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Notes on Coupon Socialism and Fund Socialism

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Critic of Roemer's model

Labor movements of advanced capitalist world, according to Archer(1995), have pursued a variety of strategies, which can be divided into two categories: welfare goals and participation goals. In this sense, economic democracy is one of the most important socialist values, which means that the acid test for the transition to socialism is how egalitarian redistribution of wealth can be connected to worker's control of investment both at the micro-economy level and social control at the macro-economy level. This question is deeply intertwined with the problem of ownership and control in capitalist societies. Following Archer's usage, economic democracy strategies, whatever they are, are basically aimed at "control through ownership" that seeks to acquire the control rights associated with ownership vis-à-vis "control against ownership" that seeks to usurp the control rights associated with ownership.

Roemer's model of coupon socialism is also oriented towards economic democracy, i.e., the successful combination of egalitarian redistribution of profit (but, rather than wealth) and (equality of opportunity for) "political influence" in his term (Roemer 1994: 11). However, there are some significant differences between his approach and orthodox views of socialism. For orthodox socialists, the key criteria for capitalistic economy and socialistic economy are 1) private ownership, 2) market-based regulation, and 3) capitalist's (or manager's) control as opposed to 1) public ownership, 2) democratic planning, and 3) worker's control. For him, either public ownership in the classical meaning or worker's control is not necessary condition for socialist economy. As we know from his expression, "the fetishism of public ownership", political control over investment is needed not because "workers produce the surplus and they should decide how it is used" (Ibid: 20), but because "market failures of a conventional kind make it preferable." (Ibid: 21) This is why he does not regard investment control as a (worker's)

right. Furthermore, he says assertively, “I offer a defense of the managerial market-socialist model against those who argue that labor management must be a feature of the next step.” (Ibid: 122) He also holds that market-based regulation can be integrated with planning, but, exactly saying, bank-based regulation rather than government-led planning in the classical meaning: “The coupon economy I have described combines stock markets with institutional monitoring through banks.” (Ibid: 81) Another but not least, his main focus is on the problem of efficiency, which is closely related to his critic of centrally planned economies¹. In all of these respects, his arguments are highly characteristic of market socialism.

I am ready to agree with him about the following points: 1) His overall evaluation of worker-controlled companies (e.g financing problem², their risk-averse characteristics) 2) the strong need of capital control³ 3) the importance of intervention in private property in terms of the means of production, and 4) his overall critical review of public ownership. However, some drawbacks should not be ignored. First, as he mentions in the chapter 14, “Criticisms of Market Socialism from the Left”, his model of market socialism cannot get rid of one of the most important problems in capitalistic societies, i.e., competition (Ibid: 117). Wright also feels sorry about no restraints on labor market and commodity market in his version of market socialism, but this might be the case for any other version of market socialism, as far as I know. “Coupon socialism, like capitalism, places competition at the center of economic interaction. Individuals compete on labor markets every bit as much as in capitalism and firms compete in commodity markets.” (Wright 1995: 158)

Next, he seems to rely too much on Kornai’s arguments, the problem of the soft budget

¹ See the following: “The question for socialists becomes, then, whether an economic mechanism can be designed under which technological innovation will take place but in which a characteristically capitalist distribution of income does not evolve. More specifically, can competition between business enterprises, leading to innovation, be induced without a regime of private property in the means of production?” (Ibid: 45)

² For example, see this argument: “Contemporary models of labor-managed market socialism all recognize that firms must raise capital from non-members, either through a stock market or through bank loans, and this would, to some unknown extent, compromise the autonomy of workers with regard to control of the firm.” (Ibid: 122)

³ For instance, he criticizes ‘associative democracy’, that is also one theme of “Real utopia project” led by Wright, for “no limitation on private investment or on the stock market” (Ibid: 52) although their proposal is “most immediately useful as a proposal for transition to a more democratic economy in advanced capitalist societies.” (Ibid: 53)

constraint in centrally planned socialist economy. It is well known that socialist planning is neither feasible nor efficient in terms of principle-agent conflict, but even non-Marxist economists would admit that market is also too inefficient to solve that problem coupled with the allocation of resources and the collection of information. This is why Roemer is concerned with bank-based model, rather than coupon stock market, where credit market organized by state banks takes the responsibility to provide money to companies in his model.⁴ However, another problem, “who monitors the monitors?”(Ibid: 76), still remains. As he acknowledges, Bardhan and he do not have a definitive solution to this problem although they suggest several policies. With regard to available policy options in terms of institutional arrangements, Pollin’s suggestions are interesting and insightful (Pollin 1995). He compares the mechanism of bank-based system and market-based system by using Hirschman’s famous concepts, exit, voice, and loyalty, and its performance in terms of efficiency and democratic participation. His question is how to develop various means of creating ‘democratic-voice’ mechanisms that also retain the efficiency and stability-promoting aspects of the existing bank-based financial structures that are, however, characteristic of ‘elite voice’ systems. As he sees it, Bardhan and Roemer devote less attention to the ways in which voice-led financial systems might also effectively resolve macroeconomic coordination and information problems though these advantages of voice-led system should also be transferable to economies dominated by public ownership.

This drawback in terms of democratic control of capital at the macro level is closely related to the third problem, i.e., worker’s control of corporations at the micro level. Roemer says that his arguments for managerial market socialism are blamed for not even introducing democracy into economic life, which is a weak advance at best over capitalism (Roemer 1994: 118) Although he does not contend that there is no need for labor-controlled companies at all⁵, his

⁴ However, Wright(1995: 156) briefly mentions, Roemer modified his original view later on. “In the revised formulation, firms are allowed to turn the coupons they receive from the sale of stocks into cash in the state banks.”

⁵ See the following: “If the claim about the excessive risk-aversion of labor-managed firms is true, it seems that the optimal arrangement would be an economy containing, in addition to the labor-managed firms, a sufficient number of managerial firms to induce a desirable rate of innovation.” (Ibid: 123) However, corporate governance alone does not guarantee innovation. Additionally, he does not pay enough attention to various types of achievement democratically controlled firms have showed thus far. (e.g. alternative technology implemented by workers in Lucas Aerospace in the 1970s.)

preference is partly because his main focus is on changing the private nature of the financing of firms rather than changing the management structure, what is called corporate governance (Ibid: 122). This is why Wright(1995: 158) criticizes again that “the internal organization of production within coupon-socialist firms could in principle be just as hierarchical and alienating as in conventional capitalist firms.”

Critic of Boswell and Chase-Dunn's model

Boswell and Chase-Dunn already addressed some of what I have said thus far. However, I am afraid that they do not give convincing solutions to the problems in Roemer's model although there are some new proposals in their arguments for global democracy and world socialism. First of all, although they feel sorry for him that there is no political strategy that would lead to the establishment of market socialism (Boswell and Chase-Dunn 2000: 194), this critic goes the same for them⁶. “Market socialism... must be part of a larger, mass-based movement that includes a movement for global democracy” (Ibid: 195), but coupon socialism is a socialism without passion: “It is hard to see workers on the barricade under the banner of ‘Smash capitalism; build coupon-stock-market socialism!’” (Wright 1995: 159)

Secondly, they also did not solve the problem that capitalistic competition is one of main driving forces of economic actions in their model. However, as I said before, it is unavoidable as long as they choose market socialism as alternative model to capitalism because market socialism in general, whatever it is, tends to have this problem in common.

Next, what are their proposals for capital control at the macro level? “We cannot help thinking that Roemer misses a good opportunity by not increasing the role of mutual funds. We feel that mutual funds could have a more significant role in the ownership and monitoring of

⁶ See the following. “Missing in this debate, however, is the potential for workers and others to exercise the type of control over capital now reserved only for the wealthiest 1 percent of the population. The government could offer coupons in a choice of mutual-fund plans, which could compete for investment on social and environmental grounds (with encouraging tax incentives) as well as on market returns. Couple this with a requirement that corporations must in part be owned by their employees, and we lay the foundation for a huge transfer of wealth, and the power of wealth, to the working and middle classes that would grow over time.” (Ibid: 227) This cannot be called political strategies. They admit that “such reforms will not come easy, and even if successful will not in themselves constitute socialism or even social democracy in any coherent sense. They will not excite revolutionary passions and utopian dreams.” (Ibid: 227)

public firms... If mutual funds also adhered to the keiretsu model, then a dual system of monitoring public firms would exist – through both banks and mutual funds.” (Boswell and Chase-Dunn 2000: 182-3)⁷ They furthermore argue, “The banks, including the world bank, would in turn be supervised by an elected board, and monitored by the mutual funds and by international organizations...” (Ibid: 187) Then, who monitors mutual funds that apparently become the most powerful actors in the financial system in their model? I am afraid that they did not ponder over this important question.

Relatedly, what incentives or mechanisms can guarantee the long-time horizon of mutual funds (and their economically targeted or socially responsible investment) in the coupon stock market? “Investment banks and mutual funds tend to focus on long-term returns in part because their investments are spread over a variety of industries and their returns are spread out over a large variety of investors.” (Ibid: 187) At this moment, I cannot help asking why short-time horizon is dominant in market-based systems even though two requirements are almost met. And, what do they think that diversified portfolio investment very often leads to “exit” rather than “voice” in the reality? In this sense, I think that there are few elaborated discussions in their book about how to generate patient capital besides how to overcome disadvantages in bank-based systems such as the possibility of soft budget constraint in addition to its elite characteristics Pollin points out.

Fourth, what do they think about the empowerment of workers at the company level? The authors contend that the primary weakness of Roemer’s model, i.e., the lack of workplace democracy, could be remedied by the significant employee ownership requirements that is one of four revisions proposed by them, which means that some portion of company’s coupons are conferred on all workers in any company. However, they are still pessimistic about “self-management based market socialism” although they are basically more sympathetic to worker’s control than Roemer. “We face here a trade-off between greater democracy of management

⁷ See also the footnote 13 in their book. As they point out, Roemer in his earlier book seems to propose that individuals invest their coupons directly into firms as in the current capitalistic stock market. (Here, do they really think that individual’s direct investment is more prevalent in the current stock market without any financial intermediaries?) The modified version gives greater importance to mutual funds that monitor companies and function as intermediaries between households and them.

within firms versus greater democracy of ownership of firms. We lean in the latter direction, closer to Roemer than to Schweickart.” (Ibid: 188) I think that the authors should have reviewed this line of thoughts, self-management based market socialism, more carefully to connect overall design of coupon socialism with the empowerment of workers in their workplaces.

There is another considerable reason for their unwillingness to support labor-managed firms, which is what others might not think about: there is little difference between two models from a global perspective! (Ibid: 197, footnote 9) What is more meaningful to them is rather that Roemer fails to recognize the character and impact of the world capitalist economy (Ibid: 184). Indeed, he admits, “I have not thus far addressed in this essay what is the largest injustice in the world, the massive inequality between nations, conveniently described as North-South inequality.” (Roemer 1994: 115) How are Boswell and Chase-Dunn trying to decrease inequality at the global level, then? “Most important from a global perspective is that peripheral employees of TNCs would be guaranteed a share in the company and directly benefit from high profits garnered in their homeland... Requiring that TNCs provide employee coupon ownership hastens the spread of capital ownership and returns to the periphery. It would also give peripheral and core labor a common interest in organizing their vote and voice on the TNCs’ boards of directors.” (Boswell and Chase-Dunn 2000: 188-9)

Put together, from the world system perspective, the idea of the introduction of significant employee ownership is undeniably interesting in terms of more equal redistribution of profits and the empowerment of workers in their transnational companies. However, this idea alone is not sufficient to help avoid the pitfall of employee stock (or coupon here) ownership plans, i.e., ownership without control, which is found in the history of financial participation without exceptions. Furthermore, I am not sure whether the potential tension between economic and political interests of shareholders as an investor (or owner) and those interests of waged labors as a class could be reduced. A survey (Nadler 1999) provides some strong evidences to show this dilemma. According to the survey, shareholder workers have the tendency to support policies that cut taxes on savings and capital income, the privatization of social security as well as register skepticism toward government-led public policies at the statistically significant level.

Fund socialism revisited

Fund socialism as another version of market socialism is similar to coupon socialism. However, fund socialism is aimed at control through ownership by making new worker-controlled funds like Scandinavian wage-earner's funds (WEFs) or trying to control existing funds like pension funds. Under the banner of collective profit-sharing as opposed to individual profit-sharing, social democratic labor movements especially in the West Europe have the experience of making or using a variety of funds such as wage earner funds, wage funds, development funds, training funds, social funds, or pension funds. Among them, on the one hand, the proposal about wage earner funds in Sweden is the most radical strategy whose goals are 1) to complement the existing wage policy of solidarity by neutralizing excess profits, 2) to counteract the concentration of wealth which stems from industrial financing, and 3) to increase the influence which employees have over the economic process and at the workplace. (Meidner 1978) Although this was implemented in an adulterated form, the original plan was that ownership of a share of corporate profits should be transferred from private shareholders to wage earners as a collective group. All companies, by law, above a certain size should issue new shares equivalent to 20 percent of their profits to one central fund representing all wage earners.

On the other hand, although it is not for socialism, progressive efforts to use pension funds for job creation or other policy considerations, for instance, can be found in USWA's working capital projects over the past decades. Compared to the Center for Working Capital under AFL-CIO that has tried to force fund managers to use labor's capital for workers, the movement led by USWA is more encouraging in the sense that unions are beginning to take notice of labor-management funds and furthermore these types of funds, crossing state borders, are connected to labor-sponsored investment funds in Canada very recently (Kim 2002).

Why fund socialism again, and what can it contribute to coupon socialism model, then? Fund socialism, however, does not seem to satisfy some criteria above. For instance, competition-based labor market system is still problematic even though active labor market policy could alleviate its negative effects. Another, the dominant form of corporation in terms of corporate governance in this model is not labor-managed firm, which is similar to Roemer's model, too. What is also important is that, as the survey in Nadler's article reveals, the

individual ideology of mass investment culture might operate as a powerful countervailing force to collectivism fund socialism pursues, serving rather to reproduce the structures of neoliberal rule. According to Harmes(2001), the rise of this investment culture and property-owning democracy as the result of the unprecedented growth of mutual funds and pension funds have caused the prima facie positive relationship between worker's interests and financial capital's interests. This is why he regards Blackburn's arguments we are going to examine later as optimistic.

Nevertheless, in terms of feasibility, few would deny that wage-earner's fund showed a real possibility of economic democracy towards market socialism although its weak version⁸ that was actually implemented in Sweden resulted in less control both at the macro level and at the micro level than expected⁹. Even if generating new funds like WEFs is not available, investment control by using pension funds is also promising for economic democracy. First of all, pension is the nexus between public or private savings and investment, and the corollary is that who controls, how to manage, and where to invest a tremendous amount of money significantly affect the way the government supports and regulates private economic actors as well as the characteristics of financial system. For instance, in the Nordic countries, public pension funds under the control of the government are one of the major tools of macro economy regulation from supply side¹⁰. In other words, public pension funds as patient capital have made significant contributions to the pursuit of stable economic development based on real gross domestic investment without excessive dependency on foreign capital investment. Besides, what is also important is that the organized labor could have some influence on the management of labor's capital through collective bargaining at the enterprise or industry level, or tripartite corporatism at the nation-wide level. This might hold for multinational corporations. In this

⁸ In this version introduced in 1983, the source of funds is worker's savings at the cost of wage restraint instead of corporate excess profits; buying corporate equities in the stock market instead of reserving them directly; several smaller ones instead of one big fund. What is worse, a lot of terms were added to reduce the power of funds after the most vigorous debate in the history of Sweden in the parliament and on the street.

⁹ For the recent discussion of WEFs' overall performance, see Whyman(2004). Pontusson(1992) is one of classical books.

¹⁰ This is why the business world and the bourgeois parties in those countries criticized strongly the way pension funds were administrated, especially the state's control of partially funded capital, dubbing this approach as "creeping socialism".

sense, pension funds are a unique form of financial capital in contemporary capitalist economies. (Kim 2003)

What about global limits to economic democracy fund socialism pursues from world system perspective? I can see the possibility for fund socialism to cross nation-state borders and its dilemma at the same time in the original plan of WEFs. “The introduction of employee funds in Swedish multinationals can give rise to serious difficulties for international trade union solidarity. In step with the growth of influence on the part of funds over the investment, production, and employment of Swedish multinationals, both at home and abroad, the Swedish unions would increasingly find that they were in the position of employer vis-à-vis their comrades in other countries... The Swedish trade union movement must face up to this challenge...” (Meidner 1978: 67) In addition to this problem, for example, what are the Swedish unions supposed to do with the profits produced by workers in Swedish subsidiaries abroad? What if there were the conflicts between workers in Sweden and workers in Swedish subsidiaries abroad? Meidner suggests, “The Swedish unions must accordingly make contact with the unions in Swedish subsidiaries abroad and establish some kind of body to provide for trade union collaboration in which investment funds, production and employment in the various constituent parts of a concern can be discussed... The difference under a system of employee investment funds is that the employees themselves in different countries assume responsibility for what happens; the matter becomes more democratic.” (Ibid: 67-68) However, the following question was not answered clearly in this original plan: How workers in Sweden and workers in periphery countries can be incorporated into a network of WEFs that crosses nation borders. Rather, it said in an abstract way, “International trade unions solidarity also opens up the prospect that the Swedish unions will have to accept the possible introduction of similar schemes in other countries... Companies in individual countries would come much more under the direct control of those employed within them and at the same time these employees would be establishing new ways of achieving the necessary international economic collaboration.” (Ibid: 68)

In this sense, I think that the Leftists need to listen more carefully to a series of proposals by Blackburn. Let me summarize the bottom lines of his argument albeit very roughly. “My

argument was framed by the observation that any hope of imposing a socially progressive logic on European monetary union would be lost without vigorous measures of macro-regulation, for which a new pension regime would furnish a powerful lever.” (Blackburn 2000: 132) Furthermore, he contends that his proposals could lead to wider ‘socialization of the market’ proposed by Diane Elson, or incorporate elements of Roemer’s model of market socialism. (Blackburn 1999). Very recently, he urgently recommends that the resources raised could be put in the hands of regional networks of democratically administered social funds if an EU-wide Meidner-style corporate levy was introduced. (Blackburn 2005)

I do not argue that fund socialism is incompatible with coupon socialism. Rather, fund socialism should be the starting point in the transition to coupon socialism. Above all, fund socialism is more plausible and powerful in terms of agency and political strategy of transformation¹¹. Another but not least, I think that funds in Boswell and Chase-Dunn’s model should be a variety of funds managed by collective bodies composed of organized labor and other stakeholders rather than mutual funds. This might be the key point when trying to solve the problem, “who monitors mutual funds?”, as I said earlier. This is why I am really looking forward to the future, in the phase of financial expansion led by pension funds and mutual funds, when this creeping socialism will take shape at the EU level.

¹¹ For instances, recall a lot of strikes over the recent years in the West Europe against the privatization of social security and the cut in pension entitlement. Another, as Blackburn (2005) addresses, the European Trade Union Confederation has long called for a proper, continent-wide Social Fund, with resources that it could invest to generate productive employment and which could underwrite future welfare expenditure.

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