

Chapter 9

Rethinking and Renewing Economic Democracy

Economic democracy, in my conception, is not a nicer-sounding stand-in for state socialism, though the phrase was sometimes used as such by twentieth-century Socialists. Neither is it compatible with blueprint dogmatism, though some theorists of economic democracy are devoted to their blueprints. In my conception it is communitarian, radically democratic, pluralistic, environmentalist, as decentralized as possible, and a compound of realism and idealism. The roots of economic democracy theory go back to the cooperative and guild socialist movements of the nineteenth and early twentieth centuries, notably the French section of the First Socialist International, which stressed cooperative networks of production and consumption, and the guild socialist section of the British Labour Party, which advocated a decentralized third way between syndicalism and state socialism. But contemporary theorists usually start with Oscar Lange.

A Polish economist and diplomat who taught at the University of Chicago in the late 1930s, Lange served as the Polish delegate to the United Nations Security Council in the mid-1940s and published his major work, *On the Economic Theory of Socialism*, in 1936. He rejected the Marxian labor theory of value, contending that Socialists needed to accommodate neoclassical price theory. Essentially he showed that market mechanisms and incentives could be integrated into socialist theory.

In Lange's proposal, a large state sector coexisted with, and benefited from, the pricing and market discipline of a private sector of small enter-

prises. State planners simulated and were instructed by the private sector's pricing system, and central planning boards set prices by adjusting to shortages and surpluses. When shortages occurred, prices would be raised to encourage businesses to increase production; when surpluses occurred, prices would be lowered to encourage businesses to prevent losses by curtailing production.¹

But that was still a form of state socialism. Lange showed, more rigorously than previous theorists had, that market mechanisms and social ownership were compatible, and he granted a larger role for the market than state socialists. But he had centralized planners trying to replicate the innumerable and enormously complex pricing decisions of markets—a task exceeding the competence, time constraints, and knowledge of any conceivable planning board. Lange-style blueprints for “market socialism” invariably founder on this problem and the authoritarian politics that inevitably go with it.

Economic democracy has to break from the unitary logic of state socialism, featuring mixed forms of worker, community, and mutual fund or public bank enterprises. It is about democratizing economic power and creating environmentally sustainable economies. I do not believe that factors of production trump everything else. Any serious attempt to democratize power has to take “living place” issues such as housing, health care, and the environment as seriously as it takes the democratization of the investment process. It requires a feminist, interracial, multicultural, ecological, and anti-imperial consciousness that privileges liberationist and environmental issues.

In the 1990s economics fell into disfavor among progressives because it seemed too depressing to deal with. Capitalism was more aggressive and triumphant than ever, trade unionism was devastated, and liberals fought rearguard battles over social programs. But economic justice is fundamental to every form of social justice, and no serious challenge to existing relations of power can ignore the factors of production. Those who control the terms, amounts, and direction of credit have a huge say in determining the kind of society that everyone else lives in. Thus the question of who controls the process of investment is enormously significant. Gains toward social and economic democracy are needed today for the same reason that political democracy is necessary, to restrain the abuse of unequal power.

Economic democracy, like political democracy, is messy and time-consuming. Democratically controlled capital is less mobile than corpo-

rate capital, and the return to democratically controlled capital tends to be lower than in corporations, because worker-controlled enterprises are more committed to keeping low-return firms in operation. Producer co-operatives are often too slow, small, and humane to compete with corporations, and they require cooperative habits and values that cut against the grain of American individualism. In the U.S., any strategy to break down concentrated economic power by expanding the cooperative sector confronts difficult economic trade-offs, political opposition, and cultural barriers.

But economic democracy also has pragmatic considerations in its favor. Economic losses caused by worker participation can be offset by gains in productivity made possible by it. People often work harder and more efficiently when they have a stake in the company. Worker ownership is a key option for communities threatened by runaway plants and deindustrialization. Experiments with various kinds of worker ownership increased dramatically in the late 1980s and early 1990s, aided by a growing network of policy experts, and some unions began to bargain for worker ownership, worker control over pension funds, and worker management rights. These developments are not yet, but have the potential to become, the building blocks of a serious movement for economic democracy.

The showcase example of cooperative management is the Mondragon network in the Basque region of Spain. In the 1950s a Catholic priest, Fr. Jose Maria Arizmendi, inspired twenty-five students to launch a cooperative stove factory (Ulgor) that grew into a network of worker-owned, democratically managed foundries incorporated as agricultural cooperatives. Between 1966 and 1975 sales rose from \$47 million to \$336 million; in the 1980s Mondragon became Spain's largest exporter of durable goods; by 1997 it had total sales of \$5 billion, held \$7.5 billion of assets, and had experienced only two closings. Today Mondragon firms export half their industrial sales and are Spain's leading producer of domestic appliances and machine tools.²

Mondragon employs more than one hundred thousand workers in an integrated network of more than 125 financial, industrial, and service companies in virtually every economic sector, including robots and mass transit. It contains over 75 industrial firms, an agricultural cooperative, five schools, a technical college, and a central bank—the Caja Laboral Popular—that is half-owned by its own employees and half-owned by other cooperatives. The bank, founded in a church basement in 1958, specializes in loans to cooperative firms and industry-specific consult-

ing assistance. Each Mondragon worker/owner holds one share of voting stock, and profits are distributed in the form of additions to a capital account on which 6 percent interest is paid annually. Seventy percent of annual profits are distributed to worker/owners on the basis of salary scale and seniority, 10 percent are donated to charity, and the remaining 20 percent are reinvested. Because members cannot withdraw money from their capital accounts until they retire, Mondragon is able to make long-term investments in expansion, diversification, research and development, and reinvestment from its accumulated capital stock.

The Mondragon network consistently outperforms comparable European capitalist enterprises, demonstrating that worker empowerment and cooperation can be turned into economic advantages. Beginning as an attempt to apply Fr. Arizmendi's Catholic personalism to a local community, its early success was aided by the community's common ethnic and Catholic heritage. Researchers have repeatedly judged, however, that neither culture nor ideology is crucial to Mondragon's continued success. George Benello remarks, "The secret of Mondragon is not ideological, but organizational: it is 'how to' knowledge that makes it work." Mondragon succeeds because it trades on the advantages of worker empowerment and cooperation.³

Any experiment in economic democracy, to be successful, has to acquire distinct skills, habits, and technical knowledge. Some U.S. American unions and worker associations began to acquire it out of necessity after capitalism went global. In 1980 there were fewer than two hundred worker-owned enterprises in the U.S. The manager-owned United Parcel Service was one of the few large ones, in addition to a few networks of producer cooperatives such as the sixteen-firm plywood mills of the Pacific Northwest. Most cooperatives and worker/community-owned firms were small, isolated, and restricted to a handful of economic sectors. The cultural and political factors were forbidding. Worker and community ownership, like universal health care, seemed out of reach for American individualism and capitalism.

Globalization drove many communities and a few unions to give economic democracy a second look, trading wage restraint for worker ownership or, more ambitiously, worker control over investment and enterprise management. In the 1990s thousands of firms converted to worker ownership, bringing the total number to approximately twelve thousand by the end of the decade, where it has stayed. In addition to small producer cooperatives, this group included large enterprises such as Republic

Engineered Steels, America West Airlines, Publix Supermarkets, Chicago Northwestern Railroad, and Northwestern Steel and Wire.

For decades United Parcel Service was the crown jewel of the worker-owned list, renowned for its size, efficiency, and high employee morale. Founded in 1907 by James Casey, who established a system of manager ownership, by the 1990s UPS was owned by fifteen thousand of its managers and supervisors, and was the dominant player in its market. For ninety years it avoided strikes, but its first one in 1997 helped pave the way to going public two years later; UPS was no longer a company that prized equality and cooperation. Today it is a powerhouse in the global delivery business, a pioneer of “insourcing” synchronization that services supply chains globally, and a symbol of the difficulty of sustaining a cooperative ethos in an aggressively capitalist environment; in 2006 the company’s net income was over \$4 billion.⁴

Worker ownership and the movement for it are both more modest affairs usually. Most employee ownership plans offer shares without voting rights; most assure that employees will be kept in a minority ownership position; few provide educational opportunities to help worker/owners develop management skills; and virtually none offers programs to build solidarity or help worker/owners forge links with other cooperative enterprises or raise awareness of economic democracy issues. Most worker ownership schemes in the U.S. offer stock ownership to workers while excluding them from obtaining managerial control or economic coordination. Worker ownership without democratic control is a nominal version of economic democracy, thwarting the real thing. American unions have a generally dismal record in this area, reinforcing the shortcomings; for the most part unions have not pressed for workplace democracy or new forms of democratic capital formation.

With all its limitations, however, worker ownership in the U.S. is a growing idea. Several thousand firms have converted to employee ownership, hundreds of others have been launched with worker-ownership plans, and approximately one thousand companies in the U.S. are worker-controlled. Employee stock ownership plans cover more than 10 percent of the U.S. workforce, and numerous firms have adopted labor-management cooperation schemes. In addition, industry-wide unions such as the United Steel Workers and the Amalgamated Clothing and Textile Workers promote worker ownership through the AFL-CIO Employee Partnership Fund, which provides capital for union-led conversions to worker ownership. The Midwest Center for Labor Research, Ohio Employee Ownership

Center, National Cooperative Business Association, Employee Share Ownership Plan Association, U.S. Federation of Worker Cooperatives and Democratic Workplaces, and Industrial Cooperative Association facilitate worker buyouts and develop sector-specific expertise that was unavailable to earlier generations of American cooperatives.⁵

A movement for full-orbed economic democracy that dramatically expands the cooperative sector and substantially democratizes the process of investment is obviously far off. On the way to it, economic democracy is about building up institutions that do not belong wholly to the capitalist market or the state. It begins by expanding the traditional cooperative and social market sectors. Producer cooperatives take labor out of the market by removing corporate shares from the stock market and maintaining local worker ownership. Community land trusts take land out of the market and place it under local democratic controls to serve the social needs of communities. Community finance corporations take democratic control over capital to finance cooperative firms, make investments in areas of social need, and fight the redlining policies of conventional banks. These strategies widen the base of social and economic power by expanding the cooperative and social market sectors, mixing together cooperative banks, employee stock ownership plans, producer cooperatives, community land trusts, and planning agencies that guide investments into locally defined areas of need such as housing, soft-energy hardware, infrastructure maintenance, and mass transit.⁶

But merely expanding the cooperative and social market sectors is not enough. Cooperatives prohibit nonworking shareholders, so they usually attract less outside financing than capitalist firms. They are committed to keeping low-return firms in operation, so they tend to stay in business even when they cannot afford to pay competitive wages. They are committed to particular communities, so cooperative capital and labor are less mobile than corporate capital and labor. They smack of anti-capitalist bias, so they have trouble getting financing and advice from capitalist banks. They tend to maximize net income per worker rather than profits, so they tend to favor capital-intensive investments over job creation. Cooperative worker/owners often have their savings invested in a single enterprise, so they tend to avoid risky innovations.

These problems can be mitigated with tax incentives and regulations promoting job expansion, reinvestment, innovation, and bank lending to cooperatives. Internal capital accounts, such as Mondragon's retirement accounts, facilitate reinvestment of savings and enable worker/owners to

plan for the long term. Tax incentives promoting expansion and innovation counteract the cooperative tendency to fixate on share income per worker. Moreover, the commitment of cooperatives to particular contexts and communities is one of their best assets, and the lack of an expansionary dynamic should be counted mostly on the plus side as well.

Traditional capitalist firms have structural incentives to grow under conditions of constant returns to scale. When costs-per-item are constant, capitalist firms are predisposed to grow to increase profits. Doubling the size of a capitalist firm doubles its profits. But democratic firms do not expand production automatically when demand increases, because they maximize share income per worker, not total profits. Unless sizable economies of scale are involved, individual worker/owners in a cooperative have little to gain by doubling the size of their firm. A cooperative hardware store run by thirty people will have the same per-worker share income as one run by sixty people. Thus democratic firms are structurally suited to counteract the manic capitalist logic of bigger is better. Cooperative economics and ecological sustainability are naturally linked by the necessity of creating structural alternatives to the capitalist fantasy of unlimited growth. The kind of economic development that favors the needs of poor and disenfranchised communities and does not harm the earth's environment will require a dramatically expanded cooperative sector consisting of worker-owned firms rooted in communities, committed to sustainability, and prepared to accept comparatively lower returns.⁷

But even a cooperative sector aided by better financing and entrepreneurial incentives will carry special risks for workers and a bias toward capital-intensive investments. Cooperatives are a big piece of the answer to environmental destruction and predatory boom-and-bust economics, but they don't do enough for job creation or equality.

Most cooperatives require members to sell out to the company rather than allow members to sell out to the highest bidder and take their capital gains, and most cooperatives operate on the traditional principle that those who own a company's capital have the right to control the company. The former policy guards against reverting to traditional investor ownership, and the latter policy sustains the traditional assumption that property rights determine the right of effective control; workers must be the primary investors in a firm to control it. But the most successful cooperatives succeed by imposing high borrowing fees on new members, which excludes workers lacking the entrepreneurial nerve or resources to buy in. For cooperatives featuring share prices ranging up to \$100,000,

only the determined and prosperous need apply. Moreover, absolutizing property rights measures human value in terms of exchange value, leaving out people who are unable to earn wages.

One might address the equality problem by universalizing cooperation, but that would ruin a mostly good thing. If everyone had to belong to a cooperative, the entry fees would be waved and many enterprises would fail, forcing the state to socialize the economy's losses. Economic democracy has a place for Mondragon-style cooperatives, but it cannot succeed by requiring workers to join them. And it must have greater ambitions for social justice and the common good than merely enabling hard-charging types to buy into attractive cooperatives. Full-orbed economic democracy treats all citizens as stakeholders in the economic system, placing a social mortgage on property. It makes democratic institutions major players in the investment process, creating structures of public investment and control that break the dominance of the investor class.⁸

Economic Democracy as Throwback Socialism

Unfortunately there are more theorists of a full-orbed approach to economic democracy than concrete examples of it. The theorists include Peter Abell, Joanne Barkan, Frank Cunningham, Robert Dahl, Saul Estrin, Julian Le Grand, David Miller, Alec Nove, John Roemer, Frank Roosevelt, David Schweickart, Radoslav Selucky, Thomas Weisskopf, David Winter, and Rick Wolff. Some are keepers of the socialist dream of a fundamentally different economic system, fashioning blueprints of a world relieved of corporate capitalists and private financial markets. Most are more realistic, taking for granted that private financial markets are inevitable in a free society and that economic democracy must be pragmatic and pluralistic. Estrin, an economist at the London School of Economics and specialist on comparative economic systems, and Nove, an emeritus economics professor at the University of Glasgow, have made notable contributions to the economics of market socialism. Miller, an Oxford social and political theorist, and Dahl, an eminent political philosopher retired from Yale, have made notable contributions to economic democracy as a political philosophy. Schweickart, a Loyola University philosopher, is a leading advocate of economic democracy as old-time socialism.⁹

Rightly Schweickart stresses that the current economic meltdown is a crisis of overproduction tellingly like the one Marx predicted. From

1956 to 1972 the Dow Jones average doubled (from 500 to 1,000) as did wages. Then the Dow soared by fourteenfold, reaching 14,000 in 2007, despite thirty years of flat wages. Working and middle-class people fell increasingly further behind for three decades, but they felt richer, holding ever rising assets against which they borrowed deeply to keep spending and borrowing. “But what can’t go on, doesn’t,” Schweickart observes. Credit lines finally maxed out and major pillars of the American financial system crashed overnight.¹⁰

Schweickart aptly contends that Keynesian pump-priming is a coping strategy, at best, that fizzled in the 1970s. The Kennedy, Johnson, and Nixon administrations used Keynesian stimulus schemes to tamp down unemployment but government spending, combined with union-negotiated wage increases and slow growth, led to the stagflation of the 1970s, which set the stage for Federal Reserve chair Paul Volcker’s war against inflation in the 1980s. Unemployment reached 10 percent and corporations went on the offensive against trade unions, relocating to the non-union Sunbelt. Later, after globalization took hold, corporations moved anywhere they could find cheap labor and minimal taxes. Keynesian pump-priming is not much of a solution to the problem of low wages in a global economy, Schweickart cautions, because it does not stop firms from racing to the bottom. Any plan that increases taxes or wages is sure to set off another surge of runaway plants.

In Schweickart’s analysis, the environmental crisis compounds the necessity of creating an economy not based on ever increasing consumption. We cannot solve the terrible problems of global warming, ozone depletion, acid rain, deforestation, and pollution by focusing on consumption, he argues. The real culprit is the mode of production. Human beings are not naturally voracious; otherwise Americans would not have to be subjected annually to \$300 billion worth of advertising designed to make us consume far more than we need. The economy that we have is based upon constant “propagandizing on behalf of consumption,” he remarks. The economy that we need would feature workplace democracy, social control of investment, full employment, capitalism within socialism, socialist protectionism, and economic stability and sustainability.¹¹

Schweickart’s version of workplace democracy is in the mainstream of economic democracy theory; something like it is a nearly universal feature of economic democracy. Essentially it is the organization of democratic governance, one of the two main structural differences between economic

democracy and traditional capitalism. In workplace democracy, enterprises are democratic communities, not properties to be bought, moved to cheap labor havens, or sold. Workers elect representatives to a workers council that performs the usual functions of a shareholder-serving board of directors in corporations: appointing managers, establishing terms of employment, and approving major business decisions. Workers receive a variously designated share of the company's profit, not a fixed salary, as income, and companies compete for business in a free market. Since wages are not a cost of production in democratic enterprises, workers receive all the productivity gains of their labor.

The second key structural feature of economic democracy concerns the control of investment. Here Schweickart's socialist utopianism takes over. Real economic democracy completely severs the connection between saving and investment, he argues. Instead of relying on the hunches, desires, interests, and private savings of a capitalist class to decide how much societal investment is needed and where it should be invested, economic democracy socializes the entire business of business loans. All funds for business investment should be raised from taxes, and all private financial markets should be abolished. Individuals would be allowed to save money in savings and loan banks paying modest interest on deposits, he allows, but all funds for business investment should be raised publicly, relying on a flat-rate tax on the value of a firm's tangible property. Revenue from the property tax would be kept separate from general tax revenues and allocated to networks of regional and local banks on a regional per capita basis. Regions would not compete for capital, which eliminates the business-attracting race to the bottom between regions, though enterprises within regions would compete with one another for capital. Each region of the nation would get its fair share of the national investment fund annually; investment plans devised by local, regional, and national investment boards would be approved or revised by appropriate legislatures; and profitability would be a major criterion of success in judging the performances of public loan officers.¹²

If we took economic democracy this far, Schweickart urges, there would be no more economic crashes, because full-blown economic democracy has no stock markets, bond markets, hedge funds, private investment banks, or private financial markets of any kind. There would still be markets for goods and services, but mortgages would stay with their banks of origin and speculative financial gambling would be abolished. In his

foundational work, *Capitalism or Worker Control?*, Schweickart argues that private property itself should be abolished, since owning property is socially regressive and not economically productive.¹³

But if one is going to go that far, one might as well come out for world pacifism and the abolition of selfishness. Schweickart fails to absorb that private financial markets and private property cannot be abolished in a free society. Utopian fantasies about abolishing capitalism have a poor track record, to put it mildly, though some of Schweickart's policies brush closer to the real world of actual possibilities. He argues that government should be the employer of last resort, since no market economy can guarantee full employment. He allows that anyone should be permitted to start a business and run it as she desires, but if the business exceeds a certain size, it has to be sold to the state after the entrepreneur is finished with it so that it can be converted to a cooperative. He advocates socialist protectionism: charging a tariff on goods imported from poor nations to eliminate the difference and advantage of cheaper labor costs in the exporting nations, then rebating the tariff to the government, unions, or NGOs of the exporting nation. Above all, Schweickart rightly stresses that capitalism is beset with the classic collective-action problem of individual rationality leading to collective irrationality. Because wages are a cost of production in traditional investor-owned firms, capitalist economies are vulnerable to the problem of insufficient effective demand. Every capitalist owner has a vested, rational interest in holding down the wages of her own workers. At the same time the wages of working- and middle-class earners are the major source of the economy's consumer demand. Ideally every capitalist owner would prefer to have customers with high wages who stoke sufficient demand. But the same owners have control only over their own workers, whose wages they hold down as much as possible.¹⁴

Economic democracy is a more stable and sustainable option. Democratic firms are committed to their own communities. The face-to-face democracy of worker-owned firms nurtures solidarity and social trust, causing them to resist reducing their ranks in economic downturns. And wages are not a cost of production in democratic firms, because worker-controlled firms are geared to maximize net income per worker, which constitute shares of the firm's profit, not wages. In democratic firms, all productivity gains go to the worker/owners that produce them. Building on these advantages would create a healthier and more humane economy, as Schweickart contends. But the way to actually build it is step-by-step, pragmatic, and contextual. It begins with expanding the cooperative sec-

tor, adds public bank models to the mix, and rejects utopian fantasies and blueprints of a new world order requiring coercion over holdouts and departures from political reality.

Economic Democracy, Democratic Realism, and Public Bank Theory

There is such a thing as a full-orbed economic democracy that works from the bottom up and does not make heroic demands on the political system or sinful human beings. It is undeniably visionary, challenging the borders of possibility and imagining new forms of social and economic organization. But it is fundamentally about creating concrete and viable new democratic choices, not imposing anybody's blueprint of a perfect system.

We need forms of social ownership that facilitate democratic capital formation and are more entrepreneurial. Specifically we need forms of economic democracy featuring public banks and mutual funded holding companies. This approach can take a variety of forms, but the essential idea is to establish competing banks or holding companies in which ownership of productive capital is vested. The companies lend capital to enterprises at market rates of interest and otherwise control the process of investment, including decision-making power to initiate new cooperatives and shut down unprofitable enterprises. Equity shareholders, the state, and/or other cooperatives own the holding companies or public banks.

The central bank at Mondragon, the Caja Laboral Popular, a cooperative half-owned by other Mondragon cooperatives, is a prototype of this idea. It lends financial capital, monitors the performances of Mondragon's vast network of cooperatives, and finds outlets for their funds. The most ambitious experiment of this kind, thus far, was the Meidner Plan in Sweden, named after German economist Rudolf Meidner, which was enacted in 1982 by the Social Democratic government.

The Meidner Plan called for an annual 20 percent tax on major company profits to be paid in the form of stock to eight regional mutual funds. Worker, consumer, and government representatives controlled the funds, and as their proportion of stock ownership grew, these groups were collectively entitled to representation on company boards. Locals and branch funds jointly held voting rights of the employee shares. In the compromised form of the plan that was enacted by the Swedish government, a 40 percent ceiling was placed on the amount of stock that the eight funds in total could own of any single firm, and the funds were managed conven-

tionally. True believers considered these compromises a defeat, but even with a 40 percent ceiling the Meidner Plan, if carried out, would have rendered effective control over profitable firms in Sweden to the worker and public organizations.¹⁵

Since the funds represented part of workers' compensation, the plan contained a built-in system of wage restraints and facilitated a new form of capital formation. It required no program of nationalization, and investors still sought the highest rate of return. Like most mutual fund or public bank models, the Meidner Plan separated risk in production from entrepreneurial risk, assigning production risks to worker-managed enterprises and entrepreneurial risks to the holding companies. Most important, it offered a way beyond the welfare state, by expanding the base of economic power, while saving the social and political gains of social democratic liberalism.

The fate of the Meidner Plan is a symbol of our time. Its original backer in Sweden was the Confederation of Swedish Trade Unions (*Landsorganisationen i Sverige*, or LO), which stressed in the mid-1970s that benefits from the capital fund should accrue to all wage earners and that the plan traded wage restraint for greater control over investment capital. Business groups howled against it, using the issue to help defeat the Social Democrats in the 1976 election, even though the Social Democrats had not yet embraced it. In 1982, when the Social Democrats regained power, they enacted a version of the Meidner Plan but made little effort to educate the public about it or to win popular support for it.

For eight years Sweden's corporate elites railed against the worker funds constantly, inveighing against their loss of control over finance. Stock markets are the home turf of financiers, a privilege that Sweden's capitalist class was not shy in defending. Managers of the worker funds, trying to legitimize themselves to the financial class, managed like ordinary fund managers, but that made the whole enterprise abstract to the general population. Princeton economist Jonas Pontusson observed that it was hard to generate popular enthusiasm "when collective shareholding funds are reduced to deciding whether to buy shares in Volvo or Saab." To stir popular support, the Social Democrats needed to back up the Meidner Plan with industrial policies targeting specific needs—things that ordinary people could see at work in their communities during the very period that Sweden's shipbuilding industry collapsed, the steel industry specialized, wood pulp was integrated into modernized paper production, and other pillars of the manufacturing base were restructured. Instead, the charter

for the Meidner Plan expired in 1990 and the Social Democrats lost the 1991 election. Sweden had a frightening banking crisis in 1992, which it resolved by nationalizing the banks, and in 1994 the Social Democrats regained power as the party best suited to manage the turbulence of economic globalization and nationalized banks. They stabilized the currency, got the government's fiscal house in order, dropped the Meidner Plan, and scaled back their historic achievement, the Swedish welfare state.¹⁶

That option made political sense in Sweden at the outset of second-wave globalization. It may prove to be the death knell for national-scale experiments in full-orbed economic democracy. But less ambitious forms of economic democracy have succeeded in many places, and the scale question rests more on politics and culture than economic viability. Economic democracy theorists such as Raymond Plant, Alec Nove, Saul Estrin, David Miller, Joanne Barkan, Robert Dahl, and David Winter take seriously the failures of state socialism, the limitations of worker ownership, and the necessity of building up highly capitalized forms of economic democracy. The distinct advantage of the mutual fund approach is that it diversifies forms of risk sharing and promotes greater efficiency by forcing firms to be financially accountable to a broad range of investors. Essentially it is a solution to the entrepreneurial deficiencies of worker-owned firms, addressing conflicts of interest between cooperative owners and profitability that often cause cooperatives to miss market signals.

This approach does not rest on idealistic notions about human nature and should not be the next progressive blueprint. Economic democracy is a brake on human greed and domination; the whole point of it is to fight the universal propensity of dominant groups to hoard social goods and abuse disenfranchised people. Neither should progressives absolutize any particular model of economic democracy, for the blueprint mentality is inherently problematic. Socialists were wrong to equate socialization with nationalization. They were wrong to reject production for profit. They were wrong to think that state planners could replicate the complex pricing decisions of markets. They were wrong in believing that worker-owned cooperatives could organize an economy not linked by markets. Not all socialist traditions made these mistakes, but the blueprint mentality was deeply ingrained in virtually all of them.

From a democratic perspective, the key problem with the mutual fund model is that it weakens workers' power at the firm level and increases the power of the agents that invest collectively owned social capital. To the extent that the holding companies are granted supervisory control over

their client enterprises, worker control is diminished. To the extent that the holding companies are kept in a weak position, the advantages of the mutual fund model are traded off as the client enterprises essentially become cooperatives. The radical democratic and communitarian impulses of economic democracy theory tend to cause its theorists to place as much control as possible in human-scale organizations in which the distance between management and workers is minimized. However, this egalitarian, community-oriented preference can be a sizable disadvantage in competing with huge, aggressive, integrated corporations that focus ruthlessly on the bottom line. Any experiment in full-orbed economic democracy has to grapple with difficult trade-offs between the responsibilities of the holding companies or public banks and the rights of worker-managed enterprises. And some economic sectors, especially those with large financing requirements, are very difficult for democratic firms of any kind.¹⁷

There is no unitary answer to these problems; there is only the variable and challenging work of making gains toward democratizing the factors of investment and production in particular contexts. On the control problem, I favor a circular model that is biased toward upholding the authority of the public banks or holding companies. To minimize trade-offs between democratic control and efficiency, cooperative firms become shareholders in the holding companies or public banks. At Mondragon the authority and efficiency of the Caja Laboral Popular is indispensable. Mondragon's "second degree" cooperatives, in which cooperatives hold shares in other cooperatives, offer a useful model of circular ownership and control, one that diversifies risk and builds up new sources of investment capital.

But more important than any model or theory is the willingness to expand the social market in different ways and find out which models work best in particular circumstances. Washington Gladden believed that profit-sharing industrial partnerships would put an end to the class struggle, until he lived long enough to see otherwise. Many social gospellers shared Francis G. Peabody's conviction that cooperatives were obviously the progressive Christian solution. Walter Rauschenbusch believed that a combination of state and cooperative ownership would create a good society. William Temple developed a type of guild socialism that featured a Meidner-like plan for creating worker-controlled collective capital funds. Reinhold Niebuhr stood for radical state socialism before opting for the welfare state. Many liberationists and social ethicists have promoted "socialism" without describing what it is.

Most of this tradition wrongly operated with unitary ideas of capitalism and socialism, as though each were only one thing, culminating in the liberationist tendency to condemn “capitalism” categorically while employing “socialism” as a magic wand. The latter approach is too vague, monolithic, and evasive, but neither should social justice movements embrace any particular model or mixture of models as the next sign of the divine commonwealth. Just as it would be disastrously misguided to claim that all capitalist firms should be turned into cooperative or mutual fund enterprises, it would be equally wrong to claim that new enterprises must follow a Mondragon or Meidner model.

Decentralized, economic democracy must be a project built from the ground up, piece by piece, opening new choices, creating more democracy, building an economic order that does not rest on selfishness, consumerism, and the prerogatives of shareholders. It allows for social contracts, common goods, and ecological flourishing. It nurtures and sustains social trust, the form of social capital that no healthy society can do without. It is a project that breaks from the universalizing logic of state socialism, taking seriously that there are different kinds of capitalism. Social theorist Roberto Mangabeira Unger aptly calls for “alternative pluralisms,” step-by-step constructions of alternative political and economic institutions. Abstract concepts of a monolithic “capitalism” or “market” obscure the variety of possibilities within really existing capitalism and markets, Unger stresses; “capitalism” has no necessary content but is always the product of particular historical configurations, contingencies, and struggles.¹⁸

The tests of any experiment in economic democracy are pragmatic. To impose something like a universal Mondragon on a capitalist society would require coercion over workers who do not want to belong to co-operatives. Today in the U.S. Pacific Northwest, some plywood workers choose employment in conventional firms over membership in the plywood cooperatives. No political economy worth building would force them into a different choice.

The issue of choice, however, is the key to the better alternative. A politics that expanded the cooperative and mutual fund sectors would give workers important new choices. The central conceit of neoclassical economics could be turned into a reality if meaningful choices were created. The neoclassical conceit is that capitalism doesn’t exploit anyone, because labor employs capital as much as capital employs labor. But in the real world the owners of capital nearly always organize the factors of production. To expand the cooperative, mutual fund and other social market

sectors would give choices to workers that neoclassical theory promises but does not deliver. It would begin to create a culture that is more democratic, egalitarian, cooperative, and ecologically conscious than the one we have now.¹⁹

The earth's ecosystem cannot sustain a U.S. American-level lifestyle for more than one-sixth of the world's population. The economy is physical. There are limits to economic growth. Global warming is melting the Arctic ice cap at a shocking pace, as well as large areas of permafrost in Alaska, Canada, and Siberia, and destroying wetlands and forests around the world. The manic logic of corporate capitalism pays little heed to communities and the environment, and none to equality, reenacting the tragedy of the commons. Corporate giants like ExxonMobil succeed as businesses and investments while treating the destructive aspects of their behavior as someone else's problem.

Better government and the struggles of a profusion of social movements are indispensable to solving these problems. So is creating a more just and ecologically sustainable economy. For thirty years one had to be a stubborn type to sail against the religion of the market. Now one only needs to be awake. If the stubborn types can seize this terrible moment as an opportunity to build a better social order, we may actually do it.