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~~Economic Democracy:~~ A Worthy Socialism That Would Really Work

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MARXISTS ARE SKEPTICAL OF BLUEPRINTS, always have been. We all remember Marx's polemic against Proudhon, the Manifesto's critique of "historical action [yielding] to personal inventive action, historically created conditions of emancipation to fantastic ones, and the gradual spontaneous class organizations of the proletariat to an organization of society specially contrived by these inventors" (Marx and Engels, 1986, 64), and the numerous other occasions when the fathers of "scientific socialism" went after the "utopians." In general this Marxian aversion to drawing up blueprints has been healthy, fueled at least in part by a respect for the concrete specificity of the revolutionary situation and for the agents engaged in revolutionary activity: it is not the business of Marxist intellectuals to tell the agents of revolution how they are to construct their postrevolutionary economy.

Yet the historical dialectic is a funny thing: virtues sometimes turn into vices, and vice versa. At this particular historical moment, the skeptical aversion to blueprints is out of place. Such is my contention. At this present historical conjuncture, we need a "blueprint" — a theoretical model of a viable, desirable socialism. It is no secret that the long-standing argument that socialism cannot work has been given a powerful boost by the recent and still unfolding events in Eastern Europe and the Soviet Union. Indeed, the breadth and depth of the anti-socialist, pro-capitalist feelings among those who have lived or are still living under "actually existing socialism" cannot but be disturbing, even to those of us who have long been critical of that brand of socialism. It seems clear that the left needs more than slogans about democratic planning and/or worker control if we are to contest with any degree of effectiveness the now deepening hegemony of capitalist ideology.

The historical dialectic is a funny thing. At precisely the moment when capitalist hegemony seems most secure, and the left seems most in need of an alternative vision, the materials for constructing and defending such a vision have become available. There has been a burgeoning of theoretical and empirical research during the last two decades concerning alternative economic arrangements — alternative schemas for organizing the workplace, alternative mechanisms for planning, alternative ways of integrating planning with the market — much of it (though by no means all) driven by the intensified competition among capitalist nations. I believe the left is now in position, as we have never been before, to argue with scientific and moral confidence that there *is* a desirable form of socialism that will work. This paper takes a step in that direction.

Before proceeding, I want to emphasize that I do not think that the project of constructing and defending models of a viable, desirable socialism is the only worthy project for socialist activists or intellectuals at this time; nor do I think that having a viable model solves the problem "what is to be done." Far from it. The "transition problem" remains enormous. At the same time, I think it important that we have some sense of what it is we hope to be in transition toward — even while recognizing that the exigencies of concrete struggle will doubtless require various modifications of whatever "blueprint" is proposed. Indeed, the "blueprint" to be set out here should not be thought of as a fixed form, optimal in every real-world situation. It is better regarded as primarily an intellectual weapon against the apologists for capitalism, who forever gloat that no matter how bad things are with capitalism, there are no viable alternatives.

Setting the Stage

In 1920 Ludwig von Mises fired the opening salvo in what was to become a several-decade academic skirmish. Socialism, von Mises declared, is impossible: without private ownership of the means of production, there cannot be a competitive market for production goods; without a market for production goods, it is impossible to determine their values; without these values, economic rationality is impossible.

> Hence in a socialist state wherein the pursuit of economic calculation is impossible, there can be — in our sense of the term — no economy whatsoever. In trivial and secondary matters rational conduct might still be possible, but in general it would be impossible to speak of rational production anymore. (Mises, 1935, 92.)

The current crises of the Soviet and Eastern European economies might seem to be von Mises' definitive vindication. It is certainly fashionable these days to read the collapse of European Communism in this vein. But let us proceed a bit more cautiously.

It has long been recognized that von Mises' argument is logically defective. Even without a market in production goods, their monetary values can be determined. In response to von Mises a number of economists pointed out that Pareto's disciple, Enrico Barone, had already, 13 years earlier, demonstrated the theoretical possibility of a "market-simulated" socialism.[1]

Of course, the "market-simulated" model of Barone and others is very different from the Soviet "command economy" model, which does not permit a free market in either production or consumption goods, and does not even try to mimic market behavior. Has not von Mises been proven correct at least with respect to this form of socialism?

I think we should be fair here. Even command economies, which have recently come to such grief, have not been without substantial accomplishments. By the mid-1970s the Soviet Union had established itself as the world's second largest economic power. In the space of a generation China has succeeded in removing its now one billion people from the long list of countries still plagued by hunger. Since its inception in 1959 Cuban socialism has provided its citizens with a level of economic well-being tragically rare in Latin America beyond the upper classes. As for Eastern Europe, we might attend to the West German poet/essayist Hans-Magnus Enzenberger (1989, 114, 116), reflecting in 1985 on his recent visit to Hungary:

1 A translation of Barone's article appears in Hayek (1935, 245-90). The principle attack on von Mises was made by Fred Taylor and Oscar Lange, whose important essays on the subject are collected in Lippincott (1938).

> Hardly anyone remembered that before the Second World War there had been millions of agrarian proletarians in Hungary living below subsistence level, without land or rights. Many emigrated to find salvation; hundreds of thousands wound up as beggars. . . . After bitter conflicts and endless argument, the Kadar regime has definitively closed the gap between town and country and made possible an agricultural specialization that achieves large surpluses. The silence of the villages conceals the fact that here, behind the drowsy fences, where only a dog sometimes disturbs the noonday peace, Hungarian socialism has put an end to misery and servitude and achieved its most revolutionary successes.

To acknowledge that a market-simulated socialism is theoretically possible and that command economies are not without significant accomplishments is not to advocate either of these forms of socialism, but such an acknowledgment should make one pause before embracing the simplistic proposition that socialism is impossible. Economic crises do not salvage logically defective arguments, nor do they negate historical accomplishments. Socialism can "work." The important question is, how well? Specifically, can socialism work better than capitalism?

I contend that the answer to this latter question is, "it all depends." It depends on the kind of socialism. I further contend that there is at least one form of socialism which, if implemented, would be superior to capitalism on almost all counts: it would be more efficient, more rational in its growth, more egalitarian, more democratic. It is this form of socialism that I wish to elaborate in the following pages.

Three Cases

The model to be set out here does not spring whole from political or economic theory, nor is it a stylized economic structure of some particular country or region. The model is a synthesis of theory and practice — a "dialectical synthesis," I like to think. To be more specific, what I will call "Economic Democracy" is a model whose form has been shaped by the theoretical debates on alternative economic organizations that have proliferated over the past 20 years, by the empirical evidence on modes of workplace organization and by the historical record of various post-World War II large-scale "experiments." From these "experiments" there are negative lessons

to be learned, notably from the failure of central planning in the Soviet Union and Eastern Europe, but there are positive lessons also, deriving especially from three central cases.

Let us begin with a socialist "failure." In the early 1950s a small Eastern European country with "two alphabets, three religions, four languages, five nations, six federal states called republics, seven neighbors and eight national banks" (Horvat, 1976, 3), embarked on a remarkable course. In 1948 Stalin accused Yugoslavia of antisovietism. By 1949 all trade between Yugoslavia and other Communist countries had been halted, and an economic boycott imposed. Pressed by events, Yugoslavia began a highly original construction — a decentralized socialist economy featuring worker self-management of factories. Milovan Djilas (1969, 220-221) recounts the decision:

> Soon after the outbreak of the quarrel with Stalin, in 1949, as far as I remember, I began to reread Marx's Capital, this time with much greater care, to see if I could find the answer to the riddle of why, to put it in simplistic terms, Stalinism was bad and Yugoslavia was good. I discovered many new ideas and, most interesting of all, ideas about a future society in which the immediate producers, through free association, would themselves make the decisions regarding production and distribution — would in effect, run their own lives and their own future. . . . It occurred to me that we Yugoslav Communists were now in a position to start creating Marx's free association of producers. The factories should be left in their hands, with the sole proviso that they should pay a tax for military and other state needs.

Kardelj and Djilas pressed Tito, who was initially skeptical.

> The most important part of our case was that this would be the beginning of democracy, something that socialism had not yet achieved; further, it could be plainly seen by the world and the international workers' movement as a radical departure from Stalinism. Tito paced up and down, as though completely wrapped in his own thoughts. Suddenly he stopped and exclaimed: "Factories belonging to the workers — something that has never yet been achieved!" (Djilas, 1969, 222-223.)

The system thus born (imposed top-down, it should be noted, and without the benefit of any economic theory) underwent many modifications during the succeeding decades, but the basic structure of worker self-management persisted and was combined with ever greater reliance on the market. For a long while the results were impressive. Between 1952 and 1960 Yugoslavia recorded the highest growth rate of any country in the world. From 1960 to 1980 Yugoslavia, among the low and middle income nations, ranked third in growth per capita (cf. Horvat, 1976, 12; Sen, 1984, 490).

These statistics reflect a real transformation in the quality of life for millions. In 1950 Yugoslavia was, as it had been since its creation in 1918, a poor, underdeveloped country, three-quarters of the population rural peasants. By 1975 rural peasantry comprised only 30 percent of the population, and Yugoslavia had achieved a standard of living, in Slovenia equal to that of Austria, in the country as a whole about two-thirds that of Italy. Even Harold Lydall, a major critic of the Yugoslav experiment, concedes that "it is clear that Yugoslavia, under its system of 'socialist self-management,' has achieved a high rate of economic growth of both output and consumption. The average standard of living has changed all out of recognition in the past thirty-five years" (Lydall, 1984, 183). And though the pendulum swung back and forth between liberalization and repression, Yugoslavia was without doubt the freest of any Communist state, freer also than most non-Communist low- and middle-income countries. To cite but one indicator: since 1967 Yugoslavs have enjoyed almost complete freedom to travel outside the country's borders, a freedom widely used.

During the 1980s the Yugoslav economy collapsed. "The real social product . . . has fallen by 6 percent from 1979 to 1985 and even further since then. . . . Labor productivity in the social sector fell in the same period by about 20%, and the real personal incomes of social sector workers by about 25 percent. The standard of education, health and housing services has also fallen. . . . Despite a vast amount of overmanning, both in industry and government . . . there are more than a million persons registered as seeking work, four-fifths of whom are young people" (Lydall, 1989, 4-5). In addition, ethnic antagonisms, long in abeyance, have revived with intensity. As of this writing, the country appears to be coming unstuck.

What happened? Why has the Yugoslav economy fallen apart? What lessons are to be learned? Should we conclude, with Oxford's

Lydall, that the Yugoslav experiment was fatally flawed from the beginning, or with Cornell's Jaroslav Vanek (1990, 182), that any country which tries the Yugoslav path while avoiding the now-evident design flaws "has the best chance to move forward out of the universal crisis of the late twentieth century?"[2] Let us set these questions aside for now, and move from socialist "failure" to capitalist "success."

In 1945 General Douglas MacArthur looked out over a devastated Japan, and instituted five basic reforms: female suffrage, the right of labor to organize, liberal education, abolition of autocratic government, and democratization of the economy. Elements of the last reform included a breakup of the *zaibatsu* (huge capitalist conglomerates), the imposition of a stiff wealth tax, and major land reform. The goal was to create a competitive capitalist country that might be relatively poor, but democratic and egalitarian.

But with the Chinese Communists victorious in 1948 and the outbreak of the Korean War in 1950, this goal changed dramatically. According to Michio Morishima (1982, 161-162),

> Abandoning the original policy aim of building a democratic country based on the free enterprise system, whose actions would be restrained and peaceloving, there was a shift to measures such as would rebuild Japan into a powerful country equipped with the military and economic strength appropriate to an advance base of the "free" (anti-communist) camp. As a result of this shift Japanese capitalism re-emerged like a phoenix in a form almost identical to that of the prewar period.

It is often forgotten that the Japanese "miracle" did not begin after World War II. Following the Meiji Revolution (1867-68), Japan set out consciously to build a modern industrial economy. In 1905 Japan's victory in the Russo-Japanese War stunned Western consciousness: for the first time since the onset of Western imperialism, non-white had triumphed over white. The Japanese economy surged ahead. By the end of the First World War Japan had become one of the world's five great powers and, although hit hard by the Great Depression, Japan's economy, fuelled by mili-

2 For a concise analysis of the deviations of the Yugoslav system from the necessary conditions for optimality, see Vanek, 1990, 180-182.

tary expenditures, recovered more quickly than those of the West. (In 1937 the phrase "Japanese miracle" was used to describe the 81.5% increase in industrial output from 1931 to 1934 [Johnson, 1982, 6].) It is this economy which, in Morishima's words, "re-emerged like a phoenix" in the 1950s, its structure almost identical to its prewar form.

The structural features of the Japanese economy contrast sharply with Western capitalism, even more sharply with the laissez-faire theoretical ideal. Its central features include: 1) large scale state intervention, particularly regarding investment decisions; 2) a dual economy, one half dominated by a handful of competing conglomerates (keiretsu — successors to the prewar zaibatsu), the other half consisting of thousands of smaller firms, often linked hierarchically via subcontracting arrangements to one another and to a keiretsu; and 3) workplace relations (in the keiretsu sector) characterized by lifetime employment guarantees, wages tied tightly to seniority, substantial bonuses linked to company earnings, and considerable worker participation in decision making.

It hardly needs to be said that in material terms the Japanese economy has been enormously successful. Between 1946 and 1976 Japan's economy increased 55-fold. A country the size of California, devoid of significant natural resources, now accounts for 10% of the world's economic production (the United States accounts for 20%). A price has been paid for these accomplishments: very little class or. occupational mobility, a system that gives a young person but one chance of making it into the ranks of a good company, an educational system compelling Japanese teenagers to study 13-15 hours a day. This last feature has resulted in a highly productive and disciplined labor force, but, says Morishima (1982, 183), "it must not be forgotten that it has also resulted in the annihilation of their own selves." There would seem to be lessons to be learned here. But what lessons?

Let us consider a third case, this one in my judgment an unambiguous success (no scare quotes needed). At about the same time that the Yugoslav nation was beginning its novel restructuring and the Japanese economy was coming up to speed under the stimulus of Korean War procurements, another experiment, far humbler in scope, was getting under way in a small, depressed town in the Basque region of Spain. In 1943 a school for working-

class boys was established in Mondragon, at the instigation of Don José Maria Arizmendi, a local priest who had barely escaped execution by Franco forces during the Civil War. The "Red priest," as he was called in conservative circles, was a man with a large vision.[3] Believing that God gives almost all people equal intellectual potential, potential blocked by conditions of unequal power, and dismayed that not a single working-class youth from Mondragon had ever attended a university, Fr. Arizmendi structured his school to promote technical but also "social and spiritual" education. Eleven members of the first class (of 20) went on to become professional engineers. In 1956 five of these and 18 other workers set up, at the priest's urging, a cooperative factory to make small cookers and stoves. In 1958 a second cooperative was formed, to make machine tools. In 1959, again at Fr. Arizmendi's instigation, a cooperative bank was established.

The movement took off. Thirty-four industrial cooperatives were added to the group during the 1960s. Expansion was even more rapid in the 1970s. By the late 1980s the Mondragon Group comprised nearly 20,000 workers in more than 180 cooperatives. In addition to industrial cooperatives making stoves, refrigerators, automatic washing machines, machine tools, electrical equipment, petrochemicals, and much more, there are agricultural cooperatives, construction cooperatives, education cooperatives, a consumer cooperative, a women's cooperative, a social security cooperative, and a research and development cooperative. The cooperative bank has expanded to nearly a hundred branches throughout the Basque region, and is now the 14th largest bank in Spain.[4]

By all accounts, the experiment has been astonishingly successful. The productivity of Mondragon firms has been found to

3 Arizmendi's vision is often said to have derived from Catholic Social Doctrine in opposition to Marxism, but this interpretation has been called into question by recent scholarship. Certain Left Catholic thinkers were important to Arizmendi (Maritain and Mounier), but so was Marx. So also was an example set earlier in Mondragon. In 1920, as a result of a long strike, workers pooled their resources (supplemented by union funds) and set up their own factory (producing firearms) that survived until the Civil War. Cf. Whyte and Whyte (1988, 19-20 and Ch. 18).

4 As of 1987 the Mondragon Cooperative Group consisted of 94 industrial coops, 26 agricultural coops, 44 educational coops, 17 housing coops, 7 service coops, and a consumer coop. (Figures from Caja Laboral Popular, cited by Meek and Woodworth, 1990, 518.)

exceed that of comparable capitalist firms (Thomas and Logan, 1982). The failure rate of new Mondragon cooperatives is nearly zero. The group's success in confronting economic hard times has been exceptional. The Basque region was hit hard by the recession of the late 1970s and early 1980s; between 1975 and 1983 the Basque economy lost twenty percent of its jobs; during that same period, the Mondragon group — though undergoing some painful readjustments — suffered virtually no unemployment (Bradley and Gelb, 1987, 87).

The outstanding structural feature of a Mondragon firm is its democratic nature. Workers meet at least once a year in a General Assembly. They elect, one-person/one-vote, a Supervisory Council that appoints the firm's management; they also elect a Social Council that has jurisdiction over matters directly affecting workers' well being, and a Watchdog Council to monitor, collect, and verify information for the General Assembly.

The outstanding structural innovation of the Mondragon Group is its creation of a network of support institutions — above all, the Caja Laboral Popular, the "working people's bank," which interacts with the productive enterprises in various ways: providing capital for expansion, providing technical and financial advice, assisting in the transfer of workers from one enterprise to another, assisting in the creation of new firms. The Caja also looks to the long-range interests of the region, plans development, and works to harmonize conflicting interests.

Economic Democracy

The socialist model to be outlined below has features in common with Yugoslav socialism, with Japanese capitalism and with Mondragon cooperativism, but it is not a stylized version of any of these. Our model differs from each of these experiments in various crucial respects, but these experiments, their successes as well as failures, constitute empirical evidence highly relevant to the claims I shall make on behalf of this model.

This model shall be designated "Economic Democracy."[5]

5 In an earlier work (Schweickart, 1980), I designated the basic model "worker control." I have decided to use a different term here, partly to underscore the democratic nature of the model, partly from a realization that this model gives weight to three distinct roles each person assumes: worker to be sure, but also consumer and citizen.

"Economic Democracy," as I will use the term here (capitalized to indicate the specific model) means something more than general control of an economy by the citizenry. It also means something different from that feature common to both the Yugoslav and Mondragon systems, wherein workers of a given firm democratically control the operation of that firm. This latter feature, which will be an element of Economic Democracy, I will designate "worker self-management." Thus, Economic Democracy is a form of socialism featuring (among other things) worker self-management.

Like Yugoslav socialism (in theory if less so in practice) Economic Democracy is a worker self-managed market socialism. Unlike the Yugoslav variety (pre-1989), Economic Democracy presupposes political democracy. I will leave open the political particulars, but I will assume a constitutional government that guarantees civil liberties to all; I will assume a representative government, with democratically elected bodies at the community, regional and national level.[6]

The economic structure of the model I propose has three basic features: 1) each productive enterprise is managed democratically by its workers; 2) the day-to-day economy is a market economy: raw materials and consumer goods are bought and sold at prices determined by the forces of supply and demand; 3) new investment is socially controlled: the investment fund is generated by taxation and dispensed according to a democratic, market-conforming plan.

Let me elaborate on each of these elements.

1. Each productive enterprise is managed by those who work there. Workers are responsible for the operation of the facility: organization of the workplace, factory discipline, techniques of production, what and how much to produce, how the net proceeds

6 I am glossing over here one of many important issues that receive less attention than they deserve. Marx is surely right that political, educational, cultural and other social structures cannot be divorced from a society's economy. It follows that an economy quite different from capitalism should have a politics and culture also different. The model I will propose is not so different as to suggest political (or educational or cultural) structures completely different from those we now have, but a full-blown model of a democratic socialist society would incorporate reforms deriving from the democratic and egalitarian values that underlie the case for Economic Democracy. For a recent, impressive attempt at drawing the contours of a socialist society with an economic structure similar to what I will be advocating, see Gould (1988).

are to be distributed.[7] Decisions concerning these matters are made democratically: one person, one vote. In a firm of significant size some delegation of authority will doubtless be necessary. A workers' council or general manager (or both) may be empowered to make certain kinds of decisions.[8] But these officials are elected by the workers. They are not appointed by the state, nor elected by the community at large.

Though workers manage the workplace, they do not own the means of production. These are the collective property of the society. Societal ownership manifests itself in an insistence (backed by law) that the value of the capital stock of a firm be kept intact. A Depreciation Fund must be maintained to this end; money from this fund may be spent on whatever capital replacements or improvements the firm deems fit, but it may not be used to supplement worker incomes. If an enterprise finds itself in economic difficulty, workers are free to reorganize the facility, or to leave and seek work elsewhere. They are not free, however, to sell off their capital stocks without replacing them with others of equal value, without explicit authorization from the relevant community authority (the bank with which the firm is affiliated, to be discussed shortly). If a firm is unable to generate even the minimum per-capita income, then it must declare bankruptcy. Movable capital will be sold off to pay creditors. Any excess is returned to the investment fund, while fixed capital reverts to the community —

7 It might be decided — by the community, the region or even at the national level — to impose certain restrictions on income distribution. It might be insisted that the income differential between the highest paid and lowest paid in any firm not exceed a certain ratio (in Mondragon the ratio was for many years 3:1, but it has recently been raised to 6:1 to keep its best people from being lured away by capitalist firms). It should probably be insisted that no one's income drop below a certain minimum. It might be advisable to have an official wage structure reflecting equal pay for comparable skills, with supplementary bonuses based on the firm's profitability. (This would be akin to the Mon-dragon practice of paying wages at rates comparable to capitalist wages in the area, then apportioning a share of the firm's profits to each member's "capital account" and to the Japanese practice of paying a firm's workers sizable semi-annual bonuses based on the firm's success.)

8 The Mondragon system of indirect election is probably optimal for most enterprises —an elected workers' council that appoints the management. What is to be optimized is the balance between accountability and authority. Managers need sufficient autonomy that they can manage effectively, but not so much that they can exploit the workforce to their own advantage. Both of these factors are highly important. Democratic socialists should not minimize the importance of structures and attitudes that allow managerial skills to flourish. A justifiable concern for technocratic elitism should not blind one to the real frustrations and inefficiencies that attend excessive restrictions of managerial prerogatives.

both processes mediated by the affiliated bank. Workers must seek employment elsewhere.

2. Economic Democracy is a market economy, at least insofar as the allocation of existing consumer and capital goods is concerned. The alternative to market allocation is central planning, and central planning (as theory predicts and the historical record confirms) is both conducive to an authoritarian concentration of power and inefficient.

A decade ago the claim that central planning is fundamentally flawed was highly contentious among socialists. That is less so today. Most socialists (though not all) concede that without a price mechanism regulated by supply and demand, it is extremely difficult for a producer or planner to know what and how much and what variety to produce; it is extremely difficult to know which means are the most efficient. It is also widely recognized that without a market it is difficult to bring into sufficient alignment personal and societal interests so as not to tax excessively non-self-oriented motivations. The market resolves these problems (to a significant if incomplete degree) in a nonauthoritarian, non-bureaucratic fashion. That is no mean achievement.

Our socialist economy is a market economy. Firms buy raw materials and machinery from other firms, and sell their products to other enterprises or consumers. Prices are largely unregulated, except by supply and demand. In some cases, however, selective price controls or price supports might be in order (the former in industries that exhibit monopolistic concentrations, the latter in agriculture to dampen the uncertainty due to weather variations, and perhaps to preserve a way of life that might otherwise disappear). Our socialist society has no overriding commitment to laissez-faire. Like modern liberalism it is willing to permit governmental intervention when the market malfunctions. Our socialist society does not view the market as an absolute good, the paradigm of free human interaction. It prefers to think of the market as a useful instrument for accomplishing certain societal goals. It has certain strengths, but also inherent defects. The trick is to employ this instrument appropriately.

Since enterprises in our economy buy and sell on the market, they strive to make a "profit." Here, however, "profit" is not the same as capitalist profit. Firms strive to maximize the difference between total sales and total non-labor costs. In Economic Democracy labor is not another "factor of production" technically on a par with land and capital. Labor is not a commodity at all, for when a worker joins a firm, she becomes a voting member, and is entitled to a specific share of the net revenue.

These shares (percentages of net revenue, not absolute quantities) need not be equal for all members. The workers themselves must decide how to distribute the revenue. They may opt for equality, but they may also decide to remunerate the more difficult tasks more highly; they may find it in their interest to offer special premiums for scarce skills, to attract and hold the talent they need. Such decisions are made democratically.

3. The third fundamental feature of Economic Democracy is a feature that, paradoxically, is more evident in capitalist Japan and cooperativist Mondragon than in socialist Yugoslavia: social control of investment.[9] It is a crucial feature. Worker self-management is aimed at breaking the commodity character of labor-power and the attendant alienation. The market is a check against over-centralization and bureaucracy. Social control of new investment is the counterfoil to the market, designed to alleviate the "anarchy" of capitalist production.

Under capitalism the market has two distinct functions: it allocates existing goods and resources and it determines the course and rate of future development. In our model these two functions are separated. There is no "money market" bringing together private savers and private investors, whose interaction determines an interest rate.

In our model, investment funds are generated and dispensed via democratically mediated processes. They are generated, not by offering the enticement of interest to savers, but by taxing capital

9 See Horvat (1976, 218ff) for an account of the various investment policies attempted in Yugoslavia over the years. In the early phase of its transition to a full market economy, the Yugoslav government did control investments, but this policy was abandoned in a climate of general opposition to all forms of governmental interference. By the early 1970s one could say that "in many important respects . . . Yugoslavia bears more resemblance to the type of liberal market economy envisaged by Adam Smith than is the case in any country in western Europe" (Granick, 1975, 25). By way of contrast, most investment in Japan is mediated by governmental agencies (notably the Ministry of Finance and MITI), while in Modragon investment is carefully supervised and planned by the Caja Laboral Popular. In both cases goals other than profit maximization are given priority.

assets. This tax serves two important purposes. It encourage the efficient usage of capital goods (since enterprises must pay a value-tax on their capital assets, they will want to economize on their use), and it constitutes the funds for new investment. This "capital tax" is the surrogate of interest in a capitalist economy, which serves the same double function. In fact, since taxation is the source of the investment fund, there is no reason at all to pay individuals interest on their personal savings, nor, for that matter, is there a need to charge interest on personal loans. The ancient proscription on "usury" returns under Economic Democracy.[10]

Investment funds are generated by taxation. How are they to be dispensed? Although the society is democratic, it would not be feasible to attempt a popular vote on each investment project. Not only does the sheer number of projects render such a procedure unworkable, but it would negate a major benefit of socialized investment: the conscious adoption of a reasonably coordinated, coherent set of investment priorities.

But how exactly should an investment plan be formulated and implemented? Here it is important to realize that there is a range of options. It is unlikely that any one option is optimal for all countries at all times. At one extreme would be a set of institutions modeled on Japan: an elite bureaucracy draws up a plan, generates a consensus, passes it through the national legislative body, then implements it rigorously — not by compulsion, but by using its wide discretionary powers over access to finance in order to cut back some firms and entice others to develop in desired directions (cf. Johnson, 1982, 315-319, for an outline of institutions that would, in his view, enable an economy to approximate Japanese planning). At the other extreme would be a "plan" that mimics

10 "The most hated sort of wealth getting and with greatest reason, is usury, which makes a gain out of money itself and not from the natural object of it. For money was intended to be used in exchange, but not to increase at interest" (Aristotle, Politics, 1258b, 2-5). Economic Democracy can agree. Institutions might exist to keep an individual's savings safe — for a service charge perhaps, and indexed to the rate of inflation — and to make personal loans (again for a service charge and with repayment indexed), but with saving separated from investment, there is no need for interest.

It should be noted, however, that allowing moderate interest payments to private individuals under Economic Democracy would not likely be a serious source of inequality (the essential ethical objection). Although other arrangements, theoretically more satisfying, are possible, consumer loans and the housing sector may well be served by regulated Savings and Loan Cooperatives that pay moderate interest on private savings which are loaned out at a somewhat higher interest.

the free market outcome while avoiding the capitalist middleman, a sort of "socialist laissez-faire." In this case the investment fund is apportioned to a network of national, regional and local banks, which make their grants using exactly the same criteria as a capitalist bank. The national legislature sets the use tax (interest rate), adjusting it yearly so as to bring the supply of investment funds into line with demand. The banks themselves are charged this rate. They are permitted to charge a higher rate on grants they make, and so, in trying to maximize their own profit, they weigh risk against projected profitability in exactly the same fashion as does a capitalist bank. Under such socialist laissez-faire, there is no planning of the qualitative makeup of investment, no attempt to encourage or discourage any particular line of production, nor even any conscious control over the quantity of investment.

In most cases the optimal mechanism probably lies somewhere in between these two extremes. Let us consider one that lies more or less at the midpoint. It will be more democratic and decentralized than the Japanese model; it will give society more positive control over investment than does socialist "laissez-faire."

It should be noted that the planning I propose is not for the whole economy; the planning is only for the new investment to be undertaken, that is, investment not financed from depreciation set-asides. Although substantial money is involved, it constitutes but a fraction of the total economic activity of the nation. (Gross fixed capital formation in the United States, 1960-84, averaged 17.9% per year, a quarter of which was residential housing [Lipsey and Kravis, 1987, 25, 42].) Social allocation of new business investment would not constitute a massive share of the GNP, although it is, of course, a strategically central share.

It should also be noted that an individual firm already operating is unaffected by this planning unless it wants to make changes in its operations that cannot be financed from its Depreciation Fund.[11]

11 In this model the depreciation set-asides are mandated by law, but controlled by the enterprises. They may be spent on any capital improvement desired by the firm, and when so spent are considered "on-going" investment. Such spending is distinguished from "new" investment, which is bank-financed — and hence subject to whatever conditions have been negotiated. This distinction between "new" and "ongoing" investment is a somewhat arbitrary way of giving firms some autonomous control over their investment policy, but not so much as to give rise to macroscopic instability.

A flat tax on the capital assets of each enterprise in the economy has generated a supply of funds for investment. Social control of these funds, suitably democratized and decentralized, will be achieved by means of interconnected plans and banks. We begin with the plans.

We should distinguish among three sorts of investments society might like to make: 1) those that the profit-seeking cooperatives will spontaneously undertake; 2) those that are intended to be money-making, but which, because of positive consumption or production externalities, are more valuable to society than their profitability indicates; and 3) those related to the provision of free goods and services, e.g., infrastructure, possibly schools, hospitals, urban mass transit, basic research facilities and the like. Categories (2) and (3) are those endeavors planning must promote.[12]

Two issues arise with respect to these latter sorts of endeavors: deciding which projects to promote, and allocating funds for those projects. The decisions themselves should be made democratically by the elected legislatures at the appropriate levels. Investment hearings are held (as budget hearings are currently held); expert and popular testimony is sought. The legislature will then decide the amount and nature of capital spending on free (public) goods, and which areas of the cooperative sector it wishes to encourage. Funds for public expenditures are transferred to the appropriate governmental agency; those for the cooperative sector earmarked as "encouragement grants" are specified as to amount and terms (a lower tax-rate than the national rate, perhaps for a finite period only).

The allocations of the investment fund may now proceed as follows: First, the national legislature decides, in accordance with the democratic procedures described above, on public capital spending for projects that are national in scope, e.g., an upgrading of rail transport. Funds for these projects are allocated to the appropriate governmental agency, e.g., the Department of Trans-

12 I omit here negative measures, since they are not particularly problematic or unfamiliar. If the nation (or region or community) wishes to prohibit or discourage the production or use of specific products, or to set standards governing the use of certain technologies, the appropriate bills are introduced into the appropriate legislature, public hearings are held, a vote is taken. If the legislature is unresponsive, referenda may be held. It seems clear that a democratic socialist society should avail itself of the full panoply of political mechanisms currently available, modifying them and supplementing them so as to make the political process more responsive to popular input.

portation. The rest of the investment fund is distributed to the regions (states, provinces) on a per capita basis — i.e., if Region A has X% of the nation's population, it gets X% of the investment fund.[13] The national legislature may also decide that certain types of projects should be encouraged, and, accordingly, specify the amount of funding to be made available and the tax rate for such projects.[14]

Regional legislatures now make similar decisions: on public capital spending, and on encouragement projects. Funds for the former are transferred to the appropriate regional authorities; the remainder is allocated, per capita, to the communities, which then make decisions about local public investment and their own encouragement grants.

Priorities having been set at the national, regional and local levels, the communities now allocate their funds to their own banks. These banks might well be structured along the lines of Mondragon's Caja Laboral Popular. Each enterprise in the area affiliates with the bank of its choice, which holds its depreciation reserve and sales income, and provides it with working capital and perhaps other technical and financial services. It is to this bank that the enterprise normally looks for new investment capital, although it is free to apply elsewhere. Each bank is run as a "second-degree cooperative" — the Mondragon term for a cooperative whose governing council includes representation from sectors other than the cooperative's workers. The governing council of a community bank should include representatives of the community planning agency, representatives of the bank's workforce

13 I am proposing here an egalitarian distribution. A less egalitarian alternative would be to return to each region that portion of the investment fund (less national deductions) collected from that region. This alternative would tend to exacerbate, rather than mitigate, regional disparities. Another alternative, perhaps the most attractive economically and ethically, would be to apportion the funds according to "need," the latter a balance of income levels, enterprise needs, and national priorities. In my model I will stick with the egalitarian distribution, above all for simplicity. I suspect that in practice a democratically decided distribution would be less egalitarian than I propose, but more egalitarian than in proportion to contribution.

14 If the government had perfect knowledge, it could simply set the appropriate tax rate, and the desired amount of investment would be forthcoming (cf. Roemer, Ortuno-Ortin and Silvestre, 1990, for a formal proof). I am assuming, more realistically, that the government is less certain as to exactly how much it wants to invest in a particular project, so it sets a limit as to total amount, and offers an incentive to firms to undertake such investments. Amounts and incentives may be readjusted the following year, depending on results.

and representatives of the firms that do business with the bank.[15] Each bank receives from the community a share of the investment funds allocated to the community, a share determined by a) the size and number of firms affiliated with the bank; b) the bank's prior success at making profitable grants (including lower-rate encouragement grants); and c) its success in creating new employment.[16] The bank's income, to be distributed among its workers, comes from general tax revenues (since these are public employees) according to a formula linking income to the bank's success in making profitable grants and creating employment.

If a community is unable to find sufficient viable investment opportunities to absorb the funds allocated to it, the excess must be returned to the center, to be reallocated to where investment funds are more in demand.[17] Communities thus have an incentive to seek out new investment opportunities, so as to keep the allocated funds at home. Banks too have a similar incentive, so it is reasonable to expect that communities and their banks will set up Entrepreneurial Divisions — agencies that monitor new business opportunities — and provide technical and financial expertise to existing firms seeking new opportunities and to individuals interested in starting new cooperatives, helping them with market surveys, grant applications and the like. These agencies might go so far as to recruit prospective managers and workers for new enterprises. (Mondragon's Caja Laboral Popular has just such a division — another of its successful innovations. See Whyte and Whyte [1988, 71-75] and Morrison [1991, 111-134] for details.)

15 The Caja Laboral Popular has a governing board of twelve, four representatives of its workers and eight representing the over 100 cooperatives linked to the bank. Since the Caja's funds do not come from taxation, there is no felt need to include community representatives.

16 This is not to suggest that employment should be created by making investments in areas that will not be profitable at all. Banks will be penalized for making bad grants. But profit maximization should not be the sole criterion either. If two projects require an equal investment of new capital, the one providing the greater employment should be favored. That the two goals — profitability and employment creation — are not hopelessly contradictory should be clear from the success of the Caja Laboral Popular, which has had employment creation as one of its central goals from the beginning.

17 A simple incentive structure to ensure compliance would be to charge communities a use-fee for their allocated funds, from which would be deducted the tax revenues to the investment fund derived from their distribution to area firms. Thus a community would be penalized for holding onto funds or making unproductive grants.

The basic framework for the social control of investment is now in view. To review briefly: we have the tax revenues from capital assets, collected by the central government, dispersed throughout society to a network of local banks, which dispense these funds (some earmarked to encourage certain kinds of projects) to their affiliated firms and to newly created enterprises so as to optimize employment and the profitability of their affiliates. Thus we have a network of Mondragons (or mini-keiretsu, if you prefer) that receive their funds for new investment from the public Investment Fund. The bank at the center of each can make grants as it sees fit, charging the standard use-tax on most, but allowing a reduced rate on encouragement projects. These grants, once received, are not repaid, but they add to the capital assets of the firm, and hence to its tax base.[18] Associated with most banks are Entrepreneurial Divisions that attempt to foster firm expansion and new firm creation. (Economic Democracy provides for, indeed requires, "socialist entrepreneurs," individuals or collectives willing to innovate, take risks, in hopes of providing new goods and services, or old ones in new ways. Critics are not wrong in their insistence that such people are important to a society's well-being, yet insufficiently encouraged in existing socialist economies.)

Efficiency

I have laid out in some detail what I take to be an economically viable, highly desirable form of socialism. It is important, particularly now, that socialists be able to envisage and articulate such a structure. We need to be clear, to ourselves and others, that the problem is not to choose between plan and market, but to integrate these institutions into a democratic framework.

We need also be clear that democracy is not just a political value, but one with profound economic implications. Economic Democracy is not only more democratic than democratic capitalism, but it is more efficient as well.

18 Economically, use-tax/interest is a distinction without a difference, but the sociopsychological associations are not the same in the two cases. It seems to me that seeing the payment as a use-tax that goes to the investment fund instead of as interest makes it more transparent that one is paying to gain access to property created by others, and that the payment is being recycled to allow others similar access. Apart from this consideration — which may in fact be minor — I see no principled objection to the use-tax being called "interest."

Let me focus the remainder of this paper on this latter claim, since it is socialism's alleged inefficiency that attracts so much critical attention today. Space limitations preclude a full demonstration, but let me at least sketch the basic argument and cite some of the evidence. (For a fuller treatment, see Schweickart [forthcoming].)

Among the various forms of economic inefficiencies, one can distinguish among allocative inefficiencies, Keynesian inefficiencies, and X-inefficiencies.

"Allocative inefficiencies" are diminutions of overall welfare resulting from those market imperfections that cause prices to deviate from what they would be under ideal perfect competition. These are the inefficiencies familiar to anyone who has taken freshman economics — essentially those caused by monopolies and "externalities." To isolate these types of inefficiencies for purposes of study, one usually assumes that 1) the economy's technology is fixed; 2) there is full employment of human and material resources in the society at large; and 3) that each firm can readily transform its inputs into output in accordance with its goals, i.e., that no waste occurs within the firm. "Keynesian inefficiencies" will refer to those deviations from optimality that occur when human and material resources are not fully employed, i.e., when (2) fails to hold. "X-inefficiencies" are those assumed away by assumption (3) — namely, inefficiencies that occur within the firm, due to the firm's internal structure. (The term "X-efficiency" was coined by Harvey Leibenstein [1966] in a much-cited article. His ideas have been further developed in Leibenstein [1976] and Leibenstein [1987].)

The relative orders of magnitude of these three forms of efficiency are important. Vanek refers to them as "fleas, rabbits and elephants" (Vanek, 1989, 93). Leibenstein's survey of the empirical evidence finds allocational inefficiencies to be on the order of one-tenth of one percent of GNP, while X-inefficiencies within firms often exceed 50%. While granting methodological problems with the comparisons, he notes that allocational inefficiencies almost have to be small, since — given the defining assumptions — higher than "right" prices in one area of the economy will be offset by lower than "right" prices in other areas.[19] If we add to these

19 Cf. Leibenstein (1976, 29-44). As an emphatic demonstration of his point, Leibenstein shows that if half the firms in an economy were monopolies charging 20% higher prices than they should, then (under the reasonable assumption that demand elasticity is 1.5), the overall diminution is GNP due to allocational inefficiency is a mere 1.5%.

considerations the evident seriousness of the unemployment that continually plagues capitalist economies, then Vanek's metaphor does not seem ill-chosen.[20]

As one would expect, our model shares some of capitalism's efficiency strengths. Economic Democracy is also a market economy. Like its profit-seeking capitalist counterpart, a self-managed firm is motivated to seek out and satisfy consumer preferences and to utilize its raw materials and technology cost-effectively. However, the attentive reader may be bothered. "Profit" under Economic Democracy is not the same as profit under capitalism. Labor counts as a cost under the latter, but not under the former. Might not this difference have efficiency consequences for the economy as a whole?

The impact of this difference on allocational efficiency has been the focus of the theoretical attention lavished in recent years on models of worker self-management.[21] But if Vanek and Leibenstein and Horvat are right about relative magnitudes (as I think they are), then this debate is mostly sound and fury signifying very little.[22] We will pass over it here. Whatever the allocational inefficiencies might be (if any), their overall impact on the economy would likely be slight.

20 When we reflect that the amount of attention economists have given to these various kinds of inefficiency correlates inversely with these magnitudes, we might sympathize with Horvat's irritation that "the authors exploring efficiency collectively use, figuratively speaking, 99% of their brain power to cope with 1% efficiency loss and only the remaining 1% of their intellectual capacity to discover possible improvements of the order of 10 or 20%." He adds, "the enormous allocational inefficiency of such endeavors is obvious" (Horvat, 1986, 15).

21 Formal models of worker self-management, using standard neoclassical categories, have become a growth industry of the last decade or so. Responding to the early analyses of Ward (1958) and Domar (1966), Vanek (1970) provided a careful proof that with suitable assumptions a worker-managed economy is Pareto optimal. Since the appearance of this work, various neoclassical economists have labored to show that such an economy is not efficient, while others have concocted models to show the opposite. At the abstract level the issue now seems settled. Jacques Dreze has provided a general equilibrium analysis that "establishes unequivocally the compatibility of labour management with economic efficiency" (Dreze, 1989, 25).

22 The early critics of worker self-management do point to something important, something that cannot be lightly dismissed. There are good reasons (if not quite the reasons the critics have put forth) for thinking that a worker-self-managed firm will not behave as a capitalist firm in certain significant circumstances. Specifically, under certain rather normal conditions, worker-managed firms, as compared to their capitalist counterparts, do not have the same self-generated tendency to expand. This difference, however, far from counting against Economic Democracy, is an important source of its overall superiority to capitalism. (Schweickart, forthcoming, has an extended discussion of this issue.)

The issue of Keynesian efficiency is more important, but here the case can be made that Economic Democracy, since its investment mechanism provides specific incentives for job creation, will have fewer problems with unemployment than does capitalism. This conclusion is reinforced by the consideration, long ago noted by Marx, then studiously ignored by neoclassical theory, that unemployment is fundamental to a "healthy" capitalism, since it serves to discipline the working class. No such discipline is required under Economic Democracy. (I am giving a very brief gloss here on an important matter.)

X-Efficiency

Let me say more about X-efficiency, since it is likely to be the efficiency component most decisive for real-world economies. (Breakdown at this level is arguably the most significant element of the current Soviet economic crisis.) The economic model we are studying extends democracy to the workplace. I have argued that a democratically run firm in a market environment has the same incentives as a capitalist firm to satisfy its customers and to utilize its technology and resources effectively.

"But," it will invariably be asked, "will a self-managed firm do so as well as a capitalist firm? Are workers sufficiently competent to make complicated technical and financial decisions? Are they competent even to elect representatives who will appoint effective managers?"[23] I cannot deny that these are fair questions, but neither can I resist remarking on how odd it is that these questions are so quickly raised (as, in my experience, they always are) in a society that prides itself on its democratic commitment. We deem ordinary people sufficiently competent to select mayors, governors, even presidents. We regard ordinary people as capable of selecting representatives who will decide their taxes, who will make laws which, if violated, consign them to prison, who might

23 It will probably come as no surprise that Soviet managers are as resistant to the idea of workplace democracy as are capitalist owners and managers. Consider Leonid Gorden's report of his conversation with a group of Soviet managers: "The only way to organize our economy efficiently is to make us the owners." Others at the meeting laughed and asked, "But do you think the workers will permit this?" The managers laughed back and explained, "It's none of your business! Since we shall tell them that we plan to double their wages, all of them will support our ownership" (Gordon, 1991, 28).

even send them off to kill and die. Should we really ask if ordinary people are competent to elect their bosses?

But we have to ask this question. Rhetorical flourish cannot pass for argument on so crucial an issue. After all, workers in democratic capitalist societies do not elect their bosses. Why not? Perhaps workers are indeed so ill-qualified that economic chaos, or at least a sharp decine in efficiency, would result.

Are ordinary people competent to elect their bosses, and to participate in the management of their enterprises? The amazing thing is, we can answer this question — as unambiguously as one would dare hope, given the complexity and significance of the issue. It is hard to imagine a more important ethico-economic question that can be so decisively settled. To a degree rare in the social sciences, the empirical evidence is clear.

Let us proceed here with some care, since much is at stake. It is not necessary for our purposes to try to isolate the X-efficiency effects of various elements of worker self-management: democratic selection of management, profit sharing, participatory options, etc. What we need to show is that these elements, taken together, are unlikely to lead to inefficiency within the firm.

Various theorists have raised questions about the X-efficiency of workplace democracy, pointing to such things as the reluctance of managers to exert themselves fully since they must share profits with workers, the reluctance of elected managers to discipline workers sufficiently, and the waste of time and effort associated with democratic decision-making. (The most comprehensive and sustained theoretical attack on models such as ours is by Jensen and Meckling [1979].)

Theorists have raised these questions, but the empirical evidence is overwhelming against them. The evidence is very strong that both worker participation in management and profit sharing tend to enhance productivity, and that worker-run enterprises are often more productive than their capitalist counterparts.

As to the efficiency effects of greater worker participation, there is the HEW study of 1973, which concludes: "In no instance of which we have evidence has a major effort to increase employee participation resulted in a long-term decline in productivity" (United States Department of Health, Education and Welfare, 1973, 112). Nine years later, surveying their collection of empirical studies, Jones and Svejnar (1982, 11) report: "There is apparently consistent support for the view that worker participation in management causes higher productivity. This result is supported by a variety of methodological approaches, using diverse data and for disparate time periods." In 1990 a collection of research papers edited by Princeton economist Alan Blinder extends the data set much further and reaches the same conclusion. Levine and Tyson (1990, 203-204), for example, summarize their analysis of some 43 separate studies:

> Our overall assessment of the empirical literature from economics, industrial relations, organizational behavior and other social sciences is that participation usually leads to small, short-run improvements in performance, and sometimes leads to significant long-lasting improvements. . . . There is almost never a negative effect..[24]

They draw a further conclusion (Levine and Tyson, 1990, 205-214). Participation is most conducive to enhancing productivity when combined with 1) profit sharing, 2) guaranteed long-range employment, 3) relatively narrow wage differentials, and 4) guaranteed worker rights (such as dismissal only for just cause). We observe that enterprises in Economic Democracy tend to fulfill all these conditions.

As to the viability of complete workplace democracy, we note that workers in the plywood cooperatives in the Pacific Northwest have been electing their managers since the 1940s, workers in Mondragon since the 1960s. We note that as of 1981 there were some 20,000 producer cooperatives in Italy, comprising one of the most vibrant sectors of the economy. (References to Mondragon and Yugoslavia have been given above. On the plywood cooperatives, see Berman [1982]. On the Italian cooperatives, see Estrin, Jones and Svejnar [1987].) Needless to say, not all self-management

24 The case for profit sharing is equally strong. Blinder (1990, 7) commenting on the analysis by Weitzman and Kruse, which examines 16 studies using 42 different data samples, writes: "The consistency of the disparate results is striking. Of the 218 estimated profit-sharing coefficients, only 6 percent are negative, and none significantly so. By contrast, 60 percent of all the regression coefficients are significantly positive.... This, I believe, is the strongest evidence to date that profit sharing boosts productivity."

ventures have been successful, but I know of no empirical study that even purports to demonstrate that worker-elected managers are less competent than their capitalist counterparts. Most comparisons suggest the opposite. Most find worker self-managed firms more productive than similarly situated capitalist firms. We've already cited the evidence on Mondragon. Here's Berman (1982, 80) on the plywood cooperatives:

> The major basis for co-operative success, and for survival of capitalistically unprofitable plants, has been superior labor productivity. Studies comparing square-foot output have repeatedly shown higher physical volume of output per hour, and others . . . show higher quality of product and also economy of material use.

There is also the recent example of Weirton Steel, the largest worker-owned enterprise in the United States. In 1982, following a mediocre year and facing bleaker prospects, National Steel offered to sell its Weirton, West Virginia plant to its 7,000 workers. 'he deal was completed in 1984. Weirton proceeded to post 18 consecutive profitable quarters, at a time when much of the steel industry suffered steep losses. (Two of Weirton's competitor's filed for bankruptcy.) "Weirton is the success story of the steel companies," said analyst John Tumazos, of Oppenheimer and Company (Greenhouse, 1985). "From a production and cost standpoint, Weirton is better than its competitors" (Serrin, 1986, 1).

The negative example of Yugoslavia? Not even Harold Lydall, perhaps the severest pro-capitalist critic of the Yugoslav economic system, argues that worker incompetence in selecting managers is the problem. As we have seen, Lydall acknowledges that for most of the period from 1950 to 1979 Yugoslavia not only survived but prospered. Things changed, much for the worse, in the 1980s. How does he account for this precipitous decline?

> It is evident that the principal cause of failure was the unwillingness of the Yugoslav Party and government to implement a policy of macroscopic restriction — especially restriction of the money supply — in combination with a microeconomic policy designed to expand opportunities and incentives for enterprise and efficient work. What was needed was more freedom for independent decision-making by genuinely self-managed enterprises within a free market, combined with tight controls on the supply of domestic currency.[25]

The problem in Yugoslavia does not appear to be an excess of workplace democracy. In the judgment of one Belgrade newspaper, as summarized by Lydall (1989, 96), "the most convincing explanation for the present social crisis is the reduction of the self-management rights of workers."

If we think about it, it is not so surprising that worker self-managed enterprises should be X-efficient. Since workers' incomes are tied directly to the financial health of the enterprise, all have an interest in selecting good managers. Since bad management is not hard to detect by those near at hand (who observe at close range the nature of that management and feel its effects rather quickly), incompetence will not likely long be tolerated. Moreover, each individual has an interest in seeing to it that co-workers work effectively (and in not herself appearing to be a slacker), so less supervision is necessary.

These are the conclusions of Henry Levin (1984, 28), based on his seven years of field study:

> There exist both personal and collective incentives in cooperatives that are likely to lead to higher productivity. The specific consequences of these incentives are that the workers in cooperatives will tend to work harder and in a more flexible manner than those in capitalist firms; they will have a lower turnover rate and absenteeism; and they will take better care of plant and equipment. In addition, producer cooperatives function with relatively few unskilled workers and middle managers, experience fewer bottlenecks in production and have more efficient training programs than do capitalist firms.

It is not my intention to suggest here that workplace democracy is the miracle cure for economic malaise. Efficiency gains are not always dramatic. Not all cooperatives succeed. Failure is often painful, as is the failure of capitalist firms — and not only for the

25 Lydall (1989, 69; emphasis added). Lydall argues that the reforms of the mid-1970s constituted a "counter-reformation" to weaken the power of managers and give more power to the party politicians. In Yugoslavia today, "while the official doctrine is that the workers, through their representatives on the workers' council, choose their director, in practice most directors, especially those of large or medium-sized enterprises, are chosen by local politicians" (Lydall, 1989, 112).

owners. But it seems to me that the evidence is overwhelming that worker self-managed firms are at least as internally efficient as capitalist firms. In fact the cited evidence establishes more than this minimal conclusion. It can no longer be honestly doubted by anyone who reviews the literature that all else equal, worker self-managed firms are likely to be more X-efficient than their capitalist counterparts.

A Brief Conclusion

I have sketched the shape and provided some of the details of the argument that Economic Democracy is an efficient form of socialism - more efficient, in fact, than capitalism. But efficiency is far from being Economic Democracy's only strength. A careful, fair-minded analysis will show that Economic Democracy is less infected with growth mania than capitalism, and hence better suited to a world that must come to terms with ecological limits, that it is more stable than capitalism, more democratic, more egalitarian. I think it can also be shown, though I will not attempt to do so here, that Economic Democracy better accords with the underlying, bed-rock values of a liberatory Marxian socialism than does any of the existing or proposed alternatives. Moreover, if we remain on the lookout (as Marx advises) for institutions of the new society slowly forming in the womb of the old, I think we can discern the institutions of Economic Democracy. If socialism is to be humanity's future (by no means a foregone conclusion), Economic Democracy is a future we can realistically project - and honorably fight for.

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