 1988), p. 389.
- <sup>38</sup> See for instance, David Schweickart, After Capitalism (Lanham, MD: Rowman & Littlefield, 2002); see also Robin Blackburn, "For a Public Utility Finance System," New Left Project,
- < <a href="http://www.newleftproject.org/index.php/site/article\_comments/for\_a\_public\_utility\_fin">http://www.newleftproject.org/index.php/site/article\_comments/for\_a\_public\_utility\_fin</a> ance\_system>.
- <sup>39</sup> Jonathan D. Ostry, Atish R. Ghosh, Karl Habermeier, Marcos Chamon, Mahvash S. Qureshi and Dennis B.S. Reinhardt, "Capital Inflows: The Role of Controls," IMF Staff Position Note (SPN/10/04. Washington, DC: International Monetary Fund, 2010).
- <sup>40</sup> Kevin Gallagher, "Capital Controls Are Prudent but Not Easy," Financial Times,
- < http://blogs.ft.com/beyond-brics/2010/10/20/capitals-controls-are-prudent-but-not-

<u>easy/</u> >.	×
<sup>41</sup> Barry	and in the
Wheels	162-172.
<sup>42</sup> Thor	l Controls,"
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Ilene Gra	g Countries:
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<sup>43</sup> Stanf	
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<sup>45</sup> Michal Kalecki, "Political Aspects of Full Employment," in Jerzy Osiatynski (ed.), Collected Works of Michel Kalecki (Oxford, UK: Oxford University Press, 1990 [1943]), pp. 347–356; see also Adam Przeworski, Capitalism and Social Democracy (Cambridge, UK: Cambridge University Press, 1985); and Fred Block, "The Ruling Class Does Not Rule: Notes on the Marxist Theory of the State," Socialist Revolution 33:6 (1977), pp. 6–28.

<sup>46</sup> Lindblom, Politics and Markets.

<sup>47</sup> Edward Boorstein, Allende's Chile (New York: International Publishers, 1977); see also Mark Weisbrot and L. Sandoval, "The Venezuelan Economy in the Chavez Years," Center for Economic and Policy Research (2007), pp. 1–23.

<sup>48</sup> Stanford, Paper Boom, p. 254.

<sup>49</sup> Joshua Cohen and Joel Rogers, On Democracy (Harmondsworth, UK: Penguin Books, 1983).

<sup>50</sup> This is not to say that the state should cease from engaging in higher-level investments. Clearly certain kinds of investments—such as cross-country train networks—require implementation at the highest levels. The difference is that economic democrats argue that as much as possible public investment should be decentralized to

local lev ole affected by such 51 Mich alysis, < http:// 52 Boay bward a Redistrik e also Celina Souz Building Demo 9-184. 53 Deep a Kanungo,

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< <a href="http://wds.wor">http://wds.wor</a>
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<sup>54</sup> Clara Irazábal and John Foley, "Reflections on the Venezuelan Transition from a Capitalist Representative to a Socialist Participatory Democracy: What are Planners to Do?," Latin American Perspectives 37:1 (2010), pp. 97–122.

<sup>55</sup> David Schweickart, "Nonsense on Stilts," Znet,

public. T

- < http://www.zcommunications.org/nonsense-on-stilts-by-david-schweickart>.
- <sup>56</sup> Quoted in Bruno Jossa and Gaetano Cuomo, The Economic Theory of Socialism and the Labour-Managed Firm (Cheltenham, UK: Edward Elgar, 1997), p. 120.
- <sup>57</sup> Paul A. Samuelson and William D. Nordhaus, Economics, 14th ed. (New York: McGraw-Hill, 1992).
- <sup>58</sup> Edward N. Wolff, Recent Trends in Household Wealth in the United States (Annandale-on-Hudson, New York: The Levy Economics Institute of Bard College, 2007). A democratic market system would require not only the existence of (roughly) equal votes, but also that price signals be accurate reflections of the social cost of production so that people have clear information on which to base their "votes." This requires minimizing the main factors that distort price signals, such as major externalities and monopolies. The point is not that this would be easy to do; in particular, reducing the inequality of "votes" that people have would clearly face enormous resistance. The point is hat we X should s <sup>59</sup> Jonas erica (Ithaca, 60 Jonas erica ffry A. (Ithaca, ected Works Frieder of M ial Democr Esping-Anderse ess, 1990). <sup>61</sup> For ir et Commit are presider to the

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by the president and confirmed by the senate for fourteen-year terms. Such a long tenure is a way of ensuring their independence from the democratic process.

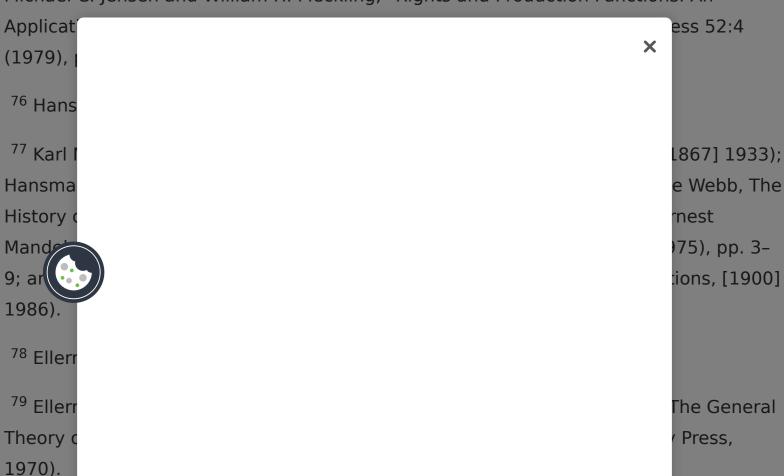
<sup>62</sup> Alberto Alesina and Lawrence H. Summers, "Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence," Journal of Money, Credit, and Banking 25:2 (1993), pp. 151–162.

<sup>63</sup> Alex Cukierman, "Central Bank Independence and Monetary Control," The Economic Journal 104:427 (1994), pp. 1437–1448. The worry is that politicians may have strong incentives prior to election time to engage in "politicking"; that is, manipulating interest rates to try to lower employment. This is a problem because it may be the case that short-term improvements in unemployment result in long-term problems of inflation. So such politicking may help to get the politician re-elected, but only by introducing long-term costs to the economy (often called an "inflationary bias").

<sup>64</sup> Joseph Stiglitz, "Central Banking in a Democratic Society," De Economist 146:2 (1998), pp. 199–226; see also Robert Pollin, "Financial Structures and Egalitarian Policy," Political Economy Research Institute, no. 182 (1995), pp. 26–37; and Samuel Bowles, David M. Gordon, and Thomas E. Weisskopf, Beyond the Waste Land: A Democratic Alternative to Economic Decline (Garden City, NY: Anchor Press/Doubleday, 1983).



- <sup>69</sup> Mark Holmstrom, Industrial Democracy in Italy (Aldershot, UK: Avebury, 1989).
- <sup>70</sup> Jane Mansbridge, Beyond Adversary Democracy (New York: Basic Books, 1980).
- <sup>71</sup> Anne Latendresse, "The Case of Porto Alegre: The Participatory Budget," in Dimitrios Roussopoulos and C. George Benello (eds), Participatory Democracy: Prospects for Democratizing Democracy (Montreal, Canada: Black Rose Books, 2005), pp. 287–291.
- <sup>72</sup> Benjamin Ward, "The Firm in Illyria: Market Syndicalism," American Economic Review 48:4 (1958), pp. 566–589; see also Evsey Domar, "The Soviet Farm as a Producer Cooperative," American Economic Review 56:4 (1966), pp. 734–757.
- <sup>73</sup> Eirik G. Furubotn and Svetozar Pejovich, "Property Rights and the Behavior of the Firm in a Socialist State: The Example of Yugoslavia," Journal of Economics 30:3 (1970), pp. 431–454.
- <sup>74</sup> John Roemer, A Future for Socialism (Cambridge, MA: Harvard University Press, 1994).
- <sup>75</sup> Armen A. Alchian and Harold Demsetz, "Production, Information Costs, and Economic Organization," The American Economic Review 62:5 (1972), pp. 777–795; Michael C. Jensen and William H. Meckling, "Rights and Production Functions: An



<sup>80</sup> Samuel Bowles and Herbert Gintis, "A Political and Economic Case for the Democratic Enterprise," in David Copp, Jean Hampton, and John E. Roemer (eds), The Idea of Democracy (New York: Cambridge University Press, 1993), pp. 375-399; see also Bradley and Gelb, "Motivation and Control in the Mondragon Experiment," pp. 211-231; Greenberg, "Industrial Democracy and the Democratic Citizen," pp. 964-981; Branko Horvat, "The Theory of the Worker-Managed Firm Revisited," Journal of Comparative Economics 10 (1986), pp. 9-25; and Joseph Stiglitz, "Market Socialism and Neoclassical Economics," in Pranab Bardhan and John Roemer (eds), Market Socialism (New York: Oxford University Press, 1993), pp. 21-41.

<sup>81</sup> Carl Bellas, Industrial Democracy and the Worker-Owned Firm: A Study of Twenty-One Plywood Companies in the Pacific Northwest (New York: Praeger Publishers, 1972); see also Katrina Berman, Worker-Owned Plywood Companies: An Economic Analysis (Pullman, WA: Washington State University Press, 1967); Paul Bernstein, Workplace Democratization: Its Internal Dynamics (Kent, OH: Kent State University Press, 1976).

82 Derek Jones, "British Producer Cooperatives, 1948–1968: Productivity and Organizational Structure," in Derek Jones and Jan Svenjar (eds), Participatory and Self-Managed Firms (Lexington, MA: LexingtonBooks, 1982), pp. 175-198.

<sup>83</sup> Niels Mygind, "Are Self-Managed Firms Efficient? The Experience of Danish Fully and Partly Se in the s, 1987), pp. Economi 243-256 84 Henk on, UK: G. Allen & 85 Bodil hally Owned onomics of Firms 25-242. 86 Jacqu e Hundred French V ces in the s, 1987), pp. Econom 27-62. 87 Piero

(Aldershot, UK: Dartmouth, 1996); see also Will Bartlett, John Cable, Saul Estrin, Derek

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C. Jones and Stephen C. Smith, "Labor-Managed Cooperatives and Private Firms in North Central Italy: An Empirical Comparison," Industrial and Labor Relations Review 46:1 (1992), pp. 103–118; and Alberto Zevi, "The Performance of Italian Producer Cooperatives," in Derek Jones and Jan Svenjar (eds), Participatory and Self-Managed Firms (Lexington, MA: LexingtonBooks, 1982), pp. 239–251.

- <sup>88</sup> Derek Jones, "The Cooperative Sector and Dualism in Command Economies: Theory and Evidence for the Case of Poland," in Derek Jones and Jan Svenjar (eds), Advances in the Economics of Participatory and Self-Managed Firms (Greenwich, CT: JAI Press, 1985), pp. 195–218.
- <sup>89</sup> Samuel Bowles and Herbert Gintis, "Efficient Redistribution: New Rules for Markets, States and Communities," in S. Bowles and H. Gintis (eds), Recasting Egalitarianism: New Rules for Communities, States and Markets (London, UK: Verso, 1998), pp. 1–35.
- <sup>90</sup> Dow, Governing the Firm, pp. 162–163; see also John P. Bonin, Derek Jones, and Louis Putterman, "Theoretical and Empirical Studies of Producer Cooperatives: Will Ever the Twain Meet?," Journal of Economic Literature 31:3 (1993), pp. 1290–1320.
- <sup>91</sup> Smith, Blooming Together or Wilting Alone?, p. 37; see also Zevi, "The Performance of Italian Producer Cooperatives."
- 92 Dow X 93 Dow <sup>94</sup> Roy ok **Publishe** 95 Bartl ith the local buyers, and econo al., "Laborare r Manage 96 Morri 97 Geof nding and **Taxation** p. 145-177; see also ourse or Virtuous Circle:,

Global Capital, Political Institutions, and Policy Change in Developed Welfare States (Cambridge, UK: Cambridge University Press, 2002); Dennis Quinn, "The Correlates of Change in International Financial Regulation," American Political Science Review 91:3 (1997), pp. 531-551; and Axel Dreher, The Influence of Globalization on Taxes and Social Policy—An Empirical Analysis of OECD Countries (Exeter, UK: University of Exeter, 2003). It is important to note that in many places statutory rates of corporate taxation, that is, the legal rates that corporations must pay, have in fact fallen. Thomas Plumper and Vera E. Troeger, "Why is There no Race to the Bottom in Capital Taxation?," International Studies Quarterly 53:3 (2009), pp. 761–786. In the average OECD (Organization for Economic Co-Operation and Development) country, the average corporate tax rate fell from about 50% in 1983 to about 30% in 2003. Philipp Genschel, "Globalization and the Transformation of the Tax State," European Review 13:1 (2005), p. 65. However, the statutory or legal rate is not necessarily a good measure of what corporations really pay. The effective tax rate on capital is a much better measure because it captures the amount that capital is actually paying. In Garrett and Mitchell's words, "the effective capital tax rate is calculated as the sum of households' capital income taxes, corporate income taxes, taxes on immovable property, and taxes on financial and capital transaction, divided by the total operating surplus of the economy (that is, profits)," Garrett and Mitchell, "Globalization, Government Spending and Taxation in the OFCD " pp. 158-159. So there is an open question X 98 Garre us Circle?," pp. 787it point is that cou as ble and so governm entice in cy Change in Spending Devel and \ oo Far? (Washing that e citizens to increase r that compen regardle many types of firms 99 Swar ped Welfare

States.

- <sup>100</sup> Genschel, "Globalization and the Transformation of the Tax State."
- <sup>101</sup> Garrett, "Global Markets and National Politics," p. 816.
- <sup>102</sup> Simon Loretz, The Condition of Corporate Taxation in the OECD in a Wider Context (Oxford, UK: Oxford University Centre for Business Taxation, 2008).

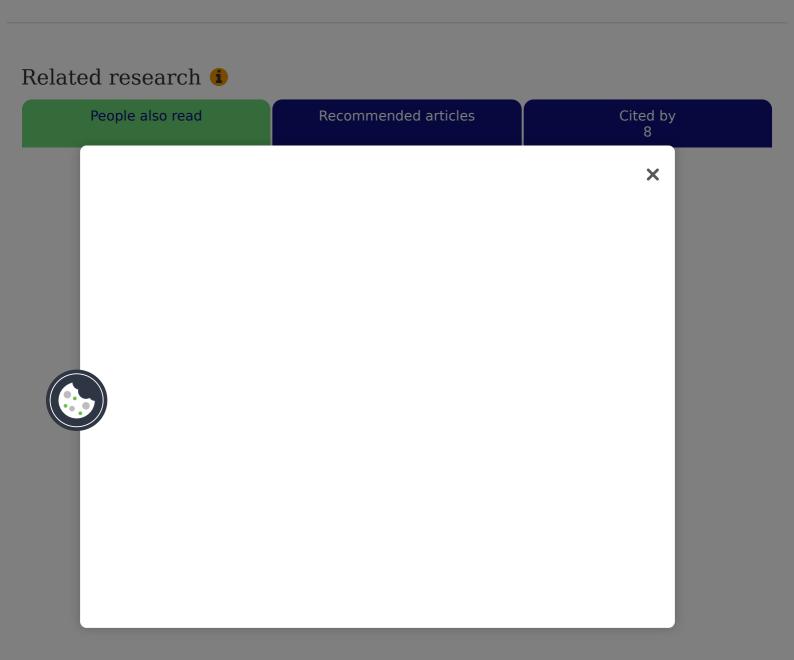
<sup>103</sup> One caveat is that the bulk of imports into Northern countries actually comes from other Northern countries; Garrett and Mitchell, "Globalization, Government Spending and Taxation in the OECD." A second, and perhaps more important, caveat is that a large and increasing percentage of business is now in relatively immobile services and other areas that are not as subject to the pressures of global trade. In the US, for example, it has been estimated that locally oriented economic activity represents about 60% of all economic activity. Alperovitz, America Beyond Capitalism, p. 126.

<sup>104</sup> Alperovitz, America Beyond Capitalism.

<sup>105</sup> Greg MacLeod and Darryl Reed, "Mondragon's Response to the Challenges of Globalization: A Multi-Localization Strategy," in Darryl Reed and J.J. McMurtry (eds), Co-Operatives in a Global Economy: The Challenges of Co-Operation across Borders (Newcastle upon Tyne, UK: Cambridge Scholars Publishing, 2009), pp. 111–140.

106 Anjel X Internat 553-584. Corpora 107 Davi omic visioning Democra Real Uto 108 Ro cago, IL: The 109 On n et Socialism: The Cur Schweic lec Nove, The Eco .991). 110 Alast tt. WorkerStudy of Industrial Society, 1977).

<sup>111</sup> One way that transition might be plausible is through the implementation of a kind of Meidner Plan. Rudolf Meidner, Employee Investment Funds: An Approach to Collective Capital Formation (London, UK: G. Allen & Unwin, 1978). For instance, one could imagine legislation whereby firms are required to set aside a portion of their profits each year as new shares controlled by the internal workers on an egalitarian basis. The original Swedish Meidner Plan calculated that if 20% of profits were set aside each year the workers would be majority owners within roughly thirty-five years, and effective controllers much sooner (because effective control in corporations usually requires much less than 51% of ownership). If we adapted such a plan to involve two streams, one involving private business shares passing to internal workers, and one involving private bank shares passing to newly created democratic banks, then such a plan would result in the slow but incremental and inexorable democratization of the economy.



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