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# Public ownership, worker control, and the labour epistocracy problem

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## ABSTRACT


This paper argues that influential contemporary models of market socialism fail to do justice to traditional socialist concerns about exploitation and, by implication, about workplace oppression. More precisely, neither pure public ownership models (such as Roemer's), nor hybrid models of public ownership plus worker control (such as Schweickart's) suffice individually to attenuate exploitation and workplace hierarchy. Quite independently of alienable capital, these theories fail to account for the labour epistocracy, a class of workers who, by dint of higher marketable epistemic credentials and talents, can subjugate the labour of those with lower epistemic credentials. An improved model of market socialism would, I argue, account for the labour epistocracy by combining universal worker control with a strongly predistributive form of public ownership.

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Economists are mainly interested in the efficiency properties of different models of socialism; philosophers are mainly interested in their normative properties. In this paper, I undertake to discuss a subset of these normative properties, namely the exploitation properties of market socialism.

I will argue that influential contemporary models of market socialism fail to do justice to traditional socialist concerns about exploitation and, by implication, about workplace oppression. More precisely, neither pure public ownership models (such as Bardhan, 1993, Roemer, 1994a), nor hybrid models of public ownership plus worker control (such as Schweickart, 2002, 2011) suffice to attenuate exploitation and workplace hierarchy. These shortcomings are, quite independently of alienable capital, due to a failure to account for the labour epistocracy, a class of workers who, by dint of higher marketable epistemic credentials and talents, can subjugate the labour of those with lower epistemic credentials. An improved hybrid model of market

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socialism would, I argue, account for the labour epistocracy by combining universal worker control with a strongly redistributive form of public ownership.

## 1. Arguments for market socialism

Market socialists believe that a socialist economy can retain the productive dynamism of an advanced capitalist economy without the inequality, exploitation, and unfreedom that is necessarily concomitant with the latter.<sup>1</sup> Market socialist debates originate in the 1930s (Hayek, 1940, Hayek, 1948, Lange, 1938). They were revived in response to Yugoslav experiments with worker control in the 1960s (Brus, 1972, Devine, 1992, Vanek, 1970) and then again following the collapse of the dictatorships of Eastern Europe in the early 1990s (Bardhan & Roemer, 1993, Nove, 1983, Weisskopf, 1993).

Roemer (1994a) offers a helpful summary of the market socialist debate to date, citing five discursive stages from the 1930s to the 1990s. According to Roemer, the first stage of the debate between market socialists (such as Oskar Lange, Abba Lerner) and their pro-capitalist critics (such as Friedrich von Hayek, Ludwig von Mises) granted that economic calculation – and therefore the possibility of economic planning – must make irreducible reference to prices. Without prices there is no way to impute opportunity costs to alternative production methods and therefore no hope of achieving an efficient, socially nonwasteful allocation of resources. Most socialist economists today agree with this conclusion.

In the second stage of the debate, market socialists insisted that prices can be imputed by solving systems of simultaneous equations for all markets, with the help of advanced computing. But in the third stage, they accepted criticisms by von Hayek (1940) and others, according to which the sheer volume of information necessary to calculate general market equilibrium made the use of *actual* markets indispensable. The fourth stage of the debate focused on incentives, with emphasis on Kornai's (1986) idea of the soft budget constraint. This turned out to be a subset of the more general principal-agent problem: how an egalitarian economic planner can get firm managers to follow the rules of the socialist game. The fifth stage of the debate, which takes us up to the 1990s, involved:

proposals ...concerned mainly with implementing a more equal distribution of income, by preventing growth of a small class whose members derive huge incomes from the profits of firms. Proponents of these models hope that equality of opportunity for political influence and equality of social status will thereby be enhanced .... (Roemer, 1994a, p. 35)

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<sup>1</sup> See Arrhenius (2016) for a helpful taxonomy of different forms of socialism.

Roemer's emphasis on equality of opportunity and equality of social status signals a retreat from the traditional socialist concerns with exploitation, domination, and alienated production. That retreat, I will argue, needs to be addressed in any attempt to revive theories of market socialism, or to inaugurate the debate's sixth stage.

This paper makes a first step in that direction, by defending an account of exploitation with apposite socialist lineage. That account, I argue, explains the specificities of capitalist exploitation while subsuming widely-held objections against workplace hierarchy under that explanation (Section 2). The paper then discusses market-socialist theories of pure public ownership, taking Roemer (1994a) as a baseline model (Section 3). I argue that pure public ownership models are likely to do little to attenuate exploitation or workplace hierarchy, conferring too much power to a labour epistocracy (Section 4). I then consider a promising institutional remedy: hybrid theories of public ownership plus worker control, taking Schweickart (2002) as a baseline model. After criticizing Schweickart for paying insufficient attention to the labour epistocracy, I defend an improved hybrid model. The model accounts for the labour epistocracy by combining universal worker control with a strongly redistributive form of public ownership (Section 5). The paper concludes by discussing certain limitations of that model in connection with banking and finance (Section 6).

## 2. The exploitation argument

Exploitation, as I understand it, is a special kind of domination: domination-induced surplus extraction. Exploitation, in this sense, just is the activation of the extractive dispositions of the powerful, which begets them unilateral labour performance from others. That service is 'unilateral', in the sense that the duration or quality of labour received is greater than what is given. In this section, I argue that this account provides a plausible generic description of exploitation under different modes of production, that it can explain the *differentiae specifica*e of exploitation under capitalism, and that it subsumes plausible and widely-held complaints about workplace hierarchy under that general explanation.

The philosophical literature on exploitation is concerned with what makes exploitation generically unjust. On the account I will consider, A (an able-bodied and able-minded agent or group of agents) exploits B when A possesses a power over B and uses it, without independent justification, to extract unilateral labour flow from B. In this sense, exploitation is a dividend of servitude: the domination-induced extraction of unilateral service from others. This account of exploitation enforces a reciprocal bind, which ensures that A cannot, by dint of her power of B, get B to provide more, or more intense, work than A. Barring an independent justification

for unequal power, A and B should enjoy equal control over each other's labour performance.<sup>2</sup> In practice, this domination account requires that B has an equal say on all matters that subject her labour to A's decisions, and vice versa. I now briefly consider three important features of the theory.

Consider, first, how the domination account deals with generic exploitation complaints. Slave-owners, feudal lords, husbands under patriarchy, and capitalists all reap without sowing, that is, receive labour without giving labour.<sup>3</sup> Moreover, that extraction only reflects their power, not some genuine independent justification in favour of unilateral labour flow. This explains the sense in which exploitation generically presupposes the exercise of the extractive powers and dispositions of the powerful. Exploitation itself is *not* a dispositional property, but rather the activation of a disposition of the powerful – slave-owners, feudal lords, husbands, capitalists – to extract unilateral labour flow.<sup>4</sup>

This helps clarify the *differentiae specificae* of exploitation under capitalism. Under slavery, feudalism, and the patriarchy, the extraction of the surplus labour of the slave, serf, and wife, respectively, transpires as the forcible appropriation of that labour by master, lord, and husband.<sup>5</sup> Not so under capitalism. Suppose B is a cook in a competitive capitalist economy. She does not own or manage her own cookshop. She also lacks nonmarket access to cooking materials. She must therefore sell her cooking power to A, the cookshop owner, in order to earn the wherewithal to buy her means of subsistence. This gives A power over B, through control over B's cooking labour. If A makes a profit, that is, manages to extract a surplus from that labour, then she receives more labour than she gives. And since that surplus extraction obtains through A's power over B, A exploits B.

Here, the labour power of the cook – supposing she is a wage labourer – appears as the private property of the cook, a power she is free to dispose of at the going wage rate. Insofar as markets are competitive and in equilibrium, the cook receives the full value of what she sells, namely the commodity *labour power*, in the form of a wage. The typical socialist move here is to argue that this appearance conceals the exploitative *essence* of capitalist exchange, which consists in the cook producing value-added above the value of her labour power. This surplus labour constitutes the profit appropriated by

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<sup>2</sup> I defend this account of exploitation in Vrousalis (2019a), where I also discuss effort as an alternative metric to exploitation complaints. For all present purposes, the account of exploitation defended in this paper is compatible with theories of domination found in Pettit (1997) and Ripstein (2009).

<sup>3</sup> 'Normally', because a president and CEO of a capitalist firm might, in her capacity as CEO, work more hours than each of the firm's workers. But, unlike them, she is not bound to produce for them as much and as good as they are bound to produce for her.

<sup>4</sup> In Vrousalis (2019a) I make this idea more precise by appeal to the notion of unequal exchange of labour.

<sup>5</sup> One might here add the forcible extraction of surplus labour by Party officialdom, as in the former dictatorships of Eastern Europe.

the capitalist who, *in her ownership capacity*, gives zero labour but, by dint of ownership-conferred power over the worker, consumes more than zero.

Marx famously suggests that this extraction of unreciprocated labour flow through voluntary market exchange can *formally* replace slavery, serfdom, and patriarchy: 'If supremacy and subordination come to take the place of slavery, serfdom, vassallage and other patriarchal forms of subjection, the change is purely one of form. The form becomes freer, because it is objective in nature, voluntary in appearance, purely economic' (Marx, 1976, pp. 1027–1028). So a difference between exploitation under slavery, feudalism, and patriarchy, on the one hand, and capitalism, on the other, is that the latter presupposes a separation between appearance – the '*fictio juris*' of the labour contract – and reality – the alienation of the cook's surplus labour to the cookshop owner. Under capitalism, this alienation of labour must appear as a relation between equally-positioned commodity owners.<sup>6</sup> But this appearance of freedom and equality is illusory. For it is *the cookshop-owner who controls the conditions of the cook's labour*, which is what enables her to control and exploit that labour. The features of capitalist production that make it appear as a system of equality and freedom 'turn out to be inequality and unfreedom' (Marx, 1973, pp. 248–249). The domination account therefore unmasks capitalism's self-representation as a mode of production based on equality and freedom.

I now explain how the domination account of exploitation subsumes garden-variety objections against workplace hierarchy under that more general critique of capitalism. These objections hold that capitalism is objectionable insofar as it vitiates worker autonomy<sup>7</sup> or degrades worker creativity and skills.<sup>8</sup> According to the domination account, the source of that oppression is not the capitalist workplace as such, but the nature of the capitalist labour market. It is, in other words, the market-conferred power of the cookshop-owner that enables her to oppress and exploit the cook, not her control over the *actual* labour process. The kindly capitalist who never exploits her workers (e.g. by distributing all profits to the workers at the end of each year) still *dominates* them, insofar as the form of the labour process is *up to her* and not up to them.<sup>9</sup>

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<sup>6</sup> Marx is right that capitalist transactions between consenting adults are 'voluntary' in the sense that the exploitee is *not* coerced by the capitalist to accept the transaction. Indeed, she might enjoy reasonable and acceptable alternatives to being exploited, such that she is not even forced into exploitation by her economic circumstances. Yet, insofar as she accepts employment for a capitalist, she will end up producing value added exceeding the value of her labour-power. That is, she will generate power-induced unilateral labour flow for the capitalist.

<sup>7</sup> See, for example, Anderson (2015), Breen (2015), Gonzalez-Ricoy (2014).

<sup>8</sup> The classic here is Braverman (1974).

<sup>9</sup> The cookshop-owner controls the labour process *formally* when she directly controls the cook's labour. She controls it *really* when she introduces productivity-enhancing and potentially labour-saving technological improvements. This distinction between the 'formal' and the 'real' subsumption of labour to capital marks the difference between mere capitalist relations of production and the capitalist *mode* of production proper. See Marx (1976) and Vrousalis (2018a).

So, although she does not strictly exploit, she does structurally relate to her workers as exploitable and therefore as subordinates.

The rest of this paper applies the foregoing critique of capitalism to the institutions of market socialism. I show how, on the basis of that critique, marketable resources other than alienable capital can function as vehicles of labour subordination. I then enlist that argument to argue for a form of worker control with a strong predistributive component.

### 3. Pure public ownership

According to Roemer (1982, 1994a), capitalism evinces three sources of exploitation:

- (a) inequalities in marketable *worldly resources*,
- (b) inequalities in marketable *knowledge resources* and control over organizational processes, and
- (c) inequalities in marketable *talents* and 'personal' resources.

Roemer (1982, 1994b) dubs exploitation that issues from (a) *capitalist exploitation* and exploitation that issues from (b) and (c) *socialist exploitation*. (b) includes copyright law and patents in ideas, but also the knowledge workers attain through education and vocational training, in addition to tacit knowledge obtained exclusively in the workplace. (c) includes abilities and transferable talents due to genetic factors. Now, it bears noting that Roemer himself does not ground these claims on a theory of domination.<sup>10</sup> But these claims plainly are relevant to the domination account of exploitation I have just sketched. For, on that account, all of (a) to (c) are possible sources of power-induced surplus extraction, as long as they involve *marketable* resources that confer, on some, power over the labour of others.

To deal with capitalist exploitation and its ramifications, Roemer (1994a) develops and defends a market socialist model based on pure public ownership. Roemer's model would give every citizen an equal and tradeable share in the beneficial ownership of the means of production. There is a coupon stock-market, a socialist imitation of the capital market, in which coupons are freely tradeable but not monetizeable or bequeathable. Every year, each worker receives a dividend from her share of the stocks, worth several thousands of dollars, as a matter of right. This is a model of *pure* public ownership, in that it does not include worker participation or worker control.<sup>11</sup>

<sup>10</sup> Unlike Roemer (1982, 1994a) is largely uninterested in exploitation, such that the domination-based, non-distributive considerations mooted in the previous section, are not on his radar. This is why his main objections to (a)–(c) are couched in terms of 'equal opportunity for political influence' and 'equality of social status' (see the first two chapters of Dworkin (2000), for the main inspiration behind Roemer's change of mind).

<sup>11</sup> For similar models, see Bardhan (1993), Weisskopf (1993). Roemer (1994a, pp. 50–51) acknowledges this.

Roemer thinks that his model preserves the allocative efficiency of the capitalist capital market, while ensuring that ownership does not translate into (a)-type inequalities. The non-bequeathable and non-monetizable nature of the coupon stockmarket, he argues, immunizes labour from capitalist exploitation. The model raises a host of questions about industrial organization, the role of socialized banks and finance, and the role of the state. But it suffers from a glaring blind-spot, namely inequalities across firms in terms of their members' marketable knowledge, know-how, and talent, that is, (b) and (c). There is considerable evidence (see for example Piketty, 2014, Roemer, 2000) that these inequalities contribute to power-induced surplus extraction just as much as inequalities in alienable means of production. I now make this objection more precise.

#### 4. The labour epistocracy

Roemerian managers organize production from above. Roemerian socialism therefore allows market norms of talent, knowledge and skill scarcity to determine the remuneration of the beneficiaries of the genetic lottery, along with those who possess scarce knowledge and technical skills. In that sense, Roemer fails to address the problem of the *labour epistocracy*, the existence of a class of workers who, by dint of higher epistemic credentials and talents, can subjugate the labour of those with lower epistemic credentials.<sup>12</sup> The labour epistocracy includes Piketty's (2014) 'supermanagers', but also the talented self-employed, whose extraction of scarcity rents in the market – think LeBron James and Lionel Messi – enables them to control the labour of others.

Now, the Roemerian stockmarket gives everyone an equal share in the market value of, say, Apple stocks. These stocks presumably include the value of Apple's human capital capitalized. But *this says nothing about the determination of the (pre-profit) rents extracted by the labour epistocracy in the form of positions, perks, and wages inside socialized firms*. These rents will partly determine the size of the coupon dividend, which, according to Roemer, is to be shared equally across all members of society.<sup>13</sup> More worryingly, insofar as epistocratic inequalities ramify beyond inequalities of income and wealth – e.g. are expressed in hierarchies in the organization and meaningfulness of work – a sufficiently progressive tax system will not suffice to attenuate them. Even a 100 percent marginal tax rate on income and wealth is compatible with a labour epistocracy.

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<sup>12</sup> The labour epistocracy is distinct from Kautsky's (1901) and Lenin's (1916) labour *aristocracy*, in that the former is a coalition of direct producers who exploit other producers by leveraging their scarce knowledge and talents in the market. For an account of the epistocracy in a different context, see Estlund (2009).

<sup>13</sup> It is precisely for this reason that G.A. Cohen's famous critique of unequalizing incentives focuses on 'certain forms of market socialism' (G. A. Cohen, 2008, p. 34); Cohen does not only have Rawls in his sights.



So pure public ownership models of market socialism, like Roemer's, are blind to epistocratic, (b)- and (c)-based, forms of exploitation. They are also, for that reason, likely to be unstable:

The changes proposed in this tradition are merely distributional, and, apart from the disappearance of powerful tycoons, the bulk of the social differences between CEOs and ordinary employees is left untouched... One can even question the stability of the property arrangements of market-socialist models, because the ruling class of managers would have very strong incentives to push toward the restoration of capitalism, with little popular resistance. (Fleurbaey, 1993, p. 274)

One possible rejoinder to these epistocratic objections, recently broached by Thomas (2017), consists in supplementing the pure public ownership model with the full panoply of *redistributive* and *predistributive* liberal institutions, such as free access to health, education, training, and so on. This supplementation, call it Roemer+, promises to attenuate (b)-type inter-firm inequalities and therefore remove an important source of exploitation.

Unfortunately, this rejoinder will not take us very far, since substantial epistocratic exploitation will persist, even after re- and pre-distribution have done their work. For one, tacit knowledge and sector-specific skills can only be obtained in the workplace; substantial (b)-type inter-firm inequalities are therefore likely to persist under Roemer+.<sup>14</sup>

More importantly, Salieri cannot be Mozart; I cannot be LeBron James. On the domination account of exploitation, natural brute-luck inequalities as such are unproblematic,<sup>15</sup> as long as they do not translate into power-induced control over the labour of others. But if (c)-type inequalities are pervasive, and if there is a labour market, as in Roemer+, then they will likely translate into epistocratic exploitation. That is, for as long as there are humans like Beauvoir and Dostoyevsky and Mozart and James, a subset of whom are able and willing to leverage their scarce talents in the market, they will be able to extract monopoly rents or grub high-ranking jobs managing the labour of others.<sup>16</sup> As Howard and King (1975, p. 131) point out, epistocratic rents must be understood along the lines of the monopolistic models that Ricardo and Marx reserved for agriculture. It follows that even the predistributive version of pure public ownership, Roemer+, is unlikely to sufficiently attenuate exploitation, as understood in this paper.

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<sup>14</sup> For a more extensive argument that the Thomist extension of the Roemer model does not suffice to attenuate exploitation, see Vrousalis (2018b).

<sup>15</sup> Indeed, they are a brute fact about this world that make it an unambiguously better place, that is, better in every relevant respect.

<sup>16</sup> In the latter case, they are likely to be exploiting the labour of those others. Note that the distinction between 'can't' and 'won't' is relevant here. That James *won't* perform socially beneficial work without extracting a scarcity rent does not exempt him from the ambit of the proviso that censures such extraction as exploitative. But if he *can't* perform that work without a scarcity rent (e.g. to compensate him for increased labour burden or difficulty), then that might exempt him from the requirements of the proviso.

## 5. Public ownership + worker control

The domination account of exploitation accounts for the labour epistocracy, including its implications for workplace hierarchy, by subsuming it under a more general explanation of the domination of labour by capital. That explanation implies that an eminently defensible remedy to the labour epistocracy is *worker control*: the firm is managed by its own workers, who control its labour/nonlabour input mix and its entire output. So instead of turning the productive process into a dictatorship of experts, one might ensure that knowledge, especially skills and tacit knowledge, is shared as equally as possible through democratically elected managers, optional job rotation and training, and the full panoply of constitutional protections afforded by a pro-labour labour law.<sup>17</sup> These policies are likely to compress (b)- and (c)-type inequalities within firms and inject an ethos of solidarity into the economy. The most sophisticated model in this literature is due to David Schweickart.

Schweickart (2002, 2011) develops a model of worker control in which workers operate and manage profit-maximizing state-owned firms. The Schweickartian firm is not a marketable commodity, but a *community of producers*, membership of which entitles each to equal voting rights – one person, one vote. Every firm keeps a depreciation fund, which ensures it can procure repairs and capital replacement. Aggregate investment in the economy, as a whole, is funded by a capital tax on worker-controlled firms and is socially administered by regional and national legislatures, through the banking system. Schweickart's is a *hybrid model* of market socialism, in that it combines public ownership of the firm with universal worker control.<sup>18</sup>

Schweickart's model does well attenuating intra-firm inequalities, especially intra-firm (b)-type inequalities due to unequal skills and tacit knowledge. The model's Achilles heel is its treatment of market-generated, inter-firm inequalities. Differences in profitability across cooperatives are likely to generate (a)-type inequalities.<sup>19</sup> Insofar as these inequalities reflect differences in labour input, effort, or adaptability to new technology, they are not necessarily sources of exploitation. But if they mere power-reflecting differences in the capital/labour ratio, or in talent and innate skill, then they are possible sources

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<sup>17</sup> Terminological sidenote: although worker control over the firm may have positive or negative pre-distributive effects, it is not a *form* of predistribution, any more than capitalist control is a form of predistribution. Issues of control over the workplace pertain to the mode and relations of production, not to forms of distribution of their product.

<sup>18</sup> For similar accounts, see Ellerman (1993), Vanek (1970). Rawls (2001) broaches a version of the hybrid model, which he calls 'liberal democratic socialism', but does not defend it.

<sup>19</sup> On the assumption that exploitation can obtain through mere trade across firms with different capital-to-labour ratios (whether of physical or human capital), cooperatives can exploit cooperatives. For a defence of this claim, see Roemer (1982), Vrousalis (2018a).

**Table 1.** Exploitation under the Roemer+ and Schweickart models.

Source of exploitation	Roemer+	Schweickart
(a)-type: intra-firm	n/a	n/a
inter-firm	+	–
(b)-type: intra-firm	–	+
inter-firm	?	?
(c)-type: intra-firm	–	+
inter-firm	+	–

of exploitation. Schweickart (2012) admits that his account does worse than the Roemer model on that count.<sup>20</sup>

Things get worse. Suppose that greater (a)-type inequalities across democratic firms will, other things equal, exacerbate (c)-type inequalities. Burdin (2015) argues that there is such a tendency, which is largely due to the substantial expected relative gains, for the talented, of exit over voice. Then, given that the Schweickart model does worse than Roemer+ in terms of (a)-type inequalities, it is likely to do worse, other things equal, in terms of (c)-type inequalities.

One might object, in defence of Schweickart, that a democratic firm would endogenously compress the extent of *intra-firm* epistocratic inequalities, subject to efficiency constraints. But even if the objection is granted, it does not follow that *inter-firm* epistocratic inequalities, which originate from the labour market itself, will fail to create conditions of epistocratic exploitation. A democratic workplace does not guarantee a democratic economy.<sup>21</sup>

To sum up the argument so far: by dint of their emphasis on the (p)redistribution of capital, pure public ownership models, such as Roemer+, do better in terms of (a)-type and possibly of (c)-type inequalities.<sup>22</sup> By dint of their emphasis on workplace democracy, on a solidaristic ethos, and on informal and tacit knowledge, worker control models do better in terms of (b). Table 1 summarizes the pros and cons of the two theories, in terms of the different sources of exploitation.

<sup>20</sup> Schweickart's flat-rate tax on the firm's capital assets might go some way towards attenuating (a)-type inequalities. But the whole point of that tax is to generate state revenue with minimal distortion to accumulation incentives. Significantly raising the tax rate or making it highly progressive would defeat that purpose. See Williamson and O'Neill (2012).

<sup>21</sup> See J. Cohen (1989), Vrousalis (2019b). One of the reviewers for this paper objected that a competitive market composed of democratic firms contrasts with a market composed of capitalist firms in that the former do not face a 'grow or die' imperative. Market competition is therefore likely to be less intense under worker control. The objection misses the point that inter-firm, (c)-type inequalities are *labour-market-conferred powers over the labour of others*, that is, sources of rents originating from the segmented structure of the labour market, not the product market.

<sup>22</sup> 'Possibly', that is, on the assumption that the lucrativeness of exit for the talented dominates the integrity of voice. But if exit does not dominate voice, such that the talented do not change employment much, and if the distribution of talents across firms is uniform and relatively wide, then the Schweickart model might do better overall in terms of (c), by compressing *intra-firm* inequality. The question of the workers' ethos (Casal, 2013, G. A. Cohen, 2008) is paramount here.

Given the pros and cons of each model, it would seem that a worker control model with a stronger predistributive component than Schweickart's could do better, in terms of exploitation, than each model by itself. One obvious way to do this would be to convert the capital value of Schweickartian worker-controlled firms, or, more narrowly, of their depreciation funds, into Roemerian coupons. This would produce a more strongly predistributive version of public ownership than Schweickart allows, keeping worker control in place. It would thereby make room for a non-capitalist capital market, Roemer-style, which might also generate important efficiency gains (Dow, 2003, Fleurbaey, 1993).<sup>23</sup>

Would this hybrid form of market socialism – coupons + worker control – suffice to abolish the exploitation and monetized servitude of human beings?

## 6. Is the hybrid enough?

A lingering and important concern pertains to the role of investment finance in the hybrid model. Financial institutions, whether state-owned mutual funds holding Roemerian coupons or Schweickartian loan-making investment banks, have power over firms. They therefore have power over the labour of their workers. The question is whether that power is independently justified (e.g. by technological requirements), or whether it is exploitative. In this section, I broach three possible descriptions of a market socialist banking system. I then raise some questions about their exploitation properties.

In the Roemer model, socialized firms are owned by large consortia akin to the Japanese *keiretsu* system. Their investment is funded by public banks and managerial performance is tied to the consortium's coupon-share price. In the Schweickart model, by contrast, public banks are funded by general taxation, not individual savings. The income from the flat-rate tax on the cooperatives' capital assets forms a 'national investment fund', controlled by public banks. These banks are, in turn, controlled by 'national, regional and local legislatures' (Schweickart, 2011, p. 56), which also monitor and determine the remuneration of bank managers. Finally, in a cognate model of economic democracy developed by Marc Fleurbaey, there are private and public investment banks, all of which could be worker-owned. As in the Roemer model, there is competition between banks, but not all banks are public. The possibilities are depicted in Table 2.

Fleurbaey (1993) argues that, unlike the Roemer model, the relationship between bank ownership and control in the Schweickart model gives rise to a principal-agent problem.<sup>24</sup> What incentive do national and local legislatures

<sup>23</sup> Note that the existence of worker control does not, as such, remove the stick of financial discipline furnished by the Roemer model, since the banking sector may be legally responsible for monitoring the worker-elected management of democratic firms.

<sup>24</sup> Principal-agent relationships arise in situations where a principal (e.g. the owner) needs an agent (e.g. the manager) to maximize some objective function, but lacks complete control over the agent's actions.

**Table 2.** Banking structure under market socialism.

Banking structure	Roemer model	Schweickart model	Fleurbaey model
Ownership	Public	Public	Mixed
Control	Managers	State	Workers
Competition	Yes	No	Yes

have to fund the most socially productive national and local investments? And how does the appointment and remuneration of state-owned bank managers conduce to the most socially desirable allocation of investment funds? Moreover, the absence of competition in the Schweickartian banking sector raises the spectre of epistocratic exploitation of workers by banks. The argument for that conclusion is as follows.

By the definition of exploitation, the only way the individual worker will fail to be exploited is if she can bind any other worker in the economy, *whether in her own firm or in any other*, to performing as much and as good labour as he can bind her. Barring some independent justification for unilateral control over the labour of others, power-induced unequal exchange of labour is exploitative. On this definition, there will be no exploitation within the Schweickartian *firm*, since each worker has an equal say on all matters that subject her labour to the decisions of another. But there may still be exploitation in the Schweickartian *economy* if, say, the managers of state-owned banks have too much power over the cooperative labour of their borrowers, such that they can extract epistocratic rents.

No such rents are extracted when state officials and bank managers temporarily compel worker cooperatives to take less leisure, say, in order to tap into an important new technology – as opposed to squeezing their share of net revenue per hour to increase manager perks and pay. If that happens,<sup>25</sup> it would make sense to introduce more competition between banks, binding their behaviour more closely to market signals. That is, it might make sense to link the allocation of investment to a noncapitalist capital market along Roemerian lines or to allow the operation of some private banks along Fleurbaeyan lines, subject to the anti-epistocratic caveats set out above. Once again, worker control attenuates intra-firm epistocratic exploitation, while a strongly pre-distributive form of public ownership attenuates inter-firm, market-induced exploitation, epistocratic or otherwise.

Whether capital market competition can satisfy desirable efficiency properties without conferring extractive powers to the banking sector is a difficult question, conceptually and empirically. As the Roemerian and Fleurbaeyan

<sup>25</sup> For an argument that banks will, in general, have too much power in the Schweickart model, see Fleurbaey (1993, p. 275f). A bank can extract surplus value through loans to surplus-value-extracting capitalists, but also through direct loans to the direct producers, e.g. workers' cooperatives and the self-employed. Schweickartian socialized banks attenuate the former, but not necessarily the latter form of extraction.

models show, that question is also overdetermined by issues of agency and control. To address them head on, we need more research into the ethics and economics of financial exploitation.

## 7. Conclusion

Influential contemporary models of market socialism fail to do justice to traditional socialist concerns about exploitation and, by implication, about workplace oppression. More precisely, neither pure public ownership models (such as Bardhan, 1993, Roemer, 1994a), nor hybrid models of public ownership plus worker control (such as Schweickart, 2002, 2011) suffice to attenuate exploitation and workplace hierarchy. These shortcomings, I argued, are due to a failure to account for the labour epistocracy, a class of workers who, by dint of higher marketable epistemic credentials and talents, can subjugate the labour of those with lower epistemic credentials. I tried to show that an improved hybrid model of market socialism would account for the labour epistocracy by combining universal worker control with a strongly predistributive form of public ownership.

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