

The Egalitarian Conception of Fair Exchange and Worker Participation in Firms

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Basic Project

- Project to study the nature of economic justice not merely from the large-scale macro level of distributive justice but at the level of exchange.
- The idea is to develop a procedural account of fair exchange that goes beyond the demands of avoidance of force and fraud and that avoids the need for equal exchange value.
- The present paper extends the project into relations between labor and capital.
- It defends the idea that worker participation in firms can be justified as a remedy for violations of equality in the market.

Worker Participation in Firm Governance

- “Worker participation in firm governance” means that the workers in a firm have a substantial share of collectively held power over the authoritative direction of the firm, and thus over some of the social world they live in, and consequently workers have responsibility for how the firm develops in a larger market economy. I will use the expression “worker participation” to refer to a toolkit of different kinds of worker empowerment including collective bargaining and regulation of the workplace through unions, worker cooperatives and works councils as well as combinations of these as we see in Northern European co-determination.

Basic Argument

- Equality of capacity is a requirement of procedural justice in economic life.
- Market organization that makes unequal power inevitable or very likely makes it necessary that some people must give up their ability to shape the world around them to others violates equality of capacity.
- Unregulated imperfect markets actually do realize inequality of power and thus inequality of capacity under many circumstances.
- A form of market organization that mitigates unequal power by realizing worker participation without making the less powerful worse off ought to be implemented.

The Egalitarian Conception of Agreements

- The purpose of agreements is to shape the social world we live in with other people. We do that by altering each other's rights and duties, determining the division of labor and distributing the local benefits and burdens.
- This is analogous in important ways to the activity of citizenship within the context of collective decision making. It also involves shaping the social world but more holistically.
- Agreement making, just like democratic action, is a site of cooperation and conflict. Though there is mutual benefit, there is conflict over the distribution of the surplus.

- Furthermore, the same core principle is operating at the base of traditional democratic rights, liberal rights and economic rights.
- That principle is that people ought to be able to make decisions in accordance with their own judgments and that power is distributed to them to enable them to do this.

The analogy to democracy in decentralized decision making

- Power, in the sense of ability to get what one wants out of a system of cooperation, can exist in perfectly competitive markets: from a nonegalitarian distribution of endowments.
- Power can also exist under imperfect competition as a result of bargaining power and as a result of property rights.
- The most basic determinant of power in decentralized decision making is the outside option or the ability to refuse to enter cooperation.
- An egalitarian distribution of such power would have to involve equal distribution of cognitive conditions and a highly robust equality of opportunity.

The Principle of Global Equal Capacity

- Two parts:
 - a. Global Equal Cognitive Conditions
 - b. Global Equality of Opportunity for Refusal of Consent and Exit

Legitimate Inequality

- When persons knowingly choose different outcomes.
- When some, because of greater talent in some area, are able to take the position that most suits their talents. They may acquire greater authority.
- But this does not imply a commitment to the idea that income should be distributed in accordance with talent.

Collaborative Power and Conflictual Power

- Collaborative power is power exercised in a way that it benefits everyone.
 - This kind of power is exemplified in perfectly competitive and complete markets.
- Conflictual power is power exercised in a way that benefits the power holder.
 - This kind of power is realized in incomplete markets with inequality and with monopoly or monopsony.

A distinction in equality of opportunity: competitive equality and constructive equality

- Competitive equality of opportunity takes the division of labor as fixed and the criteria for occupying some part of the division of labor as fixed independently. Each person simply competes on equal terms for the different positions.
- Constructive or creative equality of opportunity enables people to shape the division of labor itself and the criteria of success in that division of labor. One can do this by refusing to enter certain relations and accepting others.
- The egalitarian conception of fair market exchange emphasizes this later kind of equality.

An example of lack of constructive opportunity

- Suppose we have a society whose division of labor is made up of masters and slaves. There are only two basic positions in the division of labor one can occupy.
- But suppose further that the educational system is such that each person can compete to become one of the two and they can compete on equal terms.
- But after the competition most people are slaves and some are masters for the rest of their lives.

- The egalitarian conception would rightly condemn this form of organization for a number of reasons.
 - The division of labor is fixed.
 - While initially each person has a chance to determine how their lives go, once they are in the position of slave, they give up all further say in their lives.
 - Ex ante no one is selected for one or another position but the abilities of some to have a say in their lives is severely truncated once the initial competition is over.
- This might be similar to the case of democratically choosing a lifetime king in a hierarchical constitution. The equality is truncated after the initial choice.

Perfectly competitive and complete markets

- These kinds of markets realize a partial ideal of cooperation that accords with the democratic conception.
- In perfect and complete markets,
 - Everyone is a price taker so there is no market power of some over others.
 - Everyone has a complete set of Arrow-Debreu securities and so is insured against all eventualities. So everyone has a strong outside option.
 - Everyone has a kind of full opportunity since there are no transaction costs and information about everyone is complete, hence everyone moves immediately to the position most suited for him or her.
- Of course, the initial distribution of endowments would have to be egalitarian in order for these markets to be fully democratic.

Firms and Incomplete Contracts

- Firms in perfect markets are simply black boxes.
- The firm comes into its own in the context of incomplete markets with incomplete contracts.
- Incomplete contracts and authority become important in market economies because of the problems of low information and transaction costs.
- But though a firm must have some kind of authority structure, this does not imply that it must be authoritarian.

Application of the idea to the organization of production

- Constructive equality of opportunity can be limited when markets are rigid.
- Rigidity arises from imperfectly competitive and incomplete markets, not in perfectly competitive and complete markets.
- When markets are rigidly biased against egalitarian forms of economic organization, they violate the ideal of constructive equality of opportunity and thus the general ideal of democratic equality in the market.
- Except if the rigidity is based on productive efficiency.

Sources of Rigidity

- Background Inequality
 - Unequal opportunity
 - Unequal education
 - Unequal wealth
- Monopsony
 - Small number of firms, many workers with some difficulty moving from one firm to another
 - This may not occur with relatively low numbers of high skilled workers

- Owners may be able to block movement to worker control
 - Owners of capital may prefer fuller rewards even if the total product is lower.
 - Owners may impose external effects on workers
- Superior productivity
 - Hansmann argument as illustration
 - Paretian conception of equality
 - 2 different kinds of Paretian concerns: power of members of firm and welfare of members of society
 - Efficiency arguments are not successful as a general matter against different forms of worker participation

- The first three forms of rigidity are violations of the ideal of equal capacity.
- The fourth form of rigidity is not necessarily such a violation since it may advance the welfare of the worst off and this accords with a Paretian egalitarian principle.
- The first three forms of rigidity show that imperfect markets can violate the ideal of equal capacity.
- They call for the remedy of worker participation.

Basic Argument

- Equality of capacity is a requirement of procedural justice in economic life.
- Market organization that makes unequal governance or power inevitable or very likely makes it necessary that some people must give up their ability to shape the world around them to others violates equality of capacity.
- Unregulated imperfect markets actually do realize inequality of power under many circumstances
- A form of market organization that avoids unequal power by realizing equal governance without making the less powerful worse off ought to be implemented.

- Worker control or some degree of it is not an entailment of the egalitarian conception but a remedy for markets that are rigidly biased against more egalitarian structures.
- It can be possible on this conception that in a particular society there are no firms with worker participation if the reason for this is that many people prefer not to participate.
- There may be reason for collective action to install requirements of worker participation in firms in particular industries when there is a rigid bias.

- Except if the rigidity is the result of great differences in efficiency in firms such that everyone or nearly everyone is better off with the authoritarian form.

Difference with Parallel Case Argument

- This argument is distinct from the parallel case argument that Dahl advanced.
- Dahl compared each firm to a political society. This has always struck me as implausible as a general characterization of firms.
- This argument proceeds from the comparison of a whole economy with a whole political society and argues that markets that are open only to authoritarian forms of firms are systems that involve truncated forms of equality.

Capital

- What is the role of capital?
- I think that the egalitarian conception of markets should allow some significant claim for capital in controlling the firm.
- Saving and accumulating capital and advancing it for the purpose of a particular productive activity is a way of attempting to shape the social world one lives in.
- But the nature of the claim is highly uncertain and indeterminate.