Neo-liberalism has not yet won a total victory, but after the collapse of the centrally managed economies of Eastern Europe it has certainly gained considerable strength – as if there were only two alternatives: neo-liberalism and so-called ‘real socialism’ of the East European type. Even in the Scandinavian countries where social democracy and social liberalism have been so deeply ingrained in parliaments and national governments for so many decades, the basic beliefs of neo-liberalism in the superiority of market mechanisms in every respect, including the privatisation and marketisation of public services, has made significant inroads not only among conservatives but also among social liberals, and among a few social democrats. In continental Europe and in Great Britain, neo-liberalism would seem to be virtually hegemonic. Under such conditions a serious discussion of the advantages of economic democracy may seem out of place, and a bit outdated. Still I maintain that this topic is well worth discussing from the new vantage points which are emerging in Europe.

What is economic democracy? While we should be prepared to make our definitions more precise in the course of this discussion, we certainly need a first, tentative idea at the outset about its meaning.

Economic democracy is an institutional arrangement which makes it possible for democratically elected representatives of a nation as a whole to affect the performance and products of the economy and the public sector, and its production methods, where market mechanisms alone do not seem to make investments, production and sales move in a direction desired by a democratic majority, and where market mechanisms furthermore are unable to supply varieties which satisfy the needs and tastes of significant minorities without sufficient purchasing power. Among the ‘products of the economy’ I include so-called negative externalities in the shape of air and water pollution, toxic wastes and risks of accidents encompassing whole societies, even if these risks are small.

Economic democracy often (but not always) includes industrial democracy, through binding agreements between trade unions and company managements, and through workers’ co-determination or self-management, as a way of assuring overall industrial efficiency, as well as the quality of the work environment and of working life. But it is also possible to introduce industrial democracy in single industrial firms, or public outfits without achieving economic democracy in the broader national sense.

A neo-liberal could not possibly accept a definition of economic democracy which sets off the area where market mechanisms are ineffective as a primary domain. A neo-liberal firmly believes that market mechanisms are effective in every sense except perhaps the maintenance of a legal system, law enforcement and national defence.
It should be pointed out here that the tentative definition suggested above in no way implies that market mechanisms should be eliminated totally, or that ownership and control of capital be totally nationalised. Private or corporate ownership of the kinds predominant, say, in Sweden, and the competition of firms on national and/or international markets (which has been the rule even under social democratic governments in Sweden) are fully compatible with economic democracy as I have defined it. Not only Swedish social liberalism, but also social democracy have maintained the virtues of a market economy; but in contrast to neo-liberals they have been aware of the limitations of market mechanisms, and therefore promoted state interventions and trade-union activities to supplement the market where that has been required. But it is also quite obvious that recent events and experiences have made social democratic politicians and administrators more aware of the limitations of state interventions, and the need to make needed public outfits more cost-effective. Most obvious are the bureaucratic tendencies inherent in the activities of the state, the so-called fiscal crisis of the state, and the inclination of some private firms to move abroad from what they, more or less accurately, conceive as unbearable constraints imposed by the Swedish state. Therefore, social democracy is compelled to launch reforms to make the services of the state more effective.

THE NEO-LIBERAL CHALLENGE

The neo-liberal believer in the competitive market as a solution to most human and social problems, is completely convinced that there is no better way of building economic democracy than to rely entirely on the superior mechanisms of the competitive market. Such mechanisms, involving the operation of Adam Smith's 'invisible hand', satisfy every single consumer. By trying out the 'marginal utility' of alternative commodities and services offered at various levels of price and quality on the competitive market, the sovereign consumer can satisfy all his own needs, but will also contribute to inform producers about the needs, demands and purchasing power of consumers through the volume of sales, thereby also stimulating every producer to improve the combination of quality and price of his products not only for his own competitive benefit but primarily for the benefit of the sovereign consumer. And the neo-liberal would emphasise that this wonderfully human and democratic operation of the market is attained without any costly ideological packaging of multi-item political-party alternatives requiring people to set time off for voting in democratic elections, and to wait for quarrelling politicians and laggard bureaucrats to carry out the wishes of voting citizens. The market provides a much less cumbersome and costly one-man one-vote kind of situation than political democracy ever will be able to offer, according to the most doctrinaire neo-liberals.

Today, with our recent experience of the downfall of Eastern European 'command economies', we may even find some neo-liberals demonstrating their acquired inability to distinguish parliamentary democracy, Western social liberal or social democratic styles, from these command economies. Look at Eastern Europe, they say, how their whole economic systems have crumbled. Soon social liberal or social democratic attempts at political interventions in the economies of some Western countries will similarly cause these countries to crumble, since they are essentially built on the same mechanisms as those found in Eastern Europe. Political interventions in economic mechanisms, or politicising even parts of the economy in the name of 'economic democracy' are nothing but preparations for disaster! These neo-liberals should of course be told most forcefully about the intellectual shortcomings involved in their inability to make the most elementary distinctions between the command economies of Eastern Europe and certain counter-cyclical or welfare-oriented state interventions in Western democracies. The attempts by neo-liberals to equate Swedish social democracy with the 'real socialism' of Eastern Europe, and to consider the collapse of 'real socialism' as a sign of the collapse of social democratic designs, is nothing but an ideological fraud, an attempt to deceive public opinion. However, let me ask you to listen to the rest of the neo-liberal credo. In view of its great popularity in many European countries we must learn to respond to its challenge in a constructive manner. So let me take neo-liberalism, and in its limitations, as one of my points of departure in trying to understand economic democracy. What is the difference between neo-liberalism, social liberalism and social democracy in this respect?

SOCIAL DEMOCRATIC AND SOCIAL LIBERAL CONCEPTS OF THE MARKET, AND ITS LIMITATIONS: CONTRASTS WITH NEO-LIBERALISM

Social liberals and social democrats everywhere have come to accept the mechanisms of the competitive market as the best way to allocate resources, and to make commodities available to consumers at reasonable prices, and in acceptable qualities and quantities. However, unlike the neo-liberals, both social liberals and social democrats have a more complex and less naive image of society. As I have emphasised already they realise that market mechanisms have certain limitations and must be supplemented by other mechanisms of
political or cooperative action. The neo-liberal refuses to see these complexities. To him political action is potentially evil, regardless of good intentions. The market can satisfy virtually all human needs. Its invisible hand brings about a most beneficial economic balance and services to all consumers, regardless of the lack of altruistic inclinations among producers.

In a sense the doctrinaire neo-liberal is the totalitarian of our post-Bolshevik era. He is just as convinced as a true Bolshevik that one, and only one type of mechanism, will solve all the practical problems of mankind. And he or she - let us not forget Margaret Thatcher - is willing to sacrifice a lot of people, at least in the so-called ‘short run’, in order to pursue the simplistic neo-liberal dogma. The end result is supposed to be good for everybody. But fortunately neo-liberals are much weaker than the Bolsheviks – even if they are in government positions – since they usually operate within well-established parliamentary democracies where they are kept in check by, or sooner or later are replaced by, other forces.2

Recent events in Eastern Europe would seem to have strengthened the neo-liberal stand. In rejecting one totalitarian creed it seems as if the voters of liberated Eastern Europe in large numbers have switched to the opposite kind of totalitarianism – the neo-liberal credo. I believe that this is a passing phenomenon, however. Events will prove to eastern European voters and politicians that reality is a bit more complex and conflict-ridden than assumed by the neo-liberals, and that democracy must reflect this complexity, while of course allowing the new and the old totalitarians the freedom of expression, and the other rights which accrue even to minorities in a genuine political democracy.

It is worth noticing, however, that while neo-liberal politicians have continued to pursue their doctrines to the best of their abilities, even in minority positions, a number of neo-liberal theoreticians of private rational choice and public choice – like J. Buchanan and R. Nozick – have had second thoughts about the totalitarian claims of neo-liberal theories of politics and social life.3 Still, it is quite educational to take the neo-liberal credo seriously for a short while, to learn as much as possible about its shortcomings. It is through these shortcomings, as well as through the shortcomings of top-heavy centralised command economies, that we will learn what is required of economic democracy in Europe today.

Most of the shortcomings of neo-liberal ideas are due to a number of basic assumptions, never spoken of and virtually always completely unrealistic, which provide the tacit foundations of the neo-liberal argument.

1. The first unspoken, and unrealistic assumption is that a market economy offers a one-man-one-vote kind of situation which, compared to ordinary balloting in multi-party democratic elections, is much less costly, allowing much more detailed and concrete choices and less stifling bureaucratic interventions. Therefore the democratic state should not interfere in economic activities, but concentrate on maintaining a constitution which allows virtually no state interventions in the economy and limits the activities of the state to ‘law and order’ and national defence. This is quite a good argument, if it were not always completely unrealistic. In the market situation the purchasing power of any one consumer corresponds to the vote of any one citizen in a democratic election. But we know that the purchasing power of consumers varies greatly. Some consumers, due to their much greater purchasing power, have a great many more “votes” in the market than consumers with the power to purchase little beyond the bare essentials of life. It is quite elementary to say that this is very far from a democratic situation. If the neo-liberal seriously wishes to make more realistic his metaphor of the market as the most democratic arrangement, then he must allow a very profound political redistribution of wealth and incomes which of course he cannot accept, if he is as seriously anti-political as a true neo-liberal must be.

2. Let us assume, for the sake of argument, that a particular country through ‘lucky circumstances’, including several decades of social liberal or social democratic rule, has achieved a reasonable equity among its consumers in terms of their purchasing power. Certainly there are a few with a purchasing power greatly above the others; but assume that the income differentials after taxes in this particular country are smaller for the great majority than for most other countries. This particular country has never had anything else than a capitalist market economy; but social liberal or social democratic governments have intervened in the economy not only with generally accepted counter-cyclical regulations, but also with a redistribution of resources to make basic educational, medical and other welfare services into a ‘de-commodified’ legal entitlement for every citizen, regardless of their purchasing power. This, of course, implies that incomes will not have to be used to any great extent for purchasing these services; this further minimises the significance of remaining income differences.

Could this kind of relative equity endure and be made into the basic ‘constitutional’ order which at least informally approaches the kind of one-man-one-vote kind of market situation which the neo-liberal view of economic democracy tacitly assumes? No, this kind of relative equity, which neo-liberal beliefs tacitly assume as the basis of economic democracy through market forces, cannot be maintained - if neo-liberal policies are allowed to rule the country. The competitive market is a self-destructive machine. Even if it starts to operate in a situation of relative equity, as we have assumed for the
sake of our argument, it will inevitably, over time, create greater and greater inequalities – unless the democratic state is allowed, in opposition to the neoliberal credo, to intervene to restore equity. Competitive markets by their very logic create inequalities. The strong and the resourceful are the victors in market competition, and this tends to create a concentration of capital, and oligopolistic or monopolistic relations among producers of commodities, and among suppliers of finance, but also inequalities among those who compete for jobs in the labour market.4

Obviously, economic democracy cannot rely on the idealised, completely unrealistic and static conception of a market, with equity among consumers, which neoliberalism assumes. Economic democracy requires institutional arrangements which continuously and predictably assure a redistribution of resources and income to maintain a reasonable equity among its citizens, in response to the dynamics of inequality which are the very essence of an unregulated market.

3. Competitive markets by their very logic also generate externalities such as air and water pollution, that is external effects which are not priced on a market and which therefore will not normally, as the neo-liberal doctrine requires, respond to consumer demand for their reduction and elimination. Among these externalities we should count not only the contamination of our external environment, however. The industrial work environment which has so much effect on the health of workers also has its own negative externalities. The elimination of such externalities, once they are recognised as such, is a matter of cost for capitalists; and a capitalist form, to remain competitive on the market, will not normally take on such costs, unless it is forced by the state, or strong trade unions, to do so.

However, political interventions by a democratic state, and by the trade union movement can make a reduction of devastating negative externalities into something quite normal even in a market economy – if that economy is duly regulated and controlled. There are basically three different ways in which this can be attempted.

(a) At the time when environmental pollution originally became an issue – perhaps twenty years ago, or more – the method most frequently recommended for controlling such externalities was the legislation of prohibitions with regard to the use of certain toxic substances, or the legislation of certain maximum thresholds for different kinds of pollution.

(b) The manner which comes closest to neo-liberalism without yet fully conforming to its dictates is ‘to put a price on environment’ (Dahmén 1968). Essentially this is a way by which the price mechanism is imitated for something – namely a negative externality – which, by definition, is not priced on a competitive market. This means that the price must be set politically, that is exogenously, since there is no endogenous price-setting mechanism which could determine the prices for different externalities. However, the government could of course politically adjust the price to a level where it becomes too costly to pollute; and this adjustment process has some similarities with a market mechanism – except that the purpose in this case is to set the price at such a level that the producer becomes unwilling to buy, that is to pay the price for the right to pollute.3 The resistance to this method of controlling externalities which was rather widespread among environmentalists a decade or two ago seems less common today – perhaps because compliance with legal prohibitions or legally prescribed maximum levels of pollution have proved to be so difficult to enforce, and perhaps because the neo-liberal belief in the effect of economic incentives has turned out to be quite valid among managers/producers/polluters. However, it should be emphasised once again that the reliance on prices in this case, implies a political intervention which only imitates the price mechanism. Therefore, in order to accept this political intervention, a neo-liberal would have to strain his anti-political beliefs somewhat.

(c) But the points made in the previous paragraph refer to attempts made in one country, or nation-state, to reduce environmental pollution. But we know two things quite well. Firstly, such pollution, particularly air pollution, does not respect national boundaries. It is international in character. Secondly, we have ample evidence that private capitalist polluting firms always look for havens in other countries where the costs of reducing pollution are lower than in the country where they normally reside and tend to move to such countries according to the laws of a free market. This creates mixed feelings everywhere. The country of departure will not only get rid of some pollution, but will also lose employment opportunities and a generator of economic growth. The recipient country will get even more pollution than before, but also a boost to its economic dynamics. Can market mechanisms alone bring about some kind of equilibrium, whatever it is worth, between the various utilities and disutilities involved? Not alone, I am afraid, since a negative externality, by definition, is not endogenously priced on the market. Politicians and governments must set high and standard prices for pollution; and it must be made through international agreements among the governments involved, to prevent one set of countries from robbing the industries of another set of countries by providing these industries with a cheaper price for the right to pollute.

Such international agreements are important not only to promote the cleaning of inevitably dirty industrial emissions. Reducing the dirt at its very source is another possibility. In the auto industry, many laboratories have already spent years experimenting with engines which
produce significantly less dangerous exhaust fumes than the engines of today, without thereby diminishing the flexibility or strength of these engines. In fact they could manufacture these new engines on a mass scale within a year or two, for the benefit of a majority of citizens who would wish to live in cleaner air, and who would like to be less apprehensive about the risks of the so-called greenhouse effect. To fulfill these wishes would be quite democratic; it would truly be an expression of economic democracy. But to produce these new engines on a mass scale would require large investments which most auto producers probably would be able, and even willing to make, once and for all - if every other auto producer also made the same investments simultaneously, and did not adopt the cheap way to out-compete his more environmentally conscious competitors by continuing to produce and sell cheaper old-style polluting cars, nicely packaged to look marvellously modern.

Here again, international agreements between governments and auto producers must be negotiated and signed, in order to make virtually all auto producers adopt the new technology at the same time. Only such international political agreements can 'burst asunder' the fetters which mutual capitalist distrust and competitive capital accumulation has placed upon the creative development of new 'productive forces' in the auto industries of the world. Such democratically induced international agreements would be a most important ingredient of the kind of economic democracy which we need today.

So far I have discussed mainly some aspects of the macro-dynamics of unregulated competitive markets - namely their creation of greater inequalities over time - and I have also discussed some aspects of market externalities, and how to counteract such undesirable effects of competitive markets in the interest of economic democracy. Before I say a few words specifically about industrial democracy, I must here add a few words about some endogenous limitations of market mechanisms.

(d) The limitations of markets do not only refer to the externalities they produce, or to their inability to produce exogenous political conditions which are able to rectify the aberrations of economies. Some limitations of the market are purely endogenous. The market mechanism itself, as endogenously defined, is able to cope only with frequently repeated economic transactions, say frequently repeated purchases of commodities or services whose use-value can be reliably estimated by the ordinary consumer after a few repeated purchases and relatively short times of use. But even if such frequently purchased and easily evaluated commodities and services occupy a most voluminous and significant aspect of the lives of consumers, there are a few commodities and services of fundamental importance which we may not use more than once or twice in our lives, and the utilities of which are extremely difficult for ordinary consumers to evaluate due to their long-term, perhaps irreversible and only scientifically calculable effects. Such commodities and services are produced by pharmacological firms, medical research institutes and hospitals, but also to some extent by nurseries for small children, and by educational institutions.

You may take a certain kind pill for an illness for a single period in your life; you undergo a certain operation in a hospital once or twice in your life; you send your child to a nursery or a school for just one period of growing up, and hesitate to make the child experience the discontinuity of moving and testing different schools all the time. In all these cases the major benefit of a competitive market - offering many alternative commodities and services which consumers can evaluate through a trial-and-error process of repeated purchase and use - is not available. What you purchase and use only once or perhaps twice in a lifetime cannot generate any trial-and-error process helping you to establish the 'marginal utility' of the product, by comparing it with other products, or by repeated use. And 'errors' could be hazardous, if they are irreversible, as the case may be with the pills manufactured by careless but profit-seeking pharmacologists. The invisible hand is of little help in such a situation.

Therefore most advanced societies - regardless of economic systems - have tried to regulate the production and sale of the kind of commodities and services just mentioned - those which at the same time are very infrequently used, and difficult to evaluate due to their long-term, complex, and perhaps irreversible effects. Such regulation could be brought about by socialising the production, for instance of medical services, and by requiring high standards of training, scholarship and professional responsibility of those who produce the services or commodities involved. Socialised, publicly run medical services to which all citizens are entitled do sometimes have their own problems of bureaucratic sclerosis and inefficiency; but these problems should be approached as such, and not be whisked away with references to the assumed greater efficiency of market mechanisms under private capitalism. Efficiency must be defined in these cases in terms of the effects on consumers.

But if such services are already in private hands in a competitive market, as in the USA, we could generously assume that they could function reasonably well for consumers of such services - granted that a frequent and effective public control over these services can be maintained with nearly the same effect as in a socialised, public sector. Due to this need for costly public control, and to the possible impact of the contradiction between profitability and professional responsibility which may

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emerge when medical or health-delivery systems are placed in private hands, the argument for privatising medical and health services cannot be considered particularly strong, except from a purely ideological neo-liberal standpoint, or from a wish to expand the domain of profitable service production beyond the present — without concern for possibly bad effects on some consumers of health services, particularly for those with less purchasing power.

INDUSTRIAL DEMOCRACY AND ECONOMIC DEMOCRACY

As indicated in my introductory definition of economic democracy, industrial democracy could form part of it but can also be established quite separately, by systems of co-determination or self-management in single private firms or public outfits. This of course requires strong and competent trade unions as well as a style of management which looks upon the labour force as a partner in production rather than an unavoidable constraint on management. My discussion so far has avoided discussing industrial democracy as such, and while economic democracy could be perceived as politically still quite feasible, if not particularly fashionable in this neo-liberal era, we must admit that industrial democracy is rather unfashionable. Nevertheless I will try to discuss some aspects of it as it relates to economic democracy, with particular reference to some Swedish designs and experiences.

Unfortunately my discussion will be a bit academic due to the fact that one of its manifestations, the wage-earners' funds6 in Sweden (or employees' investment funds as they sometimes are called in English translation) are controversial at present even within Swedish social democracy because these funds have turned out to be a drag on the attempts of Social Democrats to maintain their electoral support. Wage-earners' funds have not been the kind of success needed by social democrats to cope with their present rather weak position in the electorate. The Swedish Confederation of Employers' Unions has poured millions of Swedish crowns into campaigns to deceive public opinion, and to make people believe that wage-earners' funds are an evil copied from the 'real socialism' of Eastern Europe; but to an academic like myself the basic logic of wage-earners' funds is still worth considering.

Wage-earners' funds, as originally conceived in the Swedish debate, were radically different from workers' participation and co-determination at least in one sense, since they implied changes in the ownership of the means of production. Through a scheme of collective profit-sharing, labour would increasingly become a collective shareholder, thus sharing in the ownership of enterprises. As a result of these originally proposed changes, collective labour might increasingly affect, for instance, the appointment of managing directors in enterprises, and thus make management more sensitive to reasonable demands of labour even with regard to such matters as investment and technological development. I will not here recount the whole story of the different versions of wage-earners' funds proposed but only describe very briefly the final version which led to legislation in late 1982. There are now a number of regional wage-earners' funds financed both by profit-sharing and fees on the income of all wage- and salary-earners. Profit sharing, however, is not based on the compulsory issuing of shares on 20 per cent of annual profits, as originally intended, but on the paying in cash of 20 per cent of 'excess profits' from all registered companies. Wage-earners' funds can then use this money for the purchase of share not only on the stock exchange but also in companies not registered on the stock exchange.

This implies a heavier reliance on the capital market than was the case in the original version suggested by Meidner and others in 1978. In the original version the selling and buying of shares were not involved at all; shares were simply supposed to be issued by companies as emissions to wage-earners' funds, and these shares could not be sold. With the heavy reliance on the capital market implied by the wage-earners' funds actually legislated in 1982, the stock exchange in fact received a real boost. The value of already existing shares increased a great deal as a result of the new demand for shares coming from these new actors on the stage - the wage-earners' funds. Obviously these increasing shareholder profits resulting from an increasing demand for shares on the capital market helped to mellow at least the kind of resistance against wage-earners' funds existing among shareholders interested mainly in profits rather than controlling business enterprises. The Boards of wage-earners' funds are composed of a majority of trade union representatives. This allows a more democratic control over at least part of the flow of money in the capital market, and thus also over investments. To put it differently, it would increase the pluralism among investors in the economy without otherwise affecting the operation of the capital market itself.7 Secondly there is also a possibility that the legislated authority vested in wage-earners' funds could be delegated in the future to an increasing number of local representatives of labour on the managing boards of enterprises in which wage-earners' funds own an increasing number of shares.

Still it is obvious that the somewhat watered-down version of wage-earners' funds which have begun to operate in practice in Sweden are rather far from attaining the ideals of a more fully fledged industrial democracy.
Even more than in the original design, present-day wage earners' funds are focusing on collective capital accumulation at regional centres rather than on decentralising power to local representatives of labour appointed to the managing boards of enterprises. Nevertheless I think personally that these wage-earners' funds, with all their limitations, represent certain completely new principles of influence and participation which could turn out to be more important in the future than they are now, if Social Democrats are able to increase their electoral strength in future elections.

Until now numerical strength according to the democratic principle of one-man one-vote, and the bargaining strength based not only on numbers but also on the control of crucial operational positions in our complex division of labour, have constituted the two bases of power of the political and union branches of the labour movement. Both sources of power - numerical strength and bargaining power - can be applied only in attempts to influence other actors on the stage such as managers, negotiators, politicians and legislators which in their turn could influence other actors who finally might influence the flow of money and other equivalent resources into investments, for instance. However, in a fully operational system of democratically controlled wage-earners' funds, collective labour can much more directly influence the flow of financial capital and investments without necessarily having great numerical strength. This becomes particularly important as the industrial core of the working class continues to diminish in size as a result of automation and robotisation of industry. Through wage-earners' funds a diminishing working class can still exercise considerable influence over the economy and their own work, just as the even smaller capitalist class has been able to do for well over a century. But obviously industrial democracy in the future will require more than just workers' participation and control in view of the fact that the number of workers in industry will continue to decrease. Community and consumer control over the economy through the operation of the mechanisms of demand and supply on the market will not be enough either. Such control may have to be assured also through some system of community and consumer representation and voice within company decision-making bodies. That is a different story, however. It seems that the Swedish type of wage-earners' funds can at most help to make collective labour into some kind of 'democratic collective capitalist', to borrow a phrase from a Swedish Marxist professor of economic history, Bo Gustavsson. Some comrades on the left will say that labour capitalists, with iron necessity, will behave just like any other capitalists, with all the bad side-effects of capitalism which are so well-known today, but that is not necessarily the case, I think.  

COLLECTIVE LABOUR AS A COLLECTIVE CAPITALIST

I believe that collective labour in some kind of institutionalised cooperation with agents representing other economic interests, and agents representing technical and administrative skills, can manage enterprises and the capitalist economy at large much better today than old-fashioned private capitalists or modern financial capitalists specialising in moving money around in the transactional economy. My reasons for believing that collective labour, as represented by professional managing directors elected by labour, can help to manage modern capitalism better than the ordinary capitalists themselves is not an ideological belief but a belief based on simple commonsense and logic.

My argument runs like this: First, we all know that production, marketing, reproduction of labour power and the building of infrastructure are much more societal in character today than earlier in the sense that there is more social interdependence between different parts of the economy, the educational system, transportation etc. than there was earlier. Secondly, we also know that decisions within the capitalist system remain private in nature and are concerned mainly with capital accumulation rather than with broad societal considerations such as those needed to take care of an economy which is highly societal in nature. The rationality of capitalists, particularly of financial capitalists, is a one-dimensional rationality in an increasingly multidimensional world where the many dimensions and aspects of the economy-society nexus have become increasingly interdependent. Thirdly, we can express these two points in the following manner: increasingly the one-dimensional type of decision-making in capitalism today becomes incompatible with the highly complex, multi-dimensional and societal type of economy which is emerging. Since we cannot easily change the societal character of the economy, the only remaining way to remove that incompatibility is to introduce new types of decision-makers in the economy - decision-makers who exhibit a multidimensional social rationality compatible with the multidimensional and multi-interdependent nature of modern society.

In traditional socialist ideology it was believed that one could remove the contradiction between the increasingly societal character of the economy and the narrowly private character of decision-making in the capitalist mode of production by politicising the economy, that is by making it subject to the broadly societal considerations supposedly guiding socialist politics within a democratic order. Socialising or nationalising the means of production was thought to be a necessary step in making economic decisions more societal in character so as to make them fit the societal nature of the economy...
better. Now we know that such a politicisation of the economy usually creates a rigid and bureaucratic rule over the economy which thereby may lose its innovative dynamic of growth. But in a fully fledged system of wage-earners' funds collective labour is a 'capitalist', an actor in the economy and not in the polity. Funds of collective labour as capitalists are much closer to production and work than politicians, and also exhibit a more multi-faceted incentive structure and therefore a more multidimensional rationality than ordinary private capitalists. Which are then the facets of the collective-labour incentive structure, and the dimensions of their rationality?

Workers are concerned with profitability just as capitalists are, because without profit they cannot get higher wages. But in addition workers are concerned with stability of employment which sometimes can be achieved only with flexibility in relationship to the market, for instance by a self-imposed wage restraint when that is required in an inflationary situation – if workers know that the profit produced by such wage restraint does not go to private capitalists alone but also to labour profit-sharing schemes, and/or to other measures which improve the welfare of common people. Workers are quite personally concerned with the quality of the work environment, and the environment in which they are supposed to enjoy their leisure. More of their personal budget is taken up by purchases of daily commodities, and therefore workers are concerned with the level of prices.

A critical reader of this 'ideal-type' picture of the multi-faceted incentive structure of workers may of course object that the reality of inflationary trade-union struggle is very different. Certainly, but while most neo-classical mainstream economists allow themselves a great many idealised and simplified theoretical models without being criticised by their colleagues, or without taking such criticism from others seriously, I think that such criticism should be seriously considered. I will do that firstly by drawing attention to one condition explicitly mentioned in the previous paragraph – namely that self-imposed wage restraint can be expected 'if workers know that the profit produced by such wage restraint does not go to private capitalists alone but also to labour profit-sharing schemes, and/or to other measures which improve the welfare of common people'. In fact there is a lot of statistical evidence of such wage restraint, and of growth-oriented union policies in the recent past when the so-called Swedish model for labour-management relations were still operational. But since then both the capital class struggle against wage-earners' funds, and the attempts of business leaders to decentralise wage bargaining and thus to destroy the centralised strength of the Swedish Federation of Trade Unions (LO) has introduced more of a destructive kind of wage competition between different branches of the trade-union movement thus increasing inflationary pressures – but more importantly from the capitalist perspective – reducing the strength of LO through the application of the well-known technique of 'divide and rule'. Here again it is demonstrated that power considerations often are more important for capitalists than an aspiration for an efficient, balanced and non-inflationary economy.

It is therefore my contention that the kind of multi-faceted incentive structure depicted in my ideal type of the collectivity of workers will emerge only under certain conditions which at present are being undermined by the short-sighted and unintelligent strategies of the Swedish business community. This incentive structure is fundamental for the emergence of the multidimensional social rationality required to manage a contemporary multi-dimensional economy and society. Collective labour, once allowed to prove itself in strategic economic decision-making, shows more of this multidimensional rationality than private or financial capital, I have maintained. That is why they are better suited to manage modern capitalism than private capitalists alone. This kind of management does not imply that workers themselves carry out management tasks in addition to their regular work. It implies that professional managers are employed by labour, instead of labour being employed by management. On this point it is interesting to quote a well-known neoclassical economist like Paul Samuelson (1957, p.894) who has asserted that 'in the competitive model it makes no difference whether capital hires labor or the other way around'. Unfortunately, it is impossible to derive from this quotation the reasons why Swedish capital so vehemently resisted the creation of wage-earners' funds. Perhaps Swedish capitalists were not as economically rational as neoclassical economic theory would suppose, or otherwise we must assume that their rationality was concerned with other benefits as well as the purely economic ones – for instance the benefits of power as well as economic efficiency.9

As I have indicated already my arguments for some kind of industrial democracy are not very fashionable today – even in Swedish politics. The intellectual challenge provided by arguments for industrial democracy, and the intellectual strength of these arguments have not generated political strength. But history is replete with illustrations of the fact that arguments and debate which seem intellectually valid, given the dominant value premises of actually existing societies, become politically feasible only at some later time. Therefore it is imperative for intellectuals to continue the debate, and to keep their arguments alive for the future. Capitalist tycoons are the great heroes of our time. But our arguments about the benefits of industrial democracy could in fact be ahead of the times.
The highly qualified employees who are gaining more importance in the so-called postindustrial information society with its computerised production machinery have a more natural and direct project-oriented access to management without the elaborate procedures of classical industrial democracy. Therefore industrial democracy of a new, non-classical type may increasingly emerge, then become quite natural, and finally spread slowly also to domains of industrial activity which are less involved in computerisation and information processing.

A SUMMARY OF UTILITIES TO BE SUPPLIED THROUGH ECONOMIC AND INDUSTRIAL DEMOCRACY

If at this point we were to summarise the methods suggested to bring about more economic democracy in Western-style democracies with mixed economies, it is obvious from what I have said, and from the few illustrations I have provided, that it can be attained in market economies which are adequately regulated, or are supplemented in areas where market mechanisms alone are unlikely to provide people with the individual or collective goods in demand. The call for more economic democracy should therefore not be understood as a call for the elimination of the market economy, and for the introduction of a command economy – as our neoliberal opponents like to caricature our standpoint. In contemporary societies the mechanism of the competitive market is so much better than any other system for supplying consumers with what they demand in a number of areas. What we must seriously and frankly confront is the truth that there are some areas where market forces are less likely or even unlikely to deliver what people need. By way of summary, these areas concern three kinds of individual or collective utilities:

1. A collective utility which is not in general demand in all social classes, or even – it seems – in all cultures and societies, but still is desired by a substantial portion of citizens in most societies, is a reasonable degree of equity and fairness in the distribution of the good things in life. This collective utility without which societies increasingly become restless and eruptive, and single citizens relatively or absolutely deprived, cannot be generated by market mechanisms alone but requires an organised struggle by deprived groups, and a democratic system able to respond to such struggle through redistributive political measures. This is a basic and fundamental ingredient of economic democracy.

2. There are certain utilities which we individually make use of only a few times in our life, but which are crucial for our health and longevity. These are, for instance, medical services, or pharmaceutical products for some particular illnesses. These kinds of services are rarely needed by most people, but at the same time their effects are usually long-term, and perhaps irreversible. With these kinds of services we cannot learn much about their utility through a trial-and-error process involving repeated and alternate purchases of competing products; we are placed at the mercy of medical or pharmaceutical professionals who have a monopoly of knowledge about illnesses and remedies. If these professionals are profit-making producers in a competitive market, then profitability may come into conflict with sound and professional medical practice; and profitability may be victorious. Certain surgical operations are quite profitable in economic terms, but at the same time a bit risky, and perhaps even unnecessary. From medical statistics we know that such risky and unnecessary operations are performed quite frequently in medical and health delivery systems which are run like ordinary capitalist firms on a competitive market. It must be a fundamental aspect of economic democracy to make it possible for medical and pharmaceutical and educational professionals to make their professional competence available to all consumers, as a matter of entitlement, without having to consider the profitability of the services provided.

3. A disutility which the mechanisms of a competitive market cannot handle and eliminate are so-called negative externalities, for instance air and water pollution, and toxic wastes, but also the rather small risks for enormously destructive and great accidents or holocausts, say, in nuclear power stations. The market can certainly sell and make a profit from selling more or less (in)effective gadgets or pills supposed to protect you from some of these environmental effects; but for the costly elimination or significant reduction of such externalities, it is necessary for governments and governmental agencies to get involved by legislation, or by ‘putting a price’ on environmental pollution. In view of the well-established fact that a majority public opinion everywhere is concerned about environmental pollution, it must also be considered a fundamental ingredient of economic democracy to reduce environmental pollution effectively through adequate political decisions which, in order to be truly effective, must involve a great many governments, and potentially or actually polluting producers from many countries in an international accord.

In this summary I have specified what I mean by economic democracy in perhaps somewhat uncommon terms. Usually this term is defined from the vantage point of the term ‘democracy’. Then the argument runs something like this: (a) The will of the people, that is political democracy, should decide the performance of the economy. (b) This means that political decisions should guide the performance of the economy, perhaps
not in detail as in the command economies of the past but in its main outlines. (c) Some proponents of economic democracy may then go on to maintain that it is difficult to guide the performance of the economy democratically without nationalising at least the most important sectors of the economy, or alternatively by setting up so-called employee investment funds, or wage-earners’ funds, as we tried to do in Sweden. My own argument has followed the opposite trajectory. I have started from the vantage point of the term ‘economy’, more precisely the concept of ‘market economy’. Taking my point of departure in the neo-liberal challenge, and its naively totalitarian belief in the ability of the competitive market to satisfy virtually all human needs, I have clarified step by step the different kinds of advantages as well as limitations of a competitive market, and then defined economic democracy in terms of the kinds of political interventions and institutional arrangements necessary to overcome the limitations of the market while preserving its advantages. To put it differently I have said that it is the task of economic democracy to supply those individual and collective utilities which the market alone cannot deliver but which are desired by democratic majorities, or seriously needed by significant minorities without sufficient purchasing power on competitive markets.

What I have said in these respects has been quite elementary. But in view of the unrealistic and totalitarian credo of current neo-liberalism, these elementary truths must be repeated over and over again. As far as political democracy goes, I have not proceeded to paint any utopias beyond the kind of political democracy we already have in most West European countries. I have only emphasised the need for politicians in different countries to move beyond their national boundaries to reach international agreements, and hopefully an international accord with producers on the market, to cope with some of the limitations of market forces. This movement beyond national boundaries is already taking place here in Europe, and that, I think, is one of the most challenging and stimulating tasks ahead of us in the struggle for more economic democracy, as I have defined it. It may require the introduction of political innovations hitherto not seriously considered in European politics.

As regards industrial democracy in a more restricted sense, focused on making employees in single firms or public outfits true partners of management rather than constraints on management, the benefits I have suggested in this paper are several. From a strictly economic point of view, the ‘dynamic inefficiency of capitalism’ diagnosed by Kelvin Lancaster (1973), and further elaborated by Himmelstrand and Horvat (1987) could be reduced. Needless to say, our assertion about the ‘dynamic inefficiency of capitalism’ does not imply that capitalism is less efficient than, say, the modes of production of so-called ‘real socialism’, only that capitalism with more industrial democracy could be dynamically more efficient than current capitalism. Furthermore I have argued that industrial democracy can help to remove the contradiction between the highly societal and multi-dimensional implications of industrial production today and the one-dimensional concern of private capitalists with capital accumulation as such. The multidimensional incentive structure of employees could be more easily met with industrial democracy, and thus provide the satisfaction of a broader set of public needs, as required in a democracy.

One very important asset of industrial democracy is that it imposes rather few demands on central parliamentary political decisions about the economy. Industrial democracy as I conceive it maintains the vitality and dynamics of a market economy not by requiring and imposing extra political, parliamentary decisions on the economy from above but simply by making all the personal resources available within the economy itself respond to the market, and to the needs of those involved in market enterprises. The only central political decisions that may be required in some cases is legislation to make it possible. Rational responses to the market are maintained in the kind of industrial democracy I have in mind, but the actors responding to the market will be equipped with a multidimensional rationality more compatible with the multidimensional character of present socioeconomic systems. One way of putting it is that private capitalism without industrial democracy looks upon the needs of employees as a constraint on profit and capital accumulation, whereas industrial democracy in a market economy looks at this matter the other way around, considering the need for profitability and capital accumulation as a constraint on the satisfaction of the needs of employees. This is not only a play with words. It indicates that the balancing of the needs of capital accumulation in a market economy, and the needs of employees, will be determined at a more healthy level with industrial democracy. In the long run this will make for a better combination of stability, vitality and flexibility within the market economy.10

But industrial democracy within single firms will not be able to address fully the communal, national and international issues which are generated by the inherent limitations of the market economy which I have pointed out in my critique of the neo-liberal doctrine. Therefore we also need economic democracy at local, central and international parliamentary or government levels to correct the negative environmental externalities and the income inequalities generated by the market, and to offer non-commodified professional public services in the shape of entitlements in those cases where consumers are demanding these services too infrequently to benefit from trying out competing alternatives, or where the
utility or irreversible disutility of these services cannot be judged at once by consumers due to their hidden or long term effects.

CONCLUSION

Economic democracy is probably more feasible than industrial democracy at the present time or in the near future due to the fact that many parliamentarians all over Europe are aware already of the need to correct or supplement the market economy where its limitations have become obvious. Furthermore, parliamentarians are subject to democratic pressures from their electorates. In the political battles which take place, or emerge about these matters in parliaments all over Europe, I personally think that an alliance between social democratic and social liberal forces is extremely important. In many parliaments a dividing line has been drawn in the past between two blocks of parties - socialist and non-socialist parties - a divide which has separated social democratic and social liberal parties. In my opinion this divide is no longer relevant. A much more significant political divide is about to emerge between neo-liberal parties such as the British Conservatives and the Swedish Moderate Party on one hand, and those parties which acknowledge the contradictions and complexities of modern societies, and therefore reject the singular application of simplistic and narrow-minded market-economic theory alone on the other. On the 'left' side of this divide we find social democratic and social liberal parties, but also ecologically 'green' parties. In spite of the rifts which really exist between them, or emerge for tactical reasons in electoral competition between these parties on the reformist left, they can all be counted on to support more or less of state intervention and legislation to counteract or supplement the forces of an unregulated market economy, while still maintaining the virtues of the market as a foundation of the economy. Whether they agree to call this economic democracy or not is rather immaterial. Political language seems more sensitive to the dynamics of black-white labelling than to the multifaceted nature of our social and economic reality.

While we can be justifiably hopeful about the possibilities of introducing more economic democracy in Europe, industrial democracy is a completely different matter. To bring about industrial democracy requires the overpowering of the obvious needs of private capitalists to maintain their power, as well as to achieve economic efficiency (see note 7). Private capitalists are not subject to the same democratic pressures as parliamentarians, and they have no difficulty in finding means to resist pressures from democratically elected politicians and strong trade unions - particularly if they have the option of an exit to another country with a less powerful trade union movement and a less radical polity. This option can be removed only by a common European policy. But the business community of private capitalists always seems to have enough money for campaigns effectively deceiving public opinion about the implications of industrial democracy. How to resist and overcome the effects of these deceptive campaigns is a problem of overarching importance in the struggle for industrial democracy.

Notes

1. The term 'economic democracy' is not likely to be used by neo-liberals at present. But only one decade ago when 'economic democracy' was still rather widely understood as a honorific term in Sweden, neo-liberals and neo-classical economists did in fact use the term, and suggested that a market economy provided the most effective type of 'economic democracy' attainable.

2. The one exception is the international economic system where the totalitarian neo-liberalism of the World-Bank/IMF machinery has been able to operate rather freely until recently. An example of a dictatorship with neo-liberal leanings was General Pinochet's Chile.

3. In his recent book The Examined Life (1989), Robert Nozick hitherto counted as one of the most articulate neo-liberal philosophers, considers the position he recently articulated and defended as 'seriously inadequate'. Buchanan now admits that 'homo economicus' exists along with many other men in the human psyche, and that human behaviour is a product of a continual internal struggle between them (Buchanan 1979, pp. 207 and 224 ff).

4. In Sweden this logic of a competitive labour market has been partly controlled as a result of the great strength of the Swedish labour movement. Wages differentials are also among the lowest in the world in Sweden. But at the same time there is no other country in the industrialised world with such a high degree of concentration and centralisation of capital. This is one area where social democratic governments have chosen not to intervene until now. And market mechanisms cannot themselves correct such inequalities, but can only strengthen them. However highly concentrated or centralised Swedish big business must of course compete in an increasingly international economy.

5. One practical problem which complicates this method of reducing or eliminating negative externalities is the problem of measurement. Pollution and toxic waste etc. must be measured to allow us to set a price on it, and to make it possible to arrive at the particular price to be paid for a specific amount of pollution or waste. Who should measure and who should pay the costs of setting up the machinery of measurement? My answer is that some relevant government agency should be responsible for carrying out measurements; but the costs for setting up the machinery of measurement, and for its maintenance, should be on the polluter who thereby will pay not only for pollution but also for the measurement of pollution. Legally, the burden of proof of environmental innocence should also be on the polluter.
6. See Meidner (1978), and for the later, legislated version of so-called wage-earners' funds, see a booklet by the Swedish Ministry of Finance (1984), Employee Investment Funds.

7. In the Swedish debate about wage-earners' funds, opponents regularly accused these funds of destroying the market economy when in fact these funds operate in response to the market, and have increased the pluralism of the capital market in particular. If a larger number of different types of actors have been entered on the market this cannot logically be conceived as destroying the market but rather as expanding it.

8. The so-called Swedish model of labour-management relations of the recent past, and the strength of the Swedish trade union movement, far from generating the organisational 'sclerosis' predicted by the economist Mancur Olson, has in fact been combined with 'respectable growth even though it already had a high standard of living' as vindicated by Mancur Olson himself (1982, pp.89–92) in his comparative empirical study of contemporary economic history. Olson attributes this result to the fact that 'encompassing' organisations like LO, the Swedish trade union movement, 'give some weight to economic growth and to the interest of society as a whole'. But it is this type of 'encompassing' organisation which Swedish business leaders are now in the process of destroying by decentralising wage bargaining, and thereby also making the 'interest of society as a whole' less salient in wage bargaining.

9. The American Marxist economist, Samuel Bowles (1985), has pointed out that Marxist economists take strenuous exception to Paul Samuelson's quoted assertion because they assume that capitalists 'will generally select methods of production which forego improvements in productive efficiency in favour of maintaining their power over workers'. For this reason the choices made in a capitalist economy 'cannot be said to be an efficient solution to the problem of scarcity, but rather, at least in part, an expression of class interest'. This statement by Bowles is very similar to the conclusions about the 'dynamic inefficiency of capitalism' arrived at by an established non-Marxist economist, Kelvin Lancaster (1973). For a discussion of the relevance of Lancaster's conclusion for the analysis of workers' self-management, see Himmelstrand and Horvat (1987).

10. In Beyond Welfare Capitalism. Issues, Actors and Forces in Societal Change which I and my collaborators published at a time when industrial democracy was still considered rather feasible (Himmelstrand et al. 1981) I made some of my arguments more explicit. However, the arguments for the political feasibility of industrial democracy contained in that book are at present outdated and 'overtaken by events'.

References


