The Soul of Capitalism

Opening Paths to a Moral Economy

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WHO WILL TELL THE PEOPLE and SECRETS OF THE TEMPLE

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THE MASTER-SERVANT LEGACY embedded in modern enterprise poses a fundamental question: How can genuine individual freedom ever flourish except for a privileged few—or democracy ever be reconciled with capitalism—so long as the economic system functions along opposite principles, depriving people of rights and responsibilities, even denying their uniqueness as human beings? David Ellerman, an economist with the rare ability to apply moral philosophy to the underlying structure of economic life, has answered the question with an uncompromising argument. This power relationship is inherently illegitimate as a matter of natural law, Ellerman reasons, and is based upon "a legalized fraud." The "fraud" is the economic pretense that people can be treated as things, as commodities or machines, as lifeless property that lacks the qualities inseparable from the human self, the person's active deliberation and choices, the personal accountability for one's actions.

The fact that human beings have accepted this arrangement over the centuries—or were compelled to accept it—does not alter the unnaturalness. The fact that some people prefer mindless subservience to responsibility and self-realization does not confer legitimacy on their masters. Ellerman, formerly a staff economist at the World Bank, has devoted years to constructing a multilayered brief for "economic democracy," melding philosophy, law, and economics to illuminate long-existing fallacies. This discussion does not do justice to the rich complexity of his case but follows his lead in sorting out the fundamental terms. The ideological underpinnings are important to understand because they make clear why the structure of capitalism confines human existence illegitimately and how this might be transformed.*

*David Ellerman's principal text is *Property & Contract in Economics: The Case for Economic Democracy*, Blackwell, 1992. Still largely unheralded, his work is beginning to draw respectful consideration among philosophers, though not yet from many economists.

The subservient nature of the work relationship has been papered over by myth and comforting metaphors, inherited "wisdom" generally accepted by society and firmly codified in its laws. But Ellerman poses an awkward question: What exactly makes the modern system so different from serfdom? The American republic, remember, originated in a Constitution that explicitly recognized the right to own people as private property. The institution of slavery, as a productive capital asset protected by law, was not abolished until the thirteenth amendment, less than 150 years ago. Social traces of the iniquity linger still.

Formal economics has an answer for Ellerman's question, though not one that satisfies his objection. "Workers may not be bought and sold, only rented and hired," Alfred Marshall, a preeminent economist in his time, wrote in 1920. Paul Samuelson, author of a standard textbook for present-day Economics 101, sticks to the same distinction. "Since slavery was abolished, human earning power is forbidden by law to be capitalized [bought and sold as property]," he wrote. "A man is not even free to sell himself; he must rent himself at a wage." The "rented" worker is certainly much better off than the "owned" worker, no question. Yet, as their language suggests, the distinction between slavery and freedom is narrower than supposed, and aspects of property still heavily influence the transaction. Human labor is treated as an input of production no different from the other inputs—machines, raw materials, buildings, capital itself—and these inputs are interchanged routinely in organizing the elements of production. Employees are now described as "human resources," the oddly dehumanizing usage adopted by modern corporations.

The trouble is, people are not things. They are autonomous human actors, not mere "resources." They cannot be reduced to physical inputs, even if they assent, because they are conscious, responsible agents of self, endowed with inalienable rights and inescapably liable for their behavior, legally and otherwise. Ellerman put the point in a way anyone can grasp: "Guns and burglary tools, no matter how effi-

cacious and 'productive' they may be in the commission of a crime, will never be hauled into court and charged with the crime." Human beings, on the other hand, will be held accountable for their behavior in myriad ways because their actions carry a presumption of individual will and decision. "A hired killer is still a murderer even though he sold his labor," Ellerman observed. Thus, people cannot be "rented" anymore than they can be "sold" without presuming to detach them from the core of what makes them human. This point of collision with capitalism is what makes life and liberty seem incomplete to many Americans.

The violation of natural rights, Ellerman explained, is needed to sustain the fictitious relationship within a company that allows it to exclude the employees from any claim to the new wealth their labor creates—the product and profit of the enterprise. "The capitalist, like the slave owner, has used a legalized fraud, which pretends the worker is an instrument, to arrive at the position of being the 'owner of both instruments of production' [labor and capital] so he can then make a legally defensible claim on the positive product," Ellerman wrote. Workers collect "rent" on their time and exertions but, in most situations, the terms of employment do not allow them to share in the company profits—the surplus wealth their contributions have produced. This contractual reality helps explain the great redundancy of concentrated wealth that persists in American society, why the rich get richer. As the firm's insiders and investors, they own the entire output, both finished product and profit. The "rented" employees whose lives and knowledge are intimately engaged in the firm's functionings are entitled to none (unless the insiders decide to share).

The employment system is thus a main engine generating American inequality, and perhaps the most powerful one. Its functional structure effectively guarantees that the gross inequalities of income and wealth will endure in our society, largely unaltered and replicated for each new generation, despite any ameliorative actions by the government. The system is designed to produce this outcome. The steep

ladder of personal incomes, from top to bottom, is reflected by the enormous and growing wage disparities in which the CEO earns more than five hundred times more than the company's average workers. But it is the harvesting of the profits exclusively by insiders and distant owners, instead of by the working employees, that has the greatest impact. This arrangement is not logically inevitable in capitalism—workers might own their own work and harvest the surpluses for themselves—but this is the format that blanketed American life a century ago as Americans moved from farm to factory, from self-employed work to the contract terms of wages and hours.

The contract for employment, its explicit and implied terms, determines these outcomes, but its central impact is obscured and mystified by the aura of property rights, a convenient veil inherited from the feudal order that lends a sense of customary correctness to the domination of labor by the owners of capital. The man who owns the factory, it is generally assumed, commands the workforce and collects the profits as a function of his rights as the property owner. This is an historical myth, in Ellerman's analysis, one that must be demolished if people are to see the situation clearly and recognize the opportunity for changing their condition.

"Marx bought the myth," Ellerman explained. That is, Karl Marx started from the same premise of property's mythological power over others. Whoever owns "the means of production" will rule under capitalism, he asserted (and gave the system its name). Thus, his theoretical solution involved abolishing private property and establishing state ownership of the productive assets. In theory, this would make everyone a "virtual" owner, though in fact they were in charge of neither their work nor their lives, as history has amply demonstrated. The idea that workers "rented" by a government-owned enterprise would be better off somehow—empowered—compared to workers "rented" by private capital was a central fallacy of communism. It failed the test of reality—spectacularly.

The fallacy is easier to recognize in modern capitalism than it was

in Marx's time. Many large and successful companies today actually do not own great assets themselves. Their control derives from the insiders' role in organizing the contractual relationships among all of the various elements that contribute to production: the employees; the suppliers; the providers of capital; and the firm's controlling insiders, who may or may not own the factory or contribute much of their own capital to the enterprise. A firm's organizers, if they choose, may "hire" the land and buildings, "lease" the machines, "borrow" the capital or "sell" shares in their ownership, just as they "rent" the workforce. Property ownership, if things are organized shrewdly, is superfluous to their claim on the final product and profits.

The real basis for the insiders' power and their legal claim to the profits is their acceptance of responsibility for the firm, their contractual commitments to pay the costs of production and to absorb the negative consequences of losses and liabilities as well as the positive results. Employees, in a sense, are awarded an opposite status: irresponsibility in the fortunes of the company and, thus, no share in its success unless the management decides to grant one. In exchange for this privileged irresponsibility, workers are rendered powerless. They accept the master-servant status, are subject to the command of others, and have no voice in the company's management or any claim to its returns.

Stated in those stark terms, it does not sound like such a good deal. But understanding the basic contractual relationship prompts a liberating thought: Contracts can be changed. If the power is derived from the employment contract and not from inherited notions of property rights, then the active participants in a company might renegotiate their roles and responsibilities or even create a new firm that reflects a different balance of power. Ellerman describes the opportunity: "Instead of capital hiring labor, labor hires capital."

Labor hires capital? The role reversal seems beyond the plausible until one remembers that this transaction is approximately what does occur in many existing enterprises. The workers, in fact, borrow the

capital to own and operate the firm themselves, then pay back their loans from the returns of the enterprise, an arrangement known as the employee-owned company. The ESOP transaction (for employee stock ownership plan) resembles a leveraged buyout in which company insiders borrow capital to take over a controlling position in company stock, then pay back creditors with the company's profits. Or workers form partnerships, like a law firm, collectively assuming responsibility and thus sharing in the governance and the returns. Or they create a cooperative enterprise that, roughly speaking, blends some elements of partnership and employee ownership.

The same essential reversal is present in all three cases: the workers are the "insiders" who organize the firm's contractual relationships; they accept shared responsibility for the firm and allocate the profits among themselves, not with absentee stockholders. The result, in Ellerman's words, is "people jointly working for themselves in democratic firms." Quite literally, they own their own work.

At the start of this new century, around 10 million Americans are worker-owners in some 11,000 employee-owned companies, with total assets of more than $400 billion. Thousands of cooperative enterprises also operate around the country, ranging from some 300 worker cooperatives in manufacturing and services to cooperative day-care centers and small banks to the mammoth agricultural marketing cooperatives owned collectively by the farmers who produce the foodstuffs. The professional partnerships—lawyers, doctors, architects, and others—incorporate similar principles, as do many small firms of the self-employed. These are the meaningful exceptions, however. Most Americans have no ownership of enterprise whatever. For those who do own stock shares, the "owners" are typically confined to a weak and attenuated status.[9]

Self-ownership was the road not taken in American history. The cultural memory still enshrines independent yeomanry—the small farmer toiling in his own fields—but the modern organization of work largely obliterated those values.