

### DEBATE ON THE TRANSITION TO WORKERS' MANAGEMENT IN THE ADVANCED CAPITALIST COUNTRIES

*After the Second World War, co-determination was introduced in the Federal Republic of Germany and various forms of co-determination spread to other advanced capitalist countries. In the last decades, efforts have been made to further develop workers' participation in management. The debates on how to move towards genuine workers' management are particularly frequent in France, Italy, Denmark and Sweden. In the latter two countries, trade unions have already prepared programmes for gradual socialization of productive capital. Our journal is opening its pages to evaluations of these efforts and to an international discussion of ways and means on how to speed up the transition process. In the last issue, Richard Murray, our Swedish correspondent, evaluates the possible consequences of the Swedish proposals. In the present issue, Branko Horvat explores general problems involved in the transition while Rudolf Meidner and colleagues, the authors of the Swedish proposal, summarize the current state of the debate in their country. Derek Jones, our British correspondent, undertakes an extensive evaluation of the recent British proposal concerning industrial democracy.*

### PATHS OF TRANSITION TO WORKERS' MANAGEMENT IN DEVELOPED CAPITALIST COUNTRIES

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»The carrying of Universal suffrage in England — wrote Marx in 1852. — would ... be a far more socialistic measure than anything which has been honoured with that name on the Continent. Its inevitable result, here (in England), is *the* political supremacy of the working class.«<sup>2)</sup> Exactly forty years, later his friend and collaborator, Friedrich Engels, remarked in a letter: »During forty years Marx and myself have been tirelessly repeating that the democratic republic for us is the only political form in

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<sup>2)</sup> K. Marx: »The Chartists«, *New York Daily Tribune*, 25th August, 1852.

which the struggle between the working class and the class of capitalists may first become universal and then be completed together with the decisive victory of the proletariat.)

Today, i.e., a century later, all the developed capitalist countries have long ago established universal suffrage. Most of them are republics, and those which are not are occasionally more democratic than those which are. In England and Germany, the two countries referred to by our authors, workers represent the majority of the population. In both countries labour parties are in power and have been so several times in the past. In some other countries, social-democratic parties have held political power for many years. And yet, in none of them has socialism been established. Nor can that be expected to happen very soon. Both violent revolution and peaceful — and piecemeal — reforms have so far failed to produce socialism.

Our analysis has uncovered some of the reasons for that situation. Capitalist development has been fast enough so as to enable all classes to share — albeit unequally in the benefits. The ruling class was able to grant substantial political and economic concessions and yet retain the reins of political and economic power. The workers were concerned with the lower levels of need satisfaction and failed to develop effective socialist consciousness. Workers' organizations, trade unions and parties have, to a large extent, been integrated into the system and failed to produce a viable radical alternative. In the struggle for survival, unions and labour parties were forced to build bureaucratic structures which enhanced their power but greatly reduced their socialist potentials. In a word, the society was not ripe for socialism.

Yet, Marx and Engels were undoubtedly right when they asserted that under political democracy the conditions for a socialist transformation are most favourable. We have now to investigate how to exploit these conditions effectively. We may proceed in five stages, first studying the two fundamental preconditions for social change, next considering the available instruments and, finally, designing two institutional changes.

#### (a) The satisfaction of needs crisis

Whenever a discrepancy develops between the forces of production and production relations, sooner or later the latter will be adjusted. In the late capitalist society, this discrepancy is reflected in the failure of the system to satisfy certain fundamental needs. Observing the prolonged misery of the working class, the nineteenth century socialists believed that the system's failure to improve the material level of living would generate an increasing discontent which would eventually result in a revolutionary explosion. This belief proved to be unjustified. It was replaced by another belief, connected with the obvious contradiction between the social nature of production and private appropriation. Observing periodic slumps, many socialists came to believe that capitalism would become increasingly unable to harmonize supply and demand, that business cycles would become

<sup>2)</sup> A letter to Turati, 6th February, 1892.

more violent, that unemployment would increase, that further accumulation would become impossible, and at some point the system would break down. (Z. Boudin, F. Sternberg, and, though with a different explanation, H. Groszman). This did not happen either. The theory of Zusammenbruch proved false. The system managed to increase the level of living substantially, even to reduce the inequality in income distribution. Unemployment and business cycles, though not eliminated, were brought under certain control. The rate of growth and accumulation, if anything, increased.

The third widespread belief concerned the colonies. The colonies, it was argued, were indispensable for the normal functioning of capitalism because they provided outlets for capital and commodity exports (Rosa Luxembourg). Imperialism, as it were, resulted from this necessity to secure ever-expanding markets. Without them, capitalism could not survive. After the Second World War, colonial empires disintegrated, former colonies won their independence, and capitalism — survived with trade expanding faster than ever before. In general, it was not consumption or the barriers to accumulation or the structure of the markets where the system failed to satisfy the needs; it was work process itself.

In 1969, the Survey Research Center at the University of Michigan conducted a revealing survey of more than 1,500 American workers. The population of the United States at that time enjoyed the highest level of living in the world. It was found that one of every four workers under thirty felt dissatisfied with his work. This percentage was identical for both blue-collar and white-collar workers under thirty. The percentage of discontented workers was the same for all levels of education. Of the eight top-ranked aspects of work, six were related to the content of the worker's job. Good pay ranked only fifth, after interesting work, enough help and equipment to get the job done, enough information to get the job done and enough authority to do the job.<sup>4)</sup> This survey was undertaken after it became apparent that work discontent resulted in serious production disruptions such as wildcat strikes, high labour turnover, absenteeism, poor quality of output, slow-downs and outright sabotage. »The young worker ... says he hates the job, particularly the monotonous factory job. At times he hates it so much that he deliberately will throw a monkey wrench in the machinery, or turn to drugs to escape boredom. To him, whether the job is better than it used to be or pays more and gives benefits is beside point.<sup>5)</sup> Obviously the affluent educated worker is no longer prepared to consider his work as purely instrumental for something else. He wants to engage in *meaningful* work. »The prospect of tightening up belts every two minutes for eight hours for thirty years doesn't lift the human spirit.« The young worker feels »he's not master of his own destiny. He's going to run away from it every time he gets a chance. That is why there's an absentee

<sup>4)</sup> N. O. Herrick, »Who's unhappy at Work and Why«, *Manpower*, Jan. 1972, 3—7. Similar were the findings of a Canadian study a few years later. It turned out that »the single most important consideration in the minds of Canadians proved to be interesting work« and »that intrinsic aspects of work such as having sufficient information and authority outweigh the importance of extrinsic features such as salary or comfortable surroundings«. (M. Burstein et al., *Canadian Work Values: Findings of a Work Ethic Survey and a Job Satisfaction Survey*, Information Canada, Ottawa, 1975, pp. 29, 30).

<sup>5)</sup> A report by H. Johnson and N. Kotz in the *Washington Post* 10th April, 1972.

problem.«<sup>6)</sup> The worker is no longer satisfied with the collective bargaining which treats him as a »pay category.« Neither will he tolerate being »moved« from one job to another or to be »put to work« on a machine like a piece of tool without participating in the respective decisions. The system encounters an unresolvable contradiction. Unemployment does not discipline workers any longer; it creates dangerous political ferment. Secure employment, on the other hand, generates the will to control one's own destiny.

Better education and further increase in the level of living will strengthen these attitudes. And so will changes in family life brought about by the equalization of the status of women. When a man is the only breadwinner, he will endure all hardships only to support his family. He will seek his personal fulfillment through his family. »As long as the money comes in, and as long as the family provider is not threatened, most men will go along ... with the work routine, however arduous it is. If, however, the man's role as breadwinner grows less vital, the whole fragile bargain threatens to break down.«<sup>7)</sup> In this respect, the employment of women and the free education of children cause a profound change. The marital partners share the financial responsibilities while social insurance and public education make savings for old age, medical treatment and tuition fees unnecessary. The social relations and the conditions of work, the quality of life, emerge as the most important life concern.

While workers are becoming more sensitive to how they are treated, the employers are becoming more vulnerable. Work discontent is for them a serious danger. Slaves and serfs can operate but the simplest and crudest machines. More sophisticated machinery, invented during the industrial revolution, required free wage labour. Similarly, the highly capital-intensive plants and automatized lines of the late capitalist society require a new kind of labour force. The entire assembly line comes to a standstill if one member of the crew is missing. Great damage, out of any proportion to the wage cost, can be caused by poor work in a continuous process plant. Major savings in the production costs are no longer to be found in cutting the worker's wages. They come from improved yields, reduced waste and avoidance of shut-downs. If the modern forces of production are to function properly, workers must be responsible and reliable. For that, they must be content with their jobs. That is why the employers — regardless of their individual or class preferences — must find remedies for work discontent. And they, in fact, are rather busy experimenting with all sorts of solutions suggested by the hired experts. In the United States, special legislation was introduced providing for »research for solutions to the problem of alienation among American workers and to provide for pilot projects and provide technical assistance to find ways to deal with that problem...«<sup>8)</sup>

If work is to become less monotonous and boring the jobs ought to be rotated, enriched and enlarged; jobs must be upgraded so as to pro-

<sup>6)</sup> Walter Reuter, President of the United Automobile Workers Union, a few weeks before his death in a television interview. Quoted from R. Edwards, M. Reich, T. Weisskop, *The Capitalist System*, Prentice Hall, Englewood Cliffs, 1972, p. 259.

<sup>7)</sup> D. Yankelovich, »Changing Attitudes toward Work«, *Dialogue*, No. 4, 1974, 3—13, p. 12.

<sup>8)</sup> Cf. H. Wachtel: »Class Consciousness and Stratification in the Labour Process«, in R. Edwards et al., *Labour Market Segmentation*, Health & Co., Lexington, Mass, 1977, 95—122, p. 112.

mise workers a way of transcending deadend jobs, isolated subordinates ought to be replaced by autonomous work groups, autocratic management by participative management. The »scientific« Taylorist organization of work, whereby complex operations are broken into elementary motions and workers are asked to perform these motions like trained cattle — is abandoned and the trend is reversed. Fragments are reintegrated. The assembly line in a car factory is broken into separate teams. Billing clerks in a telephone company are given complete responsibility for certain accounts rather than for a single operation on each account. Piecework is replaced by team-work, and work teams are given certain autonomy in work design. Workers are given the authority to control the product assembly and the assignment of jobs along the assembly lines. Hourly wages are replaced by weekly salaries. Insulting status differences are eliminated. The amenities for blue-collar workers are equalized with those of the white collar workers.

All these measures have generated certain productivity gains; work discipline improved, supervisory and management costs were reduced. They have also contributed to an improvement of the work conditions and to a certain humanization of work.

It is good to see capitalists competing in improving the work conditions as compared to what happened during Marx's time when the sweatshop system, the long working day and low wages were the sources of high profit. But current improvements do not even touch the main source of trouble, the autocratic hierarchy within the productive establishment. The work remains alienated, the worker discontented and the production system in constant jeopardy.

Since work is existentially important, discontent with work leads to discontent with life. The Michigan Survey shows that very neatly. Those who have negative attitudes towards work also have negative attitudes towards life. In both respects, the self-employed report least dissatisfaction. This is, clearly, due to the independence they enjoy, to the possibility, however small, of self-determination. But the percentage of self-employed is constantly dwindling. Work and life dissatisfactions are increasing. The society is becoming ripe for a change which will not be caused by material poverty, but by the failure of the system to satisfy higher, historically-determined needs. »That is, the chief accusation against capitalism is no longer that it cannot produce the goods necessary for a decent standard of living, but that it fails to create the fundamental conditions for human freedom and self-expression. It does not permit, at any level, individual self-determination ...«<sup>7)</sup>

#### (b) Legitimacy Crisis

In the first turbulent post-war year, in 1919, William Straker, The Northumberland Miners Agent, expressed the following views to the Sankey Commission on the Nationalization of the Mines:

»In the past workmen have thought that if they could secure higher wages and conditions they would be content. Employers have thought that

<sup>7)</sup> H. Aronson, J. C. Cowley, »The New Left in the United States«, in R. Mülbund, I. Saville, eds., *Socialist Register*, London, 1967, p. 84.

if they granted these things workers ought to be contented. Wages and conditions have improved; but the discontent and unrest have not disappeared. Many good people have come to the conclusion that working people are so unreasonable that it is useless trying to satisfy them. The fact is that the unrest is deeper than pounds, shillings, and pence, necessary as they are. The root of the matter is the straining of the spirit of man to be free.<sup>10)</sup> Yet, there could be no producer freedom for the miners in Britain, the most liberal of all capitalist states. The strikers were defeated, mines remained in private hands, employers' autocracy was reestablished. It is only now, half a century later, that this freedom has come to be generally considered as a fundamental human need. That, of course, must have far reaching consequences concerning the legitimacy of the existing order.

If an order fails to satisfy certain fundamental needs, its legitimacy will be questioned. The legitimacy »involves the capacity of the system to engender and maintain the belief that the existing institutions are the most appropriate ones for the society.«<sup>11)</sup> If an increasing number of people are dissatisfied with work and life, the institutions cannot be the most appropriate ones. And if the institutions fail to function properly, the value configuration of the community must have changed. This, in fact, is the crucial point. For an increasing number of individuals, the existing social arrangements cease to be justified. They feel that a change is possible. And if possible, it ought to be undertaken.

Some fundamental values — such as freedom, democracy, equality of opportunity — may not change, but they gradually acquire a new content and a different interpretation. Consider the concept of democracy. Can a society be democratic if the democracy applies only to political life and stops at the factory gate? Behind the gate, the democratic rights are suspended and a repressive autocracy is established. Why should such a duality be justified, i.e., tolerated? In 1965, the organ of German business interests, *Industriekurier*, wrote: »The democratization of economy is as meaningless as the democratization of schools, barracks or prisons.<sup>12)</sup> A century ago, such a pronouncement would not have caused much disagreement. Today, it does not indicate that economic democracy is impossible, but rather that corporations are organized like barracks or prisons. And that is simply not acceptable any longer.

Similar reasoning applies to the other values mentioned above. Taking a job with a firm does not appear as a mere free contract any longer. If the firm is organized like a barrack or a prison, then the wage contract implies surrendering one's own personal freedom. Closely related is the treatment of property. It may remain sacrosanct and yet one may refuse to justify the use of property for an appropriation and disposal of the labour of others. The latter resembles slavery and so wage slavery becomes a socially-meaningful concept. Democracy and wage slavery are obviously not compatible. As for the equality of opportunity between the rich and the poor, or between the weak and the powerful, it sounds like a coarse joke and not like a serious proposition.

<sup>10)</sup> Evidence to the Sankey Commission on the Nationalisation of the Mines, 1919.

<sup>11)</sup> S. M. Lipset, *Political Man*, Doubleday, New York, 1963, p. 64.

<sup>12)</sup> October 7, 1965; once again on November 6, 1968. Quoted from F. Deppe et al, *Kritika saodlučivanja*, Komunist, Beograd, 1974, p. 183.

The erosion of legitimacy is always accompanied by an erosion of moral standards in public life. A new term, the credibility gap, has come to be used to describe one aspect of this phenomenon. The atrocities of the French military machine in Algeria and American genocide in Vietnam produced deep moral crises in these two countries. The Watergate affair, the ITT subversion in Chile and the worldwide Lockheed corruption affair are some instances of the credibility gap.

It is not difficult to indicate the inherent contradictions of the system. Business authoritarianism tends to be extended into political authoritarianism which, of course, means the death of democracy. The costs of armaments and repression destroy the rationality of economic calculus. Free business initiative destroys ecological balance and, on the world scale, prevents the development of poor countries. The list can be extended at will.

No social order can be changed if it succeeds in preserving its legitimacy. That is why the erosion of capitalist legitimacy is of fundamental importance for a socialist transformation. It proceeds spontaneously, as in the cases described above. It can also be speeded up. To do that is the revolutionary mission of the intellectuals. On that point also Lenin and Kautsky would agree. Our study of the revolutions has revealed that desertions of intellectuals precede successful revolutions.<sup>13)</sup> The intellectuals question the legitimacy of the old order, reinterpret the values and create new consciousness. They explore the alternatives and work out possible solutions. There is no revolutionary movement without revolutionary theory (Lenin).

Not every attack on the established values will undermine the system's legitimacy. It may even strengthen it. Consider the following set of conservative bourgeois values as juxtaposed to the values of the hippy counterculture:

<i>Bourgeois</i>	<i>Hippy</i>
<i>Conservative</i>	<i>Rebel</i>
Hard work	Leisure
Achieving	No purpose
Decent, straight	Shocking
Growth	Stagnation

<sup>13)</sup> Something of the kind seems to have happened in Sweden after 1965. «From that time — reports Edmund Dahlström — there appeared an increased criticism towards social structure and policy in Sweden. Most established institutions got their part. The critical theme concerned very much industrial relations and the exploitation of the rank and file. Employers, unions and bureaucrats were made responsible for the unsatisfactory conditions. Several novels occurred showing the damaging effect of working conditions, piecework, hard-working rules, inhumane supervision, etc. Journalists, film producers and theatrical groups tried to elucidate the exploitive relations. Through mass media they spread to a large proportion of the people. Even popular culture in its different manifestations transmitted some of ideas. It is hard to deny the effect of these ideas.» («Efficiency, Satisfaction and Democracy in Work» mimeographed paper for the Dubrovnik conference on self-management, Jan. 1977, p. 18). In 1975, McIner's Report, to be mentioned later, appeared. A year later a trade union congress gave strong support to requests for self-management. In the same year, the social democrats were defeated after having held power for almost half a century. That can be taken as a sign of too little, rather than too much, genuine socialism.

Although the Hippy also has a case, the naive negation of established values can only generate strong resistance. The old values will be defended and the pseudo radical critique will be dismissed as silly for hard work may mean «Puritan ethic,» and also work for the community. Work, being existential activity, has been valued by all societies and leisure is certainly not a substitute but a complement to it. What one would like to do is to increase the spontaneity and creativity of work, not to abolish it. Achieving may be alienating as when oriented to money and power accumulation, but it may also mean perfection in the arts and good craftsmanship. No purpose is certainly not a humanizing alternative. The stupid and hypocritical conventions of the «straight» bourgeois society cannot be fought by frivolity and obscenity but by genuine decency. Finally, the damaging effects of growth cannot be eliminated by stagnation but by a socially-controlled growth.

This brief exercise in pseudo radicalism suggests the following simple rule. There is no need to deny historical continuity in cultural development. Socialism does not represent a mere negation but rather a new — if you wish, dialectical — synthesis. Thus, free initiative, responsibility, individual freedom, competition, democracy and other old values ought to be included in the list of radical political slogans and be appropriately reinterpreted. For instance:

- Free initiative of associated producers — not a monopoly control of corporate oligarchy.
- Free men in a free society — not wage slavery and the rule of plutocracy and bureaucracy.
- Genuine democracy of full participation — not a fake democracy for bosses.
- Self-management — not managerial authoritarianism.
- Equality of opportunity — not class stratification.
- Self-government — not party machinery.
- Competition in good life — not in exploitation or killing.
- Respect for individual personality — not for the possession of property or power.
- Culture of fully developed individuals — not the primitivism of crippled money-makers or office holders.
- Production for better living — not for destruction.
- Expansion of useful output — not of waste and pollution.
- Greater efficiency — not unemployment and waste of resources.

In the 1976. German elections, the conservative opposition fought against the ruling social democrats under the slogan: Freiheit oder Sozialismus (Freedom or Socialism). This Freiheit was not meant to be exactly the same as freedom in the present paper. But the mere fact that conservatives could mobilize voters under such a slogan — and almost won — indicates that something was wrong with traditional socialism. Both its main variants, social democracy and communism, failed to destroy the legitimacy of the bourgeois order. Bourgeois revolutions produced certain essential individual liberties. The socialist revolution need neither deny them nor oppose them; it should transcend bourgeois freedom. If freedom

is to be really meaningful, it will imply a control of existential conditions of one's own life. In this, essential sense, freedom can be attained better in socialism than in any other alternative system. Thus, the strongest ideological weapon of the bourgeois society can be turned against it and used for a powerful attack on its legitimacy. The twenty-ninth thesis, announced at the Paris Sorbonne on the turbulent 13—14th June 1968, proclaimed: »The bourgeois revolution was legal, the proletarian revolution was economic. Ours will be social and cultural so that man can become that what he is.«<sup>14)</sup>

### (c) Trade Unions and Socialist Parties and Their Policies

During the long years of class struggle, the working class created two organizations to protect its interests, the unions and the political parties. These organizations can be used as instruments of socialist transformation. One must not forget the limitations of the two organizations. Both of them have certain stakes in the old system. Their leaderships will not suddenly burst with a revolutionary enthusiasm for a genuine socialism. But the need satisfaction and the legitimacy crisis will generate mounting grass roots pressure. Besides, the logic of the struggle is such that each of the combatants must exploit the disadvantages of the adversary in order to establish its own domination. In fighting for their domination, unions and prosocialist parties will give support to socialist transformation. Let us see how this can be done.

The traditional dilemma: violent revolution or peaceful reform, has by now been resolved.<sup>15)</sup> Violence is neither possible nor desirable. Socialism progresses fastest by using means appropriate to its own nature. Hatred today cannot produce love tomorrow. Attitudes and consciousness cannot be changed overnight. The change is gradual and brought about as the transformation progresses. One may perhaps speak of peaceful revolution as the most efficient vehicle of social transformation in the late capitalist societies.

There is, however, a more subtle form of the old dilemma. Violence — not; but neither cooperation! Things must be made as difficult as possible to the class enemy. The worse, the better — is an appropriate strategy. Permanent fighting keeps the fighting spirit alive and prevents the capitalists from corrupting the workers. The gap between the two classes must be kept as wide as possible; no bridges. Non-cooperation and vigorous opposition will force the ruling class to make concessions and eventually to surrender.

History has not vindicated this strategy. The straining of social relations produces autocracy, not revolution; the preservation of class differen-

<sup>14)</sup> Quoted according to M. Marković, »Nova ljevica i kulturna revolucija«, *Praxis*, 1970, 927—44, p. 943.

<sup>15)</sup> »We are no longer divided — writes Italian socialist Lelio Basso in the »Prospects of European Left« — into supporters of revolution and the supporters of gradual conquest of power; instead we are divided into those willing to be integrated into a capitalist society and those who consider that the present society, the conditions and chances are ripe for a socialist reconstruction of the society«. (In M. Pečujlić, et al. eds, *Markizam*, Sl. List, Beograd, 1976, p. 919).

ces prolongs the life of capitalism and does not promote the development of socialism. Like all negative strategies, this approach reflects a position of weakness, not of strength; it reveals the lack of a constructive alternative rather than the presence of a well-elaborated programme of social transformation. If we really know what we want to do, why not make *capitalists collaborate with us* in order to achieve the task? On the other hand, if non-cooperation and conflict maintenance is proclaimed to be the guiding principle, then (a) potential allies will be alienated; (b) disruptive activities will give the employers excuses for coordinated repression and the intervention of the state; (c) by not assuming the responsibility for participating in management, workers will lose the golden opportunity to learn how to run the firms, and (d) as a result of all this, the duration of capitalism is likely to be unnecessarily prolonged. A much better strategy seems to be to insist on a positive program of socialist construction and let the opposing forces take the blame for obstruction, conflicts and damage to the economy and the society. This is also a much more difficult task than merely opposing anything that the ruling class does. Yet if the unions include the majority of the working population — as they should — and the prosocialist party or parties win the elections — as they certainly can — this is a realistic task. The limits of cooperation and the speed of the reform are then determined by the attitudes of the opponents. The more rigidly they stick to their privileges and the more they refuse to cooperate, the less they will be able to claim legitimacy for their activities and the faster public opinion will swing in favour of socialist construction.

Suppose the two conditions — majority unionization and the control of government — are fulfilled. What are the strategic policies that a labour social-democratic communist government is best advised to adhere to? There seem to be six such policies:

1. A high rate of growth which enhances the affluence of the community is, at least nominally, in the interest of everybody. Fast growth eliminates unemployment and increases the bargaining position of workers. Job security and affluence orient them towards self-management. The same is the effect of reduced work time as a result of increased productivity. If profits also increase, there is nothing wrong in that. On the one hand, the bourgeois needs an inducement to cooperate, while on the other, a different policy will make sure that these profits are used for socialist purposes. A high rate of growth presupposes a certain degree of social planning and this also is a socialist measure.

2. The redistribution of income so as to eliminate publicly-recognized poverty. Besides, public expenditures on social services ought to contribute to a general reduction in the level of living differences. The rest is left to direct collective bargaining between labour and capital. In this area, interests are clearly opposed. But the clash of interests has been successfully institutionalized. The gains of the workers and the poor from income redistribution are rather obvious. The employers gain if they avoid strikes. What reasonable limits are depends partly on relative strength and partly on public opinion. In spite of opposed interests, a common ground exists. The social services contribute to an effective equality of men and women (mak-

ing productive employment of women possible), eliminate fear of existential risks and cause the emergence of higher needs.

3. Free education at all levels so as to enable every individual to develop his faculties, depending only on his own efforts. We have found earlier that education enhances democratic attitudes and increases interest in self-management. Besides, it increases productivity. If the task of redistribution is taken by Policy No. 2, and the burden of education is shared by all, then Policy No. 3 is difficult to oppose. Party and union schools ought to provide education in political self-government and participation in business management.

4. Substantial subsidies for culture. High-pressure advertising, habits, lack of alternative experience and, »keeping up with the Jones« in a competitive bourgeois environment where accumulation of things is a sign of progress and prestige — creates what is known as *consumerism*, i.e., an enormously inflated need for material objects. As a result, income, time and energy are diverted to the satisfaction of the lowest needs, at the expense of the highest needs. Man is reduced to only one of his dimensions, he behaves as *homo consumens*. As such, he is well-suited to late capitalism and completely unsuited to socialism. In order to develop higher needs, man must cultivate his mind. Education is one, but quite insufficient, move in this direction. It must be complemented by an effective access to the culture of the community. Since a taste for things little known must first be developed, »heavy advertising«, »competitive pricing« and subsidies are necessary. High quality fiction must be made so cheap that a taxi driver will be induced to buy it and read it while waiting for his customers — as the proverbial Moscow taxi driver does. If workers' homes are filled with books, workers' heads will be filled with socialist ideas. Museums, art galleries and public libraries ought to be planted all over the country with entrance fees abolished. Tickets for drama and ballet performances and for musical recitals ought to be priced so as to fill the theatres and concert halls. Amateur drama, musical and arts groups ought to be encouraged and the »houses of culture« should be built as often as schools and town halls. The experience of some statist countries shows that this can be done. Once mass participation in culture is achieved, yet another precondition for a socialist society will be fulfilled. People who enjoy music, buy paintings and frequent museums are not likely to be persuaded that an accumulation of gadgets is the prime purpose in life. Neither will they consider wage labour and business autocracy as obvious and unavoidable.

The four policies, however important, are designed to create only the preconditions for transition. The actual transition is the task of the remaining two policies. One of them is concerned with industrial democracy, the other with the expropriation of capital, and both of them with the gradual destruction of the basis for class exploitation.

#### (d) Industrial Democracy

A study of the history of employer-worker relations reveals three development stages. At first, employers were absolute bosses and workers were treated as servants. The employer had an unrestricted power of hiring,

dismissing and fining the worker. The exploitation was brutal, the relations between the two classes savage. The attempts by workers to set up protective organizations were crushed. Unions were outlawed. When in the second half of the last century unions were gradually legalized, they emerged as the fighting organizations of the working class. They often combined trade and political activities and fought over both industrial and political issues. The First International was created by the unions, not by the parties. Strikes were used to improve work conditions and to extend political liberties. The general strike was considered a suitable means for an eventual radical social transformation. An open and ruthless class war raged throughout the entire period. This period is known as that of liberal capitalism. It ended with the First World War.

Around the turn of the century, political and industrial organizations of the working class were separated and were relatively well-institutionalized as parties and unions. After the War, the first workers' parties — in Germany, England, Scandinavia and elsewhere — came to power. The class war was institutionalized. Employers and workers created national bargaining organizations. This was — and still is — the period of organized capitalism. Unions were integrated into the system. From the point of view of the worker, the function of the unions was to secure higher wages and supply social security. From the point of view of the employers, their function was to keep order on the labour market. Employers came to realize that it pays to collaborate with unions rather than to insist on arbitrary power. Two general principles of collaboration were established: (a) unions will restrict their activities to industrial conflicts and avoid political confrontation; (b) management prerogatives cannot be subject to collective bargaining. The latter meant that the formerly-unrestricted power was replaced by what was considered to be strategic power and that was denoted as »management prerogatives.« They included the right to hire, replace, transfer and dismiss the employees and to direct and organize work, as was neatly — to give an example — formulated in the famous § 23 of the Swedish central labour-capital agreement in 1906, and made an obligatory clause for collective bargaining contracts by the Swedish Employers' Confederation. Joint consultation was compatible with the two principles. The spheres of competence seemed clearly and unambiguously demarcated.

Yet workers have never ceased to consider unions as primarily weapons against exploitation rather than only instruments for improving the standard of living. A new development was inaugurated after the Second World War with the first step towards co-determination in Germany. An *Arbeitsdirektor* (Personnel Director) was introduced into top management and labour representatives into the Supervisory Council. The minority labour representation in the Supervisory Council develops towards parity. The Works Councils' powers are strengthened. Scandinavian countries are following the German example. The multinational European companies, to be incorporated by the European Economic Community, will have labour participation in the boards of directors. A Swedish government bill of 1976 — exactly 70 years after the appearance of § 23 — makes the management of a company, its structure, supervision of work, equipment, working hours, working environment, etc., negotiable. The erosion of the management

prerogatives is in full swing. This third stage of employer-worker relations marks the beginning of the transition period.

In 1865, John Stuart Mill wrote »that the relation of masters and workpeople will be gradually superseded by partnership in one of two forms: in some cases, associations of the labourers with the capitalist; in others, and perhaps finally in all, associations of labourers among themselves«<sup>13)</sup>. In this respect, of course, Mill was not taken seriously by his bourgeois colleagues. A century passed before the first of his two categories of cases began to materialize. Instead of being called and treated as a servant (the English Master and Servant Act was replaced in 1867) or hired hand, the worker is becoming a partner, a medarbetare (co-worker). When the Norwegian law on employee representation on company boards was debated in 1973, even the conservatives voted for it. The old order is losing its legitimacy; it cannot be defended any longer.

Co-determination implies participation at the shop floor and at the company level. The workers are directly involved in the former, the unions in the latter. Workers are winning the right to participate in the measurement and in the evaluation of work; in making the time schedule of work and breaks; in planning vacations; in the job design and the determination of safety measures; in deciding on transfers to other jobs; they insist on being informed in advance on intended measures of rationalizations and to have the right of checking management decisions. Participation and autonomy at the work place will not mean too much if the workers are excluded from the strategic decisions on new organization or technology, investment ventures or mergers. That is why labour participation in the boards of directors is required. And here the unions, spanning entire industries, have a wide scope for new and completely unorthodox activities.

The institutionalized initiative of the unions is occasionally supplemented — often against the will of the union management — by wildcat strikes and occupation of the factories. The latter happens when a firm is about to go bankrupt and workers take over management in order to save the firm (i.e., to keep their jobs). This is an evidence sui generis on the comparative efficiency of contemporary private management. Outside the industry, the participation issue is most present at the university. In the European tradition, the university is in fact the oldest self-governing institution, but the encroachment of its autonomy by state power and the development of professorial authoritarianism have reduced the scope of university self-government. The well-known student revolt of the 1960s reversed this trend. Finally, with the growing unionization of public servants, participation is becoming an issue in public services as well.

Co-determination has been extensively criticized. Some of the critiques are justified, others are simply mistaken. It is said that co-determi-

<sup>13)</sup> J. S. Mill, *Principles of Political Economy*, first edition 1848, W. J. Ashley edition reprinted by A. M. Keley, New York, 1961, p. 764.

nation serves the purpose of disciplining the workers to avoid strikes<sup>17)</sup> and so increase profits. Self-steering groups, works councils, and parity representation induce the workers to identify themselves with the shop or with the firm; this sort of local patriotism for the firm destroys workers' solidarity and is nothing else but an extended egoism. Members of the supervisory boards get corrupted by their new privileges. They forget whom they represent and behave like bosses, particularly if — as union nominees — they serve on a number of boards. Workers' representatives are torn by double loyalties at the bargaining table: they must press for better worker conditions and at the same time defend the interests of the company. Unions must refuse to accept any responsibility for production, sales and profits. Otherwise, they will put in jeopardy their fundamental role as agents of workers' interests. Co-determination is either real, and then it lures the workers away from the unions and weakens the union power, or it is a swindle. In either case, it is a highly dubious affair.

Co-determination is, obviously, a very contradictory institution. Yet, every transition is full of contradictions, Attempts to avoid contradictions by preserving organizational purity amount to a conservative defense of the status quo. Corrupting influence of directorial posts may be reduced by rotation, democratic control by the rank and file and a prohibition of multiple mandates. Unions will best serve workers' interests if they promote change. Today, change implies participation. Every participation implies responsibility. Egoism cannot be eliminated by alienation. And if the work alienation is to be reduced, the worker must become interested in his shop and his firm in order to develop a meaningful interest in his own work. If it is really true that participation increases profits and reduces the number of strikes, it is a highly commendable institution for it demonstrates that economic efficiency can be improved only by destroying capitalist production relationships.

The trends seem unmistakably certain. What the unions have to do is to press for an extension of participation towards parity — and beyond. In order to make that possible, ownership relations must be changed as well.

#### (e) Socialization of Productive Capital

Capitalism is a social system based on the ownership of capital. This, of course, is a banal observation. But it directs attention to one important fact: the *ideological* justification of the familiar organizational-distributional formula; workers receive wages for their labour and obey the com-

<sup>17)</sup> The following table provides some information on the point made:  
Number of working days per 1000 employees lost due to industrial actions

	1964—1973 average
Sweden	43
West Germany	43
Japan	217
France	277
Britain	633
United States	1247

(L. Forsebäck, *Industrial Relations and Employment in Sweden*, Swedish Institute, Stockholm, 1976, p. 67). Of the countries quoted, various forms of co-determination existed only in West Germany and Sweden.

mands of the owners; owners receive the profits (interest) on their capital and exercise control. To individuals reared in a capitalist environment, this formula belongs to the category of natural rights and self-evident truths. However, if the ideological backing is removed, if the legitimacy of the system is questioned, the formula suddenly appears quite arbitrary. Why should not workers also participate in profits and in decision-making? The nineteenth century argument was that the owner waited and abstained from consumption and, therefore, must be compensated by profits (interest). A mere comparison of consumption levels of owners and workers makes this argument rather dubious. The currently standard argument is that the owner bears risk and has to be compensated for that.<sup>18)</sup> Yet the worker bears risk as well, he can lose his job. In fact, his risk is comparatively greater. The owner can spread the risks by acquiring a diversified portfolio of shares, while the worker has just one labour power and one job.<sup>19)</sup> Regarding control over labour, that was a matter of a »free« wage contract. As long as the other party was weak, the management prerogatives could not be touched. When the power relations changed, they become negotiable as well and so command and control cease to be the natural rights of capitalists.

Thus, the issue will not be resolved by theoretical means; it is the changes in social relations which matter in such cases. Two ideological changes can be observed. The worker is becoming a partner in the production process, a co-entrepreneur. Consequently, it is right and proper for the worker to participate in the profits and the decision making. On the other hand, the system automatically generates a concentration of wealth<sup>20)</sup> and power which is at odds with the proposed ideals of democracy. Democratic control can be established by means of participation in management and deconcentration of productive wealth. The latter implies some sort of profit-sharing. We thus again reach the same conclusion. As co-determination has already been discussed in the preceding section, we shall now turn our attention to profit-sharing.

Discussion on and experimentation with profit-sharing are as old as capitalism. Profit-sharing has been recommended as a device which will make a worker loyal to the firm, provide work incentives and keep off trade unions. What is new in the current development is an insistence on the right to share in profits, a replacement of cash payments by a *distribution of shares*, and, finally, the establishment of *collective trust funds* rather than individual appropriation of shares. If a part of the profits is paid out in cash, it represents an addition to wages and this is the end of the story.

<sup>18)</sup> The more sophisticated version of the argument is the widely accepted theory of the American economist Frank Knight, who argued that an entrepreneur bears uninsurable risks called uncertainty.

<sup>19)</sup> As was argued by the Swedish trade union economist Rudolf Meidner, in the debate on the Wage Earner Funds (*Ekonomisk debatt*, 1/1976, p. 78).

<sup>20)</sup> In the United Kingdom, 6 per cent of population own 75 per cent of total personal wealth and represent 92 per cent of taxpayers who own shares. (J. E. Meade, *Efficiency and the Ownership of Property*, Allen and Unwin, London, 1964, p. 27). In the United States, 1.6 per cent of the total adult population in 1953, who had \$ 60,000, or more each in total assets, owned 82 per cent of all corporate stock, all state and local government bonds, and from 10 to 33 per cent of each other type of personal property; 1 per cent of adult population received 40 per cent of the total property income; 2.3 per cent of households own about 80 per cent of the national productive capital. (R. J. Lampman, *The Share of Top Wealth-Holders in National Wealth: 1922-1956*, Nat. Bureau of Econ. Research, Princeton Univ. Press, Princeton, 1962, pp. 23, 195, 108). In Sweden one per cent of taxpayers own three-quarters of equity capital and 5 per cent of taxpayers own one half of personal wealth. (R. Meidner et al., *Löntagarfonderna*, Tiden, Stockholm, 1976, pp. 38, 43).

If it is paid out in shares to individual workers, these shares are likely to be sold and, in any case, an increase in the number of minuscule shareholders does not change anything in the control of industry. Collective ownership, however, makes for a radical change.

France was a pioneer in the field. In 1917, a law was passed establishing *Sociétés anonymes à participation ouvrière*: collective funds were to be created by a distribution of shares free of charge to the employees in order to strengthen their position. The situation was not ripe for this innovation and the law remained a dead letter. Half a century later, in 1967, France became the first country in which profit-sharing was made compulsory in firms with more than 100 employed. The money received could be placed in various funds, given as loans to the firm or used to buy shares in the firm itself. Only few percentages of the total amount were used for the last purpose. Though this law contributed to the development of participation, it did not pass the threshold which separates reforms *preserving* capitalism from reforms *destroying* capitalism. That crucial step was made and the pattern was set a few years later on another continent. In Peru, in 1970, a decree was passed making compulsory the distribution of a certain percentage of profits — 15 percent in the manufacturing firms — in the form of shares into indivisible workers' funds. As the percentage of stock ownership increases, the workers' participation in the running of the firm increases as well. Thus, by means of collective ownership, the capitalist market itself is used to effect an expropriation of capital. The capitalist rules of the game are used to replace capitalists by workers.

Apart from outright state intervention which, until recently, seemed the only method available, the socialization of private productive capital can be achieved by three different methods or their combination. The Peruvian method, as we have just seen, uses profits to acquire shares. The amount distributed is, therefore, proportional to the profits earned by the firm. The other method, which we may denote as Danish,<sup>21)</sup> adds a certain markup to the standard wage bill. This sum is then converted into equity capital in the firm. In this case, the profits which are distributed are not proportional to capital invested but to »labour invested« as measured by wages. It may be argued that worker and capitalists are owners of two risk-bearing factors of production and therefore profits are to be distributed in proportion of their inputs in the production process, i.e., in proportion to wages and capital.<sup>22)</sup> This theory is equally arbitrary to the the-

<sup>21)</sup> Rudolf Meidner and his colleagues wrote a book showing how this method may most advantageously be applied to the Swedish economy, and then wrote a report to the 1976 Trade Unions Congress. The Congress accepted it. Cf. *Löntagar fonder*, Tiden, Stockholm, 1975; *Kollektiv kapital bildning genom löntagar fonder*, Prisma, Stockholm, 1976.

<sup>22)</sup> The Danish Federation of Trade Unions presented a plan which, in its first stage, was defeated in parliament, whereby employers would be obliged to gradually increase contributions to an »Employees, Investment and Dividend Fund« from initial 1/2 per cent to final 5 per cent of the total wage bill. Two-thirds of the contribution of the fund may be claimed back by the employer for investment in the firm itself. It has been estimated that the Fund's share in corporate stock will amount to 14 per cent after 10 years and to 26 per cent after 20 years.

<sup>23)</sup> H. Ch. Cars, »Meidners modell- kritik och alternativ«, *Frihetlig Socialistisk Tidskrift*, 6/1975, 15-21. In an attempt to show that Marx's labour theory of value was wrong, Paul Samuelson, a Nobel Prize laureate, unwittingly provided a »proof« for the two-factor theory: »If labour grows exponential rate  $1 + g$  and goods are priced at their synchronized labour costs: then the bourgeois pricing formula  $A_0(g) = a_0(1+g) [1-a(1+g)]^{-1}$  must be charged by national planners« (*Understanding the Marxian Notion of Exploitation*, *Journal of Economic Literature*, 1971, 309-431, p. 429). Here  $a_0$  stands for unit labour inputs,  $a$  for unit capital inputs, and  $g$  is the rate of profit, the same for both inputs.



ory mentioned before, but it is better suited to the changing mood of the time. In practice, however, consequences are different, as we shall see in a moment. Finally, it is possible to invest accumulated pension funds into the risk-bearing capital. Since these funds are made up of contributions from the workers' wages, the voting shares acquired ought to be used for establishing working class control over the industry. This method, which is likely to be only supplementary, may be denoted as Swedish. In Sweden, Common Pension Funds (Allmänna Pension Fonderna) have more money than is the value of the entire existing corporate stock and a certain percentage — as yet rather small — may, according to a parliamentary decision, be used for investments in the risk-bearing capital.

The main advantage of the Danish method is that it is simpler to administer. Next, the employers will find it more difficult to evade the obligations. On both scores, the Peruvian method is less efficient. In Peru, employers managed to sabotage the law by showing low profits or even losses; by increasing the wages in order to both corrupt workers and reduce profits. Private investments were reduced. Manufacturing firms were combined with service or selling firms to which profits were transferred. Multinational firms represented an especially awkward problem since they could easily remove profits from the book in any particular country. Wages, however, must be paid out and so mark-ups on wages cannot be avoided. But the Danish method has its drawbacks also. It taxes labour-intensive industries more than capital-intensive ones, which means that the former will first come under labour control. Since the former are usually not the technologically most advanced and most efficient industries, it may happen that an image be created of workers' management associated with lower efficiency. Besides, since wages do not represent a residual like profits, an unprofitable industry may be hit (the value of shares declining toward zero) while in a highly profitable industry profits may be used for private enrichment. A possible remedy is to differentiate mark-ups according to profitability and/or labour intensity, but this would complicate administration. Next, the initial mark-up must be small and can only gradually be increased. Even in that case, the employers may use it as an excuse for inflationary pricing.

In general, preliminary analysis indicates that wage bill mark-up is probably preferable in a less-developed country where government administration is not very efficient and the market is far from being delicately balanced. Also, in such a country, investment resources — profits available for investment — are generally scarce and can suitably be enlarged by a mark-up on wage bills. In fact, that was the motivation behind the Danish trade unions proposal: unions were willing to support larger profits in order to speed up economic growth, provided that the workers shared in the control of the new capital. In an economically-advanced country, the situation is generally likely to be reversed and the profit-sharing method might appear more desirable. It is an interesting historical paradox that the pioneers, Peruvians and Danes, acted the other way round.

Let us now take a closer look at the profit-sharing method. Since profits represent a residual, this method is neutral with respect to costs, wages and prices. The only change occurs exactly where it is desired, in

the distribution of ownership. If the contribution to the fund is 20 per cent of profits before tax, dividends and tax amount to 40 per cent and gross profitability is 5, 10 and 20 percent respectively, it will take 75, 35 and 25 years before the Fund acquires one-half of the firm's stock.<sup>24)</sup> Due to dispersed stock ownership, it is often sufficient to own a small percentage of stock in order to be able to control the firm. If this percentage is 20, and other conditions remain the same, workers will acquire control of the firm in 23, 12 and 6 years. A number of consequences follow. Dispersed stock ownership makes possible a rather fast establishment of effective workers' control. The higher the rate of profit (and, of course, the higher the share of contributions to the Fund), the sooner control will be established. If, as is generally believed, the capitalist management favours high profits, workers can now agree and wholeheartedly collaborate. The solidarity wage policy of the unions becomes easier and more effective. Since for technological and demand reasons profitability varies among industries, solidarity wages, i.e., approximately equal wages in various industries, will result in substantially different rates of profit. But extra profits will now not be pocketed by private capitalists (though they will share, too); extra profits will be used to speed up the socialization of the profitable industry. The new issues of shares may lengthen the transition period. But this effect will be neutralized if the proceeds of the Fund (workers' dividends) are used to buy new shares. The pension funds may be used for the same purpose. Since the Fund cannot be appropriated, it represents social property. For that reason, contributions to the Fund are not taxed. Since they remain in the firm as equity capital, saving in tax means an increased net profitability and additional investment resources. The capitalist management ought to welcome that. It is only the absentee owners (shareholders) who will protest because the value of the shares will decline.<sup>25)</sup> It may be added, however, that an increase in tax or in the in-

<sup>24)</sup> The general formula for this sort of calculation is

$$\frac{Ft}{St} = 1 - \left[ \frac{1 + \pi(1 - \lambda - u)}{1 + \pi(1 - u)} \right]^t$$

where F = fund, S = stock,  $\pi$  = gross rate of profit,  $\lambda$  = the share of contributions in gross profit,  $u$  = dividends + taxes,  $t$  = year.

Cf. Meidner, op. cit., p. 129.

<sup>25)</sup>

With fund Contribution

	Without Fund contribution Tax 40% Interest 5%	Tax 40% Interest 5%	Tax 50% Interest 5%	Tax 40% Interest 10%
Profit before tax	100	100	100	100
Contribution to the Fund (20%)	—	—20	—20	—20
Tax	—40	—32	—40	—32
Profit after contribution and tax	60	48	40	48
Dividends	60	48	40	48
Value of stock $\left( \frac{\text{dividends}}{\text{interest rate}} \right)$	1200	960	800	480
Contribution	—	2.1%	2.5%	4.2%
Value of stock				

terest rate — which happens all the time — also reduces the value of shares.<sup>27</sup>) What reduces the value of the stock increases the relation between the contribution and the stock, i.e., speeds up the relative growth of the Fund. The development of self-management often improves business ethics. An effect of this kind can be expected here as well. For tax purposes, the stock held is evaluated below its market value. An undervalued stock would mean that more shares are to be distributed to the Fund, with the consequences just enumerated. Thus, it may pay to be honest.

Workers' participation in management is a request to be judged on its own merit and is not necessarily associated with the ownership titles. But in a capitalist environment, the acquisition of ownership may help and may speed up the process considerably. The simplest solution would mean that more shares are to be distributed to the Fund, with the board of directors of a particular firm dependent on the stock ownership accumulated in the Fund. Once the relative size of the Fund makes effective control of the firm possible, the Workers' Council takes over the running of the firm. However, the simplest solution is not always the most efficient one. What one wants to achieve is not simply a redistribution of wealth and power, but an orderly transition to a new socio-economic system. Two institutions can be instrumental in that process: the unions and the state. Since it is desirable to minimize the use of state power, the formidable task of a radical restructuring of production relations will have to be assumed by the unions. This is surely the most important and the most difficult task in the entire history of the unions. To the extent they succeed, they will render themselves unnecessary for that will imply nothing less than the emancipation of the working class.

Unions will operate two categories of funds. In one of them — a single one — the equity stock acquired by labour will be accumulated. This is the Social Property Fund. The second category will consist of several funds disposing of the dividends accruing to the stock owned by labour. These are the Labour Funds.

The Social Property Fund, one for the entire country, is more of a symbolic importance and is in fact a bookkeeping institution. All shares acquired by labour are deposited here, but the proceeds flow to the Labour Funds according to an agreed-upon scheme. Regarding the state corporations and the firms not incorporated as joint stock companies, the shares may be replaced by ownership certificates. The certificates are issued annually to the same relative amount of gross profit as in the joint stock companies. This amount is expressed as a percentage share of the firm's capital. These percentages are accumulated in the SPF and the corresponding dividends (calculated as some average proportion of net profits) are sent to Labour Funds. According to the capitalist rules of the game, the shares and certificates held by the SPF generate proportional voting rights which are also administered by the Labour Funds.

There can be at least three types of territorial (central, regional and local) and two types of industrial (for the firm and for the industry branch) Labour Funds. What is the proper function of each of these funds? Since the new task of the unions consists in participating in production decisions, the crucial role will be played by the Branch Funds. Modern unions,

unlike the older craft unions, are also organized on the »branch« basis and this will facilitate the task of operating the funds. The funds are managed by the elected boards on which government representatives sit as well. The main task of the Branch Funds is simply to prepare full-fledged workers' self-management. Workers' themselves are familiar with shop floor operations and so they can participate directly at that level. In order to extend the participation to the level of the firm, help is needed from the outside. If this help is not forthcoming, the workers may be manipulated by the old management or they may take wrong decisions which would discredit self-management. The Branch Funds, like the branch unions, are familiar with the work conditions of a particular industry. They know its products, the market problems. Thus, they can directly help with advice to Works Councils. The Funds will select candidates for the boards of directors and top management in collaboration with the Works Councils. These officials are nominated if and when elected by the Councils. The BF's help to work out the statutes of the Councils and render organizational help. They organize courses in self-management. They use the dividend money to buy new shares, to buy out firms about to go bankrupt — if the workers request that — and to set up fully labour-managed firms in their branches. The Branch Funds may, for the time being, reserve the right to make some strategic decisions such as those regarding the merger or the dissolution of a firm or a heavy investment and modernization program while on all other matters Works Councils vote independently at shareholder meetings.

Participation at the firm level consists initially of three different components. Workers elect their Works Council, which consists exclusively of workers (blue as well as white-collar) and is primarily concerned with the problems on the shop floor. The Branch Funds are concerned primarily with the problems at the firm level. The work community, which consists of all persons employed in the firm, i.e., of workers and managers, operates the firm's Labour Fund which represents the results of the work of all. The Fund sends an agreed-upon part of annual dividends of the labour-owned stock — say one half — to the Branch and Central Funds. The other half is used according to the preferences of the work community. The work community may use the available resources to buy additional shares in the firm, to give a loan to the firm, to make contributions to a local Labour Fund, to finance educational, cultural or recreational activities or institutions, to provide for social welfare purposes and to increase wages. The decisions on these matters will provide practical experience for collective decision-making and will also help to integrate the three components of participation into an eventual, one single self-management.

The Central Labour Fund is concerned with ironing out regional differences. It intervenes when massive buying of shares or other investment proves necessary. It finances research, education, and information spreading concerning labour management. It may fund chairs in labour management and finance graduate courses for managers. It is not sufficient that workers get educated, managers must be educated as well. It left to themselves, the universities will continue to educate managers for capitalist firms. Consequently, the unions must intervene, and the money of the CLF is best suited for the purpose. The CLF may also establish an audi-

ting agency which will provide services to Works Councils and a management bureau which will serve as a consulting agency, give technical and managerial aid to labour-managed firms and provide the labour-appointed managers in the private firms.

After a certain number of years, the voting rights generated by increasing stock ownership will begin to matter, Labour Funds will have at their disposal substantial amounts of money and labour-managed firms will cease to be rare exceptions. At that stage, coordinating institutions at the regional level may become necessary. This may require setting up Regional Labour Funds. Once the transitional period is more or less completed, labour funds will evolve into institutions of the labour-managed economy described elsewhere. The Central, Regional and Local Labour Funds will be transformed into Federal, State and Communal Investment Funds. The dividends will become the price for the use of social property. The Firm Fund will merge with the business funds of the firm. Only the Branch Funds — of central importance during the transition period — will lose their function. They may give birth to branch banks and various research, educational and other institutions serving the branch. In the meantime, they will have established the practice of branch planning.

#### (f) Two Issues Likely to be Raised

It may be asked: Why would employers accept a profit-sharing policy which will eventually lead to an expropriation of private productive capital? The answer is that they would not. They will oppose and sabotage the policy as much as they can, but they will realize that the other two alternatives are even worse. These alternatives are: labour unrest and/or government intervention (assuming that the government is controlled by the socialist parties). From the point of view of the employers, a gradual change which will become substantial only after a number of years — when they will have retired — is vastly more preferable than a sudden, unexpected change. In the meantime, the government may be defeated, the conditions may change and there is a chance that the policy be reversed. From the point of view of labour, the transition time is not necessarily fixed, the developments may be speeded up by concerted union and government action. The time that will elapse before full control is established will not be lost. Workers will learn how to run the firms. Both parties have a chance to be right. It is exactly the uncertainty in human affairs that makes the policy tolerably acceptable. The outcome is not necessarily predetermined. It depends on the involvement of the parties in human action. In the process, repetition and custom render initially shocking and irritating relations — usual and customary. In the end even employers — like Norwegian conservatives — will vote for workers' management. After all, professional managers, as far as they are genuinely professional, ought to be able to manage the firms under the Workers' Councils at least as efficiently as under Board of Directors and, very likely, more efficiently.

At this point, we encounter another possible question: If the labour-managed firms are really more efficient than their capitalist and etatist counterparts, as can be shown, why do not they outcompete the latter

firms in the market? Is not the whole discussion about the transition policy misplaced? If the labour-managed firms are more efficient, they will expand and socialism will be established in any case. If they are less efficient, the policy aimed at reduced efficiency must be self-defeating. The answer to this question is that a *labour-managed* firm cannot survive in a *capitalist environment*, regardless of its *potential* efficiency. Let me quote a historical analogy.

A capitalist firm, characterized by management hiring legally free workers for money wages, is clearly more efficient than a feudal estate or an ancient slave factory. After all, that is why capitalism has replaced previous social orders and has become a dominant socio-economic system. Yet these potentially very efficient capitalist enterprises — together with commodity and money markets — had existed in previous societies and had not prospered. The three main ingredients of capitalist entrepreneurship — mobility of factors, contract law and property rights were also present but still without much avail. Commenting on this fact, Max Weber wrote: »... the specific features of modern capitalism, in contrast to those ancient forms of capitalist acquisition, the strictly rational organisation of work embedded in rational technology, nowhere developed in such irrationally constructed states, and could never have arisen within them, because these modern organisations, with their fixed capital and precise calculations, are much too vulnerable to irrationalities of law and administration.«<sup>20</sup>) It remains to find out what are the irrationalities of capitalism which make workers' management difficult to install.

A labour-managed firm is similar to a producer cooperative. Most producer cooperatives eventually fail. There are at least three reasons for that:

(a) Cooperatives find it difficult to obtain bank and trade credit. They are also discriminated against by private firms in terms of supply of necessary raw materials and of marketing of their finished products. The capitalist economy behaves like an organism with an organ transplanted from another organism: it spontaneously rejects the alien tissue.

(b) Cooperative self-management implies a radical reduction of salary spans for managers. Thus, capitalist firms have no difficulty in bribing away the most capable business administrators, particularly because it is easier to issue commands than to treat the workers as fellow equals.

(c) Once a cooperative begins to expand, new workers must be employed. In a capitalist environment that causes social differentiation. The founding members tend to treat the newcomers as hired labour. Very soon the cooperative degenerates into an ordinary capitalist enterprise.

The last observation implies that self-management is behaviourally incompatible with private or collective ownership. It requires social ownership. Thus we now part with the producer cooperatives and consider genuine labour managed firms.

(d) Social ownership means that the right to participate in decision-making is derived from employment and not from ownership. That, in turn, implies a thorough overhaul of the entire legal system. Yugoslavia

<sup>20</sup>) M. Weber, *Economy and Society*, Bedminster Press, 1968, p. 1395.

changed three constitutions in the first twenty-five years of development of workers' management. An inappropriate legal and institutional setting renders most trivial problems, otherwise solved automatically, extremely complicated; it takes a lot of time, energy and ingenuity to sort the things out. An alien system generates unnecessary costs.

(e) Ideology and vested interests complete our list. In a capitalist setting, a worker-managed firm is a deviant. Even well-intended business producers and authorities do not know how to treat it. Does it represent a business or a political risk? What criteria should one apply? The trade union finds its position utterly ambiguous. Here, who is the employer and who is the worker? What about working class solidarity? What is the role of a trade union in a worker-managed enterprise? Is there any? Thus, all well-intended members of the establishment are bound to be highly suspicious. But not everybody is well-intended. Those who are not will be openly hostile. Efficiency improvements even within existing firms will be opposed if they conflict with the ruling ideology and the vested interests. »As long as the authoritarian firm makes a normal or reasonable profit, the people in power prefer to maintain the established order rather than create a more efficient but democratic organization. The goals of preserving the existing differences in power, status and incomes are by far more important values than the overall efficiency of the firm.«<sup>27)</sup> It is a simple fact that the efficiency potential in a microeconomic organization can be exploited only if the macroeconomic, indeed social, environment is changed appropriately.

Changes in social environment require persistent political struggle. The fundamental strategy of this struggle is, as our analysis indicates, to do whatever helps human development for socialism is the other word for humanism.

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#### PUTEVI PRIJELAZA NA RADNIČKO SAMOUPRAVLJANJE U RAZVIJENIM KAPITALISTIČKIM ZEMLJAMA

Branko HORVAT

##### S a ž e t a k

Radničko samoupravljanje postepeno postaje tema dana. Van Jugoslavije određeni pokušaji učinjeni su u još dvije manje razvijene zemlje, Peruu i Alžiru. U razvijenim zemljama najkonkretnije programe za postepenu socijalizaciju sredstava proizvodnje i zavođenje samoupravljanja izradili su švedski i danski sindikati. U ovom radu autor raspravlja osnovne probleme prijelaznog razdoblja i pokušava formulirati generalnu strategiju prijelaza.

<sup>27)</sup> L. E. Karlsson: »Experiences in Employee Participation in Sweden: 1969-74«, *Economic Analysis and Workers' Management*, 1975, 296-330, p. 316.

Autor konstatira da su se različite prognoze o automatskom slomu kapitalizma uslijed rastućeg jaza između radnika i poslodavca, uslijed sve žešćih privrednih kriza i uslijed nemogućnosti osvajanja novih tržišta nakon raspodjele kolonija — pokazale kao netačne. Usklađivanje ponude i potražnje i korekcije u raspodjeli dohotka ne predstavljaju nepremostive zapreke za kapitalistički razvoj. Barijera se, međutim, pojavila u samoj osnovi društvenih odnosa: kapitalizam nije u stanju da zadovolji ljudske potrebe za samoodređivanjem u procesu proizvodnje. Kriza u zadovoljavanju potreba može se razriješiti jedino uklanjanjem hijerarhije i razvijanjem samoupravljanja.

Ako jedan društveno-ekonomski sistem ne uspijeva zadovoljiti neke osnovne potrebe, njegova legitimnost bit će dovedena u pitanje. Odatle kriza legitimnosti savremenog društvenog uređenja u najrazvijenijim kapitalističkim zemljama.

U uvjetima krize zadovoljenja potreba i krize legitimnosti, aktivnost radničkih sindikata i socijalističkih partija je prilično jednoznačno određena. Umjesto prostog negiranja postojećih odnosa oni mogu i treba da se orijentiraju na izradu realnih alternativa. Uz pretpostavku da sindikati organiziraju većinu zaposlenog stanovništva a socijalističke partije su usvojile vlast — ti uvjeti danas realno postoje u nekoliko evropskih zemalja — autor analizira šest mogućih pravaca djelovanja. Od njih su dva od posebne važnosti: postepeno proširivanje učešća u upravljanju poduzećima i socijalizacija kapitala putem uplaćivanja dijela profita u vidu dionica u općedruštveni fond kapitala. Ovo posljednje znači ni manje ni više nego korištenje mehanizma kapitalističkog tržišta za eksproprijaciju privatnog kapitala.

Na kraju autor razmatra pitanje zašto će poslodavci biti prisiljeni prihvatiti politiku koja vodi eksproprijaciji privatnog kapitala.

#### EMPLOYEE INVESTMENT FUNDS

Rudolf MEIDNER\*), Anna HEDBORG\*\*) and Gunnar FORD\*\*)

One of the most important subjects discussed at the Congress of LO (The Swedish Trade Union Confederation) in June 1976 was that of Employee Investment Funds. The subject had been raised at the previous LO

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