

Democratic Market Socialist Economy:

A Chart with Explanatory Notes

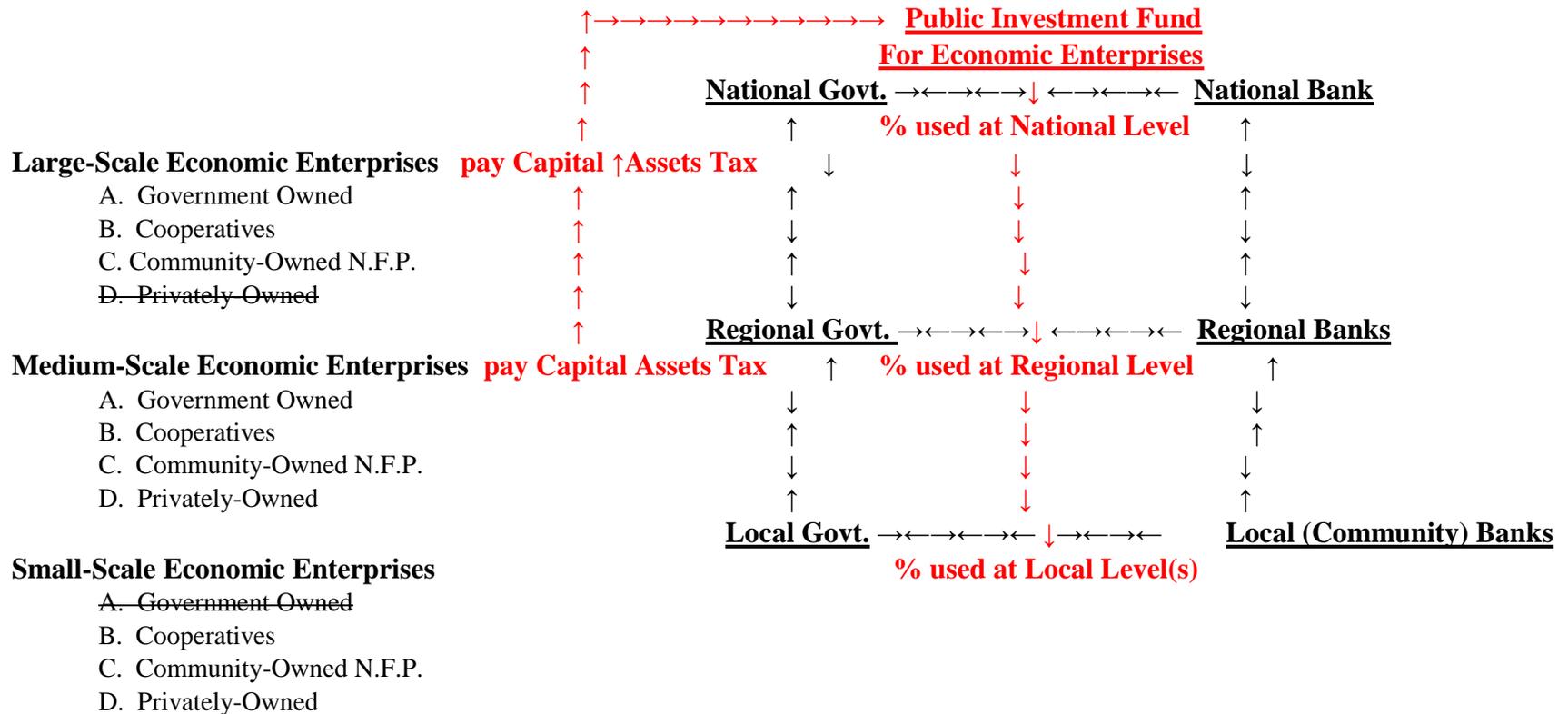
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Publicly Owned N.F.P.*

Economic Enterprises:

Government:

Banking System:



* N.F.P. = Not for Profit (enterprise).

↑ → ↓ (red arrows) indicate the flow of Investment Capital

↑ ↓ ↔ (black arrows) indicate consultations between government and banks (and between themselves) at various levels.

The above chart is a schematic representation of a market socialist economy in terms of its types of economic enterprises (in terms of their ownership) and how investment capital would be raised and allocated. It is arguable that this sort of market socialist economic system, which is described in more detail below, would be more in accord with acceptable principles of social justice than either capitalist economies or so-called communist command economies and, furthermore, would be (and has been) at least as efficient as capitalist economies. In addition, it is arguable that such a market socialist economy is able to avoid some of the major problems of capitalist economies, including: (1.) the Problem of Chronically Deficient (Effective) Demand (which is a structural factor to the occurrence of periodic recessions and depressions); (2.) the Problem of Stock Market Panics (which is the proximate cause of severe recessions and depressions); (3.) the Problem of Capital Flight; (4.) the Problem that Capitalist Economies Have a Built-In Tendency for Unending Growth (which is ecologically unsustainable in the long run). I have given the arguments for these claims elsewhere so I will not give them here. In the present essay I want to delve into some of the details about how such a system would be structured and how it would work.

Types of Economic Enterprises

Size of Economic Enterprises

The criteria for what constitutes large-scale, medium-scale, and small-scale enterprises will be either the number of employees or the total income of the enterprise in a fiscal year, and thus how economic enterprises are classified might differ somewhat between societies with different levels of economic development. But in economically well-developed ("wealthy") societies that exist today – such as those in most of Europe, the U.S., Canada, Australia, New Zealand, Japan, South Korea, and Singapore – perhaps the criteria would be something like the following. Small-scale enterprises might be defined as those having up to 100 employees and/or a gross annual income below \$10 million per year; medium-scale enterprises might be defined as those having more than 100 but less than 500 employees and/or a gross annual income below \$50 million per year; and large-scale enterprises might be defined as those having over 500 employees and/or a gross annual income over \$50 million per year.

The four types of ownership of economic enterprises are: A. Government Owned, B. Cooperatives, C. Community-Owned N.F.P. (Not for Profit enterprises), and D. Privately-Owned. This system of market socialism allows the all four kinds of ownership at each level of the economy except that private ownership is not allowed for large-scale economic enterprises and state-ownership is not allowed for small-scale enterprises.

Types of Ownership of Economic Enterprises

There are four basic types of ownership of economic enterprises, although this doesn't count the possibility of a mixture of these for basic types of ownership of enterprises, such as enterprises that are partially government owned and partially privately owned.

A. Government Owned economic enterprises

Government owned economic enterprises can be owned by any level of government (national, regional, and local) or even by a combination of these levels of government. Examples include:

- various (national) government owned airlines and railroads in various (capitalist and socialist) countries;
- various state-owned petroleum corporations in various (capitalist and socialist) countries;
- the Volvo and Saab automobile manufacturing corporations which were owned by the Swedish government before they were partially privatized in the 1980s;
- various municipal utilities (economic enterprises providing municipalities with water, sewage, electricity, or natural gas) in various (capitalist and socialist) countries.
- the companies composing the TVA (Tennessee Valley Authority) power generation and distribution system in the United States (which are owned by and operated under the authority of the national government of the U.S.);¹ and
- almost all the large-scale economic enterprises in Yugoslavia's workers self-managed market socialist system (which existed from circa 1948-1968).

B. Cooperatives

The best examples of cooperatives operating in a market economy is the Mondragon system of cooperatives in northern Spain. The Mondragon Cooperative is the most successful cooperative (or association of cooperatives) in world history, having over 100,000 employees and over 200,000 members (the employees plus their dependents) who have the additional benefit of discounts at the cooperative's "hyper-markets" (i.e. combination supermarkets and department stores). Since shortly after its formation in the 1950s the Mondragon Cooperatives have had their own bank (so they can capitalize their own enterprises without relying on outside sources of capital, which have often proven hostile to cooperatives). They also have their own insurance company that acts as a supplement to Spain's national public social security and pension system. Moreover, they now have branches in 17 other countries around the world and have recently entered into an agreement with the United Steel Workers union (USW) in the U.S. to work towards developing affiliated cooperatives in the steel industry in the U.S.

Workers entering an enterprise (as new employees) are required to buy into the enterprise, which they normally do by having deductions taken from their paychecks for as many years as it takes to accomplish this. Conversely, when employees leave an enterprise – due to retirement, for example – they are reimbursed according to their ownership share in the enterprise. All employees of the enterprise have an equal vote in deciding on wages, working conditions, strategic planning (as presented to them by managers and other experts), etc. They elect their managers

and are free to fire them, although at least in the Mondragon experience, they seldom do. (For one thing, managers in the Mondragon Cooperative tend to be so committed to their cooperatives that they are willing to accept an average of 30% lower compensation than comparable managers of similar private, for-profit enterprises in Spain.) The individual cooperatives voluntarily associate themselves with a federation of cooperatives; in Mondragon's case this is the Mondragon Cooperative Corporation. Each individual cooperative is free to leave the larger association but since the MCC was formed in the 1980s all Mondragon cooperatives have joined it and none has ever voted to leave it. Presumably this is because of the advantages of belonging to the larger cooperative association, including the advantage that if one individual cooperative has to lay off some workers due to a downturn in the market for its goods, these workers will usually be hired by another cooperative in the system.

C. Community-Owned N.F.P.s

The best example in the U.S. of a community-owned Not for Profit economic enterprise is the Green Bay Packers (NFL) football team. From a sports fan's perspective, a major advantage of a sports team (franchise) being community owned or government owned (by municipalities, for example) is that the team cannot simply move to another city whenever it projects it can make more money by doing so. Other examples of community-owned economic N.F.P. enterprises are various performing arts organizations (such as symphony associations, opera companies, etc.), although such enterprises and also related performing venues are also often government owned (usually at the municipal level, although many countries also have national symphonies, opera companies, etc.) or

D. Privately Owned economic enterprises

In a market socialist economy of the type I am advocating, small and medium size economic enterprises can be privately owned by individuals, by families, by partnerships, by associations (for example, churches or private clubs), and even by groups of people (owning shares in it) ... but not by stock holders (since there is no stock market). As the chart indicates, private ownership of large-scale enterprises is prohibited. This means that if a privately owned enterprises is successful enough to grow to the level of being a large-scale enterprise (on criteria set out in the legal system of the society, such as having 1000 or more employees and/or having annual sales of, say, \$50 million of goods and/or services) then it must either be transformed into a cooperative (with perhaps a substantial buyout of the private owners) or sold to the government at fair market value (in which case the profits from the sale accrue to the owner or owners, although they may well have to pay substantial taxes on the profits).

However, in all probability the legal framework for this kind of economic system would specify that an individual could only own one business (economic enterprise) at a time (either fully or partially) and that private start up enterprises would only be funded at the small-size level (and perhaps at the lower end of the medium-size level) and, if economically successful, would be able to grow themselves to the maximum level of at which the legal regulations specify that an enterprise becomes a large-scale one. The law will specify that at that point an enterprise must sell to the public sector or to its employees (to become a cooperative) at fair market value. This provision is necessary in order to prevent a new capitalist class from forming and is, thus, a prophylactic against the danger of the restoration of a capitalist economic system.

It is also important to note that while private ownership is prohibited at the large-scale level, government ownership is prohibited at the small-scale level. Government ownership is only allowed of medium and large-scale enterprises.

Generation and Distribution of Investment Capital

There is no stock market in such an economic system since one is not needed because investment capital is raised by means of a capital assets tax on all large-scale and medium-sized enterprises, and is distributed by the publicly-owned N.F.P. banks (at the national, regional, and local levels) in accordance with the criteria established by the government; particularly, expected (and/or proven) profitability, environmental sustainability, and job creation. (At any level – national, regional, or local – capital can be given to start up a new enterprise or expand an existing one.) One of the advantages of such a system is that it eliminates one of the primary causes of depressions and severe recessions; namely, stock market panics during which wealthy private investors pull their money out of the stock market and "park it" in what they believe to be safer places, such as government bonds of economically stable countries, gold bullion, diamonds, etc.

Another major advantage of market socialism is that if a society reaches a point at which its members are satisfied with the total productivity (wealth, Gross Domestic Product), given its distribution, it can decide to set the capital assets tax at just the replacement level such that the economy can remain at that level of economic production. That is, a society with a market socialist economy could decide to be a steady state economy (or, theoretically, even reduce economic production gradually over time), while remaining economically healthy (that is, not suffering depressions or unwanted recessions), which is something that no capitalist economy can do and remain healthy. Obviously, this is a very important consideration given the severe environmental problems that the world is facing. If this analysis is correct, this is a MAJOR advantage of market socialism over capitalism.

Actually, it should be noted that there are two different views on the nature of the investment capital dispersals given out by the banks. One view is that they are loans that the enterprises that receive them must pay back (with interest) to the banks that granted them. On the other hand, such theorists of market socialism as David Schweickart maintain that they are not loans but grants and are thus not paid back to the banks. On this view, however, the funds lent to enterprises are indirectly recovered by the banks through the capital assets tax that all large-scale and medium-size enterprises must pay into the national public investment fund. And, in this case, the recovery (or recycling) of the funds lent out by the banks will not be exactly proportional with respect to the amount received by each enterprise; but the capital assets tax rate can be set such that it recovers the approximate amount that was lent out, as a whole. Obviously, if these investments are treated as loans to be paid back then the capital assets tax could be set at a much lower rate as opposed to the level at which it would be set if they are treated as grants, because under the former option the public investment fund would be largely replenished by the repayment of the loans.

But in either case, since there will almost always be more applications for capital funds than the public investment fund (administered by the banks) can accommodate, there will usually be intense competition for such funds. Thus, whether applying to a community bank for startup funds for a new economic enterprise or applying to a regional or the national bank for funds to expand production for already established firms, those individuals and firms applying for the funds will have to meet all of the requirements that must be met in capitalist economies to secure capital funds. This includes market research, business plans, etc. And the decisions of the banks about which applications to fund will be made according to criteria set by government policy.

But rather than, as in a capitalist society, banks only considering expected profitability of the enterprises receiving the capitals funds and, thus, their own profits, in a market socialist society the government can choose criteria by which the banks distribute the public investment fund that are directed towards the overall public good. For example, the three criteria that Schweickart emphasizes are: (1) expected profitability; (2) job creation; and (3) environmental friendliness.

With very few exceptions, enterprises funded out of the public investment fund are expected to be profitable, and those that are perpetually unprofitable will be forced into bankruptcy so that more efficient enterprises can make better (more efficient) use of the bankrupted enterprises economic assets. However, there might be exceptions to this general rule. In particular, if there is an enterprise – or, more likely, an entire industry made up of a number of enterprises – that is absolutely necessary for the rest of the economy to run well but which are, for some reason, unprofitable then it may well be reasonable to subsidize these enterprises and allow them to run at a loss. For example, it might be beneficial for an industrialized economy to have its own domestic steel industry even if this industry perpetually runs at a loss (perhaps due to foreign competition).

But while expected profitability is usually the only factor considered by banks in a capitalist system, a market socialist system can also instruct its banking system to consider other factors such as (2) job creation and (3) environmental friendliness. Thus, a market socialist economy can be expected to operate in the overall public good to a greater extent than a capitalist economy.

The incomes of economic enterprises in the public sector will be internally distributed as illustrated in the following chart, although some details may be different in different societies ... as decided by a (presumably democratic) government. For example, the Variable Federal Turnover Tax (meant to equate supply & demand, and help channel investment) was used in Yugoslavia during the first 10 years (or so) of its Workers' Self-Managed Market Socialist economic system, but was later eliminated in that system, and may or may not be chosen as a feature of one version of this type of economy or another in one country or another.

The Structure of Income Flows Within Government Owned Enterprises and Cooperatives

Distribution of Total Proceeds within Large-Scale Economic Enterprises in the Yugoslavian Self-Managing Market Socialism Model (1948-1989) (start at bottom)²

<u>Net Profit of the Enterprise:</u> 1. Must make up full wages or salaries (if not already paid), and additional Social Security Tax Payments 2. Discretionary Income for: (A) Bonuses and/or (B) Investment Fund for Enterprise *	* Discretionary Income could be used for (A) Bonuses (up to a certain maximum level set by government policy) and/or (B) Investment Funds for their Enterprise ... in whatever proportion Employees decided.
<i>All Proceeds Used for Purposes Above this Point are Termed "<u>Net Profit of the Enterprise</u>"</i>	
<u>Taxes Paid to Local Governments #</u>	# On the Yugoslavian model this was negotiated between each enterprise and the local governments, depending on their profitability and local government's needs.
<u>Profits (Income) Tax to Federal Govt.</u>	
<i>All Proceeds Used for Purposes Above this Point are Termed "<u>Gross Profit of the Enterprise</u>"</i>	
<u>Payment of Minimum Obligations to Employees:</u> Minimum Wages;* Social Security Tax on Wages Paid	* Minimum Wages were set by government policy but could vary depending on position, type of work, seniority, etc. If an enterprise could not make payroll the government would lend it up to 80% of this "minimum wage," as long as it was expected to remain solvent.
<i>All Proceeds Used for Purposes Above this Point are Termed "<u>Income of the Enterprise</u>"</i>	
<u>Variable Federal Turnover Tax #</u> (for equating supply & demand, and channeling investment)	# A Turnover Tax is a tax that is levied on a business's turnover/sales that are generated by entrepreneurs through the delivery of goods and services.
<u>Capital Assets Tax to Federal Govt.</u> (e.g. 6% on total Capital Assets)	
<u>Depreciation & Amortization Fund:</u> Amortization of Fixed Assets; Depreciation Fund for Maintenance *	* The Depreciation Fund for Maintenance (of Equipment, etc.) could just have easily been put in the Operating Expenses category (for accounting purposes)
<u>Operating Expenses:</u> Materials, Overhead Expenses, etc. but <u>not</u> Cost of Labor	<i>The Bottom Four Categories are <u>Fundamental Obligations of the Enterprise</u>, and the Proceeds Going to them are <u>Not Counted as "Income of the Enterprise"</u></i>

Political and Economic Democracy

Corruption and Transparency

Needless to say, for any socio-economic or political system to work in an efficient and fair manner it is essential that corruption be minimized. Although it may be impossible to completely eliminate all forms (and degrees) of corruption in any large-scale society, corruption can be minimized by having (and enforcing) stiff penalties for anyone engaging in significant forms of corruption and by having the maximum degree of transparency with regard to government finances (money flows) that is compatible with national security, and the maximum degree of transparency in the general economy that is compatible with confidential business strategies in the context of a modern market economy. To accomplish these ends the incomes (and other economic benefits) of all government officials should be open to public scrutiny, and the finances of economic enterprises – including the salaries and other economic benefits of managers – ought to be open to scrutiny by committees made up of employees (elected for this purpose by fellow employees) and perhaps other stake holders, such as representatives from local communities. Needless to say, all such monitors within economic enterprises would be legally prohibited from revealing confidential information about the enterprise (such as its business strategies). Moreover, the entire system of shell corporations, off-shore bank accounts, tax havens, etc. that allows criminals and corrupt officials to hide and/or launder their illegally gained money and that allows wealthy people to avoid paying their legally required taxes should be completely abolished.

Political Democracy

My theory of social justice (called Justice as Fair Rights) includes a Principle of Fair Political Representation that demands political democracy in any circumstances in which it is possible to have political democracy or to have it without undermining even more fundamental principles of social justice, such as the Basic Rights Principle (which demands that peoples security rights and subsistence rights be respected and protected), and that, in any case, there must be fair political representation in the sense that citizens are consulted by government and can influence the decisions of government. (John Rawls refers to such societies as ones having decent consultation hierarchies.)

I am assuming – as well as strongly advocating – a democratic form of government in my vision of a market socialist society ... and, in fact, a much more real democracy than exists in the United States (and similar societies) in which the political process is disproportionately influenced by money; especially by wealthy individuals and corporations. In fact, such political systems are sometimes said to be not genuine democracies but, rather, polyarchies. Polyarchy is defined as a political system that is formally democratic in that it has regular elections, protects political rights,

etc. but that has at least one discernable group (socio-economic and/or political) that has at least as much power as the government ... although this power may be primarily exercised indirectly and even almost completely "out of view."

In any political system it is essential to prevent excessive bureaucratic power as well as to make sure that special interests – especially wealthy individuals and corporations – do not have excessive influence and control of the political process. In the United States the first step towards the latter goal is to get the *Citizens United vs. Federal Election Commission* Supreme Court ruling overturned if and when a more liberal Supreme Court takes up a similar case. (This case notoriously declared that spending money in politics is the same as free speech and thus must not be limited except for extraordinarily strong reasons.) In conjunction with getting this ruling overturned, Congress and the various states should also pass laws limiting the amount of money that anyone or any organization can give to political campaigns. Ultimately, it would be best to go to a system of public financing of political campaigns, as some European countries have already done, in order to get private money completely out of the political process.

There are other measures that could be taken to increase democracy and make the political playing field more equal in the United States, such as getting rid of the antiquated electoral college for Presidential elections in favor of election according to the popular vote. Although the electoral college vote normally coincides with the popular vote, this is not always the case. Most recently, Al Gore lost the 2000 Presidential election to George W. Bush even though Gore won the nationwide popular vote. But, of course, making this change would require amending the U.S. Constitution, which is a very difficult process.

Moreover, somehow limiting the ability of state legislatures, city councils, etc. to gerrymander electoral districts would be a major democratic reform. As things stand now in the U.S. many states have congressional districts with preposterous shapes, which have been drawn for the sole purpose of making them "safe" districts for the party in power in the state legislatures (when the districts are drawn up, which happens once every ten years after a census is taken). A particular noticeable instance of gerrymandering is how the Republican-dominated Utah state legislature has carved up Democratic-leaning Salt Lake City to be part of four different Congressional districts, three of which stretch across the rest of the state, so as to make sure that each of these districts has more Republican-leaning than Democratic-leaning voters.³

And, personally, I think a cabinet system of government (in which the chief executive – the Prime Minister – is appointed by a parliament and is subject to being ousted from office if he or she should lose a vote of confidence in the parliament), such as exists in most European countries, is preferable to a Presidential system (in which the chief executive is elected for a specified term) since it is much easier to remove from office a Prime Minister and appointed cabinet than it is to remove a President, if and when it is necessary (or advisable) to do so. But this is not yet even on the horizon of political possibilities in the U.S.

Nevertheless, it is important to note that although I am supposing (and advocating) a politically democratic form of government, the market socialist economy I am describing (and advocating) can also operate basically the same way with an undemocratic form of government. But I would also argue that political democracy and, more generally, fair political representation is an independent value, even if it is not necessary for the functioning of such a market socialist economic system.

Workplace Democracy (Workers Self-Management)

There is another important issue concerning democracy that must also be discussed; namely, whether such a market socialist system must be (or should be) characterized by workplace democracy or, to use another term for it, workers self-management. While it sometimes seems that some advocates of market socialism want to make it true by definition that a market socialist economic system must be characterized by workplace democracy (that is, workers self-management), this is not in accord with the normal definition of "market socialism." Neither would it be a good idea to make this a stipulative definition of "market socialism" because this would only serve to confuse the issues involved since there are advocates of market socialism who are either neutral on the question of workers self-management or opposed to it, as well as advocates of market socialism who favor it or even passionately advocate it (as does David Schweickart).⁴ This is a very important issue that can only be decided by careful consideration of both moral values (particularly, principles of social justice) and relevant empirical evidence; not by an attempt to resolve the issue by making a stipulative definition that finesses and bypasses the substantial issue (or issues) involved. This is why what Schweickart calls "Economic Democracy" should not be taken to be synonymous with "market socialism." The way Schweickart defines this term, "Economic Democracy" is essentially market socialism plus workers self-management (or workplace democracy). But this form of market socialism is only one form; another form of market socialism is one that does not advocate workers self-management. Such a form of market socialism is advocated by John Roemer, for example.⁵

My view on this matter is as follows. My modified Rawlsian theory of social justice (called Justice as Fair Rights) – which I first put forward in 1990⁶ and which I have subsequently modified (and, I believe, improved) several times since then – maintains that social and economic democracy (including, especially, workplace democracy) should be accepted as a principle of social justice. But it places this Principle of Social and Economic Democracy as the sixth most important principle in a list of six principles. These principles, listed in order of importance and priority, are: (1) the Basic Right Principle (demanding that people's security and subsistence rights must be respected and protected); (2) the Maximum Equal Basic Liberties Principle (demanding that people's civil liberties, family rights, and civil rights against blatant discrimination be respected and protected); (3) the Fair Political Representation Principle (demanding thorough political democracy wherever and whenever possible and fair political representation in any circumstances); (4) the Fair Equality of Opportunity Principle (demanding that people have a fair chance in the pursuit of jobs, careers, and social positions and offices); (5) the Difference Principle (demanding that economic inequalities be limited to those that are necessary to maximize the income and economic prospects of the poorest segments of the population in a society); and (6) the Social and

Economic Democracy Principle (demanding that social and economic democracy – especially workplace democracy – be established as much as possible consistent with higher principles of social justice).

Thus, on my view workplace democracy – workers self-management – should be established in any society ... unless it contradicts or would undermine any of the higher (more important) principles of social justice. But this is precisely where a careful consideration of empirical issues must come into play. For example, John Roemer – who is also a strong advocate of market socialism – argues against workers self-management (workplace democracy) precisely because he believes that it would undermine the fulfillment of the Difference Principle. His argument is simple and straight-forward, although not uncontroversial or incontrovertible. Roemer argues that workplace democracy would require that workers spend a significant amount of time during their workweek participating in meetings and deliberations in their economic enterprises and, thus, productivity would be decreased in almost all such enterprises and, therefore, in the economy as a whole. And this, in turn, would lessen the level of income that could be assured to the poorest segments of the population by, for example, taxation and redistribution policies. In this manner the Difference Principle would be violated by the implementation of workplace democracy; that is, by fulfilling the Social and Economic Democracy Principle.

Now if Roemer's empirical assumptions and analysis were correct, I would have to agree with him that workplace democracy (workers self-management) should not be implemented in a market socialist society (or in any other society so long as it could be shown that in those societies doing this would lessen the implementation of the Difference Principle; that is, maximizing the income and economic life prospects of the poorest segments of the population). However, it is not at all clear that Roemer's empirical assumptions and analysis is correct. In fact, there seems to be significant empirical evidence that contradict his analysis and conclusions.

First, Roemer may have significantly overestimated the amount of time that workers (employees) would spend in meetings and deliberations if work place democracy was implemented. This may be especially true in large-scale enterprises since in enterprises of this size workers (employees) of the enterprise will normally elect a workers committee (or council) to represent them and their interests, and it will be the employees elected to this committee who spend time in meetings (among themselves and with management). For example, in a factory having 1000 (non-management) employees it might only be 10 or 20 elected representatives of the employees who need to spend significant amounts of time in meetings.

Second, this purported dysfunction of economic systems having workplace democracy did not seem to seriously compromise the economic efficiency or productivity of either Yugoslavia's self-managing market socialist system between around 1950-1979 or the Mondragon Cooperative (in northern Spain) from 1953 until the present ... at least when compared to other Easter European (command socialist) economies, in the case of Yugoslavia, over those same years and when compared to the rest of the Spanish economy in the case of the Mondragon Cooperative. In both comparisons, the economic systems incorporating workplace democracy performed significantly better on most measures of economic efficiency

and productivity as compared to their similar counterparts mentioned. In fact, the economy of the Mondragon Cooperative has consistently grown at a higher rate than the rest of the Spanish economy and (I believe) has never actually had negative growth, even when the rest of the Spanish economy went through periods of recession.

However, it should be noted that the Yugoslav economy started to suffer significant economic crises in the 1970s and suffered extreme crises in the 1980s. (Perhaps this was one of a number of factors that led to the secession movements and brutal civil wars in Yugoslavia starting around 1989; but certainly it wasn't the only factor.) Whether these economic crises were primarily caused by the internal structure of Yugoslavia's workers self-managing market socialist economy or primarily by external factors is a very important matter of debate. Those who think the crises were primarily caused by external factors point first to the so-called Oil Crisis of the 1973-74 (and, again, in 1979)⁷ during which petroleum prices shot way up, causing major problems for many economies around the world, including Yugoslavia's, and secondly to the fact that in that same decade Yugoslavia borrowed a tremendous amount of so-called Petro dollars (the windfall profits of OPEC countries, which were being lent out through banks around the world), and had to pay these loans back with interest in the 1980s which, of course, was a major burden on the Yugoslav economy during that period of time.

Moreover, David Schwieckart makes the following observations on the purported "negative example of Yugoslavia" during the 1980s:

Not even Harold Lydall, perhaps the severest procapitalist critic of the pre-1989 Yugoslav economic system, argues that worker incompetence at selecting managers was the problem. Lydall acknowledges that for most of the period from 1950-1979, Yugoslavia not only survived but also 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 macroeconomic 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.

The problem in Yugoslavia does not appear to be an excess of workplace democracy. In the judgment of one Belgrade newspaper (as summarized in Lydall), "The most convincing explanation for the present social crisis is the reduction of the self-management rights of workers."⁸

Of course, these considerations do not absolutely prove the claim that economies incorporating workplace democracy do not suffer a reduction in economic efficiency and productivity since this claim is that these economies would have performed even better than they actually did if they

hadn't had workplace democracy. But, of course, this is impossible to either directly prove or disprove since we don't have empirical evidence from the hypothetical cases in which Yugoslavia from around 1950-1979 and the Mondragon Cooperative from 1953 to the present had exactly the same economic systems except didn't have workplace democracy. So the best we can do is to compare these workplace democracy economies to economic systems that are most similar to them in the real world. This is precisely why I chose to compare Yugoslavia during this time period with other Eastern European countries. They were at about the same level of economic development at the end of WWII and were, in many ways, culturally similar, as well. And this is why I chose to compare the Mondragon Cooperative to the rest of the Spanish economy over this period of time, including the rest of the economy in the area of northern Spain where the Mondragon Cooperative exists.

However, there are other empirical considerations we must look at, as well. In particular, as David Schweickart and others have pointed out, there is not only significant empirical evidence that workplace democracy enterprises are more efficient compared to enterprises lacking workplace democracy, but there are good empirical explanations for this fact. According to Schweickart:

Perhaps the time and effort associated with democratic decision making will cut too deeply into productive work time [and thus make firms with workplace democracy less economically efficient].

In fact, we can respond to these doubts with empirical findings that are as unambiguous as one would dare hope, given the complexity and significance of the issue. There is overwhelming evidence, based on scores of studies of thousands of examples, that both worker participation in management and profit sharing tend to enhance productivity, and that worker-run enterprises are almost never less productive than their capitalist counterparts. They are often more so.

As to the efficiency effects of greater worker participation, the HEW [U.S. Department of Health, Education, and Welfare] study of 1973 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." Nine years later, surveying their empirical studies, Derek Jones and Jan Svejnar 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: worker participation usually enhances productivity in the short run, sometimes in the long run, but rarely has a negative effect. Moreover, participation in most conducive to enhancing productivity when combined with profit sharing, guaranteed long-range employment, relatively narrow wage differentials, and guaranteed worker rights (such as protection from dismissal except for just cause) – precisely the conditions that will prevail under Economic Democracy.⁹

Thus, Roemer's assumption that workplace democracy will decrease economic productivity and efficiency is quite probably not true, and is not a good reason for rejecting or opposing it (or, more generally, the implementation of the Social and Economic Democracy Principle). On these empirical assumptions the type of socialist market economy we should have is a workers self-managed socialist market economy. And in the long run, the goal should be to establish an international federation of such societies, as well as to establish more comprehensive cosmopolitan institutions that are capable of preventing major wars as well as preserving a livable, sustainable natural environment.

Justifiable Differentials of Income

Finally, let us talk about morally allowable differentials of income in such a society. First note that, in theory, differentials of income (and, to a lesser extent, wealth) would be governed, on both Rawls's theory and my modified Rawlsian theory of social justice, by the Difference Principle – i.e. the principle that inequalities of income and wealth are justified if and only if they are to the maximum advantage of the least well off (i.e. poorest) members of society, consistent with the just savings principle, but (on my version of the principle) are not to be so great as to undermine either the good of self-respect or the approximate equal worth of the political liberties and due process ... and, in fact, a lexical (that is, reiterative) application of this principle among economic strata is required. However, what this would amount to in present day societies (or a genuinely democratic market socialist society at the same level of economic development) is not very clear. Moreover, if the allowable inequalities turned out to be very small when the Difference Principle was applied it might be very difficult in present day societies (or even the new society) for some people to completely support this principle. Therefore, in order to give an approximate idea of what differentials in income and wealth might be allowable in economically well-developed societies I will propose a structure of allowable income differentials in such societies that will give us a more concrete idea of what they may be and which may also allay the worries of those who think that the Difference Principle would be too stringent. This is not to admit that the Difference Principle is not the correct principle to govern allowable differentials of income and wealth that we should aim to comply with over the long run but, rather, to say that in the real world it may be reasonable to settle for something less stringent, at least in the short term. I don't know the details but, apparently, some Scandinavian countries already have such an income differential scheme in place (although they also allow huge investment income to be made, since they are still capitalist societies). For economically well-developed societies like the U.S., most European nations, Japan, etc. the allowable differentials of income and wealth I propose are as follows.

Let us assume that public revenues in this society are raised primarily through (1) the capital assets tax on all enterprises (per Schweickart's model of "economic democracy" or in our terms democratic market socialism), (2) a value-added tax on all non-basic commodities (per Rawls's suggestion), (3) and substantial estate and gift taxes (which, however, would allow for anyone to leave their loved ones a moderately priced home or the cash value of such), and (4) a steeply progressive income tax that would be applied only above a certain basic level of yearly income. Let us also assume that income taxes kick in only in those cases in which someone has made more than the maximum income specified below for various sectors of the economy, so that any incomes below the maximum allowable level that we mention will be net incomes as well as gross incomes (from the salaries or wages workers make or the profits that small and medium sized businesses make for their owners or members). Keeping in

mind that we are assuming that there will be universal (free) health care for everyone in addition to efforts a full employment together with generous job training (and retraining) benefits, unemployment benefits, etc. let us stipulate that (1) within a local firm (i.e. a firm located in a particular town, city, or area) allowable differentials of income are set at a 5:1 ratio. That is, the highest paid employee of the firm – perhaps the manager or CEO – can only make five times what the lowest paid employee makes (perhaps the janitor); (2) within an entire industry or economic sector (like coal mining, steel production, automobile assembly, banking, architecture firms, home construction, education, etc.) allowable differentials of income are set at a 10:1 ratio. (This would mean that the highest paid executive – perhaps a superintendent – in elementary schools across the country could be paid no more than 10 times the lowest paid employee in this sector. Or, if education was taken to include all levels of education from elementary through university then the highest paid university president could be paid no more than 10 times the income of lowest paid janitor anywhere in the educational system); and (3) within the economy (i.e. society) as a whole, allowable differentials of income are set at a 20:1 ratio; i.e. the most anyone can make before having the excess taxed away completely (or almost completely) would be 20 times the lowest yearly income of those who work the whole year (apart from paid vacations and holidays). This is one of my proposed modifications of Schweickart's institutional arrangements and overall theory. Needless to say, under these circumstances it would not only be the lowest paid workers who were motivated to set the minimum wage (or minimum income) at as high a level as feasible. Even those who thought they could make the maximum income in the society would be motivated to have the minimum wage or minimum yearly income set as high as is feasible. This would perhaps be a major source of “solidarity” in a sense, although this “solidarity” with the least well-off people would be at least partially motivated by the self-interest of those capable of making higher incomes if (and only if) the income of the least well off is raised.

For purposes of illustration, let us assume that the minimum wage of such a society would be set at \$15.00 per hour. For a year of work – with paid vacations – this would come out to about \$31,200 per year. For convenience of this example let us assume that some people sometimes take unpaid leaves of absence (for non-health and non-maternity reasons) such that the yearly income for minimum wage workers in such a society averages \$30,000 per year. In this case, the allowable yearly income differentials within a local firm which paid its lowest paid workers the minimum of \$30,000 would be from \$30,000 to \$150,000; however, if the local firm was so profitable that it was able to pay its lowest paid employees \$50,000 per year then the top earner could make up to \$250,000.

Next, the differentials within an industry or sector of the economy that paid its lowest paid workers \$30,000 per year would range from \$30,000 to \$300,000. But if the lowest paid employees were paid \$60,000 in this sector then the highest paid ones could make \$600,000. However, in a society in which the lowest paid workers make \$30,000 per year, \$600,000 would be the highest income no matter what the differentials in any sector of the economy because of the 20:1 ratio between the lowest and highest income earners in the society as a whole. In this case, the allowable income differentials within the society as a whole would range from \$30,000 to \$600,000. Any income above these levels would be taxed either at 100% or perhaps at something like 99% (if there was some legitimate reason for choosing the latter). Presumably, many people who would make above \$300,000 per year would be individuals who worked outside of established enterprises or firms as “free-lance” economic actors. Those “free-lancers” who earned above \$300,000 might, for example, be entrepreneurs (who start and grow a business as specified above);

consultants of various sorts whose services are in very high demand (perhaps financial consultants); and individual artists, athletes, and entertainers whose services or products are also in high demand. Thus, a successful entrepreneur like Bill Gates, a successful consultant like Warren Buffet, a successful artist like David Hockney, a successful athlete like Kobe Bryant, and successful entertainers like Jack Nicholson, Angelie Jolie, Brad Pitt, Chris Rock, or Justin Timberlake might all be making \$600,000 (year in, year out) so long as they cared to carry on their activities and there was still a substantial market – i.e. demand – for them. If anyone thinks that \$600,000 per year would not be enough to motivate people to hone their talents, to work hard at their crafts, to put forward serious effort, etc. I think they are out of touch with reality. The vast majority of people in the world are willing to work extraordinarily hard for a lot less than this! As someone once noted somewhere, even if someone like Kobe Bryant couldn't make any money playing professional basketball he or she undoubtedly would be playing in their local gyms against the best competition they could scare up as often as they could just because they enjoy it and because they like to show off their talents and abilities. So lack of motivation to hone one's talents, etc. would not, I think, be a problem.

¹ "The Tennessee Valley Authority (TVA) is a federally owned corporation in the United States created by congressional charter in May 1933 to provide navigation, flood control, electricity generation, fertilizer manufacturing, and economic development to the Tennessee Valley, a region particularly affected by the Great Depression. The enterprise was a result of the efforts of Senator George W. Norris of Nebraska. TVA was envisioned not only as a provider, but also as a regional economic development agency that would use federal experts and electricity to rapidly modernize the region's economy and society. T.V.A.'s service area covers most of Tennessee, portions of Alabama, Mississippi, and Kentucky, and small slices of Georgia, North Carolina, and Virginia. It was the first large regional planning agency of the federal government and remains the largest" ("Tennessee Valley Authority," *Wikipedia*, https://en.wikipedia.org/wiki/Tennessee_Valley_Authority - retrieved 04-20-2016).

² All Information taken from Fred Warner Neal, *Titoism in Action*, University of California Press, Berkeley, CA, 1958.

³ See "Paul Rolly - Gerrymandering extremists," Salt Lake Tribune, Oct. 2, 2011, <http://archive.sltrib.com/story.php?ref=/sltrib/opinion/52658048-82/district-gerrymandering-republican-utah.html.csp> - retrieved 10-20-2016.

⁴ David Schweickart, *After Capitalism*, Rowman & Littlefield, Boulder, CO, 2002.

⁵ John Roemer, *A Future for Socialism*, Harvard University Press, 1994.

⁶ R.G. Peffer, *Marxism, Morality, and Social Justice*, Princeton University Press, 1990.

⁷ The 1973 oil crisis began in October 1973 when the members of the Organization of Arab Petroleum Exporting Countries (OAPEC, consisting of the Arab members of OPEC plus Egypt and Syria) proclaimed an oil embargo. By the end of the embargo in March 1974,[1] the price of oil had risen from \$3 per barrel to nearly \$12 globally; US prices were significantly higher. The oil crisis, or "shock", the embargo caused had many short-term and long-term effects on global politics and the global economy.[2] It was later called the "first oil shock", followed by the 1979 oil crisis, termed the "second oil shock" ("1973 Oil Crisis," Wikipedia, https://en.wikipedia.org/wiki/1973_oil_crisis - retrieved 04-20-2016).

⁸ Schweickart, op cit., p. 61.

⁹ Ibid., pp. 60-61.