

Markets and democracy: participation, accountability and efficiency

Edited by

SAMUEL BOWLES

*Department of Economics,
University of Massachusetts, Amherst*

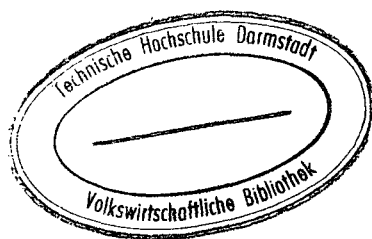
HERBERT GINTIS

*Department of Economics,
University of Massachusetts, Amherst*

and

BO GUSTAFSSON

*Department of Economic History, University of Uppsala
and Director, Swedish Collegium for Advanced Studies in Social Sciences*



CAMBRIDGE
UNIVERSITY PRESS

Contents

| | |
|---|----------|
| <i>List of figures</i> | page xii |
| <i>List of tables</i> | xiii |
| Preface <i>Bo Gustafsson</i> | xv |
| 1 Post-Walrasian political economy | 1 |
| <i>Samuel Bowles and Herbert Gintis</i> | |
| 1 Introduction: new light on an old debate | 1 |
| 2 Post-Walrasian democratic theory | 2 |
| 3 Walras' fiction | 4 |
| 4 Walrasian economics and post-Walrasian political economy | 5 |
| 5 Varieties of post-Walrasian economics | 9 |
| Part I Agency, incentives, and democratic accountability | 11 |
| 2 The democratic firm: an agency-theoretic evaluation | 13 |
| <i>Samuel Bowles and Herbert Gintis</i> | |
| 1 Introduction | 13 |
| 2 The employment relationship and contested exchange | 15 |
| 3 Short-side power and democratic accountability | 20 |
| 4 Market failures arising from contested exchange | 21 |
| 5 The efficiency of the democratic firm in regulating work | 27 |
| 6 Impediments to the success of the democratic firm in a competitive capitalist economy | 31 |
| 7 Conclusion | 34 |
| 3 Alternative employment and payment systems | 40 |
| <i>D. M. Nuti</i> | |
| 1 Wage employment: fixed rate, subjection, and job insecurity | 40 |
| 2 Permutations of the employment contract | 40 |
| 3 Lowering the marginal cost of labor | 40 |
| 4 Cyclical flexibility of earnings | 42 |
| 5 Productivity enhancement | 42 |
| 6 Overclaims | 42 |
| 7 Profit, capital gains, and capital-sharing | 43 |
| 8 Power-sharing | 43 |
| 9 Job security | 44 |

| | | |
|-----------------|---|------------|
| 10 | Cooperatives | 44 |
| 11 | Meade's labor-capital partnerships | 45 |
| 12 | From dependent workers to part-time co-entrepreneurs | 46 |
| Part II | Institutions and institutional change | 49 |
| 4 | Toward a framework for analyzing institutions and institutional change | 51 |
| | <i>Leonid Hurwicz</i> | |
| 1 | Introduction | 51 |
| 2 | Mechanisms and adjustment processes | 52 |
| 3 | Institutions | 58 |
| 5 | Imperfect choice and rule-governed behavior | 68 |
| | <i>Ronald A. Heiner</i> | |
| 1 | Introduction | 68 |
| 2 | From imperfect choice to predictable behavior | 68 |
| 3 | Analytical tools for studying imperfect choice | 69 |
| 4 | Rule-governed plus information-ignoring behavior | 75 |
| 5 | Instinctive rules in non-human behavior | 78 |
| 6 | Dynamic rules and ethics in human exchange | 80 |
| 7 | Rule instability with sufficient intelligence | 82 |
| 8 | Agreement versus stability of social rules | 83 |
| 9 | Conclusion | 84 |
| 6 | Organizational equilibria and institutional stability | 86 |
| | <i>Ugo Pagano</i> | |
| 1 | Introduction | 86 |
| 2 | The New Institutional view of the firm | 86 |
| 3 | A "radical" inversion of the New Institutional view | 89 |
| 4 | Property rights/technological equilibria: a simple model | 94 |
| 5 | Generalization of the argument, drawing an "inverted" Williamson contracting scheme | 103 |
| 6 | Conclusion | 110 |
| 7 | Agency problems and the future of comparative systems' theory | 116 |
| | <i>Mieke Meurs</i> | |
| 1 | Introduction | 116 |
| 2 | Agency problems and comparative systems | 117 |
| 3 | Toward a new paradigm | 123 |
| Part III | Conditions for the success of the democratic firm | 127 |
| 8 | After the employment-relation: problems on the road to enterprise democracy | 129 |
| | <i>Louis Putterman</i> | |
| 1 | Introduction | 129 |

| | | |
|----------------|--|------------|
| 2 | Why capital hires labor, revisited | 129 |
| 3 | Conceptualizing the transition to democratic enterprises | 131 |
| 4 | The labor-managed economy: labor and product markets | 132 |
| 5 | Finance and property rights in capital | 136 |
| 6 | Participation, empowerment, and the workplace | 138 |
| 7 | Conclusion | 144 |
| 9 | Unions versus cooperatives | 148 |
| | <i>Karl Ove Moene and Michael Wallerstein</i> | |
| 1 | Introduction | 148 |
| 2 | Competitive capitalist equilibrium | 149 |
| 3 | Competitive equilibrium with workers' cooperatives | 150 |
| 4 | Capitalist equilibrium with collective bargaining | 153 |
| 5 | Bargaining rights versus property rights | 155 |
| 10 | Demand variability and work organization | 159 |
| | <i>David I. Levine</i> | |
| 1 | Introduction | 159 |
| 2 | Literature review | 160 |
| 3 | The model | 162 |
| 4 | Statistical evidence | 167 |
| 5 | Conclusions | 174 |
| 11 | Democracy versus appropriability: can labor-managed firms flourish in a capitalist world? | 176 |
| | <i>Gregory K. Dow</i> | |
| 1 | Introduction | 176 |
| 2 | Output choice, expected dividends, and organizational form | 177 |
| 3 | Investment incentives and organizational form | 182 |
| 4 | Evolutionary outcomes and welfare comparisons | 186 |
| 5 | Failures in the market for LMF membership | 191 |
| Part IV | Productivity, distribution, and power | 197 |
| 12 | Cooperation, conflict, and control in organizations | 199 |
| | <i>Avner Ben-Ner</i> | |
| 1 | Introduction | 199 |
| 2 | Definitions | 200 |
| 3 | Control as a consequence of incentives for cooperation and conflict | 203 |
| 4 | The exercise of ultimate control: organizational design | 206 |
| 5 | The allocation of ultimate control in organizations | 210 |
| 6 | Conclusions | 212 |

| | | |
|-----------|---|-----|
| 13 | Wage bargaining and the choice of production technique in capitalist firms | 217 |
| | <i>Gilbert L. Skillman and Harl E. Ryder</i> | |
| 1 | Introduction | 217 |
| 2 | The bargaining game | 217 |
| 3 | Bargaining outcomes and the firm's choice of technique | 221 |
| 4 | Discussion | 224 |
| 5 | Conclusions | 227 |

Part V Ownership, participation, and capital markets 229

| | | |
|-----------|---|-----|
| 14 | The motivational role of an external agent in the informationally-participatory firm | 231 |
| | <i>Masahiko Aoki</i> | |
| 1 | Introduction | 231 |
| 2 | The value of participatory information-processing | 232 |
| 3 | The incentive difficulties of pure workers' control | 236 |
| 4 | The P-value-enhancing role of an external agent | 241 |
| 5 | Institutional remarks | 244 |
| 15 | Unstable ownership | 248 |
| | <i>Tone Ognedal</i> | |
| 1 | Introduction | 248 |
| 2 | The model | 249 |
| 3 | Instability | 251 |
| 4 | Restrictions on the trade with shares | 256 |
| 5 | Conclusions | 258 |
| 16 | The simple analytics of a membership market in a labor-managed economy | 260 |
| | <i>Ernst Fehr</i> | |
| 1 | Introduction | 260 |
| 2 | A legal structure for labor-managed firms | 261 |
| 3 | Demand and supply for membership rights | 263 |
| 4 | Membership adjustment and the shut-down condition | 264 |
| 5 | LMF-maximand, comparative statics, and turnover | 267 |
| 6 | Labor-market equilibrium and shock absorption properties | 268 |
| 7 | Membership markets for different types of labor | 271 |
| 8 | Differential income shares for identical workers | 272 |
| 9 | Summary and conclusions | 273 |

| | |
|---|-----|
| Part VI Political democracy and economic democracy | 277 |
| 17 Investment planning in market socialism | 279 |
| <i>Ignacio Ortúño-Ortín, John E. Roemer and Joaquim Silvestre</i> | |
| 1 Introduction | 279 |
| 2 The economic environment | 282 |
| 3 Constrained Walrasian equilibrium: a command-market-thought experiment | 283 |
| 4 A generalization of Lange's idea | 285 |
| 5 Direct provision of investment by the state | 288 |
| 6 The sales-tax model | 289 |
| 7 Conclusion | 292 |
| 2* The economic environment | 294 |
| 3* Constrained Walrasian equilibrium: a command-market-thought experiment | 295 |
| 4* A generalization of Lange's idea | 296 |
| 5* Direct provision of investment by the state | 298 |
| 6* The sales-tax model | 299 |
| 18 Capitalism and democracy: a summing up of the arguments | 306 |
| <i>Martin L. Weitzman</i> | |
| 1 Introduction | 306 |
| 2 Some definitions | 307 |
| 3 Capitalism and socialism | 309 |
| 4 Capitalism and democracy | 312 |
| 5 Conclusion | 315 |
| Bibliography | 316 |
| Author index | 335 |
| Subject index | 338 |