Dr. Mato Gostiša

**Economic Democracy in the 21st Century**

Editor: Študijski center za industrijsko demokracijo, Kranj

December, 2016, Kranj, Slowenia

**Summary**

**About the concept of “economic democracy”**

The concept of “economic democracy” nowadays still lacks a unified meaning in academic and scientific literature. If we disregard certain wholly “utopian” ideas, which have not been given much attention, the understanding of the term presently extends along the following lines:

* identifying the concept with only one of the three forms of modern workers’ participation, i.e. participation in management or workers’ co-determination;
* associating economic democracy strictly together with workers’ co-ownership of financial capital, and idealising solely cooperative and other forms of internal ownership of a “democratically-managed company”;
* recognising the concept as inclusive of all three fundamental forms of workers’ participation (i.e. not only co-determination, but also workers’ involvement in profit-sharing or other business results, and internal ownership in the form of workers’ shareholding or workers’ cooperatives), but regarding it merely as a recommended “business measure” for achieving better business performance in contemporary economic conditions within the framework of unaltered socio-economic system;
* considering economic democracy in its most comprehensive sense, i.e.:
  + as a long-term vision of socio-economic development and an evolutionary path towards the desired condition of society, which is more economically productive, more socially just, more cohesive and at the same time more environmentally responsible, and
  + as (in its final stage) a wholly novel systemic paradigm of essentially still capitalist, but considerably more democratic socio-economic system, which, by its nature, will have nothing to do with socialism, let alone with existing “wage-labour” capitalism.

**Key points pertaining to the comprehensive idea of economic democracy**

*Distinctly deviant functioning of existing capitalism*

Contemporary capitalism, which quintessentially remains plain “wage-labour” capitalism as founded in the 18th and 19th century, is causing widely known and acknowledged ever more catastrophic economic, social and environmental implications (increasing social inequality and stratification, hyper-production and recurrent recessions, inability to assure further healthy economic development without ever increasing state intervention, aggravation of economic and social security of workers with accelerated expansion of precarious labour, carelessness towards environmental degradation etc.). This socio-economic system is thus becoming more and more deviant and is definitely not heading towards the desired economically productive, socially just, cohesive and environmentally responsible society.

In particular, the latest major economic crisis exposes that these are not merely “minor faults in the system”, which can be effectively dispensed with through different cosmetic improvements, offered by, say, our current economic academia and politics in the form of systemically benign structural reforms (the labour market, tax, monetary and fiscal systems etc.), but an actual “wrong” system, requiring a transformation in its fundamental predispositions. As soon as possible. It is inconceivable to achieve effective sustainable solutions with merely somewhat more (neo)liberal or somewhat more social market-oriented measures of economic policy, and without substantial interventions vis-à-vis the system itself.

*Misguided diagnosis as to the core issue of contemporary capitalism*

Planning of necessary systemic reform first and foremost requires the right diagnosis of the core issue of contemporary capitalism. It is exactly at this point that modern social science came to a halt and simply cannot find a way forward. It has been entrapped by the notorious theses (myths) of neoclassical economic theory, claiming that the essence of capitalism and its two fundamentals are private property and market economy, and that it is not possible to significantly reform the system without a substantial interference with these two fundamentals. Hence, the alternative can only be one or another form of socialism. However, since every attempt at socialism to date, with its pursuit to abolish private property, turned out to be economically imprudent in practice, it is now supposed to be definitively clear that existing capitalism (as allegedly the only probable paradigm of capitalism) is an “economically and democratically superior socio-economic system without competition or alternative”. And this is so despite all its negative social and environmental implications, which simply have to be taken on board in a market economy. They are to be dealt with by the so-called welfare state, while the fundamentals of capitalism are not to be interfered with, if we are to avoid another attempt at socialism. In short, existing capitalism lacks a viable systemic alternative and it is therefore futile to resort to such discussions.

On the face of it, this is a relatively logical proposition; however, it is basically entirely misguided. In contrast to teachings of neoclassical economic theory, it has to be established that the essence of such capitalism and the cause of its issues is actually neither:

* private property of means of production, which has existed since the downfall of prehistoric communities, nor
* the market or the market economy in general, which has played a significant role in economic history of mankind since the invention of forged money in the 8th century BC.

To be precise, both have already existed in times of slave ownership and feudalism and are no systemic invention of capitalism, which also means that, comparatively, they cannot represent the basis, fundamental characteristic and main issue of capitalism. It is definitely not so, and this was expressly proven by the aforementioned failed socialist attempts with their abolitions and systemic restrictions. It is not the market system itself and/or private property that form the essence and chief general feature of capitalism compared to preceding socio-economic systems, but rather a different, more advanced “entrepreneurial” mode of mass commodity production for the market. It is a mode of production, which has demanded an increased concentration of means of production (capital) and a high division of labour (also presupposing the “freedom” of workforce, irreconcilable with the previous feudal social order).

It is also not true that ownership of the means of production is the “fundamental relation of production”, as was claimed by Marx and was supposed to signify that ownership of the means of production (capital) of its own accord justifies appropriation of entire company profits, i.e. including the part of the residual surplus of labour output. Ownership is merely a proprietary relationship between individuals as to a thing, i.e. an estate, and not a relation of production. It merely gives title to a thing and enables its possession, use and benefitting from it (together with its “fruits”, but bearing in mind that profit is not nearly just a “fruit” of capital and enterprise of its owners, as these two factors of production are not capable of creating new economic value or “fruits” without involvement of labour), as well as freedom to dispose of it as is seen fit, but certainly does not accord the right to “manage” third party labour and to appropriate its results. A relation of production, on the other hand, is a relation between owners of two fundamental factors of production, i.e. labour and capital, regarding their common product creation and distribution, which is something completely different to a proprietary relationship. Relations of production can vary (even in conditions of private property over the factors of production), and they depend on every “social contract”, not property alone. They can, therefore, be absolutely equal, cooperative and non-exploitative.

In consequence, we are dealing with immensely grave scientific misconceptions (frauds?), which have, together with some other deeply rooted economic “myths”, unfortunately downright blocked modern social science in its search for potential systemic alternatives to existing capitalism. And as long as these are not shaken off, it will be impossible to find a way out from the present absence of ideas regarding the issue in question. Still, achieving this end will require a literally revolutionary transition in diagnosing the fundamental issue, and most of all also a breakthrough in terms of understanding that capitalism “in general” and “existing” (wage-labour) capitalism are two substantially different concepts. The latter actually represents the most extreme variation of capitalism, which turned labour (otherwise the only creative factor of production) into a market commodity and introduced market regulation into the stages of economic process (production, distribution) where the rules of supply and demand have no place whatsoever and are thus functioning distinctly anomalously.

In short, we urgently need a well-developed non-Marxist critique of existing wage-labour capitalist theory. At the moment we lack anything of the sort, as simply identifying the negative implications of the system is, naturally, not a "systemic critique" in the truest sense of the word. This is the only promising base for building a new theory of the socio-economic system. As long as we remain confined to numerous untruths and even inconsistencies taught by neoclassical economic and contemporary legal theory of wage-labour capitalism, it is unquestionably delusive to envision any new systemic socio-economic paradigm.

*The real crux of the problem is the “wage-labour” relation of production*

In addition to entrepreneurial mode of production, the only specific and at the same time the most “perverse” systemic invention of contemporary capitalism (thus also being its core problem, which would urgently need to be solved, one way or another) is, in truth,

* the so-called labour market as a sort of “quasi-market”, which does not even belong in a “real” market economy; and based thereon
* the “wage-labour”, i.e. plain exchange or sale-purchase relation between labour and capital or their owners (this, and not ownership over the means of production of its own accord, is the “fundamental relation of production” in contemporary capitalism).

Yet, neither one nor the other is even remotely close (and objectively never has been close) to being an indispensable, integral element to the entrepreneurial mode of production or a necessary condition for its effective operation within the market system based on private property. Only a diagnosis as such of the crux of the problem facilitates realistic opportunities for a meaningful discussion on potential viable alternatives to the paradigm of contemporary socio-economic system. Most of all, it becomes clear that in reality there is no need to “demonise” neither private property nor the market (except in the part of “quasi-labour market”), or to resort to one or another form of socialism in order to restrain or even abolish them. What for? Nevertheless, it is exactly this deadlock that we are constantly (and consciously) being directed towards by neoclassical economic and legal theory.

The labour market and the wage-labour relation of production are, namely, a result of early capitalism and social conditions of the time, when capital was an extremely “rare” economic good in relation to the multitude of uneducated and unemployed labour force, only just freed from the fetters of feudalism. The wage-labour relation of production, replacing the feudal relation, was considered under the circumstances as an ideal mechanism for preservation and even amplification of economic exploitation of labour by the owners of the means of production in the new, at the time objectively advanced mode of production. Still, if this relation of production could be understood and partially theoretically justified in conditions of early capitalism, it cannot under any circumstances remain feasible in contemporary, substantially different socio-economic reality of the 21st century – in the knowledge era and in times of a prominent rise of the significance of “human capital”, signifying something entirely different to classical labour force.

Not one single meaningful theoretical argument can be found today for further preservation of this obsolete relation of production, which puts labour into an absolutely subordinate position in relation to capital; quite the opposite. It is exactly this relation that (still) forms the core of grave internal systemic contradictions and effectively causes more or less every aforementioned economic, social and environmental anomaly in the functioning of our present socio-economic system. Even in strict economic terms, this relation is becoming increasingly counterproductive under contemporary circumstances. It is literally killing “engagement” (work motivation and organisational commitment) of the bearers of human capital, which is irrepressibly becoming the most important factor of production and the central competitive advantage of businesses. This consequently means that the entire socio-economic system based thereon is seriously slowing down further economic development and as such no longer deserves to be labelled as “economically superior”.

Contemporary capitalism can thus be necessarily reformed only through a transformation of this relation that has no place in present times, and not with a potential abolition of private property or the market, which have no adequate alternative even at the current stage of development of production forces. As long as modern social science fails to break through to this elementary discovery, it is illusory to expect any kind of meaningful reform of the socio-economic system.

*“Profit” motive and “ethical goals” motive of business*

The classical wage-labour relation of production is also the basis for the infamous “profit” motive of business, generating many systemic anomalies. The fact of the matter is that profit, which is nowadays often defined as the “goal” of business activity even by legislation, is in reality nothing more than income of capital owners. This makes it a predefined (sole) interest, which has to be followed by businesses and the economy as a whole. Its antipode would be the common “ethical goals” motive, supposedly characteristic of (the future) economic democracy, which follows the contemporary theory of corporate social responsibility and the stakeholder concept of interest-balanced corporate governance. The fact that businesses can run effectively and fully competitively within the market system even on the grounds of a healthy “ethical goals” motive is evidenced by, for example, modern cooperatives; then again, these are naturally not the only possible form of a “democratic company”.

The introduction of this contentious relation of production, which could undoubtedly be altered even under the capitalist entrepreneurial mode of production, is made possible institutionally, in particular by the present – economically and legally completely unacceptable – design of the capitalist enterprise as “legally personified capital” (without labour as its otherwise economically logical component), which purchases labour on the market for a wage representing its market price. This conception of the capitalist enterprise is similarly rooted in early capitalism and forms an integral part of the obsolete systemic mechanism of labour exploitation on the part of capital.

*The labour market as a typical quasi-market*

We can justifiably speak of the labour market as a quasi-market for the following reasons:

* the exchange on the labour market is neither free nor equivalent (workers are forced into the exchange for existential reasons, while their labour is paid through a wage, which is merely equivalent to their input and not their actual output, resulting in the occurrence of economic exploitation) and as such does not belong in a “real” market economy, but in fact defies the basic principles of the proclaimed “free market exchange”, rendering this quasi-market superfluous for the purposes of normal and unobstructed functioning of the market economy;
* labour in principle (even according to the renowned Declaration of Philadelphia from 1944) cannot be considered as a “market commodity”, as it is inseparably linked to the individual, and so if you sell labour, you actually sell a person (“fixed-term slavery”, as coined by D Ellerman, is therefore an admissible label for the wage-labour employment relationship), which implies that the labour market also effectively infringes on personal freedom and fundamental human rights;
* neither production nor distribution of product is an “exchange” by nature (market exchange does not create, nor does it distribute anything!) – production is by definition a process of creating new value in relation to complete mutual dependency between labour and capital, and accordingly it is only logical for the distribution to match actual contributions to the product by both co-producers.

To mention in passing: if the quasi-labour market is one of the key ingredients of contemporary capitalism, does that not render the latter as whole a “quasi-market” socio-economic system – in contrast with the entire (neo)classical economic theory?

As a result, it does not seem at all unusual that the system of socio-economic relations based on this quasi-market, which artificially and in contrast to the elementary logic of “reciprocity” of production divides the owners of both factors of production (co-producers) into “employers” (buyers of labour force) and employees (sellers of labour force) with diametrically opposite interests, functions as anomalously as it functions. The internal contradictions are growing stronger and in the 21st century such a system, having already lost all meritocratic logic, is literally bursting at the seams.

Nevertheless, the fact remains that the wage-labour relation of production is not nearly the only imaginable relation of production within the market system based on private property. It would be entirely possible to set up capitalism with a “cooperative”, i.e. fundamentally associative relation of production between the owners of labour and capital (and not exchange-based and objectively antagonist in terms of different interests).

*New socio-economic reality*

Ever since the emergence of wage-labour capitalism in the 18th and 19th century and up until this moment we have been witnessing tectonic changes in our socio-economic reality in terms of increasing significance of the so-called human capital and intellectual (human and structural) capital in comparison to financial capital in the production process. The “human capital” refers to knowledge and ability, creativity, work motivation and organisational commitment of employees, that is mental and emotional components, which are the defining characteristic of modern labour compared to classical physical labour force. This is why one can justifiably speak of modern labour in terms of a “manmade” factor of production, i.e. human capital in the truest sense of the word. And because this capital can only be effectively engaged together with individual’s “labour force” as the physical component of labour (“labour force” therefore representing an integral part of the notion of labour), the two terms should be considered synonymous. “Structural capital”, on the other hand, signifies permanent creations of human capital, such as know-how, a developed system of customer and supplier relations, specific organisational culture, intellectual property etc.

Intellectual – human plus structural – capital nowadays already constitutes on average around 85 % of the total market value of businesses and by that their actual “productive force” (even though it is not yet being registered in the balance sheets, which, by the way, does not mean that it does not exist in reality), whereas financial capital only constitutes around 15 %. It has to be noted that a few decades ago the ratio was the other way around. This ratio at the same time demonstrates the relation between actual contributions of modern labour or human capital and financial capital towards the jointly produced product, which should provide a basis for appropriate allocation of corporate rights to their owners.

If human capital has already been accorded the status of capital in the truest sense of the word, then according to the original capitalist logic their owners should be conferred the same corporate rights (governance, distribution of business results) as the present-day law grants to the owners of financial capital. Co-determination and participation in profits are therefore already momentarily indisputable “economic” or “natural” rights of workers, which should also be acknowledged by law as soon as possible. Especially so, because in the world of modern corporations capital ownership is becoming more and more detached from the entrepreneurial function, which has thus far been used to justify the exclusive right of owners of financial capital to business management and appropriation of business results. Even this process of distinction is one of the key features of the new socio-economic reality. Undertaking business risk, which is only one of the elements of entrepreneurship and which is no longer immanent to capital owners alone, does not justify such “exclusivity” with regard to corporate rights. The myth of “self-evident entrepreneurship” of capital owners is really nothing but a myth.

It is, consequently, downright paradoxical that in the 21st century we still maintain a corporate governance and business results distribution system, which is entirely based on ownership over financial capital, whereas the owners of the most important capital have effectively no decision-making power and are at the same time not involved in the distribution of the generated business results. This system therefore no longer has any real basis in objective socio-economic reality and is concurrently literally killing the “engagement” of bearers of human capital, thus directly slowing down further economic development. Contemporary capitalism has so become a complete systemic and economic anachronism.

*Pressing democratisation of the economic realm of society*

If we agree on the proposed diagnosis of the core issue of wage-labour capitalism and all its aforementioned (economic, social and environmental) deviancies, it clearly follows that this capitalism can only be fundamentally reconstructed (without resorting to any form of socialism) by way of

* immediately initiating a gradual exceedance of the “wage-labour” relation of production, i.e. through intensifying all forms of modern workers’ participation, and
* in the final stage, completely abolishing this relation (along with the “quasi-labour market” from which it originates) and substituting it with a cooperative or associative relation of production between owners of labour or human capital and owners of financial capital.

The future “democratic (cooperative) enterprise” would accordingly have to be founded as a “community of equal owners of human and financial capital”, where employees would exercise their equal position within the system of corporate governance and distribution of jointly generated product or profit on the basis of their ownership over human capital considered equal to financial capital. Simultaneous ownership of financial capital on the part of the employees is therefore not a prerequisite for the introduction of economic democracy where the relative corporate co-decision-making power and co-participation in business results is linearly proportional to actual contributions of both types of capital towards the product. Even human capital will eventually – with the advancement of the so-called human resource accounting – have to gain its place in company balance sheets, which will also enable a more realistic identification of said contributions.

This means that the objective of economic democracy is establishing a complete and universal equality as well as a balance of power between the bearers of both fundamental factors of production within the socio-economic system depending on their actual productive impact and merit for the jointly generated product; in other words, equality based on the principles of meritocracy. To sum up: the workers simply need to be salvaged from their present wage-labour position, while private property over the means of production and the market economy need to be preserved (except, of course, in the part of the “quasi-labour market”, which will automatically lose its function as the regulator of relations of production and distribution with the introduction of the new conception of enterprise). Since economic democracy is “the mother” of all democracies, this would logically also incite further democratisation in the political realm (superstructure) of society.

*The concept of welfare state is no (longer) an alternative*

The concept of welfare state based on arbitrary redistribution of income is outdated and ever more inefficient. Even if we disregard the latter, welfare state is not (and never has been) a systemic alternative to wage-labour capitalism, but has merely served to ease its negative social implications, without in any way encroaching upon its misconceived systemic foundations.

***Strategy and measures for implementing the fundamental objective***

The objective of establishing economic democracy, which will be a more economically effective, more socially just, more cohesive and an environmentally responsible system compared to the present wage-labour capitalism, naturally cannot be achieved over night, but should be developed through an evolutionary process, i.e. in two main stages.

*First stage of development of economic democracy*

In short-term, we would have to act immediately and maximise the development of all three fundamental forms of modern organisational participation of employees (co-determination, participation in profits, wider internal ownership) within the framework of existing capitalism, up to the point where it would become unfeasible due to systemic constraints. This is necessary, because the three fundamental forms of workers’ participation

* objectively already represent an “economic” or “natural” right of workers, which undoubtedly belongs to them on the basis of their ownership over invested human capital, but has merely not yet been legally acknowledged as a right;
* indisputably signify a partial exceedance of the classical wage-labour position of workers or, in other words, the first markings of economic democracy;
* positively affect business performance due to their motivational effects, as demonstrated by a body of research;
* would have to be implemented for any contemporary concept of corporate social responsibility and stakeholder corporate governance to be put into effect.

*Second (final) stage of development of economic democracy*

When the opportunities for further advancement with respect to evening out the respective corporate rights of workers and capital owners within the existing socio-economic system are objectively exhausted, the second (final) stage of development of economic democracy will have to fundamentally reform all the systemic institutions which directly determine and maintain the quasi-labour market and the wage-labour relations of production and distributions; in particular:

* extend the contemporary definition of capital to human capital (and intellectual capital in general) and institutionalise it accordingly in the company balance sheets, where it is not yet registered;
* change the contemporary conception of capitalist enterprise as “legally personified (solely financial) capital” along the lines of a cooperative company (i.e. community of equal owners of both labour and capital);
* consequently alter the conception of the wage-labour employment relationship into a cooperative and associative relationship between the owners of both forms of capital;
* lead towards a completely new model of “corporate (co)-governance” on equal footing and “(co)participation” of owners of both forms of capital in business results or their full “co-enterprise”, which will no longer be driven solely by the profit motive, but the wider, ethical goals motive, complying also with the principles of corporate social responsibility.

In this manner economic democracy will be effectively established as the new paradigm of the socio-economic system, in particular as a wholly “market-friendly and private property-based” alternative to both existing capitalism and different socialisms. It will be neither the “dictatorship of capital” nor the “dictatorship of proletariat”, but a (economic) “democracy” in the truest sense of the word.

A potential immediate transition onto the second stage of development of economic democracy is not possible mainly because the aforementioned formal recognition of intellectual (human and structural) capital in company balance sheets would beforehand demand a highly developed system of human resources accounting, which for now remains in its infancy. At the same time, the possibilities to maximise first stage development, i.e. the exercise of all three forms of modern workers’ participation, are far from being exhausted. This is, therefore, a long-term project, but one with a very clear vision of a future “democratic” order of relations of production and distribution between the owners of both fundamental factors of production.