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0521432235 - Markets and Democracy: Participation, Accountability and Efficiency

Edited by Samuel Bowles, Herbert Gintis and Bo Gustafsson

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The market does not spontaneously generate democratic or participatory economic institutions. This book asks whether a modern, efficient economy can be rendered democratically accountable and, if so, what strategic changes might be required to regulate the market-mediated interaction of economic agents. The contributors bring contemporary microeconomic theory to bear on a range of related issues, including the relationship between democratic firms and efficiency in market economies; incentives and the relative merits of various forms of internal democratic decision-making; and the effects of democratically accountable firms on innovation, saving, investment, and on the informational and disciplining aspects of markets. Various approaches to the study of economic interaction (game theory, transactions' cost analysis, social choice theory, rent-seeking, etc.) are considered in an attempt to understand the relationship between power and efficiency in market economies.

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Frontmatter

[More information](#)

Markets and democracy: participation, accountability and efficiency

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Frontmatter

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0521432235 - Markets and Democracy: Participation, Accountability and Efficiency

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Frontmatter

[More information](#)

Contents

<i>List of figures</i>	page xii
<i>List of tables</i>	xiii
Preface <i>Bo Gustafsson</i>	xv
1 Post-Walrasian political economy	1
<i>Samuel Bowles and Herbert Gintis</i>	
1 Introduction: new light on an old debate	1
2 Post-Walrasian democratic theory	2
3 Walras' fiction	4
4 Walrasian economics and post-Walrasian political economy	5
5 Varieties of post-Walrasian economics	9
Part I Agency, incentives, and democratic accountability	11
2 The democratic firm: an agency-theoretic evaluation	13
<i>Samuel Bowles and Herbert Gintis</i>	
1 Introduction	13
2 The employment relationship and contested exchange	15
3 Short-side power and democratic accountability	20
4 Market failures arising from contested exchange	21
5 The efficiency of the democratic firm in regulating work	27
6 Impediments to the success of the democratic firm in a competitive capitalist economy	31
7 Conclusion	34
3 Alternative employment and payment systems	40
<i>D. M. Nuti</i>	
1 Wage employment: fixed rate, subjection, and job insecurity	40
2 Permutations of the employment contract	40
3 Lowering the marginal cost of labor	40
4 Cyclical flexibility of earnings	42
5 Productivity enhancement	42
6 Overclaims	42
7 Profit, capital gains, and capital-sharing	43
8 Power-sharing	43
9 Job security	44

Cambridge University Press

0521432235 - Markets and Democracy: Participation, Accountability and Efficiency

Edited by Samuel Bowles, Herbert Gintis and Bo Gustafsson

Frontmatter

[More information](#)

viii	<i>Contents</i>	
10	Cooperatives	44
11	Meade's labor–capital partnerships	45
12	From dependent workers to part-time co-entrepreneurs	46
Part II	Institutions and institutional change	49
4	Toward a framework for analyzing institutions and institutional change	51
	<i>Leonid Hurwicz</i>	
1	Introduction	51
2	Mechanisms and adjustment processes	52
3	Institutions	58
5	Imperfect choice and rule-governed behavior	68
	<i>Ronald A. Heiner</i>	
1	Introduction	68
2	From imperfect choice to predictable behavior	68
3	Analytical tools for studying imperfect choice	69
4	Rule-governed plus information-ignoring behavior	75
5	Instinctive rules in non-human behavior	78
6	Dynamic rules and ethics in human exchange	80
7	Rule instability with sufficient intelligence	82
8	Agreement versus stability of social rules	83
9	Conclusion	84
6	Organizational equilibria and institutional stability	86
	<i>Ugo Pagano</i>	
1	Introduction	86
2	The New Institutional view of the firm	86
3	A “radical” inversion of the New Institutional view	89
4	Property rights/technological equilibria: a simple model	94
5	Generalization of the argument, drawing an “inverted” Williamson contracting scheme	103
6	Conclusion	110
7	Agency problems and the future of comparative systems' theory	116
	<i>Mieke Meurs</i>	
1	Introduction	116
2	Agency problems and comparative systems	117
3	Toward a new paradigm	123
Part III	Conditions for the success of the democratic firm	127
8	After the employment relation: problems on the road to enterprise democracy	129
	<i>Louis Putterman</i>	
1	Introduction	129

Cambridge University Press

0521432235 - Markets and Democracy: Participation, Accountability and Efficiency

Edited by Samuel Bowles, Herbert Gintis and Bo Gustafsson

Frontmatter

[More information](#)

	<i>Contents</i>	ix
2	Why capital hires labor, revisited	129
3	Conceptualizing the transition to democratic enterprises	131
4	The labor-managed economy: labor and product markets	132
5	Finance and property rights in capital	136
6	Participation, empowerment, and the workplace	138
7	Conclusion	144
9	Unions versus cooperatives	148
	<i>Karl Ove Moene and Michael Wallerstein</i>	
1	Introduction	148
2	Competitive capitalist equilibrium	149
3	Competitive equilibrium with workers' cooperatives	150
4	Capitalist equilibrium with collective bargaining	153
5	Bargaining rights versus property rights	155
10	Demand variability and work organization	159
	<i>David I. Levine</i>	
1	Introduction	159
2	Literature review	160
3	The model	162
4	Statistical evidence	167
5	Conclusions	174
11	Democracy versus appropriability: can labor-managed firms flourish in a capitalist world?	176
	<i>Gregory K. Dow</i>	
1	Introduction	176
2	Output choice, expected dividends, and organizational form	177
3	Investment incentives and organizational form	182
4	Evolutionary outcomes and welfare comparisons	186
5	Failures in the market for LMF membership	191
Part IV	Productivity, distribution, and power	197
12	Cooperation, conflict, and control in organizations	199
	<i>Avner Ben-Ner</i>	
1	Introduction	199
2	Definitions	200
3	Control as a consequence of incentives for cooperation and conflict	203
4	The exercise of ultimate control: organizational design	206
5	The allocation of ultimate control in organizations	210
6	Conclusions	212

Cambridge University Press

0521432235 - Markets and Democracy: Participation, Accountability and Efficiency

Edited by Samuel Bowles, Herbert Gintis and Bo Gustafsson

Frontmatter

[More information](#)

x	<i>Contents</i>	
13	Wage bargaining and the choice of production technique in capitalist firms	217
	<i>Gilbert L. Skillman and Harl E. Ryder</i>	
1	Introduction	217
2	The bargaining game	217
3	Bargaining outcomes and the firm's choice of technique	221
4	Discussion	224
5	Conclusions	227
Part V	Ownership, participation, and capital markets	229
14	The motivational role of an external agent in the informationally-participatory firm	231
	<i>Masahiko Aoki</i>	
1	Introduction	231
2	The value of participatory information-processing	232
3	The incentive difficulties of pure workers' control	236
4	The P-value-enhancing role of an external agent	241
5	Institutional remarks	244
15	Unstable ownership	248
	<i>Tone Ognedal</i>	
1	Introduction	248
2	The model	249
3	Instability	251
4	Restrictions on the trade with shares	256
5	Conclusions	258
16	The simple analytics of a membership market in a labor-managed economy	260
	<i>Ernst Fehr</i>	
1	Introduction	260
2	A legal structure for labor-managed firms	261
3	Demand and supply for membership rights	263
4	Membership adjustment and the shut-down condition	264
5	LMF-maximand, comparative statics, and turnover	267
6	Labor-market equilibrium and shock absorption properties	268
7	Membership markets for different types of labor	271
8	Differential income shares for identical workers	272
9	Summary and conclusions	273

Cambridge University Press

0521432235 - Markets and Democracy: Participation, Accountability and Efficiency

Edited by Samuel Bowles, Herbert Gintis and Bo Gustafsson

Frontmatter

[More information](#)

	<i>Contents</i>	xi
Part VI Political democracy and economic democracy		277
17 Investment planning in market socialism		279
<i>Ignacio Ortúño-Ortín, John E. Roemer and Joaquim Silvestre</i>		
1 Introduction		279
2 The economic environment		282
3 Constrained Walrasian equilibrium: a command-market-thought experiment		283
4 A generalization of Lange's idea		285
5 Direct provision of investment by the state		288
6 The sales-tax model		289
7 Conclusion		292
2* The economic environment		294
3* Constrained Walrasian equilibrium: a command-market-thought experiment		295
4* A generalization of Lange's idea		296
5* Direct provision of investment by the state		298
6* The sales-tax model		299
18 Capitalism and democracy: a summing up of the arguments		306
<i>Martin L. Weitzman</i>		
1 Introduction		306
2 Some definitions		307
3 Capitalism and socialism		309
4 Capitalism and democracy		312
5 Conclusion		315
Bibliography		316
Author index		335
Subject index		338

Figures

1.1	Enforcement of claims	page 9
2.1	The worker's choice of optimal work effort	18
2.2	Optimal wages and labor intensity	19
2.3	Socially optimal effort and risk-taking	22
2.4	The lens of opportunity for efficiency gains	23
2.5	The inefficient trade-off of monitoring and wages	24
2.6	The owner–manager relationship and the choice of risk	25
2.7	The borrower–lender relationship and the choice of risk	27
2.8	The gains from mutual monitoring	29
2.9	Efficiency gains in the democratic firm	30
2.10	Internal finance of the democratic firm	34
2.11	The optimal choice of effort and risk	35
4.1	Performance, realization and implementation	57
5.1	Two conceptual pathways for analyzing behavior	69
5.2	The global optimum	70
5.3	Rule flexibility	80
6.1	Williamson's contracting scheme	103
6.2	An inverted Williamson contracting scheme	104
6.3	A generalized Williamson contracting scheme	107
6.4	An inverted generalized Williamson contracting scheme	108
6.5	Technological equilibria	109
6.6	Property rights' equilibria	110
11.1	Surplus per unit of capital in state x	179
11.2	The labor participation constraint	180
11.3	Dominance relations and the price of LMF membership	188
12.1	The two-participant organization as a prisoner's dilemma	203
13.1	A detail of the multilateral bargaining game	220
14.1	Net information value and individual effort	242
14.2	A hybrid contract	243
15.1		254
16.1	<i>Per capita</i> income maximization in the Illyrian firm	263
16.2	The value of membership in a profitable firm	265
16.3	The value of membership in an unprofitable firm	269
17.1	The class of implementable investment vectors	281
17.2	Money flows in the Lange model	287

Cambridge University Press

0521432235 - Markets and Democracy: Participation, Accountability and Efficiency

Edited by Samuel Bowles, Herbert Gintis and Bo Gustafsson

Frontmatter

[More information](#)

Tables

3.1	The employment contract	<i>page</i> 41
10.1	Descriptive statistics	169
10.2	Indiana survey	171
10.3	GAO survey	172
10.4	Supplier survey	173

Cambridge University Press

0521432235 - Markets and Democracy: Participation, Accountability and Efficiency

Edited by Samuel Bowles, Herbert Gintis and Bo Gustafsson

Frontmatter

[More information](#)

Preface

If it were not for the hope that a scientific study of men's social actions may lead, not necessarily directly or immediately, but at some time and in some way, to practical results in social improvement, not a few students of these actions would regard the time devoted to their study as time misspent. (A. C. Pigou, *The Economics of Welfare*, 1932)

The contributions to this volume encompass a wide range of subjects pertaining to the analysis, understanding and evaluation of economic systems in regard to their structural as well as to their behavioral and evolutionary aspects: capitalism, socialism, institutions, rules, ownership, power, participation, agency, incentives, conflict, cooperation, productivity, and investment behavior. But it seems to me that the underlying common denominator is somehow related to the quest for an economic régime that is able to bring about an acceptable trade-off between efficiency and participation (democracy) in modern society. It may be held that this quest has seemingly been removed from the agenda as a consequence of the decline and fall of socialism in the world. But such a conclusion would certainly be premature, and for several reasons. In the first place, it is debatable whether the socioeconomic system in Eastern Europe had anything more in common with traditional images of socialism than collective ownership of the means of production and planning. Even these two attributes were very peculiarly designed in so far as the collective ownership implied, on the one hand, an almost total absence of links between individual effort and individual reward and, on the other, the rewards of collective effort were, to a great extent, appropriated by a totalitarian élite; while planning in effect had abolished all horizontal (market) relations between economic agents and was excessively centralized. Secondly, the historical conditions (economic development level, political culture, etc.) were so unfavorable for success that the attempt to skip capitalism and democracy was doomed to fail from the very start, a point which was made abundantly clear by prominent critics of Bolshevism even before the Revolution (by Plekhanov and others). Still, the demise of dictatorial state socialism in Eastern Europe has exposed socialist ambitions in general, and certain Marxist tenets in particular, to a rough test that hopefully has prepared the ground for a thorough reconsideration of the conditions for a viable modern economic system. One of those conditions is certainly the existence of markets for labor as well as for means of production and consumption, not only because of the information carrying capacity of markets but also, and more important, because of markets' capacity to structure incentives and cater for social needs

Cambridge University Press

0521432235 - Markets and Democracy: Participation, Accountability and Efficiency

Edited by Samuel Bowles, Herbert Gintis and Bo Gustafsson

Frontmatter

[More information](#)

xvi Preface

(two points which were underestimated or even neglected in the early market-socialist tradition). Another condition is the existence of well-functioning property rights (private, cooperative and social) that permit economic agents to capture rewards from their efforts and thus give them incentives to make rational decisions and permit long-run time horizons in economic action. A third condition is that a viable modern economic system needs not only enterprises but also entrepreneurs, who are willing, capable and motivated to create new combinations (innovations) and not just react “correctly” to given information; without such entrepreneurs any economic system will at best remain stationary. A fourth condition is that a collectivism that goes too far and encroaches on fundamental individual interests is self-defeating and gives rise to extreme ego-centered behavior; from which it seems to follow that there must always be some appropriate mix of individual and collective decision-making in an efficient economic system. A final condition is that if collectivism (socialism) has a future, it must have some tangible positive importance in the everyday life of the individual members of society.

These considerations, as well as other, more far-reaching ones, have motivated some people to conclude that modern capitalism does after all represent the best possible option, particularly with regard to efficiency and participation. Since capitalism is outcompeting alternative economic régimes it must, so one argument goes, surely meet fundamental human requirements better than those alternative régimes. In this social-Darwinist argument, existence is taken as an indication of superiority. This may be true as far as it goes, but it does not go very far. It does not demonstrate any necessary and sufficient conditions for the assumed superiority; it implicitly assumes that capitalism as an economic system represents not only an *optimum optimorum* but also the final stage of human economic performance; and it sidesteps those problematic aspects of the capitalist system which now and again give rise to criticism as well as plans to reform it: first and foremost persistent unemployment; inequalities of wealth, income and power; a deficient supply of basic social services; and promotion of competitive as opposed to cooperative motives in the operation of society. If the argument includes a plea for some form of far-reaching welfare capitalism, which modifies negative effects and supplements what is missing, it carries much more force and cannot easily be disposed of. Still, even the most advanced cases of welfare capitalism, such as the Scandinavian varieties, have not solved the problems generated by ownership and control of firms leading to differences in capacities and opportunities for participating in those firms as well as in society (wealth, status, control over information, etc.). Furthermore, the experiences of the 1980s seem to show that the achievements of the welfare society are not permanent.

If we take a very long view, it may be maintained that modern history has been characterized by the parallel growth of democracy and efficient capitalism and this observation is not entirely wrong. In comparison with earlier modes of production capitalism did indeed foster a mobilization of initiative and participation on a mass scale and notwithstanding setbacks, democracy has

Cambridge University Press

0521432235 - Markets and Democracy: Participation, Accountability and Efficiency

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Frontmatter

[More information](#)*Preface* xvii

increasingly gained ground since it was ushered in by the French and the American Revolutions. From this some people have concluded that democracy is caused by capitalism and that democracy cannot exist without a capitalist economic system. But correlation is not causation. It may well be that democracy has been victorious not because of but in spite of capitalism (defined as a market economy combined with wage labor) and that democracy and capitalism in fact are essentially incompatible. This was the traditional conservative view as expressed by Justice Story in the early nineteenth-century and almost echoed verbatim in the twentieth-century by the socialist Wigforss, Minister of Finance and architect of the Swedish welfare state, who wrote:

General suffrage is incompatible with a society divided into a small class of property owners and a large class of non-owners. Either the rich and the property owners will abolish the general suffrage; or the poor, by means of the suffrage, will appropriate a share of the wealth.

The fact that capitalist economic régimes have coexisted with very many different kinds of non-democratic political régimes should also make us careful in hypothesizing any necessary link between capitalism and democracy.

Ideally we are in search of an economic system, which combines the flexibility and vitality of modern capitalism with full employment, extensive participation in decision-making, a more egalitarian distribution of income and wealth in firms, and promotion of values oriented toward cooperation and solidarity between people. It may be argued that it is impossible to devise an economic system capable of meeting these requirements simultaneously, either because the goals are inherently contradictory (competition and innovative activity versus cooperation and solidarity, flexibility and change versus full employment, etc.); because some of them are contrary to “human nature as we know it” (Frank Knight, 1921); or because self-interest is the only reliable motivation in mass cooperation (Mandeville’s dichotomy of “private vices—public benefits”). At the same time it is clear that different sub-sets of the social system do interact and that, in this interaction, the economic system occupies a crucial role. A society based on big private corporations owned by an élite fosters sets of behavior and values that differ from those found in a society based on some kind of generalized and collective property ownership. With this in mind, the task of devising an economic system capable of meeting several contradictory requirements remains. But at the same time it reduces itself to more manageable proportions and opens up a possibility of alternative solutions depending upon what precisely we want to achieve and what we want to take as constraints on the solution. It may well be, as suggested by several contributions to this volume, that labor-managed firms could become the core structure in the search for a superior solution to the trade-off between democracy and efficiency in the economic system. At the same time these contributions make abundantly clear that this institution does not represent a “magic wand” capable of solving all problems. On the one hand such firms may transform the relationship between labor and capital to the benefit of labor; they may extend democracy to one of the most important spheres of

Cambridge University Press

0521432235 - Markets and Democracy: Participation, Accountability and Efficiency

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Frontmatter

[More information](#)xviii *Preface*

human existence – the working life; they may make income and wealth more egalitarian; they may foster values of cooperation and solidarity; and they may even be more productive than capitalist firms. On the other hand, they may be more reluctant to innovate and more resistant to structural change; they may be less inclined to make risky and long-term investments; and they may be less flexible in their reactions to market signals than capitalist firms. Other aspects of a labor-managed economy are still not much discussed. Will there be big differences in income and wealth levels between firms? Can we take for granted that the transformation of large sections of the working population into competitive entrepreneurs will not extend rather than diminish values focused on competition? And we know next to nothing about the stability properties of such a system.

Nonetheless, the contributions to this volume shed new and important light on many key aspects of labor-managed firms. Other contributions provide frames of reference for analyzing not only such firms but also economic systems in general. On the basis of this, Samuel Bowles and Herbert Gintis have made a bold attempt to outline the elements of a post-Walrasian political economy, which not only represents a challenge to the substance of the standard neoclassical model but also “appears likely to foster some fundamental rethinking about the structure of economic theory itself and its relationship to empirical studies and to neighboring disciplines.”

It is up to the readers of this volume to judge if, how and to what extent its contributors have succeeded in this attempt. For my part it is quite clear that the thrust of argument in this volume is wholly in line with the objective of SCASSS, namely to promote advanced interdisciplinary study in new and progressing areas of social science research.

This volume has been made possible thanks to the generous financial support afforded the SCASSS research program, “Property Rights, Organizational Forms and Economic Behavior,” by the Tercenary Fund of the National Bank of Sweden.

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Advanced Study in Social Sciences (SCASSS)*