# CHAPTER 6

# Markets without Capitalism

## INTRODUCTION

Capitalism gives the market economy a bad name. America and the world are sorely in need of a grand vision and coherent theory of life after capitalism and the role of markets in the economic systems of the future. Defining capitalism is a good place to begin. In my definition, it is an economic system with two essential characteristics. First, its basic unit is the firm that buys its factors of production in markets and sells its products in other markets. Second, the firm is owned by persons other than its workers, and the owners directly or indirectly[1] control it and appropriate economic surplus jointly produced by capital and labor. An enterprise is "capitalist" insofar as it possesses *both* these characteristics. By

1. The owners of a small business typically exert direct control over the enterprise, while the stockholders of a corporation exert indirect control through the intermediary of a board of directors and a chief executive officer (CEO). To be sure, individual stockholders generally have little or no control over individual corporations (Berle and Means 1991; Micklethwait and Wooldridge 2005). However, stockholders as a social class control all corporations in the more important sense of setting the profit expectations that CEOs must satisfy in order to remain in power. They do this by buying and selling stock in search of profits. If a corporation's profitability declines under a given CEO, stockholders will sell their stock in the company driving down its value. This makes the company vulnerable to a hostile takeover, threatening to unseat the CEO and overturn his policies. While a small capitalist entrepreneur exerts control more directly and has a more long term relationship with his or her business, their goal is generally the same as that of absentee stockholders—to make money. In the case of worker-owned and -controlled enterprises, by contrast, capital accumulation is a means to an end—maintaining the workers' livelihoods—not an end in itself.

comparison, a firm that possess only the first characteristic—buying and selling in markets—is not capitalist if it is owned and controlled by its workers.

The problem with capitalist firms, I would argue, is not their relationships with markets but rather their structures of ownership and control. Virtually all the evils of capitalism stem from the direction of enterprises by or on behalf of people whose primary or sole interest is making money off other people's labor. The ownership of firms by stockholders or bosses is why the rich get richer while the middle class and poor get poorer (Mandel 1982). It is why corporations abandon their workers in search of cheaper labor in a global race to the bottom (Melman 1983). It is why profit-seeking enterprises develop technologies that disregard the health and safety of their employees and customers and the very existence of ecosystems on which life as we know it depends (Klein 2011).[2]

Conversely, worker ownership and control of firms, whether complete or partial, can be expected to impact all these problems at a fundamental level. In this chapter, I discuss a two-pronged strategy for accomplishing this transition to a postcapitalist, market-based economic system. First, thousands of new enterprises fully owned and controlled by workers can be formed immediately by groups of workers acting locally, modeled on Spain's Mondragon cooperatives (Mondragon Cooperative Corporation 2011) and supported by a progressive mass movement.

Second, existing capitalist corporations can be transformed into hybrid enterprises that are jointly owned and controlled by their workers and outside investors, with some involvement of government. Like the first prong, this one can begin locally through worker buyouts of individual corporations financed by unions and other external sources of credit. However, the second prong is essentially a national political project for instituting partial worker ownership and control of all corporations. It would involve national policies, such as formation of worker equity in lieu

2. To be sure, some capitalist businesses are socially responsible, and a worker-owned business can in theory be irresponsible under certain conditions, for example, if the enterprise continues to manufacture an inherently destructive product, such as nuclear weapons, cigarettes, or carbon based fuels (in the context of global warming). In general, however, ethical considerations are extraneous to the culture of American capitalism and to the legally defined fiduciary responsibility of corporate boards. By contrast, a worker-owned and -controlled enterprise is under no pressure to satisfy arbitrary, externally imposed profit expectations; cannot be bought or sold in the interests of profit; and is governed democratically by stakeholders who have the most intimate possible relationship to the workplace, its surrounding community and natural environment, and the firm's suppliers, products, and customers. In such an ownership structure, the self-interest of the owners is generally aligned with the long-term needs of the enterprise itself and thus of other stakeholders and the local community and environment.

of the existing corporate income tax and the substitution of government representation on corporate boards in lieu of excessively cumbersome government regulation.

## PRODUCER COOPERATIVES: THE MONDRAGON MODEL

One of the best-kept secrets of the twenty-first century is a highly successful organization of worker-owned and -controlled enterprises, the Mondragon Cooperative Corporation, which grew in a few decades from a small workshop to one of the largest manufacturers of appliances and industrial components in Europe.[3] Seymour Melman (2001, 2002), a pioneering American theorist of industrial democracy, identified Mondragon as a model for linking innovation, productivity, and economic democracy. Nembhard and Haynes (2002) believe that cooperative enterprises of this type hold great promise for African American urban redevelopment. The United Steel Workers and the city of Riverside are currently setting up Mondragon-affiliated producer cooperatives in California (Davidson 2009; Gigacz and Ting 2011). I view Mondragon as a viable model for working Americans who want to regain control of their livelihoods from a global capitalist economy that is eroding their wages and job security.

Producer cooperatives date back at least to the utopian socialist experiments of Robert Owen in the 1820s. Father Jose Maria Arizmendi, a pastor in Spain's Basque region, studied the successes and failures of these early cooperatives and the writings of both Karl Marx and Catholic social teaching. In 1943, responding to the poverty and unemployment in his community, Arizmendi started a small technical school administered on democratic principles that became Mondragon University and expanded over the years to meet the educational needs of producer cooperatives.

After the war, a number of his students designed a small kerosene stove and began a manufacturing operation that became the first Mondragon cooperative. The enterprise was successful, and they consulted their pastor for advice about how to expand and organize on a larger scale. Arizmendi had studied how workers previously lost control of their cooperatives when they raised capital from outside investors. He advised his students to form their own cooperative bank to raise the funds they

3. Information in this section is drawn from Davidson (2009), MacCleod (1997), Melman (2001, 2002), and Mondragon Cooperative Corporation (2011).

needed. They did, and the bank expanded alongside an increasing number of industrial cooperatives, providing interest-bearing accounts for the local community and capital for existing and new Mondragon enterprises. This three-part cooperative model—production, education, and finance—is one of the keys to Mondragon's success. Producers need the innovation provided by education and training to succeed in a global marketplace. To retain control and internal democracy, they also need worker ownership of capital.

The other major reason for Mondragon's success is its internal organizational structure. Individual cooperatives are limited to about 500 members to ensure meaningful direct democracy. Worker-owners each have one vote and elect their managing director (and the managing director of the entire corporation) by a majority vote. A co-op's key decisions are made by a governing board drawn from the workers themselves; the managing director participates in these meetings but has little influence over them and is expected to carry out their decisions.

Matters of compensation are decided democratically, and the highest-paid manager or expert earns on average no more than five times the compensation of the lowest-paid worker, compared to a more than 200 to 1 ratio of average CEO to worker pay in recent years in the United States (Mishel 2006). A worker-owner cannot sell her shares as long as she belongs to a Mondragon enterprise; rather, she sells them back to the co-op on leaving, at which point she collects capital gains and (if retiring) a pension. A person is first admitted to the co-op by agreement of the existing members, after working for a brief period as a nonmember, and once admitted cannot be laid off.

If a struggling co-op cannot support all its members during a given period of time, some are sent back to school for retraining or absorbed by other co-ops. Failure of Mondragon enterprises is extremely rare, with only four cases out of the 260 that have been created in 50 years, compared with an approximately 70 percent failure rate within 10 years for start-ups in the United States (Shane 2008). In the unlikely event that a Mondragon enterprise goes out of business, its workers are absorbed by other cooperatives.

Mondragon is a living refutation of the capitalist notion that workers will slack off without top-down management and the threat of job loss and that they are incapable of organizing production by themselves. With the leanest possible administrative hierarchies and with workplaces that are dynamic learning environments, its cooperatives exceed the levels of innovation and productivity of conventional firms. This accounts for their extraordinary success—more than $20 billion in annual sales today

and enrollment of some 100,000 worker-owners in 260 enterprises spanning 40 countries (Mondragon Cooperative Corporation 2011). Mondragon is to economic democracy today what the United States was to political democracy in 1776, and Arizmendi is what Locke and Montesquieu were to the founding fathers. To renew itself and lead the world in the field of democracy once more, America needs to build on this pioneering Spanish model as it once built on English parliamentary traditions.

## TRANSFORMING CAPITALIST CORPORATIONS[4]

While Mondragon provides a fully developed and tested model of worker ownership and control and can be implemented in the United States with little or no modification, there is no such obvious and ready-made solution to the problem of existing capitalist corporations. Employee stock ownership plans, for example, create worker equity in their corporations but divorce this ownership from control, which remains in the hands of external stockholders typically having a short-term profit agenda. Similarly, employee pension funds, which are diversified across many corporations, cannot give workers control over their own workplaces and livelihoods. The result is that a worker with equity in an employee stock ownership plan or pension fund can still be laid off by a profit-seeking corporation in favor of a cheaper worker abroad. The small amount of stock that the worker retains after termination, needless to say, is scant consolation for loss of their livelihood.

Nor is the converse—worker control divorced from ownership—any more viable in the long term. To be sure, workplace democracy typically increases productivity by eliminating unnecessary administrative overhead and tapping the creativity and intelligence of workers, consistent with the Mondragon model. But while such experiments may have greater-than-average long-term profit potential, top managers typically pull the plug on them when they enter periods of unprofitability and/or when rival, conventionally managed divisions outmaneuver the innovators in the corporation's internal politics. Such was the fate of the Saturn Corporation, a promising worker-controlled and largely autonomous enterprise created by General Motors in 1985 but terminated 20 years

4. This section was written in collaboration with Olivier Mathey, a financial professional with expertise in capital markets and corporate taxation. Dr. Mathey also wrote the discussion of technical issues raised by the proposal that appears in Appendix 6.1.

later. Similarly, Germany's system of codetermination, which gives workers partial control but not ownership, left workers vulnerable to capital flight.[5] Unless backed by substantial worker equity and representation on corporate boards, workplace democracy is insecure and usually temporary.

Going beyond the precedents just discussed, the kind of postcapitalist economic system we propose here combines worker ownership with control. Further, it involves two innovations at the level of national policy. First, substantial worker equity would be instituted in exchange for abolition of the corporate income tax.[6] To minimize political resistance to the new proposal, it could be enacted as an option that existing shareholders and top management could forgo or choose to adopt. If widespread loopholes are first eliminated from existing tax law, however, the proposed system would be more advantageous to existing owners and managers than the corporate income tax. Some would still be hell-bent on retaining the status quo, of course, but their position would become increasingly untenable as firms adopting worker ownership and control began to outperform them in the marketplace.

As with the Mondragon model, workers would not be permitted to sell their equity except back to the corporation on retirement. The worker equity part of this grand bargain would appeal to Democrats in Congress, while Republicans would like the tax elimination part, making bipartisan support feasible. Worker ownership and control, as with Mondragon, would increase the level of innovation and productivity of firms. When coupled with elimination of the corporate income tax, American corporations would be well positioned to compete in the global economy without resorting to low-wage labor.

The second national innovation is also a bipartisan grand bargain: government representation on corporate boards in exchange for simplification of onerous regulations. The Federal Reserve would purchase perhaps 10 percent of corporate stock and appoint a member of each corporation's board. Having access to all internal corporate information, the

5. Reflecting the country's long social democratic and labor traditions, German law prohibits capitalists from shutting down factories without agreement by workers. As neoliberalism and the American-led race to the bottom spread to Germany, however, capitalists circumvented these traditions by establishing new factories in lower-wage parts of Europe.

6. Based on existing corporate tax rates, that would mean issuing about 30 percent of a corporation's equity to the workers. A higher percentage of worker equity could be achieved with external financing by the Federal Reserve. As discussed in this chapter's appendix, new shares issued to workers would not dilute the value of existing equity, since the workers' shares would not be traded in the stock market.

government director would serve as watchdog for the public interest. He or she would be a salaried civil servant insulated from the forces of crony capitalism.[7] To be sure, wielding only one vote, the government director would prevail in board decisions only as part of a majority coalition of directors representing both labor and capital. But the government director would often hold the swing vote and, having access to the inner workings of the boardroom, would bring an unprecedented degree of transparency to corporate decision making.

This proposed arrangement may be a uniquely effective solution to America's problem of crony capitalism. The interlocking and incestuous nature of corporate boards and their monopoly of inside information enable directors to advance their own interests at the expense of legitimate stakeholders. CEOs carry out these corrupt agendas and receive obscenely lavish compensation packages in return. To be sure, they must also seek to satisfy the profit expectations of shareholders, but this balancing act means that CEOs serve two masters, diluting their commitment to stockholders' interests in violation of their fiduciary responsibilities. And if the system works so poorly even for the owners, where does that leave other stakeholders, including workers, customers, and a general public with an interest in ecological stability? The presence of worker and government representatives on corporate boards would be an antidote to such corruption.

The purpose of having a government representative on corporate boards is not to eliminate regulation but to advance the public interest in the halls of corporate power in ways that existing regulatory regimes cannot. The limitations of the latter stem from the adversarial or potentially adversarial relationship between the regulatory agencies and the companies they regulate. An agency makes rules on behalf of the public, and profit-seeking companies seek to circumvent the rules, requiring the agency to make more complicated rules, in a vicious circle.[8] Having a

7. Many will object to expanding the power of the Federal Reserve in this way. Alternatively, the public directors could be appointed by a public agency independent of the Fed, whose director could be elected by the people or appointed by the president. In my opinion, the question of who appoints the public directors is less important than the terms of their appointment. The revolving door between corporate and government office—a system of legalized corruption—should be shut by a rule that no person who was employed in private industry is eligible to serve as a publicly appointed director in that industry, and no person serving as a director can be privately employed later in the same industry. Under these rules, only individuals willing to forgo private gain in order to work for the public interest would agree to serve as publicly appointed directors.
8. Corporations generally prevail in this conflict by getting elected officials to appoint industry representatives to top positions in the agencies, part of what social scientists call "regulatory capture." But politics is an ongoing process, and corporate control of the agencies is never complete or secure, especially when elections change the party in power.

government representative on every corporate board would help break this vicious circle by promoting corporate policies that are informed by the public interest from the outset. The result should be a significant shrinkage of the red tape and paperwork generated by the current, more adversarial regulatory process.

In one sector of the U.S. economy—banking and finance—government representation on corporate boards can not only streamline but also virtually replace traditional regulation, such as the Dodd-Frank law. The intent of this law was to prevent the kind of excessively risky lending and derivative making that created the 2008–2009 financial crisis. But no set of general rules—however complex—can adequately accomplish this, especially in a sector being continually remade by innovation, much of it intended precisely to circumvent regulation. By contrast, the presence of a Federal Reserve employee in corporate boardrooms would enable government to continually monitor risk taking in a simple and effective manner. Further, the entire cohort of these government directors, meeting among themselves, would have a unique capacity to access systemic risk—precisely the kind of knowledge that government needs to prevent financial crises but that is not currently available to external regulators.

The reforms of corporate ownership and governance that we propose here are a uniquely American way of bringing the U.S. economy up to speed with institutional innovations that give some European and Asian firms competitive edges in the world economy, such as German co-determination and the kind of government-corporate partnerships developed in Japan, China, and elsewhere. Important details—such as the exact percentages of worker, government, and outside investor equity—remain to be worked out and will be determined through the political process. (For a discussion of technical issues raised by this proposal, see Appendix 6.1.) As discussed in Chapter 8, the progressive movement can exert pressure on Beltway and corporate elites by organizing an exodus of consumer and investor dollars from the capitalist economy into the emerging economy of Mondragon-type producer cooperatives as well as corporations that are bought out by their workers.

In summary, the progressive movement should be creative and politically pragmatic in promoting worker ownership and control. Its bottom line, however, is the need for at least substantial worker ownership and control, along with some minimal government stake and involvement in existing capitalist corporations. The goal is to fashion an economic system that preserves the advantages of free markets but that works for all Americans, not only for the rich. The present chapter has provided a

conceptual framework and strategies for advancing this agenda. But more is involved in securing a sustainable, prosperous, and just future. I turn now to the question of how the United States can create a first-rate public education system for the twenty-first century.

## APPENDIX 6.1: BEYOND CAPITALISM—THE NEW CORPORATE MODEL

By Olivier Mathey, PhD

Under the program described above for instituting worker ownership and control of corporations, U.S. C-corporations would be exempted from federal tax obligation in perpetuity provided they freely granted 35 percent of their total stock currently outstanding to the federal government, more specifically the Federal Reserve, together with the promise to grant 35 percent of all future stock issuance as well, to avoid diluting the government's interest while retaining the tax benefit. This arrangement should be looked on favorably by the market, as technically 35 percent of all profits ought to go to taxes, dubious foreign shelters such as the Double Irish and Dutch Sandwich notwithstanding. It is very apparent that, given the obvious fact that these structures only mean to avoid taxation and have no other business purposes, they are technically already illegal under IRS regulations, even if said provisions of the tax code are currently not specifically brought to bear thanks to the generosity of corporate sponsors vis-à-vis the Congress in what amounts to legal bribes. Similarly, withholding taxes on income earned by foreign corporations in the United States ought to be raised to 35 percent as well in order not to entice domestic companies to relocate overseas, as Tyco did a few years back, but these are minor technical details. All in all, freedom from taxation would unleash immense creative forces within corporations, hitherto focused on tax avoidance with all the appertaining personnel and time required, with the added benefit of much greater productivity, so that one might credibly argue that no revenue would be forfeited by the government in practical fact, in spite of the apparent loss of corporate income tax, as higher payroll taxes and dividend payments to the Fed would more than substitute for current corporate levies. A true free lunch indeed. Moreover, corporations in the program would be allowed to repatriate funds held overseas free of tax as well, which may in itself be the source of significant economic activity in the future within the United States The question of states corporate taxes could be dealt with simply, with each individual state within the Union piggybacking

on the federal model, in exchange for a further [2] percent capital stake, whose proceeds would be dynamically apportioned by the Fed to the states, depending on the level of actual business conducted by a given corporate entity in a given state on a turnover basis in a given year.

Once in possession of 35 percent of the capital stock of a given C-corporation, the government would then issue four synthetic securities for each share it owns. The first component is the voting right, entitling its bearer to elect the board of directors and opine on corporate matters. The second, the dividend stub, would be the right to receive the dividend if any; the third, called prime, would entitle the bearer to the first [25] percent of the share's appreciation over the next [10] years, while the fourth security, the score, would receive all capital appreciation, if any, beyond [25] percent at the [10]-year mark. Actual upside participation thresholds would vary by industry. The government would then sell the first three securities (voting right, dividend stub, and prime) on 25 percent of the 35 percent stock it owns to longtime employees of the corporation making less than $[100,000] total compensation and in nonexecutive positions, in order to ensure that board cronyism could have no sway over or control on this important portion of the capital base. Such sale to longtime workers would be heavily subsidized to encourage widespread ownership and could be financed at 0 percent interest rate with the Federal Reserve with only a modicum down payment on a nonrecourse basis. Needless to say, said securities would not be freely negotiable but could only be surrendered back to the government, at then prevailing rates. To discourage churning, there would be a minimum [one]-year window between purchases and sales, and there would be concentration limits to make sure no individual or category of eligible workers benefit disproportionately from the program.

Dividends and capital gains paid to the employees under the program would be tax exempt as a further incentive, and it is certain that both the government with its 10 percent remaining voting rights and the newly empowered workers with their 25 percent voting rights would actively militate so that the dividends in question amount to a sizable, albeit sustainable, proportion of net take-home income in very short order if not from the start. One would think that remaining market shareholders would not mind a generalized policy of relatively high payouts across all corporations—far from it. Note that, after research and development, typical corporate cash outlays comprise shares buyback, acquisitions, and dividends, and the former two have a rather checkered history in practice. As CNBC's Jim Cramer has amply demonstrated, virtually all corporations buying back shares exhibit a marked tendency to carry out

their purchases closer to market tops than bottoms, thus in effect impoverishing remaining shareholders. Acquisitions, on the other hand, while sometimes a propos as exemplified by Oracle, which grew into the software giant it is through a series of well-timed mergers, more often than not prove simply disastrous, on the line of the fabled AOL-Time Warner hookup. By contrast, no company has ever gone wrong paying a high while sustainable dividend, which also acts as a better protection of share value in times of severe market downturns, as again Jim Cramer has shown. "Sustainable" traditionally has corresponded to about half of after-tax profits and could therefore be safely enhanced in a corporate tax-free environment.

Before we go on exploring the advantages of such a system, let us consider the example of a company already paying high dividends, such as a utility. Let us hypothesize that there are 73 million shares outstanding, paying a yearly dividend of $1.20 each before conversion to tax-free status, and that the company employs 4,600 people. Conversion to tax-free status would then correspond to a new tally of 112.3 MM shares, the original 73 MM and another 39.3 MM, amounting to 35 percent of the new total, granted to the government in exchange for freedom from tax. Assuming no increase in dividend total outlays, each share would now pay $0.78 in dividend per annum. The government would sell primes, dividend, and voting rights on 28 MM shares of the 39.3 MM it owns, which is an average 6,100 certificates per worker on average, paying $4,760 in dividends annually. The purchase price in the case of a natural high yielder would be such that the shares yield at least [10] percent in tax-free dividend per annum, so therefore $47,600 in this instance, and could be financed over [10] years at a [0] percent interest rate after a means-tested down payment. Workers making less than $[20,000] a year would need no down payment, whereas workers closer to the $[100,000] limit would need to put down [20] percent of the purchase price, so that a low-paid worker would be able to finance his or her shares over [10] years from the tax-free dividend at no cost out of pocket while exercising voting rights and participating in the appreciation upside represented by the prime right away and thereby accumulating valuable assets for the long haul, such as retirement.

If the company pays no dividends, there would be a moratorium on loan repayment until the company in question does start paying out a dividend, when improved results warrant such an outlay, or at the Fed's and workers-owners' behest. The price and yield of the discounted shares would be fixed, depending on the growth potential of the industry a particular company is involved in. The payoff would have to be higher in

low-growth sectors with poor capital improvement perspectives, such as electric utilities, and could be lower (i.e., shares would be less severely discounted) in high-tech, high-growth areas of the economy.

Note that the Fed's partial ownership essentially would entail automatic auditing of the companies on an annual basis and regulation mainly via suasion, as opposed to heavy, undiscriminating pieces of legal mumbo-jumbo, such as Sarbanes-Oxley or Dodd-Frank, well meaning but in consequential and burdensome in their implementations in an endless, wasteful, and ultimately futile game of cat and mouse between regulator and regulated. Fraud control would be much alleviated with the Fed and workers participating in all corporate decisions (which should make another Enron or WorldCom impossible), including executive compensation, which thereby could be brought down to earth: American CEOs are compensated at such superior levels as compared to their peers on an international level that there cannot be a market explanation for such disparity: cronyism and lack of democracy at the board level is the only possible answer.

Since the Fed would know all essential facts of every major corporations from within, it would now be possible to gauge and monitor systemic risk across all market participants on a real-time basis, as opposed to arm's-length and delayed, ex post, specific requests or subpoena from without, thereby alleviating if not eliminating the so-called too-big-to-fail risk, as the government instantly could implement its will through persuasion and democratic processes on every relevant board if it detected a worrisome global trend, such as, for instance, excessive leverage within the banking industry or concentration of particularly dubious assets, with the participation of the longtime workers block and socially minded possible allies, such as pension plans, quite a few of which being known as activists in their own rights, such as CalPERS. Lighter regulation in turn would make all companies more nimble, proactive, and faster in their decision making, therefore more profitable and responsive to changing market forces. In every poll of business leaders, excessive regulation is always mentioned as the greatest impediment to greater business activity and hiring.

Other advantages of the reform would include, pell-mell, pollution control since the Fed would represent the public on the polluters' boards and would see to it that the standards are strictly adhered to. Labor-management relationships would be greatly improved since in effect the Fed and workers together would almost control management, with the same natural allies as noted earlier, while retaining the crucial majority input of market participants on every board, thereby avoiding the well-known mishaps of state capitalism or "dirigisme." This should bring

about greater worker participation and suggestions for research and development, a higher morale, and greater productivity and therefore higher profits and dividends ceteris paribus. Smooth labor-management relations and collective decision making are renowned to be at the core of the old Japanese Miracle, and for good reasons.

Moreover, under our proposal, the famous conflict between the short-term interest of most market shareholders versus the long-term interest of the company itself that is so detrimental to the unfettered capitalist setup would be resolved since both the Fed and the workers would be long-term oriented. No takeover leveraged buyout or merger could be carried out without the workers' consent, which points to greater stability, peace of mind, and democracy in boardrooms. The deleterious collusion between boards and managements so endemic in the traditional capitalist model would also disappear because of the emergence of a strong, equity-rich, prolabor bloc. Debt levels would be more easily controlled with the Fed at the source of the indebtedness as a board member rather than as an outside, after-the-fact macroscopic monitor, with the only tools of short-term interest rates and the money supply size. It should also be easier to get industry to work together on alternative energy programs and other projects that are vital to the nation but whose short-term profitability is uncertain and therefore unappealing to unreformed capitalists. The government would also save untold billions in weapons and other procurement programs since it would now have the inside story on true weapons development costs. Currently, defense contractors' after-tax margins are more than double average industry figures, 25 percent return compared to around 10 percent for industry as a whole.

An important remark is now in order. Our proposal smacks of the "wage-earners' funds" idea put forward by Meiner and Palme in Sweden in the early 1980s. The idea was to use part of a company's profit to buy shares of said company in the open market so that, in due time, these shares could be represented on the board of the company by the workers who, in a second phase, would be left with total control. But there are crucial differences. The "wage-earners' fund" idea is dangerous because it could entice a company to shun growth and instead make itself barely profitable to avoid such progressive takeover. Moreover, buying the shares in the open market could drive their prices to unrealistic levels, which would actually work out to the advantage of capitalist owners or speculators, not the workers. Lastly, the workers themselves would not personally have a say in management. Rather, some "Big Brother" fund substitutes for them, a situation akin to that of the many pension funds in the United States, effectively owned by the workers and controlling

40 percent of the equity outstanding but potentially acting very much like any other capitalist entity, independently of direct labor concern and consideration. This explains why the idea actually met with lukewarm approval among Swedish workers at the time and was actually shelved. Our blueprint calls for direct worker ownership and would actually spur growth, not inhibit it. Moreover, this feature also addresses the major criticism leveled at German-style comanagement (Mitbestimmung). Under German corporate law, a supervisory council (Aufsichtsrat) names and oversees the managerial board (Vorstand), and a 1952 law (BetrVG 1952, revised in 2004) provides that workers in companies with an established Betriebsrat, or works council (11 percent of German companies in practice), have a third of the seats on said Aufsichtsrat. But this disposition essentially allows the other two-thirds representing the shareholders to elect the Vorstand at will. Not good. To remedy this flaw in the case of large companies, a 1976 law calls for parity between workers and shareholders on the Aufsichtsrat, but its president (Vorsitzer) must be a shareholder, and he can cast a tie-breaking vote. Furthermore, management representatives on the Aufsichtsrat, although allied with shareholders, are considered representatives of the workers, further diluting the rank and file. Therefore, in practice, some workers do indeed get Vorstand representation, but it is at no expense and to no financial benefit to them, and because they are generally such a small minority of most managerial boards (Volkswagen being a notable exception), they do not value their board memberships much. It is just a gimmick, as argued long ago by Deppe et al. (1973).

As the proponents of Venezuelan Cogestión argue, this merely makes the workers complicit in their own exploitation. The same comment applies to French ESOPs [employee stock ownership plans] (decree of 1946 and law of 1967), which call for two worker representatives on the board (somewhat more for state-controlled companies) and shares in at most 5 percent of capital. Not so here: workers would ultimately control 25 percent of the shares on a leveraged basis meant to increase their return and free market interests another 65 percent, and the state retains 10 percent. Not only would workers be strong enough for blocking minority rights, but the permanent alliance of the state representative and the workers, together with natural allies such as pension plans, could essentially de facto "nationalize" the company, on a temporary basis at least, while maintaining a strong private sector involvement, unlike Venezuelan Cogestión, which essentially refers to shared management between the workers and the state, frequently after eminent domain expropriation of private sector interests. On that account, Cogestión is a variation on the tired theme of state capitalism that has failed around the world.

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