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New Approaches in the Theory of Economic Democracy

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Abstract

In the twentieth century, while political democracy triumphed economic democracy failed both as an idea and in practice. A case for reviving the idea of economic democracy is made in terms of protecting political democracy. Economic democracy has conventionally been understood as a matter of bringing economic power under the control of collective political power. The idea is here reformulated as a matter of redistributing economic power between persons, of giving people a share in economic power directly rather than through elected representatives. Political democracy is assumed, which is to say that political power is under the control of the middle class. The question then is under what conditions the middle class might want and think it could use political power to redistribute economic power. It is further concluded that there is considerable scope for redistribution of economic power between rich and middle class in advanced capitalist democracy.

Introduction

The twentieth century was, finally, the century of democracy. Older democracies improved in quality, above all by extending the vote: from a minority of men to all men, from men only to also include women, and eventually to embrace the young. Many new democracies have emerged. From 1985 to 2000, the number of 'most democratic' countries in the world increased from 44 to 82, the number of 'authoritarian' regimes was reduced from 67 to 26, and the share of the world population living in 'most democratic' countries increased from 38 to 57 per cent (UNDP, 2002). Democratic values continue command broad popular support throughout the world (Boudon, 2002).

Yet the history of that century can also be written as one of democratic failure. Many of those who looked forward to a bright democratic future saw that as a matter of bringing all power, including economic power, under democratic control (Dahl, 1985). While political democracy has triumphed, economic democracy has failed.

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Economic democracy is an idea in need of being reinvented. The job of a theory of economic democracy is to give life to that idea and explain how it might be turned into a practical reality.

One reason to ask for economic democracy could be that it simply follows from the idea of democracy that economic power should be under democratic control. That is a logical position which, however, in the end probably does not have much to it. Economic democracy, contrary to political democracy, does not appear to be something people are ready to take to the streets and fight for.

There is, however, another argument, more pragmatic and instrumental and therefore possibly more persuasive, which goes to the democratic quality of society. If we have democracy in political life but not in economic life and if the weight of economic power grows relative to political power, then citizens might have reason to question how democratic their society 'really' is and whether political democracy is 'really' of much relevance. There is here a trap of collective irrationality arising from individual rationality which could lead us into a vicious circle of disenchantment with the very idea of democracy (Parr, Putnam and Russel, 2000). If democracy is seen to decline, citizens will rightly see their share in it to be less worth and will have reason for indifference and for withholding participation, whereby they would be reacting to decline in a way that produces further decline.

Five trends on the meeting ground of democracy, public policy and capitalism are adding up to a formidable shift in the balance of power. First, with economic growth the simple weight of economic power has grown enormously. Political power is constant: each voter has one vote. Economic power grows: each holder of capital holds progressively more capital. When there is more capital, capital speaks more loudly.

Second, private wealth is not only accumulating but is increasingly concentrated in the hands of a small élite. True, more people are owners of valuable holdings but the total stock of capital is increasingly concentrated in its distribution (Wolff, 1966).

Third, with economic liberalisation private capital has been given (or reclaimed) access to arenas previously under direct political control. In the European welfare states, public utilities have been massively privatised and public services - from schools and hospitals to transport and prisons - are increasingly delivered by various forms of 'public-private-partnerships' (Public Policy Research, 2002).

Fourth, while political power is pulling or being pushed out of market arenas, private economic power is invading political arenas. The main mechanism is the escalating cost of party and campaign politics, something that puts political power into the hands of those who are able to and interested in funding political activity.

Finally, with globalisation and new electronic technology, capital markets have gone international and started to escape the nation state (Stiglitz, 2000). This has radically strengthened the hand of capital. On the one hand, it has more or less freed itself from political control, which for all intents and purposes - the European Union notwithstanding - continues to reside in the nation state. On the other hand, if capital should see its freedom or profitability endangered by legislation where it operates, it can threaten to pull out and move to better markets in more friendly countries. Let us call this 'the threat of exit'. The credibility of that threat has given capital unprecedented powers of veto in economic legislation.

The Failure of Economic Democracy

Citizens in democratic societies value both prosperity and equality, the dilemma the economist Arthur Okun called 'the big tradeoff' (Okun, 1975). They want equality but not at the cost of prosperity, at least not of much prosperity. If they can have prosperity or a reasonable hope of prosperity, they will sacrifice equality, or at least some of it. There is in a democratic society no scope for economic democracy that comes at the cost of economic efficiency. Let us call this 'the imperative of efficiency': no political arrangement, even if itself democratic, is democratically feasible unless it is seen to be (reasonably) compatible with economic efficiency.

Various attempts can be identified through the last century of subordinating economic resources and activities to political control, all failures. The extreme case is that of Soviet style command economy, in which the highest hopes of 'real democracy' were once invested. Yugoslav style workers' democracy has not survived, British style nationalisation of heavy industry such as steel and coal has not survived, the French socialists' move to nationalise major banks was but a brief experiment quickly given up with no sadness, and the Swedish idea of bringing capital under democratic control in 'wage earner funds' withered the moment it was tried (Pontusson, 1992).

These experiments failed because they did not survive the encounter with the imperative of efficiency. The theory that political control over the economy would be conducive to economic efficiency proved wrong. By the end of the century the domain of equality had been pushed back out of economic life and increasing income inequalities were absorbed in society with little or no political resistance (Atkinson, 1995). The big trade-off bids us to compromise and the compromise that has materialised is that political equality has been obtained in equal rights and the universal vote, but that economic equality has been given up because it is not seen to be possible without prohibitive costs.

The lesson so far, then, is that if we were to raise again in any realistic manner the vision of extending democracy from the political to also embrace the economic, we would need to ask how that could be done without a significant economic cost. Economic democracy that is not economically sound is not democratically credible; it will not be wanted. It is not just that it will be unwanted by those who are in control of capital; it will be unwanted by ordinary citizens. The imperative of efficiency is a hard test. What made the command economy a forceful idea in its time was that it promised both equality and efficiency, and the reason it has become discredited is that there is no longer any basis for upholding that hope. Yet an acceptable alternative idea of economic democracy must again make that promise. It must show that economic *power* can be democratic without economic *efficiency* being sacrificed.

Study of Economic Democracy

Imagine an economy which generates enough income to satisfy the consumption needs of everyone who live in it, but nothing more, and which distributes that income with perfect equality. Economic power would then be distributed 'democratically'. Everyone would have a tiny fraction of it and no one would have more than anyone else. It would be equivalent to the political power contained in the vote and sit with 'the people' in the sense that everyone would have a say but no individual or small group a controlling share.

Of course no economy looks like that. In real economies, firstly, there is a surplus. More income is generated than is required for basic consumption. That surplus sits mainly with the rich in the form of cash and accumulated property.

Secondly, there is not equality. The distribution of income in modern capitalist economies has been described imaginatively by Jan Pen as 'a parade of dwarfs (and a few giants)' (Pen, 1971). At the bottom of the distribution is a group of people on very low incomes, on less than can reasonably be seen as adequate to their needs. They are the poor, those without enough money to shape their own lives according to normal standards and expectations in their society. In the middle of the distribution is a large group with more or less even incomes around or (most of them) just short of the mean income in the economy. Their income is adequate to their needs but they have little or no surplus. At the top of the distribution is a third group whose incomes are above or (most of them) much above the mean. They are the rich: they have money for their own needs and a surplus, hence also wealth.

This is obviously a rough description. There are not sharp lines between the groups, there are distributions within them, persons can move up or down from one group to another, and the overall distribution is not stable. But modern economies do divide by income and wealth into three classes which we might call the 'upper class' (or 'the rich'), the 'middle class' (or 'ordinary people') and the 'underclass' (or 'the poor'). The underclass is small, say 5 to 10 or 15 percent of the population. The upper class is also small, say 10 to 20 percent, while the middle class is the large one, comprising perhaps 70 to 80 percent of the population (Atkinson et al 1995).

Economic power is of two kinds, the power to make one's own choices for one's own life - the power of freedom - and the power to shape or influence the choices others can make - the power of dominance. The class pattern of economic power is as follows.

First, poor people are without the economic resources which are necessary for effective freedom and obviously have no power of dominance.

Second, the mixed situation of the middle class. People on middle class incomes have the money to meet their own needs and hence some considerable power of freedom, but little or no surplus; pretty much what comes in goes out. They may have some wealth, typically in the form of housing property and modest savings, but not wealth that contains power of dominance. They have freedom of choice but the economic power that decides much of the choice that is available to them is in the hands of others.

Third, a surplus of economic power in the upper class. The rich have economic freedom, of course, and then the additional power that comes from serious wealth. They hold an effective monopoly on the power of dominance.

If now this is the prevailing and democratically unsatisfactory distribution of economic power, a distributional theory of economic democracy would prescribe a redistribution of economic power to those who have 'too little' from those who have 'too much'. As political democracy has been realised by 'equalising' political power, economic democracy would be realised by 'equalising' economic power. I now turn first to the problem of power: under what conditions and to what degree could we realistically see political power applied to the redistribution of economic power? Then I consider practical measures of redistribution, in part with the help of selective examples.

Political and Economic Power

We start from the assumption of political democracy and take that to mean that all citizens are equal in the political power contained in the vote. I do not consider except in passing other sources of political power such as information, organisation and the like. I assume that people have objective interests which arise from their socio-economic conditions, that they are disposed to acting rationally to advance or protect those interests, and that both economic and political power are things people would rather have than not have. The only route towards economic democracy which I consider is the legislative one. I assume that legislation flows from the dog-fight of interests and power and do not consider the intervening institutions and processes through which that happens. The context is the advanced capitalist democracies.

Political power is equal between persons, but that translates into inequality in the class pattern, although in a very different distribution to that of economic power. Here it is numbers that add up. Both the underclass and the upper class are weak and the middle class is in control, making the underclass dependent on it and the upper class threatened by it.

The First Rule of Economic Democracy

Economic democracy depends on the mobilisation of ordinary people; there will not be economic democracy unless ordinary middle class people decide to use their voting power to make it happen. However, political power goes only so far. Its use depends on middle class interests - on what it might *want* to do - and on constraints - on what it thinks it *can* do. The use of political power is constrained by other forms of power, principally the economic power that is in the hands of the upper class. But economic power cannot override political power in any kind of coercive way. The middle class has the political power it has and no economic power can take that away (short of a *coup-d'état*, which is outside the context of the present discussion). Economic power must therefore work politically through *arguments* which those who hold political power accept.

The arguments that have clout are the two we have introduced: the imperative of efficiency and the threat of exit. The best arguments for the upper class are those which the middle class freely accept as persuasive. The upper class then gets its way by the force of reason. The efficiency argument is of this kind. The exit argument is of a very different kind. It works by making the middle class feel forced to concede under duress.

The reason the efficiency argument is good and the exit argument is bad (from the point of view of the upper class) lies in what we might call 'moral capital'. Reputation, esteem and honour are valuable commodities in democratic capitalism, essential for the upper class, whose position is perforce the defensive one, in their mastery of the political game. The efficiency argument is good because its use, when *sachlich*, costs nothing in moral capital. The exit argument is bad because, although effective, it often works only at the expense of moral capital. If you force someone to yield to your interests against their will, you get what you want but your esteem suffers and it will be more difficult for you to have it your way next time.

The interest of the *middle class* is to attack the power surplus in the upper class; the upper class has much of what the middle class wants more of. But that is not to say that the middle class will take action in that interest. It *ought* to want to take on the rich but that may be a rather theoretical interest. The most sophisticated experiment in economic democracy to date, that of wage earner funds in Sweden, is illustrative. It seemed to promise the middle class everything but found it not receptive. Such funds were established and were in operation from 1984 to 1992, when they were closed down. Their establishment did without doubt eat into the economic power of private capital but that failed to attract the support of ordinary people. They were offered voting power over the governance of the funds but not even that aroused much interest. It was argued, clearly correctly, that power would shift to wage earners, i.e. the middle class, collectively, but that did not move the people who constituted the class said to be gaining power. No power or other benefit came to *them*. They saw nothing in it for themselves and were mostly indifferent (Gilljam, 1988).

The Second Rule of Economic Democracy

For the middle class to be interested in economic democracy it must come in a form that brings tangible benefits to the members of that class, not just to the class collectively but to persons in it.

Even if the middle class should *want* to expropriate upper class power and might see gains to itself in doing so, it will be fearful of acting because of a perceived risk that economic efficiency may suffer. The imperative of efficiency is a subjective matter; it is about middle class *fears*. If the upper class is able to argue with persuasion that it is the best manager of capital in the interest of economic efficiency and growth, its economic power will not be under threat from middle class political power.

The Third Rule of Economic Democracy

The middle class will only be interested in forms of economic democracy which it is very confident can be implemented without noticeable loss in economic efficiency.

The interest of the *upper class* is to protect its surplus in economic power but it does not hold the political power to do so. It needs to persuade the middle class to non-action.

The efficiency argument is its most effective weapon. It suggests that it is in everyone's interest that those who happen to control capital are allowed to do so with relative freedom. If others then concede they are doing so rationally and for their own good. This is the basis for a social contract: the middle class leaves the upper class free in economic enterprise and the upper class underwrites the prosperity of the middle class.

If the efficiency argument does not persuade the middle class - and there are without doubt many forms of power surplus in the upper class that have no basis whatsoever in economic efficiency - holders of capital can resort to the threat of exit. However, raw threat is an expensive argument to use. While the imperative of efficiency enables the upper class to mobilise the moral force of a shared interest, the use of raw threat leaves it exposed in naked defence of privilege. This hands the moral argument to the middle class, and forces the upper class into a very uncomfortable position. That position it wants to avoid, which is to say that it would be willing to pay something to avoid it. There is therefore a meeting ground between the middle class and the upper class for economic democracy - not necessarily much but some. That ground is in economic power which, firstly, is not persuasively rational by arguments of efficiency and which, secondly, cannot be defended without the expense of disproportionate moral capital. Bluntly, outrageous or outrageously used income and wealth are fair game for middle class political power.

The Fourth Rule of Economic Democracy

There is a window of opportunity for economic democracy in forms of economic power which cannot be defended rationally by the imperative of efficiency.

The interest of the *underclass* is to obtain economic freedom but it does not have the political power to claim it. It needs to persuade the middle class to action. The middle class in turn has an interest in helping the poor. Poverty threatens the social order which serves the majority well and is a disturbing nuisance in otherwise pleasant middle class life. Here the middle and the upper classes are allies.

However, this interest is only to contain poverty, not to eradicate it. Rampant poverty is dangerous and unpleasant, but some poverty - not too many too poor - is not. Furthermore, the interest of the middle class in helping the poor is tempered by the awareness that it would also have to pay the brunt of the cost of anti-poverty policies. It could theoretically pass on that bill to the upper class but that avenue is constrained by the imperative of efficiency (as is explained in more detail below). The numbers are with the middle class and most of the tax burden will fall there.

The Fifth Rule of Economic Democracy

A policy to effectively lift the poor to economic freedom rests on a magic whereby the middle class makes itself interested in doing more for the poor than it is in its interest to do.

In capitalist democracies, we now see, the facts on the ground in the joint arena of political and economic power limit very severely the space for economic democracy. But the constraints are not so severe as to leave no space at all. The way to reinvent economic democracy is not to devise a new big scheme but to identify the narrow openings which realistically exist for the use of political power to redistribute economic power.

Taxation Issues

If the middle class could use its political power freely in taxation it could massively redistribute income and wealth. But that is not possible. The middle class is itself interested in holding taxes down and is not (knowingly) going to impose on itself a (much) heavier tax burden than it is able to impose on the upper class. The upper class in turn has the power to resist taxation and therefore holds veto power in tax policy.

In direct taxation, the upper class can control the *level* with the threat of exit. When capital is movable a tax regime which looks unreasonably harsh in comparison with other countries is not within possibility. This is seen as so obvious - and is on display daily in the financial pages - that the argument works on its own without the rich having to expend any moral capital. Economic democracy in one country by way of noticeably higher taxes than in other (comparable) countries is therefore not a viable option.

It is also able to hold the *distribution* to what is 'reasonable', now on the efficiency argument. Strongly progressive tax rates simply are inefficient (Barr, 1998). The only way to make them politically acceptable is to make concessions to the rich on the tax base by opening up exemptions and deductions, whereby the actual tax distribution becomes both arbitrary and less progressive than the formal rates. An attempt to tax the rich in a way they see to be 'confiscatory' may lead holders of capital away from economically productive investments and into speculative ventures or to exit.

These arguments - strong as they are against a high tax level and sharply progressive rates - have very little force against a regime of moderately high taxes and in particular of moderately progressive rates. In resisting a 'harsh' regime the rich have the facts of how taxation works on their side. In a more moderate regime the facts do not work for the rich. These taxes, far from being 'unreasonable', are 'necessary' for the good cause of providing adequate public services. Moderately progressive rates are neither self-defeating nor economically distorting, and are 'fair' to boot. While a harsh tax regime can be resisted on the basis of 'objective' facts, a moderate regime could only be resisted at the cost of expending moral capital. Since there is little to be gained, that resistance is not cost-effective for the upper class. Hence, its veto power in taxation is not absolute and the middle class *can* push the upper class to concessions on taxation. It cannot push it very far but it does have something to go on.

The conclusion that it is possible to maintain a moderately progressive regime of direct taxation, although seemingly weak, is of great significance in the present discussion. That tax regime will have but a limited effect in terms of redistributing income but it will have a considerable effect on tax psychology. As long as taxes are progressive, even if only moderately, the middle class will be able to believe, rightly, that the rich pay more to the funding of public policies than they themselves have to pay. Those policies are under the political control of the middle class: public services are things the middle class give away, including to the poor. The middle class is therefore able to give away more than it itself has to pay for. That opens for the possibility that the middle class can give at least a bit more to the poor than it is 'actually' in its own narrow interest to give away - since the additional gift is paid by the rich - and produces half of the magic that could make the middle class more generous towards the poor than it actually is.

The Poor, the Middle Class and the Rich

It is established that it is possible to significantly reduce the extent of poverty with the help of welfare state policies without a significant sacrifice in economic efficiency. The most effective regimes in this respect are the North-European social democratic ones (Goodin, Headye, Muffels and Dirven, 1999). That success is explained historically in the emergence of broad political coalitions which reached across class divisions (Baldwin, 1990).

The effectiveness of those regimes is contained in what has been called 'the paradox of redistribution': they are based on universal rather than targeted social policies, on policies which distribute benefits not only to the poor but also to the non-poor (Korpi and Palme, 1998). Universal policies are target effective in the sense that they assure (as far as is possible) full coverage of the poor and that no one in need is left unprotected, they are not economically distorting, and they are politically effective in that they are capable of mobilising broader political support than that which comes from the interest in containing poverty. A regime of universal policies could produce the second half of the magic to make the middle class more generous towards the poor than it is by self-interest.

Universal social policies are expensive and would therefore require strong political backing. Political backing would have to come from the middle class. Under what conditions might the middle class make itself interested in a policy which goes beyond its instinctive self-interest?

If anti-poverty policies are shaped so as to avoid poverty traps and other work disincentives, which is possible in regimes based on universality, the imperative of efficiency does not stand in the way. The salient arguments are then the more political ones. There would first have to be benefits to the middle class itself. Then, secondly, the middle class would need to believe that the sum of what it gives to the poor and what it gets itself is (at least a bit) more than it is itself paying for. And, thirdly, the upper class would have to be prepared to accept the necessary tax bill since otherwise the middle class would not be willing to tax itself sufficiently.

The first two conditions are satisfied in a regime of universal social policies and (at least moderately) progressive taxes. Ordinary people get 'free' education, health care and so on, and the rich pay more. The third condition, however, may be difficult to satisfy. The upper class is unlikely to (have to) comply if it is able to argue that the policy assumes a heavier tax burden than in other (comparable) countries and if it can use that argument without the expense of much moral capital. That is so far the likely scenario and that brings us to a preliminary conclusion that it is difficult to see how a programme of universal social policy could arise spontaneously from the play of interests and power.

However, what *has* happened *can* happen. Could what is unlikely to happen spontaneously be brought about deliberately? In principle, the middle class should be on board if the upper class could be persuaded to go along.

Where the broad coalition has not emerged, it would seem that it would have to be brought about by a catalyst outside and above the class pattern of interests and power. A force would be required that could establish the cause of anti-poverty policy so firmly that it would be morally expensive to resist or ignore it, an idealistic lobby with the capacity to campaign the cause of the poor with persuasion and explain the kinds of policies that would be needed.

Is that a condition which we can realistically seen satisfied? The historical experience in broad-coalition countries is not encouraging. Those broad coalitions were interest based. In a time of mass poverty the risk of falling into poverty was so high that it was a broadly shared interest to build a tight safety net (Baldwin, 1990). With poverty now more marginal, the same kind of shared interest is not there. On the other hand, broad coalitions never did arise out of interests alone and have always had to be advanced by moral persuasion (Seip, 1994).

The current experience is also discouraging, *viz*. the case of Britain. Its poverty lobby is strong, vocal and visible, but even that persistent, well informed and well organised lobby has so far not been able to persuade (or shame) the majority to break with a tradition of social policy in which high rates of poverty both among the elderly and children persist (Donnison, 1982). This could be because there is not a sufficient communality of interest to cement a political coalition that could turn the moral argument of the lobby into sustainable policy. The best we can conclude is that in the absence of a moral force of strength it can be predicted that anti-poverty policy will not move beyond the narrow agenda of containment. We are, however, not able to predict that even a strong moral lobby would in fact be able to make that come about.

The next challenge is to put more economic power in the hands of ordinary people. The question is obviously where that is to come from. The imperative of efficiency stands in the way of taking (much of) it from the rich. Economic democracy by way of economically empowering the middle class would seem to depend on its own magic: giving to ordinary people without taking from the rich.

There is, as it happens, a source of economic power which the middle class could exploit and which would seem to be ideally suited by our rules of economic democracy. In the modern welfare state vast economic resources sit in public or semi-public budgets for the purpose of providing services to citizens. The economic power that these resources carry is already removed from private hands, be they rich or not, and can be redistributed further without being taken out of anyone's ownership or out of market use.

The middle class ought to have an interest in expropriating this power. That interest may be poorly articulated since the habit of thought may hold powerful bureaucracies to be necessary for 'welfare', but it cannot be in the interest of middle class citizens, or of poor citizens for that matter, to be needlessly the subjects of bureaucratic power. We here meet a theme in social policy which goes back to Adam Smith in *Wealth of Nations*: the perils of helping people by empowering authorities (Rotschild, 2002). The more effective way, when possible, is to empower people themselves. To democratise bureaucratic power is to satisfy our second rule of economic democracy.

There would not appear to be good arguments against shifting the power that sits in welfare bureaucracies from those bureaucracies to their clients. The power of the rich would not come under attack (only that of bureaucratic élites); rather the middle class and the upper class should be allies in this interest. There are not efficiency arguments against it. These are resources which are already under political control. Indeed, the redistribution of these resources into the hands of ordinary people would bring them closer to market use. It would also make institutions more answerable to their users, something that should be expected to stimulate more efficient arrangements. Hence, the third and fourth rules of economic democracy are satisfied.

The Example of Pensions

State pensions are exposed to political risk. Earners pay some form of social security tax today in return for a promise from the government of the day of a pension from a future government when they retire. The experience is that pension rights as such are usually pretty safe, but not their value.

Occupational pensions are exposed to company risk. The company may be unable to meet obligations (the case of Enron in 2001) or the employer may defraud (the case of Maxwell in 1991). This risk comes on dramatic display in large bankruptcies but is also seen in gradual erosions of pension rights as for example in the flight from final salary schemes.

When Bismarck made himself the unlikely father of the modern welfare state by introducing compulsory social security in his newly united Germany in the 1880s, he wanted a fully state run system in order to bind workers in loyalty to the state. Employers, however, were unwilling to give up their power over workers in an insurance scheme and prevailed (Mommsen, 1981). Since then the debate over pensions has been about the balance of power over workers between state and employers. In most of the twentieth century the state was the winner and pensions tilted to state systems, but employers have now reclaimed pension power. With large pension cohorts and small worker cohorts, tax payers are hesitant to pay expensive state pensions for others today in the face of uncertainty about their own pensions tomorrow.

State pensions are in decline and occupational pensions on the rise. That shifts economic power sideways from government to capital but not downwards from elites to ordinary people. Earners are moved out from under political risk and back into company risk and remain powerless. A democratisation of the economic power that sits in pension savings and pension capital would come about by earners taking ownership of their own pensions through their own savings.

That, however, brings on market risk. If pensions are grounded in capital investments, which owned pensions would in some way have to be, there is the risk that investments may lose in value or fail to generate revenues. Market risk is mostly about volatility. If we go by the experience of the last century we should expect that markets rise but with temporary, sometimes serious, setbacks. Market risk comes from inability to bridge temporary crises. That risk can be contained through regulations. Pensions and pension funds should be managed by institutions with no other business. The mesh of pensions and other business in company schemes brings on risk and makes regulation elusive. There should be some pluralism of institutions to assure competition and to make possible mutual insurance so that they would underwrite each other.

Pension rights would sit in personal pension accounts which would be indisputably owned by the pension holder in the same way that bank accounts are owned. Economic power of ownership would have shifted from 'paternalistic' employers or government agencies to persons, and with the additional benefit that they would be able to feel safe about their pensions, as they are already able to feel safe about bank savings.

There would have to be state backing. All earners would need to be obliged by law to save for a pension, there would have to be a minimum state pension safety-net, the pension industry would need to be strictly regulated, and the state would have to accept responsibility as insurer of last resort.

The Example of Schools

The remarkable thing about public schools - the schools available to ordinary people - is that those who matter the most have the least to say. Economic and administrative power sits in bureaucratic agencies and to some degree in the schools themselves, while parents and pupils are subjects.

A system of universally available free public schools is in reality a system of divided schooling: free schools for the majority and for-pay schools for a minority. In a divided school system, there will be divided school loyalties. Many of the rich will give their loyalty to élite schools while the constituency of public schools will be a residual majority. The economically resourceful will not have a strong interest in the public school which will therefore not have undivided support in the population and in particular of some of its most resourceful people.

Since the desired situation is that of the minority, the recommended action would seem to be to empower the disadvantaged majority rather than to disempower the advantaged minority. That could be done by giving all parents the kind of power the minority of parents already have, the power of money.

School budgets contain economic power. The democratisation of this power would come about by shifting money from agency budgets and into the hands of parents. That could obviously not be a redistribution of income to parents for their discretional use. The money would remain earmarked for schooling but allocated in such a way that all parents would control 'their' share of the school budget.

A practical arrangement could be for example as follows. Let all schools be for-pay schools and let all parents pay for the schooling of their children. Allocate to all parents, rich and poor alike, 'their' share of the school budget for them to use to pay for the schooling of their children. Let that be in the form of earmarked educational vouchers valid for school use only. Give parents the freedom to buy schooling for their children from the school of their choice.

The general objection against a system of for-pay schools is that if pupils could choose schools, then also schools could choose pupils, and there would be segregation again. That, however, is easily avoided. The purpose of universal for-pay schooling as argued here is to move power from authorities to parents and pupils. If schools can choose pupils, power would remain with the school. Schools which were able to, for example by force of reputation, would cherry-pick among pupils and take the most able ones themselves and reject the others, who would then have to be taken care of in schools which were not in a position to reject them.

However, schools need not be allowed this possibility. Freedom is by definition for persons, not for institutions. If schools have the freedom to choose pupils, pupils do not have the freedom to choose schools. Freedom for institutions at the cost of freedom for persons is simply a contradiction in terms. Parental power of choice in schooling would require precisely that schools were not able to choose pupils.

All schools would in other words have a duty to take all kinds of pupils, without discrimination. No school should be able to give itself advantage by directing difficulties on to others. All would have to compete on an equal footing and be prepared to work within the reality that not all pupils are equal or have the same abilities.

What, finally, about those schools that have more pupils applying than they could take? Would they not be able to cherry-pick and make themselves special? Not if properly regulated. In these cases, the intake could be determined by lot. All parents and pupils have the same right to choose schools. Schools do not have a right to discriminate. Decision by lot is the fairest of all methods for the distribution of goods in short supply - and established as a democratic method of allocation since the early democracy in Athens (Manin, 1997). This would prevent schools from undermining the freedom of parents and pupils to choose, and it would prevent parents with 'connections' from being able to arrange for their children to get into the best schools.

What now to do with the rich? They have too much power but massive redistribution and whole scale nationalisation are ruled out. Is a third magic available: to rein in the economic power of the rich without taking their income or property?

The Non-economic Use of Money

Only outrageous or outrageously used income and property are subject to being challenged.

A first candidate might be exceptionally large holdings of wealth. Might it be a plausible argument that with the growth and accumulation of private wealth the very largest holdings have grown beyond efficiency and decency and that at least the top of those outgrowths should be chopped off? Regrettably perhaps, it is (in the first instance) difficult to see how that argument could prevail. The middle class is constrained by fear that capital will be used less efficiently if under political control than in private hands. The fact that some holdings are very large, even if felt to be obscenely large, is not likely to eliminate that fear.

Furthermore, the holdings in question are by definition the most powerful in the land. The middle class would not sensibly choose to do battle with the most powerful possible opponent, all the less since it would not believe that it would itself have much or anything to gain from it. These holdings, being exceptionally valuable, are precisely the holdings the rich would be prepared to expend moral capital to defend. Hence, property that is outrageous only by its size is not a realistic direct target of middle class political power.

Remains then the target of income or property outrageously used. The argument in defence of economic power that is persuasive to others is in the end the imperative of efficiency. *Ergo*, the non-economic use of economic power is without this defence. Such uses are then subject to political counter-power because their defence would be costly in moral capital.

Two uses recommend themselves for consideration: political use and inheritance. The political use of economic power has no defence at all in economic efficiency. Nor would there seem to be other moral arguments in its favour. In rests, to the degree it is argued as a matter of principle, on a rather strained view of property rights: that individual freedom contains a right for property holders to use their property in whatever way they wish. But the right to *hold* property cannot in itself contain a right to any *use* of property.

Inheritance is just a transfer of ownership, in this case within the family to the next generation, and is as such non-use of wealth. There are however efficiency arguments in favour of the institution of inheritance: the knowledge that property can be passed on within the family motivates property holders to its efficient use. No doubt it is also a strongly held norm that it is a right to be able to preserve property in the family, which is to say that there is moral force behind the institution of inheritance beyond the efficiency argument.

Nationalisation may not be in the cards but could the arguments stack up so as to put it within realistic consideration to divert the top of large fortunes to social purposes at the point of inheritance? What might suggest that to be possible is that this measure would not eliminate the institution of inheritance and therefore not come up against the imperative of efficiency, at least not strongly. That is a very considerable step towards a realistic possibility, but not sufficient. Property rights arguments and sheer power - the threat of exit - remain. There would be no prospect of middle class political power touching the holdings of the very rich unless those arguments could be made politically impotent. That again would depend on the identification of a cause for the use of the diverted holdings with preferably both efficiency and moral arguments in its favour.

The Political Use of Money

With the escalating costs of electoral politics the power of money is transgressing into politics in such a way that fair democratic struggle is eroding from inside. Politics becomes expensive and parties and politicians dependent on those who can fund them. This is driven by varied interests. Politicians who can raise the money benefit because it eliminates competition from those who cannot. Those who have the money benefit because it gives them the possibility of buying influence. Commercial media benefit because much of the expense comes their way as revenue. A vast industry is created of consultants, publicists, pollsters and other hangers-on.

The funding of parties and campaigns from donations is not necessary for democracy. Party budgets can be kept within boundaries by limiting parties to revenues from membership fees. This would shut out the influence of money in parties and make membership the basis of party power.

Campaign spending could be held down with the help of capping rules. The control over funding could be handed over to citizens. With capping, total campaign funding would be known. That could then be allocated from the government through vouchers distributed to citizens for them to distribute on to politicians and organisations of their choice. All other funding, including from candidates' or officials' own sources, could be treated as corruption.

These simple measures would in one blow both empower ordinary citizens and kill the corrupting influence of money in the democratic competition. No issue of citizenship rights arises. Full freedom of speech, expression, and participation remain. What is at stake is what should be at stake: the opportunity of the rich to remove their own interests and participation from fair competition and to buy up the apparatus of politics.

The Rational Use of Wealth

During the twentieth century, and in particular its last decades, economic restructuring and growth boosted the stock of private wealth. Although highly concentrated in its distribution this wealth sits in a growing number of large fortunes. Private wealth has thereby become a rich source of potential taxation (Ackerman and Alstott, 1999).

According to our rules of economic democracy, for the middle class to use political power to control economic resources it would need to persuade itself that there would be benefits to ordinary people and that the resources in question could be put to good economic use. Furthermore, the intended good use would have to be so morally persuasive that it would be costly for the rich to resist. Strongly progressive taxation and outright nationalisation are ruled out both because the middle class would not be confident that benefits would come their way and because the upper class would be able to resist. A way would have to be found to implicitly tax the very rich without explicitly taxing them.

The future of higher education is the cause that could put both moral and efficiency arguments behind a policy of diverting the top of large fortunes from private to social use.

Advanced democracy and capitalism need a highly educated citizenry and work force. Young people want and need ever more education. The way of life is (or should be) approaching about a third of the life-course in childhood and education (including life-long learning), about a third in paid work, and about a third in retirement. That means that the third in work would have to pay for the two other thirds. The relatively short period of work would then have to be highly productive, which would require a high level of education, which again would require the allocation of vast resources to education. We need to find a way of providing for mass participation in ever higher levels of education. That could be done as follows.

First, by enabling ordinary people to take higher education. That is a matter of making it affordable. That could be done by giving everyone, say at the age of 18, a 'scholarship account' worth say six years in education beyond secondary school.

Second, it would have to be funded. Some of that could be shifted from public budgets for higher education into the hands of students, in the same way I have suggested in the case of schools. But the move from limited to mass participation in higher education would obviously require mass additional funding.

Working people would unavoidably have to pay in one way or another. Ordinary taxation would not do; the tax level would be prohibitive. Nor would it do the job to leave it to parents to pay for their children or to students to pay for their own education retrospectively. Middle class people would incur an unbearable burden in mid-life when they have the least potential for saving or paying off debt. Young people from low-income families would effectively be excluded.

It would seem better to allow working people to postpone payment until they are better off and to relieve them of this burden in the early part of their careers when they have better uses for their limited means, such as to raise children. We could take advantage of the growth in private fortunes and go to wealth rather than to income for the funding of education. As always with taxation it would not be painless, but less painful than to take it out of income.

To see this coming about we need further arguments which give the middle class further interests in the policy, making it for them something it is worth fighting for, and which make it 'reasonable', i.e. something it is costly for the rich to resist.

Private wealth can be seen as earned or given. Wealth earned is the result of effort, industry and prudence. Wealth given is the result of privilege, opportunity and luck. Most holdings are probably a combination, but smaller holdings, for example standard housing property and basic savings, are likely to be predominantly earned while larger holdings are likely to contain more wealth given. Property rights would then seem to differ: to be stronger in the case of wealth earned and weaker in the case of wealth given. Let therefore wealth below a 'reasonably high' threshold be protected private property and only wealth beyond this threshold be considered available for social use. The institution of inheritance is preserved, middle class holdings are protected, and only holdings which have a weaker protection in property rights are targeted.

Let then the targeted holdings be protected from the risk of political appropriation and misuse. They should not be taxed for the benefit of the Treasury but strictly earmarked for education in a social contract in which those who have 'surplus' wealth underwrite society's necessary investments in human capital.

Let furthermore ownership remain decentralised and the capital in question remain in the market for economic use. This could be done by directing private holdings beyond the threshold at the point of inheritance 'sideways' into earmarked funds rather than 'downwards' within the family to the next generation. Such funds we might call for example 'human capital foundations'. These foundations would hold capital for normal use and investment, as do for example pension funds. Those who (albeit by enforcement) 'invest' capital in a foundation would have membership in it and a say in its running and would in that sense remain owners. They would obviously operate under regulations and should probably have public representatives among their governors, for example appointed by the central bank. There might be as many human capital foundations as anyone would wish; any mega-rich person might for example be free to establish his own.

These foundations could then be taxed for the purpose of funding higher education scholarship accounts. Foundations might be established gradually and enable a gradual shift of the funding of education from normal taxes. After a while, the allocation of new capital and the tax would probably be determined so that human capital foundations in total did not grow noticeably as a share of the economy.

Conclusion

Economic democracy is defined as measures to modify democratically damaging inequalities in the distribution of economic power. Such measures are seen as desirable in the interest of protecting the democratic quality of society.

Economic democracy has traditionally been seen as a matter of taking economic power out of private hands and putting it in one way or another under democratically accountable collective control. Attempts to democratise economic power in this way have generally failed, mainly because they have proved costly or risky in terms of economic efficiency. The approach in this treatise is more individualistic: it sees economic democracy not as a matter of collectivising economic power but of redistributing it between persons. Economic democracy in the traditional understanding is, we have concluded, not democratically available. Democracy rests on an individualistic philosophy, it is about power to *persons*. The way to salvage the idea of economic democracy is to build its theory on the premise that democracy is about empowering *people*.

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