At the center of a socialist alternative to capitalism, in whatever way socialism is understood, is the problem of economic institutions, specifically the social organization of power over the allocation of resources and control of production and distribution. In statist conceptions of socialism such power and control operates primarily through the state, in the strongest version through the direct state ownership of the principal means of production and comprehensive central planning. In the social empowerment conception of socialism proposed here, the problem of controlling economic processes is less clear cut. There are multiple, heterogeneous institutional forms working through multiple pathways through which social power can be exercised over the production and distribution of goods and services.

In most of the specific proposals we will consider here, the institutional designs for social empowerment leave a substantial role for markets, and thus in one sense or another they tend to envision some sort of “market socialism.” This goes against the grain of traditional Marxian conceptions of socialism as the transcendence not only of capitalist class relations, but also of the market itself. In traditional Marxism the harms generated by capitalism as a system of production are attributed both to the pernicious effects of the market and to power and exploitation linked to the class relation between capitalists and workers. The vision of a world beyond capitalism thus revolved around both the move towards the egalitarianism expressed in the anti-class aphorism “to each according to need, from each according to ability”, and the aspiration for a rationally ordered economy in which the production and distribution of goods and services was organized through some mechanism of collective planning.

Few theorists today hold on to the belief that in a complex, large-scale economy, there is a viable alternative to markets – understood as decentralized, voluntary exchanges involving prices that are responsive to supply and demand – playing an important role in economic coordination.\footnote{There are some anticapitalists who believe that a decentralized, democratically planned economy in which there was no role for markets is feasible. One of the more influential statements of this position is by Michael Albert who argues in his book Parecon (a contraction of “participatory economy”) that even a complex global economy can be organized and coordinated through bottom-up participatory planning rooted in producer and community cooperatives. See the discussion below for a sketch of this proposal.} This does not imply that an economy must be coordinated by largely unregulated “free markets,” or even that the vast majority of economic needs will be met through market exchanges, but simply that decentralized exchanges involving market-prices will be a significant part of economic organization. Comprehensive planning, whether organized through centralized bureaucratic institutions or through participatory decentralized institutions, no longer seems a viable alternative. This leaves open the extent to which the market operates under tight or weak constraints of democratic priorities through the state and other pathways of social empowerment and the precise mechanisms by which the negative effects of market forces would be neutralized.

Chapter 7
Real Utopias II: Social Empowerment and the Economy
draft 2.0
August, 2008
In this chapter we will explore a range of proposals for forms of economic structures and institutions that move us in a direction beyond capitalism by enhancing the scope and penetration of social power in economic activities. This set of proposals does not constitute a comprehensive inventory of policy initiatives for the left. Many worthy progressive policies which would enhance the quality of life of people and contribute to solving a range of concrete problems around health care, inequality, poverty, energy and so on, are not specifically policies of social empowerment. Egalitarian taxation and transfer policies that reduce inequality might further egalitarian ideals of justice, but they do not themselves shift the economic structure towards a hybrid within which social power has greater weight. Increased government environmental regulation and vigorous energy policies to develop renewable energies would be desirable and should be part of a Left political program, but again, they might not do much directly to strengthen the institutions of economic democracy.

Our concern in this chapter, then, is with exploring a variety of institutional designs that could constitute some of the key components of a socialism of social empowerment. Some of these are purely theoretical models; others have existed in at least limited forms in various places. Some of them involve a transformation of the overall structure of capitalist institutions; others have a more partial character and can exist more or less comfortably alongside capitalism. Some of them could be instituted in limited and partial ways and then grow over time; others would only work if instituted in fairly developed forms. All of these designs in one way or another attempt to shift the power configurations of capitalism toward an economy animated by social empowerment.

**THE SOCIAL ECONOMY**

The term “social economy” has been used to cover a wide range of economic forms. Sometimes it is simply identified with the “non-profit sector”; other times it includes co-operative enterprises even if they produce for markets and compete with capitalist firms. Sometimes it is defined in strictly negative terms as non-state and non-market enterprises. Some writers, like the Quebec social economy activist Nancy Neamtam, include a specific set of internal organizational properties in the definition. A social economy enterprise, she writes, is one that:

1. aims to serve its members or the community, rather than simply striving for profit; is independent of the State; establishes a democratic decision-making process in its statutes and code of conduct, requiring that users and workers participate; prioritizes people and work over capital in the distribution of revenue and surplus; bases its activities on principles of participation, empowerment, and individual and collective responsibility.  

I will define the social economy quite broadly as economic activity that is directly organized and controlled through the exercise of some form of social power. Social power is powered rooted in the voluntary association of people in civil society and is based on the capacity to organize people for collective action of various sorts. The social economy involves the

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2 Neamtan, Nancy. "The Social Economy: finding a way between the market and the state", *Policy Options*, July/August 2005, pages 71-76. The definition proposed by Neamtan should be viewed as a pragmatic definition emerging out of a specific political context in which a variety of social forces and types of enterprises work together under the umbrella of the “social economy.”
production and distribution of goods and services – economic activity – organized through the use of such social power.\(^3\)

This definition does not imply that every organization or enterprise in the “non-profit sector” is fully part of the social economy. Some non-profit organizations are basically arms of capitalist corporations or the state, rather than associations formed in civil society. Others have large endowments of capital which provide them with the resources needed to engage in their productive activities and are directed in the manner of a hierarchical corporation. Their control over economic activity is therefore based more on their use of economic power based in their endowments than in their deployment of social power (i.e. power rooted in collective association in civil society.) What this suggests is that many organizations will have a mixed or hybrid character: they are examples of social economy activities to the extent that they are rooted in the associational life of civil society; they are statist or capitalist organizations to the extent that their power to engage in the production and distribution of goods and services is based on state power or economic power.\(^4\)

In this section we will examine two very different examples of social economy activity: Wikipedia and the social economy of childcare and eldercare provision in the Province of Quebec.

**Wikipedia\(^5\)**

**Institutional Design**

Wikipedia is perhaps the best known example in the first decade of the 21\(^{st}\) century of the anti-capitalist potentials of information technology in general and the internet in particular.\(^6\) Many active participants in Wikipedia might be surprised to see Wikipedia as characterized as a fundamentally anti-capitalist organization. Indeed, the founder of Wikipedia, Jimmy Wales, is reported to be a great fan of Ayn Rand, the iconic defender the moral standing of pure individualistic self-interest and the virtues of capitalism.\(^7\) What is more, at least some prominent

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\(^3\) This definition does not require that the internal organization of a social economy activity be necessarily democratic and participatory, although for the social economy to serve as a pathway for a more general process of enhancing social empowerment this would be important.

\(^4\) This acknowledgement that many organizations engaged in the production of goods and services “in” civil society have a hybrid character is analogous to the problem discussed in chapter 4 that economic structures as a whole typically have a hybrid character, combining capitalist, statist, and socialist elements. This of course makes the analysis of the social economy more difficult since much social economy activity requires direct state subsidy or capitalist subsidy to function well.

\(^5\) This section is jointly written with Edo Novat and based in part on an unpublished paper, “Wikipedia as a Real Utopia” presented at the 2008 Wikimania conference, Alexandria, Egypt.

\(^6\) The other well known example would be open source software development, most notably the Linux computer operating system Linux begun by the Finnish computer programmer Linus Torvalds in 198X. As an “open source” software, the source code for the program was made freely available to anyone interested in working on improving the system. Over the years thousands \(^7\) of programmers around the world have worked on developing Linux, suggesting new features, adding code, identifying and correcting bugs.

\(^7\) see XXX for a discussion of Wales’ attachment to Ayn Rand. While this article does not discuss in a deep way the underlying basis for Wales’ views of Ayn Rand, I suspect that it has more to do with libertarian/anarchist hostility to centralized state regulation than it does to beliefs about capitalism as such.
commentators on Wikipedia see it as a paradigm of work organization for the new global capitalist economy. Don Tapscott and Anthony Williams, in their book *Wikinomics*, see the principles underlying Wikipedia, which they distill under the rubric “mass collaboration”, as providing the key to new forms of business competitiveness. “For large companies,” they write, “mass collaboration provide(s) myriad ways to harness external knowledge, resources and talent for greater competitiveness and growth.”

The trick for capitalism is to harness these new, open, nonhierarchical, collaborative network processes in ways that enhance competitiveness and profitability.

Yet, Wikipedia’s fundamental principles of organization are not simply *non*-capitalist, they are thoroughly *anti*-capitalist:

1. **Nonmarket relations: Voluntary, unpaid contributions and free access.** No one is paid to write entries in Wikipedia and even much technical work on the software infrastructure of Wikipedia is done on a volunteer basis. No one is charged to gain access to its millions of entries: it is free to anyone in the world who can get access to an internet connection. There are no advertisements on the pages of Wikipedia. No one makes a profit directly from its activities. The financial resources needed to underwrite the hardware of the system and pay the limited staff needed for some technical functions is provided by the Wikimedia Foundation which is largely funded by contributions from the wiki community.

2. **Full, Open, Egalitarian Participation.** Wikipedia gives full editing rights to anyone who wishes to join in the production and transformation of content. Anyone can be an editor and no editors have special privileges over others in the production of content. A PhD and a well-read high school student are on formally equal footing. The editorial process thus functions in a dramatically different way from conventional editorial processes that rely heavily on experts with credentials. As of mid-2008 over XXXXXX people had participated as editors, with roughly YYYYY having contributed to at least ZZZ articles in the encyclopedia.

3. **Direct and Deliberative interactions among contributors.** Wikipedia contributions and decision-making are generally done directly by editors in a deliberative process with other editors without mediation by any body that has editorial or managerial control. Wikipedia articles tend to display a certain life-cycle, beginning as a “stub” (the wiki-term for a minimalist entry), then growing to a proper article with an increasing rate of edits which eventually converges on some equilibrium in which the article either remains largely static and “complete” or undergoes only minor editing. This process is often accompanied by considerable back and forth discussion among editors, which is recorded in a discussion page linked to a given entry.

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9 The foundation was initially established with resources from Jimmy Wales who was a successful investment banker before starting Wikipedia. Subsequently the foundation has relied mainly on contributions from over 40,000 individuals who use Wikipedia.

10 It is thus possible to review the entire history of the writing and discussion in the editing process of Wikipedia entries.
The mass collaborative effort of article authorship is a slow process of consensus formation. On average, entries in the English Wikipedia have nearly 90 saved revisions per article.\(^\text{11}\)

4. Democratic governance and adjudication. At its inception, all Wikipedians were essentially editorial administrators (called “sysops”) but as vandalism and other mischief intensified with the growing notoriety of the encyclopedia, a kind of quasi-administrative structure was instituted which enabled users to acquire different levels of organizational responsibility and roles in adjudicating conflicts. This is one of the most interesting aspects of the development of Wikipedia as a real utopian institutional design: the emergence and evolution of mechanisms of social control and adjudication suitable for such a freewheeling network structure.

There are currently four basic administrative levels of users: editors, administrators, bureaucrats, and stewards. As of mid-2008 there were about 1600 administrators, XXX bureaucrats and YY stewards. The administrative privileges associated with these designations, however, remain focused on facilitating “cleaning” the encyclopedia; they do not confer privileges in the production of Wikipedia content. Here is how Wikipedia describes administrators, the basic level of this administrative structure above ordinary editors:

Administrators, commonly known as admins and also called sysops (system operators), are Wikipedia editors who have access to technical features that help with maintenance. English Wikipedia practice is to grant administrator status to anyone who has been an active and regular Wikipedia contributor for at least a few months, is familiar with and respects Wikipedia policy, and who has gained the trust of the community, as demonstrated through the Requests for adminship process. Among other technical abilities, administrators can protect and delete pages, block other editors, and undo these actions as well. These privileges are granted indefinitely, and are only removed upon request or under circumstances involving high-level intervention (see administrator abuse below). Administrators undertake additional responsibilities on a voluntary basis, and are not employees of the Wikimedia Foundation.\(^\text{12}\)

Access to these administrative roles is gained through democratic means. The process, as described on the page in Wikipedia discussing “Requests for Adminship”, stresses the open, consensus-seeking character of the process:

Any user may nominate another user with an account. Self-nominations are permitted. If you are unsure about nominating yourself for adminship, you may wish to consult admin coaching first, so as to get an idea of what the community might think of your request. Also, you might explore adoption by a more experienced user to gain experience. Nominations remain posted for seven days from the time the nomination is posted on this page, during which time users give their opinions, ask questions, and make comments. This discussion process is not a vote (it is sometimes referred to as a \textit{!vote} using the computer science negation symbol). At the end of that period, a bureaucrat will review the discussion to see whether there is a consensus for promotion. This is sometimes difficult to ascertain, and is not a numerical measurement, but as a general descriptive rule of thumb most of those above ~80% approval pass, most of those below

~70% fail, and the area between is subject to bureaucratic discretion….. Any Wikipedian with an account is welcome to comment in the Support, Oppose, and Neutral sections. The candidate may respond to the comments of others. Certain comments may be discounted if there are suspicions of fraud; these may be the contributions of very new editors, sockpuppets, and meatpuppets. Please explain your opinion by including a short explanation of your reasoning. Your input will carry more weight if it is accompanied by supporting evidence.

Selection procedures to other levels of the hierarchy have somewhat different rules, but they all involve open democratic processes.

One of the key roles for these different levels of administrators is resolving conflicts. There are, of course, topics in which there is considerable disagreement among editors over content. Sometimes this makes it difficult for an entry to converge on a consensus text. There are also instances of malicious vandalism of Wikipedia entries. Wikipedia urges the resolution of disagreement between editors on the basis of open communication and users have written numerous guides and essays offering instruction and advice to this end. Most evidence indicates that warring between editors is rare relative to the total number of editors and vast amount of content over which disagreement may arise. Yet, disputes do arise and when the editors fail to resolve the issues themselves, a neutral administrator may be called in to manage the conflict through negotiation, mediation, and arbitration – all processes that emphasize the empowerment of aggrieved parties, consensus, and mutually beneficial outcomes. If disputes remain unresolved, then a series of escalating interventions become available. A dispute may be referred to formal mediation and finally to arbitration. The Arbitration Committee, which was formed in early 2004, is the mechanism of last resort for dispute resolution and is the only body that can impose a decision, including sanctions, against users. The members of the Arbitration Committee are appointed by Jimmy Wales on the basis of advisory elections by the broader Wikipedia community. At this ultimate level of control, the Wikipedia process contains a residual, if nevertheless important, element of undemocratic power.

Taken together these four characteristics of Wikipedia – nonmarket relations, egalitarian participation, deliberative interactions among contributors, democratic governance and

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13 As explained in Wikipedia, http://en.wikipedia.org/wiki/Sockpuppet_(Internet), Sockpuppet is a wiki expression referring to “an online identity used for purposes of deception within an Internet community” while Meatpuppet is “commonly used to deprecate contributions from a new community member if the new member was (allegedly) recruited by an existing member only to back up the recruiting member's position.”


15 The “See Also” links at the bottom of the “dispute resolution process” page in Wikipedia gives several sources, though there are many more.

16 See the Arbitration Committee page: http://en.wikipedia.org/wiki/Wikipedia:Arbitration_Committee

17 Jimmy Wales continues to hold “ultimate authority” within the Wikipedia organization. He appoints the members of the arbitration committee from a list of candidates that has been voted on by the broader wiki-community, and has reserved the right to impose new rules and policies in special circumstances, although he has refrained from using this power. He has argued that retaining this power is a necessary protection against take-over of the project by the concerted efforts of mischievous or ill-intentioned users. As it stands, Wikipedia remains a largely democratic institution with unexercised autocratic authority.
adjudication – conform closely to the normative ideals of radical democratic egalitarianism. What is remarkable is that these principles have underwritten the collaboration of tens of thousands of people across the world in the production of a massive global resource. The statistics are stunning: by mid-2008 there were over 2.5 million English language entries, and a total of X million in other language versions of Wikipedia. By 2007, the daily number of English articles that were accessed in Wikipedia surpassed 2 million. Whatever else is the case, Wikipedia shows that nonmarket productive egalitarian collaboration on a very wide scale is possible.

Criticisms of Wikipedia

The most serious criticisms of Wikipedia center on the reliability of its entries. Three issues are in play here. First there is the simple problem of inaccuracy in entries written by amateurs. Even though a number of studies have shown the error rate of Wikipedia entries compare favorably to more established sources, nevertheless many people remain skeptical. Second, there are instances in which there are genuine, deep, disagreements over particular topics. The general editorial policy of Wikipedia is for articles to be written with a “Neutral point of view” (NPOV), but for some topics – like Israel and Palestine – this is virtually impossible. This creates significant problems for the Wikipedia model, although the possibility of creating multiple entries reflecting different stances seems to be an emerging solution. Third, there is the problem of deliberate distortion. Sometimes this is simply mischief, as when the entry for Aardvark was deleted and replaced with “A very ugly animal”. But sometimes it is an effort to shape a person’s or institution’s reputation by adding false information to an entry. The Wikipedia page on controversies in the history of Wikipedia contains many examples. One of the best known instances occurred in 2006, the congressional aides scandal, “in which several political aides are caught trying to influence the Wikipedia biographies of several politicians to remove undesirable information (including pejorative statements quoted, or broken campaign promises), add favorable information or "glowing" tributes, or replace the article in part or whole by staff authored biographies.”

Corporations have engaged in similar strategies, hiring people to write favorable entries. While many deliberate falsifications have been discovered, it is impossible to know how many go unnoticed, and this adds to the skepticism about the reliability of entries.

In response to these problems, a number of other internet encyclopedia projects have been launched. Two of these are particularly interesting, Larry Sanger’s Citizendium project and Google’s rival to Wikipedia, Knol. The first of these retains many of the social economy aspects of Wikipedia, but tries to correct the problem of reliability by giving a more authoritative role to certified experts. The second rejects the social economy model altogether, and tries to enlist the profit motive into the development of the information compendium.

Larry Sanger, the co-founder of Wikipedia with Jimmy Wales, left Wikipedia in 2002 after recurring conflicts with the editor community. He was disappointed by the often less-then-

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18 clarify how this might work – or what is being proposed.


20 There is some controversy over whether Sanger was actually a co-founder of Wikipedia, or simply a collaborative employee of Jimmy Wales. When they worked together they both referred to Sanger as a co-founder, but after 2004 Wales insists that he alone founded Wikipedia.
civilized contentiousness of the project and he was convinced that Wikipedia’s rejection of privileged expertise and lack of discipline were weaknesses that undermined the credibility and accuracy of Wikipedia. When Sanger left Wikipedia he started his own online encyclopedia, which he called Citizendium.

Citizendium remains a “beta” project and so may evolve, but it bills itself as “a "citizens' compendium of everything"... an open wiki project aimed at creating an enormous, free, and reliable encyclopedia.” Citizendium hopes to achieve credibility by using “gentle expert oversight”, requiring contributors to use their real names, and creating a parallel hierarchy within its contributors and its articles. Anyone can create a Citizendium account and begin authoring articles but in order to become an editor, a person must first open an account then apply for editorship by submitting a CV as well as proof of expertise that verifies the claims of the CV, like links to online conference proceedings where you have presented or an academic department home page. All applications, for authorships as well as editorships, must include verifiable personal information, especially your real name, a biography, and specification of areas of expertise. “Constables” review all applications.

Citizendium's "community managers" or "moderators," [who] oversee adherence to basic policies, resolve behavioral — not editorial — disputes, and rein in troublemakers.... They operate within a "separation of powers" and are held to a strict conflict of interest policy. All Citizendium constables hold at least a bachelor's degree and are at least 25 years old.

Since the project is a Wiki, anyone can create an article, edit it, etc. The privileges of editorship include all the responsibilities of authors and include the ability to officially “approve” articles, guide content creation by authors, and participate in governance.

Citizendium distinguishes between articles that are works in progress, or “live”, and those that have been “approved” by the community of editors within a certain specialty working-group in what is essentially a peer-review process. As of May 1, 2008, there are 61 approved articles and slightly fewer than 7,000 total articles as of January 1, 2008.

Sanger’s hope for Citizendium is that it will synthesize the work of the general public, and exploit the fervor for participation in projects like Wikipedia, with the informed approval of accredited experts. In this institutional framework, experts supply discipline and inform the public’s contributions. Thus citizendium has a collegial institutional structure that is a sort of

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24 For more details about the roles of editors, see: [http://en.citizendium.org/wiki/CZ:The_Editor_Role](http://en.citizendium.org/wiki/CZ:The_Editor_Role)


hybrid of the openness of Wikipedia with a paternal role for academic experts. It remains an exemplar of social economy production – production based on the mobilization of voluntary cooperation for the provision of needs – even though it adopts a less strictly egalitarian model on process of production itself.

Knol is Google’s attempt to compete directly with Wikipedia. In the summer of 2008 knol was officially launched as an active site. Knol is Google’s short-hand for knowledge, as well as the word they use to signify a “unit of knowledge”, or a single web page on a given topic. Google intends to provide free, easy-to-use software that will let authors produce articles, or knols, on a topic in which they have some expertise. Anybody will be able to produce an article and Google will host it for free (much like Google’s blogging software). According to Manber, “Knols will include strong community tools. People will be able to submit comments, questions, edits, additional content, and so on. Anyone will be able to rate a knol or write a review of it. Knols will also include references and links to additional information.” However, editing is the sole responsibility of the author. Finally, at an author’s discretion, Google will place advertisements relevant to each knol and “Google will provide the author with substantial revenue share from the proceeds of those ads.” The purpose of these articles is:

...to be the first thing someone who searches for this topic for the first time will want to read. The goal is for knols to cover all topics, from scientific concepts, to medical information, from geographical and historical, to entertainment, from product information, to how-to-fix-it instructions

Google expects people to write competing knols on the same subject and welcomes that competition. The purpose is to create a competitive marketplace of knowledge in the general mold of Google’s brand of velvet-glove capitalism. Google hopes to siphon off the enthusiasm with which people contribute to Wikipedia by offering them remuneration, while undermining Wikipedia’s ranking prominence in Google searches. Google’s strategy for signaling the legitimacy of knols is to prominently showcase authors and their credentials. Thus the system will favor knols created by accredited experts.

It is unclear whether or not either of these alternatives to Wikipedia will constitute serious rivals. It is also unclear, of course, how Wikipedia will develop into the future, both in response to projects like Citizendium and Knol, and in response to its own internal dynamics. Will the level of energetic participation that has occurred in the first years of Wikipedia be sustained into the future? What will the process look like after twenty years? Will the kind of broad based editorial diligence, commitment and enthusiasm that has been crucial both to the rapid expansion of the number of entries and to the relatively effective monitoring of quality be indefinitely sustainable on a voluntary basis?

The Quebec Social Economy

One of the most vibrant examples of an emerging social economy is in the Canadian Province of Quebec. While Quebec has a long history of producer cooperatives in various sectors and other

economic activities which could be broadly considered part of a social economy, the term only became part of public discourse over economic alternatives in the mid-1990s [check this date]. The pivotal event was a “Social Summit” meeting convened by the Provincial Government in 1996 to deal with long term problems of unemployment and economic development in Quebec. At this summit a wide variety of organizations from civil society and the economy were invited to participate. Such corporatist policy forums are a familiar thing in many countries with strong social democratic or catholic-corporatist traditions. What was rather special about the 1996 summit in Quebec, however, was the inclusion of social movement organizations, community organizations, and other grass-roots civil society associations in the dialogue.

Out of this meeting came a set of concrete policy proposals for the state and action plans for civil society to enhance the vitality of the social economy in Quebec. Some of these proposals have subsequently been adopted. They involve, among other things, making it much easier for non-profit associations engaged in social economy activities to acquire the necessary financial resources, through government grants, indirect subsidies, or access to credit; the creation of a social economy agency within the provincial government; the consolidation of an umbrella organization in civil society, the chantier de l’économie sociale (Social Economy Workshop), to coordinate strategies for coordinating and deepening the role of the social economy. While the social economy in Quebec is still only a small part of the total Quebec economy, it is firmly rooted institutionally, growing in importance, and broadly accepted as desirable.

Two examples illustrate different ways in which the social economy in Quebec functions. The first example is childcare services. Childcare services can be organized through four basic ways. First, it can be organized within personal networks of family kinship and friends. This is certainly the most common way traditionally that childcare is provided. Here childcare is motivated by private concerns and it is regulated primarily by moral norms of care and concern for the wellbeing of others. Second, childcare can be organized through markets, either by for-profit capitalist daycare centers, or by self-employed individual childcare service providers. The central motivation for the provision of childcare through markets is private profit, and the norms regulating the provision are anchored in property rights: people have the right to set up businesses to provide services. This is the primary way nonfamily childcare services are provided in the United States. Third, the state can directly provide childcare services, as in France. The motivations for provision are some conception of the common good, and the norms regulating the provision are generally some notion of citizenship rights. Finally, the services can be provided by civil society associations of one form or another. As in the state provision, the motivations here are rooted in collective interests, but the norms are more directly grounded in...
moral concerns for caregiving. This is the Quebec solution. These four possibilities are mapped in Figure 7.1

**Figure 7.1 Four Ways of Providing Childcare**

<table>
<thead>
<tr>
<th>Central Norms regulating provision of childcare</th>
</tr>
</thead>
<tbody>
<tr>
<td>State provided childcare</td>
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<tr>
<td>Capitalist market childcare</td>
</tr>
</tbody>
</table>

In Quebec, the Provincial government guarantees universal childcare at a charge of seven Canadian dollars per day, but it does not directly run daycare centers. Rather, it provides subsidies to daycare co-ops run jointly by daycare workers and parents so that (in principle) the combination of the parent charges and the state subsidies provide a living wage for the childcare providers. Crucially, the rules governing these subsidies make them available only to childcare service providers organized as nonprofit cooperatives, thus blocking the entry of capitalist firms into this market. Capitalist childcare services are not prohibited from operating in Quebec, but they do not receive the social economy subsidy that underwrites the financial viability of the coops. [note: get further details on the structure]

A second example is non-medical homecare services for the elderly. This is a more recent innovation, launched in 2001 [check date]. Quebec, like most economically developed places, faces a series of difficult issues around the care of the elderly which are seen as increasingly pressing with the ageing of the population and increased life expectancy. As elderly persons become less able to take care of themselves one option is for them to move into retirement communities and nursing homes. Depending upon the location of such facilities, such moves can be extremely disruptive of social networks and, in any case, are generally very expensive (even when they are of low quality). An alternative is for various kinds of services to be created to provide the kind of on-going support that make it possible for the elderly to stay in their homes. This would include things like housecleaning, meal preparation, shopping assistance, and odd jobs. Such services are beginning to be provided on a fairly wide scale in Quebec through the social economy. As described by Nancy Neamtam, the director of the *Chantier de l’économie sociale*, four years after this initiative was launched, the network of nonprofit and co-operative home care businesses across Quebec “employs 6,000 people, half of whom were previously unskilled welfare recipients. By offering over 5.6 million hours of home care services to over 76,000 clients, the majority of whom are over 75 years old, these organizations have created jobs, taken pressure off public sector services, delayed institutionalization for many elderly people, reduced the welfare rolls and assured access to home care services in record time to all...
communities across the province.” The clients of this service pay a sliding scale depending on household income from nothing to thirty Canadian dollars for the service. As in the childcare case, the Provincial government provides subsidies to these social economy cooperatives but not to capitalist firms that want to enter the market.

**Elements of institutional design for a vibrant social economy**

The range of economic activities that can potentially be organized through the social economy in an effective manner is quite broad. In Quebec, aside from childcare and home care services, the social economy already plays a significant role in recycling activities, sheltered workshops for people with intellectual and physical disabilities, and housing. In many places in the world, much of the performing arts is organized in ways that have a significant social economy component. Health care services are another arena where social economy organizations play an important, if secondary, role in many places. In the United States, charter schools and some forms of school voucher programs can also be viewed as instances of a social economy: the state pays for these educational services, but they are actually produced by associations in civil society.

The Quebec experience suggests four elements of institutional design to facilitate the expansion and deepening of these kinds of initiatives in ways that would contribute to the broader agenda of social empowerment:

1. **State subsidies targeted to the social economy.** There are a number of difficult issues bound up with alternative mechanisms for providing financial resources for social economy activities and enterprises. One course of funding is private donations from individuals and private Foundations. Many NGOs receive their funding from these sources. Sometimes this works well. Wikipedia was initially bankrolled by a combination of funds from private foundations and the personal wealth of Jimmy Wales, and subsequently it has been substantially funded by contributions from participants. But for many social economy initiatives, such private funding will be inadequate for two reasons. First, for many projects, private donations and foundations are unlikely to provide adequate levels of funding. It is hard to imagine the Quebec social economy of childcare and eldercare services reaching the scale it has on the basis of private funding. Secondly, private foundations typically have their own agendas derived from the priorities of their founders and boards of directors. Sometimes these can be quite progressive, rooted in democratic egalitarian ideals, but more often wealthy foundations have close ties to elites and corporations and their priorities are firmly rooted in existing structures of power and inequality. For social economy initiatives to be dependent on such foundations for financial resources, therefore, almost inevitably constrains their radical potentials.

Of course, it is also true that dependence of the social economy on the state for financial resources imposes constraints. Capitalist states are also deeply connected elites and corporations and their priorities are also firmly rooted in existing structures of power and inequality. But at

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29 These examples from the United States, of course, indicate that social economy initiatives may not always be progressive. School vouchers in particular are often a strategy for defunding public education rather than advancing a general process of radical democratic egalitarian social empowerment.
least the state is a terrain for democratic struggle and contestation, and this can open the prospect for acquiring stable funding which allow for relatively high levels of autonomy.

In any case, for better or worse, private funding is unlikely to be sufficient for a vibrant, dynamic social economy and thus it is important that the state to underwrite social economy enterprises and activities through subsidies of various sorts. Furthermore, the rules of the game for such subsidies should block access to them by capitalist firms. A reasonable objection by capitalist firms is that this gives social economy cooperatives an “unfair” competitive advantage in certain markets. This objection was raised in Quebec, for example, for the targeted subsidies which facilitated the rapid growth of social economy eldercare home services. The response to this is that the subsidy is a way of recognizing the positive social externalities that come from the cooperative, nonprofit organization of production in the social economy. This is especially crucial in care-giving services in which the profit-motive is in inherent tension with the values of nurturance and care. The capitalist logic of meeting needs is that it is only worth doing when you can make a profit from doing so: I help you because it’s good for me. The social economy logic of meeting needs is other directed: I help you because it is good for you. The widespread existence of cooperative needs-oriented production of such services contributes positively to supporting a socio-cultural context that affirms these values. If this is indeed a positive cultural externality of needs-oriented production, then in the absence of a subsidy less of this public good will be produced. This provides a justification even within the economic logic of a capitalist market economy for a tax-based state subsidy to the social economy form of cooperative needs-oriented production.

2. Development of Social Economy Investment Funds. While state subsidies are crucial for the social economy, in the long term it is also important for the social economy itself to develop internal mechanisms for raising funds and directing them to innovative social economy projects. To the extent the social economy manages to have such funds, its capacity for autonomous growth would increase. In Quebec[?] in a limited way unions have contributed resources to create a social investment fund for this purpose. If the social economy is to expand to become a major source of employment and economic activity, then new financial instruments for social economy savings and investment need to be devised.

3. Governance through Associational democracy. At the dynamic center of the development of the Quebec social economy is an organization, the Chantier de l’économie sociale. It has been described by activists involved in the chantier as a “network of networks”. The membership of the board of directors of the Chantier includes representatives from networks of different kinds of cooperatives and nonprofit organizations, community development groups and a variety of the larger social movements. They are elected through an electoral college that assures direct representation of the diverse kinds of enterprises and groups engaged in social economy activities. The Chantier is basically a deliberative forum for problem-solving over social economy issues and has played a crucial role in new innovations. It is precisely the

30 Reference to Nancy Folbre’s analysis of carework.
31 This formulation of the contrast comes from G.A. Cohen’s essay, “Back to Socialist Basics”, New Left Review, XXXX
32 Details of the social investment funds for the social economy.
kind of encompassing association that enables the heterogeneous set of projects and organizations in the social economy to coalesce into an enhanced form of social empowerment.

4. **Participatory Democratic forms of organization.** The goal of enlarging the social economy is not simply that in and of itself this is a good thing because it contributes to improving the lives of people. The social economy is also one of the important pathways in the broader project of social empowerment in which the ultimate goal is broad social control over the economy. For this to occur, the social economy needs to be a setting within which solidarity and social cohesion is enhanced and broader notions of the collective good is practiced. This is one of the main reasons why cooperatives are such a central form of production in social economy activities: cooperatives affirm the emancipatory values of egalitarianism. More generally, a social economy organized along participatory democratic forms of governance is likely to contribute more consistently to the wider agenda of social empowerment.

**Potential Problems**

Two central problems face the expansion of the social economy as a pathway to increasing social empowerment: the problem of involvement in the social economy of inegalitarian, exclusionary associations in civil society, and the problem of the distortion of the social economy by capitalist market relations.

**Exclusionary associations**

Inherent in the construction of a social economy is the problem of potentially exclusionary and inegalitarian associations in civil society. Engaging in needs-oriented social production within the associational context of civil society is no guarantee of embodying the central emancipatory values of democratic egalitarianism.

In the United States there is a range of initiatives that satisfy the general conditions for the social economy and yet have at best an ambiguous relation to the emancipatory project of social empowerment. School vouchers are a good example of the problem. In a fully developed school voucher system, all parents are given a voucher worth a certain amount of money which they give to whatever school, public or private, their child attends. School choices function like a market where the money follows the students. Schools compete with each other for students. Good schools – the argument goes – will attract many students and thrive; poor schools will either improve under pressure or disappear. The competition of the market will do its magic and schooling will improve. In so far as the private schools are organized by associations in civil society – which is generally the case – a voucher system for funding education can be viewed as a way of channeling resources into the social economy.

In the American political and social context of the early 21st century, while the small existing voucher programs may help a few poor children exit disastrous schools, the broader
Proposal to universalize vouchers is supported primarily by anti-state conservatives who see vouchers as a way of undermining state-run education by transferring public funds from public schools to privately-run schools through the choices of parents. Since these proposals generally allow private schools to charge tuition on top of the voucher payments, this could ultimately become a state subsidy to high-priced private education. Also, since a majority of private schools are organized by religious associations, a voucher-based system for an educational system organized through the social economy in the United States would support religious associations often with extremely conservative social values.

There is no automatic way that a growth of state transfers, incentives and subsidies to underwrite the social economy can avoid these kinds of pernicious effects. It is crucial, then, that specific rules are instituted in the state support of social economy projects that ensure its universalistic and egalitarian character. This is one of the critical functions played by the chantier de l’économie sociale in Quebec: it is explicitly committed to democratic, universalistic and egalitarian values, and this systematically affects the way it coordinates the elaboration of the Quebec social economy. Whether or not this could happen in the United States, of course, would depend upon the strength of progressive political forces in shaping the rules under which such state support would operate.

Sam Bowles and Herb Gintis, in their book Recasting Egalitarianism in the Real Utopias Project, propose a radical egalitarian design for school vouchers, for example, that would mitigate some of these problems. Their proposal would institute a generous voucher system, but prohibit schools from “topping up” the voucher funds with any other source of funding – from tuitions, gifts, endowments, etc. This means that the vouchers cannot become a subsidy for expensive private schools for the rich. They also propose a system for having vouchers be worth differing amounts to schools depending upon the existing demographic characteristics of the students already in the school and the characteristics of the child with the voucher. The voucher of a poor child, for example, will be worth more to a school with lots of middle class students than to a school with mainly poor children. This creates incentives to schools to have a diverse student body. And finally, they propose a fairly strong licensing and monitoring procedure to insure schools receiving vouchers adopt certain broad curricular standards. The schools in such a system would retain a genuinely public character in the sense of publicly regulated standards and educational content, but would nevertheless be run in diverse and flexible ways by associations rooted in civil society. These rules would not eliminate all of the potential problems in a voucher system, but they would avoid its inequalitarian and exclusionary potentials.

Capitalism and the social economy


35 Bowles and Gintis are mainly concerned with reconciling equality and efficiency in their institutional designs. They believe that a certain amount of competition – in this case among schools for vouchers – enhances efficiency since it puts pressure on schools with poor performance to change. They are less concerned with the implications of alternative institutional designs for questions of collective power. In my judgment they underestimate the potentially destructive aspects of competition among schools and neglect alternative mechanisms for improving school “efficiency” (educational quality) through stronger forms of democratic participation in school governance. For a discussion of these points, see Erik Olin Wright, chapter in Recasting Egalitarianism.
The second general problem faced by attempts to significantly expand and deepen the social economy concerns its articulation to capitalist markets. Two issues are especially salient: the problem of competition with the capitalist economy, and the dependency of the social economy on capitalism for financial resources.

According to prevailing views, competition keeps individuals and firms on their toes, putting pressure on them to innovate and improve the quality and efficiency of what they do. Why should the social economy worry about competition from capitalist firms if in fact the social economy is a better way of proving certain kinds of services? Three issues are especially salient here. First, capitalist corporations are in a position to poach talented leadership from the social economy. Leaders in social economy enterprises often face challenging organizational tasks and develop highly valuable people skills. Where capitalist corporations can identify this talent, they are able to offer vastly higher salaries and drain off at least some of the most talented labor from the social economy.\footnote{This is a problem facing all sorts of non-capitalist organizations operating in a capitalist environment. Large corporations can offer much higher salaries to researchers than can universities, and this leads to poaching of professors by the private sector. In the Israeli kibbutzim, the temptation of much higher standards of living outside of the kibbutz for highly educated kibbutzniks is one of the forces which undermined the vitality of the kibbutz movement. In Argentina, in the 2002 economic crisis a large number of private firms were taken over by their employees and run as worker-managed firms, called “recovered enterprises”. After the crisis subsided and many of these firms tried to become formalized as worker-owned cooperatives, one of the problems for the most successful of these recovered enterprises was that private corporations poached the best managers with salaries orders of magnitude higher than in the original firms.} Second, capitalist firms can engage in forms of competition which undermine the social economy. Capitalist firms have greater access to credit than nonprofit social economy enterprises and are therefore generally more capitalized. They can offer more lavish, if also expensive, services and thus siphon off the more affluent potential consumers of social economy services, leaving the social economy to provide services for those least able to pay. Third, capitalist firms do not have to worry about generating positive social externalities of their market activities and thus they do not need to devote any resources to this objective, whereas such positive externalities are part of the core motivation for much social economy activity. This places capitalist firms in a competitive advantage within ordinary markets over social economy enterprises. Unless there are strong rules protecting the markets for social economy enterprises, therefore, capitalist competition will tend to erode their commitment to social economy principles.

Beyond the issue of direct competition with capitalist markets, the social economy is potentially distorted by its need to acquire financial resources from capitalism. If social enterprises take out loans from banks, then they have to generate sufficient income to pay the interest and eventually pay back the principal. If they seek capital investment from individuals and associations, then they need to offer a reasonable “rate of return”. Both loans and investments mean that social economy enterprises would have to behave more like capitalist firms, making decisions on the basis of expected rates of profit. The alternative, of course, is to seek subsidies, rather than investments, in the form of donations from private individuals and Foundations and grants from the state. Such grants potentially do offer greater autonomy for the social economy, but they also depend upon the willingness of political authorities and (usually) wealthy individuals to make these grants and donations and this leaves the social economy vulnerable to shifts in the political balance of power and the spending priorities of elites.
Chapter 7. Real Utopias II: social empowerment and the economy

What the social economy really needs, then, is some way for a significant part of its core funding to become unconditional and noncontingent. One institutional device for this is unconditional basic income.

UNCONDITIONAL BASIC INCOME

The basic mechanism

The idea of unconditional basic income has a long pedigree, but has recently been revived, particularly in European discussions. The proposal has come under a variety of names: universal basic income; demogrant; citizen dividend; negative income tax. While the details may vary, the basic idea as already described in chapter 1 is quite simple: Every legal resident of a country receives a monthly living stipend sufficient to live at a culturally defined respectable standard of living, say 125 percent of the “poverty line.” The grant is unconditional on the performance of any labor or other form of contribution, and it is universal – everyone receives the grant as a matter of citizenship right, rich and poor alike. Grants go to individuals, not families. Parents are the custodians of minority children’s grants.

The rationale

Universal basic income has several very attractive features from the point of view of radical egalitarianism. First, it significantly reduces one of the central coercive aspects of capitalism. When Marx analyzed the “proletarianization of labor,” he emphasized the “double separation” of “free wage labor”: workers were separated from the means of production, and thus were separated from the means of subsistence. The conjoining of these two separations is what forced workers to sell their labor power to obtain subsistence. In this sense, proletarianized labor is fundamentally unfree. Unconditional, universal basic income breaks this identity of separations: workers remain separated from the means of production (they are not themselves owners), but they are no longer separated from the means of subsistence (this is provided through the basic income grant). The decision to work for a wage, therefore, becomes much more voluntary. Capitalism between consenting adults is much less objectionable than capitalism between employers and workers who have little choice but to work for wages. By increasing workers’

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37 Basic income was the central concern of volume V in the Real Utopia Project, Redesigning Distribution: basic income and stakeholder grants as cornerstones of an egalitarian capitalism, by Bruce Ackerman, Ann Alstott, and Philippe van Parijs (London: Verso, 2006). For earlier discussions see Van der Veen and Van Parijs 1986; Purdy 1994; Van Parijs 1992; Standing, 1999.

38 There are technical details which differentiate some of the proposals under these various rubrics, but basically they all envision a mechanism for giving everyone without conditions an income.

39 Some egalitarians have objected to universal basic income on the grounds that it constitutes a form of exploitation of those who produce by those who live entirely off of the grant. Defenders of universal basic income argue that this is a misdescription of the process by which a surplus is produced and distributed in a complex society. For a discussion of this issue, see Elster (1986) and Widerquist (1999).
capacity to refuse employment, basic income generates a much more egalitarian distribution of real freedom than ordinary capitalism.\textsuperscript{40}

Second, universal basic income is likely to generate greater egalitarianism within labor markets. If workers are more able to refuse employment, wages for unpleasant work are likely to increase relative to wages for highly enjoyable work. The wage structure in labor markets, therefore, will begin to reflect more systematically the relative disutility of different kinds of labor rather than simply the relative scarcity of different kinds of labor power. This, in turn, will generate an incentive structure for employers to seek technical and organizational innovations that eliminate unpleasant work. Technical change would therefore have not just a labor-saving bias, but a labor-humanizing bias.

Third, universal basic income directly and massively eliminates poverty without creating the pathologies of means-tested antipoverty transfers. There is no stigmatization, since everyone gets the grant. There is no well-defined boundary between net beneficiaries and net contributors, since many people and families will move back and forth across this boundary over time. Thus, it is less likely that stable majority coalitions against redistribution will form once basic income has been in place for some length of time. There are also no “poverty traps” caused by threshold effects for eligibility for transfers.\textsuperscript{41} Everyone gets the transfers unconditionally. If you work and earn wages, the additional income is taxed, of course; but the tax rate is progressive, so there is no disincentive for a person to enter the labor market to acquire discretionary income.

Fourth, universal basic income is one way of socially recognizing the value of a range of decommodified care-giving activities that are badly provided by markets, particularly care-giving labor within families, but also within broader communities. While universal income would not, by itself, transform the gendered character of such labor, it would counteract the inequalitarian consequences of the fact that such unpaid labor characteristically is performed by women. In effect, universal basic income could be considered an indirect mechanism for achieving the “wages for housework” proposals by some feminists: recognizing that care-giving work is socially valuable and productive and deserving of financial support.\textsuperscript{42}

Fifth, a secure, unconditional basic income potentially would increase the collective power of organized labor, not just the freedom of exist of individual workers, and thus contribute to the broader agenda of social empowerment of popular social forces. This increased power of labor, of course, also poses a problem for the sustainability basic income, for the fear of such increased collective power is one of the reasons why basic income is likely to be strongly opposed by

\textsuperscript{40} The call for “real freedom for all” is the central justification for basic income proposed by Philippe van Parijs (19xx).

\textsuperscript{41} In standard income transfer programs designed to reduce poverty, recipients receive a cash benefit if their income falls below some threshold. This means that they lose their benefit when their income rises above this level. They are thus likely to end up economically worse off if their earnings rise to just above the threshold. This disincentive to increase earnings is called a “poverty trap.”

\textsuperscript{42} The net effects of universal basic income on gender inequality are ambiguous. On one hand, the grants go to individuals, not households, and this reduces inequality between men and women. The grants also provide income for unpaid care-givers, and this too will disproportionately benefit women. On the other hand, universal basic income could reinforce the gendered division of labor within care-giving, making it harder for women to resist pressures to assume full responsibility for such activities.
capital. If workers treated the basic income as an unconditional strike fund and used it to relentlessly raise wages, this could undermine the economic viability of the basic income itself by triggering disinvestment. However the increased working class power underwritten by a basic income need not be used merely for short-term economic gain; it can also be used to forge, as we will discuss in detail in chapter 10, what can be termed positive class compromise, which creates the conditions for a sustainable shift in the balance of class power.

Finally, universal basic income can be viewed as a massive subsidy to the social economy and the cooperative market economy. One of the main problems that collective actors face in the social economy is generating a decent standard of living for the providers of these services. This is, of course, a chronic problem in the arts, but it also affects efforts by communities to organize effective social economy services for various kinds of caring activities – child care, elder care, home health care. The problem of providing an adequate standard of living to members is also a chronic problem for producer co-operatives, especially in the early stages in which a co-op is being established and members are learning how to function, work out organizational details, and develop productive capacity. A basic income would make it much easier for a co-op to survive this learning phase and reproduce itself as an on-going economic organization. Basic income can thus be viewed as mechanism to transfer part of the social surplus from the capitalist market sector to the social economy, from capital accumulation to what might be termed social accumulation and cooperative accumulation – the accumulation of the capacity of society for self-organization of needs-oriented economic activity and cooperatively-based market activity.

Problems

Two issues typically are raised by skeptics of unconditional basic income: the problem of labor supply, and the problem of capital flight.

A universal basic income is feasible only if a sufficient number of people continue to work for wages with sufficient effort to generate the production and taxes needed to fund the universal grant. If too many people are happy to live just on the grant (either because they long to be couch potatoes or simply because they have a strong preference for non-income-generating activities over discretionary income) or if the necessary marginal tax rates were so high as to seriously dampen incentives to work, then the whole system would collapse. Let us define a “sustainable basic income grant” as a level of the grant that, if it were instituted, would generate a sufficient labor supply to provide the necessary taxes for the grant. The highest level of such grants, therefore, could be called the “maximally sustainable basic income grant.” The empirical question, then, is whether this maximally sustainable level is high enough to provide for the virtuous effects listed above. If the maximally sustainable grant was 25 percent of the poverty line, for example, then it would hardly render paid labor a noncoercive, voluntary act, and probably not reduce poverty dramatically. It, on the other hand, the maximally sustainable grant was 150 percent of the poverty level, then a universal basic income would advance the egalitarian normative agenda significantly. Whether or not this would in fact happen is, of

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43 Even a miserly grant might have positive anti-poverty effects by constituting a kind of wage subsidy to the low end of the labor market. Such a grant would function something like the earned income tax credit currently in place in the United States, or like a modest negative income tax, as proposed in the early 1970s.
course, a difficult empirical question to study and depends upon the distribution of work preferences and productivity in an economy.\textsuperscript{44} A generous basic income is likely to be more sustainable in countries that already have very generous redistributive welfare states, since the additional taxes would in such cases be relatively small, and in societies with strong work ethics and cultural norms of work participation, since in such cases a smaller proportion of the labor force is likely to opt out of labor market work entirely. Ironically perhaps, a basic income is also likely to be more sustainable in a society with a strong consumerist culture, since people in such a society are likely to have strong preferences for discretionary income.

Apart from the labor supply problem, universal basic income is also vulnerable to the problem of capital flight and disinvestment. If a high universal basic income grant significantly increases the bargaining power labor, and if capital bears a significant part of the tax burden for funding the grant, and if tight labor markets dramatically drive up wages and thus costs of production without commensurate rises in productivity, then a universal basic income could well precipitate significant disinvestment and capital flight. It is for this reason that socialists have traditionally argued that a real deproletarianization labor power is impossible within capitalism – that the necessary condition for sustainable high-level universal basic income is significant political constraints over capital, especially over the flow of investments.\textsuperscript{45}

As in the labor supply problem, it is very difficult to make meaningful projections to know how serious a problem capital flight would be under different levels of a universal basic income. What we do know is that a well-functioning, sustainable capitalist economy is possible in a country like Sweden in which taxation amounts to over half of the gross domestic product and over 75% of the labor force is unionized. If, in the early 20\textsuperscript{th} century before the rise of Swedish Social Democracy, someone had asked whether a capitalist economy would be sustainable with such high levels of taxation and working class organization, the answer would undoubtedly have been no.

**SOCIAL CAPITALISM**

The expression “social capitalism” refers to a wide range of institutional mechanisms and social processes through which social power rooted in civil society directly impinges on the exercise of capitalist economic power, especially in capitalist corporations. The most widespread example of this is, of course, labor unions. Unions are secondary associations and while they organize workers in the economy – in firms and labor markets – their main source of power comes from their capacity as an association to mobilize people for collective action, and in this sense they are also part of civil society. When unions are heavily regulated by the state and their roles in governance of economic power are restricted to collective bargaining over wages and limited aspects of working conditions, then the social empowerment enacted through unions is quite

\textsuperscript{44} It is very difficult to make credible estimates of these effects because they are likely to involve significant nonlinearities and dynamic interactions. It is thus very difficult to extrapolate from the effects of existing earnings subsidy programs to generous basic income grants, or even from low-level grants to high level grants.

\textsuperscript{45} See Wright (1994, Chapter 7) for an extended discussion of the argument that socialist institutions are a necessary condition for a sustainable universal basic income. I no longer think that my arguments in that essay are entirely compelling.
weak. But in some times and places unions have a much more expansive role and modify the functioning of capitalism in significant ways. They may have the rights to elect representatives on boards of directors of large corporations, as in the German system of co-determination, or they participate in various kinds of workplace governance and works councils.

In what follows I will not discuss the conventional role of unions even though this is an important aspect of social capitalism. Instead I will focus less familiar institutional proposals which attempt to create more democratic ways of directly controlling the allocation and use of capital. There already exist in capitalist societies large pools of capital that are controlled by public and quasi-public bodies. Endowments of public universities and pension funds of unions and governmental units are typical examples. Modest efforts occur, from time to time, for these kinds of capital pools to be used to impose social constraints on investment. Perhaps the best-known example was the concerted effort to divest university endowments from investments in South Africa during the apartheid period. From time to time, certain kinds of pension funds, have also vetted investments on the basis of some criterion of social responsibility. More radically, as we shall see, in the 1970s in Sweden Unions and the Left of the Social Democratic Party proposed that union-run wage-earner funds be used to gradually over time gain significant control over Swedish corporations. The proposal came under concentrated attack and was modified to such an extent that the final version lost these radical features.

The question, then, is whether a broad institutional redesign of the rules and practices governing such public capital pools would enable them to play a much more significant role in constraining capital, of imposing democratic direction and social priorities on accumulation. In particular, pension funds already constitute a vast pool of capital that could be used for these purposes, and the general trend of converting defined benefit pensions into defined contribution pensions is likely to increase the importance of such pools of capital in the future. Is there a way of organizing and funding such large pension funds, especially when they are organized by associations like unions, in such a way that they can be used proactively to discipline corporations and reduce the capacity of capital to escape public regulation?

A variety of strategies have either been adopted or proposed with the purpose of enabling people and associations to use capital funds to influence corporate behavior. Some of these have already been well integrated into the capitalist economy. Socially-screened mutual funds, for example, establish various kinds of ethical criteria for the purchase of stocks in corporations. Some of these are highly targeted to a particular kind of ethical concern such as excluding military firms or oil companies or tobacco companies from a portfolio. Others adopt a broader, ethically denser positive social screen by requiring that firms be certified as having high labor standards or environmental standards. These kinds of socially screened funds certainly make it easier for socially concerned people and associations to invest with a clear conscience, but it is a

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46 A “defined benefit” pension is one in which people know in advance how much income they will receive from their pension when they retire. Traditional social security in the United States is like this as was many pension plans in large corporations. A “defined contribution” pension is one in which the amount of pension you receive depends upon the specific contributions you make. Typically in such schemes there is choice over different kinds of mutual funds and other investment instruments, and the amount of income generated in the pensions depends both on the amount of contribution and upon how well these funds do in the market. The proposal for the “privatization” of social security consists of converting it from a defined benefit pension to a defined contribution pension.
matter of some debate how much real effect this has on corporate behavior. Skeptics argue that social screening might have virtually no impact on stock values of non-screened firms. On the one hand, screening could have negative effect on the stock price of non-screened corporations since the demand for their stock would be slightly less, but on the other hand, this would mean that those stocks would become better bargains for investors who don’t care about social screening, and this would increase the demand for such stocks. The net effect, the skeptics insist, is likely to be minimal, and thus social screening would not put much real pressure on “bad” firms. Defenders of social screening argue that even if the direct effect of ethical investing is small on stock prices, it does contribute to a changed set of cultural expectations about corporate behavior, and over time this could have a larger effect. Corporate practices are never simply driven by the ruthless, single-minded pursuit of maximum profits; they are also governed to some degree by social norms, and the existence of visible socially-screened investment funds contributes to strengthening the moral climate of capitalist behavior.

Here we will explore two strategies for democratic control over pools of capital that go considerably beyond social screening of stock portfolios. One of these – labor-controlled venture capital funds – exists in limited form in a few places, and the other – share-levy wage-earner funds – has been proposed, but not adopted. Both proposals, if adopted on a wide scale, would offer significant prospects for a direct impact of social power on the exercise of economic power.

**Labor controlled solidarity funds**

The Quebec Federation of Labour Solidarity Fund was begun in 1983 as a capital investment pension fund designed to provide direct investments in small and medium sized firms in Quebec. It has subsequently grown to one of the most important sources of equity capital in the province. The fund has a number of distinctive characteristics:

1. **The role of the Labor Movement.** The Quebec Federation of Labour directly manages and controls this fund and organizes the recruitment of individuals to contribute to the fund. Through the Solidarity Fund, the labor movement begins to play a role in the allocation of capital to different purposes. This is a critical aspect of the design of the Solidarity Fund as an instrument for social empowerment. While other kinds of associations in civil society could also, potentially, organized venture capital funds to serve the interests of their members, unions are in a unique position to place working conditions and capital-labor relations at the center of the social agenda of such investments.

2. **Social criteria for investment.** Before any investments are made, a “social assessment” of the workplace is conducted which involves “a meticulous examination of the operation of the enterprise with regard to: its employees, its style of management, the employees’ profile, the working conditions, the working relationships, the production, competition and respect for the

47 Give some citations to the debate on the impact of social screening.

48 The fund is primarily not used to buy stock on the stock market, but to directly invest in firms in the form of venture capital investments for new firms and what are called “private investments” in established “privately held” firms.
principal policies of the Federation of Labour, in particular as regards health and safety at work, and environmental laws.” Investments are only made in firms that satisfy this social audit.

3. **Working class investors.** The majority of individuals investing in the Fund – 58% – are union members. Part of the official Mission Statement of the Fund is to “Make workers aware of the need to save for retirement and encourage them to do so, as well as encourage them to participate in the development of the economy by purchasing Fund shares.”

4. **Volunteer worker representatives.** The process of enrolling people into the fund is done largely by voluntary workers, referred to as *Responsables Locaux* (local representatives) who enroll fellow employees in their own workplaces. The fund provides extensive education and training for these volunteer local representatives of the fund: “It is these (*Responsables Locaux*) who form the spine of the Solidarity Fund. Under the Fund over 2,240 volunteers [as of 2004] have received training, attended courses, taken part in the public actions of the Fund (i.e. meetings) and have become, in their work environment, the experts, the people who have a good knowledge of the operation of the Fund.”

5. **Long-term understanding of profitability.** Profit-making continues to be a priority in decisions about the use of solidarity funds. The funds are treated as a source of investment savings for retirement of workers, and the fund thus takes seriously the need to generate a reasonable rate of return. But the Fund is also committed to the idea that a secure retirement for its contributors depends on the health of the Quebec economy, and this depends upon a long-term perspective on economic development, job retention and job creation and support for strategic sectors. The focus of investment on small and medium enterprises is especially important. These are firms that a much more locally rooted and geographically immobile than large corporations. In the aggregate, they also provide more jobs than large firms. In the context of globalized capitalism, then, the vitality of small and medium enterprises is pivotal to a robust economic environment.

6. **Patient Capital.** The Fund places great emphasis on what it terms “patient capital” designed to give small and medium enterprises long time horizons in which to develop their market capacities. The 2007 Annual report of the Fund states: “Our success is based on expertise and patient capital. To help our partner companies meet the numerous challenges they face, we provide patient capital – capital that will truly allow them to carry out modernization or expansion projects and to boost their competitiveness…..[B]ecause of our mission and size, we can stand by our partners through tough times when they need the most support to carve out a competitive position or to grow.”

Henri Masé, the chairman of the board of directors of the Fund, explains this priority: “For us, investing is part of an approach to create collective wealth by focusing on quality jobs: those we can create and those we must preserve…. It certainly is no secret that I am against purely speculative investments, particularly those made by U .S. private funds. There is no medium- and long-term vision behind these strategies; the investors are not at

49 “Solidarity Fund: Labour-sponsored Solidarity Funds in Quebec are generating jobs”, *World of Work, No. 50*, March 2004, p.3

50 “Solidarity Fund: Labour-sponsored Solidarity Funds in Quebec are generating jobs”, *World of Work, No. 50*, March 2004, p.2

51 2007 Annual Report, Solidarity Fund QFL, p.13
all concerned with the survival of the companies in which they invest. Their sole interest is to
turn a quick profit. To be sure, we have nothing against seeking out attractive returns to increase
wealth, but not to the detriment of our social values or mission to create and protect jobs and
help grow the economy.”

7. Government Support. The Fund is indirectly and, in its early years directly, subsidized by the
government. Contributions to the Fund receive very favorable tax treatment in the form of tax
credits from both the provincial government and the federal government. When it was first set up
it received direct seed grants from the government to augment the amount of investment the
Funds were able to undertake.

8. Active involvement with “company partners." The fund is actively involved with the
companies in which it invests, which it refers to as its company partners, providing various kinds
of training and education for employees, and technical and marketing consultation for
management. It functions in part as a development agency and not simply a source of capital.
This close involvement in the partner companies reduces the risks that might otherwise
accompany the priority of the Fund in providing firms with “patient” capital.

9. Education functions. One of the purposes of the employee education programs is to educate
employees in its company partners in the basics of financial and economic processes so that they
better understand the nature of the problems their employer faces. As stated in the 2007 Annual
Report of the Solidarity Fund: “The economic training provided by the Fund is geared toward all
the employees of its partner companies, and springs from the Fund’s desire to contribute to their
growth. By counting on transparency and good communication practices between management
and employees of the companies receiving training, the economic training program seeks, among
other things, to establish a common understanding, from a financial perspective, of the issues and
challenges the companies face. In this way, everyone ‘speaks the same language’ and is better
equipped and mobilized to make suggestions that may help secure the company’s future while
maintaining and creating quality jobs.” 52 When combined with the emphasis on the social
assessment of firms, this is designed to increase the level of collaboration within firms between
employers and employees in solving problems.

In 1985, two years after it was founded, the Fund had assets of 14.3 million Canadian dollars,
just over 5,000 member shareholders and investments in 4 partner companies. In 2007 this had
grown to assets of 7.2 billion Canadian dollars, 574,794 members, and investments in 1,696
companies, making it a significant player in providing capital for small and medium enterprises,
accounting for nearly one third of all venture capital in Quebec. 53 Because of this success,
beginning in the early 1990s, solidarity funds along the lines of the QFL fund were started in
other Canadian Provinces. 54

Solidarity Funds are prime examples of social capitalism as a pathway of social
empowerment. Such funds do not challenge capitalism as such. Mostly they invest in ordinary

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52 2007 Annual Report, Solidarity Fund QFL, p.11
53 Annual Report 2003, Solidarity Funds QFL, p.3
54 Other labor sponsored funds include the Working Opportunity Fund in British Columbia, Crocus Fund Investment
Fund in Manitoba, and the First Ontario Fund in Ontario. Add to list?
capitalist firms, although they also provide equity investments for worker-owned cooperatives. Their investment strategy is to strengthen the competitiveness of firms within the Quebec economy, not to weaken Quebec capitalism, and to foster more collaborative relations between employers and workers through financial education and other devices, not to increase class antagonism. Social Capitalism is thus a hybrid form within which capitalism remains an essential element. But it is a hybrid within which social power has greater weight than within ordinary capitalist structures because of the pivotal role of the labor movement in running the funds and setting its priorities.

So far, even in Canada where Solidarity Funds are a significant institution, they constitute a relatively small part of total investment. There is no fundamental reason, however, why such funds could not be dramatically expanded. One strategy for doing this would be for the state to provide direct subsidies to such Funds rather than simply the current indirect subsidies in the form of tax expenditures. This is what the Canadian Government did when the Quebec Solidarity Fund was initially established, but such direct subsidies could be an on-going feature of state economic intervention. The rationale for the state providing seed money to the Quebec Labor Solidarity Fund is that in order to make the Fund an attractive place for individual workers to place their savings the fund needed to be large enough to have credibility, and seed capital allowed the Fund to cross this threshold. The rationale for on-going direct subsidies is that this would increase the capacity of the people of Quebec to control the long-term development of the Quebec economy by underwriting more systematically geographically-rooted small and medium enterprises as well as worker-owned cooperatives while at the same time enhancing the role of social power in the regulation of capital accumulation.

Share-levy wage earner funds

Solidarity Funds, as just described, are primarily a device for social power to influence the direction of development of small and medium enterprises and worker-owned cooperatives. Share-levy wage earner funds are device for labor unions (or potentially other civil society associations) to gain substantial control over the operation of large corporations. The institution was originally proposed in the mid-1970s by Rudolf Mediner, the prominent Swedish social democratic economist who was one of the key architects of the Swedish welfare state.

A share-levy system is based on a particular way of taxing corporations. In an ordinary corporate tax, corporations pay to the state some percentage of their profits in taxes, say 20% (the proposed rate in the Meidner plan for a share-levy). The remainder of the profits can be used

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55 The tax deductions people receive for contributing to solidarity funds constitute what is called a “tax expenditure” on the part of the government. In effect, if the marginal income tax rate on a person contributing to the fund is 20% and the person contributes $1000 to the fund, the person only pays $800, so, in effect, the additional $200 is an expenditure by the state. Tax expenditures have the special feature of not being visible forms of state subsidy, since they appear in the form of lowered tax revenues rather than explicit state allocations, and thus tend to be less vulnerable to political attack. They also have the property of allowing citizens to decide individually where some of their tax money goes rather than having this organized entirely by the state itself.

for reinvestment or distributed to shareholders as dividends. Such taxes are pretty standard in capitalist economies. A share-levy works quite differently:

1. **Payment of corporate taxes as new shares.** In a share-levy system, rather than pay corporate taxes in cash, corporations pay profit taxes in the form of *new issues of shares in the corporation* equal in value to the profit tax. This means that the tax has no effect on the immediate stream of income available to a corporation: it retains control over its entire profits. Instead, the profit tax takes the form of a tax on the wealth of the corporation calibrated on the basis of corporation’s profitability.

2. **Wage earner fund.** These shares are paid into a “wage earner fund” representing all employees in the economy and controlled through some democratic process. In Sweden the proposal was for the fund to be organized through a network of local and workplace funds largely controlled by the unions, but the fundamental principle is that the wage-earner fund is controlled by democratically accountable popular associations, and other associational arrangements besides unions would be possible.

3. **Status of shares in the fund.** The shares in the wage-earner fund confer all of the usual rights of shares – rights to dividends, rights to vote for the board of directors and in some circumstances the right to vote on company policies. These shares cannot, however, be sold; they become, in effect, inalienable ownership rights of the collective of wage-earners as represented by the wage-earner fund organization.

   The effect of the annual issue of new shares by corporations in order to pay the share-levy is to dilute the value of individual shares (i.e. because the number of shares increases, each share represents a smaller fraction of the total ownership rights in the firm). In effect, therefore the share levy constitutes a modest wealth tax on private shareowners.\(^57\)

4. **Dynamic trajectory of ownership.** Over time the accumulation of shares in the wage-earner funds would gradually shift control rights over firms from private share owners to these collective entities. Over a period of several decades what this means is that the effective control over corporations would gradually shift from private owners of shares to the wage earner funds themselves. Initially this would enable the wage earner funds to elect some of the members of the board of directors, but eventually this would result in majority ownership of the shares by the wage earner funds and thus their effect power over the corporations. Since the funds represent the broad population and are under democratic control, this trajectory constitutes an increasing socialization of the ownership rights in corporations. This need not mean that corporations would ever become entirely socially owned, for corporations could continue to sell shares on the open stock market which private investors could purchase. The fact that private investors would face a wealth tax on their share holdings does not necessarily mean that this would be a bad investment, any more than the fact that there is a property tax on real estate becomes a bad investment. What the share-levy does mean is that over time the power relations over corporations will shift heavily towards social power. This is accomplished without reducing the financial profits of corporations and their

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\(^{57}\) The share levy is a wealth tax in the sense that the dilution of share value the results from issuing the new shares is the equivalent of forcing wealth holders to give some of the shares to the wage earner fund. It is, however, a special kind of wealth tax: a wealth tax that requires a wealth transfer, not a wealth tax like a property tax on home owners that can be paid for by income.
capacity to invest those profits; what changes gradually over time is the balance of ownership rights over the use of those profits and over the policies of the management of the corporation.

5. Variations. There are many possible variations on this basic institutional design that could be adopted. For example, rules could be in place that the wage-earner funds can own no more than 51% of the shares in a company, giving the wage earner funds control over corporations but still allowing individual private investors to own shares. This would imply a hybrid ownership structure in which social ownership predominated, but capitalist ownership was still allowed. The organizational structure of the funds could also vary from the proposed Swedish model. In Sweden the wage-earner funds were organized as a network of regional funds and workplace funds. As described by Robin Blackburn: “A portion of these funds would go to an enterprise-level body run by the employees, who would thereby acquire a growing stake in their employer. But the bulk of the funds would be channeled to the regional network, representing local communities and trade unions.”

There are many other possibilities. There could be national level funds, regional funds, local funds, perhaps sectoral funds. The funds could be controlled by unions and labor federations, as in the Meidner plan, or by civic associations or special elected public boards.

A general plan along these lines was endorsed by the Swedish Labor federation in 1976. It triggered a massive hostile reaction by the Swedish capitalist class which launched a successful campaign to discredit it. There were dire warnings about how this would lead to capital flight, disinvestment and the collapse of the Swedish economy. While the union leadership supported the plan, the Swedish Social Democratic Party, lead by Olof Palme was at best ambivalent. The result was that the Social Democratic Party lost the first election in over forty years. Eventually in the 1980s a modified version of the wage-earner funds was passed, but it specifically blocked the possibility that the funds would result in shifting the effective control of corporations to these funds. In 1992 when the Conservative Party came to power even this modified wage-earner fund was dismantled.

The idea of a share-levy has been revived in discussions of pension reform, particularly in the work of Robin Blackburn. Blackburn argues that all developed capitalist economies face a future crisis in the delivery of adequate pensions for an aging population. As the dependency ratio increases – the ratio of people outside of the labor force supported by active workers – it will be harder and harder to fund adequate pensions on a pay-as-you-go basis through payroll taxes and income taxes on current workers. It would be better, he argues, to effectively pre-fund pensions through some kind of share-levy scheme. The central obstacle to this is the steadfast reluctance of governments to tax shareholding wealth: “It is a striking fact that while most

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58 Robin Blackburn, “Economic democracy: meaningful, desirable, feasible?”, Daedalus (get reference)


60 Robin Blackburn’s proposal to use a share-levy system to fund pensions was the centerpiece of a conference in the Real Utopias Project held in 2003. Two of the papers were subsequently published in the journal Politics & Society: Robin Blackburn, “”, and Ewald Engelen, “”. See also Robin Blackburn, Banking on Death or Investing in Life: The History and Future of Pensions (London : Verso, 2002) and “Capital and Social Europe,” New Left Review 34 (July - August 2005): 87-114.
governments are happy to tax the homes people live in, they all refuse to have any direct levy on share-holding wealth or to allow – as Meidner boldly imagined – social funds to exercise control over the large corporations.61

Solidarity Funds and Share-Levy Funds constitute forms of social capitalism that attempt to modify core features of property relations within capitalism in ways that push capitalism towards a structural hybrid within which social power has greater weight. Of these two proposals, the solidarity funds are more easily integrated into capitalism, since they can be instituted in piecemeal fashion on a small scale, and at least on a small scale they do not immediately threaten the power of corporate capitalism.62 The share-levy mechanism is inherently more threatening. If a share levy mechanism were established and stably backed by the state, this would create a new institutional equilibrium within which capitalist power would be diminished in the overall configuration of a capitalist economy. Depending upon the details of the design and its trajectory over time, this could even signal an equilibrium in which social power – democratic control over economic power – became dominant. This, of course, is why it was so stridently opposed by the Swedish capitalist class, which recognized that the share-levy proposal was a long-term threat to its class interests and class power. In the end, therefore, it was not politically achievable in the historical conditions in which it was proposed, and wherever it might be proposed in the future it will certainly encounter sharp opposition. But sharp opposition does not inherently mean unachievable. There may be unexpected circumstances in the future when this institutional strategy could become possible.

Possible section: Social movements for global labor and environment standards
Issue to stress: social capitalism across borders: transnational social capitalism
Ethical codes of conduct theme
Information monitoring
Key issue = creating institutions for effective monitoring and tracking
Intenational NGOs and this
Necessity of the state playing a role for standards enforcement

61 Robin Blackburn, “Rudolf Meidner, 1914 – 2005: A Visionary Pragmatist” [get reference from Web] Blackburn likens the reluctance of capitalist states to tax share-wealth to the unwillingness of the Ancièn Regime in France to tax the nobility prior to the French Revolution: “Increasingly, it seems, we live in a society like the French Ancièn Regime before 1789. Then the wealth of the feudal aristocracy was largely exempt from tax; now it is the holdings of the corporate millionaires and billionaires that escape taxation. Other signs reminiscent of the age of Louis XVI include the spirit of ‘après nous le deluge’, the reliance on lotteries, and the emergence of modern variants of ‘tax farming’ -- for example, laws which oblige citizens to pay their taxes (pension contributions) to commercial fund managers rather than to an accountable public body. But the taboo on effective taxation of corporate wealth is the most crucial sign of the reign of privilege.”

62 If solidarity funds were greatly expanded and received direct subsidies from the state rather than merely tax expenditures then they might be seen as constituting a greater challenge to capitalist power.
Chapter 7. Real Utopias II: social empowerment and the economy

COOPERATIVE MARKET ECONOMY

The oldest vision for an alternative to capitalism is the worker-owned firm. Capitalism began by dispossessing workers of their means of production and then employing them as wage-laborers in capitalist firms. The most straightforward negation of that dispossession was its reversal through worker-owned firms. In the 19th century the cooperative movement was animated by a strongly anti-capitalist ideology and constituted a central idea of the socialist currents that Marx derided as “Utopian Socialism” and subsequently became loosely identified with some currents of anarchism. Proudhon, one of the principle targets of Marx’s attack, saw workers cooperatives both as the cellular units of a socialist alternative to capitalism and as the centerpiece of the struggle against capitalism. In 1853 he described the principle thus:

“Mutuality, reciprocity exists when all the workers in an industry, instead of working for an entrepreneur who pays them and keeps their products, work for one another and thus collaborate in the making of a common product whose profits they share amongst themselves. Extend the principle of reciprocity as uniting the work of every group, to the Workers’ Societies as units, and you have created a form of civilization which from all points of view – political, economic and aesthetic – is radically different from all earlier civilizations.”

Such mutualist worker coops would cooperate with each other through a kind of voluntary federal structure which would facilitate coordination and joint action. Mutualism within production and voluntary federalism among productive units would form the basis of a new society within capitalism itself.

Marx had a quite ambivalent attitude towards this strategic vision. In the Communist Manifesto he derisively dismissed things like producer cooperatives as “little experiments, inevitably abortive.” In the Eighteenth Brumaire of Louis Bonaparte he sharply criticized the French working class for engaging in “doctrinaire experiments, exchange banks, and workers’ association” which in Marx’s eyes constituted a “movement which, having given up the struggle to overthrow the old world despite all the means at its disposal, prefers to seek its own salvation behind society’s back, privately, inside the narrow framework of its existence, and which will thus necessarily come to grief.” On the other hand, in 1864 in his Inaugural address to the International Working Men’s Association, Marx heralded the Co-operative Movement as a major achievement of the working class, of even greater significance than the passage of the ten hour law:

“But there was in store a still greater victory of the political economy of labor over the political economy of property. We speak of the co-operative movement, especially the co-operative factories raised by the unassisted efforts of a few bold “hands”. The value of these great social experiments cannot be overrated. By deed instead of by argument, they have shown that production on a large scale, and in accord with the behests of modern science, may be carried on without the existence of a class of masters employing a class

64 This account of Marx’s views of worker coops comes from Martin Buber, Paths in Utopia (Boston: Beacon Press, 1958 [1949]), chapter VIII.
65 Quoted by Buber, Paths in Utopia, p.84
of hands; that to bear fruit, the means of labor need not be monopolized as a means of
dominion over, and of extortion against, the laboring man himself; and that, like slave
labor, like serf labor, hired labor is but a transitory and inferior form, destined to
disappear before associated labor plying its toil with a willing hand, a ready mind, and a
joyous heart.”

Building worker’s cooperatives, therefore, became, for Marx, a legitimate element of socialist
strategy, although he continued to believe that they would be contained within relatively narrow
limits so long as capitalist power remained intact:

“To save the industrious masses, co-operative labor ought to be developed to national
dimensions, and, consequently, to be fostered by national means. Yet the lords of the land
and the lords of capital will always use their political privileges for the defense and
perpetuation of their economic monopolies. So far from promoting, they will continue to
lay every possible impediment in the way of the emancipation of labor…..To conquer
political power has, therefore, become the great duty of the working classes.”

Workers coops have continued throughout the subsequent history of capitalist
development, although today, with a few notable exceptions, they are mostly relatively small and
local operations. When they are successful, they often tend to evolve in the direction of more
conventional capitalist firms, hiring non-member employees as a way of expanding production
rather than enlarging the full membership of the producer coop itself. While many, perhaps
most, people who work as members in cooperatives continue to see them as an alternative way of
life to working in a conventional capitalist firm, for most participants they are no longer part of a
broad strategy for building an alternative to capitalism and are certainly not part of an organized
anti-system strategy as was the case in the 19th Century Cooperative Movement.

The basic properties of worker-owned cooperatives

Mention spectrum of forms – ESOPS, partnerships, etc. cooperative housing, cooperative stores,
cooperative marketing organizations, producer-cooperatives.

Two fundamental principles of worker cooperatives: worker-ownership and democratic self-
management. This, of course, can take many different forms. And actual organizations can
deviate from this as well – hybrid forms.

Worker-owned cooperatives

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66 Karl Marx, “The Inaugural address to the International Working Men’s Associations,” (1864) [get page number from some edition]
67 Karl Marx, “The Inaugural address to the International Working Men’s Associations,” (1864) [get page number from some edition]
68 Martin Buber notes that Marx saw the tendency for cooperatives to become ordinary firms was a significant
problem: “[Marx] clearly recognizes the danger of the Co-operatives degenerating into ordinary bourgeois joint-
stock companies, and even recommends the right remedy: that all the workers employed should receive the same
share.” (Buber, Paths
While all cooperatives worker owned and worker managed – this is what makes them cooperatives – the precise details of how this works vary quite a bit: direct democracy, elected management, rotating management, executive boards, etc.

A critical question, then, is what kinds of institutional designs might enable cooperatives to play a more central role as a pathway to social empowerment? One clue to this can be found in the strategy and development of what is generally regarded as the world’s most successful group of worker-owned cooperatives, Mondragón in the Basque region of Spain.

**Mondragón**

Begin with characterization of what it is today then trace brief the history.

What has come to be known as the Mondragón cooperatives began as a single cooperative firm, Ulgor, in the Basque city of Mondragón in 1956, producing paraffin heaters and gas stoves with 24 workers. In the years that followed, a series of new cooperatives were created. Perhaps most crucially, in 196X a cooperative savings bank, the Caja Laboral Popular was established. The Cooperative bank was formally linked to all of the other cooperatives and supported them by providing critical investment funds. As this complex of cooperatives grew they created additional cooperative organizations to provide a range of services and support on such things as legal matters and accounting for the producing cooperatives.

Discuss the development to MCC as replacing the bank as the pivotal coordinating association. MCC reducing the degree of local autonomy of constituent cooperatives. Erosion of democratic form.

and

Analytical points:
1. P/A problems minimized because of transaction costs, monitoring, normative integration
2. problems of heterogeneity and complexity
3. sources of “degeneration” – three sources model
3. globalization & cooperativism – designs for TNC cooperatives?
4. pivotal importance of associational networks and solutions: cooperatives of coops. MCC – from social capitalism to cooperative market economy

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69 George Cheney, *Values at Work: employee participation meets market pressures at Mondragón* (Ithica: ILR Press, 1999), p40
Chapter 7. Real Utopias II: social empowerment and the economy

varieties of worker ownership:

partial ESPOS to full ESPOS: worker share ownership, with property rights proportional to shares owned.

Full cooperative ownership.

Networks of cooperatives

Efforts at forming global networks – Just Coffee example

TWO MODELS OF COMPREHENSIVE SYSTEM TRANSFORMATION

All of the examples of social empowerment over the economy which we have explored focus on partial aspects of the relationship between social power and the economy. Taken together they might constitute a system-level transformation, but each example on its own only constitutes movements along a pathway of social empowerment. This is in keeping with the general framework for envisioning real utopias proposed earlier: rather than attempting to specify the design for the final destination, the strategy is to examine specific mechanisms which move in the right direction.

This is not the only way to approach the problem of moving beyond capitalism. Much of the 20th century was dominated by a sharp model of a comprehensive system alternative to capitalism: statist socialism with central planning. Few people give much credibility to that model any longer. Here we will look at two alternative system-designs that are responses to the inadequacy of centrally planned statist socialism. The first sees the absence of markets as the pivotal problem with centrally planned socialism, and thus proposes a model of market socialism as the alternative. The second sees bureaucratic centralism of planning as the core problem, and thus proposes a decentralized form of democratic participatory planning as the alternative. I think both of these models contain suggestive elements relevant to building a socialism of social empowerment, but neither constitutes a satisfactory stand alone model of an alternative to capitalism.

Market Socialism

John Roemer (1994, 1996) has proposed a theoretical model of market socialism that attempts to eliminate capitalist class relations while retaining almost intact market mechanisms of economic coordination. By socialism Roemer means a society within which capitalist exploitation has been eliminated and ownership of the means of production is held equally by all citizens. His central idea for socialism is thus different from the one I have proposed: whereas I define socialism in terms of the broad democratic control over the economy, Roemer defines it in terms of equal ownership of means of production. Nevertheless, his arguments are of relevance to the present discussion for two reasons. First, the equal ownership principle, if it were achieved, would be a significant advance in social justice as defined in chapter 2. Second, while equal ownership is not itself a democratic principle since it does not mandate any process of democratic control over the economy, nevertheless by eliminating concentrations of private economic power it considerably
enlarges the space of such democratic control. Roemer’s proposal, therefore, represents a quite different approach to the problem of democratizing the economy: rather than directly designing institutional mechanisms for enhanced social empowerment he proposes a mechanism for undermining the exercise of concentrated economic power, and thereby removing a critical impediment to the functioning of democracy.

In contrast to the traditional statist model of socialism, Roemer proposes a mechanism for distributing ownership equally which relies on a stock market and decentralized decision making rather than centralized bureaucratic administration. While the investigation is purely theoretical in the sense that no economy has ever been organized even partially in the way he proposes, it nevertheless attempts to specify the institutional design in a way that is attentive to our understanding of how various mechanisms work in actual market economies.

*The institutional design*

Imagine an economy with two kinds of money that we will call “dollars” and “coupons.” Dollars are used to purchase commodities, whether for purposes of consumption or production. Coupons are used in only one kind of market: the market for ownership shares of corporations. Shares are therefore denominated in coupons rather than dollars. Dollars cannot be used to buy shares, and dollars and coupons cannot be legally traded. Coupons also cannot be given as gifts (this is, in effect, selling them at zero price in dollars) or inherited. Everyone, upon becoming an adult, is given an amount of coupons equal to his or her per capita portion of the total coupon-value of the shares in the economy. With these coupons, people purchase shares in corporations, either by investing directly in the stock market or by delegating some intermediary – call it a coupon mutual fund – to manage their coupon investments on their behalf. The ownership of shares, then, gives people the usual rights of share owning in a capitalist economy – a right to a flow of dividends (which are in dollars and thus can be used to purchase consumption goods) and a right to vote for the board of directors and perhaps other corporate policies. At death, all of one’s coupons revert to the common pool, to be redistributed to the next generation. There is, again, no inheritance of coupons.

In only one circumstance can coupons be exchanged for dollars: Corporations, when they issue new shares and sell them on the stock market for coupons, take the coupons they acquire to the government run Central Bank and exchange these coupons for dollars, thus acquiring the ordinary commodity-buying money they need for new capital investments. The Central Bank determines the exchange rate between coupons and dollars. This becomes a pivotal policy tool for economic planning: if for public policy reasons, there was a desire to encourage investments in some sectors over others, the rates of conversion of coupons for investment dollars could be higher in the preferred sectors.

Most people, being risk-averse, will invest in mutual funds with relatively balanced portfolios, but some will invest directly in the stock market. Over the course of a lifetime, therefore, some people will become relatively coupon-rich and others coupon-poor. Nevertheless, inequalities in coupon wealth will be fairly muted because no intergenerational transfers are allowed, and because the dollar-poor cannot act on the temptation to liquidate their coupon holdings for cash. The proposal thus differs significantly from the share distribution schemes adopted in the 1990s to privatize former state socialist economies, in which there were
no constraints on the right of people to sell their shares for cash, and, as a result very quickly most people ended up with no shares and some with high concentrations.

The state plays a central role in this model, even though the state does not itself own the means of production. The state is necessary to enforce the “missing market” (i.e. to prevent the exchange of coupons for dollars), to organize the continual redistribution of coupons to each new generation, and to govern the conversion rate of corporate-owned coupons for dollars through the central bank. These interventions are essential to reproducing the egalitarian quality of the model and allocating capital efficiently, but they all involve articulating state activity to market mechanisms rather than supplanting markets by the state.

A full elaboration of a model of coupon-based market socialism would require a range of additional institutional details. For example, there needs to be some mechanism for dealing with small shops and firms that would remain privately owned, and some mechanism for converting private venture capital start-up firms into coupon-share public corporations. There would also need to be an elaboration of how the banking system would work, since people with high labor market earnings would presumably save part of their income in banks and banks would make loans to firms. The banking system thus could become a backdoor mechanism for unequal claims on corporate profits via interest rates on loans linked to savings assets. Obviously if a coupon-based form of market socialism were ever to be instituted in practice, such details would be important, and conceivably the viability of the institutional design might hinge on how well these practical considerations were dealt with. For our present purposes, however, we will bracket these complexities and examine the rationale of the central institutional device.

Rationale

Market socialism as modeled by Roemer has two fundamental rationales. First, coupon-based market socialism directly eliminates one of the central sources of inequality in capitalism, because inequalities in incomes derived from inequalities in investments would be greatly attenuated. Even if this left unaltered inequalities in labor market earnings, there would no longer be a strong tendency for inequalities in labor market earnings to be reinforced by inequalities in unearned income from investments out of high earnings. However, a radically egalitarian distribution of capital wealth probably would have an indirect impact on the inequalities linked to labor markets as well. While there is much debate on the determinants of inequality in labor market earnings, there is considerable evidence that this is significantly shaped by power relations, not simply the spontaneous forces of competition over skills in the market. One of the reasons that labor market inequality rose so dramatically in the US in the last quarter of the 20th century was due to the decline in unions and the weakening of constraints on corporations to push down some wages and increase the salaries of executives. If capital ownership was equally distributed in the entire population, the social forces arrayed against unions and other mechanisms of egalitarian labor market regulation are likely to be weakened. The equalization of capital ownership would not in and of itself change the distribution of labor

In a Marxian framework this also implies the elimination of most forms of capitalist exploitation, since capitalist exploitation rests on the exclusion of direct producers from ownership of the means of production.
market earnings, but dynamically it seems likely that inequalities in labor markets would be significantly reduced as well.

The second principal rationale for coupon-based market socialism centers on democracy. By eliminating high concentrations of wealth, market socialism enhances democratic equality in three ways. First, and most obviously, high concentrations of capitalist wealth constitute a resource that can be deployed politically. The potential for social empowerment over the state and the economy is enhanced when concentrations of economic power are eliminated. Second, and perhaps less obviously, dispersing share ownership so widely in the general population should make it much easier to balance priorities that people have as equal citizens in a polity with priorities they have as relatively equal owners of means of production. In a conventional capitalist economy, democratic decision making is highly constrained by the problems of capital flight and disinvestment when public policy measures have adverse effects on specific private capitalist interests. If ownership is fully and sustainably dispersed among workers and citizens, and if the mutual funds in which most people place their coupons are themselves democratically controlled by their members, then the threat of disinvestment and capital flight would greatly reduced. Market socialism would not completely eliminate economic constraints on democracy, at least not if competition on a global scale remains a feature of market economies. But it would reduce the pressures, because there would be such a close correspondence between the distribution of political votes over public decisions and “ownership” votes over investment decisions. Third, for an important range of public policies designed to reduce “public bads” (the opposite of “public goods”) like pollution, in existing capitalist economies concentrations of ownership create actors with both a concentrated interest in producing the public bad and a concentrated capacity to act on that interest. A coalition of wealthy owners in a polluting industry has an interest in and capacity for using their wealth as a political investment to block anti-pollution policies. Coupon market socialism, therefore, should increase democratic capacity to reduce these kinds of public bads.

Roemer’s institutional design can be considered a variety of “market socialism” – rather than simply a peculiar variety of capitalism – for two principal reasons. First, the state has a relatively high capacity for planning, albeit planning that works through market mechanisms. Democratically determined priorities for directions of economic development would thus have much greater play in coupon-based market socialism than in capitalism. Second, the exclusion of direct producers from ownership of the means of production – a central feature of capitalist class structures – has been largely overcome.

Potential problems

Coupon-based market socialism faces many potential problems of unanticipated incentive effects. How will risk-taking around innovations be managed? How will principal/agent problems between equal-owner stockholders and corporate managers be solved, given the extremely high levels of diffusion of ownership? To contend with such problems, coupon-based market socialism will need to develop an elaborate array of institutional devices for the system to function well, with the potential for many unintended consequences, incentive failures, principal/agent problems, and so on. To give just one example, as people age they will want to shift their coupon-based investments from shares in firms with strong growth potential to firms that pay out high dividends. This creates the potential for some firms to become “cash cows,”
where people invest their coupons in the firm in exchange for such high-dividend payouts that
the firms drain their assets until the coupon value of the shares drops to zero. In effect, this
would amount to an indirect device by which people would be able to exchange their coupons for
dollars, in violation of the basic logic of the model. Preventing this would require complex
regulations and apparatuses for monitoring firm behavior. The administrative structure of
coupon-based market socialism may carry many fewer burdens than was required of classical
centralized state socialism, but nevertheless involves considerable complexity. Because of such
complexity it is hard to anticipate what the broader ramifications and unintended consequences
of these arrangements might be.

Parecon: a non-market participatory democratic economy

CONCLUSION

This chapter has touched on only a selected number of proposals of institutional designs that
would increase social empowerment over the economy.