Democracy, political externalities & the labour-process

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Democracy, Political Externalities & the Labour-Process

By

Nicholas A. Partyka

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ABSTRACT

My dissertation focuses on elaborating a problem for democratic political institutions posed by an externality of the capitalist labour-process, particularly for more participatory conceptions of democracy and democratic citizenship. I argue that the labour-process under capitalism causes a transformation in the skill-level and personality of worker-citizens. In the main, the direction of this transformation is towards workers who lack important deliberative skills enabling them to effectively participate in democratic politics. If one is committed to democracy as a means of collective self-government, then this negative transformation, or deformation, should be troubling. If the labour-process under capitalism deprives workers of the opportunity to develop important democratic political skills through the imposition of a profit-maximizing division of labour within the firm, then workers who are so deprived, when taking up their responsibilities as citizens of a democratic polity, will, as a result of their workplace conditions, be ill prepared to engage in the process of democratic collective self-government. When citizens who are ill prepared to participate in democratic politics compose a large share of the citizens of the polity, then democratic political institutions will not function well. I am presenting this negative effect on democratic political institutions as an externality from the capitalist labour-process.
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Introduction

In what follows my main argument will be to show that the labour-process under capitalism produces an unintended negative externality for democratic politics. This is the detrimental cognitive and psychological effects of the alienation and attendant de-skilling imposed on workers by the structure of their capitalist-controlled workplaces. These effects are then carried by those same workers into the political process when they discharge their duties as citizens. As a result of the manner in which capitalist workplaces are organized, these workers are denied the opportunity to develop the skills essential to effective political participation, and are thus less skilled participants in the collective process of self-government, and thus less effective citizens.

The majority of workers in capitalist-controlled workplaces have precious little opportunity to engage in the kinds of self-directed activity that leads persons to develop essential deliberative skills, e.g. critical analytical thinking and reasoning, as well as written and oral communication skills. Because these kinds of skills are not widely distributed across the population of democratic citizens, the institutions of political democracy do not function as well as they could. When the quality of the citizens engaged in democracy degrades, so too will the ability of those institutions to protect individual’s basic rights and liberties degrade.

Democratic political institutions do not function as well in the sense that they less effectively perform the functions for which they were created. Democratic institutions are created in order to preserve citizen’s basic rights. Looking back to Locke and Hobbes, we can see in both cases that the largest reason individuals want so much to leave the state of nature and its vicissitudes is to more securely enjoy basic rights, and hence to live more prosperously. At its foundation, political democracy has this kind of instrumental value to the citizens who constitute
the polity. Thus, as my argument will directly imply, that if one wishes to preserve their own as well as others’ basic rights and liberties as the foundation of a democratic society, as well as the integrity and effectiveness of its institutions, one must reform the manner in which the dominant division of labour in capitalist workplaces is currently organized.

Overall, I think we have good reason to be attached to democratic political institutions. In the first case, as just mentioned, they do serve to protect individual rights from arbitrary power. One important feature that marks out democratic societies is the idea of the rule of law, as opposed to the rule of the arbitrary power, fiat, and caprice of monarchs, oligarchs, tyrants, and dictators. By participation one gains access to the mechanisms of social and political power, which structure important aspects of our lives. Having a say in government is thus having a say in one’s own life. Towards this end, most realize that liberty cannot be attained for oneself alone. Thus, democratic societies insist on equality of treatment for all citizens. Beginning with the ancient Greek idea of isonomia, this idea of equality before the law has always played a big part is the democratic ethos. We see this in 19th century utilitarian notions of democracy, insofar as each individual only counts for one. In the utilitarian theory no one’s pleasure or pains count any more than anyone else’s. The broken foot of a noble Duke contains no more dolors than that of a common plumber.

More practically, democratic institutions that are designed around a more participatory and deliberative ethos also serve as a kind of filter for objectionable anti-democratic forms of legislation. The constraints placed on the discourse appropriate to the legislative forum of a democratic society by that societies’ commitment to equality and liberty serve to focus the arguments of legislators on certain kinds of reasons. By constraining the way that legislators can argue for social policies not only helps eliminate biases and prejudice, but also helps transform
the legislator into a more public spirited person. This is both in the sense of being concerned with, and able to focus on, the common good as opposed to the purely private good, as well as in the sense of being committed to the principles and institutions of democratic self-government.

The argument that I intend to make thus very clearly depends on one accepting the value of democracy as means of collective self-government. In order to find my problem compelling at all one must be highly concerned for the integrity, and well-functioning, of democratic political institutions. The values and institutions of democratic society serve here as the anchor of the dilemma I wish to force upon the reader. The argument I present will show that the capitalist division of labour in the workplace deforms workers in a way that inhibits their development as full citizens in a thriving democracy. This leaves the reader committed to democracy, and a society with a vibrant democratic culture, the choice between reforming the workplace in a more participatory and democratic fashion, and sacrificing a fuller flourishing of democracy on the altar of capital.

Many readers will perceive straightway the kind of parallel case argument from political democracy to democracy in the workplace. If it is improper, to one’s way of thinking, to have a political elite makes decisions for one, why then should one accept such an economic elite making decisions for one in the workplace? One kind of common answer the question just posed is that capitalist division of labour is more efficient. The arguments presented here will cast much doubt on the so-called efficiency of capitalist division of labour, specifically from a democratic political point of view. Indeed, it may be the case that it is economically more productive, though research has shown that claim to be much overstated. However, just as with everything in a market economy, this efficiency comes at a cost. The costs here are cognitive and psychological changes inflicted on workers through their experiences in the workplace, and on
their democracy. These costs manifest mainly through the low level of political skill among the citizenry, and the problems this creates for the well-functioning of democratic political systems. The really significant aspect to the costs here is that they are not monetary. The costs of the inefficiency of capitalist-imposed division of labour are manifested in a diminishment of the democratic capacity of worker-citizens.

Despite what might seem to some an unsavory choice imposed by the dilemma created by political externalities, this is not a Marxist project. This is an entirely democratic project. The analysis I present here, and the conclusion I draw from it do not require the abolition of capitalism or markets. I conclude that a restructuring of the labour market, and or the capitalist workplace is necessary to preserve a robustly participatory political democracy. I do not want to pretend that I do not recognize my conclusion as being quite radical. This conclusion without a doubt implies large scale social, economic, and political changes in society. But this is not intended as a revolutionary conclusion. Internalizing political externalities does not demand the abolition of markets, or of private property.
I. The Market Economy: Its Origins and Structure

In order to understand the political externalities problem it is necessary to understand its foundations. These foundations are to be found in market-type economic institutions, in both their nature, and the system of incentives they give rise to. Having an understanding of market institutions will be important as we move on in discussing the problem of political externalities. This chapter will deal with the basic institutions and systemic forces of market economies. Chapter Two will then deal with the origin of the externalities problem. Taking time to examine the institutions basic to market economies in this chapter will make the dynamics that give rise to externalities more easily perceived in the next chapter. Towards this end, it is necessary to begin by examining non-market economies so as to make the unique features of market economies stand out more sharply. Understanding pre-capitalist forms of economic organization will put into sharper relief the features of capitalist market economies that produce the problem of political externalities.

Feudalism is the non-market mode of production out of which our modern commercial economies have developed. Thus, as it is the nearest non-market ancestor of our modern form of economy, the first section here sets out a basic sketch of the main politico-economic features of feudalism. Next, it will be important to examine some of the main institutional features of market economies, both their functional roles, as well as their historical origins. This discussion will happen in two stages. The first stage takes place in section ii. There we will see some of the most important behavior-shaping institutions of market-type economies. The four critical institutions to be discussed in section ii are competition as a structural principle of the market, the imperative toward generation of surplus value, the impulse toward commodification, and the necessity of
government regulation. The most significant institutional feature of market economies to be discussed here is competition. In market economies, competition structures many aspects of the lives of both consumers and producers. It is important to examine competition, as it is what contributes most to the generation of systemic forces.

The second stage of discussion of the main institutional features of market-type economies will take place in section iii. There we will look into the notion of property rights that prevails in an economy based on exchange relationships. Private property is one of the main institutions of a market economy, and understanding how it works will be critical to perceiving how markets create the political externalities problem. This discussion will elaborate the two key components of the right of private property. These are, firstly, the right for one to regulate access to one’s property, and secondly, the right to any surplus value created by employing one’s property.

Lastly, we will see how, as a result of the nature of a market economy, there arise systemic forces and pressures that alter the behavior of market participants. A market economy has both an institutional makeup as well as a set of imperatives established by the system’s goals and institutions. These latter often channel the formally free behavior of economic actors into particular courses of action. The operation of market-type institutions incentivizes, sometimes greatly, certain behaviors on the part of both consumers and producers. These behaviors are driven by the specific goals of market participants, be they individual consumers or firms, as well as the structure of market institutions, which establish the framework within which these goals can be pursued. My conclusion in this chapter is that market-type economies have both a basic institutional structure as well as a range of endogenous systemic forces. This is important,
so that when I explain the problem of political externalities, the institutional features of markets and their systemic forces that create this problem will be familiar.

i. Embedded Markets and Pre-Capitalist Production

The main difference between non-market and market forms of economy is the degree to which exchange relationships are either embedded or dis-embedded in other socio-political relationships. In pre-capitalist non-market economies, society is structured around non-economic relationships, and though these relationships often involve the transfer of surplus economic production, they are primarily socio-political relationships. We will look to the case of feudalism, primarily in its western European form, as our example of a non- or pre-market form of social organization. In economic terms, feudalism is the direct ancestor of our modern commercial economies. This gives special significance to examining it for the purposes of contrasting it with market institutions. Seeing how these societies were structured will make market type arrangements stand out all the more clearly. In what follows, I present some of the main features of the feudal mode of production as they are relevant to my purposes.

I want to make plain at the outset that in the comparisons between feudal institutions and market-type ones I do not mean to endorse feudalism. Though I will contrast market-type relations with feudal ones, this should not be construed as an idealization of feudalism. Feudal relations-of-production differ in important ways from market-type relations-of-production, and in noting them my aim is not to portray them as superior, only different in structure. Feudal relations-of-production were characterized by the threat of, and if necessary, application of violent physical coercion. Feudalism represents the direct extraction of material surpluses from the peasant population by local lords, not uncommonly at the point of the sword. The kind of
brutality that was present in feudal societies is not something I want to countenance. I only wish to describe salient structural differences between non-market and market-type institutions.

We should note firstly that market economies are a system of interlocking exchange relationships between separate economic actors. This system is, under feudalism, embedded within other socio-political or politico-cultural relationships that circumscribe the activity of economic actors. As Karl Polanyi points out, “Obscure as the beginnings of local markets are, this much can be asserted: that from the start this institution was surrounded by a number of safeguards designed to protect the prevailing economic organization of society from interference on the part of market practices”.¹ The feudal system of production is bound up in tradition and culture-based conceptions of social organization, in which there were distinct social castes with a manner of behavior, dress, and activity suitable to each particular station. These ways of thinking about people and organizing social relations were often supported, or rather rationalized, by other social institutions, for example the Christian church.² So it was, that as a result of both ideological and physical subordination, a class of serfs, legally and socially bound to the land, produced not only for themselves, but also for a class of nobility to whom they owed traditional duties and tithes in exchange for military protection, and the right to use and occupy the lord’s land.

When it came to the organization of society, other relationships, e.g. religious, filial, traditional, military, et cetera, took precedence over economic exchange-based relationships. Market exchange relationships were thus formed, and carried on, within the context provided by these other more primary social institutions. We can look instructively at the example Polanyi

provides from “the Chaga country”.3 The marketplace as a physical place, as well as its participants, were beset by a host of regulations imposed by social authorities. If any one of a number of untoward occurrences should transpire in the physical space of the market, e.g. a woman giving birth or a violent conflict, then some restorative action would be required before market activities, e.g. buying and selling, could resume. Typically, this took the form of the performance of a religious cleansing ritual during which no person and no goods could leave the physical space of the market.4 This is one example of the kinds of restrictions that were put in place in pre-capitalist economies to prevent exchange-based relationships from interfering with the operation of those societies’ most important socio-economic relationships.

Through being able to physically stop the operations of the market through the intercession of other socially significant, typically non-economic, events, it was possible for pre-capitalist economies to keep market relationships from becoming dominant. If markets remained unreliable, and prone to being shut down for prolonged periods, and quite abruptly, they could not acquire the stability that would be essential for relationships based on the market pattern to flourish. By allowing other, more significant, social relationships and events to intercede, these societies establish a clear priority of social relationships over economic ones.

Looking to feudal Europe we can see other examples of how markets were kept quite intentionally embedded within larger, more dominant, social processes and relationships. Because the Christian church was the dominant institution during this period we see these restrictions on markets being placed within the framework of Christian theology. Thus, for

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3 Polanyi does not specify this in the context of giving this example, but the Chagga are a Bantu speaking people who live, and have lived, in eastern central Africa, in what is now Tanzania.

example, one sees the well-known prohibition of usury.\(^5\) Without capital or credit, markets face a very difficult, maybe impossible, climb toward becoming auto-catalytic loops. As a result of the prohibition among Christians of lending at interest to other Christians, one sees the cultivation of non-Christians as the main agents of finance in this period. In Europe this was done principally with Jews. Jews were often, through economic or religious regulations, forbidden most any other profession than money lending. Many, if not most, feudal lords always had Jews on hand for exactly this purpose of skirting religious prohibitions on usury in the name of profit. Of course, anytime it became convenient these Jews could be scapegoated as the cause of whatever economic distress, usually caused by the lord’s own depredations, had the population agitated. Practices like this obviously helped keep market-type relationships from expanding too far, or becoming too stable.

One can also thus understand the general low esteem for merchants in feudal society. When the main economic and social relationships revolve around the exchange of traditional dues and obligations, commercial agents like merchants would have been seen as outsiders. Thus again, we see this reflected in the facts that long-distance trading was principally an urban occupation, and that the main distribution mechanisms were the travelling fairs. Market-type relationships were thus kept temporary, and as a result remained in a complementary, but decidedly subordinate, economic role. Long-distance trading was primarily in luxury goods not basic staples. Limited this way, commercial relationships would have a very difficult time challenging the dominant economic and social relationships of feudal society.

It was for this reasons such as these, as Polyani asserts, that up until the Commercial Revolution trade was confined to local or municipal trade. By restricting the physical space

within which exchange-based relationships could be carried out, societies made it more difficult for exchange-based relationships to flourish, and hence to challenge the dominant socio-economic system. Even after this revolution, foreign, as opposed to local, commerce remained the province of urban merchants, in that it was carried out by and between independent cities and towns.\textsuperscript{6} Local or municipal markets were places where the surplus production of local producers could be exchanged between local producers for mutual benefit. In the traditional account found in economic anthropology, barter relations between local producers characterized these local markets.\textsuperscript{7} Markets, thus, originally grew out of the dominant mode of production and the subsistence needs of local producers. These kinds of markets were, “merely an accessory feature of an institutional setting controlled and regulated more than ever by social authority”.\textsuperscript{8} Confined to towns, and submerged in the fabric of social taboos, market relationships were inhibited from expanding into the countryside. Indeed, “The self-sufficing household of the peasant laboring for his subsistence remained the broad basis of the economic system”.\textsuperscript{9} The earliest markets thus grew up within this economic pattern, i.e. peasant self-production, as the dominant mode of social organization and were restricted to a supplementary role in the economic system of feudalism.

The second aspect of feudal relations of production we will note is that they were organized around peasant self-production, that is around the economic activities of peasant households producing first and foremost for their own use. If the household produced a volume of use-values over and above what is necessary for subsistence and reproduction, this surplus could be bartered for other use-values in local markets. The primary motivation of economic

\textsuperscript{6} Polanyi 2001, 66.
\textsuperscript{7} For an excellent analysis and critique of this traditional account of the dominance of barter relations see David Graeber’s work, Debt: The First 5,000 Years, 2011: 21-42.
\textsuperscript{8} Polanyi 2001, 70.
\textsuperscript{9} Polanyi 2001, 70.
actors in this kind of economic system was production for one’s own use, that is for the 
reproduction of the household or community. Peasant agriculture was somewhat autarkic in that 
families, or small communities, mainly produce for themselves. These social groups attempted to 
directly produce the things they needed for themselves, obtaining other necessities through 
small-scale local markets as a second solution. Summarizing the main economic aspects of the 
feudal mode of production John Weeks asserts, “production was economically isolated, but 
directly social within production units. It was economically isolated in that each manor – the 
areas over which the landlord’s authority extended- was largely self-contained. Inputs – the 
means of production- were not exchanged between production units to any great degree”. 10 One 
should note that peasant production, while mainly agricultural, also had an artisanal aspect in that 
small-scale manufacture was common.

Structured in this way, the feudal process of production limited the growth of exchange 
relationships by keeping them largely subordinated to this pattern of self-production as the 
dominant mode of social reproduction. Polanyi notes that as a result of this there arose a 
difference in control over kinds of trade depending on their relevance for local reproduction. 
Local trade, he claims, was controlled and regulated by local authorities because this trade was 
integral to the local economy, whereas long distance or export trade was controlled by urban 
merchants operating on a sell-for-profit business model. 11 Local nobility depended on the 
operation of this method of production, and were thus covetous of controlling the process to 
ensure its reproduction, and with it their own. Long-distance trading was left to be controlled by 
profit-seeking merchants so that the nobility could obtain desired luxury goods without losing 
grip on the domestic processes of production. Controlling these processes allowed the traditional

11 Polanyi 2001, 68.
nobility to reproduce themselves materially, and along with that their traditional powers and privileges. This is why local nobles did what they could to keep these early markets confined to the towns. This way, they would not spread into the countryside, and threaten to undermine their traditional prerogatives as landowners.

The third feature of feudal relations of production that is relevant is the issue of who possesses control over both the means of production as well as the labour-process. In feudal society, peasants have direct control over the tools necessary to produce their own means of subsistence, as well as control over the process in which those means of production are employed. Of course, a portion of the peasant’s total production is transferred to the lord, but nonetheless the peasant often retains control over these two vital aspects of social reproduction. As Michael Buroway claims, in the feudal economic system, there is often a clear physical and temporal separation between the labour done for the peasant’s own subsistence and that done for the lord’s. Typically, the labour required to meet the obligation owed to the lord was performed on the lord’s own fields, and on days set aside for such labour. Necessary and surplus labour time can thus be clearly demarcated in the feudal system. While performing surplus labour-time to fulfill the social obligation to the lord, the peasant may lose some control over the labour process, but it is only temporary. In some cases, where necessary and surplus labour time are less clearly differentiated, e.g. when the peasant turns over a specified amount of the families’ produce, the peasant may not lose any control over the labour-process.

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ii. The Institutional Structure of a Market Economy

Having seen now what one type of non-market economy is like, we can examine the distinguishing features of a market economy. A market economy is one whose processes of social reproduction are dominated by exchange-based relationships. In this section, I describe the basic elements of the institutional structure of a market type economy, that is, the forms of social organization necessary to make a market economy possible. Here, I discuss four of the most important elements of the institutional nature of the market economy, in both their functional role in facilitating market type activity, as well as their historical aspects. These are competition as a structural principle of the market, the imperative toward generation of surplus value, the impulse toward commodification, and the necessity of government regulation.

It is worthwhile to say something general at the outset about what a market is, and how it works. A market is system of competitive buying and selling where individual economic actors pursue their own ends through voluntary transactions with other similarly self-interested actors. A market is guided at its core by prices and preferences. In a market, all the goods and services available are assigned a price, where this price is thought to represent a function of the level of demand for the product as well as the relative scarcity of the raw materials, or the complexity of production, or a mix of the above. Markets are thought to produce efficient outcomes by having individuals choose for themselves which products to purchase or produce. Rational economic actors in a market are thought to be price-takers, that is, they adjust their patterns of consumption and production to increases or decreases in the price level or quality of products they consume. Actors with a given set of preferences attempt to satisfy as many of them as possible given their
level of access to specific resources. A market is thus both a physical space devoted to buying and selling, and it is also an attitude toward the nature and content of economic relationships.\textsuperscript{13}

The first feature of market economies to note is that they are regulated, and structured, by competition. That market-type economies are structured around competition can be seen manifested in workers competing with each other for jobs and other opportunities, in consumers competing for valuable goods, firms competing with each other for market share, and firms competing with each other to hire the best workers for example. As we saw above, in a market economy, actors seek to advance their interests and must do so via agreeing to voluntary exchanges with other economic actors. Rational consumers seek out the best prices for the products they desire, and thus cause firms to compete for customers. Firms, as independent economic actors, compete with each other for revenue, i.e. income. This comes straight out of the competitive market model of classical economics. In theory, the reality of having to compete with rivals for income forces firms to attempt to lure customers away from their rivals by offering a better quality product, or the same product at a lower price.\textsuperscript{14} It is thus in the pursuit of their respective self-interest that consumers and producers, in competition with other consumers and producers, work together to animate what Adam Smith called the invisible hand of the market.

The second important aspect of the market economy is its focus on the generation of surplus value. The generation of surplus is the fundamental goal of the market form of social organization. Surplus in one sense means only that portion of total social production beyond what is necessary for the subsistence of the community. In another, more focused way, surplus is that sum remaining to the proprietors of a firm after all debts and expenses have been paid.

\textsuperscript{13} For a good discussion of the workings of a market economy see Lindblom, Charles.\textit{ The Market System}. 2001.

\textsuperscript{14} Robert Heilbroner calls this process of competing for income “recapture” (1986:58).
Exchange relationships mediate almost all socio-economic relations between actors, and thus the cycle of production in a market economy begins with value in money form (M). This money is used to purchase the all implements of production necessary to produce some good or service, i.e. various commodities (C). The final product, also a commodity, must then be sold in the market against the competitive offerings of rivals, and at such a price that the value added to raw inputs by human labour, living as well as dead, may yield the increase in value desired (M*). Surplus is generated in a market-type economy by realizing in exchange a larger amount of value than existed in all the instruments of production considered separately.

This process has been called expanded reproduction by Marx, and is symbolized as follows, \( M - C - M^* \). This is a shorthand for the description of the circuit of capital as it employed in production. Each stage represents a transformation of capital from one form to another. In market type economy, an entrepreneur begins with capital in the form of money. She must then exchange this for stuff, which she must then do some work on. The result of her labours she must then sell on the market. All the while during the process of production capital takes the form of commodities, that is, stuff to be worked on or to do work with; one could describes these as raw materials and tools. After the final product is sold, the entrepreneur once again has capital in the form of money, and ideally more of it than she began with. As we just saw, the difference between M and M* is that M* is a larger value than M. This is, of course, assuming that this process is carried out successfully, that is, the extra value created in the C stage can be realized in the market. For this reason competition between firms can be fierce because their success in earning income determines whether and which firms can restart the circuit of production.

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The third important aspect of market economies is the phenomenon of commodification. Commodities are products produced primarily for exchange rather than personal consumption, as opposed to what was the case with non-market forms of economy. The sole value of these products to the producer is that they can be exchanged on the market for more money than was needed to produce them. Firms organize their production processes, including the deployment of human labour power, in order to increase as much as possible the surplus value embodied in these commodities. Most important among commodities in a market type economy are the means of production specifically, land, labour, and capital. Unless these components necessary for production are readily for sale in the market, the market-type economy, based on exchange relations, cannot function effectively. This is especially important for labour as an implement of production. Entrepreneurs must be able to have ready a pool of labour power that can be deployed for productive purposes.

This development has an inherently historical aspect, in that a ready pool of labour power that is available for purchase did not always exist, and hence had to be created. As Polanyi asserts, “No market economy was conceivable that did not include a market for labor”. We saw in the case of feudalism, that large quantities of labour-power were not readily available for entrepreneurs because of the pervasiveness of social obligations, combined with an economy centered around more or less self-sustaining socio-economic units. It was necessary then, that a transformation take place as a result of which emerged a class of labourers unattached to the land, and possessing only their labour-power, and this could only occur over time. The pace of this historical process of labour market formation was marked by uneven development across physical regions as well as in time.

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16 These three markets in particular are emphasized in accordance with Polanyi’s (2001) discussion of the historical processes of market formation.
17 Polanyi 2001, 81.
The transformation of society from feudalism to that of the market was long and turbulent. Traditional modes of social organization were undermined by state intervention designed to help unleash the productive, capacities of the implements of production.\(^\text{18}\) This is specifically the case with the main means of production, land, labour, and capital. As Heilbroner observes, the rise to dominance of market relationships “hinges on the appearance of a class of workers who are dependent for their livelihood on access to the tools and land that can legally be denied to them by their owners”.\(^\text{19}\) So it was that peasants’ traditional privileges, regarding access to the commons, were increasingly restricted and eventually abolished entirely. While at the same time, large landowners were transitioning away from the peasant self-production model and toward larger scale production. This required large amounts of formally free labourers, and more importantly their labour-power, to be available for hire.

The Enclosure movements in England in the 18\(^{\text{th}}\) and 19\(^{\text{th}}\) centuries, progressive consolidation of landholdings in the hands of a wealthy elite, was also a process of excluding precisely such labourers from access to the means of production, forcing them to seek remuneration which could subsequently be turned into the means of subsistence. This process of exclusion and consolidation destroyed the traditional ways of life of large sections of the population. The destruction of these traditional patterns of social reproduction was thus coextensive with the process of labour market formation. This process culminated with the establishment of a modern labour market in England in 1834.\(^\text{20}\)

This process of expropriation was successful, in the main, because of government intervention in society and the economy. Pervasive government intervention is then the fourth

\(^{18}\) Examples of the kind of turbulence to be found in the transition of peasants into wage labourers can be found in Stephen Marglin’s excellent article “What Do Bosses Do? The Origins and Functions of Hierarchy in Capitalist Production”. *Review of Radical Political Economics*. Vol.6 (1974): 60-112. Also see Polanyi (2001).

\(^{19}\) Heilbroner 1986, 41.

\(^{20}\) This date of birth for the modern labour market comes from Polanyi (2001: 87).
crucial aspect of the market economy.\textsuperscript{21} Governments secure the fundamental pre-conditions of market activity, e.g. legal enforcement of the system of property rights, building and maintaining infrastructure that facilitates commercial economic activity, among other functions. Governments, as agents in civil society, historically achieved, and then deployed a social apparatus based on a monopoly on the coercive use of force. This enabled governments to play the central role in securing and maintaining the basic social conditions necessary for the market pattern to be the dominant mode of production.\textsuperscript{22}

As early as Locke and Hobbes it has been recognized that state intervention will be necessary for the enforcement of property rights. For both, the enforcement of “contracts”, i.e. property rights, is the fundamental pre-condition of escaping the state of nature. What marks a civil society is precisely that the contracts required for increased economic prosperity in a market society can be made securely.\textsuperscript{23} For both Locke and Hobbes, the economic situation in the state of nature is so precarious precisely because the kinds of contracts that facilitate economic growth cannot be made securely. For Hobbes it is just irrational for anyone to make any such deals, since everyone knows that everyone else would be best served by not complying, whereas for Locke, persons will routinely comply with their end of contracts, but often times in doing so disputes arise between the parties. These disputes can, in the right circumstances, lead to feuds. The main difference between Locke and Hobbes is that, for Hobbes the over-arching power is necessary to make cooperation happen at all. For Locke, on the other hand, the over-arching power is there to make sure the cooperation which happens naturally goes smoothly by providing

\textsuperscript{23} See Hobbes’ \textit{Leviathan} (1651) and Locke’s \textit{Second Treatise on Government} (1689).
a space wherein disputes can be resolved peacefully. In both cases, and in different ways, the authority of the state is required to make property rights secure, and thereby encourage increased economic growth.

### iii. Private Property and Market Exchange

Perhaps the most important of the institutions regulating a market type economy is that of private property. The question of specifying the right of private property in market-type economies resolves into two important sub-questions, i) What can be owned, and ii) What does it mean to own a thing? It goes without saying, that historically speaking, conceptions of the meaning of, i.e. of the extent of, the right of ownership have varied greatly from time to time and place to place. Since we are examining capitalist societies, what we asking here is, i) What can be owned, and ii) What does it mean to own something in a market-type economy?

One must note first, that this regime of private property must be coercively enforced by state power. The system of rules surrounding private property define what rights pertain to those who own property, as well as how it can legitimately be transferred from one economic actor to another. In a market economy, property owners are considered as discrete economic units who engage in voluntary exchanges with other individual actors for mutual gain. An economic system of this kind, structured around exchange relationships in both production and consumption, must contain these kinds of rules so that the exchange of values can occur in an orderly manner. Once all participants know what can be property, what rights pertain to it, and under what conditions it can be alienated or acquired, market-type operations can proceed.

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24 There is a very long continuous tradition of well-regarded thinkers in multiple disciplines. Even libertarian thinkers like Hayek and Friedman recognize the essential role of government in the enforcement of private property rights. The security of property rights is essential to market operations.
smoothly. It will be useful then to take some time to examine what the right to property entails in the context of a market economy.

To get a clearer view of what is important about the meaning of capitalist ownership it will be instructive to look at Pierre-Joseph Proudhon’s discussion of property rights in market economies.25 Proudhon is the first thinker to devote systematic and critical attention to the meaning of the right of private property in market capitalist economies. The most essential features of the right to private property according to Proudhon are i) the right of the possessor to both use and abuse what is owned, and ii) what he calls the right of increase. The first is what we might call the right to control property, and the second we may call the right to profit. Both of these rights are essential to the conception of ownership of private property in a market type economy.

Beginning with the second, the right of increase is what more modern economists, like Alchian & Demsetz, have called residual claimancy status.26 This is the right to the surplus, or residual, if there be any, of revenue over and above total costs of production. When employer and worker agree to a employment contract, both parties do so under the explicit understanding that what results from their “joint” effort will become the property of the employer, on the condition that he pays the wage rate stipulated in their agreement. The residual claimant then is the person to whom this surplus accrues. There is certainly a possible system of rights wherein property does not contain the right of increase. However, this would not be the right of property that is contained in the market economies with which we are familiar. This right to be remunerated for use of one’s productive property applies equally to the employer who is entitled

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26 Ibid. i) at 35 & ii) at 118.
to profits for the use of his productive property, i.e. capital, as to the worker who is entitled to wage remuneration for the use of his or her property, i.e. labour-power.

The right to use and abuse, or the right to control, on the other hand, is the ability granted the owner to regulate access to the thing(s) claimed. Thus, in the case where one is said to own a shirt, it is left to one’s discretion who besides one’s self can wear the shirt. One also has the right in this case to not wear the shirt at all, or even, if one so desires, to burn the shirt. In this latter case, regarding what is called personal property, the individual is granted wide discretion in matters concerning how the use value of the shirt is consumed. The meaning of this first prerogative pertaining to property owners in market-type economies is summarized quite well by Immanuel Kant. In the process of arguing for his larger political theory, Kant describes the right to own something as a right one possesses against all other people to exclude them, if one so chooses, from using the property one claims as one’s own.27 This applies with equal force to all commodities in the market, including the means of production.

If I am the owner of a factory, for example, then it is my prerogative whether to employ it productively, or to let it sit idle. The right to deploy or to withhold one’s property from the economy belongs intrinsically to the individual owner in a market society. The ability to withdraw highly productive assets from the circuit of production constitutes a significant power for property owners. This is especially the case where the property is capable of producing large surpluses of value. This example displays the social significance of this power within the context of a socio-economic system in which a class of workers must seek wage remuneration for the only productive asset they own, that is, labour-power. This power afforded to owners of

property allows them to capture the increase in value between purchase price of their raw materials and the sale price of their finished products.

One should note that these rights pertaining to property owners are importantly related to each other, and to the very conceptual foundations of a market economy. A market economy is, as we’ve seen, one based on voluntary transactions between market participants. In order for this kind of regime to flourish, all property owners must enjoy equal formal legal protection of their rights to control, and profit from the use of, their property. One must be the legal owner of a property, and thus entitled to control access to it, before one can think of transferring such a right to another person as part of a transaction. As we saw earlier, the primary goal of the circuit of production in a market economy is the creation of a greater value at the end than was used to begin the circuit. The right to private property must thus correspondingly include both the right to control, as well as the right to profit. Even though wages are in one sense due to workers because of their ownership of productive property, they must be distinguished from genuine cases of increase, or profit. Proudhon distinguishes several kinds of increase based on its source, e.g. rents, interest, and dividends. These kinds of profits are due to ownership of valuable commodities, and enable their owners to capture income without having to labour.

There must also exist a legal, i.e. coercively enforceable, regime of contract making. Without these two conditions, no form of economy based on voluntary exchange could function. When these two conditions exist, and markets operate, the right of increase becomes a right due to property owners. Since the owner of a property has the right to regulate access to that property, any other market participant who wishes to utilize that property for their own purposes must negotiate with the original owner for access to the desired property. When this is the case, one condition that any rational property owner would negotiate for themselves is the right to any
surplus, or least a certain portion of it. If one accrues one’s own capital, and employs it productively, one is entitled to any increase because only one’s own property, capital, and or labour, was used to produce that surplus. In other cases, like the first one, where the property of at least two different market participants is required for a productive, i.e. surplus-producing, enterprise, the portion of any potential surplus accruing to those participants collaborating is a matter of their own free negotiations.

In the purest case of property rights, each’s right to property is absolute in that no one else has a legitimate right interfere with one’s use and enjoyment of property. This pure case of property ownership never has, and likely never will, obtain anywhere. However, within bounds established by states, individual actors in a market society transact with one another on the basis of this kind of right of ownership. The ability to regulate access to property and claim any residual, that is, the ability of actors to alienate or acquire rights to property, and to profit from that property, structures most if not all the interactions of market participants.

In the non-ideal world there are important limitations on the pure right of property. Governments must and do impose regulations on what owners can do with certain forms of property. Thus, in the case of personal property above, we think it is perfectly acceptable for one to destroy one’s shirt, even though this action ruins the use value that was embodied in the shirt. This kind of activity falls within the sphere of personal autonomy because the harm to be borne by the loss of the shirt is born by oneself alone. Moreover, any harm which I do force others to bear, in the form of the opportunity costs of the use value embodied in the shirt, is entirely minimal. However, if for example, one owns a pencil, the right of control does not entitle her to the right to stab someone with that pencil. The fact that someone own something does not entitle
her to do with it as she please in all cases. If one’s intended actions will cause harm to other citizens, then her freedom to enjoy her property is limited, and rightly so.

It is critical to note something which has been countenanced by many authors, namely that the meaning, or the definition, of the right of property is a political choice. What this means for us is clear. There is nothing which secures the current understanding of the meaning of the right of property in perpetuity. Contrary to what Locke, among other Enlightenment thinkers, asserted, there is no natural or religious foundation which underwrites this specific conception of ownership, namely control of assets and residual claimancy status. We now see the meaning of the right of property as the subject of political scrutiny.

One great example of this is to be found in John Rawls’ work. Rawls argues that the choice between private and collective ownership of the means of production is an open question. He thinks that either form of economy, capitalist or socialist, is compatible with his vision of a just society. For Rawls the meaning of the right of property is not simply given to us, but rather it is the product of our collective working-out of the consequences of our shared commitment to principles of justice. Indeed, the definition of property cannot be immutably fixed if both socialist and capitalist forms of economy can equally well serve to organize the economic relationships of a politically just polity. The capitalist economy is founded on the recognition of private property in the means of production, while a socialist economy is based precisely on the rejection of private property in the means of production. Thus, for Rawls, as for others, the nature of the rights due to property owners varies based on the choices made by the members of the political community.

28 Much, if not all, of the literature on workplace democracy, specifically the literature on worker control, requires that the rights of ownership and control can be separated. That is that the meaning of ownership is not unalterable. See for example Dugger, William M. “Democratic Economic Planning and Worker Ownership”. Journal of Economic Issues. Vol.21 no.1 (1987).
In this section, as well as the previous, we have examined the central structural features of market type economies. Private property, competition, commodification, and the primary goal of surplus value accumulation were all seen to be critical components in the institutional makeup of a market type economy. Volumes can be written on the various ways these elements interact with, and mutually reinforce each other. We do not have that luxury here. We go on in the next section to examine the endogenous systemic forces that these institutions give rise to.

iv. Systemic Forces in a Market Economy

Having seen now what the institutional structure of a market economy is like, that is, what its most important behavior-shaping institutions are, we can investigate the systemic forces that arise as a result of the institutional makeup of a market economy. These systemic forces exert pressures on economic actors, often coercing actors into behaving in ways that produce results which are not individually or collectively desirable. In this section we will explore several important systemic forces that arise within market type economic institutions. Systemic forces are felt by all participants in each aspect of their participation in the market economy; as consumers, workers, employers, *et cetera*.

In order to show how this is the case, we’ll first examine how competition can constrain the behavior of firms, and in particular, how it can lead to negative feedback loops that inhibit the development of labour practices that would increase workers’ well-being. These negative feedback loops are sometime described as ‘races to the bottom’. Then, I’ll describe how the expansion of markets in terms of both their geographical scope, and the range of aspects of social reproduction in which market relationship are dominant, is a systemic force endogenous to market type institutions. Lastly, we will look at the atomizing and individualizing forces exerted
by the institutional structure of market economies. We will see how the historical growth of forms of government based on individual rights was coextensive with the process of forming national markets as we currently understand them. The market’s rise to dominance was simultaneous with the rise of liberal democracy and notion of individual rights. In this process, we can see how the forces of the market contributed to the development of the shape of non-economic institutions. Markets exert systemic forces on other social institutions, shaping them to fit its pattern.

Systemic forces in a market economy, usually linked to one or another form of competition or of scarcity, can often force the hand of economic actors, both consumers as well as producers. For example, when, as a result of the aggregated decisions of many other economic actors, the price of a good or service one consumes changes, one is forced to respond to this change. When the price of a good rises for instance, one is forced to make changes to one’s pattern of consumption, either by purchasing a cheaper substitute good, or by purchasing such a substitute of another good one consumes so as to afford the price rise of the first good. One might also choose to consume less leisure, i.e. work more, in order to generate more wages so as to afford the price rise of the good. This same model applies to consumers of household goods as well as consumers of industrial inputs.

One clear instance of systemic forces is the so-called ‘discipline’ of the market. Through competition, firms, as economic actors, are constrained in many important ways in the range of viable options open to them at any given time. Consider a firm A whose owner would like to provide child care and better health benefits for employees.\(^\text{30}\) This entails an increased expense for the business owner, and this increased cost can either be passed on to the customer, or eat

\(^{30}\) This example is adopted from Partyka and Donnaruma’s article in *Review of Radical Political Economics*. Vol.44 no.1 (2012).
into the surplus the owner receives as a result of production. In either case this puts the owner of firm A at a competitive disadvantage \textit{vis-à-vis} its rivals. If costs are passed on, then rivals can undercut A’s price and erode its share of the market. If costs are absorbed by the owner, then this effects his ability to re-invest in the firm, such as by replacing worn out capital goods or investing in new production technologies. Inability to keep up with the general pace of investment in the industry will put A at a competitive disadvantage. Competition thus imposes a form of discipline on market participants. This is also often the case when it comes to the decisions firms’ make about whether to use more or less environmentally friendly production processes, and or waste disposal practices. If the trends prevailing in a particular industry are toward environmentally harmful practices as the lowest cost solution, then attempts to act against this current are most likely to be met with stiff resistance, as well as the real risk of failure.

The process of market expansion is also a result of the systemic forces of a market economy. In this process more and more domains of social interaction are made to operate according to the exchange pattern, that is, they become mediated by the transfer of equal values between parties which more often than not implies the trading of money for goods and services. The entrepreneurs’ drive for profits, and the positive impact that larger profits would make on the ability of the entrepreneur to obtain consumption goods, leads profit-seeking economic actors to commodify any aspect of social life where profits might be made. This expansionary impetus helped push the initial markets, which had come under the sway of market relationships, into new areas of social reproduction not previously dominated by market relationships. Market-type relationships thus spread out as they were progressively dis-embedded from the traditional patterns of social life within which they were imbricated. The increased commodification of
social life is thus a consequence of systemic forces arising from economic activity structured on the market pattern.

This systemic imperative toward growth and expansion is part of what contributes to the ‘boom and bust’ pattern observed in market economies. Rational economic agents, in this case firms, will respond to the signals they receive. If the price of a good Smith’s firm produces continues to rise, it will be rational for Smith to invest part of her profit in expanding her productive capacity. A rising price level for this good, e.g. widgets, confirms for the producer of widgets that consumers want more widgets than it is at present possible to produce. This excess of demand over supply is what forces the price of widgets up. This signal is however, also received by all producers of widgets, not just Smith. If all widget producers expand productive capacity with each successful completion of a circuit of production, then very soon the widget industry as a whole will be producing an amount of widgets beyond the present demand for them. When this tipping point of reached the price of widgets is bid down again. This is the basic outline of the problem of overproduction that Marx argues is the cause of the ‘boom and bust’ rhythm of markets.

Individualization as structural atomization is the third important systemic force in market-type economies. Because exchange relations dominate in market-type economies, and because human beings operate them, conflicts are inevitable. When conflicts arise over property rights the parties typically appear in courts of law to have the state arbitrate the case. The parties are, and indeed must be, considered as equal individuals in the sense that each is equally a bearer of rights which are ceteris paribus of equal strength. This is a core ideological tenet of modern political liberalism. The parties are considered abstractly, as equals during the transaction, and thus they appear in court as formally equal holders of rights of equal strength. One important
thing this means is that, within the court, each’s various rights are considered of equal urgency. This is one form of the kind of individualization that prompts Robert Heilbroner to describe the participants in market societies as particles. Heilbroner explains that because of the atomizing effect of exchange relations predominating the social organization of production in a market society,

“the individual particles of capitalist society, workers as well as capitalists, become susceptible to the magnet forces of the marketplace, following its price signals as arrows indicating the appropriate movements of their behavior as buyers or sellers. The result of this pervasive magnetization is the creation of an economic “system” that attains its coherence and continuity not from the influence of tradition pressing from below, or from command imposing its will from above, but by the unintended outcome of self-guided activities arising within”. 31

This process of atomization, of conceptual and structural separation, begins with the historical social conflicts that brought about the modern nation-state and with it the modern market economy. Indeed, the aim of the state, according to liberals both classical and modern, is the maintenance of a system of individual liberty. This system of individual liberty is usually understood as the protection of a set of rights for each citizen. The motivating idea of individual rights is precisely to create a social space wherein individuals are free to act according to their own lights. As a direct result there is created a space wherein collective problems can be addressed and resolved fairly by free and equal citizens. Thus arises the basic structure of modern liberal-democratic regimes. These regimes have typically combined parliamentary democratic institutions for regulating the public sphere, and market-type economic institutions for regulating the private sphere.

In this era, the ideology of economic liberalism was the main proponent for a broader set of individual rights, as well as of the extension of formal civil rights to larger segments of society. This liberalizing and democratizing historical socio-political movement of the 17th and

31 Heilbroner 1986, 64.
18\textsuperscript{th} centuries pushed against the power structure of the old feudal society, ultimately resulting in the establishment of the kind of parliamentary governments that were charged with upholding precisely the kind of property rights that were necessary for the ascendancy of the market as a system of social coordination. This kind of view about the transition from feudalism to more democratic social and political institutions is not specific to Marxism. Libertarian thinkers like Ludwig Von Mises, for example, also endorse this view of history.\textsuperscript{32}

The rise of liberalism as the dominant economic and political ideology in western Europe is coextensive with the historical rise of what Karl Polanyi calls the “market society”.\textsuperscript{33} The modern democratic state arose because its main function was proclaimed to be the securing of the material preconditions of a system of economic coordination based on exchange relationships. As the ideology of free trade, and exchange as the mechanism of coordination, spread and encompassed larger areas of social life, so increasingly it became necessary for a form of government suited to this mode of production to come into existence. The market, on Polanyi’s view, thus outgrew its initial “embedded” place in the social order of feudal society, and eventually became the dominant force structuring economic and social power relationships in European society. Giovanni Arrighi seconds this kind of view. He observes that as trade, especially world trade, became a larger and more complex enterprise, and thus increasingly central to economic and social relationships, so too did the forms of nation-state organization become more complex.\textsuperscript{34} Nation-state organization evolved along with the scope of world trade from the mercantile confederacy of Dutch provinces in the 17\textsuperscript{th} century, to the colonizing national state which wove together the threads that were the British empire in the 19\textsuperscript{th} century, to the continental military-industrial apparatus of American empire in the 20\textsuperscript{th} century.

Systemic forces in a market economy can also affect political institutions and processes. For a clear example of this one can look to Charles Lindblom’s discussion of the automatic punishing recoil mechanism which limits the range of policy option available to a democratic polity in a market society.\textsuperscript{35} Policies that are inimical to the expansion of productive property in the form of surplus value are vetoed by the market. When these policies are enacted or, as is often the case, when they are even discussed, markets respond by lowering investment and hiring and bringing the economy into recession in effect punishing the polity for certain of its actual or even potential choices. The automatic punishment mechanism, in practice, limits the range of policy options on certain issues, e.g. property rights, for democratic political bodies. Potential threats to the prevailing business climate become self-fulfilling prophesies as firms scale back hiring and investment in response to a potentially less profitable economic environment causing a macro-economic slowdown. This slowdown causes hardships on workers, whose discontent will manifest in the results of democratic elections. The government or party that enacted the policies which cause recession will likely be voted out of office in favor of one that will at least restore the economic status quo of not improve conditions for profitable business activity.

**Conclusion**

In the course of this chapter we have looked into both the nature of market institutions, as well as the systemic forces that arise from them. We saw first that market-type economies differ from non-market economies primarily in that markets are highly dis-embedded in other socio-political institutions. Markets play a much bigger role, in fact the dominant role, in organizing social reproduction in commercial economies than in feudal economies. We then proceeded to

examine some of the most important structural features of market type institutions. Prominent among these were competition, private property, drive for surplus value, and commodification. These are the main institutions which structure the environment within which individual economic actors, be they individual consumers or firms, pursue their goals. In this way, these institutions help to shape the behavior of economic actors, again be they firms or consumers, by restricting the available means by which to achieve desired goals. Lastly, we looked into the kinds of endogenous forces or impulses that market operations give rise to. Here we saw that both individual consumers, as well as firms, are subject to having their behavior pushed in various directions by forces generated by the structure of incentives in the market.

In the next chapter, we will look into the problem of externalities as it is in economics. The first part of the discussion will focus on the history of the externalities problem. It will address the question of how this problem came to be conceptualized as an independent problem in the course of development of economic thought. The second part of the discussion will focus on the origin of the externalities problem in economic theory. This part of the discussion examines the nature of the externalities problem, and its causal roots in some of the systemic forces of market economies. We will need to understand this traditional problem of externalities in order to more easily perceive the structure of the new problem of political externalities that I wish to expose.
II. The Economists’ Traditional “Problem of Externalities” and the Economic Origins of Externalities

One problem well-known to almost all students of economics is “the problem of externalities”. In chapters three and four I will present a different problem of externalities, that is, a problem of political externalities. In order to make my problem more apparent I will present it using the traditional “externalities problem” as an analogy. I argue that the capitalist-controlled labour-process imposes an externality on workers in the form of transformations in their character, that is, their beliefs, attitudes, and values. The nature of this transformation of workers’ personalities imposes costs on political democracy in the form of a population of worker-citizens less prepared for their roles as citizens in the process of democratic self-government. The externalized costs here flow from the labour-process to workers’ personalities, and then from workers’ personalities to citizens’ capabilities.

In structure, the two different problems of externalities are similar. The foundations of “externalities problems” are individually rational micro-economic interactions between market actors. These individually rational transactions, in the aggregate, produce macro-level outcomes not intended by the market actors doing the transaction, nor conducive to the best interests of the members of society.\footnote{Externalities may be positive or negative in their effects. However, “the problem of externalities” as it is in the discipline of economics almost exclusively deals with cases of negative externalities.} The most significant dis-analogy between the traditional problem and the new problem is that the costs involved in the new problem are not registered in explicit markets. The non-pecuniary nature of these political externalities makes them harder to perceive than the externalities of “the traditional problem”.

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After establishing the structure of the traditional economic problem of externalities in this chapter, chapter three will discuss the micro-foundations of the political externalities problem. There, we will look into how the work of a typical capitalist firm is organized, by whom, and why. We will also look into the main effects of this typical division of labour on the personality of the workers who are subjected to it. Chapter four will then proceed to discuss the impact that the nature of the transformation workers experience in the workplace has on the democratic political institutions. These are the same democratic political institutions which those workers inhabit as citizens, and through which they exercise collective self-government. What we will see is that the direction of the change in workers’ personalities from workplace experiences is in the main highly inimical to the well-functioning of the democratic political institutions. This is significant both intrinsically, because we care about democratic institutions functioning well, and also because of the further effects of democratic institutions on worker-citizens.

i. Self-Interest & Self-Regulation in Market Economies

The traditional “problem of externalities” is best understood among economists as a worry about macro-economic inefficiency from mal-pricing, due to the externalization of some of the costs of a transaction on non-participating parties. According to one prominent macro-economics textbook, an “externality” may be defined as “any activity for which an individual firm or consumer does not take account of all associated costs and benefits”. Critics of the market have long argued that among the market’s important failures is that it fails to produce goods and services for which there is much demand, but insufficient purchasing power. One of the chief alleged virtues of the market is that it is controlled by consumers, and thus responds to

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their demands. That the market does not produce certain things consumers want and need in sufficient quantities, sheds doubt on this alleged virtue of markets. Moreover, insofar as externalities distort the allocation of finite raw materials to the various branches of industry, they introduce inefficiency in the macro-economy. That the market will efficiently allocate inputs to their most valued use is one of its most touted virtues. It appears though, that this is not always the case.

The “problem of externalities” is a species of what economists call market failures.\(^3\)\(^8\) Perhaps it is worthwhile here to mention that in using the term “failure” one only implies that the market mechanism has not reached its optimum equilibrium position, not that it is completely inefficient. A market failure is an instance where the market mechanism, acting according to its own internal dynamics, ends up in a less efficient equilibrium position than it could \textit{ceteris paribus}. A market failure is then simply a case of market inefficiency, or rather, of the market’s equilibrium position being sub-optimal.

The story of “the problem of externalities” is importantly linked to changing views about the market itself, and to the desirability and effects of self-interest and competition. According to Steven G. Medema, the origin of the problem of market failures has closely followed the pendulum movement of dominant views about self-interest.\(^3\)\(^9\) Pre-classical thinkers, Thomas More for example, saw self-interested behavior as having base, or pernicious, effects in the main, and hence this sort of behavior needed to be curtailed for collective benefit.\(^4\)\(^0\) The prescription

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offered by these theorists was to make use of the power of governments to impose sanctions penalizing undesirable activities.

With Adam Smith and other classical economists, we see a complete reversal of the view of the effects and utility of self-interest. According to the views of classical economists, self-interest, or what they called the system of free competition, would actually more effectively harmonize the interest of the individual and society than government regulation. This is the point of Smith’s famous “invisible hand” argument: when self-interest dominates an economic actor’s conception of rationality the overall social good is more efficiently achieved than it would be by government action. This dominance of the pursuit self-interest in the conception of individual market rationality, and the set of classic property rights, define for Smith, and other classical economists, the “system of natural liberty”. When this system is put in place, socially optimal results are achieved without the need for governments to interfere with individuals’ freedom. These classical economists held a view of markets as self-regulating. This means that the internal dynamics of markets not only prevent them from remaining out of equilibrium for long, but also ensure that markets occupy the optimal equilibrium position. This view derives from Joseph Townsend and his example of dogs and goats on island of Juan Fernandez.\(^{41}\) The self-interest of each leads them to interact with each other in ways which keeps the population of each in a proper sustainable proportion. This model, Polanyi asserts, is what influenced the work of Thomas Malthus, and later, Charles Darwin.

On Medema’s analysis, views on this issue began to shift back again in the middle of the 19\(^{th}\) century. Medema looks to Mill and Sidgwick as the turning point about views of self-interest. As industrialization proceeded, the conflict between individual self-interest and social-interest became increasingly apparent. The pendulum was swinging back in other direction, back.

\(^{41}\) Polanyi 2001, 119.
toward perception of self-interest as a baneful influence in need of remediation. Medema claims that the shift begins with Mill and his endorsement of the Harm Principle. According to this principle, potential harm to others can justify coercive government interference with a citizen’s liberty. Mill shows some important continuity with the classical tradition by insisting that even when government intervention is permissible, it is not always the best solution.

Sidgwick completes this transition away from the self-regulating view of the system of natural liberty. Sidgwick shares with Mill the view that self-interest is necessary to making society prosperous. He asserts, ‘the difficulty of finding any adequate substitute for it, either as an impulsive or as a regulating force, is an almost invincible obstacle in the way of reconstructing society on any but its present individualistic basis’. However, Sidgwick goes beyond Mill in more thoroughly criticizing the system of natural liberty and its failures. Self-interest may be indispensible at present, but that does not mean it always produces optimal results. Sidgwick cites two general types of cases where individual self-interest diverges from social interest. The first type of divergence is the result of the importance of non-economic goods for society. Sidgwick notes three instances of widely recognized exceptions to the system of natural liberty. He notes the provision for those unable to care for themselves by pursuing their self-interest, e.g. the mentally disabled and children. Sidgwick’s second kind of divergence of private and social interests deals with cases where markets are not wealth-maximizing at all. Sidgwick claims that the assumptions necessary to the production of the socially beneficial effects of markets do not hold in the real world. Where the conditions stipulated in economists’ models do not obtain, the beneficial effects of markets will not materialize.

The important thing to see in the work Mill and Sidgwick is the evolution of the idea of market failure. Both, in contrast to classical economists, think that there will be important cases

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42 Sidgwick quoted in Medema 2007, 345.
where markets fails to produce a harmony of private and social interests. Contrary to Mill, Sidgwick sees a larger role for government intervention, and is generally less pessimistic about its potential consequences. Nonetheless, both agree that in cases where private and social interests diverge, some remedial action is called for, and both agree that such cases will be inevitable. However, both Mill and Sidgwick agree, that even where government intervention is justified, it is not always the best solution, and in many cases remains a second best solution.43

Alfred Marshall and A.C. Pigou were the economists who mark the completion of the transition to neo-classical economic thinking that Medema argued began with Mill and Sidgwick.44 It is with these thinkers, and their employment of marginal analysis, that the problem of externalities takes on the more technical form that contemporary readers would recognize. Both argue that there are important cases where individually rational decisions will produce socially sub-optimal outcomes. The direct implication is that the market rationality of economic actors is by itself not sufficient to produce the beneficial effects that classical economists claimed would emerge from markets. Marshall is perhaps best known for his work on consumers and producers surpluses, but his work on externalities is a second important influence on Pigou; in fact, in the latter’s most famous work he credits Marshall for his work on what he called “external economies”.45

Pigou, of course, shares much in common with Marshall and the neo-classical school. He also gives what was for many years the definitive neo-classical statement of “the problem of externalities”. He agrees with Marshall that self-interest in the absence of movement costs will result in an optimally efficient distribution of productive resources. Pigou agrees that the system

43 The main importance of Sidgwick’s account of market failure may lie in his having influenced the work of A.C. Pigou in the 1920s. Medema 2007, 356.
of self-interest, when it operates without certain kinds of costs, will produce efficient
distributions of productive resources, which will equalize the rates of return to capital across the
different branches of industry.\textsuperscript{46} When it is costless to do so, owners of productive capital will
allocate their resources according to where it will earn the highest return. When every economic
actor does this, the rate of return to capital in each separate industry will be competed down to
the level where the equilibrium firm’s marginal additive cost and marginal substitution costs are
identical.

When private marginal net product and marginal social net product diverge, the system of
self-interest cannot be relied on to produce optimal allocations of productive resources. He cites
three cases of inefficiencies due to divergence between private and social marginal net product,
namely principal-agent problems, positive and negative externalities, and positional
consumption.\textsuperscript{47} Each case shares similar micro-foundations, in that individual economic actors
are rationally pursuing their self-interest, but fail to achieve the most optimal state of affairs. In
principal-agent problems, for example, there will result a sub-optimal level of investment due to
the divergence of the agent’s interests from the principal’s. With externalities, a sub-optimal
level of public goods, or bads, will be produced due to the difficulty of attaching prices to these
effects and then exacting payment from actors for them. In the case of positional consumption, a
sub-optimal profile of the content of social production will be generated by the status-based
consumption because of the way markets respond to effective demand.

In addition to the problem of divergence between private and social interests, economists
also note two other main forms of market failures. The other two kinds of market failure include
cases where there is an information asymmetry between transacting parties, as well as cases

\textsuperscript{46} Pigou 1978, 172.
\textsuperscript{47} Pigou 1978, 174.
where markets are not fully competitive. In both of these cases, just as with externalities, the harmony of individual and social interests fails to materialize. Yet as Fred S. McChesney argues, it is almost certain that “externalities (or “social costs”) are perceived as the greatest of the market failure problems”.\(^48\) It was with the development of the tools of marginal analysis that it became possible to see more precisely the failings of the market system.\(^49\) The techniques of marginal analysis allowed economists to determine the optimum market conditions, and thus to clearly perceive cases where actual markets fall short of these conditions. These instances became what are now known as market failures. And as we just saw, “the problem of externalities” is one of the main forms of these failures.

### ii. Market Failure and State Regulation of the Economy

Given that external effects involve interactions, potentially harmful ones, between persons, the “problem of externalities” almost inevitably became bound up with questions about the role of government in markets. As there increasingly came to be seen, by economists as well as others, to be important divergences between public and private, individual and collective, consumption goods, so too did the question of market failures become a question of what to do about them. This question of how to respond to market failure ultimately becomes a question of, Who should address this problem and how? The different answers to this question still mark an important cleavage in the main schools of economic thought. On one side there are those who say the government should intervene in the economy to correct for market failures, and on the

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\(^{49}\) Medema 2007, 332.
other side, there are those who think that market failures are themselves a product of too much
government interference in the economy.

The “externalities problem” thus comes up again in the 1950s in the context of
discussions of public goods, and the government’s role in providing these, if and when the
market cannot or does not. This literature is centered around a series of articles published mainly
in reaction to P.A. Samuelson’s article “The Pure Theory of Government Expenditure”. 50 In this
article Samuelson claims that there are two main types of consumption goods, namely private
goods and collective goods. As regards the latter Samuelson argues that “no decentralized
pricing system can serve to determine these levels of collective consumption”. 51 His argument
here is tied to the way that markets are attuned to demand. The market mechanism is made to
react to consumers’ demands by shifting production according to the way consumers’
preferences register on the market, namely in the form of firm’s receipts. Because the market is
tuned into effective demand, it can and will overlook goods that a vast majority of consumers
may desire, but that consumers cannot muster enough collective demand for the production of
this good or service to be profitable to an entrepreneur. In a market it is one thing to subjectively
desire something, or even for millions to objectively need something. It is another thing
completely for these individuals, or even coordinated groups of individuals, to consolidate
enough aggregate purchasing power to constitute effective demand for a particular good or
service which meets their subjective desires, or objective needs.

no.4 (1954): 387-389. Not surprisingly the literature arising in response to this article deals in the main with the
propriety of government intervention in reaction to external diseconomies. All agree that there is a macro problem
associated with the presence of external effects due to the divergence of private and social interests. This literature
responding to Samuelson comprises the articles by Bator (1958), Meade (1952), Coase (1960), Scitovsky (1954),
and Buchanan and Stubblebine (1962).
51 Samuelson 1954, 388. Emphasis in original
Understood this way, the problem of negative externalities, in this case regarding public goods, is a kind of collective action problem that arises from the structure of individuals’ incentives in a market society. Given the ability of individual actors to privatize gains and socialize costs through externalization, as well as the rationality of free-riding where possible, it becomes difficult to organize actors in such a way that they produce the result which is best for all. The divergence of private and social interests begins because it is rational for any economic actor to enjoy the benefits of a public good without paying, since by not paying while all others do, one gains twice over.

According to Pigou, and the neo-classical school, in many cases it will be necessary to have the government intervene with taxes and subsidies in order to bring the market into equilibrium.\textsuperscript{52} By attaching costs, via taxes, to dis-preferred behaviors and providing subsidies to encourage desired behavior, governments can attempt to bring markets closer to the social optimum equilibrium position. These taxes and subsidies produce distortionary effects, but that is how they achieve their desired results. Taxes and subsidies work by distorting the price system in ways that alter the preference schedule of economic agents. These changes alter economic agents’ purchasing decisions. This in turn alters the market’s equilibrium position, bringing it closer or farther away from the socially optimal position. Some thinkers differ on how extensive the role of government in the economy should be, but all accept this model of how government action could be used. After Pigou, the debate about market failures and externalities centered on the propriety of the role of government in correcting for these failures, as well as the proper scope of this intervention in cases where intervention is warranted.

The problem here is similar to the classic prisoner’s dilemma example. Each participant knows that it is possible to capture such double gains if they defect from a scheme of cooperation

\textsuperscript{52} Pigou, 1978, 192.
while others do not. As each actor knows this about him- or herself as well as about all other participants, each actor is less likely to be willing to pay for the production of such public goods out of fear others will free-ride. Since not enough people are willing to pay, the market does not respond to their demand. We can see this type of case in the U.S. today where we notice an under-production of healthcare and education goods relative to the level of demand for such goods. Each individual actor pursuing their own self-interest in this case results in a socially sub-optimal outcome, in that less healthcare and education goods and services are produced than would be considered optimal by the members of society, if, for example, the level of collective consumption of these were to be democratically chosen.

Indeed, if we look to the foundations of modern macro-economics, the work of economists like Leon Walras and Robert Solow, we can see how the “problem of externalities” could become such a significant problem. A large portion of what makes Walras and Solow important is that each helps to show how it is possible for there to be one market-clearing set of prices, for all markets simultaneously. This means that all markets are interconnected, and that changes in one will spill over and effect changes in another. This is indeed the very micro-economic foundation of the economic multiplier effect outlined by Keynes. It is because of the intricate web of relationships between employers and employees, business and customers, suppliers and retailers, et cetera, that spending always equals income, and that a large influx of money to one filters out to the rest in an auto-catalytic loop.

In this section and the previous we have been examining how the awareness of the “problem of externalities” developed in the history of economic thought. This problem grew out of the increasing perception among economists over time that, unlike the prescriptions of classical economic theory, actual markets resulted in non-optimal equilibrium positions. States of
affairs where actual markets did not live up their theoretical models became known as instances of market failure. The more markets grew and became interconnected, and the wider the scope of social processes and interactions they encompassed, the more individual acts of consumption came to have an increasing range of possible external effects. In the first sub-section we saw how the “problem of externalities” was linked to changing views about self-interest. In this sub-section we look at how the development of the “problem of externalities” is related to important questions regarding markets’ self-regulating properties, and government intervention in the economy.

We have now finished our look at the evolution of the idea of market failures, and “the externalities problem” in particular, in the history of economic thought. In the next section, we look more deeply into the micro-foundations of the externalities problem. The structure of incentives in a market economy aligns consumers’ and producers’, preferences schedules in ways that facilitate market failures like externalities. Because each party to an individual transaction gains by it, neither party has any incentive to stop. If economic actors can gain a pecuniary advantage by engaging in a kind of transaction, one that includes external effects, only moral suasion can potentially sway the individual away from engaging in the particular practice; see for example the European-dominated African slave trade. Especially where external effects occur, i.e. where part of the true social costs of the transaction, and the larger social processes that support it, are foisted on non-participant third parties, individual economic actors will retain the motivation to act in a narrowly self-interested manner.
iii. The Micro-Foundations of the Problem of Externalities

In a typical economic exchange buyer and seller meet in the market and trade equivalent values of money for equivalent values in goods and services. In many cases, the consumption of the good or service obtained has no further direct effects on non-participant third parties. When, for example, I buy two tacos for lunch and eat them, there are no further significant consequences stemming from this choice on anyone. So it is for many other kinds of goods and services. For some goods and services, however, their production or consumption does impose significant costs on third parties, be they other discrete individuals or society. It is important to note here that all economies have externalities. In perhaps the most influential economics textbook of the second half of the 20th century, Paul Samuelson describes externalities, or external economies as, “a favorable effect on one or more persons that emanates from the action of a different person or firm; it shifts the cost or utility curve of each person it helps”.\textsuperscript{53} An external diseconomy, by contrast, is the same phenomenon but with a detrimental effect on others. Understood in this way, we can see how many different types of consumption or production activities could produce either external economies or diseconomies, regardless of the type of macro-economic institutions the prevail in society.

Moreover, as E.K. Hunt asserts, “externalities are totally pervasive…the vast majority of productive and consumptive acts are social, i.e. they involve more than one person”.\textsuperscript{54} This means that in all economies the private consumption and production choices of individual economic agents impacts others, be it for well or ill. Further, the ubiquity of external effects means that the problem of mis-pricing in a market economy is very widespread, and indeed much more widespread than many market proponents are willing to admit. The main difference


between the kinds of externalities found in feudal societies and those found in market societies is that the former are much more localized. As James Buchanan asserts, in small groups individuals are more willing to internalize externalities through private bargaining.\textsuperscript{55} The close social relationships that exist in smaller groups allow individuals to bargain directly with those others who are producing externalities, and to initiate arrangements that compensate the disadvantaged party. Moreover, the dependence of individuals on others in their small groups gives them an incentive to reach such bargains with externality-producing others. In a market economy, the effects of external diseconomies are much more widespread and systemic in nature, because they are transmitted throughout the economy and society via the price system, which connects all markets.

All individuals in a market face the system of incentives, and attempt to satisfy as many as of their preferences as possible within the constraints imposed by this system. The micro-foundations of the externalities problem can be found in the way individual economic actors, facing this system of incentives from their particular position within the socio-economic hierarchy, attempt to make rational utility-maximizing decisions. Individually rational decisions, when aggregated, result in a collectively irrational, even harmful practice, though for some a nonetheless lucrative one.

One classic example of this problem of negative externalities is automobile pollution.\textsuperscript{56} The consumption of the use value of automobiles produces undesirable pollution which in turn creates health problems for many individuals which impose costs on individuals, and society, if and when those affected pay for measures to ameliorate the effects of the pollution. This pollution imposes costs on third parties who were not party to the transaction where the

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\textsuperscript{55} Marciano 2010, 41.

\textsuperscript{56} This is the example of this problem considered by Robin Hahnel in The ABCs of Political Economy. Pluto Press, 2002: 85.
automobile was purchased. When Jones purchases and then wears an ugly or offensive T-shirt, she imposes costs on those she passes. These externalities are not only insignificant, but also and more importantly non-pecuniary. When however, Jones buys an automobile, and consumes its use-value, she imposes costs more significant than mere offense on third parties, and more importantly costs that register on explicit markets. The pollution created by automobiles has resulted in untoward consequences on the health of many people who had nothing at all to do with Jones’ decision to buy a car from Smith. Many people whom neither Jones nor Smith will ever meet spend potentially large sums of money on healthcare, so as to blunt as much as possible the symptoms of the maladies caused by Smith and Jones making ostensibly “private” decisions.

The case of public goods also very well illustrates this relationship between macro-inefficiency and micro-foundations in market rationality. Public goods are a case of a negative externality. This externality is a negative one in that the result of it is a less optimal allocation of societies’ productive resources. In the case of public goods, a less optimal state of affairs is produced when society fails to invest enough as would be desirable in goods like education and healthcare, for example. Having less of these goods available imposes costs on the members of society. These are goods which if purchased would increase the welfare and/or productivity of all who received the benefits of this good. A system of roads, public health infrastructure, police enforcement of law and order, and government regulatory agencies come to mind as important public goods. The problem is, because a market only responds to effective demand, it will not produce optimal levels of these kinds of public goods unless there is sufficient purchasing power. The costs of these kinds of goods is quite obviously beyond the ability of almost all individual economic actors to bear alone. The need for cooperation between actors for the provision of
these goods is what is at the root of the problem. The high levels of cooperation and trust required to make such cooperative endeavors possible are very often difficult to come by in market economy due to the antagonistic stance of market participants. Each actor knows that it is in the interest of all other actors to free-ride if they can since that way they can capture double gains.

Private and social interests diverge here because total social aggregate demand for such goods outstrips the actual level of provision of these goods. Knowing that others will defect if they can, rational economic actors will likely decide not to participate in the cooperative scheme needed to make the provision of important public goods necessary. It is individually rational for actors not to participate, and yet this results in the sub-optimal condition of no public goods. This kind of trap is why neo-classical economists tend to agree that government intervention is needed to induce the market to produce the goods desired. By taking tax revenue and using it to provide the public goods desired by the public, the government acts as a kind of guarantee that others cannot defect. Since the tax revenue generated by the government is very large it is able to make the market respond to its demand, thus overcoming the collective action problem standing in the way of optimal provision of public goods.

iv. The Concept of Social Efficiency

This problem of externalities is one of market inefficiency at the macro-level, or from the point of view of society as a whole. This is one reason behind Coase’s understanding of externalities as the problem of “social cost”. We saw how this problem is social very clearly in the case of the automobile market. By externalizing some of the costs of consumption and production, producers and consumers artificially lower the price of automobiles and gasoline.
This artificially low price creates a level of aggregate demand for, and hence of production and consumption of, this good than is socially optimal. This is, in the sense that we both produce and consume more of the good than is consistent with our commitments to other goods, like healthy living conditions or environmental sustainability. This is also sub-optimal, in that, by diverting resources to a market where there is sufficient demand, even if artificially created, the collective bears the opportunity costs of the other potential uses those resources could have been put to. We could also throw in here the opportunity costs associated with the monetary expenditures on healthcare that ceteris paribus could have been more profitably used. We should be able to see now that the costs associated with externalities are very great indeed, and moreover can have wide-ranging effects.

This notion of social efficiency is not how most economists think of efficiency. It is still very common for economists to conceive of the “efficiency” of which they speak as Pareto superiority and optimality. On this view, a particular transaction is efficient, or Pareto superior, if it makes at least one person better off without making anyone worse off. One could also say that a state of affairs, a particular distribution of goods for example, is optimal if there are no Pareto superior moves to be made; that is, the only kinds of transaction that remain would make at least one person worse off. In a Pareto optimal state there are no more Pareto superior moves, that is, no one can be made better off without making someone worse off.

One large problem with the Paretian view of efficiency is well known. This problem is that there are many kinds of highly inegalitarian distributions of social resources that would be considered efficient or optimal on this view. It would be a technically Pareto optimal state of affairs to have a society of ten people, wherein one individual owns nine tenths of all resources, and the remaining nine persons own one tenth. Any transaction that alters this state of affairs,
that involves transfer of resources, will make at least one person worse off. Even though altering this distribution would be more efficient for nine of the ten people, it would make one person worse off, and is thus not a Pareto superior transaction. A more egalitarian distribution would quite clearly be more socially efficient. Under a utilitarian way of thinking everyone’s happiness counts for one, that is, counts for the same as everyone else’s. Such an inegalitarian distribution as described in our example, could not be seen as morally permissible for a classical utilitarian, not without making many unreasonable assumptions about the relative amounts of hedons or dolors experienced by the members of society.

What this discussion of Pareto efficiency importantly highlights is that, in a market economy, the notion of efficiency is relative. In the first place, “efficiency” is relative to the structure of prior distributions of wealth and resources in society. In the second place, “efficiency” is relative to the goals and values of the polity. It would be quite true to point out that the latter help to give shape to the former. The goals and values of a society inform the range of distributions of resources they are prepared to see as acceptable. This, in the best case, will exert some influence on the actual distribution of resources. The nature of the actual distribution of wealth and resources defines the range of transactions that will afford participants a Pareto superior outcome.

In a society with a democratic political ethos, the notion of “socially efficient” will have an egalitarian bent, which will disincline persons toward the Paretian notion of efficiency, and its untoward implications. Democratic egalitarianism combines a moral claim from classical utilitarianism that each counts for one, and a more objective assessment of the basic needs of human beings. This kind of view fundamentally rules out as counting as “efficient” certain kinds of inegalitarian distributions of wealth and resources in society; for example, the distribution we
mentioned in our example above. So, we can see now, the notion of “efficiency”, on the Paretian view, in any particular transaction is more a function of the structure of the distribution of wealth and resources obtaining prior to the transaction, than it is a function of a conception of what is due to fellow free and equal members of a democratic political society.

These examples have helped to display the important micro-foundations of the macro-level problem of externalities. These micro-foundations are the result of the structure of individuals’ incentives in market economies. Underlying the dynamics behind the problem of externalities is the ability of economic actors in a market to privatize the gains from a transaction while socializing some of the costs. Because the structure of market societies permits this, the price of certain goods and services tends to reflect the marginal personal cost of production to the producer and the marginal personal utility of consumption to the consumer, rather than the marginal social cost of production and the marginal social utility of consumption. This is why Smith finds it rational to continue selling cars he knows clearly and distinctly cause pollution and degrade the quality of the environment he depends on for continued existence. Smith captures an economic gain from transacting with his customers, this private gain enables Smith to both obtain necessary commodities as well as re-initiate the process of gain production.

Since the right to private property includes residual claimancy status, entrepreneurs have a direct incentive toward increasing this residual as much as possible, because the size of the residual determines the consumptive potential of the entrepreneur, as well as their potential ability to re-initiate the cycle of production. This is of course true of any economic actor who is in a position to privatize, or capture, any increase in the size of the residual from transactions.

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57 The literature discussed earlier in this chapter arising in response to Samuelson’s (1954) article all agree with this picture of the problem. From Scitovsky, to Buchanan, and Stubblebine the description of the macro problem of externalities focuses on the micro-foundations of individual’s understanding of what choices are rational from their position in the face of whatever market conditions they face.
with other economic actors. One way it is possible to increase this residual is by allowing, intentionally or not, some part of the total cost of production and consumption of a good to be borne by individuals who were not party to the transaction. Externalities help create increased residuals, but often at great cost to others.

The owner thus has little reason to take these other costs into account because they do not impact him or her directly enough. So the car dealer Smith will continue to sell automobiles because he stands to gain by each sale, and because the costs of automobile production and consumption do not have a significant enough impact on the cost benefit structure of Smith’s automobile-selling activity. Thus, it is unlikely that Smith’s preference schedule will change because socially costly decisions will not be costly enough for Smith for him to dis-prefer them, and hence change his pecuniary activities, unless, of course, these external costs can be made to register more directly for Smith, e.g. by implementing a program issuing tradable permits to pollute creating a market for these permits and hence a cost for polluters from polluting.

Conclusion

In this chapter we examined how the development of the economists’ “problem of externalities” was tied to changing views about the role of self-interest, and the markets institutions based on them. From the time of Adam Smith and the other classical economists it was alleged that self-interest would harmonize individual interests in a way that would best promote the social good. This is indeed the point of the famous ‘invisible hand’ example. It is the self-interest of the hypothetical baker and butcher that drive them. This pursuit of their respective self-interest, according to the classical economists, results in the promotion of the best interests of society as a whole. What happened is that from say 1750 to 1850 many of the predictions
made by Smith, Riccardo, and others turned out not to be entirely accurate. This was especially the case with the persistence of poverty in the face of economic growth. As the industrial revolution took hold enormous amounts of wealth were created. And yet, there remained the blight of extreme poverty.

This social reality in contrast to economists’ predictions is what lead many of the thinkers we know now as the “utopian socialists” to make their various critiques. These thinkers’ critiques of early industrial societies, grappling with the clash between theory and practice, led to the development of the concept that, by the end of the 19th century, would be called “the social problem”. This clash led other thinkers, many we mentioned in sub-section i, to develop increasingly sophisticated and precise ways of understanding, measuring, and evaluating market failures. These are, in an important sense, instances where economic theory predicts one thing, and actual markets with live humans produce divergent, typically less optimal, results.

We also saw that the systemic forces endogenous to market type economies sometimes create perverse incentive structures. In these “perverse” cases, the incentives of different individual economic agents align in ways that leads these individuals to make self-interestedly rational decisions, the results of which are collectively irrational or undesirable states of affairs. These “perverse” cases arise from the confluence of basic market forces and institutions; for example competition, scarcity, and the dominance of wage-based labour as the form of employment among others. In some of these “perverse” cases, where the market mechanism breaks down, some of the total social cost of production and consumption of a commodity is borne by persons outside of the particular transaction. These are cases that economists have come to call “externalities”. This term is now more understandable, because some portion of the total social cost of a transaction is paid for by persons who are external to the transaction.
In the preceding discussion, most accounts of the problems of externalities focus on the exchange on non-labour commodities. In the next chapter, we explore the foundations of a new kind of problem of externalities that arises from the exchange and utilization of the labour-power commodity. Just as with the problem of externalities we have been discussing, this new problem of externalities is also a macro-problem built on micro-foundations. Then in chapter five, I present the macro-effects of this externality arising firstly from the exchange of labour-power for wages in the labour market, and secondly from the organizational structure of the site of production itself.
III. The “New” Problem of Externalities: The Personal Consequences of Work

In the last chapter we examined the “problem of externalities” as it is found among economists, as well as the structure of the problematic economic effects of externalized costs. We reviewed the history of the development of the concept of market failure, of which “the problem of externalities” is a very prominent example. This was important as it represented one part of an analogy. This traditional “problem of externalities” serves to make clearer the structure of the problem of political externalities that I will explain in this chapter and the next.

The nexus of this “new” problem of externalities is the individual, both as a worker and as a citizen. Under the current regime, one’s work life and one’s political life are largely separated, unless of course one is employed by a political agency, in which case this is a happy coincidence. The problem here is one of institutional spillover. Workers’ experiences in the workplace have important consequences for political democracy when these individuals transition into their political roles as citizens. Since most persons spend considerable amounts of their lives on the job, that is, physically inside the workplace, it would seem very unlikely that the behaviors learned in the workplace would not spill over into the political and social realms.

As our analogy implies, we should expect that people will have their non-working lives, especially their political lives, become colored by their alienating experiences in the workplace. In light of how much people depend on their jobs for access to the means of subsistence it would seem all the more unreasonable to think that workers could leave all work-related conditioning at the proverbial, and in some cases literal, factory gates.
These spillover effects impose certain costs on democracy in the form of democratic deskilling, that is, the inhibiting in worker-citizens the kinds of intellectual skills needed for effective democratic participation, and in the form of an adaptive preference toward decreased political participation. These costs manifest themselves in the form of a democratic polity’s citizenry lacking in the skills relevant to democratic political participation, as well as a citizenry composed of persons increasingly uninterested in exercising their political rights to participation. These two phenomena degrade the quality of political democracy by undermining the principle prerequisite of the deliberative mechanism, namely an informed citizenry. These phenomena also enable elite control of politics in that an increasingly politically disengaged citizenry will not act to check the acquisition of power of this elite, nor particularly care that they are not participating in collective self-government. This is the problem of political externalities.

This chapter will be looking into the micro-foundations of this new externalities problem. In section one we’ll explore the source of employers’ power in the labour market and the workplace. Employers’ labour market power is what facilitates their power in the workplace. It is employers’ power in the workplace, over the labour-process, combined with the set of economic imperatives imposed on employers by market conditions, that result in the creation of workplace conditions out of which these political externalities emerge. Employers, acting on their individual market rationality, i.e. their imperative toward profit, adopt patterns of workplace organization that produce externalities via transformation of workers’ personalities.\(^{58}\)

Section two proceeds to discuss the form that employer control of the labour-process takes in the typical capitalist firm, which is organized primarily around vertical power

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\(^{58}\) It is worthwhile to note in this connection that “employers” here means the largest employers. Those whose labour practices set the standards for other smaller companies to follow. In line with the analysis of monopoly capitalism developed by Baran and Sweezy, it is the core firms in any market that have the most power to shape prices. This is as true of the labour market, as of the market for widgets.
relationships between labourers and employers. The antagonistic relationship between labourers and employers takes the form of what is called the Labour Discipline Problem. It is the dominant reaction of employers to this problem, which defines an aspect of the basic structure of employment relationships in capitalism, that produces the alienation from which spring political externalities.

The third section examines the nature of the dominant effects of workplace alienation on workers who are subject to alienation, or as we will understand it, powerlessness. Important research done by Melvin Seeman and some collaborators, as well as by Melvin Kohn & Carmi Schooler et al illustrates very clearly the negative ways that the structure of the labour-process in the typical capitalist firm affects the personality of workers subject these processes. The fourth section discusses another dimension of the negative effects of alienation on workers’ personalities. Keeping focused on the research of Seeman and Kohn & Schooler et al, we’ll examine how workers respond to workplace alienation. This time, however, we’ll take notice of the effects on workers’ values, attitudes, and preferences, especially workers’ leisure time preferences. The results of this research show that highly alienated workers evidence a selectively political withdrawal, that is, they show significantly less interest in political issues than in other cultural topics.

The final section demonstrates the extent of the problem of Taylorism. The alienation-producing workplace methods deployed by firms are faced by a great many workers in the contemporary economy, probably the majority. This section responds to a potential objection, namely that even if worker alienation is a problem, if it only affects a few workers then it can’t be that problematic for society. We’ll see that firms utilizing alienating job-complexes in their labour-processes are still dominant, and that trends in the labour market only reinforce the
utilization of alienating job-complexes in the labour-process. Critics who would think that alienating job-complexes only affect a minority of workers, and thus do not constitute a serious political problem, are quite mistaken.

This chapter sets out the first leg of the explanation of the problem of political externalities, namely, the effects of work organization on workers. Chapter four presents the second leg of the explanation of this problem, namely the costs imposed on democracy political institutions by the changes brought about in workers by employers’ chosen forms of work organization. We will see in chapter four that psychological and sociological research has demonstrated that the nature of transformation of workers, due to the structure of the labour-process in the typical capitalist firm, is inimical to the well-functioning of the institutions of political democracy.

i. Capitalist Control: Employer Power in the Labour Market and the Workplace

In this section we examine the source of employers’ power in the workplace, in the bargaining power that employers possess due to the structure of the labour market, and that enables them to strike “voluntary” bargains with individual workers. Under these bargains, workers trade control over their labour-power, for a specified amount of time, for a package of wages, benefits, and work conditions. The terms of this exchange benefit employers much more than workers, because employers are able, via their control of labour-power, to generate surplus value by organizing the labour process in a way that produces more value than is provided to workers in the form of total remuneration. In the next section, we examine the workplace dynamics that result from this contracting situation, and the nature of the labour contracts that emerge from this situation.
In attempting to understand the contracting situation between employers and workers, we must take notice of an important feature of the structure of market economies. In a capitalist market economy, the function of the entrepreneur, that is the employer, serves as what has been called the “common contracting agent”. The employer, in this way, is the agent which purchases, and thus owns, and hence has the right to control, the labour-power of the contracted workers. By being the agent with whom all of the firm’s contracts for inputs are made, the owner or employer is able to use the right of control to arrange a division of labour within the firm that yields a surplus of value when the finished product is sold. Labour, in the capitalist economy, is just one input among others. In fact, labour may be pejoratively distinguished as the most troublesome of the inputs entrepreneurs must deal with. Unlike capital goods and office supplies, workers have opinions and desires, both of which influence how productive this input will actually be. Productivity in this sense is a function of how much labour-itself workers actually provide.

This is important, because it means that it is employers’ activity that primarily drives the labour market, and determines its state. The market system puts employers in this position by requiring structurally that the means of production be re-combined in each cycle of production by some individual economic agent. Capital and labour are required for successful production to occur, and because in a market society all productive inputs are separated and made available for purchase, the employer must assemble the necessary elements together under his or her control. In a market economy, the elements of production exist as dispersed commodities for sale, and it is thus up to the energy, and of course capital, of the employer to gather the necessary inputs together, and then organize them in a way that results in successful creation of value, and

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60 See Weeks (1981) for excellent discussion of this dynamic.
hopefully a surplus of value, or profit. This basic imperative towards profits by employers is their dominant interest in dealing with both the labour market, as well as the workplace. Not only does the nature of an exchange-based economic system secure an essential role for the capitalist entrepreneur, but it also means that the profit-oriented activity of these same entrepreneurs is the main factor determining the state of vigor in the labour market. When entrepreneurial activity is high, many workers will be employed, and when it is low fewer workers will be employed.

The individual worker faces a redoubtable situation bargaining with employers over acquiring a remunerative position, salary, and work conditions. This is, in the first instance, because one is required, in a capitalist market economy, to use money to legally obtain the things one wants and needs; including importantly the very means of subsistence. This applies also to things wanted or needed by family members, or other loved ones, who may not be able to obtain wage remuneration. One is also forced, in a market economy, to find employment which pays wages in order to obtain the money needed for satisfying one’s needs and hopefully some portion of one’s desires. The very nature of a market economy forces those who don’t own enough capital to trade to meet their basic needs to seek wages in return for the one valuable commodity one always possesses, i.e. labour-power. The kinds of communal subsistence production that dominated among European peasants, as well as the poor in many places of the world today, are no longer viable options for denizens of more advanced industrial economies. Cutting the masses of poor people off from these bases of production is exactly what characterized the processes of urbanization and proletarianization that occurred in western industrialized nations during their

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61 This is of course lest one should find some way to persuade others to provide all one’s essentials as free gifts.

62 Government sponsored welfare programs, and access to the means for subsistence farming, or independent wealth for example can effect whether or not and to what extent one must seek remunerative employment.
industrial revolutions.⁶³ Former peasants were turned, sometimes violently, into industrial workers, disrupting the traditional flow of peasant life. However, this process was important for entrepreneurs, who needed a source of readily available labour-power for hire to combine with other elements of production in their pursuit of profit.

In addition to finding themselves constrained by the nature of a market economy, workers find themselves in a position of mutual antagonism among themselves, because there is an enormous surfeit of labourers over and above the remunerative positions currently available in the economy.⁶⁴ This dynamic has increasingly characterized industrialized nations since the middle of the nineteenth century. The abundance of the supply of labour-power over demand for it applies a downward pressure on workers’ wage and benefit demands. This means that workers as a class are highly vulnerable to employers. The existence of an enormous reserve of unutilized, or underutilized, labour-power means that, in the employment contracting situation, workers will be forced to lower their reservation prices in regards to the level of wages and working conditions.⁶⁵ Workers will do this for fear of losing out on a potential source of income to a more desperate worker willing to accept less in order to get something at all. Employers take advantage of this enormous surplus of labour-power to decrease wages, and exploit a vulnerability workers face primarily as a result of the creation of labour as a commodity.

In a market economy, capitalist employers are always competing with each other, and this reality quite naturally leads the entrepreneur to look to the site of production itself as a place to economize and attempt to out-compete his or her rivals. Employers’ focus on the labour-

⁶⁴ This is sometimes not the case for bounded periods of time in specific industries in specific countries at specific times. On the macro-level, the persistence of unemployment in developed industrialized countries testifies to the permanent surplus of labour-power available over the demand of employers for it.
⁶⁵ A “reservation price” is the lowest price at which the owner of commodity is willing to sell that commodity. In this case, the reservation price is the wage rate below which the worker would reject the offer of employment.
process is thus the result of a systemic force in market economies. This is because the employer has all the appropriate rights and powers which due the owner of any legal property in a market economy. Since the entrepreneur is this common contracting agent, he or she becomes responsible for organizing the actual work that goes on during the production phase of the circuit of capital.

In a market economy, production begins with money, which buys the means of production, which then produces products that are sold, i.e. turned into money. This means that each competitor in a market has an interest in finding ways to reduce costs wherever possible. One of the first ways that efficiencies of this type are pursued is to contrive machines that replace human labour, or make human labour more productive. The fact of inter-capitalist competition also means that innovations of this sort are likely to be diffused widely throughout a particular industry as competitors adopt, or even steal, the innovation in order to avoid being left behind. The effect of these technologies is often to reduce the need for human labour, which is or can be expensive. Even when labour is not expensive, it always constitutes a savings to the firm to spend less on labour, and hence there is a strong systemic force pushing firms toward automation where feasible. The reduction in the need for labour-power also has an advantageous consequence for the firm, in that any increase in the amount of surplus labour-power available only further depresses wages as inter-worker competition correspondingly increases.

Further compounding this problematic situation are the “prior distributions” of wealth the parties to the potential employment contract bring to the contracting situation. As a result of structure of the distribution of wealth and resources prior to a specific transaction, employers

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66 Earlier we saw this process depicted in the formula, \( \text{M-C-M}^* \).

67 We owe this terminology to Charles Lindblom (2001). He describes “prior distributions” as the pattern of ownership of valuable resources that obtains in society prior to, i.e. temporally before, any individual instance of bargaining between economic agents over a potential transaction. These ‘prior distributions’ are what specific economic agents bring to any particular transaction, and what helps define the bargaining situation between them.
enjoy a special advantage when bargaining with workers on employment contracts. This is the idea of “threat advantage” that Alan Wertheimer discusses.\textsuperscript{68} In real life, there comes a point at which material necessity presses up against the weaker party and forces that party to either die or capitulate.\textsuperscript{69} In a capitalist labour market, both employer and worker know that labourers will be the ones that must eventually relent. Individual workers face homelessness and starvation without wages, and it is precisely this threat that forces the class of labourers to seek wage remuneration for their labour-power from employers as a class. This is the condition of vulnerability that characterizes labourers as a class.

Employers are able to achieve sometimes extremely large profits because they are able to control the workplace, and with it the labour process. Employers obtain this control through the terms of the employment contract they make with workers. The content of the employment relationship is what is being bargained about in the contracting situation. Employers take advantage the vulnerability of workers in the labour market to make employment contracts in which they acquire the control needed to generate a profit.\textsuperscript{70} The structure of a market economy, the existence of a reserve army of unemployed persons, and persistent basic needs all conspire to undermine to bargaining position of workers relative to employers in the labour market, and thus the employment contracting situation that occur within it.

In this discussion, we will work with a model of the firm which is most suited to displaying the relationships we want to examine. This model is that of the sole proprietorship enterprise. Assuming that ownership and its corresponding control rights consolidated in one and the same person will make the discussion clearer and simpler. In this kind of firm, the owner

\textsuperscript{68} Wertheimer 1996, 67.
\textsuperscript{69} Or perhaps revolt.
\textsuperscript{70} To see the link between employer control and their ability to produce benefits for themselves, i.e. profits, see Stephen Marglin’s article in \textit{Review of Radical Political Economics}. Vol.6 (1974): 60-112.
owns everything from the capital goods and other equipment, down to the pens and paper clips. Workers, when on the job, are merely usufructs making use of the employer’s property. Being the owner, the employer has the right to control all of the individual things that the worker will utilize in performing his or her tasks. Employers are able to control the workplace because they have the right to control all the things in it. Everything required for production to take place must be procured by the entrepreneur. Thus, due to the structure of a market economy, the entrepreneur has the right of control over all the goods attached to the firm.

It is important to pause here and note one further feature of our discussion, namely that the model firm it features is the typical firm under capitalism. We must clarify this notion of the “typical capitalist firm”. Aside from certain examples, the main argument here will not be conducted in terms of any actual firms, but rather, the form of “the firm” though an ideal model of a firm. This firm is typical in the sense that it constitutes the archetype of the firm in capitalism. The “typical capitalist firm” is thus an abstract notion. Being an abstraction, the “typical” firm can serve as a representation of a basic model of all firms, both actual and potential. Through understanding the operation, the life, if you will, of a generic firm, the dynamics of the economic system writ large can be more easily understood. As Martin Weitzman avers, “the firm is the economy in a microcosm. So anyone who wants to comprehend the functioning of an economic system should begin with a thorough understanding of how a typical firm operates”.

The sole-proprietorship model makes clear that the relations-in-production of the typical capitalist firm are chosen by the employer(s), i.e. its owner(s). It is precisely the power to design the labour-process, the physical space of production, the specific division of labour, and the content of all the various job-complexes, that the employer desires out of the labour contract.

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Employers use their superior bargaining position to extract this control from workers in the terms of the contracts made in the labour market. Control over the labour-process is what employers desire out of labour contracts, because it is this control that they will use to arrange production in a way that aims at maximizing the potential profits of the business enterprise.

A different model of firm ownership, which has become the dominant form since the middle of the twentieth century, is that of corporate ownership. Many commentators have noted the separation of ownership and control in the firm in the first third of the twentieth century. With this movement, sole proprietorships as the dominant form of ownership of business enterprises rather quickly gave way to boards of directors, and top managers chosen by these boards. In this model, investors decide the members of the board, and the board selects the individuals who will run the company in the name of the investors, i.e. the owners. The corporate ownership model differs from the sole proprietorship model in that it introduces another principal-agent problem, namely between the top management and the board of directors.

Both types of firms face the same market forces disciplining them and pushing them toward achieving efficiencies in their labour processes. For workers, it matters little whether the plan for organization comes from managers selected by a single owner, or from managers selected by top managers representing a diffuse group of shareholders. We will thus conduct our discussion in terms of on the sole proprietorship model simply because it makes the most important relationships within the firm more salient. It is conceptually neater to think of the owner of the firm as an individual human rather than an amorphous collection of shareholders.

Employers are also able to control the workplace because they have a superior bargaining position in negotiating employment contracts with workers. Since there are always more workers than there are jobs, and since workers need employment in order to gain access to

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72 Braverman (1974) is one.
the means of subsistence, workers face a decision situation in which their options are significantly constrained. Because employers are typically much wealthier, they are much more able to bear the consequences of failing to reach a contract. Because of this, individual employers, as well as employers as a class, possess a credible threat of exit from the contracting situation. The worker seeking employment, in most cases, possesses no similarly credible threat. This is because the worker most likely does not possess the means to physically subsist until a more favorable contract can be struck. Because the employer can credibly hold out longer, she obtains a superior bargaining position, and can thence make a contract more favorable to her own interests than to the workers’.

This superior bargaining position of employers is only enhanced by the differential mobility of capital and labour. In a market economy, especially with developed credit and banking systems, capital can much more easily be moved across great distances than can labour. The threat advantage of employers is thus bolstered by the credible threat to relocate their capital, and or their productive business enterprises. This is an instance of employers using inter-worker competition to leverage a more advantageous deal with labourers by pitting geographically dispersed pools of labour-power against each other. Given the often limited ability of labour to move to new locations, where employment is more abundant, workers are further pressured into making employment contracts they would otherwise reject because their access to the means of subsistence, and perhaps that of their families as well, is at stake.

Threatened with loss of access to the very means of subsistence, workers are routinely forced to accept wage levels and work conditions that they would otherwise very likely judge inadequate, or even totally unacceptable. The employer as owner also has the ability, as a last recourse, to choose to not employ any of her assets productively at all. The owner, given the
market capitalist conception of the right of ownership, is perfectly within his rights to shut his business down, if the local labour force expects too high a level of either wages or work conditions. The power asymmetry between employer and worker artificially alters the structure of reservation prices to the workers detriment by forcing the worker to lower, often very substantially, his or her reservation price as regards wages and work conditions in the employment contracting situation. This power asymmetry enables employers to offer workers a lower level of wages, work conditions, and control over labour or the product of it than the latter would likely be inclined accept in a labour market situation where the structure of worker’s reservation prices more accurately reflected their actual preferences.

In discussing the relative market positions of employers and workers, and hence the texture of the contracting situation for employment, it is necessary to point to what may seem to be obvious. This is, that wage relationships that are ostensibly between an employer and a worker, also very importantly include the state. It is the state, via its monopoly on the use of force, serving as guarantor of contracts, that provides the context within which labour contracts can be made and re-made with relative ease. The state’s role can be overlooked when thinking about the labour contract because the contract seems to only involve employers and workers. However, it is critical to note that these economic relationships are importantly political and legal. These wage relationships are forms of voluntary association which the state sanctions. The import of this reality is that these wage relationships are not fixed permanently, because they are subject to political oversight.

The state, with its power to use coercive force to enforce its regulations, as well as to collect taxes and spend that revenue, is able to help shape the market context in which employer

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73 Prominent political economists from J.S. Mill and Karl Marx, to Charles Lindblom and Neil Fligstein have emphasized the states’ role in market activity.
and worker bargain over the terms of labour contracts. The state’s intervention always, intentionally or not, advantages or dis-advantages some constituency or other in the market.\textsuperscript{74} The state’s action in several domains thus has important consequences for labour market contracting. State power is able to help shape the contracting situation through measures like influencing the profile of prior distributions of wealth among economic actors, the extent of unemployment, and establishing minimum levels of goods like wages and working conditions or maximum levels of pollution and other social hazards.

\textbf{ii. Capitalist Control: The Labour Discipline Problem}

The problem of workplace relations producing important political externalities has as its origin the contracting situation between employers and labour. It is the structure of the labour market, and thus the employment contracts arising within it, that produces this problematic dynamic within the workplace, which then spills over into the political system. In the previous sub-section, we saw that employers bargain with workers for control over their labour-power. This is because, in a capitalist market economy, labourers must seek wages in order to trade them for the means of subsistence. Making this kind of advantageous bargain easier for employers to accomplish is the fact at they are bargaining from a superior position.

The first thing to notice about the labour contract once it is made is the basic opposition of interests that surrounds it. The labourer primarily desires access to the means of subsistence, i.e. wages, while the employer is ultimately looking to make a profit and to accumulate capital. The labourer trades control over both the product and the process of his or her labour for a specific rate of wage remuneration. Thus, even before the contract is made, both parties know

\textsuperscript{74} For an extreme example of this view see von Mises, Ludwig. \textit{Liberalism}. 1927. Tr. Ralph Raico. New York, Cobden Press: 2002
that the worker will have an incentive to provide as little labour-itself as possible for the most remuneration possible. The employer, on the other hand, will have an incentive to extract as much labour-itself for as low a payout of wages as possible. The employer and the wage worker thus meet in the labour market as opponents from the first instant. This is one of the foundations of the Labour Discipline Problem (LDP) as this market dynamic is often called.\textsuperscript{75}

To see the other foundation of the LDP we have to look more closely at the employment contract, specifically what it is that is exchanged. When employer and worker meet in the market, what they contract for is the worker’s labour-power, that is the worker’s potential to do work. However, when the employer and worker meet in the workplace, after the contract is made, the employer must extract actual work in order to make a profit.\textsuperscript{76} The rate of profit the employer earns is largely dependent on how much labour she is able to extract out of her workforce. The need to extract labour-itself from those who have only contracted for labour-power, and who have interests opposite from, or at least not entirely aligned with, that of their employer, is what causes employers to implement models of workplace organization which they hope will successfully extract a sufficient amount of actual labour from workers so as to make their enterprise a profitable one. These profit-driven models of workplace organization produce very important political externalities because of the manner in which they treat workers and organize workplaces.

\textsuperscript{75} We owe this terminology, the “Labour Discipline Problem”, to Samuel Bowels & Herbert Gintis’ article, “A Political and Economic Case for the Democratic Enterprise”. \textit{Economics and Philosophy}. Vol.9 no.1 (1993):75-100.

\textsuperscript{76} This Labour Discipline Problem can be considered a kind of Principal-Agent problem in that it is about how inefficiency can be created when the interests or incentives of two collaborating groups diverge. The Agent may have interests that do not align with those of the Principal, from whose perspective the Agent’s rational but nonconforming behavior is “inefficient”.

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Typical capitalist firms are organized predominantly by hierarchical power relations between employers, or their proxies, and employees.\textsuperscript{77} Those on top of this hierarchy have the power to fashion a division of labour within the firm that best suits their pecuniary aims or their ideological fancies. Since the employer needs to extract a sufficient amount of labour-itself from his or her workforce, and knows that the wage relation produces an antagonistic relationship with that same workforce, the employer must decide on a model of workplace organization, a division of labour, that achieves the former goal in light of the latter constraint.

We see this very clearly in Adam Smith’s famous pin factory example.\textsuperscript{78} The employer hires as many labourers as are deemed appropriate, and then sets them about specific pin-making tasks. Smith’s point is that there are important gains to be had from the division of labour, that is the specialization of workers to specific tasks. The whole enterprise can be made more productive, and hence profitable, by organizing labour in such a way that each labourer only does part of the total task, and in so doing enables the firm to make more pins in total. The idea is that certain kinds of work, if broken down into sub-parts, are much more efficiently done. This is good for the employer, since she now gets much more of the product to sell, and thus a larger potential value to realize in the market.

If pin production were left to the individual worker to carry on alone, he or she would only be able to produce a fraction of the amount of pins that the coordinated specialized efforts of the pin factory. As it was with pins, so it is with a great many of the products that are in mass demand, and as a result mass production. The gains to be had from specialization of this variety culminated in a movement known as Taylorism or Scientific Management. According to the


principles of this doctrine, the way for the employer to get the best return on the investment in labour-power is to break down job-tasks into small parts that can be simplified and routinized.\textsuperscript{79} This way, the whole process of production can be orchestrated and supervised from a higher level, in order to achieve more efficient production, which according to standard economic models any employer should desire.\textsuperscript{80} By being able to control the labour-process in detail, the employer can most effectively exercise her right of control so as to produce efficiency gains.\textsuperscript{81}

It is the pursuit of the supposed economic returns from gains in efficiency that Smith praises as the “invisible hand” guiding society toward progress.\textsuperscript{82} By chasing after this private reward, the employer seeks his or her private benefit, but ends up promoting the general good. In the pin-making example, the general good is manifested in the greater amount of pins which are now available to the general populace for consumption. The division of labour is good on Smith’s view because of the productivity gains it produces. Thus, if division of labour is necessary for progress, then so is the employer control of the workplace that enables that division of labour.

It is the desire of employers for this control that is the original reason for factory style work organization, according to Stephen Marglin.\textsuperscript{83} On his view, the basic reason for factory-style organization is exactly that it affords the employer greater control over the labour-process


\textsuperscript{80} The standard neo-classical economic models spoken of here is the oldest supply and demand model where it is assumed that markets clear. That is, all the producers’ products get sold or consumed. The employer should very straightforwardly desire increased production since if markets clear then the larger the amount of the product the larger the income the owner receives as seller of the product.

\textsuperscript{81} In this example the increase is return to the employer is the result of an increase in the quantity of the good produced. The increase may in some cases be due to the value added to inputs by labour not an increase in the total quantity of production. The increased return to employers may be the result of labour adding quality to the inputs consumed in production. The differences between these two cases are not salient here.

\textsuperscript{82} Smith 2008, 59.

itself, which allows the employer to reduce inefficiencies that arise under the putting-out system, and thus increase their profits. By bringing the various factors of production together in one place, the employer can, by supervising and directing the work of the employees, reduce costs due to inefficient habits and practices by workers, thereby making their enterprise more profitable. Most notably, by coming to be able to more closely supervise the work process, the employer is able to more effectively wield the power to fire workers to get more or better quality labour from the workforce. By having this right to hire and fire, and by closely supervising the labour process, the employer can more effectively and directly monitor workers for effort level, as well as quality of work performed. Mainstream economists like Alchain and Demsetz would agree that the employer here has a direct incentive to want to perform the supervisory task as efficiently as possible, as well as the power in the workplace necessary to be effective at this task.

The ability of the employer to control the labour-process, combined with the incentive structure associated with being an owner, produces a significant incentive for employers to embrace one or another style of management control in the family of such systems known as Taylorism, or Scientific Management. The Labour Discipline Problem poses a dilemma to the employer about how to extract not only the necessary amount of labour-itself, but more importantly an additional or surplus amount of labour-itself, to which the employer responds with methods of organization inspired by the principles of Scientific Management. These principles involve breaking tasks down into simple sub-parts that can be easily learned and repeated. As Edward Greenberg expresses it, “the main trend in industrial work has been towards the accelerating fragmentation and simplification of work”.

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dissatisfaction and alienation among the workforce, as has been noted by thinkers like Karl Marx as early as the middle of the nineteenth century, as well as more recently with Richard Edwards and Michael Buroway in the 1970s, Paul Thompson in the 1980s and Richard Sennett in the 1990s, and Russell Muirhead and Randy Hodson among others in the new millennium.\(^8^5\)

This problem of Taylorism is not a problem of by-gone epochs.\(^8^6\) Taylorist methods have endured, and even dominated, until the present day in the workplaces of not only developing but also developed economies. It has been fashionable at several points to declare the end of Taylorism, and yet these periodic obituaries notwithstanding we can see a great many examples of Taylorist forms of work organization still alive and well in the workplaces of the twenty-first century.\(^8^7\) Despite growth in high-technology, high-skill, and professional service sectors in the economies of most developed countries, the large majority of types of jobs are still organized around production methods that are easily recognized as Taylorist, in that they rely on machine pacing, fragmented job-complexes, routinized job-tasks, and are geared toward large-scale production.

That Taylorism and the logic of Scientific Management is still very much in operation in the business world today can be seen clearly if we look at the “lean production” methods which are now the predominant mode of work organization, that is, the current market-imposed conception of “best practices” in many industries and in countries both developed and developing.\(^8^8\) According to Moody, lean production is characterized by “the combination of


\(^{8^6}\) This worry about the deadening effects of Taylorism features prominently in Braverman’s *Labour and Monopoly Capital*, 1974. Following Braverman there has developed a large literature both quantitative and theoretical addressing the question of what effects Taylorism has on worker’s skills and personality.

\(^{8^7}\) The death, or obsolescence, of Taylorism has been proclaimed in the 1960s for example by Robert Blauner (1964). It was later declared surpassed by Piore and Sabel (1984) in the 1980s. It was once again overcome in the 1990s according to more than one commentator as Grugulis and Lloyd (2010) note.

information-age technology and worker experience with archaic forms of work organization such as contracting-out, casualization, old-fashioned speed-up, and the lengthening of working time”. As Moody points out, the efficiencies created by lean methods are in the main quantitative; that is, they result from reducing labour costs via outsourcing, routinization, and casualization of jobs, as well as by just-in-time parts delivery systems. These systems reduce costs by reducing the amount of productive capital employers have to have tied up in inventories. By arranging to have as much as is needed of a particular input arrive at the production site just when it is needed, firms are able to achieve a cost reduction, or an efficiency gain. In the former case, efficiencies are achieved by reducing in number the total labour force, or getting a larger quantity of work out of the current labour force.

Animating lean production methods is a corresponding management strategy, namely management-by-stress. This technique works by a “constant process of stretching one phase of production to the “breaking point” by reducing the number of workers and/or the mass of material available, and then recalibrating the other phases of the production process”. Importantly, the outcomes of this process are typically personnel downsizing and work intensification in the form of speed-ups and increased work hours. Firms embracing these new lean methods are continuing, despite some participatory reforms, to use traditional forms of work organization that produce significant levels of worker dissatisfaction.

Taylorism is also a management ideology as much as it is a set of business practices. Taylorism made conscious and explicit what had been, according to Braverman, an unconscious tendency in capitalist economies. As we have seen, the fact of inter-capitalist competition drives

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89 Moody 1997, 86.
90 Moody 1997, 87.
91 These participatory reforms and their success and failures will be discussed in a later chapter.
each capitalist to examine the labour process as a natural place to increase surplus through control. The views espoused by F.W. Taylor and his later disciples made clear the dynamics which had been the motivating force behind the development of the dominant systems of work organization. Taylor sees the LDP, or as he calls it the problem of “soldiering”, as the source of the need for his new efficiency-increasing scientific methods aimed at measuring labour-itself. By being able to more accurately measure and quantify the work done by workers, employers are able to more closely control the process of turning labour-power into labour-itself. Control over this process helps employers gain further control over the process of turning workers’ labour-itself into their own profits. The imperative towards profit means that the organization of production from the point of view of the employer leads unconsciously toward workplace methods and practices that Taylor made explicit in describing them more systematically and scientifically.

Taylorism inevitably results in job fragmentation and simplification as a result of management’s attempts to assert control over the labour-process. The system of Scientific Management is an attempt by management to acquire the job-specific knowledge that workers have and use it to further reorganize the labour process in the name of greater efficiency. According to Braverman, Taylorism has two basic principles: first, acquire knowledge through measurement; second, concentrate that knowledge in the hands of management. The next step in this process would be to use this knowledge to organize, or re-organize, the labour process in more efficient ways, that is, ways that increase the amount of labour-itself extracted from workers. This dynamic ultimately results in what Braverman calls the separation of conception and execution, or the separation of mental work from manual work.

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94 Thompson 1989, 75.
The LDP poses a difficulty to management in having to extract labour-itself from a workforce whose effort-reward structure works at cross purposes with employers’ desire for surplus. To successfully extract the desired amount of labour-itself from the workforce, management must acquire the knowledge that workers have of the labour-process, so that they can use this knowledge toward their own purposes of increasing the enterprises’ profits. In the hands of workers, this knowledge would help them regulate output in a way that maximizes their effort-reward bargain, usually to the employer’s detriment. Workers’ jobs become fragmented and simplified in the process of re-organization, so that management can exert control over the labour-process in the form of prescribing job-tasks, often down to precise movement patterns. This dynamic, where employer control of the labour-process leads to job fragmentation, also helps produce that separation of conception and execution, that is, the design and planning of work from the doing of work.

One of the main features of Taylorist forms of work organization is time and motion study personnel and the use of the results of these studies to evaluate workers’ performance. Since the basis of the Taylorist method is measuring work to achieve efficiency by eliminating deliberate soldiering, as well as wasted motions, it required that management personnel be on the shop floor with stopwatches. These people observe workers performing their work tasks while taking detailed notes about how long discrete operations take, as well as where other time efficiencies can be achieved. Resistance to these time study men formed a large part of workers shop-floor culture, as can be seen for example in the machine shop that Buroway studied.

Time study also features prominently in the literature about the “Japanization” trend in the 1980s. The Japanese production methods that Western firms tried to copy, successfully or
unsuccessfully depending on whom one asks, placed great emphasis on “full utilization” of time in achieving kaizen or continuous improvement.95

Looking to a study by Kate Mulholland we can see these same methods in use in U.K. supermarkets in the twenty-first century. “Replenishment assistants”, i.e. those employees responsible for restocking the shelves with product, typically during off hours or at least late at night, have their job performance rated according to traditional time and motion studies.96

The same methods can be seen in large distribution warehouses in America.97 In an essay by Mac McClelland, she notes how her job performance was rated according to standardized time and motion studies, conducted by management personnel, which prescribe a specific amount of time for particular tasks, which are often unrealistic, and which result in a more frantic pace of work as one tries to keep up with the prescribed norms.

McClelland’s experiences, as well as other studies, show that other important features of Taylorism, like machine pacing of work, persist in the working world of the twenty first century. McClelland notes how her task to prepare goods for shipment was guided by a hand-held computer unit, which directed her from place to place to collect the item(s) for each shipment. This unit was programmed according to management’s time and motion studies regarding how long it should take one to get from one point in the warehouse to another as well as how long it should take to locate the item on the shelves once one has arrived at the proper location. According to her, the pace of the work significantly increased her experience of alienation in the workplace.

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96 Mulholland 2009, 174.
97 http://www.motherjones.com/politics/2012/02/mac-mcclelland-free-online-shipping-warehouses-labor
We can see this same dynamic in U.K. supermarket suppliers notably fruit and vegetable processors in a 2009 study by Newsome, Thompson and Commander.\textsuperscript{98} In this study one of the employees’ main concerns and complaints was about the speed of the line and how this negatively affected workers. It directly increased workers’ reports of alienating experiences in the workplace. At this plant the authors found that the labour-process is organized by workers’ performing tasks in proximity to a series of machines, the speed of which is controlled by management. Workers tend machines, usually standing in the same place repeatedly performing a small number of highly specific operations. Richard Sennett’s ethnography of a Boston bakery in the late 1990s also displays this dynamic. In this discussion he describes how the automation of the baking process drastically altered the workers’ job-complexes, making their work activities revolve around machines and the machine’s pace of work.\textsuperscript{99} The workers’ jobs thus largely revolved around monitoring computers which graphically model the activity going on in the various machines as the dough turns into bread.

Job fragmentation remains a standard practice in workplaces today. This dynamic can be seen in the studies already mentioned. McClelland’s essay, as well as the studies by Buroway, and Newsome \textit{et al} stand out as clear cases where job tasks are broken down into simple sub-parts, timed, standardized, and divided between different workers. This trend toward low-skill, fragmented jobs can also be observed in Benjamin Hopkins’ study of a U.K. chocolate factory.\textsuperscript{100} Here he finds, like Newsome \textit{et al}, that one of the workers major issues on the job was the monotony of the routinized job-tasks they performed each day. The high turnover rate at this factory testifies both to the negative impact of fragmentation on worker experience of work, as well as to the low-skill nature of the jobs at the factory. High employee turnover was a less

\textsuperscript{98} Newsome, Thompson, and Commander 2009.
\textsuperscript{99} Sennett. 1998 ch.4
\textsuperscript{100} Hopkins 2009.
significant problem for this factory because, due to the structure of the labour-process, new and relatively unskilled workers were able to quickly learn the simple tasks required at this factory. Hopkins notes that even immigrant labourers at this factory were able to successfully adapt to the job despite being unable to speak English.

iii. Capitalist Control: The Impact of Work on Workers’ Cognitive Capacities

We noticed earlier that many thinkers recognize that economic institutions have transformative effects on those who labour under them. Taking one prominent example we can look to the work of John Rawls. In *A Theory of Justice* he asserts very clearly,

> “the social system shapes the wants and aspirations that its citizens come to have. It determines in part the sort of persons they want to be as well as the sort persons they are. Thus an economic system is not only an institutional device for satisfying existing wants and needs but a way of creating and fashioning wants in the future. *How men work together now to satisfy their present desires affects the desires they will have later on, the kinds of persons they will be*”. ¹⁰¹

As we saw in the preceding section the dominant direction of the transformation of capitalist controlled workplaces is toward what Braverman & Buroway characterized as the separation of conception and execution, that is, of mental work from manual work. ¹⁰² The results of this trend are such that manual workers’ jobs are simplified and fragmented according to Taylorist principles. Mental worker’s jobs are, on the other hand, replete with opportunities for the exercise of judgment and creativity, and that call forth workers’ analytic and deductive powers. ¹⁰³

¹⁰² Buroway 1978, 248.
¹⁰³ To be fair one must note that there are significant pressures put on managers in today’s flexible production systems. “De-layering” is just one example of how not even managers are immune to feeling the pressures imposed by the dominant mode of work organization. It is also important in this context to distinguish between middle and
Workers have been forced to adjust to work conditions under which they no longer have control of either the labour-process or the product of their labour. They have had to adjust to being under the direct control of other agents with differing interests. Indeed, as Herbert Simon notes, the employment contract is essentially one where the worker agrees to accept a certain bargained over range of management authority in exchange for a specific level of remuneration. Having to adjust to being under others’ control during work hours produces political externalities in that workers’ subjection to Tayloristic methods has a political de-skilling effect on workers’. Thinkers as early, and as sympathetic to the aims of capitalist entrepreneurs, as Adam Smith recognize this problematic effect of Taylorist style division of labour. He states,

“In the progress of the division of labor, the employment of the far greater part of those who have by labor, that is, of the great body of the people, come to be confined to a few very simple operations, frequently one or two. But the understandings of the greater part of men are formed by their ordinary employments. The man whose life is spent in performing a few simple operations, of which the effects too are, perhaps, always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for difficulties which never occur. He naturally loses, therefore, the habit of such exertion and generally becomes stupid and ignorant”.

Here, Smith describes the beginning stages of the trend toward what is now a large qualitative bifurcation between the kinds of job-tasks that are assigned to the brain workers versus those assigned to the manual workers. The direct result of this is a decrease in the prevalence of important political skills of manual workers. This enables the elite control of the workplace, led by the concepcion workers.

This worry about a separation in job conditions along these lines is shared by Michael Albert. He is one of many thinkers who have expressed a worry about these kinds of division of upper management. Removing layers of bureaucracy from corporate hierarchies, “de-layering”, is just one more way upper management seeks out efficiencies in the labour process.


105 Quoted in Marglin 1972, 67.
labour. His major criticism is that they tend to lead to the rise of a managerial class within the firm with a monopoly on the job-tasks that allow for the development of the kinds of skills and talents citizens would need for effective democratic political participation. This leaves manual workers with job-complexes composed almost entirely of job-tasks that afford them little to no opportunity for the kind of self-directed, autonomous labour that is critical to developing workers’ skills.

Albert introduces the concept of the “job-complex”, and this important concept bears examination because it will afford us a better view of the problem. In a straightforward way, he has us notice that the business of a firm is composed of variously many job-tasks that must be completed in order for the firm to successfully conduct its business, and not all of these tasks are equally pleasant or empowering. In a restaurant some examples of specific job-tasks would include but are not limited to sweeping the kitchen, cleaning dishes, taking out trash, restocking various items, taking orders and serving food, filing taxes, creating a menu, or cooking. In a law firm by contrast some examples of job-tasks would include, but are not limited to, filing briefs and motions, cleaning offices, billing clients, arranging meetings, filing various paperwork, writing contracts, or appearing in court to argue a case.

Under the current capitalist-imposed division of labour, the owner or his agent, usually the manager, has the right to group job-tasks into job-complexes and then assign them to hired workers. Under the system of division of labour Buroway and Moody describe, we see that the job-tasks that lead one to engage one’s higher cognitive faculties are grouped into one class of job-complex typically assigned to managers, i.e. to brain workers. Manual workers, on the other

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108 Albert 2003, Ch.6.
hand, are typically assigned job-complexes composed of job-tasks that are mundane and repetitive, and that fail to consistently – if at all - engage workers’ higher cognitive faculties. The main difference between these two distinct kinds of job-complexes is that the ones assigned to managers allow for some perhaps large measure of self-direction in one’s work, while the job-complexes assigned to non-managerial labourers allows for very little if any self-direction in work.

This method of constructing job-complexes within the firm is the source of the alienation that poses a problem for workers. Let us proceed by first saying something about what the meaning of “alienation” so that we can be precise about the problem posed by capitalist-imposed division of labour. Following Melvin Seeman, it is important to understand “alienation” as having different meanings.\(^{109}\) We will do best to keep focused on the sense of alienation most relevant to our purposes here. Seeman identifies five different conceptions of alienation in use by theorists who use the term. These five are powerlessness, meaninglessness, normlessness, isolation, and self-estrangement. The sense of alienation that will be particularly relevant for us is the conception of alienation as powerlessness. Describing the meaning of this conception of alienation Seeman says,

“This variant of alienation can be conceived as the expectancy or probability held by the individual that his own behavior cannot determine the occurrence of the outcomes, or reinforcements, he seeks” [emphasis in original].\(^{110}\)

According to Seeman, this sense of alienation is related to J.B. Rotter’s notion of the “internal” or “external” control of outcomes. This distinction turns on whether the individual perceives that they have some personal control over outcomes, or whether the individual perceives that


\(^{110}\) Seeman 1959, 784.
outcomes are dependent on “external conditions, such as chance, luck, or the manipulation of others”. 111

As it turns out, research done by Seeman, as well as other research done by Melvin Kohn & Carmi Schooler et al, supports the use of the conception of alienation as powerlessness and its link to the labour-process. A study of male workers in Malmo, Sweden, conducted by Seeman found that a feeling of powerlessness is indeed strongly correlated with low expectancies for control, that is, low expectation that one’s own action will deliver the outcome sought. 112 Moreover, research on American workers done by Melvin Kohn & Carmi Schooler et al has shown that alienation is significantly correlated with a worker’s opportunity for the exercise of self-direction at work. 113 The opportunity for what Kohn & Schooler et al call “occupational self-direction” (OSD), or the “use of initiative, thought, and independent judgment in work”, is negatively correlated with worker’s feelings of powerlessness or alienation. 114 According to the results of their research,

“all three of the conditions determinative of the degree of occupational self-direction are related to powerlessness, all of them, in the expected direction: close supervision, routinized work, and work with little substantive complexity are all related to feelings of powerlessness”. 115

In the last section we saw that the opportunity for self-direction largely, if not entirely, a product of the particular division of labour in the firm. As Kohn & Schooler et al understand it, opportunity for occupational self-direction is correlated with one’s “social-stratification position” within the firm. We observe this correlation because the firm is organized hierarchically according to a division of labour that sharply separates conception and execution, that is, that

111 Seeman 1959, 785.
114 Kohn 1983, 2.
115 Kohn 1983, 90.
radically unequally apportions the range of opportunities for the exercise of self-direction available to workers with different job-complexes. The results of their analysis make it extremely “plausible to think that the psychological impact of social-stratification position might result in good part from the close relationship between social stratification and occupational self-direction”.\textsuperscript{116} The social stratification system within the firm, i.e. the division of labour, is structured such that opportunities for occupational self-direction are consolidated in the hands of a minority of management or supervisory workers. The result is that the majority of workers, whose job-complexes do not afford room for much if any occupational self-direction, are alienated, or have experiences of powerlessness forced on them, precisely because they lack the opportunity to exercise self-direction.

Workers who have a wide range of occupational self-direction do substantively complex work, perform non-routine job-tasks, and are not subject to close supervision. The most important of the three elements of occupational self-direction, according to Kohn & Schooler \textit{et al}, is the “substantive complexity” of the work.\textsuperscript{117} Again, as we saw earlier the division of labour of the typical capitalist firm is such that for most employees the main trend is toward the reduction of the level of substantive complexity in their job-complexes. At the same time, the vast majority of substantively complex work, which of necessity cannot be closely supervised, nor is it very often routine, is reserved for those higher up in the firm’s organizational hierarchy. That this is so can be gleaned from the description on the kind of work that makes for substantive complexity according to Kohn & Schooler \textit{et al}. As they put it, “occupational self-direction is probable when men spend some substantial amount of their working time doing complex work

\textsuperscript{116} Kohn 1983, 164.
\textsuperscript{117} Kohn 1983, 64.
with data or with people”\textsuperscript{118}. Thus, as we just saw, social-stratification position correlates strongly with alienation because of the intervening influence of capitalist division of labour and its unequal distribution of working conditions as regards the substantive complexity of work, the closeness of supervision, and the degree of routinized job-tasks\textsuperscript{119}.

The results generated by Kohn & Schooler et al’s research very importantly demonstrate that there is a psychological impact on workers from their level of occupational self-direction. The job-complexes assigned to individual workers have an important impact on workers’ individual psychological functioning through the variable degree of occupational self-direction or substantive complexity present in different job-complexes\textsuperscript{120}. Kohn & Schooler et al point to “intellectual flexibility”, or “ideational flexibility”, as the main indicator in workers of their level of psychological functioning. This indicator, as the data bears out, is directly correlated with the substantive complexity of work, which is itself directly correlated with occupational self-direction, which is again negatively correlated with alienation. In their words, “Jobs that facilitate occupational self-direction increase men’s ideational flexibility…jobs that limit occupational self-direction decrease men’s ideational flexibility”\textsuperscript{121}. So we can see now very clearly that the structure of firm has important consequences for workers’ personalities.

Because the division of labour in the typical capitalist firm is structured in a pyramidal fashion, such that the degree of substantive complexity in one’s work increases as one ascends the power hierarchy, the firm’s structure serves to reduce the intellectual flexibility of non-supervisory workers, who are still usually the majority in most firms, by restricting access to the

\textsuperscript{118}Kohn 1983, 22.
\textsuperscript{119}Although Kohn and Schooler’s study encompassed only male workers I think it very plausible to think that the same results would obtain for women. So, when male pronouns appear in quotations from Kohn and Schooler it should be read to imply the same things for female workers.
\textsuperscript{120}Kohn 1983, 118-122
\textsuperscript{121}Kohn 1983,152.
most important dimension of occupational self-direction.\textsuperscript{122} It is for precisely this reason that Kohn & Schooler \textit{et al} notice a correlation between social stratification position and psychological functioning. One’s position within the firm, that is one’s job-complex, dictates how much self-direction one will be able to exercise, and thus the direction of change in one’s intellectual flexibility. The research done by Kohn & Schooler \textit{et al} thus shows clearly that there is a very real connection between workers’ workplace conditions, i.e. their job-complexes, and their personality. They show further that that the kinds of workplace conditions that predominate in the modern economy subject workers to daily experiences of powerlessness through alienating job-complexes.

Making the results generated by Kohn & Schooler \textit{et al} more robust is the fact that their findings are a product of longitudinal data. In doing a follow-up study of a sub-set of the original sample population, Kohn & Schooler \textit{et al} provide themselves the resources to test the strength of the effects they measured over time. This is important, in that it shows that the effects on worker personality from the structure of the labour process are relatively durable or persistent. Importantly though, Kohn & Schooler \textit{et al} do not rest with their longitudinal U.S.-based research. With collaborators, Kohn & Schooler sought to test their research to see if their results are generalizable across countries.\textsuperscript{123} In several replications of their studies in Eastern European and Asian countries, Kohn, Schooler, and their collaborators, found that their major thesis held up very well despite some cross-national differences.\textsuperscript{124}

Melvin Kohn participated in one partial replication of the research in Italy, as well as a full replication in socialist Poland. Carmi Schooler participated in a full replication in Japan with

\textsuperscript{122} For a good description of the hierarchical structures of capitalist firms and their historical evolution see Richard Edwards \textit{Contested Terrain}. (1976).

\textsuperscript{123} These collaborators include Leonard Pearlin, Atsushi Naoi, and Kazimierz Slomczynski.

Atsushi Naoi. The results of these studies confirmed the initial results obtained by Kohn & Schooler et al for U.S. workers. These new sets of results show that their thesis is in fact generalizable cross-nationally, as well as across socio-economic systems. Further research with Ukrainian and Polish collaborators during the transition of these nations from socialist command economies to capitalist market economies has suggested one important qualification to Kohn & Schooler et al’s main results. This new wrinkle is that the relationships they detected between workers’ personality and substantive complexity in work holds during periods of relative social stability. That the relationships discussed above might change during periods of radical social change does not, I think, affect my overall thesis about the political consequences of labour-process externalities. If it does affect my argument, I can avail myself of the same qualification that Kohn and Schooler do, namely my thesis holds under conditions of relative social stability. Even thus qualified I think my thesis retains all of its import.

Recent empirical and ethnographic research has been done which supports Kohn & Schooler et al’s claims about workers’ experience of alienation as lack of control in the workplace, and their reaction to this lack of control. One great example of this kind of research is Duncan Gallie’s work. He compares national data sets from industrialized European countries measuring workers’ level of task-discretion, among other things. According to Gallie’s research there are important differences in the results between countries, mostly due to the mediating influence of each countries’ particular set of social and political institutions, as well as its specific location, natural endowment, and of course its specific history. One thing that is common to all countries, however, is a link between task-discretion at work, or job-autonomy,

and alienation.\textsuperscript{126} There are differences in the overall trends in the level of workers’ task-discretion between countries in the study, but the intra-country trends are often quite clear. Gallie’s research shows that the U.K. in particular stands out among countries in the sample. Not only does the U.K. represent the low end of countries in the spectrum of task-discretion, but also it also shows a statistically significant trend toward polarization of levels of task-discretion.\textsuperscript{127} Gallie’s research, based on three national surveys conducted in Britain, showed that over the period from 1992 to 2001 workers reported experiencing a decline in their ability to control how hard they worked, the percentage of workers reporting experiencing ability to control fell from 71\% in 1992 to 51\% in 2001. British workers also reported a decrease in their level of influence over choice of tasks during the same period, percentages of workers reporting experiencing choice of tasks fell from 42\% to 31\%.\textsuperscript{128} Importantly, Gallie’s research shows that this decline was largest among the low-skill sectors of the labour force, be they in the industrial sector or the service sector.\textsuperscript{129} This trend in the U.K. can be contrasted with trends in countries like Sweden. Over a similar time frame as the U.K., the proportion of Swedish workers reporting high levels of control over planning their work rose from 57\% of workers in the 1994-1995 period, to 59.7\% of workers in the 1998-2002 period. Though a modest increase, Swedish workers during this period also reported experiencing an increase in their level of control over the pace of work. 57.8\% of workers reported experiencing an increase in control of their work in the 1994-1995 period, but this percentage fell to 59.2\% in the 1998-2002 period.\textsuperscript{130} Not only are

\textsuperscript{127} Gallie 2007 A, 118.
\textsuperscript{128} Gallie 2007 A, 118-119. It is worth noting that these British studies were designed with the objective of deriving comparable results in mind.
\textsuperscript{129} Gallie 2007 A, 120.
\textsuperscript{130} Gallie 2007 A, 128.
the directions of change different but we also see that the Swedish workers report having more control, especially over the pace of work, than their British counterparts.

One should not presume on the basis of the preceding statistics that Sweden is not a capitalist country. While the Swedes do have a strong social-democratic political ethos, their economy operates on market principles. The major difference between countries like Sweden and the U.K. is that, in Sweden the state takes a larger role in managing the economy, and especially in redistributing wealth so as to insure a high level of well-being among its citizens. In the U.K. the state tends to stay out of economic affairs more, trusting the free market to produce a high level of well-being. We’re pausing to note this here, because later in this chapter some of the most significant evidence for my argument derives from a research study of Swedish workers. That this research was conducted among Swedish workers, some of the least alienated in the world, and yet still generated the results that it did, only makes my argument stronger.

The direction of these trends in the U.K. is significant because it can be taken as a representative example, in that it is routinely taken as paradigm case of the Liberal Market Economy (LME). LMEs, in contrast to Coordinated Market Economies (CME) like Sweden, rely principally on competitive markets arrangements to coordinate economic activity. The LME type of economy, typically possessing low levels of government protection of workers, are marked by a distinct trend toward polarization of jobs which contain high levels of task-discretion. We can obtain a measure of cross-national confirmation here as well. Michael Tahalin discusses the results of several studies displaying what he calls J-shaped employment growth in both the U.S. and U.K..\footnote{Tahalin 2007, 38 in Gallie 2007.} J-shaped employment growth means that employment has grown faster at the high-skill and low-skill segments of the labour market than the middle segments.
The U.S. is also routinely taken as a prime example of a LME. Given the similarities in the production and employment regimes of the U.S. and U.K., one should expect the U.S. to exhibit a similarly clear trend toward polarization in levels of task-discretion. We can also obtain a measure of cross-national confirmation of this claim. For example, we saw extremely low levels of task-discretion anecdotally in Mac McClelland’s ethnographic essay of a distribution warehouse in Ohio. We also see very low levels of task-discretion in Buroway’s machine shop ethnography, and again in Sennett’s bakery ethnography. Importantly, this data fits quite well with Ruth Milkman’s assessment that, “the low-wage, low-trust, low-skill ‘low road’ is the path most US firms are following”.132

We looked at several ethnographic studies in the previous section which highlighted certain aspects of the dominant mode of work organization in contemporary economies. These studies of the labour-process can also help highlight workers’ dissatisfaction and how this results from a lack of control in the workplace. For example, Mulholland’s ethnography of replenishment assistants (RA) at a U.K. supermarket chain evinces both workers lack of control. Mulholland discusses how in re-organizing the labour process the management decided to have the RAs utilize a newly re-designed trolley in their re-stocking.133 This new trolley was considered by the workers not only difficult to use, but unsafe as well. Thi is particularly important in light of the already high level of work-related injury reported in this study. Moreover, working with the new trolley disrupted the workers’ accustomed system of relations-in-production, making their job more difficult from their point of view. For quite a while, upper management insisted on workers using the new trolley, even after workers demonstrated to managers the inadequacies of the new trolley. This example shows how worker input into the

133 Mulholland 2009, 172.
organization of the labour-process was persistently ignored by upper management, and deflected by middle management, thus evincing workers’ lack of control. In this case, management caused workers’ to experience an increase in alienation due to management’s unilateral alterations to the RAs’ labour-process.

This same dynamic can be seen in a study of Irish taxi companies by Grampp, Houlihan, and McGrath. After the major taxi firms switched from a traditional open radio network to more of a hub-and-spoke model utilizing GPS technology, to empower the dispatcher in relation to the drivers, the drivers experienced not only a loss of job autonomy, or task-discretion, but also a loss of much of the social character of the drivers’ “shop-floor” community. Under the network model, drivers were able to achieve some autonomy in that they were had access, via the radio, to information about the operation of the whole fleet, and they could use this information to engage in strategic behavior to maximize their effort-reward bargain. Because drivers bid for jobs, they could use their knowledge of the fleet’s operations to bid for the most advantageous jobs from their point of view. Drivers would use their knowledge of the system to do things like trying to eschew jobs that take them places one is unlikely to get a return fare from, or to vigorously pursue very lucrative airport runs. In the network model, GPS dispatchers had to rely on drivers’ self-reports of their locations and distances to locations, and this gave the driver room to use false reports to his or her own advantage in effort bargaining. With adoption of GPS technology in the taxis, the dispatcher can track the exact location of each driver removing this bargaining room drivers had under the old system.

Under the new GPS-based system, jobs are fed to drivers through the GPS device instead of being bid for by drivers over the radio network. This severely limits drivers’ task discretion.

135 Grampp 2009, 238.
Drivers can turn down jobs, but such refusals are now tracked through the computer system, and too many refusals of particular types of jobs will adversely affect the drivers’ ability to get business from the dispatcher in the future. The new GPS-based system also increased drivers’ dissatisfaction by limiting their ability to keep up the drivers’ “shop-floor” culture through the two-way radio as well as ritualized meet-ups during break periods. The GPS technology, by removing the radio, forces drivers to use personal cell-phones for communication between themselves. This increased the felt isolation inherent to the labour-process of taxi drivers.

These workplace dynamics can be found in different industries as well as different countries. Baldry, Bain, and Taylor, for example, note that lack of control over environmental conditions is among the chief sources of discontent among office workers in their study of three different offices in both the public and private sectors in Scotland. Randy Hodson’s study of ethnographic research, as well as Newsome et al’s survey research, show how assembly-line work produces alienation and discontent in workers due to their lack of control over the labour-process, especially the pace of work. Andy Danford’s study of Japanese manufacturing firms in Wales, as well as Richard Sennett’s study of a Boston bakery, show how increases in the automation of the labour-process results in alienation for workers. In both cases the workers in the firm experienced increases in worker alienation due to the level of automation in the labour-process, that is, the replacement of human intelligence for the built-in intelligence of the machine. Sennett, for example, notes that in this highly automated bakery workers’ alienation

136 Grampp 2009, 241
137 Grampp 2009, 242
139 Hodson 2001 & Newsome et al 2009
140 Danford 1998 & Sennett 1998
was manifested largely in workers’ indifference to the work of baking itself, and in a high turnover rate.

iv. Capitalist Control: The Impact of Work on Workers’ Values & Orientations

In the last section we saw some of the history of the idea that institutions exert transformative forces on the individuals that inhabit them. In this section we will shift our focus back to more empirical matters, and look to different aspects of the research done by Melvin Kohn & Carmi Schooler et al. Earlier we noticed statistically significant direct correlations between social stratification position within the firm and workers’ intellectual flexibility, that is cognitive skill-level. We will see here that alienation at work also has direct, and statistically significant, effects on workers’ personalities. The structure of the labour-process affects workers’ values, attitudes, and preferences, in addition to skills. In this section we will see in what direction workers’ attitudes and preferences change as a result of workplace alienation. This will pay off in the next section when we examine the problem posed to political democracy as a result of the direction of these changes.

Kohn & Schooler et al’s research shows that social stratification position is significantly correlated with workers’ values and orientations. By “values” Kohn & Schooler mean exactly what is colloquially understood by that term. Values are things that are of importance to individuals. What are being considered are traits of character, and thus, “values” are understood as those traits of character that persons esteem for themselves, and hence for others as well. “Orientations”, on the other hand, is a more non-standard term. Kohn & Schooler et al understand “orientations” as persons’ “conception of the external world and of
self…emphasizing that they serve to define men’s stance toward reality”\textsuperscript{141}. Workers’ values and orientations, just like their psychological functioning, are affected by their experiences in the workplace.

Changes in workers’ cognitive skill-level, as well as their values and orientations, are significant because workers leave their workplaces and rejoin society, where they take up their other important social roles, and all the while “under the influence”, so to speak, of their workplace experiences. These phenomena carry an extra importance when workers leave their workplaces and take up the political activities characteristic of free and equal democratic citizens. The negative effect of workplace alienation on workers’ political behavior is the specifically political externality of the labour-process in the typical capitalist firm. Of course, the actions individuals take in carrying out other, ostensibly non-political, social roles can and often do have important political consequences. However, for our purposes here we will focus on the consequences of work on overtly political behaviors and traits in workers.

It is important here to re-emphasize the individual person as the conceptual hub of this problem. The identity of workers and citizens in the same metaphysical individual is the point of connection that allows for the transmission of the effects of workplace organization to workers, and then on to the political arena where citizens make collective choices. As Karl Polanyi puts it, “the alleged commodity “labour power” cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity”\textsuperscript{142}. Workers are also citizens, and as individuals these persons move between their various social roles seamlessly, in that as individuals they have one continuous experience of their own lives. They move from home to work and back, and bring the rewards,

\textsuperscript{141} Kohn 1983, 6.
\textsuperscript{142} Polanyi 2001, 76.
demands, and pressures, of each role with them as they take up the others in turn. If we look the
work of Michael Lebowitz we see this notion featured prominently in his account of the
production of human skills in the labour-process of both the capitalist and socialist mode of
production.143 This concept can also be seen in Carol Wolkowitz’s and Chris Warhurst’s work on
embodied labour, specifically their account of productive and reproductive bodies.144

Kohn & Schooler et al begin by marking a distinction between what they call “self-
direction” and “conformity”. The former regards internal standards of behavior, while the latter
regards external standards of behavior. The contrast turns on whether “one thinks for oneself”, or
whether one gives “obedience to the dictates of authority”.145 What they observed is that the
value of each of these varied according to social-stratification position. The results of several
studies showed that parental values for children varied along white- and blue-collar lines, that is,
along lines based on access to occupational self-direction. White-collar workers place a high
value on self-direction, while blue-collar workers place a high value on conformity. The results
of their work go on to show that values are related to orientations.

Indeed, what was found was that those with higher social-stratification positions tend to
have personality traits like tolerance of non-conformity and open-mindedness, while those with
lower social-stratification positions tend to be more authoritarian, and less tolerant of non-
conformity.146 Consonant with our discussion of alienation, Kohn & Schooler et al note a
correlation between self-conception and social-stratification position.147 The higher one’s social-
stratification position the more one tends to see their actions as efficacious to their ends, that

143 Lebowitz 2010, ch.2
145 Kohn 1983, 10.
146 Kohn 1983, 15.
social-stratification positions, on the other hand, tend to see adherence to external authority as the best course of action, they tend to see the achievement of ends as largely a product of external circumstance rather than individual initiative.

These results about orientations suggest a qualitative difference between the type of persons associated with higher and lower social-stratification positions. Kohn & Schooler et al’s study measured four dimensions of social orientation, namely authoritarian conservatism, trustfulness, stance toward change, and standards of morality. They found that, “Social-stratification position is linearly related to all four aspects of social orientation”.148 Those with higher social-stratification positions tend to be more tolerant of non-conformity, more trustful, more open to change, and tend to see morality as about the spirit of the law. Those with lower stratification positions on the other hand tend to be more rigid with non-conformity, less trustful, more resistant to change, and to see morality as about the letter of the law.

So, we can see now, the higher one’s social-stratification position, the more substantively complex is their work, and the more they exercise self-direction at work. As a result they have higher intellectual flexibility, are more likely to value self-direction for themselves and their children, and they are more likely to have personal traits like being open-minded and tolerant. Kohn & Schooler et al highlight the critical role played by job-complexes, substantive complexity of work, and hence the range of opportunity for occupational self-direction in this causal chain. They summarize this role as follows,

“men’s positions in the larger socioeconomic structure affects their values, orientations, and cognitive functioning, in large part because of the close link between socioeconomic position and the opportunity to be self-directed in one’s work”.149

148 Kohn 1983, 16.
149 Kohn 1983, 189.
What makes these consequences for worker’s personality especially problematic is that, as we mentioned earlier, these workers will leave the workplace and take their workplace experiences with them. Workers carry the effects of workplace relations into every other social role they have, very importantly including the political realm. Indeed, “in industrial society, where occupation is central to men’s lives, occupational experiences that facilitate or deter the exercise of self-direction come to permeate men’s views, not only of work and their role in work, but also of the world and of self”.\(^{150}\) The direction of this transformative effect is very simple, “Occupational experiences that limit worker’s opportunities for self-direction in their work are conducive to feelings of powerlessness”.\(^{151}\) We saw in the last section that the dominant trend in self-direction for most workers is downward, at the very least it is not increasing in most places. This implies directly that experiences of powerlessness are increasing, or at least not decreasing for the majority of workers.

Kohn & Schooler \textit{et al} go on to show that in addition to effects on workers’ values and orientations, labour-process organization also has an impact on workers’ non-occupational preferences. This comes out clearly in their study of the intellectuality of workers’ leisure time pursuits. After constructing a measure of the intellectuality of individuals’ leisure time activities, Kohn & Schooler \textit{et al} find that substantive complexity of work has a direct and statistically significant correlation with the intellectuality of leisure time activity.\(^{152}\) This research shows plainly that work organization affects workers’ personality by altering workers’ non-occupational preferences. The results obtained by Kohn & Schooler \textit{et al} support a learning-generalization model of the interaction between workplace conditions and workers’ personalities.

Also supported by these results is a resource facilitation-constraint model, where workplace

\(^{150}\) Kohn 1983, 33.
\(^{151}\) Kohn 1983, 96.
\(^{152}\) Kohn 1983, 225.
conditions affect workers’ personality by encouraging or inhibiting the intellectuality of leisure time activities by either facilitating or depleting resources necessary for intellectual leisure time activities. Feelings of powerlessness learned on the job thus spill over into workers’ non-occupational lives. These feelings are manifested in this case in an adaptive preference for leisure time activities with low intellectual content.

Giving further support to the learning-generalization model of the interaction between workplace experiences of powerlessness and workers’ personality is the research of Melvin Seeman. According to the results generated by his survey research, workers who experience high levels of alienation selectively avoid control-relevant knowledge. Control-relevant knowledge, as it is understood by Seeman, is that body of knowledge specific to each different form of organization, that if possessed by an individual member of the organization, would enable him or her to most effectively pursue his or her own unique goals within the organization’s structure. In democratic polities this selective avoidance of control-relevant knowledge is manifested in highly alienated workers having low political knowledge, as well as in their selective withdrawal from political life.

In his Malmo study, Seeman confirmed internationally results obtained in America in two other studies where he argued that one’s level of alienation in large part determines one’s level of control-relevant learning.153 Alienation, for Seeman, means a sense of powerlessness, and the main characteristic of this sense of powerlessness is the low expectancy for control. Those who are alienated are made to feel powerless because they are conditioned to expect to have little control over their external environment. We also saw this in Kohn & Schooler et al in their

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distinction between the value of self-direction and conformity. They argued that in order to value self-direction one must see their ability to act as an effective means to accomplish desired ends. If one does not think that one’s own purposive action will be a practical means to realize one’s ends, then one will very likely not place a high value on self-direction. In his study of workers in Sweden, the results of Seeman’s research showed that alienation or powerlessness was indeed significantly correlated with low expectancies for control in workers. These expectancies for control he finds are in turn directly correlated with individual’s acquisition of control-relevant knowledge. For example, one study conducted in a reformatory identified control-relevant information for prisoners as the body of knowledge about the parole system. In another study, which Seeman and Evans conducted in a hospital, control-relevant information for tuberculosis patients was identified as the body of medical knowledge related to their health matters.\(^{154}\)

In Seeman’s Malmo study, control-relevant knowledge for workers was understood as political knowledge. Thus, a battery of questions, within the survey given to a random sample of Swedish workers, was designed to measure workers’ knowledge of both political and non-political topics. According to Seeman’s results, “those who are high in powerlessness are less interested in political activities”, which confirms his more general theoretical claim that “those who are low in expectancy for control are not interested in and do not absorb control-relevant knowledge”.\(^{155}\) The Malmo workers who were in the high alienation group scored worse on the political knowledge test than on the cultural knowledge test. Importantly, scores on the cultural knowledge test were consistent across the high and low alienation groups. Thus, low political knowledge is correlated with high powerlessness, i.e. high alienation. Workers who experience


high alienation evidence a selective aversion to control-relevant knowledge, i.e. political knowledge. This is because they have low expectancies for control in the democratic political arena.

This aversion is specifically political, because the results indicate no significant change in workers’ level of interest in non-political issues, regardless of whether the workers are in the high or the low alienation group. As we have seen in the previous chapter, many workers have this low expectancy for control as a result of the organization of the labour-process imposed on workers by employers. These low levels of learning, conditioned by the structure of workplace relations in the capitalist firm, further degrades workers’ political skills by creating an adaptive preference against intellectual leisure time activity as well as for specifically avoiding political issues.

In addition to the lower scores on the survey designed to gauge political knowledge, Seeman’s research provided one further, highly suggestive piece of evidence that highly alienated workers selectively avoid politics. After dividing the sample into high and low alienation groups, the time taken to return the two separate surveys was used a proxy measure of avoidance behavior by the alienated. The expectation was that those high in alienation would either not return or take more time in returning the survey gauging political knowledge than returning the survey on cultural knowledge. This expectation was confirmed, even after researchers excluded all the surveys returned within the first five business days after the deadline. They did this so as to attempt to control for Swedes’ cultural pressures toward cooperation with researchers’ requests. As Seeman himself acknowledges, this evidence is hardly conclusive, though it is highly suggestive.156

156 Seeman 1967 B, 119.
It is important to re-emphasize here what we saw in the previous chapter with regard to the direction on the dominant trends in work organization and the effect of these trends on workers’ personality, specifically workers’ cognitive skill, their values and orientation, as well as non-occupational preferences. These trends were manifest in the 1960s when Seeman conducted his research, and as we saw, these trends persist into the present day. For this reason, I argued earlier that because the workplace structures and dynamics are the same now as then, we should expect that their effects are likewise the same. It is eminently rational that one should expect that the same workplace practices and processes will produce the same results now that they have in the past. It is reasonable then to think that, in the main, the results obtained by Seeman, as well as Kohn & Schooler et al, remain valid today. One of the main virtues of the various studies discussed in this section, as well as earlier sections, is that they are very recent. Their very recentness helps establish that it very much the case that the kinds of labour practices which produced alienation and de-skilling, when measured by Kohn & Schooler, are still deployed today.

Unfortunately, there has been a relative lack of interest in following up this line of research in both philosophy and the social sciences. There have been no major replications of Kohn & Schooler et al’s research, by other scholars working independently. Moreover, there is little to no research that one could consider supplementary to the main line of Kohn & Schooler et al’s research. Much of the literature that came after Kohn & Schooler’s came to focus on workers’ subjective experiences of working conditions, and how to get them to feel better about their jobs. The literature approached the question of worker alienation largely from the point of view of employers, insofar as researchers focused on how to adapt workers’ feelings and
perceptions to fit the structure of the job. Little or no thought was given to reorganizing the structure of the alienation-producing jobs.

Looking to the literature after Melvin Seeman, and Kohn & Schooler et al, what little we find is supportive. Firstly, Bruce Roberts’ research in later 1980s helps to reconfirm Seeman’s research results on alienation, especially the link between powerlessness and alienation. Moreover, the results of his work comparing cross-national data sets from Poland and Japan lend further support to generalizability of this model of alienation. Secondly, Greenberg, Grunberg, and Daniel’s study, from the mid-1990s, lends further support to the research results of Kohn and Schooler et al. What Greenberg et al find is that, in the main, the nature of the workplace relationships and their dominant effects on workers was found to be the same.

What this study contributes is a more nuanced view of the spillover process, that is, of how workplace alienation, or lack thereof, translates into political participation, or not. Greenberg et al find, quite naturally, that several other factors beyond workplace experiences play a role in whether or not a citizen participates in the political life of the polity, and if so, to what degree. They note that persons’ childhood experiences of family or school can also factor into the development of persons’ attitudes toward political participation. If there were robust democratic training outside the workplace, then this would of course play a mediating role in the spillover relationship. Thus, what Greenberg et al add is a highly supportive qualification to some of the results obtained by Kohn & Schooler et al. A further qualification can be found in the recent work of Michael E. Morrell. His 2005 study showed that different forms of workplace participation can have different impacts on workers’ propensity for political participation.

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participation. What he finds is that more direct decision-making, participation in deliberative decision-making procedures for example, instead of periodic voting, is what increases the likelihood of workers’ political participation.

The problem of political externalities has thus not received much attention in the philosophical or social science literature. This is why it is so important to point out this problem of political externalities. It is rather unfortunate that the line of research begun by Kohn & Schooler and their many collaborators has been abandoned. This is especially unfortunate given the important ways that a large number of alienated worker-citizens impacts on the well-functioning of the institutions of political democracy. We will explore some of the most important of these impacts in the next chapter. What we will see is that, for those committed to democracy, the level of alienation inflicted by the capitalist-imposed labour-process is indeed a very significant problem. High levels of alienation among the citizenry will erode some of the most essential pillars of political democracy.

v. Capitalist Control: A Contemporary Problem?

In the previous sections of this chapter we have seen that Taylorism presents significant problems for workers in terms of their ability to exercise autonomy in the workplace. This alienation that workers experience as a result of the way work is organized by employers has detrimental effects on workers’ cognitive skills. This result is produced by employers’ linking of workers’ level of task-discretion to their position within the firm. We have also seen how this choice on the part of employers is a reaction to important macro-structural economic and political forces. A critic might object that Taylorism is not a political problem, even if it is problematic, because it affects so few workers. This critic might claim that it does not attain a
sufficient enough scale to constitute an important political problem. In this section I want to provide a reply to this kind of criticism. In order to see exactly why Taylorism is so problematic, we need to get a sense of how many workers are subjected to the influence of Taylorism.

We have seen in previous sections that the forms of employer-controlled work organization have stayed the same as much as they have changed. The patterns of division of labour, of assigning workers to specific bundles of tasks, have remained squarely within the mold outlined by F.W. Taylor. We saw the prominence of these types of work organization as early as Adam Smith’s pin-making thought experiment, as well as quite recently in the work of Burawoy, Sennett, and Moody. The rationale of scientific management, rather than being an anachronism, has persisted into the workplaces of the twenty-first century. The studies cited in previous sections help to display the variety of both nations and industries in which Tayloristic methods are employed today. They also very importantly help to display the similarity of the effects on workers from Tayloristic forms of work organization.

Though some have argued that modern forms of work organization “surpass” Taylorism, or make it obsolete, these arguments have been contradicted by history. Notable studies, like Robert Blauner and Michael Piore & Charles Sabel, claim that the forms of work organization they study are “post-Taylorist” in that they result generally in the increase in worker’s skills; usually through the use of computer technology wedded to mass production systems. Perhaps the prime case of “post-Taylorist” forms of work organization are the Japanese inspired lean production methods which U.S. companies increasingly sought to adopt in the 1980s and 1990s.¹⁶⁰ Yet, as studies like Andy Danford’s and Mac McClelland’s show plainly, these lean

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production systems are not post-Taylorist.\(^{161}\) Benjamin Hopkins, Irena Grugulis & Caroline Lloyd, as well as Ruth Milkman, to name a few, aver that most contemporary firms are managed according to similar kinds of practices as were cataloged by Harry Braverman in 1974.\(^{162}\)

As evidence of increasing skill levels from modern high-powered work organization, some point to the general increase in the level of qualification needed for various types of jobs. Their contention is that workers must be experiencing an increase in their level of skill because more advanced levels of education are required for certain occupations. An important component of their claim is that the kinds of jobs calling for these kinds of advanced education and skills are already or are going to be a larger and larger part of overall employment. The problem with these types of arguments is that the increase in levels of required education may simply be more a product of increasing access to higher levels of education for an increasingly large segment of the population. This process of increasing access increases the overall number of college degrees possessed by the labour force, and this increase serves to inflate employers’ expectations of, and hence demand for, a higher level of education for their employees. In this way, the increase in required levels of educational qualification masks the fact that the content of the work done by workers possessing these jobs remains largely the same. As Grugulis & Lloyd note, this is essentially Braverman’s critique of up-skilling arguments in the 1960s, e.g. that given by Blauner. At least in this respect, Braverman’s critique retains all of its relevance in the context of today’s economy.\(^{163}\)

Given that many workers are faced with Tayloristic methods and practices in their workplaces, the problem of political externalities becomes a very large problem indeed. As we saw earlier, Tayloristic methods of work organization most often result in the fragmentation of

\(^{162}\) Hopkins (2009), Grugulis & Lloyd (2010), Milkman (1998)
\(^{163}\) Grugulis & Lloyd (2010)
work, and the production of not insignificant levels of dissatisfaction in workers. Moreover, looking at the work of Melvin Kohn & Carmi Schooler et al, we saw that the effects of job fragmentation on workers are in the main negative, in that simplification is associated with low levels of cognitive skill, or as they called it “ideational flexibility”. In order to see the scope of the political problem presented by Taylorist forms of work organization it will be useful to examine some empirical data on recent trends in workers’ level of task-discretion. Task-discretion, or workplace autonomy as it is often called, is a critical element of occupational self-direction, and as we saw with Kohn & Schooler et al’s work, is the variable most highly and consistently correlated with workers’ level of cognitive skill.

Out of concern for relevance as well as brevity we will examine data from the United States, and the economy routinely judged to be most similar to it, i.e. the United Kingdom. The focus on these two countries is related to the degree to which these two nations in particular choose to have as much economic activity as possible mediated by the market. The U.S. and the U.K. are frequently taken as prime example of what are called Liberal Market Economies (LME), with the U.S. very often considered the more liberal of the two. This LME pattern of organization is common, in greater and lesser degrees, through a kind of family resemblance, to most of the other Anglophone countries as well, e.g. Australia, New Zealand, Canada, and Ireland.  

Reviewing the extent and direction of these trends in these economies we will have to examine several macro-economic forces that contribute to the trends in levels of task-discretion for workers that have made the political problem of worker alienation and de-skilling a very significant one for democratic political institutions. These developments include the growth of

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164 This commonality is also noted by Richard Sennett (1998), who identifies the LME pattern with what he calls the Anglo-American or Neo-Liberal model.
the service sector relative to manufacturing, and the polarization in the quality of jobs in the service sector with respect to levels of task-discretion.

To get a sense of the scope of the political problem posed by Taylorism in the workplace, it is insufficient to simply note that of course most workers in the economy are not highly paid corporate executives or bankers, or professionals like doctors and lawyers. The majority of workers are not managers, but rather what are called “front line” workers. To add important texture to this claim we can look to data provided by the United States Bureau of Labor Statistics (BLS). According to their data as recently as 2011 the five largest major occupational groups according to the Standard Occupational Classification system (SOC) accounted for almost 50% of total employment. Major occupational groups are sub-divided into minor occupational groups, which are then decomposed into specific discrete occupations. The SOC system tries to organize discrete occupations into minor and major occupational groups according to similarities in the content of the work tasks characteristic of that occupation. Three of the five largest groups are the following: “transportation and material moving”; “food preparation and serving related”; and “office and administrative support”. Without neglecting the diversity of discrete occupations that fall under these broad groupings, the level of task-discretion or of substantively complex work in these major occupational groups portends to be rather low.

In order to add more texture we can look at some other BLS occupational and employment data from 2011. According to their data the top ten largest discrete occupations account for 27.3% of total employment. The top two occupations on this list are “retail salesperson” and “cashier”. Neither of these jobs entails any great degree of task-discretion, nor substantive complexity in work, and these two occupations alone are 5.9% of total employment.

or over seven and one half million persons. Other occupations among the top ten include “office clerk”, “waiter”, “janitor”, “stock clerk”, “order filler”, “secretary”, and “truck driver”. Again we see a list that appears to offer little in the way of task-discretion and substantive complexity to workers. We can see now that the scope of Taylorism is very broad indeed, and that thus the scope of its potential effects is equally broad. The BLS data we have looked at covers only the five largest major occupational groups, and the ten largest specific occupations. From this data one could very reasonably claim that the fraction of workers exposed to Tayloristic patterns of work organization is, at the very least, better than one third of workers, and very likely more than half of workers.

A critic might point out the fact that the grouping of occupations in the SOC system is a result of the decisions of technocrats who may be out of touch with the content of work being done in actual workplaces. I do not think this kind of criticism to be terribly weighty, but it does present an opportunity to examine survey data from the U.S. and the U.K. and see what workers themselves report about their workplace experiences of task-discretion or the lack thereof.

Turning to work done by Arne Kalleberg, we see that job-satisfaction, one common proxy used by researchers to measure worker alienation, has either stagnated or declined for U.S. workers since the 1970s, workers also report decreasing levels of task-discretion over the same period.\textsuperscript{167} Looking to Duncan Gallie’s work on the U.K., we note a general decline in workers’ self-reported level of task-discretion.\textsuperscript{168} It is interesting to note about Gallie’s results that workers reported more discretion over their effort level at work and the quality of their work rather than over the specific tasks they are to accomplish. Even understood as just qualified, still only 51%……

of U.K. workers reported having task-discretion at work in 2001; down from 71% in 1992.  
What this data shows is that there is a similar underlying dynamic occurring with the labour markets of these two nations.

It is necessary to repeat that though these two nation’s economies are often considered together, they do have important differences, especially with respect to the presence and strength of trade unions. The U.K. has more firmly established unions, with substantial institutional protections guaranteed by the state. The U.S. is just the opposite in respect to both the rate of unionization, and the strength of protections for labourers. This is important because, as Gallie and Kalleberg note, the presence of unions generally serves to increase workers’ level of task-discretion. Differences of this sort without a doubt influence the structure of the labour market, and hence the outcomes it produces. The underlying dynamic in both countries is one of polarization, or of increasing inequality in the jobs available, with respect to the level of task-discretion present in them. This is the important consistency between the data provided by Kalleberg and Gallie.

Echoing what we saw in Michael Tahalin’s assessment of labour market trends, namely J-shaped employment growth, Kalleberg notes that the direction of the trend in task-discretion is downward for the low-skill segments of the U.S. labour force. Moreover, Kalleberg importantly notes a growing inequality between good jobs and bad jobs since the 1970s. Kalleberg also importantly highlights the growth of low-skill segments of the labour market where bad jobs are disproportionately located, particularly in the service sector which has itself become the

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169 Gallie (2007), 118.
171 At least on one dimension of good jobs, e.g. pay, there has been a very clear divergence in the level of income going to the different segments of the income distribution since the 1970s. In particular the level of income garbed by the highest income earning segments of the distribution has diverged sharply from the level of income for the median worker. See Kalleberg (2011), 35.
dominant sector for employment. Indeed, a full 85% of workers were employed in that sector in 2009, up from 70% in 1970.\textsuperscript{172} Good jobs, according to Kalleberg, have the following features: relatively high pay with potential for increased earnings, adequate fringe benefits, opportunities for autonomy or task-discretion, flexibility in schedule, and some control over arbitrary termination. Bad jobs conversely contain features which are opposite each of the features of good jobs.\textsuperscript{173} Gallie supports this in the U.K. case by noting that his data shows clearly that task-discretion decreased most for the low-skilled segments of the labour force.\textsuperscript{174}

The data presented by Kalleberg and Gallie supports what we saw earlier with Milkman and others: that despite claims of up-skilling, it is low-road strategies leading to de-skilling that prevail in today’s workplaces, at least the workplaces of those in low-skill segments of the labour market.\textsuperscript{175} Thus, while some workers in the higher-skill segments of the labour market certainly have been up-skilled by changes in work organization that provide them increased levels of task-discretion, a growing majority of workers in low-skill segments are not experiencing any similar up-skilling. Indeed, what Kalleberg and Gallie show is that these workers are experiencing the de-skilling attendant to the increased levels of inequality in task-discretion and job quality being imposed on them. The growth of the service sector relative to manufacturing as a share a total employment has had important effects on the nature of the labour market.\textsuperscript{176} One of these as both Kalleberg and Gallie show is a growth in employment at both the high- and low-skill segments of the labour market. This development combined with decline, often dramatic, in middle segments has led to the growth of increasingly polarized levels of task-discretion for workers.

\begin{footnotesize}
\begin{enumerate}
\item Kalleberg (2011), 29.
\item Kalleberg (2011), 9-10.
\item Gallie (2007), 119.
\item Kalleberg (2011), 37.
\item See Kalleberg (2011), 64 for data on this shift.
\end{enumerate}
\end{footnotesize}
It is significant that Kalleberg and Gallie agree on the kinds of macro-structural economic and political forces that have helped to shape this polarization dynamic. Macro-structural forces contributing to the decline of middle level segments of the labour market include decline in union power, increased international competition leading to increased pressure on firms toward achieving efficiencies through cost reduction, out-sourcing to low-wage countries of jobs in highly unionized industries, and digitization or automation of clerical and other routine types work.\textsuperscript{177} It is important to be aware that these macro-structural forces impact firms in different sectors of the economy differently, but they do affect all firms. As a result it is possible for firms in service industries to employ some of the methods and practices associated with lean production and Taylorism. Service businesses were subjected to increased competition as well as manufacturers, and were likewise forced to seek out efficiencies in their labour-processes to remain competitive. While many manufacturing jobs were amenable to either automation or out-sourcing, many kinds of service work are not susceptible to similar treatment. Service firms alternatively have sought out cost reductions by reducing their labour force through sub-contracting for certain kinds of services, e.g. cleaning services, as well as by casualizing their other employees utilizing contracts non-standard employment terms.\textsuperscript{178}

Other thinkers who agree on the significance of the same or similar kinds of macro-structural forces interpret these trends in task-discretion, in conjunction with trends in wage levels and job-security levels, as evidence of a larger structural change within the labour market. So-called segmentation theories argue that the labour markets of advanced capitalist countries are separating into what are typically called a primary and a secondary market segment, or in

\textsuperscript{177} See Kalleberg (2011) ch.2,3,4.
\textsuperscript{178} “Standard” employment relations should be understood here as those characteristic of the post-war labour markets in the U.S. What Kalleberg calls the “age of stability”. See Kalleberg (2011), 22. Also see Applebaum & Batt (1994) for discussion of the pos-war employment paradigm.
other terms a core and a peripheral workforce. In response to macro-structural forces, many firms opted to try to retain their most important workers through more high-road strategies including higher wages, more security, non-job benefits, and increased autonomy and/or participation programs. Peripheral workers, on the other hand, were subjected to low-road strategies including lower wages, less security, fewer benefits, and if not less, then at least no more autonomy or participation in the workplace. On the high-road, firms seeking efficiencies have been able to achieve this by making their core workforces more productive, as well as saving on training costs from reduced employee turnover. Through low-road strategies, firms also achieve efficiencies but do so by casualizing their peripheral workforce, and utilizing low-skill workers for low-skilled jobs as well as non-standard employment terms to offer low pay and few benefits.

The growth of secondary labour market segments as a structural feature of contemporary labour markets accounts for the convergence of low-wage and low-skill jobs, and high-wage and high-skill jobs. Polarization in task-discretion, according to Edwards’ segmentation theory, is an attempt by employers to increase their control over workers by increasing inter-worker conflict, that is by dividing them though creating increasingly divergent work experiences for the different labour market segments. In addition to the efficiencies mentioned above, employers gain further by increasing competition between workers for ‘good jobs’ thus reducing workers’ ability to resist employers’ demands through collective action. Workers’ reduced capacity to resist means that employers will be more able to successfully press demands on workers that

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180 Randy Hodson (2001) for instance notes that professional workers were generally less inclined to resist top managers than were manual workers. Further support for the segmentation theory can be found in Hodson’s corollary finding that professional workers also experience much less turnover than manual or even craft workers. According to Hodson professional workers had more control over their work, higher pay, and more security. This is exactly what we would expect for workers in a primary or core labour market segment.
create further efficiencies. Reduced capacity to resist enables employers to engage in practices like longer hours or mandatory overtime, increasingly flexible scheduling, fixed short-term contracts, changes in the pace of machinery, as well as increasing output quotas on piece rates among others.

These practices of course take different forms among high-skill segments than among low-skill segments. Flexible scheduling, for example, can work very differently in different labour market segments. In high-skill segments flexible scheduling allows professional workers the ability to more harmoniously integrate their home life and their work life, resulting in a happier and thus more productive worker. Workers in this segment are not only more productive because they are enabled to work when they are naturally most productive, but also because they are likely to have increased levels of loyalty to the firm because of the non-job benefits associated with flexible scheduling.\(^\text{182}\) In low-skill segments, on the other hand, flexibility for the firm means insecurity for the worker. Flexible scheduling in these segments usually implies the adoption of just-in-time methods from supply of inputs to supply of personnel. This model is adapted from manufacturing industries, notably automobile production, and in it firms achieve efficiency by only having as many workers on hand as are necessary. This kind of policy not only implies increased job insecurity for workers, but also usually comes with increased workloads for those workers who are retained.

Conclusion

We’ve seen in chapter three that the structure of market economies provides those in a position to be employers an advantageous bargaining position in the labour market. Employers

\(^{182}\) For interesting example of this see Hardy Green’s discussion of Google’s Project 2.0 server complex in Oregon. See The Company Town. New York, Basic Books: 2010.
have used this power to bargain for a large, nearing total, range of control of the labour-process within the firm. Due to the structure of market economies, and the conditions they impose on those in the position of having to make a living as wage-workers, there is basic antagonism of interests that surrounds the making of employment contracts. This basic antagonism is part of the Labour Discipline Problem. It is to this structural problem that employers replied, using their right to control the labour-process, by imposing a seemingly endless variety of different versions of the methods, but more importantly the methodology, of Taylorism and Scientific Management. We saw how these methods produce alienated workers, and that alienated workers have their personalities altered, and in ways that are detrimental to the best interests of individuals considered as citizens of a democratic polity.
IV. The Political Consequences of the Structure of the Labour–Process Under Capitalism

In the last chapter we looked into the source of employers’ power in the labour market and the workplace. We then saw what employers have tended to do with this control they have of the workplace. Next we examined what effect the form this control takes on those subject to it. Lastly, we showed that this problem is both contemporary and widespread. In the present chapter we continue to present the problem of political externalities. Having seen in the previous chapter some of the main effects of labour-process organization on workers, we now turn to how this externality from the labour-process produces another effect on the institutions of political democracy.

The first section deals, briefly, with the history of the conception of the relationship between individuals’ character and their social institutions. There are two main ways of understanding this relationship. We will call these the conservative and the radical. The conservative interpretation sees the relationship as a static or one-way relationship: social institutions must, as best they can, manage the fixed nature of individuals’ characters. The radical interpretation, by contrast, conceives this relationship as having a dynamic. Individuals’ characters, on this view, are shaped in some measure by the structure of social institutions.

In section ii we examine the kinds of personalities that are required for a well-functioning democracy. We’ll look to one of the main thinkers in the liberal tradition in political philosophy, namely J.S. Mill. He gives an excellent description of the kinds of persons who will be necessary for democratic political institutions to function well, as well as the kind of character these persons must have. According to Mill, it is “active characters” that are needed among the
citizenry of a democratic polity in order for its political institutions to operate in a healthy manner. This goal of this section is to expose the kinds of personal characters that make for the success of a democratic society. This is important because the following section explores the problematic way that worker-citizens’ character are deformed under the labour-process of a typical capitalist firm. The problem this deformation due to alienation poses for the well-functioning of the institutions of political democracy will be more apparent against the background of the discussion in this section.

Section iii describes the political externality that large numbers of highly alienated workers impose on the institutions of political democracy. We will see that highly alienated workers are less politically skilled than would ideally be the case with the citizens of a democratic polity. Moreover, the institutions of political democracy function less well when the citizenry is composed of large numbers of highly alienated workers. This section completes the presentation of the new problem of political externalities.

i. A Brief History of the Formative Effects of Institutions on Individuals

Many thinkers have recognized that social institutions exert transformative forces on the personalities, or characters, of those who live under them. There are two forms of this claim that social institutions affect individuals’ character, namely, a conservative and a radical version. The conservative version is more metaphysical, in that it sees individuals’ characters as fixed. The job of successful social institutions is thus to harness the talents of persons as they are in such a way as to benefit the polity. Under this view, politics is mostly about fashioning workable social, political, and economic relationships from the human materials on hand, with the constraint that
these materials cannot be changed. Society is here understood as a kind of jigsaw puzzle, where a prosperous society emerges only when the right parts fit into their proper places.

The radical version is more reciprocal. This version sees individuals’ characters as more malleable, and social institutions as having a role in shaping the character individuals come to have. This version of the claim understands institutions as places of learning where individuals’ personalities can be shaped in a multitude of ways, depending on the form the institutions take. Politics can still be understood as something of a jigsaw puzzle on the radical version, but one where the shape of the pieces can be altered.

Even if some take the view that individuals’ personalities cannot be transformed by social institutions, these same people will have to recognize that there must be a good fit between the two if the institutions are to work well. There is a necessary connection between the forms of social institutions and the characteristics of the persons who operate and inhabit them. Different forms of social institutions call forth and encourage, inhibit, prohibit, penalize, et cetera different aspects of the human personality. So it is quite reasonable to think that different persons, with different amounts of each of these aspects of human personality will be differentially suited to life under one or another different institutional regime.\(^1\)

Looking at Plato for example, we see that he stresses that certain institutional forms of government need to be paired with specific kinds of personalities in its citizens to function well. Importantly, he takes a somewhat rigid view of human nature, which we can see clearly in his analysis of class conflicts, and arguments over the most appropriate institutional forms of government. Plato claims that democracy is the second-to-worst form of government, because it

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amounts to putting that group of people least able to rule well in charge of the state.\textsuperscript{184} Just as it
would be more manifestly counter-productive to give the appetitive part of the soul control over
one’s actions, in just the same way, the lowest class of people, the numerical majority, cannot be
put in control of the decisions of the state because they are unruly and irrational, or rather they
act based on these unruly irrational impulses instead of reason.

Democracy, as an institutional form, cannot work on this account because the kinds of
people that are the majority are of such a nature that they cannot be expected to wield enough
wisdom and circumspection to make good choices. What Plato is expressing here is the idea that
given the natures that people have, which we cannot change, we should create institutions which
take this nature into account so as to produce the best results overall. This is why the
philosophers should be put in charge, because their nature is such that they will rule well, and
they will rule well because they have the right kind of character traits that make for good and
wise rulers. Plato’s important idea is that forms of institutions and kinds of individual character
must have a degree of fit in order for the most overall good to be accomplished. Plato has the
Socrates character mention several times in\textit{ Republic} that the aim of creating a set of social
institutions is to make the city, i.e. the polity, as well off as possible, not to make any particular
group within it well off.\textsuperscript{185}

Many nineteenth and twentieth century thinkers advanced from this beginning to claim
that not only is there a necessary relationship between forms of social institutions and kinds of
individual characters, but also that forms of institutions themselves produce individual characters
suited to them. The key difference between this view and the one espoused by the ancients is the
idea that individual characters are malleable, and not simply outward manifestations of an

\textsuperscript{184}\textit{Plato. Republic}. Bk.VI
\textsuperscript{185}See for example \textit{Republic} Bk.IV 420c.
immutable inner nature. This idea has so much currency today because many thinkers from various traditions have all embraced the idea. We see this idea employed in the work of some of the most significant thinkers in political philosophy, such as J.S. Mill and Karl Marx, who both recognize that it is not only political, but also economic, institutions that have this transformative effect.

J.S. Mill makes this kind of argument in the context of both the political system and the economic system. In both his Considerations on Representative Government (CRG) and Principles of Political Economy he sets out a vision of not only a transformed society, but also, and in fact necessarily, a transformed kind of human being.\textsuperscript{186} In the Principles, he presents us with an account of how the economy may be made more equitable, which in turn will then tend to encourage citizens to be more public-minded.\textsuperscript{187} Likewise, in CRG Mill gives us an account of how democracy can be reformed so as to become more equitable, and in so doing, provide a structure of institutions that can help mold people into effective civic-minded participants in their own democracy. In Mill’s mind, the right kind of institutional arrangement can help create forces pushing persons toward developing the kind of active-type characters that are essential to robust democratic institutions.

Mill’s goal for political democracy, from his CRG, is to build up among as many people as possible the kinds of skills and resources in sufficient concentrations to enable citizens to be fitted for a well-functioning democracy. Mill’s proposed restructuring of democratic institutions includes the demand that individuals be required to perform certain services for the


\textsuperscript{187} Mill, Principles of Political Economy. Bk.4 Ch.VI & VII.
community. By being asked to do public service, e.g. by being on juries, or serving as an elected official, individuals will come to see that the public good and the individual good converges. Mill argues that participating in this way is essential for developing in people the kinds of skills they need to purposively engage with the public good and help to realize it.

The other main intended effect of increased political participation is supposed to be that citizens become more civic-minded, more cognizant of what is good for the community considered as a whole. This is because in participating one is forced to consider the public good. Moreover, in the process of becoming more civic-minded, citizens will be led to change their notion of what is in their own interests. It is not just that they come to see how the public’s good and their own personal good coincide, but that their conception of their own personal interests changes at the same time. This is necessary if, as Mill insists, such civic-minded citizens will side with the public good even, and perhaps especially, when it conflicts with their own personal good. Being placed in a position of responsibility in which some matter of public concern is entrusted to one’s care is designed to make one engage with the public good on an impartial basis, that is, as someone occupying a role in which an impartial perspective is required. It is ok, or at least not wholly immoral, for private citizens qua private citizens to prefer their own good to that of the public when the two conflict. However, it is unacceptable for someone qua public official to do the same. Political institutions on this view, when properly arranged, are schools of (utilitarian) political morality and it is only working within them that individuals learn to be the better citizens Mill’s vision of democracy requires like them to become.

For his ideal economy, Mill imagines, in his Principles of Political Economy, a kind of market socialism in which worker-owned firms compete with each other in a competitive

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188 See Mill, CRG, Section III, pg.239-256.
189 Mill CRG, 255
190 Mill CRG, 254
market. Mill’s ideal economy is supposed to exist in a stationary state, which most importantly means that in the labour market supply equals demand. There is a friendly competition between the firms, but all act consciously for the public good, and aim at full employment. Mill thinks that by workers owning and running their firms democratically they will acquire a public-spiritedness, and the personal skills required to effectively engage in the democratic processes of their firm. Just by virtue of working within these new kinds of firms individuals can be transformed into socially minded and active personalities. This same kind of active/passive distinction in terms of individual characters is also drawn in CRG. The goal of economic participation, just as in the case of political participation, is to cultivate widely among the citizenry the kinds of skills and knowledge as is required for them to pursue their own, as well as societies’ interests effectively. The effect is also similar in that participating in the operation of one’s firm exerts a shaping influence on individual’s characters such that they will have improved characters, becoming more public minded, more utilitarian.

Many thinkers in the radical tradition in political philosophy also take this view about the transformative effects of institutions, such as, Karl Marx. One prominent place we find this kind of argument is in Marx’s account of the development of revolutionary consciousness in the proletariat. It is precisely the institutions of capitalist production that alienate and then unite the proletariat. The universality of the condition of alienation among proletarians, along with their collective experience of immiseration, brings the proletariat together for the inevitable overthrow of the capitalist regime. Being alienated by the capitalist labour process, workers develop revolutionary consciousness because they have experienced both the high of creating

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191 Mill, *Principles* Bk.IV ch.VII
192 Mill, *Principles* Bk.IV ch. VI
193 Mill, *CRG*, ch.III
value by their activity, and the low of having that value appropriated by another. It is this lived experience in the workplace as well as outside of it that will, as capitalism develops, galvanize workers against their oppression and alienation under capitalism. Workers, through their forced participation in capitalist-imposed labour-process, come to develop a conception of themselves as a class not only in-itself but also for-itself. This latter development is what marks the emergence of the proletariat as a revolutionary force for its own emancipation.

In the twentieth century this notion continues to thrive, and find support among many of the leading thinkers. We see this notion at play in the work of political philosophers like John Rawls and Carole Pateman. It can also be seen in the work of sociologists like Robert Blauner, as well as the work of Gabriel Almond and Sidney Verba. We also find it in prominently in political-economists like Harry Braverman, Michael Albert, Michael Lebowitz, and Richard Wolff. It is unnecessary to discuss all of these examples in detail here, this exercise would not advance the point being made in this section. We note these thinkers only to point to a long, and continuing, tradition of interest in this claim.

We’ve seen now that conceptions of the relationship between individuals’ character and institutions has changed over time. It would require a dissertation unto itself to trace the evolution of this notion in detail. Without engaging in this, I think we can make some reasonable generalizations. For most of human history the conservative version of this idea predominated. Individuals’ character was taken as fixed, and the job of social and political institutions to either harness or to check the behaviors that flow from these fixed natures. Only later did the radical version gain a foothold, and establish itself as a rival. The important point is not locating the

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historical moment of divergence of these two versions of the concept of the relationship of individuals’ character and social institutions. Rather, the important point is noticing the difference between them. The conservative version of the claim is more deterministic, in that it is sees the content of individuals’ characters, or what some might call “human nature”, as fixed by external sources, and as unalterable. In previous epochs it was thought that god was responsible for making persons as they are. In later epochs this deterministic influence has been thought to be found in genes.

The radical version of the claim, on the other hand, argues that there is reciprocal relationship between social institutions and the character of the persons inhabiting them. Social institutions can cause individuals to develop various kinds of personality traits as a result of participation in them. This kind of interaction is not possible according to the conservative version. On the radical interpretation of the relationship between individuals’ and their social institutions individuals’ character is still largely formed by external influences. However, on this view these external sources include social institutions. This is important precisely because conscious human agency can and does determine the structure of social, and especially political, institutions. In this way, humans help shape the nature of the persons they become by shaping the structure of the institutions that help define individual character.

ii. Citizenship, Character, and Democracy

If we understand democracy as a fundamentally deliberative and participative activity, what kinds of persons, and personality traits will be most conducive to any individual citizen’s effective participation in this activity as an equal? For a view into this we should turn our attention to back to J.S. Mill. Mill offers a conception of democracy in his Considerations on
Representative Government (CRG) that emphasizes a large role for free public deliberation. In CRG Mill importantly discusses the kinds of personality traits that are necessary for one to be an effective participant in free public deliberation. In order to make deliberation, and hence democracy, go well, Mill argues we need a citizenry that is to as great an extent as possible composed of what he calls “active” characters.

To ask this question is to ask what kind of citizen is ideally suited to make democratic political institutions work well. It is also to ask what ideal of citizenship these citizens should strive for. Of course when dealing with real world situations it is not a matter of acting ideally, but rather of trying to as best one can approximate an ideal. Yet nonetheless this ideal serves an important regulating function in that citizens will, if things go well, strive to as closely as possible live up to this ideal whenever possible. What is important is that the main outlines of this conception of citizenship and democratic character is implied by the structure of participatory democratic political institutions.

To begin, Mill asserts, “If we ask ourselves on what causes and conditions good government in all its senses… depends, we find that the principal of them, the one which transcends all others, is the qualities of the human beings composing the society over which the government is exercised”.198 Thus the need for citizens with active characters, and the institutions which create such characters, is very great for Mill’s ideal democracy because “political checks will no more act of themselves, than a bridle will direct a horse without a rider”199. “Active” type characters for Mill are those that employ their faculties for the purposes of thinking for themselves, and take the initiative in acting so as to improve their circumstances in life. These types of characters are driven by discontent with the present to work hard so as to

199 Mill 2008, 228.
improve their material circumstances, and when such personalities are aggregated this individual action creates the most welfare for society. Mill avers clearly that all progress in society is due to these types of active characters.\(^{200}\)

In describing this distinction between active and passive characters Mill says, “He who lets the world, or his portion of it, choose his plan of life for him, has no need of any other faculty than the ape-like one of imitation. He who chooses his plan for himself, employs all his faculties… And these qualities he requires and exercises exactly in proportion as the part of his conduct which he determines according to his own judgment and feelings”.\(^{201}\) From this we can see two important things. First, persons with active type characters are those who are independent minded, who are self-directing, and who necessarily in being both of the former have developed certain of their human cognitive qualities or capabilities; capabilities which will be useful to the citizen in participating in the process of free public deliberation. Second we see, as we will with Melvin Seeman, ones’ ability to develop the deliberation-relevant talents are in the main dependent on the size of the sphere within which one exercises one’s judgment, i.e. within which one is self-directed.

Mill assimilates this contrast between the active and passive type of characters to another distinction, one between monarchical and democratic forms of government and their respective attitudes toward the scope of political participation. Because monarchical forms of government limit, or even preclude, the ability of many segments of society to participate in government, they incline those members of society, usually the majority, to developing passive type characters. Because there is no need for deliberation in a monarchy, save insofar as the monarch

\(^{200}\) Mill 2008, 248.
requests it, there is little impetus for many outside of the elite of government functionaries to
develop the deliberative talents that lead to having active type characters.

Indeed, under despotism “the public at large remain without information and without
interest on all the greater matters of practice; or, if they have any knowledge of them, it is but a
dilettante knowledge”, and this is because “Wherever the sphere of action of human beings is
artificially circumscribed, their sentiments are narrowed and dwarfed in the same proportion”.202
It is thus because monarchical forms of government require submission out of subjects and
fundamentally delimits, if not abolishes, free public deliberation that they inhibit via the
arrangement of political institutions the development in citizens of qualities associated with
independence and freedom.203 It is because democracy on the other hand is based on free
deliberation among equals, that is because it institutionalizes diffuse citizen participation in
collective decision-making, that it inclines its citizens toward the development of active type
characters.

Citizens with active type characters are those that are self-directing and in so being have
developed the kinds of talents that will make them effective deliberators. When enough effective
deliberators are brought together for deliberation, the competitive democratic mechanism Mill
envisions can be made to work. This is because those who are self-directing exercise their
judgment over a wide range of diverse matters which necessarily calls for the development of
many of one’s human cognitive talents. The development of these talents will make one able to
be both an articulate advocate for one’s own preferred policies, but also an effective critic of
other citizen’s policy proposals. Both of these functions are crucial to making Mill’s model of a
deliberative democracy work well.

It is these types of active characters that Mill, among others, believes not only can be created when robust political participation is combined with other social policies and institutions, but indeed must be created for deliberative democracy to go well. Important among these are policies like universal public education and limitations on the inheritance of wealth. Both of these policies serve to help create active characters, and to improve the quality of deliberation by transforming individuals. In the first case, universal education makes deliberation better by increasing the quality of the deliberators. It goes without saying that more educated deliberators are superior to less educated ones. Education also quite obviously helps to empower individuals to not only form but to pursue their conception of a flourishing form of life. The second policy helps to keep inequality within appropriate bounds. This policy also helps empower individuals to pursue their conception of a flourishing life by limiting the number and severity of obstacles to success related to economic inequality and the differential access to opportunity that comes along with inequality.

Modern thinkers have continued this tradition begun by Mill. It is now very common for thinkers in democratic political philosophy to highlight the value of deliberation in the democratic process, as well as in forging democratic characters. Political philosophers like Joshua Cohen, Thomas Christiano, and Elizabeth Anderson in particular offer conceptions of democracy that contain prominent roles for citizen participation in deliberation.\(^{204}\) The importance of deliberation can be seen in the development of a school of democratic theory based on the centrality of this notion. At the forefront of this school are thinkers like Amy Gutmann and Dennis Thompson.\(^{205}\) The work of other thinkers like Carole Pateman very

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importantly emphasized the role of deliberation in training individuals’ character. Pateman emphasizes the role that the workplace has as a site of learning and developing political skills.

iii. Costs to Democracy from Worker De-Skilling and Adaptive Preferences

In this section I will present two major kinds of costs imposed on the institutions of political democracy. The first cost is a result of worker de-skilling, and degrades democracy by lowering the quality, and capacity, of the citizens engaged in democratic self-government. The second kind of cost is rooted in workers’ alienation, and their adaptive preferences that result. Alienated workers, who adopt preferences that understand political participation as not worth the effort, degrade political democracy by withdrawing from the deliberative process, and thereby contributes to the malfunction of the deliberative democratic mechanism.

According to Mill’s deliberative vision of democracy,

“Among the foremost benefits of free government is that education of the intelligence and of the sentiments, which is carried down to the lowest ranks of the people when they are called to take part in acts which directly affect the great interests of their country.”

Participation in the process of free public deliberation has salutary effects on the personality of those so engaged. Participation is in this sense a form of education. As Mill says in more than one place, it is by giving individual citizens tasks to do for their country, that is by having citizens participate in government, that the sentiments of those individuals can be molded in ways that will be beneficial for the deliberative process. By fostering a sense of public-spiritedness, an ability to consider and give proper weight to the general welfare, the deliberative mechanism can avoid the deleterious effects of class-based legislation.

207 Mill 2008, 327.
Mill, in his *Principles of Political Economy*, emphasizes a role for participation in economic institutions similar to the one he envisions for it in the political arena. In the economy participation is argued to have an educative effect on individuals. This transformative effect of participation applies to workers’ skills as well as their values and orientations. Joshua Cohen, following this line of thought, puts it clearly, “The workplace provides a context in which deliberative capacities can be developed and exercised, thus facilitating their exercise in the political arena”. 208 And, as we saw with the work of Kohn and Schooler, workplace experiences have significant effects on workers’ psychological functioning, that is, on their skills, values, and orientations. Our look at Moody’s work showed us how the dominant trend in workplace organization is toward workplaces which inhibit rather than encourage the development of deliberation-relevant capabilities.

Later thinkers, like Samuel Bowles and Herbert Gintis, praise Mill for emphasizing the role of the workplace as a school, that is, as a site of learning.209 We saw workplaces performing this role earlier in Adam Smith. He expressed clear worries about the nature of the education received by industrial workers. The workplace then is clearly a place where individuals learn, it is the site of skill development, in one direction or another. Bowles and Gintis, echoing some of both Smith’s and Mill’s worries assert, “The undemocratic structure of the capitalist enterprise, by virtue of the everyday experiences it fosters and the cultural forces mobilized in its defense, thus thwarts the development of a fully democratic culture”.210 This vision of the workplace as a school of political morality, or democratic citizenship, is central to understanding the roots of the problem of political externalities.

208 Cohen 1989, 46.
210 Bowles 1993, 89.
The role that individuals play in producing themselves, and especially their political consciousness, is emphasized not only by Mill but also by Marx. Looking to Michael Lebowitz’s account of Marx, we see the important role human beings and their institutions play in the development of their own skills and personality. Human beings construct institutions which then affect the development of those persons who inhabit them. In the workplace, skills and talents will be developed, or learned by someone. The question for Lebowitz and Marx is whether these skills will be developed by workers or by managers. On Lebowitz’s view, the dominant trend in capitalist firms has been to restrict skill development largely to managers.

The reason the effects on workers’ psychological functioning and personality are so problematic for democracy is that they undercut two important buttresses of public deliberation. The transformations of workers’ personalities and skills brought about by the structure of the labour-process in the typical capitalist firm undermines the mechanisms designed to develop in citizens more active forms of character. Firstly, the dominant mode of capitalist work organization tends toward de-skilling for the majority of workers. This decreases the quality of the deliberative mechanism in that participants are less able to articulate their own reasons for policies, and are less capable as critics. This is because these same persons are low in political knowledge. Secondly, the alienating effects of capitalist work organization lead to a specifically political withdrawal by the alienated, that is, a selective avoidance of control-relevant knowledge. This leads to an increased likelihood of class-based legislation since those who are most affected by current policies decide not to participate in deliberation about these policies. This degrades the quality of the deliberative mechanism in that it makes it easier for those who do participate in deliberation to lose sight of the general welfare and pass laws designed to advance the interests of some one particular group in society.
The first major cost imposed on democratic political institutions from worker de-skilling and alienation takes the form of a degradation of the effectiveness of democratic institutions. The deliberative marketplace of ideas model of democracy is eroded by the de-skilling of the participants in deliberation. Mill stated unequivocally, the quality of a free government is a function of the quality of its citizens. Looking back at the work of Melvin Seeman in the Malmo study, he confirmed his hypothesis that one’s level of alienation in large part determines one’s level of control-relevant learning. The results of Seeman’s research showed that alienation was significantly correlated with low expectancies for control in workers; just as Mill argued despotism would do for its subjects. We also saw in the work of Kohn & Schooler et al that high levels of alienation had negative effects on workers’ level of cognitive skill, or as they termed it ideational flexibility.

These effects of work organization on workers’ cognitive skills spills over into the political realm when these individuals transition from the workplace to the political arena. When we look to what Kohn and Schooler identify as the most significant determinant of skill level, namely substantive complexity of job tasks, we can see why the lack of it impedes the ability of worker-citizens to effectively participate in the deliberative democratic political process. This connection between workers’ skills and citizens’ skills becomes clear when we look at what kinds of skills and abilities are involved in having substantively complex work. As we saw earlier, substantively complex work involves workers in exercising independent judgment, acting somewhat autonomously with regard to pace of work and how, and in what order, to perform work-tasks. Doing this kind of work necessarily involves developing workers’ critical thinking and reasoning skills. These kinds critical thinking skills that workers are called to use and
develop in substantively complex work are also obviously important to citizens in making informed and reasoned political decisions.

Thinking back to the quote from Mill at the beginning of this section, we see the problematic externality imposed on the political process by de-skilling in the workplace. Workers who lack substantively complex work are less able to develop important political skills. Their job-complexes prevent them from utilizing the kinds of critical-thinking skills that would enable them to be effective participants in the deliberative democratic process. Critical thinking and reasoning skills are rather straightforwardly important to understanding one’s own interests as well as those of the polity, and moreover to attempting to balance these against each other in a fair way. How else but through rational scrutiny and rigorous analysis can policy proposals be examined and weighted according to their merit? Citizens must be able to critically appraise the proposals of their fellow citizens in order to serve one of their important functions in the deliberative-democratic process. The scrutiny of one’s fellow citizens is supposed to be a test for policy proposals where the best proposals are discovered by having the merits of each proposal exposed through public deliberation.

This filtering function of deliberative-democratic political institutions is undermined by the de-skilling of workers in the capitalist labour-process. De-skilled jobs, i.e. jobs with little or no substantive complexity, leave workers little room to develop latent talents and abilities. Workers, like all human beings save perhaps the statistically few prodigies or savants, must repeatedly practice skills and abilities before acquiring some skill in them. In this regard, what is true of activities like baseball is also true of critical thinking and deliberation. To obtain a measure of skill or acumen in exercising one’s powers of reason and independent judgment one must have practice exercising these powers. It is because workers spend so much time on the job,
where they are denied the chance to exercise their critical thinking and autonomous judgment skills, that when they take up their citizenship duties they are less prepared and capable to engage in the deliberative process. In this way the de-skilling of workers in the workplace is at the same time the de-skilling of citizens in the civic arena.

The second major kind of cost imposed on democratic political institutions by worker alienation and de-skilling takes the form of a lack of engagement with politics by highly alienated citizens. The deliberative democracy model is further eroded by a decrease in political participation by alienated workers. We saw in the work of Melvin Seeman that alienated workers, who are high in powerlessness, learn through workplace experiences a selective aversion to politics, and hence a selective withdrawal from political activity. In his Malmo study the high alienation group, i.e. manual workers, were found to evince a specifically political withdrawal. Interest in discussing political issues was found to be much lower among the manual, i.e. the more alienated, workers than among the non-manual workers. However, interest in discussing non-political matters was found to remain constant across both the high and low alienation groups. That those who are high in powerlessness show a lack of interest in political matters only shows that, as we saw before, the effect of workplace alienation is not a generalized withdrawal, but rather a specifically political withdrawal.

This is a case of adaptive preferences, whereby individuals come to have their preferences scheduled altered, either higher or lower, based on what their external environment conditions them to expect as acceptable or normal. One of the things we noted in looking at the work of Kohn and Schooler was that adaptive preferences manifest themselves in one instance as a decline in the intellectuality of leisure time activities by those high in alienation, i.e. those with low levels of substantively complex work in their job-complexes. In showing this correlation
Kohn and Schooler provided some important support for a resource-constraint model of spillover, in which on the job experiences either facilitates or inhibits the acquisition of resources that enable various kinds of off the job activities. Thus, quite naturally, if one works hard on the job one is likely to prefer restful non-job activities, because the energy needed for more strenuous forms of leisure activity is sapped by the demands of the job. In our case, workers’ lack of access to substantively complex work leads them to make less use of their critical reasoning powers on the job, and hence more likely to prefer non-intellectual forms of leisure activity.

If workers who are high in alienation are deciding not to participate in deliberation then the quality of the deliberative mechanism is liable to be degraded due to an increase in class-based legislation, that is the rise of sectarian interests above the general welfare. This is a case where ease of exit is in fact counter-productive, where it fails to function as a mechanism of recuperation, as Albert Hirschmann would term it. According to Hirschmann “exit”, that is individual’s ability to stop participating in some collective endeavor, in the traditional competitive model of the free market functions as a form of control on the actions of organizations. Organizations that do well gain, or least do not lose members, conversely organizations whose quality is declining will typically lose membership. If we accept certain assumptions of marginalist economics then we can figure out how much membership will decline in proportion to the decrease in quality. Member’s exit in response to quality deterioration is supposed to send a signal to the leadership of the organization that remedial

212 This is how the model would work without the presence of phenomena like loyalty. In the standard model where perfect substitute goods always exist for consumers membership totals, or profit margins, serve as the fundamental indicators of success or failure for an organization.
action is necessary. The effectiveness of reforms on membership will determine the success or failure of the reforms.

In this case worker exit from political life as citizens degrades the quality of democracy by undermining the quality of the deliberation, the process of which is supposed to help us arrive at policies that promote the general welfare. Without vigorous opposition, the marketplace of ideas will not as nearly approximate the general welfare as it will the private interests of those who continue to participate in the deliberative process. Exit, because it undermines voice in this case, it also disarms the deliberative mechanism by diminishing the competitive rigor of the deliberative process. This highlights the important difference between political institutions and private institutions. Whether or not one chooses to participate in the democratic political process the outcomes of that process are legally binding on all citizens, oneself included.

Withdrawal from the political process also degrades the quality of deliberative democracy by disabling the transformative process of participation from becoming a virtuous cycle. If citizens choose not to participate in the political process then the transformative process of which participation is the key component cannot begin. It is only by participation that one’s preferences and sentiments can be changed. If one could as easily opt out of work as out of politics, then work organization would be equally ineffective at changing individual’s preferences and sentiments. Mill as we saw had high hopes for the transformative power of participation to improve workers in ways that would make them better more effective citizens. Yet if worker-citizens are being subjected to forces which shape their preferences in ways that disincline them to participate in the political process when not at work, then the virtuous cycle of participation and transformation never begins.
In this section we have seen how citizens’ workplace experiences spill over into the political process and impose costs, or inefficiencies, on it due to the generally baneful nature of the influence that workplace experiences have on worker-citizens’ democratic skills, and non-occupational preferences. This section has outlined two important costs imposed on democratic political institutions by the form of work organization.

Conclusion

In this chapter we have finished the explanation of the problem of political externalities. This problem, as we’ve now seen, is one of “costs” being imposed on the institutions of political democracy. These external costs originate in the multitude of private, individual transactions to which no one but buyer and seller are thought to be a party. This is the sense in which this problem of the negative effects of workplace alienation on workers’ personalities is a kind of externality. Because these costs are externalized on democratic political institutions, we’ve been calling them political externalities. The transaction in which workers and employers strike up a bargain sees workers lose control of the labour-process, as well as the product of their labour. The employer gains this control under the terms of the employment contract, and then uses it to structure the workplace in a way that is profitable. The problem is the profitable way to organize the labour-process within the context of capitalist market economy also produces very significant amounts of alienation on the workers subjected to them.

In the next chapter we consider solutions to this problem of political externalities. In doing so we will continue following out the analogy to the traditional “problem of externalities” that we have been using to frame the presentation of the new problem of externalities. Thus, the next chapter is framed around the notion of “internalization”. This is the traditional response to
the traditional problem. We’ll explore several of the main ways that employers have tried to address worker alienation, as well as the main way workers have themselves tried to address the issue. We will also consider other, less historical, ways that this problem might be addressed.

The schemes proposed by employers largely do not understand the nature of the problem in the workplace, and thus their “reforms” do not address the root of the problem. For this reason they have all failed. Workers’ main response, labour unions, also fails to address the source of the problem, even though they represent a much clearer and distinct notion of the problem of workplace alienation. Other ways of achieving the internalization of the political costs that are now externalized would attempt to address the problem at its root. Because these schemes attempt to get at the root of the problem, they represent mature conceptions of the problem of political externalities, and its economic structure.

Some of these programs are more successful, or practical, or more democratic, than some of the other alternative solutions. We’ll consider some theoretical models of how the problematic political externality we’ve discussed can be internalized. Moreover, we’ll address the main strengths and weaknesses of the models discussed. The key point to bear in mind is that arguing for one solution in particular is too extensive a task to take up in this work. Thus, what I present is a sketch of several alternatives, with an emphasis on the one I think is the most promising.
V. Internalization: Compensating for Political Externalities

Our discussion in chapters two and three suggests a solution to the “problem of externalities”, namely internalization. The market mechanism can be adjusted through regulation or taxation so as to produce fewer negative externalities, or more positive externalities. This was the solution offered by A.C. Pigou, among others in the neo-classical school. By incorporating into the sale price the costs which are at present externalized, the market can be made to effect a solution by changing the price of the good, and hence the structure of aggregate demand in the market for that good. In the case of externalities the price adjustment will usually need to be upward, and in some cases significantly so. This would certainly have to be the case in the example of externalities associated with automobile pollution that we looked at earlier. The market can thus bring about a reduction in both the consumption and production of a good due to a decrease in demand. This decrease in demand is of course largely the result of simply pricing many current consumers out of the market entirely. What makes the internalization strategy work is a change in either the structure of demand or in the structure of prices.

Of the main institutional agents in civil society, governments possess the most resources and power, and thus can change the profile of aggregate demand. Governments typically accomplish these goals by one of two main methods, the first of which is by imposing regulations in the form of laws prohibiting certain kinds of practices. The second method

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213 This is the solution preferred by many economists, e.g. Charles Lindblom in The Market System. Yale University Press, 2001: 151-152.
governments use to internalize is the imposition of taxes. Regulations impose compliance costs on producing firms, most often in the form of having to use different and more expensive materials or processes. Taxes impose direct costs on the targeted kinds of economic activity. These costs factor into the final sale price of the product, and thus serve to limit demand by increasing price. All internalization works by increasing the price of a good or service, causing consumers to either switch to a new product, forego the product, or reduce expenses elsewhere so as to make up for the increased cost of the product. By these methods, governments can alter the level of production and consumption of a particular product, the current level of which are socially inefficient.

This method of internalization, through incorporating social value judgments in the prices of goods and services, is effective when the externalities are easily identified and rendered into costs in monetary terms. Where the external effects of specific market transactions bubble up in other markets as costs to discrete individuals, they are easier to remedy with this model of internalization. Let us return to the example we used earlier about automobile consumption and social health. It is because the negative effects of over-consumption of automobiles, and also gasoline, manifest themselves in higher rates of respiratory diseases for example, that compensating for these costs through targeted taxes is most feasible.\(^{215}\) By being registered as explicit costs these external effects are easy to notice, easy to measure, and thus easy to compensate for.

But, what if these costs do not “bubble up” in other markets as we said? Where externalities manifest as direct costs they can be identified and treated accordingly. When they do not take this form, externalities are much harder to identify, as well as more difficult to

\(^{215}\) Governments imposing statutory regulations is another way to impose costs on firms whose incentives lead them to do more, or less, of some activity society favors, or disfavors. In theory, the market will respond the same way to either version of the cost increase.
internalize. Even when noticed, some kinds of externalities are less susceptible to amelioration through tax and transfer schemes. This is exactly the problem with political externalities. The costs of these externalities are imposed on political society generally, in the form of a less effective democratic political apparatus. The costs associated with the problem of political externalities do not bubble up as clear and distinct costs in other markets. They are thus not easy to notice, and even when noticed, not readily susceptible to traditional tax and transfer style programs.

Alienated workers who choose not to participate in politics or elections, or who choose to pay less attention to politics than to entertainments, are not discrete costs that will be registered in explicit markets. Because the costs of political externalities are not born by discrete individuals in directly economic terms, they are very easy to overlook. Because these costs are born collectively, by the polity as a whole, they are even less likely to be noticed by individuals. Moreover, and very significantly, because these costs don’t have an easily identifiable economic manifestation to use as a basis for taxation or compensation schemes, they are not candidates for the traditional remedy for “externalities problems” prescribed by classical economic theory.

This chapter will be devoted to discussing various methods that have been tried to achieve this internalization effect, some of which address the political externalities problem, as well as some that do not. This will occur in two stages. The first stage involves presenting historical examples of employer- and employee-dominated attempts at addressing political externalities. Examining these methods of internalization, and why they are not successful, will make our problem clearer, and more distinct. Moreover, it will help point us toward methods that may be more successful. First, we’ll discuss some historical measures that employers have tried to compensate for the alienation caused by the structure of the labour-process. In the second part
of the first stage, we’ll examine the main employee-sponsored reaction to workplace alienation. Labour unions are a response by employees to the depredations of employers in the workplace. While it is good for employees to gain bargaining power by bargaining collectively, labour unions are not suited to addressing the root of the problem of political externalities. Labour unions, while a boon to workers, are a response to a different problem than the political externalities problem.216

As I will argue, the problem being addressed by these programs is not the same problem that we’ve been discussing. From the point of view of employers, the problem of worker alienation from the labour-process only matters insofar as it affects the firm’s profits.217 Thus, the first part of stage one concentrates on methods and practices that employers have utilized in order to compensate for what they take to be the negative effects of alienation. The problem that these programs are meant to address is not the political externalities problem, but rather an inefficiency problem for the employer. This is why the goal of these employer-sponsored programs is to align workers’ incentives with the firm’s interests. We will examine these programs so that our problem will stand in starker relief. By seeing how any why these programs fail to address our problem, we will more directly understand the political externalities problem.

The first two kinds of program share in common that both the employer- and employee-sponsored programs have failed to internalize the problem of political externalities. As I already mentioned, this is largely because neither solution is understood as an attempt to solve the problem we’ve been discussing.

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216 For example, Randy Hodson (2001) links the rise of unions to workers struggles for a sense of dignity in their workplaces. Unions are a response to the loss of a sense of dignity in the face of a dehumanizing labour-process, and cruel or less than scrupulous employers.

217 This is what defines the “Management School” for Edward Greenberg in “The Consequences of Worker Participation”. Social Science Quarterly. Vol.56 (1975). Alienation, which causes discontent among workers, is only understood as a problematic in this school because worker discontent can manifest in lost profits for the employer. Thus Employers’ responses have been focused on addressing the problem of lost profits, not the problem of worker alienation.
In the remaining sections of this chapter we’ll discuss potential solutions that can address the problem of political externalities at the root. In the second section we’ll examine what it would take for labour unions as we currently understand them to become capable of internalizing political externalities. Labour unions, one might reasonably think, can internalize the problem of political externalities because they’re employee-controlled and thus independent. Workers, on this argument, will participate in unions, and this will make up for the deleterious effects imposed on workers by the form of the labour process in a capitalist market economy.

We’ll see that, while labour unions might be able to address and solve the political externalities problem, in the process they would transform themselves into something more than what we currently understand as labour unions. When unions begin to take on issues that go beyond their traditional concerns, and engage with broader social constituencies to help them achieve their goals, then they can begin to be a solution to the political externalities problem. However, in this process they will of necessity become something more than what we currently think of as labour unions.

The third section of this chapter deals with several potential models of internalizing the problem of political externalities. We discuss programs that, in contrast to the ones mentioned in section one, both conceive of the problem of political externalities more as we have here, as well as seek to attack its root causes. One version of this kind of strategy would include redistributive programs like guaranteed basic income schemes. Programs of this sort work by altering the bargaining dynamic between employers and employees, such as giving employees the power to construct job-complexes. The second kind of strategy empowers workers in relation to employers within the workplace, and does so by altering the structure of firm ownership. Strategies of this variety include plans like worker-managed cooperative firms, as well as re-
imagined ESOPs. With the proper combination of one or more of the kinds of workplace reforms discussed here with legislative enactments encouraging these reforms and state support for them could indeed be very effective in addressing political externalities.

In the fourth section of the chapter, we look at Albert’s balanced job-complexes proposal, which addresses the problem of political externalities by giving workers the power to reorganize the labour-process.\(^{218}\) In this system, the empowering and disempowering work to be done in each firm is distributed more equitably between its workers. In this model, by distributing the opportunities for self-direction more equitably, workplaces can become places that encourage all, or least most, workers to develop the cognitive skills required for effective participation in democratic institutions. As we saw in chapters three and four, capitalist workplaces inhibit this development in most workers through structuring the labour-process. In the typical capitalist firm, most workers have job-complexes that afford them little opportunity for occupational self-direction, while a small group of elites, i.e. managers, on the other hand are given job-complexes that are replete with opportunities for the exercise of self-direction in work. With balanced job-complexes, this kind of scenario is prevented from occurring because of the more equitable, more democratic manner in which job-tasks are structured into job-complexes.

The main conclusion of this chapter is that internalizing the effects of political externalities will require reforming the way typical capitalist workplaces are structured. Traditional forms of internalization make external effects internal to prices, but political externalities are non-pecuniary, and thus they cannot be addressed through tax and transfer schemes. Therefore, internalizing political externalities will require internalization in the form of reforms in the structure of the workplace.

i. Employer-Sponsored Programs: From Welfare Capitalism to ESOPs

Over the course of the development of capitalism from the late eighteenth century, employers have tried many different ways to organize workers, and provide incentives that would generate both a high quantity and quality of labour from employees. We cannot go into all of these examples here. We will focus on the history of the main developments in the twentieth century. In the past century employers have put into practice a number of schemes to try to coax the desired amount and quality of labour from their employees. These programs have all largely failed, in that they subsequently needed to be further augmented with other programs. Yet many have also succeeded in a sense, in that they are now common features of employment relationships for many workers. As I will argue these examples fail to address political externalities because they do not give employees a real say in the fundamental decision-making processes of the firm.

Employers adopt these kinds of programs in the first place because of the labour discipline problem that we discussed in chapter three. Employers need to extract a certain amount of labour itself from their employees to run a profitable business operation. Employees, however, reach agreements with employers wherein they sell labour power, and not labour itself. Moreover, workers and employers have opposing interests in making these contracts. Workers want as much reward as possible for as little effort as possible, while employers want exactly the reverse. This opposition is the root cause of alienated labour. To solve this problem, employers pursued a strategy of strict monitoring and rigid surveillance, as well as reward and punishment to motivate employees. This workplace regime built on the authority of the foreman produces
significant amount of alienation on the part of employees.\textsuperscript{219} It is to combat this alienation, which
would lead to workers’ agitation for unionization, of employees that employers adopted the
policies we will examine.\textsuperscript{220}

It is worth emphasizing again that this means that for employers, the “problem of worker
alienation” is not the problem of political externalities. Their problem is about the firm’s
profitability. Alienation causes discontent among workers, which in turn, causes the firm to lose
profits. The firm loses profits because these discontented workers are less productive. This is
“problem” of employers’ lost profits is very much not our concern here.

Welfare Capitalism

The roots of the welfare capitalist strategy of compensating for worker alienation lay in
the policies of Robert Owen. In the early part of the nineteenth century Owen came to own a mill
at New Lanark in Scotland. His mill became internationally known for its progressive labour
practices. Owen was of the opinion that it was entirely possible for capitalist entrepreneurs to
make a profit without treating their workers badly.\textsuperscript{221} To understand how badly workers very
often were treated let us remember that this was still the time of the infamous Poor Laws in
England.\textsuperscript{222} Owen established programs to see to the housing, healthcare, and educational needs
of the workers. It was Owen’s goal to develop what he called a “New Moral World” of

\textsuperscript{219} For an excellent discussion of the nature of these effects and workers attitudes toward them see Marglin, Stephen.
\textsuperscript{220} This is the view adopted by Jill S Quadagno in “Welfare Capitalism and the Social Security Act of 1935”. \textit{American Sociological Review} Vol.49 no.5 (1984).
\textsuperscript{222} For further detail on the poor laws see Karl Polanyi’s \textit{The Great Transformation}. 1944. Beacon Press, 2001.
happiness, enlightenment, and prosperity through education, science, technology, and communal living.²²³

Programs like these were considered thoroughly revolutionary at the time. Though Owen was a follower of Bentham, and early utilitarianism, and an early advocate of something like what would become known later on as socialism, he was a successful mill operator. Indeed, it was his success in conventional capitalist business that provided the capital for Owen’s several experiments in developing planned socialist communities.²²⁴

More recently, it was in the post-World War I period that, in response to increased worker militancy, employers began to offer welfare programs to workers in order to buy their loyalty, and ideally an increase in productivity. Pension plans and various kinds of worker health programs were children of this era. Employers would of course often try to decrease the expense of these programs by limiting eligibility. These kinds of programs are attempts to buy the workers’ loyalty with either generous savings plans or subsidized services. As Richard Edwards describes, “These welfare benefits, it was hoped, would persuade workers of the corporations’ genuine concern for their well-being and, by actually improving their existence, undermine worker militance”.²²⁵ From clinics and other health programs, savings and retirement schemes, to educational benefits for workers and their families, employers have tried many ways to convince workers that their interests were aligned with those of the firm.

The basic idea here is fairly obvious. If workers have a personal or financial investment in the company, or in keeping their job, then they will work harder increasing the productivity of the firm. If the company is the vehicle through which workers, and their families, gain access to

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²²⁴ There were many utopian communities in 19th century America that were inspired in some measure by Owenite ideas, e.g. Forestville Commonwealth Owenite Community in Coxsackie New York. Only the Owenite community of New Harmony, in Indiana, was developed as a planned community by Owen himself.
subsidized services in education, healthcare, or even recreation, then they will likely identify more with the company. If they do so identify, then they are likely to work harder, and thus produce the same beneficial effect on productivity and profitability as before. Pension schemes work over the long term, other programs work in the shorter term, and in this way workers’ loyalty can ideally be assured over the course of a working life. By receiving some welfare benefits from the company that employs them, workers are likely to value their jobs more and work harder to keep them. This also helps the firm in that it can save on turnover-related hiring and training costs.

Moreover, companies soon found that establishing such programs not only bought them loyalty, or maybe just greater obedience, from their workforce but it also brought them generalized goodwill from the public. The appearance of concern for workers’ well-being, and charitable efforts to improve their lives made the company appear to be a good steward in the community. The public relations effects of these programs soon became an important concern, which in many ways helps explain their replication throughout the economy. It was these public relations concerns that ended up making these welfare capitalist programs into so-called “best practices”.

Of course, as mentioned above, one must bear in mind when evaluating these programs that in reality, “(t)he list was in many ways more impressive than the programs themselves”. As much as companies enjoyed increased sales due to the public goodwill generated by worker

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226 Edwards, 1979, 91.
227 The idea behind the notion of “best practices” is that certain business practices that are conducive to efficiency and profitability are adopted by all rational economic agents, in this case firms, due to the force of competition. Usually, a best practice is a business procedure that if a firm did not employ it, the firm would suffer a competitive disadvantage vis-à-vis its rival firms as a result. For an example of how this process works see Mendel, Peter. “The Making and Expansion of International Management Standards: The Global Diffusion of ISO 9000 Quality Management Certificates”. Globalization and Organization, Eds. Gili S. Drori, John W. Meyer, & Hokyu Hwang. Oxford University Press, 2006: 137-166.
228 Edwards 1979, 92.
welfare schemes, they did not want to have these become too burdensome on the firm’s bottom line. The problem with these kinds of programs, from the employers’ point of view, is that once established they are sometimes difficult to take away, they can become costly over time, and they detract from the company’s profits. Notably, Robert Owen’s original business partners were concerned about exactly these kinds of considerations when they opposed his plans.

The problem with these kinds of programs from the point of view of employees is that they are charity doled out by employers, and thus can be withdrawn at any moment. This contingency bothers employees, and well it should. The history of the implementation of these kinds of programs shows that they were typically implemented and or expanded in times of labour strife, and backed away from thereafter. One other aspect of buying workers’ loyalty is that these kinds of welfare schemes distort the labour market by making workers more desirous of retaining their jobs. Workers might thus be bribed in this manner into accepting sub-standard or unsafe working conditions, or harmful or even cruel labour practices, in order to retain access to important welfare benefits. Welfare capitalist schemes therefore are both carrot and stick to employees.

**Company Unions, Quality Circles**

One other very important way that firms have tried to subvert worker militance in the post-war period, were with ‘works councils’, or as they are otherwise known ‘company unions’. These kinds of schemes were designed to blunt some of the worst manifestations of employer power in the workplace, as well as make loyal workers feel like they received due process. The idea behind these programs was to substitute a rule-governed process of dispute settlement for the arbitrary authority of the foreman. This would, in theory, buy workers’ loyalty for the firm, in

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229 Edwards, 1979, 93.
that they would now feel that they had formal recourse against the depredations of unscrupulous foreman or other managers. For many years, and quite understandably, one of workers’ most urgent demands was for relief from the often oppressively close supervision of foremen or managers who, due to relative impunity, could often act with malice and cruelty toward workers.

The process of implementing these kind of programs, in addition to combating labour militance, was bound up in a larger process where managers began to see firms as organizations where authority should be exercised through rules, and not as much through individuals. By utilizing a rule-governed structure employers found that they could usefully check the excesses of foremen, and thus boost workers’ morale. By submerging authority, once directly wielded by foremen and managers, into formal institutional structures, the overall structure of authority in the workplace was made less apparent. This would in theory raise workers’ productivity and firm profits in addition to weakening workers’ desire for joining independent labour unions.

Soon, firms found that having such formal grievance procedures as standard policy yielded benefits for the company, in that various kinds of low level problems could be resolved internally, and at little cost to the firm. This, in theory, increased workers’ productivity and the firm’s profits. Moreover, just as with welfare capitalist schemes, firms found that having formal internal grievance procedures earned them public goodwill. And soon, just as with worker welfare schemes, these grievance procedures became part of the constellation of ‘best practices’ among leading companies.

These grievance procedures typically worked by establishing a “joint committee” where labour and management have equal representation. This “shop committee” would be empowered to decide on the resolution of disputes between workers, or between workers and managers. The power of this committee was, in practice, significantly constrained. First, the agreements

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230 Richard Edwards (1979) calls this “bureaucratic control”.

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establishing these formal grievance procedures would outline very clearly the many important powers still reserved to management. These powers included all the traditional prerogatives of management in terms of control over the labour process. In effect then, the works council was left to decide only whether or not company policy had been interpreted correctly in a particular case. These councils’ powers were circumscribed in such a way that they were allowed to make the determination “whether individual workers had been unjustly treated relative to established corporate policy”(emphasis in original). 231 This is clearly a very different kind of question than, How do workers deserve to be treated, or, Are workers being treated well relative to less economically-based and more humane standards? The power to decide the former question is obviously much less than the power entailed by being able to decide the answer to the latter questions.

One important reason why company unions failed to solve the problem of labour militance is fairly clear. Though formal grievance procedures can handle an individual worker’s complaints, it cannot handle workers’ collective complaints. The works council, or joint committee, is simply not the kind of forum in which workers’ collective grievances can be aired and resolved. This is the case for the same reason that limited the scope of the works councils’ authority above, namely, employers and management retain all the important powers in the workplace. Thus, they retain a superior position in deliberations about how to resolve disputes between individual workers, and or negotiate resolutions to workers’ collective grievances.

Thus, we can also see clearly why company unions, and quality circles, failed to address the problem of political externalities. By denying workers a voice in the most essential matters, workers were denied the chance to develop some participatory skills. This exclusion thus continued to be a source of alienation and de-skilling for workers. Involving workers in such a

231 Edwards 1979, 106.
minimal way is simply not sufficient to have much, if any, impact on the political externalities problem.

**Internal Labour Markets**

Another tactic employers have used to blunt the appeal of unions to their own employees is to create what are called ‘internal labour markets’. These programs amount to a system where companies post job openings internally and allow current employees to apply for these jobs; sometimes these programs even contain a stated preference for the company to “hire from within”. These kinds of systems were designed to more closely align workers’ interests with those of the company by opening up the prospect of an established career ladder within the firm. A worker who thinks it is possible to be promoted may be induced to work harder, and to make more sacrifices for the good of the company. Getting this increased effort from workers, as well as fending off the incursions of militant labour unions, was the entire point for these programs. This is, of course, because it is this increase in effort by workers that capitalist entrepreneurs turn into increases in profits.

This is beneficial for the firm, in that it can align its employees’ incentives in such a way that workers produce the best for the company with a minimum of monitoring costs. Moreover, the firm also opens up for itself a pool of labour within its own ranks that can be mined for talent. Where better to look for those skills that the company needs, and for those who can understand the needs of company, than at the people already doing those jobs within the firm? Recruiting from within would thus often represent a savings for the company in terms of the costs of recruitment and hiring from the outside. Moreover, workers who see a career path...

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232 Edwards (1979) has a very good discussion of this kind of system utilizing the example of the Polaroid Corporation; pg. 132-152.
available to them might be less likely to join a labour union. Companies can thus both fend off union organizing activity, and earn goodwill among workers, by implementing internal labour market systems. Both of these goals are important for firms looking to cut costs and remain competitive in their markets.

Of course, the prospect of a full lifetime of employment, and thus income stability, is highly appealing to workers. The idea of financial stability, the ability to plan long-term for big ticket items and expenses, like houses, cars, retirement, vacations, college for children, et cetera, is something workers find very desirable. Workers make choices about their employment status in large measure to provide for their families’ well-being. The stability and the benefits of that, as well as reciprocal loyalty embodied in these programs, convinced many workers to give extra effort in hopes of moving up in the established hierarchy.

This kind of scheme is very transparently not in any way directed toward the problem of political externalities. The benefits enumerated in the previous paragraph are the carrot utilized the firm to make employees feel like they have too much to lose to not work diligently at their assignments. Internal labour markets are highly representative of the way the problem of worker alienation and de-skilling is conceived and approached from the point of view of management. Alienation at a certain level can undermine the tightly-controlled labour-process of the typical capitalist firm, and thus must be itself diminished to prevent the alienation-producing labour-process from ceasing, so long as it is profitable. Nowhere is it even considered to alter the labour-process in any way, unless it is efficiency-increasing or profit-maximizing.

Employee Stock Ownership Plans (ESOPs)

One final example of prominent tactics firms have employed to address worker alienation, and more closely align workers’ interests with those of the firm, is profit-sharing. The
idea behind profit-sharing is conceptually very simple and requires little elaboration. Employers will share, i.e. transfer back to workers, some of the firm’s profits. This will buy the employer worker loyalty, and thus increased effort. By having a financial motive to give greater effort, workers will be more likely to provide more labour-itself, which is the foundation of employer’s profits.

Profit-sharing schemes come in many varieties. One prominent example of a kind of profit-sharing scheme is Employee Stock Ownership Plans (ESOPs). Beginning in the 1980s and on into the 1990s these kinds of programs flourished among leading companies. This took place for a variety of important reasons.\(^{233}\) The main promise of an ESOP is that workers can share in the economic gains of the firm by owning a piece of the company. If workers receive a cut of any rise in the value of the firm, then they will likely work harder and need less supervision to do so, and thus make the firm more profitable. This is the basic logic behind ESOP schemes as vehicles for profit-sharing.

From the firm’s point of view ESOPs have several advantages.\(^{234}\) First, there are tax advantages that come with having, and contributing, to such a program, namely, the firm’s contribution to the ESOP is tax deductible. This is one reason why many ESOPs are leveraged transactions, i.e. they begin with the company loaning money to the ESOP to buy company stock. This activity is also the source of the second advantage, namely there are certain anti-takeover effects of having or introducing an ESOP program. A firm can hedge against a hostile takeover by putting a large chunk of company stock in friendly hands. Since the workers only gain if the firm gains, they have an investment in the prosperity of the firm, and should thus side

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with management against any potential outside takeover attempt. In the highly charged environment for mergers in the 1980s and 1990s, this aspect of ESOPs was significant for many companies in deciding to adopt them.

From the point of view of employees an ESOP can be very appealing as well. In theory, it offers a potential roadmap to full employee ownership. Often ESOPs are adopted for these considerations, though under inauspicious circumstances. It is very common for ESOPs to be adopted as a way for the owners of a firm to sell it little by little to workers.\(^{235}\) This happens most often in the case of distressed firms. This appeals to owners since it saves them the trouble of finding a buyer, and often a better price as workers desperate to attempt to save their jobs will pay more than what a competitor would. In the situation where workers in a failing firm attempt worker ownership in order to keep their jobs it is not uncommon to resort to an ESOP. Of course, workers very likely cannot muster the cash needed to buy the firm in one transaction, and so the idea of buying it up little by little with the profits they make from firm gives them a practical route to full ownership and continued employment.

In the main, these kinds of cases offer workers only the benefit of being able to potentially keep their jobs a while longer. While it is good for workers to have their jobs rather than be unemployed, this is not an auspicious circumstance for worker empowerment. Buying a potentially failing firm is not a good deal for the employees, even if it means they get to keep their jobs longer. In the case of a distressed firm the workers as managers would very likely, in the process of revitalizing the firm, have to adopt the same kinds of alienation-producing labour practices that cause the political externalities problem.

\(^{235}\) This was the case with the oft cited example of the Weirton Steel Company. For discussion of this example see Rosen, Corey. “The Record of Employee Ownership”. *Financial Management*. Vol.19 no.1 (1990).
In other situations, ESOPs can be less attractive to workers. Where ESOPs are often adopted for the motivational or anti-takeover effects of giving workers a share in the firm’s profits, they can be deceptive in their claims of participation and empowerment. One of the biggest objections to the way ESOPs are run is that these programs do not typically see the workers acquire voting stock.\textsuperscript{236} That is, through an ESOP workers acquire a claim on company profits, but not on company decision making. Through an ESOP, very often, though workers acquire company stock, they do not acquire the type of stock that would give them the right to appoint members to the board of directors, for example. In typical ESOPs, workers become passive shareholders who get a cut of the dividends, but no voice in the firm’s major decisions. This dead end blunts some of the motivational effects of adopting an ESOP, and prevents the educational effects of participation from coming to fruition.\textsuperscript{237} Moreover, having such a large portion of one’s investments in the stock of a single company can make for a precarious situation for workers in ESOP programs.

Summarizing what we’ve seen so far in this section, employers have had an evolving response to the effect of worker alienation of the efficiency and profitability of the labour-process within the firm. In light of the high level of labour militance in the inter-war period, these several kinds of employer-sponsored programs clearly did not succeed, at least for very long, at closely aligning workers’ incentives with the firm’s best interests. None of these employer-sponsored programs addressed the problem of worker alienation at its root. This is because none of these employer-sponsored programs were designed to attack the root of the

problem. All of the programs outlined above share a common feature which explains why they were insufficient: in all of the kinds of programs we have discussed, management retains all of their most important powers. Specifically, foreman and managers retain total control over the pace and structure of the labour process. They retain the right to hire and fire, and they retain the right to make rules and dispense discipline to workers. Through programs like those mentioned here, workers do not acquire any control over their work lives.

In the main, these kinds of schemes amount to a form of bribery. Employers are trying to convince workers to put in greater effort by offering them rewards for doing so. These kinds of programs attempt to structure workers’ incentives in ways that lead them to behave in ways beneficial to the firm’s bottom line; and this is why these programs often amount to simple subsidy or savings schemes. These programs are not aimed at increasing workers’ control over decision-making, even where they aim to increase workers’ participation in decision-making, and as a result they never address the root cause of workers’ alienation and de-skilling. This is the case where participation in decision-making without a real vote, a real say in the process, is patronizing and not empowering.

For this reason, none of these employer-sponsored programs is able to successfully internalize the political externalities associated with workplace alienation. None of the employer-sponsored programs attempts to address the ultimate source of workers’ alienation and de-skilling, i.e. the distribution of opportunities for occupational self-direction in the typical capitalist workplace. In all the programs we have examined here, managers’ powers and prerogatives were never in question. It is true that formal grievance procedures can limit the arbitrary power of capricious or vindictive foremen. But this just institutionalizes the authority of managers over foremen. ESOPs can, in this same way, function to strengthen the position and
control of managers relative to shareholders, by placing stock in the friendly hands of workers. However, workers, because they don’t get a voice in decision-making, are not able to oppose managers’ control of the workplace. Moreover, these programs largely represent voluntary charity on the employer’s part, and thus are always revocable. Many workers are not blind to the way in which these programs, though nominally aimed at their welfare, actually serve to preserve or even increase employer control. This is likely to only further exacerbate the problem of alienation instead of achieving any amelioration of it.

**Labour Unions: Solution to a Different Problem**

In response to the depredations of employers, labour unions arose to protect and advance the interests of workers. The struggles of the labour movement culminated in some respects in the New Deal era with the passage of the National Labor Relations Act.\(^{238}\) This legislation assured workers the right to unionize and bargain collectively with employers over wages, work conditions, et cetera. This was a highly significant development for workers in the United States, as it led to organized workers being able to win many gains in the workplace, including many of the classic features of working life that we now take for granted originate in this era. Many of these gains were consolidated with the help of the government during World War II when it was imperative to the war effort to curtail, or even eliminate, labour militance.

Labour unions are peculiar institutions, in that they are a response to a particular problem. They exist precisely because of employers’ enforcing inhuman demands on workers, and workers’ desire to preserve their dignity.\(^ {239}\) Labour unions are thus the workers’ reply to the

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\(^ {239}\) The importance of sense of dignity at work is displayed in Hodson, Randy. *Dignity at Work*. Cambridge University Press, 2001.
predatory and degrading activity of employers. Unions thus tend to focus on the specific interests of their members, sometimes to the exclusion of consideration of the interests of other stakeholders in society. While this is beneficial, and necessary, for those workers, the narrow pursuit of their interests by union organizations can in some circumstances be collectively counter-productive for society.

Labour unions offer workers more direct democracy, more participation in collective decision-making than any of the employer-sponsored programs we looked at in the last sub-section. Yet, labour unions, as we currently know them, are not the solution to the problem of political externalities. Due to their circumscribed pursuit of their member’s material interests, they are less likely to pursue the kinds of workplace changes that would lead to increased levels of worker-control. Unions often, in bargaining, collaborate with employers in that they restrict bargaining demands to traditional issues. These include wages, benefits, workplace safety issues, grievance procedures, et cetera. This is a concession union negotiators exchange for the implementation or re-implementation of some of the kinds of programs discussed in the last section.

Unions today are in a state of retreat. Union membership has declined from its peak of several decades ago, and with it much of union’s political clout. As unions’ strength has declined, so too has their ability to fight for issues beyond the most essential shop floor concerns. In America today, unions seem to be fighting in many cases for their very right to bargain collectively. This is how hostile the environment is for unions currently. In this environment, many labour organizations seem to be trying to hold their ground as much as possible. The

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240 Examples of these kinds of labor practices can be seen in Upton Sinclair’s classic The Jungle.
241 This is the view of major labor unions in the United States taken by Kim Moody in Workers in a Lean World. Verso Press, 1997: 200.
243 For example, see the 2011 political row in Wisconsin over a law that restricted public sector unions’ right to bargain collectively.
decline in union membership can also be attributed in some measure to the perception, not always unjustified, that union leadership is out of touch with the rank and file. Increasingly in the post-World War II era, the prosperity of the US economy still relied on keeping labour militance to a minimum. Towards this end, union leadership was often able to be brought over to the side of management with special benefits. In this way, union leaders acquired an interest in keeping militance low, and thus acquired interests that would lead them to oppose those of their members in many cases. The perception that union leadership does not respond to the concerns of the rank and file could no doubt but have contributed to the decline of unions in America, even if it is not among the largest factors explaining this development.

ii. Social Movement Unionism: A New Kind of Labour Union

Though at present unions are not the solution to the problem of workplace alienation, this is not to say they could not be. However, if unions were to become the kinds of organizations that could address the problem of workplace alienation, and thus political externalities, they would cease to be the kinds of things we currently recognize as “labour unions. The outlines of what this transition might look like can be seen in what Gay Seidman calls “social movement unionism”.

What distinguishes social movement unionism from the kind of labour movement we are familiar with in America today is that, in line with what the name itself suggests, social movement labour unions engage with broader constituencies in their communities and look to be involved in issues beyond the traditional workplace concerns of industrial workers. Seidman looks to the example set by the labour movements in Brazil and in South Africa in the 1970s and

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1980s to characterize the essence of the idea of social movement unionism. In both cases, during the period discussed, labour unions arose as a response to workers’ struggles for respect in the workplace. They began deliberate campaigns of engagement with non-member segments of their local communities. They also participated in the struggles of the local community, which usually had nothing to do with direct shop-floor concerns. Describing the similarities of the labour movements in Brazil and South Africa, Seidman says, “As they spread, these labour movements, appealing to a broadly defined working class, rather than just industrial workers and union members, challenged the state as well as employers to raise the standard of living in working class areas”. This is, for Seidman, the essence of the idea of social movement unionism.

By engaging with broader segments of the community, labour organizations can widen their appeal, their contact networks, and their ability mobilize people, thus challenging both employers and the state. The more successful they can be at organizing, the more gains they can win from employers or the state. The gains won from employers or the state increases the resources that they have for organizing, and the more successful this organizing can be. As these movements accumulate wins, they have an easier time mobilizing people. This increases their ability to put pressure on employers, politicians, and political institutions. The more pressure that these organizations can bring to bear, the more likely they are to achieve their goals. Their being seen to be fighting alongside these broader constituencies, expressing solidarity will also generate solidarity in return. This further increases the organization’s ability to mobilize people and resources, even when not victorious in particular campaigns. This is the self-fulfilling virtuous circle that proponents of social movement unionism point to the dynamic that underlies its success.

245 Seidman 1994, 252.
It is exactly this process of consistently engaging with broader constituencies that would transform labour unions into organizations that are different from what we know as labour unions. Labour unions in the Anglo-American and Western European tradition arose in reaction to the specific struggles of largely urban industrial factory workers. They were fiercely loyal to their members’ interests, even when this imposed costs on other parts of the community. The contemporary American political discourse includes stories of union rules and regulations that impose costs on taxpayers or consumers, with sometimes ludicrous-sounding excesses or unduly cumbersome procedures. This is the kind of narrow focus on members’ interests that dominates Americans’ perceptions of labour unions.

What begin as labour unions in the traditional sense became social movements, or important parts of burgeoning social movements. Social movements typically have broader constituencies than labour unions. Thus, for labour unions to lead or be parts of larger social movements, they must open up their conception of their goals and constituencies in a way that pushes them toward a more expansive view of both. This more expansive conception of unions’ goals and constituencies is a revision, or maybe more correctly an evolution, of the idea of what a labour union is and what it does.

Some might argue that traditional unions can achieve broader social change. Robin Archer, for one, proposes a union-led model of how greater economic democracy might be implemented. In Archer’s scenario, labour union organizations lead a transition to economic democracy and socialism without really changing their fundamental nature or structure. When a large portion of the economy is industrialized, and thus a sufficient portion of the total labour force is composed of industrial workers, then well organized unions can achieve success. This

246 Kim Moody (1997), for one, seconds this view about the need for labour unions to put a broader set of issues on their agenda: pg. 293-310.
describes part of what can be seen in American labour relations during the period from the 1900s to the early 1970s. As America industrialized, and urbanized, and as employers tried to exploit their workers, these workers responded by forming labour organizations to protect themselves from the employers’ depredations and were able to win gains with the help of the government starting in the 1930s. Yet, for labour organizations to get that far took decades of grassroots organizing, many martyrs, and the most severe economic crisis of the century. As the economy then shifted away from mass production style industrial factory work over the period from the 1970s to now, labour unions have diminished in size and strength. As economic crisis and its memory faded, and as government support waned, labour unions found it increasingly difficult to organize successfully and thus to achieve the beginnings of the kind of social and political power Archer’s model requires them to possess.

The kind of corporatist strategy envisioned by Archer proposes adding strong and well-organized labour unions to the process of societal bargaining. In this view, strong unions, the government, and capital all negotiate over the terms and conditions of working, and of the structure of economic life in general. Each is able to pressure the other, but each can only go so far since all require each other for prosperity in this proposal. Unions do not become larger movements in civil society, though they are not prohibited from doing so. They remain largely labour organizations taking the advancement of their members’ good as their paramount objective. Again, the problem remains that we have little to no reason to think that labour organizations can play this role while remaining traditional labour unions. In order to achieve the kind of power that would allow unions to play this bargaining role, they would likely have to

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248 This is the kind of strategy employed in Germany since the end of WWII. For discussion of Germany’s corporatism see Prasad, Monica. *The Politics of Free Markets*. The University of Chicago Press, 2006; 162-234.
engage in the kind of work involved in building a social movement, and thus transform into
different kinds of organizations.

Archer does note that it is possible for the kinds of labour organizations being considered
to choose to adopt different types of structure, and so to develop along different paths. Workers,
through their corporatist bargaining strategy, might be able to win greater amount of economic
democracy, but the form this takes may differ. Depending on how much power labour
organizations have in the bargaining process they may be able to achieve more or fewer of their
goals. Some workplaces might choose to pursue a model like that seen in the former Yugoslavia,
while others might desire to try something more like what can be seen in the case of the Spanish
cooperative firm Mondragon.249 The different possible paths of development will likely have
different effects on workers’ alienation and de-skilling. It is possible then that one, or maybe
several, possible courses of development within Archer’s larger corporatist strategy may lead to
a model that provides a solution to the problem of political externalities.

Unions arose in a climate of unrelenting employer hostility and violence. This birthing
process left indelible marks on the outlook of unions. Unions acquired a measure of social
power, and more importantly legal protections, from the federal government largely due to the
exigencies of wartime production in two wars and policies needed to address the great
depression. When the government needed less labour unrest most it made agreements with union
leadership.250 This began the path toward the co-opting of union leadership, toward the
increasing alignment of their interests with those of management, instead of with those of their
members. This early life in addition to their long birthing experience inclined unions toward a

see Forcadell, Fransisco Javier. “Democracy, Cooperation, and Business Success: The Case of Mondragon
250 This is Richard Edwards’ explanation in Contested Terrain (1979).
narrow view of their mission. As we saw, this does not mean that unions cannot play a role in addressing the political externalities problem. However, it does mean that in order for them to do so labour unions as we know them will have to evolve into something new.

iii. Promising Models of Internalization

In section one we looked at some historical models of internalization, and saw why they failed to meet the challenge posed to democracy by the problem of political externalities. Even employee-dominated labour unions did not respond appropriately to this problem. In the last section we discussed how labour unions as we know them now could become a solution to the political externalities problem. This involved their transformation from organizations focused on shop-floor concerns, to ones that embrace the issues and concerns of the larger communities in which they live and work. In this section we’re going to examine some potential strategies for internalization of political externalities that are more theoretical than historical. The methods of internalization to be discussed here have not been tried on a large scale, or in a systemic manner.

One kind of possible solution to the political externalities problem would involve altering the bargaining dynamic between workers and employers in a way that addresses the disproportionate power possessed by employers. One such method would be an unconditional basic or minimum income program. This kind of program is an instance of the state using its redistributive power to alter the nature of the relationship between labour and capital in the market. We discussed in an earlier chapter the state’s role in establishing the background conditions against workers and employers bargain. A share economy is another potential method of changing the bargaining dynamic between employers and workers.
Another kind of possible solution would involve altering the balance of power between workers and employers within the workplace itself. One important, and very direct, way that this could be done is to promote workers’ full or partial ownership of their firms. Two examples of this second kind of strategy are worker-managed cooperative firms and a re-imagined ESOP. These latter strategies, while certainly able to be enhanced or facilitated by state support, are market-oriented in that they are based in the principles and precepts of market economies. If either of these forms of organization became predominant in the economy, then the result would be changed macro-relationship between labour and capital. However, neither necessarily involves taking this as an explicit aim.

Unconditional Basic Income Plans

The idea of a guaranteed basic income is perhaps most famously advocated for by Philippe Van Parijs. Under such a scheme each citizen would receive an annual payment which would compose an amount of money sufficient to meet an individual’s basic needs. In any case, this recurring payment would replace traditional welfare, or social insurance programs. For Van Parijs, this idea of a guaranteed basic income is a requirement of justice on a Rawlsian liberal conception of democracy. The guarantee of a minimally sufficient income, simply by virtue of citizenship, facilitates each individual’s pursuit of their own particular conception of the good life. If a liberal society is to be neutral between individual’s different reasonable conceptions of the good life, then it must provide the means minimally sufficient for citizens to do so. In Van Parijs’ account, not only does liberal society have a duty to provide this guaranteed minimum income, it also has the duty to make this payment as high as is sustainable.

This kind of transfer scheme could serve as a potential vehicle for the internalization of political externalities insofar as it would alter the structure of the labour market significantly. Since, as we saw, part of employers’ control of the workplace is derived from their bargaining advantage in their labour market interactions with workers, changing the conditions of this interaction also changes its results. If everyone received a basic income, then workers would not be forced to enter the labour market. Without the necessity of having to earn wages in order to obtain the means of subsistence, workers would be able to bargain with employers on more even terms. The basic income would neutralize much of employers’ threat advantage in bargaining over employment contracts.

The guarantee of minimally sufficient income would alter the structure of workers’ reservation price in bargaining with employers. In this case, since what is being negotiated over is an employment contract, the reservation price of the worker can also be understood as the reservation wage. The idea of a reservation price or wage is the idea that, in the bargaining situation with employers, the worker will not agree to the bargain, that is, if the employers offers a wage level below that specified by the worker, no contract will be agreed to. With the guarantee of the minimum income to meet their basic needs, workers can negotiate from a stronger position to negotiate employment conditions that more closely reflect their preferences, especially for workplace conditions that did not subject them to the alienating and de-skilling structures that cause political externalities. Workers could also choose to opt out entirely, and live off their guaranteed income. If enough workers close the latter, then employers as a class would be forced to improve workplace conditions in ways that successfully attract workers. If workers either negotiate for better conditions, or opt out of current conditions in sufficient numbers, then they will be less subject to the alienation, and attendant de-skilling, that comes
from the labour-process in the typical capitalist firm. If fewer workers are subject to these conditions, and thus politically de-skilled, the problem of political externalities will, to some degree, have been ameliorated.

The largest problem with the basic minimum income scheme is one that is common to any state-led solution. Any program that can be democratically enacted, can also be democratically retracted. They can also be revoked by other, less than democratic, means. This roll-back process is precisely what has been experienced in the U.S. in the decades after the important gains made by the enactment of the New Deal in the 1930s. Many of the key achievements of this era of reform have been attacked, and undermined, by political and economic forces opposed to them.252 This assault continues into our contemporary epoch. This latter is only one among many reasons suggesting that the enactment of such a program would be politically feasible, either in the U.S. or in major European countries. This is by no means an insurmountable objection. It is true that democracy implies the possibility of completely reversing democratic enactments at a later date. However, vigilance on the part of the electorate can be, and has been, effective in maintaining certain government programs.

Another important difficulty faced by this kind of solution to the political externalities problem is that a great many workers have already been subjected to workplace alienation and de-skilling. This means, even if society enacts a basic income plan there is no guarantee that citizens will spend this money in a way that encourages self-development. Worker-citizens who have already been subjected to the alienating and de-skilling forces that also result in adaptive preference formation may not be easily able to reverse the damage. Once these workers have had

252 For a great discussion of these forces and their outcomes see Monica Prasad’s The Politics of Free Markets. The University of Chicago Press, 2006. The case of the U.S. is covered in chapter one, pages 43-97.
their preferences warped, it might be difficult for them to autonomously correct this. Perhaps with further state intervention it might be more feasible to reverse this damage.

A Share Economy

In the previous sub-section we saw one way the state could intervene, to change the economic relationship between workers and employers. Here, we’ll look at another way the state might intervene in an attempt to internalize political externalities, namely to alter the ways workers are remunerated. This strategy could also emerge from bargaining between employers and unions. A share economy would require that workers as a group be paid a fixed percentage of their firm’s profits. This idea of a share economy has been most prominently espoused by Martin L. Weitzman. This new share-based firm would have a very different relationship with workers than the traditional firm. However, this system still amounts to a form of profit-sharing. The logic of this kind of system is that workers will be incentivized to be more productive through acquiring a financial motivation in the form of a claim on the firm’s profits, a stake that would increase in real value as the firm became more profitable. We saw a similar kind of logic in the traditional ESOPs we examined earlier in the chapter.

Under the share-based system of remuneration, workers would bargain collectively with their employer for a fixed percentage share in the firm’s profits. This is a clear and distinct departure from the traditional wage-based model. The idea is that alienated workers will be less alienated if they acquire a financial stake in the firm. If they did, then they would work harder, and by working harder workers would increase the firm’s profits, thus increasing the real value of share going to labour. The basic premise is that if workers had a greater income, they would

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be able to compensate for workplace alienation by using their incomes to structure their non-working time in ways that counter-act de-skilling. Moreover, according to Weitzman, the share-based firm will have the macro-economic advantage of tending toward full-employment. An economy that finds an equilibrium position closer to full-employment will afford greater numbers of workers the opportunity to make the money that they can then use to counter-act workplace de-skilling.\(^{254}\)

A significant problem a share economy is, as we saw with unconditional basic income plans, that we do not necessarily have good reason to think that already alienated workers will use their increase in wages to offset their de-skilling. Workers who have already had their preferences skewed by alienation are unlikely to want to spend their money in a way that would counter-act their de-skilling. Moreover, it is not clear that many of these workers would even recognize that there is problem with their preferences once they’ve come to adopt these preferences as their own. Even when individual workers do recognize the problem of their own de-skilling, and attempt to compensate for it, they can run into another big obstacle. If the demands of one’s job are such that it leaves one with little time, or one’s job is physically tiring, then one would find it even more difficult to consistently engage in the kinds of activities that would help compensate for workplace alienation.\(^{255}\)

What these first two strategies importantly share in common is that they attempt to address the political externalities problem in an \textit{ex post} fashion. Both strategies allow workers to be exposed to the alienating and de-skilling practices of the typical capitalist workplace, and then try to redress the effects of these after the fact. As we’ve seen, in both cases, this is a strategy


prone to difficulty. Since workers have already had their preferences and characters mal-formed by workplace alienation, they will unreliably seek remediation of the problem outside the workplace. It seems clear that in order for either of these first two strategies to work, the state will have to be involved, perhaps in ways that some find paternalistic. This is direct consequence of the ex post manner of addressing the problem. Alienated workers will likely require a lot of encouragement to consistently engage in the kinds of activities that will help counter-act alienation and de-skilling.

Re-Imagined ESOPs

Earlier in this chapter we looked at Employee Stock Ownership Plans, and saw why they have historically failed to be successful model of internalization. The largest factor contributing to the lack of success of ESOPs was the fact that the stock typically acquired by employees is non-voting stock.\footnote{See Conte, Michael A. “Economic Research and Public Policy toward Employee Ownership in the United States”. \textit{Journal of Economic Issues}. Vol.28 no.2 (1994).} This means, in traditional ESOPs employees acquire a variety of stock that implies only a financial claim on the firm’s profits. No claim to a say in the management of the firm is transferred in the ESOP. In most cases of ESOPs, workers would only acquire the prerogatives of management after the transfer of all the stock. As we saw in section one, this will only be the case where the adoption of an ESOP is meant to be a path to full employee ownership. This latter kind of case is, however, a distinct minority among cases of ESOP adoption.

Understood as a conscious path toward worker ownership, and with the transfer of voting-stock, perhaps ESOPs could serve as a vehicle for the internalization of political externalities. With both of these conditions met, workers would have a clear path towards
acquiring the rights of control entailed by ownership. Moreover, because workers in this re-imagined ESOP would acquire voting-stock, and in increasing amounts, they would also acquire an increasing ability to insist on changes in the workplace. With this increasing power in the workplace, workers could insist on changes that lessen the amount of alienation, and thus de-skilling, that result from the structure of the labour-process. In this version of an ESOP workers would be gaining a claim to have a say in the management of the firm. It is this right to have a vote that worker could potentially use to assert their interests at the highest level of decision-making in the firm.

The first thing to point out is that, if this is to become a solution to the political externalities problem then it will have to be the case the most all firms in the economy have some variety of this re-imagined ESOP. These plans can take different forms to suit to specific needs of particular workers, in particular firms, in particular industries, at particular times. However, what is critical to this re-imagined ESOP, in contrast to the traditional ESOP, is that a) the ESOP is designed to eventually transfer a controlling ownership stake in the firm to workers, and b) that towards this end, the stock to be transferred to employees be of the sort that legally confers rights to a vote on the firm’s board of directors. When these two conditions are met, workers will have the power within the workplace to organize the labour-process in a way that internalizes political externalities. But, only if most firms in the economy have such a plan.

Acquiring voting-stock would imply the necessity of some form of collective association among the workers who are to own these shares and exercise the powers these shares carry. If this collective organization were run democratically it would afford workers an important opportunity to develop important democratic skills. Moreover, acquiring voting-stock would afford employees as a group the chance to be involved in the firm’s decision-making process. As
the process of share transfer would be gradual, workers would have a chance to develop
important business skills; skills which will be important to have when workers are solely in
charge of their firm. In at least these two ways then, these re-imagined ESOPs could serve as a
vehicle for internalizing the problem of political externalities. Acquiring the rights of control due
to owners, but in a piecemeal fashion, workers acquire more opportunities to exercise and hone
the skills and talents that make for effective democratic citizens.

The most significant problem for this type of internalization strategy is that, even when
workers own their firms, these firms will still be subject to the pressures of competitive markets.
These pressures will very likely force worker-owned firms to adopt the same kinds of
management techniques that produce alienation and de-skilling as their former capitalist
employers. If we consider the long-run consequences of this strategy what we’re likely to end up
with is an economy in which workers own their firms, but compete against each other for capital
investment. This capital would remain, at least at first, privately owned. If this kind of re-
imaged ESOP scheme were applied to the majority of firms in the economy what we would
have is something that would look, in some ways, like the old Yugoslavian worker-managed
economy. With re-imagined ESOPs workers would own and operate their firms, but compete
with each other for the investment capital of profit-oriented investors.

It is this last condition that poses the biggest threat to the success of these re-imagined
ESOP firms. As long as the market economy continues to revolve around the profit-oriented
logic of private capital owning economic agents, the same kinds of systemic forces that
originally created the need for alienation-producing labour practices will still be operating.
Within the context of a competitive market economy, even full worker ownership of their firms
cannot completely protect ESOP firms from the kinds of labour practices that produce alienation
and de-skilling, and thus political externalities. The pressure on these new worker-owned ESOP firms to produce a profit, which they must do in order to be an attractive target to investors, may force these firms to re-impose on their workers the same kinds of efficiency-increasing, but alienation-producing, labour practices that their former capitalist employers had imposed on them.

**Worker Cooperatives**

What this potential strategy for internalization shares in common with the last, is that it is an attempt to alter the ownership structure of the firm in a way that gives workers the power to have influence over the structure of the labour-process. What marks out a cooperative firm is not just that workers own the firm, and thus control the labour-process, but also the democratic structures that govern the operations of the cooperative firm. In a cooperative, like the re-imagined ESOPs we just discussed, the level of worker participation can vary according to the tastes of the employee-owners themselves, or according to structure of cooperative operation that the employee-owners choose. Cooperative firms, because they empower workers to design the labour-process, as well as the firm’s decision-making procedures, will encompass a variety of unique forms. Common to all these forms is the fact that all workers are allowed to participate to whatever degree their interest in so doing permits.

Worker cooperatives, because they are operated democratically by worker-owners, offer workers robust opportunities for the development of important democratic skills. Because workers also own these firms, they are able to construct job-complexes as they see fit. If done in an egalitarian way, this could increase the amount of self-direction workers’ experience on the job, and thus the level of opportunity for skill development open to workers. In this way, worker cooperatives could potentially serve as a vehicle for internalizing political externalities.
There are a host of practical difficulties that stand in the way of worker cooperatives flourishing as a form of business enterprise. We should acknowledge that workers do possess the formal freedom within a liberal democratic regime to form cooperative businesses. What then really stands in the way of workers is the lack of the means to start these kinds of businesses? The financial system at present is not favorable to these kinds of ventures, even if it does not completely rule them out. Workers typically lack the wealth to start their own businesses. They thus often resort to cooperatives where resources can be pooled. There are also important transaction costs involved in seeking out like-minded partners, especially those who possess the relevant business skills necessary for such ventures to be successful. Both of these latter are very significant restraints on the formation of worker cooperatives; even if sufficiently accessible financial capital was available.

This is why it is wrong for critics to argue that workers must not truly be alienated because they don’t want to work in cooperatives, which we might infer from the fact that there are so few of them in the economy. These critics argue that workers have the formal freedom in liberal democracies with market capitalist economies to quit their jobs and start their own cooperative firms, where they can restructure the labour-process to avoid alienation if they dislike it so much. The fact that there are so few cooperatives at present, these critics conclude, is proof that workers’ alienation, if it exists, is not that big a problem. The constraints imposed on workers by the competitive market, in the large majority of cases, undermine the real, as opposed to merely formal, ability of workers to start cooperative firms. The structure of the capitalist

259 These problems are all noted, for example, by Bowles and Gintis (1993), page 95. They call them the “worker wealth constraint” and the “democratic capacities constraint”.

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market economy makes it very difficult for workers to express their potential preferences for a workplace where they have more control over the labour-process.\textsuperscript{260}

The biggest problem faced by worker cooperatives as a strategy for internalization is the same as that which applied to the re-imagined ESOPs we discussed. The problem is that, if these kinds of firms are the minority in the economy, then the pressures of the competitive market will likely force the worker-owners of these cooperative firms to re-adopt the same kinds of alienation-producing labour practices that their former capitalist employers had. The strength of this pressure, and the ability of cooperative firms to resist, it will depend on the particular situation of the cooperative firm in relation to its major competitors in its industry. If, on the other hand, these kinds of firm were the majority in the market economy, then these pressures would be greatly abated.

In the most common example of this kind of transformation, the workers-owners of a cooperative firm, under the pressure of market forces, resort to hiring wage employees for reasons of fiscal expediency. They might do this, for example, because unless they do so the firm will cease being a viable business venture. This change would, very obviously, re-create within the cooperative firm the same kind of management-labour dynamic that produced alienation and de-skilling in the capitalist-owned firm; at least between those employees who are full members and the wage-based employees.\textsuperscript{261} Now, one must note that workplaces differ, and the wage-based employees of cooperative firm might in many cases be treated very well, with the only difference between them being that the wage-based employees do not share in the firm’s profits like the members do.

\textsuperscript{260} This is one example of what Jon Elster calls the “economic environment constraint”. See “From Here to There: or, If Cooperative Ownership Is So Desirable, Why Are There So Few Cooperatives?” Social Philosophy & Policy. Vol.6 no.2 (1989).

A further weakness shared by both worker cooperatives and re-imagined ESOPs is that they can both take forms that do not necessarily produce the positive political externality associated with increased worker participation. The virtuous cycle associated with participation in the workplace will not necessarily be triggered by workers’ involvement with re-imagined ESOP firms, or worker cooperatives. As we saw in chapter three, section four, the research of Michael E. Morrell indicated that periodic voting as the dominant form of worker participation in the firm is less likely to produce the positive political externality than are forms of participation that emphasize more direct involvement.\(^{262}\) This worry applies more to re-imagined ESOPs, and especially during the period where workers are in the process of acquiring the controlling share of ownership. During this period workers’ participation will come in the form of voting power associated with share ownership. This means they can vote for members of the board of directors, and can thus vote someone in who represents their interests. Workers’ collectively wielding this power would require some form of democratic organization among them. Thus, the structure of how an ESOP would work seem to lend more to voting as the dominant form of participation, instead of direct involvement in day-to-day shop-floor operations. This is by no means precluded, though at present it would be the progressive, or enlightened, employer who allowed workers such direct participation before they acquired the controlling share of ownership.

What these last two strategies of internalization also very importantly share in common is that their potential effectiveness is based on their ability to empower workers to alter the structure of the labour-process within the firm. Re-imagined ESOPs and worker cooperatives are both ways of giving workers control of the labour-process. In both cases this is accomplished by

workers coming to own the firm itself, and thereby acquiring the right of control in virtue of which employers now empowered to determine the structure of the labour-process. Both these strategies entail no change at all in the traditional capitalist conception of the powers inherent to property ownership. Moreover, neither strategy thus questions the legitimacy of employers’ power, but rather, they aim simply to replace the capitalist employer’s chosen managers with worker’s chosen managers.\footnote{This is in fact on the criticism often leveled against the Mondragon Cooperative in Spain. Workers democratically elect representatives to make decisions for the firm. These representatives choose the managers that supervise workers. Very often these managers, hired by workers’ elected representatives, recommend imposing the same kinds of profit-maximizing labour practices that capitalist-owned firms employ.} What these last two potential strategies of internalization, re-imagined ESOPs and worker cooperatives, show is that, to be effective, a solution to the political externalities problem will have to involve introducing more participatory reforms in the structure of the labour-process within the firm, and within most firms in the economy.

iv. **Balancing Job-Complexes**

In order to adequately address the problem of political externalities one has to address the source of the problem. This source is the alienation produced in workers due to the structure of the labour-process in the capitalist firm. The structure of authority and division of labour within the typical capitalist firm are such that they give most employees little in the way of self-direction over their work. As a result of the labour contract that dominates the workplace relations of capitalist economies, workers lose control over not only the product of their labour but also the particular how, when, and where of that labour. If then one wants to address the problem of political externalities, one will have to address the structure of the labour-process, and hence the network of relations-in-production that constitute the capitalist firm.
Only by raising the level of occupation self-direction workers experience at work can their level of alienation be reduced, and thus their ability and desire to engage in democratic politics increased. One model for doing exactly this, is developed by Michael Albert, is called “balanced job-complexes”.\(^{264}\) For Albert balancing job-complexes is part of a larger set of institutional reforms that aim at creating a democratically planned, decentralized, and worker controlled economy. We can put these larger concerns aside here. What we want to look at here, is how the workplace and the labour-process can be remade in a way that internalizes the problem of political externalities. Whether a democratically-planned, decentralized, and worker-controlled economy is ultimately a good thing, or not is not relevant here. What I want to show here is only that the worker control of the labor-process is the crucial element to internalizing these pernicious political externalities.

It is entirely reasonable to think that worker-controlled, even if not worker-owned, firms would be able to do a substantial amount to internalize political externalities. It has been said of a competitive free market that it would not matter from an efficiency standpoint whether labour hired capital, or capital hired labour.\(^{265}\) However, what we saw in chapters three and four shows that from the point of view of political democracy it does indeed matter who hires whom. When capital hires labour we see the problem of political externalities result. The world has only seen a few situations in which labour hires capital, and so one’s conclusions must be qualified.\(^{266}\) However, they do lead one to believe that it is completely possible for worker-controlled firms to operate efficiently within competitive markets.


There is thus nothing incompatible about worker-control of firms, and thus also of the labour-process, and “free” markets. This said, there is also clearly nothing incompatible about worker-controlled firms and non-market economies. Albert’s vision is certainly one he identifies as “market abolitionist”, and worker control of firms is one of the central features of the economic model he describes. Since worker control is compatible with both market economies and non-market economies, the question about the need for worker control can be separated from the question of the need for worker ownership, and both can be separated from the question about the need for either the continued dominance, or future abolition, of markets. Indeed, what we saw with traditional ESOPs was that even when workers acquire an ownership stake in the firms they work in, this does not serve to address the real source of political externalities. This is another reason why we can see that control over the labour-process is the most critical element for internalization of political externalities. This shows once again that worker control over the labour-process is compatible with capitalists retaining formal ownership, and even receiving rent for the utilization of capital.

Moreover, there is no incompatibility between balanced job-complexes and the other possible methods of internalization discussed in the previous section of this chapter. Re-imagined ESOP firms and worker cooperatives may both be balanced job-complex firms if they choose. This may be harder for re-imagined ESOP firms, especially during the initial phase where workers are still acquiring the controlling stake in the firm. In this way, balanced job-complexes and the other strategies discussed are not in competition with each other.

We should note that some of the same difficulties that applied to previous methods of internalization can also apply to balanced-job complex firms. If, for example, only a minority of firms in the economy do this, then the competitive pressures of the market economy will work to
keep this portion low, as well as force some balanced job-complex firms to re-adopt alienation-producing aspects in the labour-process. Thus, just as with re-imagined ESOPs, balanced job-complex firms will have to be the dominant form of firm organization in the economy in order for the systemic forces of a competitive market not to discriminate against it. Moreover, workers’ adaptive preferences are likely to function so as to inhibit workers’ desire for balanced job-complex firms, just as they do for cooperative firms. Thus, workers will find it hard in many cases to express, or even have, a preference for a more participatory workplace.

In addition, just as was the case with worker cooperatives, the de-skilling imposed on many workers in typical capitalism firms leaves them deficient in terms of the skills needed to run their own firms. Balanced job-complex firms would require that workers take a much more active part in the firm, especially its decision-making procedures. If de-skilled workers are lacking in critical business skills, then they’re likely to run poor businesses, which will at the very least put them at a significant disadvantage in a competitive market.

By balancing job-complexes within firms, the problem of alienation in the workplace, the main cause of political externalities, is substantially addressed. In Albert’s thinking, job-complexes would also be balanced across workplace as well as within them. This adds an important dimension to his proposals since it attempts to spread empowerment throughout the economy. Even without this additional feature, much progress could be made by balancing job-complexes within workplaces.

A proper question right now would be, What is a “job-complex”? Consider any workplace, and there are many many types. In each, there is or at least could be a list made of all the discrete activities that are necessary for the firm to do its business and continue to exist. 

Everything from taking out the trash to long-term strategic planning would be on this list, in

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267 For more detailed discussion of balanced job-complexes see note 3.
addition to the specific work of the firm. In a way it does not matter whether we think of law firms, toy companies, oil companies, insurance companies, shoe retailers, grocery stores, et cetera. Each one has, or could have this kind of list, and the list for each will be different in each case.

These discrete tasks can be packaged together into “job-complexes”. In the typical capitalist firm, owners have control over how these jobs get bundles together into complexes. And when they have this control they use it to construct a division of labour and authority that serves their profit-oriented interests, and not the democratic political interests of workers. This dominant mode of structuring workplaces leaves most workers with little to no room for occupational self-direction in their job-complexes. This lack of self-direction gave rise to the alienation that causes the political externalities problem. It is here then that we must look to make changes that can successfully internalize this problem. The labour-process itself must be changed in ways that boost workers’ political efficacy. They way to do this, as is implied by our discussion in chapters four and five, is to increase workers’ control over the labour-process, that is over how jobs are grouped into tasks.

Albert proposes that as workers work out this problem democratically, they rate all the firm’s various jobs with an empowerment score. When the jobs are then grouped into complexes, what we call jobs colloquially, workers can then use these scores to balance all complexes within the workplace for empowerment. This method ensures that opportunities for occupational self-direction are equitably distributed, and thus attacks the problem of political externalities at its source. In this labour-managed, or worker-controlled, firm with balanced job-complexes all workers do a mixture of empowering and non-empowering job-tasks. In such a firm, workers would also be involved in making important production and strategic decisions in the firm. In
this way, the more participatory firm is already more empowering because it is more participatory, but when combined with balanced job-complexes the labour process within firm contributes even more opportunities for self-directed activity participation, and thus increased empowerment.

If the sources of workers’ alienation and de-skilling are to be addressed, then workplaces will need to be reformed in ways that eliminate their causes. If a transformation of the workplace in this direction is achieved, then the problem of political externalities will be abated in the same measure. Indeed, if workplace organization is reformed in a way that positively increases workers’ participatory efficacy, then the political externalities problem cannot but be mitigated to the same degree that workers’ empowerment increases. A stronger, more participatory, democracy will emerge when large numbers of workers are empowered in their workplaces with increased opportunities for self-direction. We have noted in previous chapters the link between workers’ alienation, their opportunities for self-direction in the workplace, and their specific aversion to politics. This same path from disempowerment in the workplace to disempowerment in politics can also work positively, once the source of alienation has been remedied. If workers are empowered in their workplaces, then they will also be politically empowered. The more that workers are empowered in their workplaces the stronger their empowerment politically. The more empowered citizens are, the more they can meaningfully participate in the process of democratic self-government.

Conclusion

In Chapters three and four we noticed a problem for democratic political institutions that arose out of the capitalist-imposed labour-process within the firm. This problem, from the point
of view of a well-functioning democratic society, was that workplaces were generating counterproductive traits in workers. In order to help understand this problem we made an analogy to the idea of externalities. Following out this strategy we began this chapter by thinking about ways that this problem could be addressed or, in economic jargon, “internalized”. First we looked at ways that employers have tried, unsuccessfully, to address this problem. These efforts were largely unsuccessful because they are mainly directed at achieving the employer’s good, and were scaled backed steadily once the political support of the government waned towards the end of the twentieth century.

We then looked at the organizations that workers created on their own in response to employers’ continued use of harmful or degrading labour practices. The resulting organizations were much more successful than the earlier company-sponsored attempts. But we noticed, that these organizations are products of their environment at birth. They are primarily adversarial organizations that fight to advance the good of their members. While it was necessary then, and is worthwhile still, that these organizations exist, they are not a real solution to the political externalities problem. Unions’ bargaining power also, like the majority of welfare capitalist schemes, proved to be temporary. This is because their strength in relation to employers was largely dependent on support from the federal government, and especially the federal court system. Unfortunately for workers, this has support has dwindled significantly over the years.

Lastly, we applied the lesson learned from the examples of the first two sections. We noticed the common feature in the unsuccessful attempts to cope with worker alienation was that they did little to nothing to actually give workers any power to organize the labour-process within the firm. This showed us that if the problem of political externalities is going to be adequately addressed, the only way to do so is to give workers the power to restructure the
labour-process within the firm. By allowing for as a wide as possible a distribution of opportunities for self-direction in workers’ job-complexes, each individual worker is given the opportunities needed to develop important skills and talents.

In order to encourage the development of a robust flourishing democratic society, with political institutions that foster widespread participation, it will be necessary then for workers to be placed in charge of the structure of the labour-process of their firms. Workers, at a minimum, must be in control of the operation of their workplaces if the problem of political externalities is to be addressed. It may be helpful in some situations for works to also own their firms, but this need not be so in all cases. In order to help develop the kinds of citizens necessary for a flourishing democracy, workers must be given a chance to learn to be good citizens in their workplaces. This entails unbundling to some degree the rights typically entailed by ownership in capitalist economies, namely right to control and right to profit. Capital could retain the latter and cede the former to labour. Without this one can only predict that we will see more of the same results from capitalist-controlled workplaces, namely alienation, political withdrawal, and worker disempowerment.

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