SHOULD RAWLS BE A SOCIALIST? A COMPARISON OF HIS IDEAL CAPITALISM WITH WORKER-CONTROLLED SOCIALISM

In section forty-three of *A Theory of Justice* John Rawls sketches an institutional arrangement which would qualify, he says, as just capitalism.[1] He also comments on the possibility of a liberal socialist regime satisfying his two principles of justice, and concludes that "the theory of justice does not by itself favor either form of regime. As we have seen, the decision as to which system is best for a given people depends upon their circumstances, institutions, and historical traditions."[2]

Rawls does not provide the details of his "liberal socialist regime." Had he done so, his conclusion might not have been so neutral. For it is possible to construct a socialist model which is decidedly superior to Rawls' ideal capitalism, superior in terms of the ethical commitments exhibited in *A Theory of Justice*. Such at any rate is the contention of this paper.

Our proof-strategy is to construct a model of democratic, worker-controlled, modified-market socialism, to argue its economic viability, and then to compare it with Rawls' capitalism. We will consider a series of objections to capitalism which can be phrased in terms of Rawlsian value commitments, and argue that our socialist model is less vulnerable to them than the Ideal Capitalism model. We conclude by observing that two arguments commonly made against socialism are not cogent with respect to the version we advocate.

The model we defend is important in its own right, apart from serving as a counterexample to a Rawlsian claim. "Worker-participation" has attracted considerable attention in recent years in both Western and Eastern Europe, and to a lesser extent in the United States. Case studies are now available, and there has developed a small but growing body of theoretical analysis. Though the conclusions of various researchers are by no means uniform, much is known now, empirically and theoretically, about the economics of worker-control.[3] Political philosophers would do well to take note, for the implications are significant.

The model we will present is of an ideal worker-controlled society to be compared with Rawls' Ideal Capitalism. It is not an idealization of any existing society. It most closely resembles Yugoslavian socialism—the most dramatic attempt to date at institutionalizing worker-control—but it diverges from the Yugoslavian model in several crucial respects which will be noted as we proceed. Our model should not be regarded as a timeless "best of all possible worlds." The viability and desirability of a particular socio-economic arrangement is conditioned by both the concrete productive capacities of society and the prevailing psychological dispositions. Neither of these factors is immutable. The model proposed here is compatible with the technological capabilities of advanced industrial societies, and does not depend for its viability on a general consciousness too far removed from that which exists today in such societies. On the other hand, it seems likely to me that the system proposed here, if adopted, would lead to a gradual change in capabilities, needs, and desires. And that in turn would render non-optimal a basic feature of our model, namely, the market mechanism, that feature so objectionable to the classical socialist tradition. Why the market is important now, and how it might "wither away" will not be discussed here, however. Our intent for now is to demonstrate the superiority of a viable socialist model to Rawls' Ideal Capitalism.

The Model

The model we wish to defend is a democratic, worker-controlled, market socialism.[4] We will concentrate on the economic organization rather than on the political, and will attempt to demonstrate its economic coherence and social desirability. We assume that the political structure will be democratic, with representative bodies at the community, regional and national levels. How these bodies will be selected, what their respective authorities will be, and how they will interact will not be specified. We assume, following Rawls, "that the basic structure is regulated by a just constitution that secures the liberties of equal citizenship. . . . Liberty of conscience and freedom of thought are taken for granted, and the fair value of political liberty is maintained. The political process is conducted, as far as circumstances permit, as a just procedure for choosing between governments and for enacting just legislation."[5]

The essential features of our model are these. Each productive enterprise is controlled democratically by its workers, who are responsible for the day-to-day operation of the facility. Thus they are responsible for the organization of the workplace, factory discipline, techniques of production, what and how much to produce, and the distribution of the net revenue. The state has three basic functions: to oversee (as will be specified below) the productive assets utilized by the enterprises, to control the bulk of *new* investments, and to provide the "free services" usually associated with governments (police and fire protection, health and welfare services, etc.).[6]

The economy as a whole functions as a market economy. Firms buy raw materials from other firms and sell their products to other productive enterprises or to consumers.[7] A firm's net revenue is the difference between total sales and total costs (including taxes and depreciation but *not* wages). How this revenue is distributed among the workers of the firm is a matter for them to decide. They may opt for equality; they may decide to remunerate the less interesting or more onerous tasks more highly; they may decide to reward those possessing highly useful but scarce skills with special premiums to keep them from looking for work elsewhere. Such decisions are made democratically, one person, one vote.[8]

Since a worker's income is determined by the firm's "profit,"[9] all have a material interest in organizing the workplace as efficiently as possible (commensurate with job-satisfaction), and in producing a product which will satisfy the wants and needs of consumers. "Deadweight" inefficiency of the type disruptive of Pareto-optimality should thus be avoided, at least with respect to product design and workplace organization.[10]

Though the workers control the workplace to a decisive degree, they do not own the means of production. These are owned collectively by society. This ownership expresses itself in the governmental authority to insist that the value of the capital stock be kept intact. Hence depreciation reserves must be maintained, and workers are not permitted to allow the social assets in their trust to deteriorate (in value) or to sell off the productive assets for personal gain. If a productive enterprise gets into economic difficulty, its workers are free to reorganize, to produce things other than they had been producing, or, as individuals, to leave and seek work elsewhere. They are not free, however, to sell off productive assets without replacing them with others of equal value.

Social ownership is also reflected in the government's power to tax capital assets. Taxes are designed to encourage efficient use of scarce capital goods, insuring that market prices reflect opportunity costs. This will equalize (to a degree) the per laborer return in industries of varying capital intensities, and will also aid the planners in selecting new investments. With such a tax structure, worker-controlled socialism should be reasonably efficient in organizing the workplace and in allocating the non-human factors of production.

The major difficulty with the system lies in the allocation of labor. This is not surprising since it is with regard to labor that our model deviates most radically from capitalism. The commodity character of labor-power is often attacked as one of the most objectionable features of capitalism, but it is precisely this commodity character that accounts for the degree of "efficiency" in labor-allocation attained under capitalism. When prices rise following an increase in demand, the capitalist expands production. In particular, he reacts by hiring additional laborers, thus shifting labor from where it was less efficiently employed to where it is more so.[11]

The same incentive-structure is not operational in our model. A rise in demand would be happily received by a worker-controlled firm, but it has little direct material incentive to expand production. It has some, since the addition of workers would increase the number who must bear the burden of the tax on the fixed assets; but there is the countervailing consideration that total profits must be shared among more people. Our model thus exhibits a structural difficulty which must be surmounted if it is to be economically viable, namely, the inelasticity of supply with respect to a rise in demand.

Certain arrangements are necessary to deal with this problem. We assume, as does Rawls, that an ideal society has a commitment to full employment; we follow Rawls in allowing the government to oversee this commitment.[12] One important governmental task in this regard is to make it clear to all that the refusal to employ people when demand is up not only conflicts with a societal commitment to [illegible] but also leads to inefficiency in labor allocation.

A price rise effected to curb a surge in demand ought to be interpreted by a socially responsible firm as a temporary compensation for the inconvenience of integrating new workers into the organization.

There are several reasons for thinking that worker-controlled firms might internalize this imperative. First of all, the cost to an established worker caused by the addition of new members would not be great. He would not find himself worse off than before the price increase, though he would not be as well off as he would be if production were not increased. Secondly, considerable moral pressure would likely be brought to bear on successful firms to expand production, particularly if their good fortune was fortuitous. Since the community is charged with overseeing the operation of its firms, profit figures and salary structures are a matter of public record. The community at large, not to mention officials responsible for maintaining full employment, would certainly try to persuade the more successful ventures to employ more people. The political authorities are not empowered to force a collective to expand, but their moral authority might not be insignificant.

A stick lies behind the carrot of moral suasion. The government controls the bulk of new investments.[13] Insofar as the profit/worker ratio in a given industry is substantially higher than average, there exists an incentive for investment in that area. This is not a punitive measure. It may well be the case that a firm has expanded to the reasonable limit of its physical or legal capacity.[14] If profits remain high, there exists a *prima facie* case for the establishment of more firms in that area. Potential profitability will certainly be one (though not the only) criterion for new investment.

It should be noted that the tendency of a worker-controlled firm to respond non-optimally to a demand increase is counter-balanced to a degree by its response to a decrease in demand. While the capitalist is quick to hire more laborers in response to the former (at least in theory), he is also quick to lay them off when demand declines. The human costs to the workers involved in this case are not insignificant.

A worker-controlled firm, in contrast, is slow to lay off workers unless they can find work elsewhere. The democratic process within the factory can be presumed to generate a sense of solidarity; in addition, decision-makers are not faced with long-term wage contracts. Thus, if production has to be cut back due to a decline in demand, the burden is likely to translate into wage and work reduction for all.[15] If the decline proves to be more than temporary, some members of the firm will presumably shift to more profitable enterprises, thus allowing the work and wages of those remaining to rise again.

Objections to capitalism, especially from the Marxist tradition, fall mainly into two categories: those against the commodity character of labor-power, and those against the "anarchy" of production. Worker-control of individual firms removes labor-power from the commodity category. State control of new investments is the feature of our system which addresses the second problem-source. Let us elaborate the investment mechanism, for it is a crucial feature of our model.

The society we advocate is a democratic society. It is not desirable, however, for a worker-controlled society, no matter how democratic, to provide for a popular vote on every new investment project. The sheer number of projects might make such a procedure unworkable; but more importantly, such a procedure would negate a major benefit of socialized investment—the conscious adoption of coordinated, coherent investment plan.[16]

Instead, the procedure we propose would be as follows. A certain quantity of funds, collected via taxation, are available to a region to finance new investments. A general plan is drawn up by a planning board (whose members are either elected directly or appointed by elected officials) which indicates the general lines of development: X% of the budget should go to developing new energy sources, Y% to new housing, Z% to expanding the production of personal consumer goods, and so forth.

People then come forward—individuals, collectives or representatives of existing firms—who want a share of the funds. They present specific proposals, each of which includes documentation of the economic feasibility of the project (e.g., market surveys, cost analyses, profit projections) and an explanation of its role in the comprehensive plan. These proposals are publicized, and public hearings are held to debate their merits. If certain projects are particularly controversial or involve the commitment of large quantities of resources, then a majority opinion will be ascertained, either by survey or by referendum. The planning committee than makes a final selection, and presents a coordinated plan to the legislative body, which either adopts it or sends it back for revision.

Our society thus provides for (and indeed requires) a number of "socialist entrepreneurs," individuals or collectives willing to

innovate, to take risks, in hope of producing new goods or services, or old ones in new ways. Their socio-economic status, and their resulting psychological dispositions are significantly different, however, from their capitalist counterparts.

First of all, the risks they take are quite different, for they risk, not their personal savings, but a portion of the social surplus. If a project fails, they do not pay back the government for their loss. Nevertheless, they do have a definite personal stake in the success of the venture. The self-esteem and prestige of the entrepreneurs will certainly suffer if the project fails, as will their income and that of the others they have persuaded to join with them.[17]

On the positive side the socialist entrepreneurs are variously motivated: the appeal of seeing one's "great idea" materialize, of providing a desirable commodity or service that is at present non-existent or in short supply, of providing better employment—better paying or more enjoyable—for oneself and one's comrades.

This motivational structure is quite different from that of the capitalist investors, who risk their own fortunes in hopes of great financial gain. The consequence of this difference will be among the matters investigated as we turn now to a normative comparison of the two systems.

Capitalism vs. Socialism: The Anti-Capitalist Arguments

Let us recall Rawls' sketch of a just capitalism. It is a free-enterprise economy supervised by four branches of government. The Allocative Branch is charged with keeping the economy competitive and with using taxes and subsidies to compensate for cases where prices set by competition do not accurately measure social benefits and costs. That is, it attempts to correct deviations from Pareto-optimality caused by monopolies and by "externalities." The Stabilization Branch works to maintain sufficient effective demand to insure reasonably full employment ("those who want work can find it"). These two branches are intended to insure an efficient market economy.

The other two branches are more directly concerned with justice. The Transfer Branch sees to it that no individual or household has an income below a "social minimum." It guarantees a certain level of well-being and honors specific claims of need. The Distributive Branch imposes inheritance and gift taxes to encourage a wide dispersal of property and to prevent concentrations of wealth, the power of which might be detrimental to the fair value of political liberty. It is also given general taxing powers to "raise the revenues that justice requires." Rawls favors a proportional expenditure tax to accomplish this end.

These are the basic institutions of Rawls' Ideal Capitalism.[18] To what extent do they mitigate the major objections to capitalism? Are there reasons for thinking that our model would be more effective than Rawls' in this respect?

The arguments against capitalism as an economic system can be grouped (exhaustively, I think) under the following headings:

(1) Capitalism promotes an unjust distribution of wealth.
(2) It is incapable of resolving the problem of unemployment.
(3) Through the sales effort, it generates a system of irrational wants and needs.[19]
(4) Capitalism dehumanizes workers at the workplace by arranging production, without workers' consent, so as to inhibit the exercise of imagination, creativity and control.
(5) Capitalist growth channels workers and resources into areas which have little relation to social needs or preferences. (The kind of growth is non-optimal.)
(6) Capitalism is oriented toward growth for the sake of growth, even when growth has undesirable social consequences. (The rate of growth is non-optimal.)
(7) It is an economic system which is inherently unstable, prone to recession and/or inflation in ways that socialism is not.

We will not present these arguments in detail here. Most are relatively well-known and have been discussed elsewhere. We will simply sketch the arguments and consider how they would apply to Rawls' model and to our own.

(1) According to Rawls, justice implies a *prima facie* commitment to equality. Material inequalities are permissible only if they work to the advantage of the least-favored members of society.[20] Inequalities are acceptable insofar as they provide incentives for achievement, the benefits of which accrue in part to the least-advantaged class.

Worker-controlled socialism is not a system of absolute equality, since incomes may vary from firm to firm as well as within a given firm. However, it differs from capitalism in one crucial respect; property income, the major source of inequality under capitalism, is absent. It is not possible for an individual to make money with his money. He cannot generate personal income by purchasing the labor-power of others. He cannot even supplement his income with interest accruing to his savings, since no interest is paid on personal savings, the latter not serving as a source of investment funds in our model.[21]

If our model is indeed economically viable and as capable of satisfying the material needs of the least-advantaged sector of society (this is a crucial hypothesis of course), and yet does not sanction inequalities due to property income, then property income would appear to be unjustifiable on Rawlsian grounds. Of course, the Distributive Branch of the government of Ideal Capitalism is supposed to correct the inequalities which deviate from the principles of justice, but the mechanisms at its disposal do not seem to be adequate. Inheritance and gift taxes are *post factum* responses to the problem. They allow inequalities to develop, and only subsequently do they attempt to correct them. Expenditure taxes have little effect, since wealth and the accompanying power accumulate through the reinvesting of income, not through expenditure on personal consumer goods. Income taxes work in the right direction, but they fail to discriminate among sources of income. It might well be to the advantage of the least advantaged to provide material incentives for the development and utilization of special skills and talents, but an analogous justification of property income—income derived from ownership of stocks, bonds, and so on—cannot be made, since investment funds (the provision of which is the rationale of property income) can be generated directly by taxation.[22] It seems inconsistent for a theory of justice grounded on as strong a commitment to equality as is Rawls' to remain neutral with respect to the choice of saving-investment mechanisms when one permits a large component of inequality that is absent in the other.

It is perhaps worth noting, parenthetically, how difficult it is to accumulate a large fortune in our model. To accumulate, say, a half-billion dollar fortune during a fifty-year working lifetime,[23] one would have to save ten million a year. Even a million would require saving $20,000 a year for fifty years. Why one would want to save so much is not clear, since in our model there is little to do with money other than spend it on personal consumption. Without private property one cannot legally purchase the power and prestige of productive wealth, nor can one avoid labor by "putting one's money to work."

To the objection that widespread inequalities continue to exist in countries that have abolished private property—the Soviet Union being the most conspicuous example[24]—we respond that we are talking about a democratic regime. The equalizing tendency of democracy is reflected even in a society such as our own, where large fortunes do not contradict the prevailing ideology, and large salaries are commonly accepted as essential to good management. Even in this society the salaries of top public officials are far from sufficient to allow large-scale accumulation. Politicians do not become rich by saving their salaries, but by dabbling, legally or otherwise, in the free enterprise system.

(2) Unemployment remains a perennial problem for capitalism. As Keynes has demonstrated, *laissez-faire* capitalism has no mechanism for insuring full employment. An equilibrium can obtain at any degree of unemployment.

Rawls appears to accept the Keynesian argument that suitable intervention provides the solution. Accordingly, his Stabilization Branch is charged with maintaining demand that is enough to insure "reasonably full employment." But in light of the unemployment-inflation dilemma that the Keynesian principles seem to generate, the capability of the Stabilization Branch to fulfill its mandate is thrown into question. The problem is rooted in the fact that full employment is not unequivocally in the interest of the capitalist class.[25] Too little employment is not good, for it is accompanied by decreased demand and political unrest. But neither is too much employment. Full employment undercuts factory discipline, curtails the capitalist's ability to expand production whenever he wants, and encourages workers to press for higher wages. Such a situation is not good for business, as business analysts frequently point out:

> Unemployment remains too low for the workforce to have flexibility. Anytime the jobless total is less than 2 million even common labor is scarce. Many employers tend to hoard skills. And certainly, the labor unions are in the driver's seat in wage negotiations. More workers can be had, to be sure. But at considerable cost. And they probably wouldn't be the skills most desired. There's no assurance against inflation like a pool of genuine unemployment. That's a blunt, hard-headed statement, but a fact.[26]

Under worker-controlled socialism there exists no class with a specific interest in maintaining unemployment. Unemployment cannot generate downward pressure on wages, for there are no wage

laborers. The material needs of unemployed workers must be provided for out of the taxes paid by employed workers, so they have no interest whatsoever in maintaining an "Industrial Reserve Army." Indeed, it might at times be difficult to provide jobs for everyone, but not in the systematic, structural way that is the case under capitalism. Given Rawls' commitment to full employment and his "greater-likelihood" principle of rational choice,[27] he should (in the absence of countervailing considerations) prefer our model of socialism to his Ideal Capitalism.

(3) A worker-controlled firm, like its capitalist counterpart, has a decided interest in maintaining demand for its product. Thus it has a motive for engaging in non-rational sales promotion.[28] The presence of this motive must be regarded negatively by a Rawlsian, since Rawls defines the good life as one that follows a rational plan. "It is one of the plans that is consistent with the principles of rational choice when these are applied to the relevant features of his situation, and . . . that plan among those meeting this condition which would be chosen by him with full deliberate rationality. . . ."[29] To be sure, a person can live a good life without actually choosing a plan with full deliberate rationality so long as his life plan is the one he would have chosen had he fully deliberated. But "goodness as rationality" would require that a negative value be attributed to institutions which make it difficult for one to deliberate rationally concerning his needs and desires. That is "goodness as rationality" is inconsistent with non-rational sales persuasion, particularly when the rational interests of the sellers bear no necessary connection to the rational interests of the buyers.

Since both rely on the market mechanism, both Ideal Capitalism and worker-controlled socialism are vulnerable to the abuse of non-rational persuasion. However, the latter might be less so. To start with, limitations on the size of firms restrict the funds available for large-scale advertising campaigns. Secondly, if our model functions according to design, a firm faced with a rise in demand hires more workers until incomes approximate their previous level. Hence a firm has little economic incentive to stimulate demand, for the individuals who run the firms cannot increase their long-range incomes by merely expanding the scale of their operation. They have a definite interest in maintaining demand, but not so much in increasing it.[30] Unlike capitalism, expansion of production in worker-controlled socialism under conditions of constant return to scale does not raise the income of anyone associated with the

(4) The tendency of capitalism to organize the work-place so that work is devoid of dignity, skill, and intelligence was emphasized by Marx and re-emphasized by Braverman.[31] When organizational decisions intending to minimize labor costs take into account the recalcitrance of a labor force which perceives its interests as different from management, the result is a radical subdivision of the labor process and the replacement of skilled workers by unskilled.[32]

A worker-controlled organization or reorganization proceeds differently. Here the profit to be maximized is the total revenue minus non-labor costs. Average workers have an interest in preventing any class of specialists from becoming so indispensable that they can demand substantially higher than average income shares. But they have, as well, a clear interest in raising the average level of skill as much as possible, both to make the work more satisfying and to take away the force of the demands of skilled workers for preferential treatment. On the other hand, they have no interest whatsoever in turning workers into automatons.

Rawls is well aware of the importance of skill development as a component of human well-being. He holds his "Aristotelian Principle" to be the basic principle of human motivation: "other things equal, human beings enjoy the exercise of their realized capacities (their innate and or trained abilities), and this enjoyment increases the more this capacity is realized, or the greater its complexity."[33] In view of the importance Rawls attaches to this principle it is curious that it does not enter into the "Original Position" deliberation, and thus does not manifest itself in his principles of justice. Nor for that matter does it figure in the construction of the institutions of Ideal Capitalism. As the model stands there is no reason to think that work satisfaction would be any greater there than in contemporary America:

> There are, of course, the happy few who find savor in their daily job . . . [but] for the many there is hardly concealed discontent. The blue-collar blues is no more bitterly sung than the white-collar moan. "I'm a machine," says the spot-welder. "I'm caged," says the bank teller, and echoes the hotel clerk. "I'm a mule," says the steelworker. "A monkey can do what I do," says the receptionist. "I'm less than a farm implement," says the migrant worker. "I'm an object," says the high-fashion model. Blue collar and white call upon the identical phrase: "I'm a robot."[34]

The spirit of this critique might seem unfair. One might object, "Granted, Rawls has not addressed the issue of work satisfaction, but it does not follow that it is impossible for Ideal Capitalism to deal meaningfully with this problem. Surely it is not obvious that it cannot."

A detailed consideration of this issue is beyond the scope of this paper, but a remark is in order. The empirical evidence that worker-participation in decision making enhances work satisfaction is quite strong. Blumberg, surveying the literature, concludes:

> There is hardly a study in the entire literature which fails to demonstrate that satisfaction in work is enhanced or that other generally acknowledged beneficial consequences accrue from a genuine increase in workers' decision-making power. Such consistency of findings, I submit, is rare in social research.[35]

Our model of worker-control gives workers maximal decision-making powers. Though a degree of worker-participation is not incompatible with capitalism, it seems unlikely that any capitalist system would allow as much participation as our model. The owners of means of production have good reason to maintain their authority since their interests do not always coincide with those of their workers, for example, when there is a genuine conflict between speed and efficiency on the one hand and worker-satisfaction on the other, or when workers begin to ask for a greater share of the company profits. Therefore it would seem that our model would be more likely to accord with Rawls' Aristotelian Principle than would any form of capitalism. Even if some efficiency were sacrificed for work-satisfaction, Rawls should prefer our model since he explicitly avows:

> It is a mistake to believe that a just society must wait upon a high material standard of life. What men want is meaningful work in free association with others, these associations regulating their relations to one another within a framework of just basic institutions. To achieve this state of things great wealth is not necessary.[36]

(5) The relationship between capitalism and growth is complex, and gives rise to many objections. If wealth is badly distributed, investment projects will be biased in favor of the wants and needs

of those who have the wealth. If investments are not coordinated, balanced growth, the most efficient utilization of resources, is unlikely. Growth is also plagued by "externality" difficulties, situations in which the social costs of production and consumption are not reflected in the market prices of goods.

Let us consider only one argument relating to the kind of growth generated by capitalism, one which focuses on a problem of consumption externalities not amenable to *ex post facto* remedy by Rawls' Allocation Branch. The problem, I believe, is quite serious for capitalism and for certain forms of socialism, specifically, those forms which allow investment initiative to remain in the hands of the firm (as in the case in Yugoslavia, for example) and/or to be governed solely by considerations of prospective profitability.

One of the assumptions essential to the argument that the market mechanism yields an optimal allocation of resources is that an individual's consumption is a private matter, affecting only that individual. This, of course, is manifestly untrue in a large number of cases. The decision of my neighbor to buy beer in disposable bottles has consequences which affect me: a rise in litter, a decline in natural resources available to me and to those I care about, an eventual increase in the cost of municipal waste disposal. The private decisions of separate individuals to buy automobiles instead of horse carriages changed the physical and social structure of this country for those who purchased the automobiles *and* for those who did not.

At issue here is something other than unforeseen consequences, a difficulty from which no social system can hope to be immune. Two points, really, are at issue. First, under capitalism the actual decision to allocate new investments in certain areas are made by people other than those directly affected. This is the case even under Rawls' Ideal Capitalism. Often we are not even aware of the decisions until after they have been committed to steel and concrete. Second, reliance on the market mechanism to confirm the viability of an investment decision is problematic even apart from the questions of advertising and wealth distribution. As Sen's "Isolation Paradox" demonstrates, the logic of a collective decision is quite unlike that of an individual one.[37]

Consider the following elaboration of the above example. When confronted as an individual consumer with the option of buying an eight-pack of beer in disposable bottles, I might well decide that the convenience is worth the bad consequences—the effect on the environment of eight more bottles. Confronted with the same decision in a political context, however, I might decide, without any inconsistency, that the convenience of disposable bottles is not worth the consequences, for the option now is a society without any such bottles.

It follows that a society of quite rational people, all of whom prefer a litter free environment to the convenience of disposable bottles, could find themselves inundated with bottles anyway *if* they allow the market solution, the unplanned outcome of free individual choices, to work itself out.

It is clear that the question, "Should X be produced?" might be answered differently depending on whether it is put before the collective for a vote or left to individuals to decide privately. The political solution allows for complete prohibition, while the market solution rarely does. Sen's Paradox adds the wrinkle that it might be the case that the market supplies X even when nobody, not even a tiny minority, preferred the production of X to a world without it.

Clearly, then, the market solution to an investment problem is not always preferable to a political solution. It does not follow that it never is. In circumstances where personal consumption has little effect on non-consumers, the case for the market is much stronger. If I wish to grow corn instead of wheat to satisfy a local demand, there would seem to be little reason for society to intervene. Putting the matter up for a vote should seem needlessly time-consuming. In addition, this procedure would risk the undesirable prohibition of corn, simply because the majority prefer wheat.

It is too often maintained that to choose socialism over capitalism is to choose majority rule over the market as the mechanism for resolving investment decisions. "Tyranny of the majority" is a common theme, especially among conservatives. However, in our model the problem is not posed in such terms. If there is a significant demand for a particular product, even if only by a small minority, then an investment proposal to meet that demand will appear economically attractive, and thus a good candidate for funding. Unless the proposal requires a very large commitment of resources, no regional vote is taken, although people who do object are provided with a forum—a public hearing—to make their case. But unless they can do so convincingly, the project will be funded.

On the other hand, the political community does have a decisive vote in determining the direction of major economic change, since this comes about by and large through investments of considerable magnitude. In addition, the community exercises this control before the actual commitment of laborers and resources. Our model preserves the advantages of the market in certain respects. Small-scale experimentation and the production of goods and services which affect only their consumers are likely to be funded primarily on the basis of projected profitability, the same criterion which determines capitalist investment. But large-scale expenditures—the expansion of a successful experiment or the channelling of social development in a specific direction—are likely to be scrutinized carefully for their social consequences. In this way, externalities can be identified and taken into account at the planning stage. In contrast to our model, Rawls' Ideal Capitalism is an unplanned economy that is vulnerable to the unplanned yet momentous consequences of private investment decisions.

(6) Investment and growth in any society require a certain "sacrifice" of leisure or goods in hopes of having more at a later date. People and resources must be channelled into areas not immediately productive. Under capitalism this investment rate, a key determinant of the growth rate, is the unplanned outcome of the individual decisions of those who have something to invest. It is not the decison of the populace at large; in short, it is not a democratic decision. Under worker-controlled socialism, on the other hand, investment funds come from taxes, and hence must be determined politically. Whether to invest more or less than last year will be a conscious political choice of the electorate.

Reading Rawls on the level of savings, a topic to which he devotes considerable attention, one is struck by the fact that he writes as if the level of savings (and hence the quality of investment funds) was the result of a democratic procedure. Consideration of this issue, in fact, leads him to the problem of democracy itself and the issue of civil disobedience. "Supporting . . . that the informed collective judgment of the present generation [concerning the desired rate of savings] is known under requisite conditions, it may be thought that a democratic view of the state does not countenance the government's interfering for the sake of future generations even when the public judgment is manifestly mistaken."[38] Rawls argues that this thinking is indeed correct. "[The government] is not authorized to nullify the views of the electorate as to how much savings is to be undertaken," though he insists that there is no reason why a democrat may not oppose the public will by suitable forms of civil disobedience.[39]

What Rawls seems to have overlooked is that his Ideal Capitalism has no mechanism whatsoever for allowing the electorate to express their opinion as to the desired level of savings. The only institution relevant at all is the Transfer Branch, which has the authority to set the "social minimum" standard of living. Setting this too high, Rawls observes, might have the effect that "appropriate saving cannot be made."[40] But this mechanism is, to say the least, extremely indirect. Lowering the social minimum permits greater inequalities to develop, and thus provides the upper income groups with increased opportunity to save. In no way does it determine how much of this increase will be saved. To say, or even to imply, that the decision of the Transfer Branch as to the appropriate social minimum is somehow equivalent to an expression of the electorate as to the appropriate level of savings is surely misleading. Since Rawls considers the level of savings an important question of social justice, and since he strongly suggests that a democratic decision procedure, though not infallible, ought to be employed, he ought not maintain neutrality on the question of capitalism or socialism—not at any rate in light of our model, for the latter, but not Ideal Capitalism, employs such a procedure.

(7) Let us consider two sources of capitalist instability. As Keynes has shown, "investor confidence" plays a decisive role in maintaining or upsetting stability. If (on account of over-production, discouragement over falling profit rates, inability to find investment outlets or some other economic dislocation) capitalists (in sufficient numbers) exercise their "liquidity preference" instead of reinvesting their profits, the specter of recession arises. A decrease in the rate of investment means layoffs in the construction and raw materials industries, which entail further reduction in consumer demand, thus generating the downward spiral.

The Keynesian analysis also suggests that suitable governmental action may stimulate lagging investor confidence, and thus mitigate its detrimental effects. This action is the responsibility of the Stabilization Branch of Rawls' Ideal Capitalism. Unfortunately it is not clear that the Stabilization Branch can always accomplish its task. While few economists dispute the contention that flagging investor confidence is damaging to the economy, there is less unanimity regarding the effectiveness of government intervention. This is especially so now in light of the disturbing implications of the inflation-unemployment combination of recent years.[41]

To the extent that the Keynesian remedies are defective, our worker-control model might prove more stable since "investor confidence" takes a very different form here. Under worker-controlled socialism there is no special class of people who have the option of "liquidity preference." The quantity of investment funds is determined democratically and collected via taxation. It might be the case that there are too few applicants for these funds, but then the government can either return the excess to the taxpayers (thus stimulating consumption), or use some of it to aid those industries most dependent on new investment (construction, and so forth). This aid would only be temporary (for if investment funds are not used one year, it is likely that less will be appropriated the next year), but it would give the industries more time to contract.

A second problem with capitalist stability is its expansionary dynamic. In a capitalist climate, defensive and offensive considerations make growth imperative. The profit of a firm (at least a large percentage of it) must be reinvested, for size means the power to act aggressively against competitors and to resist their threatening moves. On the other hand, reinvestment is scarcely a painful necessity to the individual capitalist. Investment increases one's real wealth, and with it one's power and prestige. Consumption has its rewards, of course, but so does investment, all the more so since it does not foreclose consumption but merely postpones it (if all goes well).

A very different incentive structure presents itself to the citizens of a worker-controlled society when they vote on the rate of investment tax. A vote to increase this rate is a vote to decrease present consumption (since taxes will go up) in order to provide funds for projects which will enhance the quality of life for oneself as an individual (since some of the funds will go toward increasing the quality and quantity of consumer goods) and as a member of the community (since some will go to the development of additional public goods). One's power and prestige *vis-à-vis* other members of the community will not be enhanced, although that of the community as a whole will be. The competitive relation between firms does not enter systematically as a motivation in this case because the collective decision to increase investment funds does not guarantee that the new funds will go to one's own firm. Some might, but some might also go to one's competitors. However, in no case is one's livelihood grievously threatened, since the worker-control provision and size limitations on firms block the takeover or destruction of one firm by another.[42]

A vote to decrease investments is

leisure, though at the cost of decreasing research and development which might provide goods or leisure later. The increase in leisure is felt immediately in those sectors of the economy (for example, the construction and research industries) dependent on demand generated by new investments. These firms must cut back production, and thus decrease the length of the working day (or week, or year, or whatever is democratically decided by the firm). If the fall in income is too severe to be compensated for by the rise in leisure, some workers will seek employment elsewhere in those firms not immediately affected. The workers in these firms, whose incomes have been recently increased by the tax cut, are in a position (and under pressure) to take on new workers. Consequently, the workload per person will decline in these industries as well.

The dislocation and movement of workers described above is similar to what occurs when capitalists, for whatever reasons, decrease investment. The socialist response compares favorably on two counts. First, the decline is a democratic decision, well-publicized, and therefore capable of being planned for by the firms to be affected. For example, they may choose not to replace retiring workers. Second, the usual response of a worker-controlled firm to a demand reduction would be to decrease the working hours for everyone, rather than, as the most frequent case in capitalism, to layoff part of the force.

If our analysis of motivational forces is correct, then capitalism has a strong tendency to maintain a high rate of investment regardless of the needs or preferences of the populace, since the tendency is the result of competitive pressures and the desire to make money with one's money. Our socialist system is considerably more flexible, especially since the option of increased leisure is more immediately available.

Now, so long as a high rate of growth is genuinely desirable, capitalism's growth imperative is not a serious problem. But when the high growth rate becomes problematic—as is being asserted with increasing frequency today[43]—our evaluation must change. If steady growth is a threat to ecological stability and is rapidly depleting irreplaceable raw materials, then an economic system that is internally structured to promote growth becomes increasingly "non-ideal."

Capitalism vs. Socialism: The Anti-Socialist Arguments

We have examined at length the arguments against capitalism and look at two standard anti-socialist arguments. We do this for the sake of completeness, since Rawls does not invoke them.

First let us consider the claim that capitalism gives maximal reign to free initiative. If we compare capitalism to our socialist model we see that both allow "entrepreneurs" to appeal to institutions for funds for new projects. Capitalism allows, in addition, the investment of one's own savings, but the significance of this difference is not so clear. No conclusion can be drawn from this about the relative quantity of capital available, since the people in our socialist country can decide on any level of investment by taxing themselves accordingly. Nor does personal investment, unmediated by bureaucratic institutions, comprise a significant share of the total investment outlay under capitalism. Small entrepreneurs usually borrow from financial institutions; the internal financing of large corporations is done via departmental interaction. It is not clear to what extent the bureaucracy involved in such transactions is less than that of a socialist planning board.

The difference might be significant; still it would have to be sufficient to counterbalance one distinct advantage of the socialist arrangement: anyone with a good idea can come forward and request funds. One need not have personal savings or even collateral. This should encourage more initiative than its capitalist counterpart, which entails high risk for small-business undertakings.

There is also far more room for individual initiative within a worker-controlled firm than within a capitalist one. With a direct and significant stake in the successful operation of the firm, and with a democratic forum to present their ideas, individual workers have both the incentive and the opportunity to initiate change.

The capitalist defense to these observations must be modified to claim not maximality but optimality. It must be maintained that individual initiative under socialism would be too greatly stimulated—too many people asking for funds will generate a bureaucratic quagmire, or too much democracy in the workplace will create inefficiency and chaos. This argument cannot be settled abstractly, nor is the empirical evidence conclusive. The Yugoslavian experience indicates that conflicts between democracy and efficiency sometimes arise,[44] but it also seems to indicate that these difficulties are not irresolvable. As to bureaucratic inefficiency due to the planning board, not much evidence is available because our proposal has not been implemented anywhere (to my knowledge) for an appreciable length of time.[45] There might be difficulties here,

perhaps the most serious in our model. However, it seems unlikely that they would outweigh the advantages of coordinated, democratically supervised investment.

Second let us now consider the classic "political" defense of capitalism, articulated most forcefully by Friedrich Hayek in *The Road to Serfdom*:

> It is now often said that democracy will not tolerate "capitalism." If "capitalism" means here a competitive system based on free disposal over private property, it is far more important to realize that only within this system is democracy possible. When it becomes dominated by a collectivist creed, democracy will inevitably destroy itself.[46]

According to Hayek, his argument depends on two crucial premises:

> (i) The various kinds of collectivism, communism, fascism, etc., differ among themselves in the nature of the good toward which they want to direct the efforts of society. But they all differ from liberalism and individualism in wanting to organize the whole of society and all its resources for this unitary end and in refusing to recognize autonomous spheres in which the ends of the individuals are supreme.[47]
> (ii) To direct all activities according to a single plan presupposes that every one of our needs is given its rank in an order of values which must be complete enough to make it possible to decide among all the different courses which the planner has to choose. It presupposes, in short, the existence of a complete ethical code in which all the different human values are allotted their due place.[48]

Neither of these premises happens to be true. Our model of worker-controlled socialism does not entail "organizing the whole of society and all its resources for a unitary end." In our model, the government has control over new investments, but not over the economy as a whole. We have argued that the disposal of the economic surplus ought to be decided democratically, since the manner of its disposal can substantially affect the lives of everyone. But the great bulk of economic decisions remains in the hands of individual consumers (what and how much to buy) and in those of the individual firms (what, how much, and under what conditions to produce). New investments will be subject to comprehensive, coordinated planning, but this does not presuppose "the existence of a complete ethical code in which all the different human values are allotted their due place." Major investment decisions—those which have considerable impact on the community or require a large amount of resources—would be subject to debate and would be decided democratically. Less important decisions would be made primarily on the basis of profitability. So long as the distribution of wealth is equitable and the long-term consequences of collective decisions are taken into account, profitability provides a reasonable index of social desirability. Projects must be approved by the planning board, but their discretionary powers could be restricted effectively either by custom or by law.

Curiously, our model suggests an evolution in quite a different direction from Hayek's "serfdom," toward something that looks rather like the "withering away" of the state. Since the state, in our model, controls new investments, its power is determined to a significant degree by the quantity of resources devoted to "deferred consumption." Now this might be quite high, particularly in developing countries, but as a country completes its industrialization it is not unlikely that the rate of new investment—if decided democratically—will decline. If this happens, the economic role of the central government will likewise decline. In a stationary state, where people are generally satisfied with the material standard of living, the government's role in the allocation of new investments might be quite insignificant.

Concluding Remarks

We have demonstrated, I believe, that worker-controlled socialism is more likely to accord with Rawlsian values than capitalism, even capitalism institutionally structured as Rawls himself recommends. It should be noted that we have not shown that capitalism is necessarily unjust. We have argued that a society structured along the lines of Ideal Capitalism is less likely to satisfy Rawls' two principles than one structured as we propose. Our case for worker-controlled socialism has also appealed to values considered by Rawls to be distinct from justice—meaningful work, efficiency, stability—but we have tried to document Rawls' own allegiance to these values. These latter arguments have likewise invoked the greater-likelihood principle.

If our analysis is correct, it follows that Rawls' assertion that "the theory of justice does not by itself favor either form of regime" is highly problematic. It can be accepted, I suppose, if one holds that an ethical theory cannot condemn a social formation unless injustice can be shown to inhere in it as a matter of strict necessity. But if one holds, as Rawls appears to, that a theory of justice includes a greater-likelihood principle, then his theory is not neutral, especially when interpreted as embracing virtues of social institutions in addition to his two principles. Rawls, it seems, should be a socialist.

NOTES

1. John Rawls, *A Theory of Justice* (Cambridge, MA: The Belknap Press of Harvard University Press, 1971), 274 ff.
2. Ibid., 280.
3. Jaroslav Vanek, ed., *Self-Management: The Economic Liberation of Man* (Baltimore, MD: Penguin, 1975) provides an excellent introduction to the literature.
4. We make no claim to decisive originality with our model, though certain details, particularly in the investment sector, are perhaps new. Economic models of worker-controlled socialism have been discussed with some frequency during the past twenty years. The first formal model was Benjamin Ward's, presented in his 1958 article, "Market Syndicalism," *American Economic Review* 48, 566–89. This model, sightly revised and considerably expanded, is one of the three major models discussed in Benjamin Ward, *The Socialist Economy* (New York, NY: The Philadelphia Book Company, 1967). The major American theoretician of the economics of worker-controlled socialism is Jaroslav Vanek, whose book, *The General Theory of Labor-Managed Economics* (Ithaca, NY: Cornell University Press, 1970) is an extensive technical analysis of a worker-control model in terms of the standard categories of neoclassical economics. A less technical treatment can be found in his companion piece, *The Participatory Economy* (Ithaca, NY: Cornell University Press, 1971).

   In this presentation I will avoid the neoclassical categories (I do not find them helpful—a prejudice perhaps), and attempt a straightforward, commonsensical analysis. I will not make as many simplifications as Vanek and Ward, for I am not aiming at mathematical theorems.
5. Rawls, 275. Our model differs from Yugoslavia in its political structure. Yugoslavia permits only one political party; freedom of thought is not taken for granted.

6. We will not analyze the free-service sector in detail, though it will no doubt be an important section of the economy. This sector will exhibit many of the features of the non-governmental sector. The individual departments, for example, will be worker-controlled to a major degree. However, they differ in one decisive respect—they will have to negotiate directly with a public authority for wages.
7. Some price regulation might be in order if the industry in question exhibits a significant degree of monopoly power. Vanek deems this instrument important and appropriate in certain circumstances. Cf. Jaroslav Vanek, "The Yugoslav Economy Viewed Through the Theory of Labor Management," in *The Labor-Managed Economy: Essays by Jaroslav Vanek* (Ithaca, NY: Cornell University Press, 1977), 54.
8. Obviously not every decision need be made by the entire body of workers. A special council or general manager (or both) will no doubt be empowered to make certain kinds of decisions. But these officials are elected by the workers of the enterprise; they are not appointed by the state or appointed by the community at large.
9. "Profit" here should not be confused with a capitalist's "profit." The latter is the difference between total sales and total costs, including labor costs. Socialist production does not view labor as a "cost," that is, as a factor of production formally indistinguishable from land, capital, and so forth. The economic organization reflects this conceptual distinction.
10. Pareto-optimality is a situation wherein nobody can be made better off without making someone worse off. Planning by physical quotas is notoriously non-optimal in this sense, often resulting in the production of goods that nobody really wants. Cf. Ota Sik, *Plan and Market Under Socialism* (Prague: M. E. Sharpe, 1967), 89, note.
11. The notion of "efficiency" has little ethical import in a society in which the structure of demand reflects an unjust distribution of wealth. But once the requisite background institutions have been established, a socialist society, no less than a capitalist one, must concern itself with the efficient allocation of labor.
12. Rawls, 276.
13. "New" investment is that financed by the tax on capital assets, not that paid for out of depreciation funds. Firms have complete control over the latter. (This feature of our model is a rather arbitrary way of allowing individual forms some autonomous control over investment decisions.)
14. Given our model's commitment to factory democracy, some sort of size limitation on firms seems reasonable. What that should be and how much "inefficiency" this might generate cannot be answered abstractly.

15. It might well be desirable to have this "solidarity" institutionalized. That is, a worker should be protected from arbitrary dismissal and from dismissal because of financial exigency. If profits decline, all should share the burden. Considerations of fairness and efficiency happen to coincide here, for should workers try to increase their capita income by shrinking the workforce, an inefficient labor allocation would result. (Cf. J. E. Meade, "The Theory of Labor-Managed Firms and of Profit Sharing," in *Self Management,* 401–14 for the technical argument.)
16. Actually, "investment plans" would be the more appropriate term, since we envision a hierarchy of plans, formulated by and dealing with specific areas—communities, regions, the nation as a whole. The central government would concern itself with those projects involving the nation as a whole, the regional government with regional matters, etc.
17. If this risk is too high to generate sufficient demand for investment funds, special provisions could be made: special training and technical programs for young people so included or (if really necessary), bonuses for successful ventures.
18. For further details, consult Rawls, 274–80.
19. This charge is variously articulated in terms of "false needs," "wants destructive of human fulfillment," and so forth. For a Rawlsian, who believes in "goodness as rationality" (395 ff.), the charge of irrationality is sufficiently condemnatory.
20. Rawls, 303.
21. It is well known that personal savings by all but the very wealthy is an insignifiant source of investment funds in modern capitalist societies. "According to all recent studies of the apportionment of income between consumption and savings, only the upper income groups save, the total savings of groups below the top decile are fairly close to zero," Simon Kuznets, *Economic Growth and Structure* (New York, NY: Norton, 1965), 263. Since investment funds are generated by taxation in our model, there is little point in paying interest on personal savings.
22. This difficulty is not amenable to simple reform. If a society relies on private individuals for its saving and investment—and that is the essence of capitalism—it must allow interest and profit to accrue to private individuals in order to insure economic rationality. It cannot offer property income as an incentive with one hand and tax it away with the other.
23. McDonald's hamburger entrepreneur Ray Kroc, ranked among the five richest men in America, is said to be worth over $600 million. Leading the list is Daniel Keith Ludwig (shipping and real estate) with $3 billion. *Newsweek* (August 2, 1976), 56 ff.

24. For an interesting account of Soviet practice, see Hedrick Smith, "How the Soviet Elite Lives," *The Atlantic Monthly* (December 1975), 39–51.
25. Michael Kalecki, who developed what is now known as the "Keynesian General Theory" independently of and simultaneously with Keynes, foresaw this problem as early as 1943. Cf. his "Political Aspects of Full Employment," reprinted in *A Critique of Economic Theory*, eds. E. K. Hunt and Jesse Schwartz (Baltimore, MD: Penguin, 1972), 420–30.
26. *Business Week*, May 17, 1952. Quoted by Paul Baran, *The Political Economy of Growth* (New York, NY: Monthly Review Press, 1957), 102.
27. "Suppose the aims which may be achieved by two plans are roughly the same. Then it may happen that some objectives have a greater chance of being realized by one plan than by the other, yet at the same time none of the remaining aims are less likely to be attained. . . . A greater likelihood of success favors a plan just as the more inclusive end does." Rawls, 412.
28. By non-rational sales persuasion we understand those techniques which deviate from the ideal of providing a customer with full and complete information regarding the service or object in question so as to enable him to come to a rational decision as to its desirability. For a virtuoso display of such techniques, consider an evening or two of American commercial television.
29. Rawls, 408.
30. Even if the expansion incentives operate imperfectly, our firms might not have much reason to stimulate demand. Members of a worker-controlled firm benefit from a demand increase provided it translates into a price increase. But ordinarily, the effect of advertising and other such practices is an increased volume of sales, rather than a price increase. It is not clear that an advertising strategy aimed at increasing prices but not sales volume could succeed very often.
31. Harry Braverman, *Labor and Monopoly Capital: The Degradation of Work in the Twentieth Century* (New York, NY: Monthly Review Press, 1974).
32. Braverman documents the theory and practice of such developments during this century. Whether or not Ideal Capitalism must feature such a lowering of labor skills will be considered below.
33. Rawls, 426.
34. Studs Terkel, *Working* (New York, NY: Pantheon Books, Inc., 1972), xiv.
35. P. Blumberg, "Alienation and Participation: Conclusions," in *Self-Management*, 234.
36. Rawls, 290.

37. A. K. Sen, "On Optimizing the Rate of Savings," *Economics Journal* (September 1961): 479–95.
38. Rawls, 295.
39. Ibid.
40. Ibid. 286.
41. Conservative economists have long been critical of Keynesian remedies. Cf. Milton Friedman's analysis in *Capitalism and Freedom* (Chicago, IL: University of Chicago Press, 1962), 75–84, which concludes, "Whether the views so widely accepted about the effects of fiscal policy be right or wrong, they are contradicted by at least one extensive body of evidence justifying them. They are part of the economic mythology, not the demonstrated conclusions of economic analysis or quantitative studies."
42. This is not entirely true. The funding of an automobile plant might destroy the buggy-whip industry. Provisions for the transformation of obsolete industries must be made by the planning board. Such adjustments might well be painful to some people, though they would seem to fare better under a system which attempts to foresee and cushion such adjustments than under one which does not.
43. "Club of Rome" members D. H. Meadows et al, present a highly controversial, apocalyptic scenario in *The Limits of Growth* (New York, NY: NAL, 1972). For a collection of essays from both sides, see *The Economic Growth Controversy*, Richard Aronson, Eli Schwartz, and Andrew Weintraub, eds. (White Plains, NY: M. E. Sharpe, 1973).
44. Cf. the comments of enterprise "direktors" concerning their relations with the workers' councils recorded in Richard Farkas, *Yugoslav Economic Development and Political Change: The Relationship Between Economic Managers and Policy-Making Elites* (New York, NY: Praeger, 1975), 26–29.
45. Yugoslavia experimented with various investment-plan procedures between 1950–65, some resembling our proposal. All these plans were abandoned. The political and economic reasons for this are complex, and do not permit an easy evaluation. Cf. Jan Vanek, *The Economics of Worker's Management: A Yugoslav Case Study* (London: Allen and Unwin, 1972), 65 f.
46. Frederick A. von Hayek, *The Road to Serfdom* (Chicago, IL: University of Chicago Press, 1944), 69–70.
47. Ibid., 56.
48. Ibid., 57.

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