



DEMOCRACY AND PROPERTY

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Abstract

This paper examines the relations between democracy and property in the context of less developed countries, with special reference to Chile. Starting from the premise that there is an essential distinction between the legitimacy of the institution of private property and the legitimacy of its present distribution, the author argues that property ownership is only one of the sources of power in society and, moreover, that highly concentrated distributions of wealth are due to historical circumstances rather than intrinsic to the nature of property itself. The paper's main contention is that an economic system based on the market, with widely diffused private property, is the economic structure most in accord with a pluralistic democracy.

Resumen

Este ensayo examina las relaciones entre la democracia y la propiedad en el contexto de los países menos desarrollados, con especial referencia a Chile. Partiendo de la premisa que hay una distinción esencial entre la legitimidad de la institución de la propiedad privada y la legitimidad de su distribución presente, el autor plantea que la posesión de propiedad es sólo una de las fuentes de poder en la sociedad y por lo tanto que las distribuciones de riqueza altamente concentradas se deben a circunstancias históricas y no a la naturaleza intrínseca de la propiedad. El argumento principal del ensayo es que un sistema económico basado en el mercado, con propiedad privada ampliamente difusa, es la estructura económica más en acuerdo con una democracia pluralista.

Introduction and Summary

This paper argues that an economic system based on the market, with widely diffused private property, is the economic structure most in accord with a pluralistic democracy¹. It is more in accord with freedom both in its restricted sense--in that it protects the spheres of relative autonomy of the individual, the family and the intermediate groups in the face of possible government coercion--as in its positive sense--in that it promotes the participation of the individual in the decisions that may affect him both directly as well as through the various organizations to which he belongs.

Therefore the paper rejects the view that private property intrinsically and necessarily entails exploitation, or that it is the basic cause of the abuse of power in society. On the contrary, it asserts that private property no matter how important it might be, is only one of the sources of power in a society. Thus it relativizes its importance as compared to other forms of power (knowledge, managerial and bureaucratic control, control over the means of communication...) and so it also takes the worst sting out of some of its negative effects by comparing it to other abuses of power.

I sustain that the main problem for any free society is how to control power and not how to eliminate it. To that end the decentralization of power becomes essential in a society. For that reason, I consider the market system basic for a free society, even more so than private property, for it decentralizes and thus multiplies enormously the centers of decision making in society. This latter would be the primary structural reform of a society whose means of production were publicly owned.

Moreover, private property when amply diffused will strengthen the democratic structures of society by making more real the autonomy and the

participation of the people; not private property per se, but when widely diffused. On the other hand, if private property were scarcely distributed, power as well as the fruits of economic growth would become dangerously concentrated. Coercion would in face increase and the potential for participation would diminish. It is important then that private property be diffused as much as possible.

It goes without saying that implicit in this position, is a fundamental underlying view of social relations: these are characterized neither by basic harmony nor by inevitable conflict, but rather by both. Social institutions, such as well distributed property, may be able to channel divergent interests toward solutions beneficial for all concerned (non zero sum games) thus converting potentially antagonistic conflicts into non-antagonistic ones, and so promoting harmony; much as other structures--such as concentrated private property or public property centrally controlled--may induce the search of solutions which are beneficial to some at the expense of others (zero and negative sum games), thus making antagonistic conflicts virtually inevitable. The need then is to develop social structures which privilege harmony and so impede or minimize socially destructive conflicts.

For some, such an eclectic viewpoint or "third way" appears as no more than a verbal solution, appealing at first sight but lacking substantive content--a sort of empty set, based on the conciliation of the irreconcilable, much as squaring a circle. Therefore it is a form of deception, whose implicit aim is to avoid the inevitable option between capitalism and socialism. On the contrary, I consider the proposed solution a realistic one. It is unreal only to those who attach little significance to the differences, for instance, between Manchesterian Capitalism, Scandinavian Democracy and Pinochet's Authoritarian Neo-Conservatism. Curiously enough, both defenders of the status quo as well as Marxian Socialists often share in this criticism, considering such

differences to be of second order importance.

Moreover, to argue that the problem lies not in the existence of private property but in its concentration, and more yet, that the problem of concentration refers to all forms of power--and so is not exclusive to property--is neither a new thesis nor an easy eclecticism. It is based on a long intellectual tradition inspired by the doctrine of natural law, and more recently embodied in the Social Encyclicals of the Catholic Church. This tradition rejects monocausal theories of history, for it is rooted in a concept of the human being as ultimately free, and multidimensional in his nature and ends. This necessarily implies a plurality of causes and a multiplicity of forms of power, none of which is unequivocally and irrevocably definitive by itself. This same multidimensionality of man and his personal freedom--which is a condition for the possibility of virtue--is what eventually requires free, pluralistic structures with participation for all.

On the other hand, this vision does not deny that in each instance and epoch there will exist some predominant causal factors, related to the critical bottlenecks of such social structures at that point in history. What it does reject is the indefinite privileging of any one of those structures (private property for instance), reducing the other dimensions of social life to mere derivations of this one structure. For that reason it rejects explanations which are based on universal causes -- such as class conflict defined in terms of property. The forms of power are far more varied than property itself, just as the most critical "property" varies according to each historic moment (for instance, land, physical capital, financial capital, technology, business organization, human capital, means of communication, have each been of special importance at different moments in history). Thus, far from being an idealistic and a historical theoretical tradition, as it has been considered by many of its critics, the basic insight which underlies this third position is quite historical and not simply

philosophical or utopian, precisely because it recognizes the multidimensionality of man and the consequent pluricausality of history. For this reason, a significant portion of this essay is devoted to demonstrating the historic and current relevance of these propositions, and not simply their theoretical coherence.

A. The Problem

Private property is a social institution in which both economic and political factors interact, for it vitally affects both wealth and democracy². The central question is whether their pursuit results in their reinforcing or in their counteracting each other. Is democracy the product of economic development, requiring an ample material base with sustained growth for its nurture and sustenance, or can it be achieved simultaneously with the latter? To put it differently, is democracy (as well as perhaps equity) an impediment to economic development, a luxury for relatively poor countries, or can countries advance simultaneously in both political and economic development?

I am aware of the fact that until today most³ of Western History has been characterized by an elite form of economic development prone to sacrifice or postpone equity (all forms of Capitalism in the 19th Century) or democracy (the real Socialisms of the 20th Century) in favor of development, or to sacrifice democracy, equity and economic growth as is the case with most of the countries of the Third World. However, I consider that today, in the 20th Century, it is possible to strive for economic and social development along with political freedom. Although a well balanced economic, social and political development would be a novelty in history, it is no longer utopian today. It will be difficult indeed but attainable, since one of the advantages of being a "late starter" is that one can benefit from the historical experience of others and so skip stages.

Perhaps an elitarian form of development was inevitable for those countries that initiated the Industrial Revolution, as technological innovation is necessarily a concentrating process, at least at the beginning. For it is precisely the possibility of monopolistic profit that attracts investment and induces innovation. Be that as it may, concentration depends fundamentally on the quick diffusion of the know-how already available.

Just as invention is induced by the possibility of earning a monopoly rent, late starter development is based not so much on invention as on the massive diffusion of knowledge, in order to close the technological, organizational, and educational gaps between developed and underdeveloped countries. That is why a non-elitarian form of development is possible today, much as an elitarian type was virtually inevitable two centuries ago. To the extent that in the economic area diffusion and not concentration be the key to development in underdeveloped countries, democracy will not be a premature luxury or ideal, but a real possibility, worthy of pursuit even at low levels of development. For the diffusion of political power and participation are the political analogues most in accord with diffused economic power and a non-elite style of economic development. For this reason it is neither wishful thinking nor utopian to propose the pursuit of democracy, development and equity in a balanced way, since the basis for today's development in the Third World is now diffusion and not concentration; hence, the feasibility of a non-elitarian style of development. In any event, though attainable, it is far from being an easy task. On the contrary, the big challenge for the Third World in the last decade and a half of the 20th Century will be to convert this possibility into reality: to attain a non-elitarian economic and social development within the framework of a pluralistic and democratic political system.

Non-elitarian development will certainly require a restructuring of

inherited social structures to harmonize the political, economic and social sub-systems. What concrete implications such a restructuring will have insofar as property is concerned is the theme of the rest of this paper.

B. Central Issues of the Discussion

1. The Basic Theoretical Positions

There are three basic theoretical postures concerning the relation between property and democracy, which shape the essential issues in today's debate. In classical liberal thought, private property was considered beneficial both for economic development as well as for democracy. It would generate wealth to the extent that the effort mobilized was thought to be all the greater, the more the fruits of such efforts fell to those who generated them. Private property was likewise considered a basic institution for the safeguard of freedom inasmuch as it preserved a degree of personal autonomy that would limit political power. For that reason, in the light of classical liberalism, democracy would be strengthened by private property (and economic liberalism).

In stark contrast to the liberal theory regarding private property is the Marxist viewpoint. All versions of Marxism hold that private property allows the owner to keep for himself part of the product (surplus value) that truly belongs to the worker. This is so because the owner is thought to have a monopoly on the means of production which gives him a decided advantage over labor, converting the relation between property and labor into an intrinsically exploitative one. Therefore, however much capitalism might be considered as a step forward when compared with earlier social stages, it is doomed to extinction, as the foundations of a just and democratic society cannot be built on social relations which are intrinsically exploitative. In some of the heterodoxical versions of

Marxism, the intrinsic exploitation inherent to private property can be adequately compensated by the political system. In the most orthodox, however, even this is not possible, since the economic system necessarily prevails over the political, so that the latter would be directly or indirectly controlled by those who would wield the economic power, and so, social relations would be characterized by domination, subordination and exploitation.

A third position, which I support, recognizes the right to private property, which like any other right implies a corresponding obligation. However, this right to private property is not an absolute and primary right – such as freedom of conscience, access to information and freedom of expression – but is a relative or derived one, relatively but not absolutely indispensable for human society. Notwithstanding my considering it as being derived and relative, not absolute, to consider it a right at all is a clear rejection of the position that private property is evil in itself, for nothing can be considered rightful which inevitably leads to exploitation.

According to this third position the evils of private property are extrinsic to its nature: they emerge when its effective use is limited to a small minority. Thus, the concentration of private property could turn the economy into unproductive, conflictive and disassociative activity instead of into successful and mutually beneficial activity. Therefore it would be desirable to distribute property as widely as possible, as much for economic reasons (efficiency) as for reasons of equity, and to strengthen political participation. Accordingly, this view would advocate neither the abolition of private property, nor its current distribution, but would redistribute property in order to strengthen the community of interest, instead of its disassociation.

2. Some Lessons of Modern History

Since the central issues of the theoretical discussion about property and democracy were enunciated 100 to 200 years ago, it would be desirable to enrich our discussion with some propositions derived from subsequent historical experience.

First, there has been real democracy only where private property has been predominant. To be sure, this last has not been a sufficient condition for democracy, since private property has coexisted with authoritarian regimes of all types (Populist, Fascist, Personalist, Oligarchic...). However, what one can assert with empirical support is that democracy has not survived except in the presence of significant private property.

This could be a casual and historical association (for instance, that democracy requires at least a minimal economic base, which was attained originally by the capitalist countries, – though the contrast between India and the countries within the present Socialist sphere would make doubtful this last hypothesis) or even a partial one. After all, what are 200 years in the history of mankind? However, the correlation is too evident to be ignored. Rather it suggests--the obvious--that where both economic and political power is concentrated (the historical types of socialism among them) the structural counter-weights to an institutionalized dictatorship or to totalitarianism are dissipated. This does not mean that it is not possible to develop different counter-weights for obstructing the concentration of power and its usurpation by an elite (for instance, autonomous public, though not private, enterprises, autonomous means of communication financed by the state but controlled by different political groups, etc.). What it does mean is that private property is, and has been, historically a structural brake to the expansion of coercive state power. And in this way, and while it not be adequately substituted in its limiting functions, it fulfills a social function on behalf of democracy safeguarding an area of

autonomous action for the individual and intermediate groups.

Second, the Industrial Revolution and the period following it have shown that sustained economic development, a virtually unknown phenomenon before, is not based on the exploitation of man by man--a phenomenon known since pre-historic days--but on the "exploitation" of nature by science and technology. Only in this latter way could more wealth be generated, rather than simply redistributing what little there was. Perhaps it was still possible in the 19th Century to attribute increased productivity to an increased over-exploitation of labor (at the expense of an ever lower level of subsistence among workers). However, by now it is evident that the big jumps in productivity from the Industrial Revolution to our day are due, in part to the greater energy we have learned to extract from nature, and in part because science and technology have enabled us to take much fuller advantage of our natural resource base. Sustained economic development thus requires that new wealth be produced; it's simply not enough to redistribute what we have to some at the expense of others. And the generation of wealth is essentially a non zero sum game, where all of us can gain taking more advantage of nature by way of technology.

Only this can explain the economic development of the West--and not the impoverishment of the Third World (which, for that matter was even poorer in the past). Only this explains, for example, Japan's "economic miracle", after the loss of its empire. For in the long run the exploitation of someone else's poverty rapidly reduces the possibility of further strong and sustained growth; not so, however, with science and technology. To be sure, it is not a question of denying the existence of exploitation now nor in the past; and certainly it is still necessary to avoid situations which could lead to such exploitation. However, what is truly novel since the advent of

the Industrial Revolution is not such exploitation (in fact, slavery became obsolete a short while later), but the control of nature by means of science and technology, and the resulting abundance of non human energy (electrical and nuclear) and intellectual resources (computers).

That being the case, the traditional paradigm of inevitable antagonistic and mortal conflict between the various economic agents need no longer apply. It does not mean the end of conflict, but rather, that thanks to science and technology, it is now possible to channel social capabilities toward a more fruitful exploitation of nature for the benefit of all economic agents (non zero sum games) rather than toward antagonistic and socially sterile encounters that could only benefit some at the expense of others (zero and negative sum games).

Cooperation and mutual control (a non-antagonistic conflict) between economic agents would not then be a utopian but rather a practical ideal; socially unfruitful conflict would no longer be inevitable, but rather would be symptomatic of an institutional failure instead. Furtherance of fruitful cooperation (non-antagonistic conflicts)⁴ rather than counterproductive activity would become the goal of social and economic institutions and very particularly that of the system of private property.

Third, in contrast with developed countries where private property, far from being incompatible with democracy, has until now been a pre-requisite thereof, and where strong and sustained economic growth has been more the result of the domination of science and technology than of the exploitation of man, the experience of underdeveloped countries shows, with notable exceptions, that private property has coexisted more frequently, not with democracy and growth, but with dictatorships and economic stagnation.

The economic and political stagnation of underdeveloped countries until

today thus suggests that other factors have intervened to make the paradigm of antagonistic conflict prevail over that of cooperation, thus frustrating political and economic development. Among those factors, the concentration of private property stands out. A highly concentrated structure can divert most of the social capabilities toward the conservation or redistribution of wealth rather than its production, resulting in stagnation in the economic sphere and in authoritarianism in the political. The relation is not, of course, strictly linear, though it is evident that the slower the former the stronger are the tendencies toward the latter.

This was not so much the case at the start of the Industrial Revolution, since a degree of economic concentration might have been necessary 200 years ago, when growth was dependent on scientific discoveries and the advance of technology. Today, on the other hand, it is not technology which limits growth; on the contrary, what is needed is its rapid diffusion and application.

Fourth, the experience of all countries with late development, both socialist as well as non-socialist (the Scandinavian countries, Japan, the Asiatic NIC's) shows that rapid economic diffusion requires the massive and general extension of educational opportunities to take advantage of (and thus close) the technological, education and managerial gaps existing between developed and underdeveloped countries. Unfortunately, these experiences also show that it is possible to separate political from economic development; that rapid technological-organizational diffusion is possible under authoritarian as well as pluralistic democratic regimes. In fact, with few exceptions (India is the most outstanding case, along with, in Latin American, Costa Rica, several ex-British colonies in the Caribbean, and, to some extent Colombia and Venezuela) political development has been precarious and unstable.

C. The Problem of Concentration

While private property serves as an incentive for the individual to increase his productivity, and creates spheres of relative autonomy in the society which counteract the unlimited (potential) expansion of the state, if property is too concentrated, it leads to great deficiencies which may neutralize its beneficial effects.

First, the legitimacy and justice of the system, a basic condition for any society, becomes a problem all the more so in a democracy. For as long as the basic justice of the system is questioned, it is likely that social ~~energies~~ be diverted toward redefining "the rules of the game", and so lead to sterile and antagonistic conflicts, rather than be directed towards the generation of more wealth by means of cooperation and non-antagonistic conflicts. Society thus risks getting bogged down in zero sum games, leading to futile struggles, economic stagnation and political instability (with the wealthy preferring "protected" democracies rather than real democracies for fear of losing, by way of the political route, what they have already conquered in the economic sphere).

How then, can a consensus be reached with respect to the right and legitimacy of private property without sanctioning the status quo distribution of wealth? As I see it, the problem has its roots in the concentration of wealth inherited in Latin America from colonial days. The "system" is particularly criticized today because of its poor distributive results. However, the critiques do not distinguish clearly whether the unacceptable distributive results are due to the rules of the market system, to the existence of private property, or (as I think) to the highly concentrated distribution of private property which we inherited. It is therefore one thing to legitimate the right to private property and another to legitimate any particular, given concentration.

Historically the inherited patrimonial status quo was accepted without questioning since, on the one hand, the majority did not have effective political power to alter the distribution of wealth, and when that political participation was finally acquired in the West, its economic participation, although very unequal, was sufficient by then to permit a decent standard of living for most (at least on absolute terms). On the other hand, there seemed to be no other known way to attain economic growth in the 19th Century except via capitalism.

None of these premises held true in Latin American, and more particularly in Chile, with sufficient force to permit a consensus. In fact, whatever the reason might have been--lack of entrepreneurial push, premature, excessive or poorly conceived intervention by the state--, growth in Chile has been meager. Therefore one of the classical arguments in favor of the legitimization of the prevailing system loses its validity. On the contrary, since strong and sustained economic growth failed to come about, people looked to the political system to distribute the meager fruits of the economic system. Thus, instead of reinforcing each other, the political and economic systems opposed each other. Slow economic growth increased the pressure for redistribution, and the attempts to redistribute via intervention of the price system made it even harder for the economy to grow. As a result, instead of growth making income disparities more tolerable, it not acceptable, a vicious circle set in of slow growth, bigger redistributive conflicts, and even slower growth.

This vicious circle was broken by the military coup in 1973. Such was the level of conflict at that time--not just on distributive issues but on the political and social ones as well--that major macro-economic disequilibria set in. Given the futility of such conflicts and the resulting economic chaos, a system of economic liberalism with a highly concentrated distribution of private property could be established by force, with some degree of approval by the majority; just as any other system could have

counted on similar approval, so long as the economy were ordered and stabilized. So, the present system justified itself, not because it promoted growth but because it brought order. However, such a justification was necessarily of short duration; it serves its purpose only if it eventually brings about greater growth or a bigger share of participation in the social product. Since such was not the case, the justification or legitimacy of the present system in Chile does not rely on an initial or acquired consensus (because of the results) but relies on mere force. In other words, economic and political concentration was not legitimized either by order or growth.

Widely distributed private property may be justified as a social structure to promote decentralization and autonomy, but certainly not concentration of private property, except, to be sure, for reasons of prudence (for instance, to avoid destabilizing or repolarizing a society too long submitted to protected social conflict in the last 20 years). However, prudence is a two edged sword. For there also may be times such as, perhaps, the 12th of September of 1973 or today, when because of the high indebtedness of many firms, these no longer belong (de facto) to their titular owners, so that property may be redistributed without heavy social conflict. At any rate, as long as a consensus with respect to the justice of the system and the rules of the game is not reached, it will be difficult for growth to come about. And as long as the initial distribution of property remains as concentrated as it is now, it seems unlikely that such a consensus may be reached.

Second, every society no matter how well it might be structured, requires in addition a certain social ethic to function effectively, in a truly democratic way. It cannot operate on the basis of individual interest alone. There are basic rules--such as, good will and respect for promises and commitments--which no institution, especially a democratic one where participation is essential, can forego. If a majority, or even a substantial

proportion of the population, held an exclusively individualistic or Machiavellian attitude, such a society would rapidly deteriorate. Fortunately it seems that the majority of our citizens exhibit a social ethic that transcends the mere preoccupation for their individual interest, which serves to integrate if not to identify the personal with the national interest, thus creating community bonds.

However, the ethos should not be abused: the individual cannot be expected to act frequently to his obvious disadvantage or long to put off his own vital interests. It is thus important to minimize situations that might oppose social interest to vital personal interests. For instance, among the basic principles of democracy is the alternation of power. This principle implies that the minority accepts its defeat, in the belief that new opportunities will be forthcoming for it to re-establish itself as a majority. But this implies the conviction (or faith) that political power will not be used by today's majority to prevent the minority from recovering power again. Power is relinquished today because it is expected that today's visitors will do likewise tomorrow should they lose. There is, in fact, no guarantee that such will be the case. One need simply trust the adversary enough to expect that he too will respect the principle of the alternation of power, should he lose. The limits of confidence are exceeded when there are grounds to suspect that the opposition will not abide by these rules. For instance, when the opponent's ideology rejects democracy, by charging that it is a mere façade, so long as private property is permitted. Or, likewise relevant in today's Chile, when wealth is concentrated in the hands of a small minority, implying that the economic oligarchy would risk everything by transferring political power to a majority who might use it to redistribute their economic power. For this reason the majority often fears that economic minorities accept democracy as long as the government is in their hands (those of the oligarchy) but would not accept it otherwise. In such cases the majority suspects that the oligarchy would prefer a military takeover. Inversely, the fear of the oligarchies that political power may

be used against them without due respect for the minority (themselves) but rather that the majority might resort to legal loopholes to remain in control, makes them doubtful of the good faith of their adversaries. For that reason, good faith in the adversary, an indispensable pre-requisite of democracy, is severely weakened when the concentration of wealth is grossly skewed.

Third, and more closely related to the economic sphere, if property is too concentrated, it results in an unequal exchange between capital and labor, since, to the extent that labor lacks significant alternatives providing minimum levels of subsistence, it is forced to enter, (because of its restricted options) into quasi coercive relations with capital, rendering such exchange unfair and unequal. At first glance it might seem that a more even distribution of wealth is not necessary for equal exchange. It would appear to suffice that property be well enough distributed to force firms to compete with one another for available labor. In other words, the existence of a sufficient number of firms to prevent collusion among firms, along with an adequate macro-economic policy would lead to full employment, and so, assure effective and adequate alternatives for labor.

The problem with this "neo-classical" formulation is that the "full employment" that successful macro-economic policy achieves in underdeveloped countries is that of productive plant capacity (capital). If unemployment or underemployment still persist--which is the typical case--, the employment problem is then a structural one which macro-economic policy alone cannot solve. Of course, such excess labor could eventually be employed at sufficiently low wages, but there is no guarantee that such wages would generate full employment at above subsistence wage levels. Therefore, when a structural employment problem such as this is confronted--too many workers for the stock of capital available--there are no real alternatives for workers; consequently, there is no real competition for labor, regardless of the

number of firms in operation. In other words, when a condition of structural unemployment exists, collusion among the firms is not necessary for them to cut wages to levels at, or below, subsistence.⁵

Under such conditions as these, the creation of real alternatives for labor requires a guaranteed minimum level of income. This might be achieved, though very imperfectly, by establishing a minimum wage, which might increase the wage bill and therefore family income (but at the expense of creating open unemployment), if the demand for labor is sufficiently inelastic. This same objective could be achieved, but far more effectively and securely, if property were well distributed from the start, as all (or many) could count on a minimum income derived from their property, thus reducing their dependence on work for subsistence. That way even a low wage might be enough (along with their property income) to assure an adequate income. Under such conditions, one could talk of a truly competitive labor market. This is not the occasion to determine what an adequate subsistence income would be, nor how widely property would have to be distributed in order to assure such a level of income. But evidently it would require a much wider distribution of property than that necessary simply to prevent collusion (the classical monopsonistic argument). Suffice it for the moment that the reader imagine the difference it would make in the labor market if every family could already count on an assured subsistence because of his property income.

The importance for labor that it have real alternatives for subsistence outside the contracted labor market in order to avoid unequal exchange is even more evident if one considers that control over labor has historically been the favorite tool of the wealthy to maintain their economic power. The most outstanding case of this control is, to be sure, that of slavery, when direct coercion was employed for the open exploitation of man. But coercion and unequal exchange was no less real, though less direct, during feudal times when the worker (the serf) was so bound by law to a fixed

piece of land (that of his feudal lord) that he had no other alternative for work (except to escape into the city). An analogous result was achieved (or attempted) later with the Poor Laws in England by punishing "vagrancy" (the absence of fixed employment); or with the "encomienda" in Latin America where the person was forced to work for a given employer at a fixed wage, with no alternative. By so prohibiting or discouraging internal migration and the search for work, the alternatives open to a dispossessed worker were severely restricted, thus making him dependent on one or a handful of employers (in technical terms these measures promoted monopsony).

The history of the exploitation of labor is therefore associated with legal limitations on work alternatives leaving the worker with no alternative but to enter into contracts of unequal exchange. The history of labor's liberation is thus tied to the creation of work alternatives. An open market (free bargaining) was a necessary step forward, but as previously demonstrated, it was not a sufficient condition for effective competition of labor. The latter requires the existence of adequate alternatives, which can only fully exist: a) in the absence of structural unemployment (or under employment) and b) when macroeconomic policy assures a sufficient aggregate demand for full employment. If a) fails—a typical situation for underdeveloped countries—, alternative structural changes are required to assure the worker a basic minimum income.

The existence of assured alternatives for providing an adequate level of income can be achieved, as noted above, via a far wider distribution of property. Though technically the soundest solution, it is not always politically or socially feasible. Indeed its pursuit is likely to be quite divisive. Thus it is important to mention what at other times may be a politically more feasible solution. That consists essentially in society's guaranteeing each family a minimum income, funding this out of a tax on property. This is unlike the minimum wage, where a man's right to a decent

wage is rendered inoperative by imposing no obligation to hire on anyone in particular: in the case of a guaranteed minimum income society as a whole assumes the obligation. Such right could be linked to employment as suggested in LABOREM EXERCENS (the state supplementing the free market wage) thus satisfying labor's need both for income as well as for participation in production via employment. Thus both these measures (a wide distribution of property and guaranteed family income or employment) would provide effective alternatives for labor, equalizing the exchange between labor and capital. Whichever be chosen would depend on political feasibility and considerations of a similar nature⁶.

Fourth, the effective and stable functioning of a democracy requires a separation of powers, not just between the executive, the legislative and the judiciary within the political sphere, but between the political and the economic spheres themselves. Private property serves as a barrier against the unlimited expansion of the political into the economic sphere, but if property is highly concentrated, the reverse possibility increases alarmingly, namely the possibility that the economic sphere may control the political leading to an oligarchic and non-democratic government.

The problem arises because the principle of equality that regulates the political sphere--one person, one vote--counteracts the principle of efficiency which governs the economic sphere, to each according to his contribution--meaning, one dollar, one vote. It is not that one principle is intrinsically superior to the other, for each makes sense within its own sphere. However, when private property is concentrated, there is the inevitable temptation to transfer the dollars generated in the economic sphere into votes within the political. The limiting case is when votes are openly bought or legislators bribed. And if such situations, perhaps, are less frequent nowadays, nonetheless indirect mechanisms of influence

abound; and though less easy to distinguish from attempts at legitimate persuasion, precisely because of that fact they are especially dangerous.

The fact that political campaigns require so much financing subjects the politicians, and the parties as well, to excess pressure from wealthy minorities. This is not to say that the resulting dependence is complete or inevitable, but undue dependence arises. And if this is not anticipated and counteracted, it will give too much political power to those who simply have more money.

Likewise, democracy depends on the free and informed participation of its citizens. The financial dependence of the means of communication on the advertisers unduly influences their editorial policy. A free press is, of course, preferable to one controlled by the government. However, editorial opinions should certainly be more diversified and substantially wider than the concentration of wealth. In the same vein, propaganda (slogans which resort to prejudice and myths), of which we are all capable, is based on repetition and needs financing. While it is true that in the long run the truth will prevail over propaganda, the more propaganda abounds, the more polluted and confusing does the informational environment become and the costlier it becomes for the truth to win out. Hence, truth is likelier to emerge the less unequal the financial reserves on which political adversaries may draw. While there are solutions to this problem, which I shall discuss later, the need is significantly reduced to the extent that property is widely distributed rather than concentrated.

I must emphasize once more that the issue is not one of simply having "good" people. The problem transcends the individual sphere; it is structural. When property is too concentrated, legislation tends to be personal, much as it may try to appear general and impersonal. It is

difficult to legislate for the common good as if we were all alike. The fact is that the welfare of the majority may be improved at the expense of a large minority (or vice versa). It is therefore only logical to expect a minority of large property holders to try to prevent the majority, the dispossessed, from acting against the wealthy's interest or to secure special concessions for themselves. And this tendency will be all the greater, the more concentrated property is. Policy that would tend to benefit the whole community (by increasing "the size of the pie") will be resisted by those whose primary objective is to benefit some at the expense of others (redistribution).

To be sure, it is not my intention to eliminate interest groups--that would be an illusion. For democracy requires a multiplicity of interest groups for its stability and safeguard. It is better served by a population well organized and represented by diverse interest groups (by occupation, religion, region...) which, moreover, do not systematically coincide among themselves. On the other hand, the concentration of property encourages the polarization of interest groups; it tends to make one consideration (property) predominate over all the others. Consequently the economic sphere tries to dominate the political or vice versa, centering social action on zero and negative sum games, jeopardizing democracy itself. This explains the need for establishing greater coherence between the distribution of power in the political and economic spheres (which for a democracy implies greater equality). Only in this way can proper autonomy be maintained in each sphere.

D. Toward a Constructive Theory of Private Property

Insofar as the political and social spheres are concerned, the legitimacy of private property as an institution is based on the provision of an area of autonomy for the individual; and in the economic and social spheres, it is based on its power to generate new wealth. If it only served to redistribute wealth (that is, take it from some for the benefit of others), it would be too onerous and weak to build a free and fair social order upon it.

Private property is an extension of the principle of distribution, whereby one's entitlement is proportionate to one's contribution toward the generation of wealth⁷. One is therefore free to dispose of reward received for his contribution in whatever manner one may see fit (subject always to the condition of not affecting others adversely). One has the right to trade it for consumer goods; or if he so wishes, distribute it partially or totally to whomever he wishes; and also to trade it for goods that may generate other goods (a machine, a computer, a robot). The right to a share in output in accordance with one's contribution and to exchange freely (that is, without coercion) imply, therefore, the freedom to multiply one's possessions and enjoy the fruit of one's efforts.

In ancient times, labor was the means of production "par excellence" of which there was then, in fact, a shortage (relative to land). For land was very abundant and therefore of relatively small value (in technical terms its marginal productivity was virtually zero). Land had worth only to the degree one had labor to work it. For that reason it was possible to multiply or accumulate productive goods for personal disposal (that is, for investment) principally⁸ by purchasing the scarce means of production of those days, namely labor, via the institution of slavery. For were labor to

be contracted freely, the employer would have been compelled to pay a wage equivalent to labor's marginal productivity, leaving him virtually no profits, for land was so abundant that its rent was virtually zero⁹. For that reason, in the absence of labor, land was worthless, and labor, if paid on the basis of its marginal productivity left no profit. Therefore the accumulation of means of production in those days meant the accumulation of labor, and given the shortage of labor, this could be acquired profitably only via coercive means. Surplus value was extracted because the cost of the slave plus the cost of maintaining him, amounted to less than what the slave generated by his work--an acceptable situation for both the seller and the buyer of slaves, since the slave did not participate in the deal. It represented enough profit for the seller if he charged for the slave more than what his capture had cost him. The slave had but two alternatives open to him: escape or attempt to get better treatment, reducing his effort to the minimum acceptable by his owner. The difference between the value generated by the slave to production and his maintenance plus purchase costs (annualized) was a measure of the surplus value extracted by the owner¹⁰, and taken from the slave.

Control was also exercised with respect to labor by indirect coercion, as the worker was bound to the land (as under the feudal system or during the "encomienda" and other practices established in the New World), thus creating an artificial shortage of land. These indirect forms of control resulted in the concentration of land to such a degree that many workers were deprived of sufficient land of their own (at least in areas with access to civilization) for subsistence. For that reason, in spite of the fact that large tracts of land remained unexploited--a sign that the marginal productivity of land was virtually nil--, because most of the land belonged to a few landlords, an artificial shortage of land for cultivation was created thus forcing the bulk of dispossessed workers to labor in their large

landholdings at any price. For that reason most workers without enough land to provide them with a subsistence income had no alternative but to accept work for subsistence wages instead of those equal to labor's higher marginal productivity (which would have implied no rent for land, given land's negligible marginal productivity).

In this manner, the large concentrations of land, tradition (Feudalism) and laws (the "encomiendas"), all gave rise to an artificial scarcity of land relative to labor, raising land's value excessively and artificially, at the expense of labor, forcing dispossessed laborers to work for the big landlords for subsistence wages and not for those equal to their real worth (labor's higher marginal productivity). Of course, this is but a crude, analytical simplification to summarize more than 1,000 years of economic history. Nevertheless, I think that its basic insight is valid: until the Industrial Revolution came about, lots of private wealth--strictly speaking this measured the surplus value extracted--was created (but not social wealth) by means of the coercive or almost coercive control of labor.

With the passage of time, and especially since the Industrial Revolution, other factors of production have become scarcer than labor. These--machinery, and today, computers and robots--make increasingly more important contributions toward production, but since they are neither free nor human, the wealth generated by them belongs, naturally enough, to their owners. It is the owner who produces, develops or purchases these means of production, and therefore their contribution to production belongs to him. But his profit stems from the domination of nature by man, and not the exploitation of man by man. Wealth is thereby generated, not simply redistributed. For this reason, such a process is socially, and not simply privately, beneficial and desirable, giving rise to legitimate profit.

In general, capital goods, like all other goods, are worth their cost. The profit left after that cost is due to: a) their wise utilization (or poor, in which case it gives rise to negative profits) by the buyer and user; and b) the fact that while those means of production have to be paid now, they yield their fruits (or goods) later; thus the total value (or stream of values) must exceed their present cost, to the extent that present consumption be valued above future consumption (namely, the interest rate). In such a case, a surplus or profit is generated without exploitation (of human beings). New wealth is thus generated, and the legitimate profit stems from the higher value of present with respect to future payments and to the capacity to organize the means of production in novel and useful ways.

This is not to deny that even in societies where there is no slavery, labor exploitation may exist. It simply means that today wealth can be generated, and is principally generated without resort to the exploitation of man by man, but of animals, or mechanical, electronic or other such means of production. Therefore the fruits of such means of production belong to their owners, just as the fruits of labor belong to the person generating it. So the ownership of private property resulting from the use of non-human means of production is legitimate, for it is an extension of a person's own contribution (provided always that its purchases have not been the product of unequal exchange with labor).

In short, with the advent of the Industrial Revolution and the increase of other means of production as substitutes for labor--first animals and then machinery--land became relatively more scarce (not artificially, but really) whereas labor (and its substitutes) became more abundant (at least in Third World countries). Since mechanical and animal power can be concentrated (or diffused) without limitation, the concentration of a

plentiful though artificially scarce factor, such as land before the Industrial Revolution, resulted in the concentration of these new factors of production which substituted for labor, permitting a single owner to have an income equivalent to that of hundreds of workers.

It does not mean that animal power (horse power) and machinery, factors massively introduced with the Industrial Revolution and the discovery of the New World, inevitably led to the concentration of wealth. I am arguing, rather, that the resulting concentration was in large part due to the fact that economic power had long before been concentrated, both by coercion as well as by the artificial creation of land shortages (and for these reasons was largely illegitimate). Because of that, the principal factor responsible for the concentration of wealth is not the Industrial Revolution. Rather, the Industrial Revolution inherits it, and then converts this into the concentration of the new scarce factors (particularly machinery, later financial capital, and in the forthcoming future it will be the control of the means of communication and information).

This paper is based on the premise that there is an essential distinction between the legitimacy of the institution of private property, socially beneficial in itself, and the legitimacy of its present distribution. Private ownership of the means of production is legitimate as long as it creates wealth. On the other hand, to the extent that private property was acquired in a coercive or quasi coercive manner, it is not legitimate, as it is based more on the redistribution of wealth than on its generation. Since a good portion of the status quo (distribution of wealth) came about in that manner, its legitimacy is dubious, more the result of inertia than of any other intrinsically legitimate principle. However, the fact that the present patrimonial distribution is of a dubious origin does not make private ownership in itself illegitimate. Illegitimacy per se would be grounds for its elimination. But the illegitimacy of the patrimonial status quo leads not to the abolition of private property, but to its restructuring by way of its

diffusion and decentralization¹¹.

Since massive, efficient production requires heavy capital investment, at first glance it might look as if the modern factory system would not permit an ample diffusion of property. Yet diffusion is not, in fact, an abstract ideal, lacking relevance in the modern world. For the corporation, the modern institution "par excellence" both permits the necessary concentration of factors for efficient production, as does it allow for a limitless division of ownership. There is no theoretical reason, and certainly none based on efficiency, to impede the possibility that every person or worker own \$10,000 of capital (the average stock of capital per worker in Chile) or whatever the amount might be. In fact, it would be more difficult to subdivide land equally and make it produce efficiently than to subdivide the value of a corporation among an indefinite number of owners. Therefore, if the ideal of a wide distribution of property is not instituted, it is not due to any intrinsic reasons—such as the alleged impossibility of dividing property—but basically to historical reasons. In a word, that even before the Industrial Revolution and then again after the colonization of America (particularly South America, for in North America the family farm concept prevailed), a highly concentrated distribution of wealth was inherited, whose legitimacy is thus highly questionable.

E. Private Property Is Only One of the Forms of Social Power

Nor should one consider private property, when widely distributed, as the exclusive source of autonomous power and efficiency in a society. There are circumstances when efficiency is better safeguarded by the collective ownership of certain means of production (natural monopolies), or indeed where freedom may be better safeguarded via collectively owned property, than concentrated private property.

At any rate, it is important to point out that ownership of the physical plant is not the only, nor even the principal source of economic power in a given society. Since time immemorial, knowledge (or human capital) has been another source of economic power, and very especially since the Industrial Revolution; and technology is by its very nature, intrinsically "diffusable". While it is difficult to develop new knowledge, once a discovery has been made it is difficult to prevent its diffusion, for the costs of transmitting the information are but a minimal fraction of what it costs to make the discovery. Indeed, for this reason, society often provides temporary monopolies over inventions by issuing patents, so as to keep a balance between the costs of invention and its diffusion. To be sure, it is always in the interest of the monopolist to prevent the diffusion of that knowledge and to limit its access to the big majorities. But that is a delaying action, for the forces in favor of diffusion tend to be overwhelming (unless legally prohibited). For this reason, the diffusion of "human capital" (and the access to knowledge) is in the long run more revolutionary than the diffusion of physical property itself. After all, the former is only static, a once and for all benefit, while knowledge, if widely diffused, can make plentiful what before was only artificially scarce. It also puts the bulk of the population in a better position to take advantage of future advances.

Even so, physical and human capital are not the only forms of economic power in society. Another form increasingly important since the Industrial Revolution and the resulting mass production is organization¹². A firm is worth a lot more than the combined value of its machinery and the knowledge of its workers. The fact that these factors are combined in various ways, with goods aimed at specific markets and a select clientele, with its own brand name, reputation and norms of operation, increases its value well beyond the sum of its individual components. The proof of this, were it necessary to show it, is easily at hand: it is the difference between the book value of a firm (represented by the cost of its inputs and

equipment) and its real market value, which is generally well in excess of this. The corporation, an institutional invention of the 19th Century, has increased enormously the value of organizational power, by facilitating the concentration of capital and labor way above the limited capacity for capital and managerial talent which the family firm permitted.

However, organizational power is best exhibited not by firms which operate for profit but by non-profit institutions. The military is perhaps the best example of the power of organization, where the capacity to coordinate individual wills by means of discipline is at its fullest. And in the social sphere, consider the economic power wielded by unions, business associations, interest groups and political parties. They own no property as such and yet, their economic power goes beyond the size of their membership; rather, it is proportionate to the degree of cohesion and discipline they have in pursuing their goals.

The relative power of organization has increased considerably, especially in the last 100 years. For in the past, the number of persons whose efforts could be coordinated was severely limited by the relatively rudimentary forms of communication available. Before the days of Gutenberg communication was limited to handwriting. And it was not till the beginning of the 20th century when, thanks to the radio, the rapid and massive diffusion of information became possible, and so the coordination of large masses of people became technically feasible. Therefore, it was not until the 20 century that organization came into its prime as a major source of economic power.

Moreover, it was precisely in the 20 century when, due to the increasing power of organizations and their close dependence on the mass media, that the control of the latter became of paramount importance in society, far more so than physical property as such. Since economies of scale are very large in the media (especially in television) and there are

few alternative channels of communication at the national level, this gives a tremendous power to only a very few: the owners, the advertisers, the directors of the news programs.

In short, economic power has tended to concentrate not in property owners as such, but in those who control the scarce and critical factor for that historical epoch. Thus economic power has passed from the landlords to the industrial entrepreneur; from the latter to the financiers, and later to the trusts and conglomerates, whence it has been limited, compensated or overcome by the economic power of social organizations, the political party, the press, and finally by the mass media. Property has, therefore always enjoyed power, but its importance and effectiveness is relative to the historical stage of development and to the importance of other critical factors less subject to individual appropriation (in property) such as knowledge, organization and the media.

Moreover, it can be stated that in the modern world, at least in the developed countries, the economic power of the stockholder has been so diluted that for a long time effective control has passed from the stockholder to the hands of the managerial technostructure, whose power is self-generated in a relatively independent way. This followed from the same organizational revolution that brought about the concept of the corporation. With the increase of capital made possible by the limited risks taken on by its owners, the separation of management from property in the corporation became a relatively easy matter; and with the dilution of ownership, effective control passed on to management. Having too little at stake in equity to act, the typical stockholder has no possibility to change managerial policy by "voice", having to resort, if he so desires, to the relatively crude pressure of "exit" (selling his shares). It is extremely costly to really participate, except for major stockholders (and there are few in developed countries who own more than 5 percent of the shares of a corporation's stock). Hence—except for major blunders—management is

relatively free to act so long as it pays some minimum rate of return to investment. Given this, management has freedom of action, including the real power of appointing the members of the Board of Directors, and through them its own successors. In other words, the stockholder has virtually no more control over the company than bond holders. Thus within a wide margin, the modern corporation has transferred control and earnings (at least temporarily) from capital to the managerial technostructure. This has been able to acquire power without owning the property, as shown by Berle and Means in their famous book¹³. A similar phenomenon has taken place in socialist countries with the aggravation that there the key technostructure consists of the planning bureaucracy. And since this technostructure is closely associated with the party, a new class has emerged with such power as was never known in history before, though without titular ownership¹⁴.

Of course, such is not the case as yet in underdeveloped countries, where most corporations are still controlled by a single owner or family. However, to the extent that these become modernized and expanded, it is likely that the separation of management and property which occurred in developed countries may happen there as well. In other words, even if property ownership were to be diffused in developing countries, it does not mean that control would also be decentralized. What would probably happen instead is that the effective control over the resources of the big firms would pass into the hands of management and the technostructure, the latter increasingly disassociating itself from the stockholders. While it is true that decentralization of property is in any event an advance from the standpoint of the distribution of income, economic power would still remain too highly concentrated, except that this time it would be in the hands of management and the technostructure, rather than in the hands of stockholders.

F. The Strengthening of Democracy: The Diffusion of Power and Not Only of Property

Property is only one of the forms of power in a society; nor is it to be equated with economic power. This holds true as much under a "popular capitalism" with ownership widely distributed, as under a socialist economy. With reference to property, would there be any significant difference between the fact that every Chilean were to become the owner of 1 / 12,000,000 of the shares of all Chilean firms by way of his pension fund say, as it would be with popular capitalism, and that each Chilean were "owner" of each firm by virtue of his citizenship in a socialist Chile? In both cases, be it popular capitalism or market socialism, effective economic power would not reside in the "owner" but in the technostucture that managed the firms. Moreover, if we were dealing with centrally planned socialism and not market socialism, effective power would reside, not in the technostucture of each firm, for the firm's degrees of freedom would be few, but in the planning elite. At least the market system (be it socialist or private property) assures the existence of multiple technostuctures (as many as there are firms) and a degree of competition among themselves, while central planning would center the power in the planning summit itself. This fact explains the intrinsic tendency of centrally planned socialism toward totalitarianism, not because of the concentration of property but because of its concentration of decision-making and control of most economic and political resources in the hands of only a few.

To prevent the concentration of decisions is virtually impossible under a system of centrally planned collective property. To restrain that

tendency the decentralization of decision-making is required; and this requires the creation of multiple centers of decision-making in the society. And this is, in essence, precisely what the market system does¹⁵ when it allows the decisions about production and investment to be made at the level of the firm and those about consumption to be taken at the level of the individual consumer himself. In short, aside from its possible economic merits, the principal argument on behalf of the market system is that it decentralizes the decision making power in the society, strengthening thereby the structures of democracy and pluralism.

If the market were combined with an amply diffused system of private property, the structural barriers to concentration would be even more effective since it would tend to permit a wider participation in decision making. It would be just a tendency, since the diffusion of property would not be sufficient by itself to assure an ample diffusion of control. To clarify this, let us resort to the following mental experiment. Wouldn't there be a major difference in effective control if the economic resources of the firm (take for example CCU - the beer producer) were in the hands only of the workers of CCU itself, rather than in the hands of all workers in general through their pension fund, say? In both cases there would be private property; in both cases stockholders. Yet, if ownership were restricted only to those who worked at CCU, their effective control over the managing technostructure would be far superior than in the second case, in which the owners would be all Chilean workers through their pension fund.

In the second case, there would be far less knowledge of the firm and its operation and worker participation and control would largely be exercised through "exit" (the sale of the stock) rather than through "voice" as well. On the other hand, if the owners were only those who worked for the firm, they would have more direct knowledge, and because of their

personal interest in its success, they would maintain a more effective control of its operation and over the technostucture (by way of the Board of Directors). Finally, the fact that labor and capital were directly and closely bound to each other via ownership, would mean that the incentives for taking decisions of mutual benefit both to capital and to labor would be far stronger in a firm belonging to its workers (or in which its workers had an important ownership stake).

This solution to the problem of private property -- cooperatives -- where property is essentially distributed among the workers of that very firm has two drawbacks: First, it is static. What happens as time goes on? Will any new workers who join the firm become owners as well, and if so, subject to what conditions? Upon retirement of the old workers from the firm shall they sell their stock, and to whom? If any one of the owner-workers is fearful of the risks involved and wishes to minimize his risks, by selling some of his shares, would he be allowed to do so and if so, to whom? If the stock is allowed to be sold to someone who is not a worker in the firm, sooner or later worker control will diminish. And if the sale of the stock is restricted to current workers, it could lose its liquidity (and consequently, much of its value).

Second, if the stock of a firm belongs only to its own workers, a problem of inequity will ensue for the working class in general, as those working for highly capital intensive firms would benefit from it to the disadvantage of those working in labor intensive firms. And what could be done about the self-employed, who would have access to no property?

Control can be separated from ownership, and equity maintained, if firms are financed by bonds instead of by shares or stock. By this I mean that capital (bonds) would receive a fixed interest, and the workers would

have a variable income, with the workers assuming, as the counterpart of, such a residual income, the risk that goes with the right to profit. This solution, labor managed firms, is ideal from a theoretical and doctrinal standpoint, for it diffuses property as well as participation in control,¹⁶ and in this way strengthens democracy. Nevertheless, it too presents several technical and practical problems which may make it undesirable in certain instances.

The lack of personal equity in the case of some of the workers/managers implies that their maximum affordable losses would be limited to the sum of their combined "wages" plus normal profits. This problem becomes more acute the more capital intensive the firm, and consequently the lower the typical wage bill of the workers when compared to the interest bill they must pay bondholders. For that reason, the firms would be susceptible to bankruptcy, with only minor fluctuations in cash flow. If it were certain that such cash flow fluctuations were only temporary, the firms could resort to the capital market and borrow. However, it is not always easy to determine whether a given fluctuation is temporary or permanent. And if banks are unwilling to make the loan because they consider a given fluctuation to be permanent, the workers will be compelled to return a good portion of their annual "salary" advances (or perhaps more). In anticipation of such circumstances, it would be necessary for the workers to build a reserve fund of their own to cover such possible losses; otherwise the firm would risk passing from conditions of illiquidity to ones of insolvency. Even though the labor managed firm does not require the ownership of stock by its workers -- indeed, as a matter of principle, such firms try to separate management and risk from property as such --, it does seem necessary to meet the above mentioned problem that the workers own some capital (bonds, though not necessarily of the same firm) at least to serve as collateral. Unfortunately, this solves one problem

(the one of guarantees) but creates another, by limiting the admission to the firm to only those workers with sufficient capital for the guarantee.

Likewise some mechanism will be required so that current workers be able to capitalize future income streams, resulting from current effort or risk. Otherwise firms will avoid risks and discourage long term investments. Hence, some special financial instrument will necessarily have to be issued to current workers which permits them to actualize future gains (or losses), so that the future gains (or losses) deriving from current decisions fall on today's decision makers (the current labor plant). One possible solution is that salary advances be in the form of negotiable preferred stock (without a vote), with a first right to future earnings after interest payments, and whose value would be determined freely in the market. In any event, whatever the instrument selected might be, it is evident that the successful operation of a labor managed firm will require, somewhat paradoxically, the existence of a highly sophisticated capital market, in which capital (property) and management be clearly separated, with the workers controlling management and assuming risk, and with the bulk of the capital consisting of debts (bonds) instead of shares of stock.

Of course, all sorts of combinations are possible between capital managed, labor managed, and technostucture managed firms. Currently the best known combinations are cooperatives, profit sharing, and labor's co-participation in management. The most convenient combination for a firm at any given moment will depend on a host of factors (not only, to be sure, on the existence of a critical mass of firms and of available financing, but on such individual characteristics as size, capital intensity, skill intensity, degree of unionization, aversion to risk-taking, the stability or permanence of the trade or business in which they are engaged, the viability for associating the incentives to the results at the level of

micro-units, etc.). Nevertheless, in all cases effective participation will depend directly on the degree of autonomy of the firm and, therefore, on the degrees of freedom possessed by its management. For that reason, in general the degree of participation (be it co-participation or a fully labor managed firm) will be important to the extent that the firm is immersed in a market economy.

Therefore once the market system is perfected (or created) and property widely distributed, participation in management needs to be opened and encouraged as much as possible, compatible with the principles of efficiency (society's interest in generating wealth) as with the interests of those workers who participate in it. In this way the distribution of income is improved, the efforts of the various factors (capital, labor and technostructure) will be more strongly mobilized and their interests harmonized; and, what is of critical importance, a greater congruence will be achieved between the principles that govern the economic system and those that characterize an open, democratic and pluralistic system.

In brief, implicit in this analysis is the felt need to diffuse power generally, not just economic power, and certainly not simply property ownership, if democracy is to be structurally buttressed. For this reason, as the foregoing suggests, the existence of the market, with its resulting multiplicity of decision making centers, is the "sine qua non" of effective participation -- even more so than the existence of private property. Without it, decision making centers are too limited, and participation too aggregate (say in regional or sector plans) and far removed from the individual. Economic power will tend to reside in a very select planning technostructure, thus tending to clash with participation in the socio-political sphere. It is not surprising then that centrally planned systems be so prone to lead to authoritarian, when not totalitarian

regimes. At least the market creates multiple decision making centers with competing technostructures. In effect, participation and freedom are exponential functions of the diffusion of power and the degree of competition. Even some competition among different technostructures can lead to much freedom for the heretofore disenfranchised. Room for maneuver at the "bottom" increases geometrically, even as competition among the elites increases but arithmetically.

Private property, especially when diffused, is far preferable to collective property, inasmuch as it preserves the means for more autonomous action on the part of the bulk of individuals and intermediate groups. By thus putting the means for direct action into their own hands, their dependence on the state for permits to publish, for employment, or for loans is radically reduced, thereby structurally limiting centralizing tendencies on the part of the state. Where the alternative is collective property or highly concentrated private property, the issue is less clear. And it is a matter of judgment which is more likely to evolve in a power diffusing versus a power concentrating direction.

Finally, though my conviction is that democracy and pluralism are most congruent with a market system, with widely diffused private property, ownership, and maximum labor participation in management, most socio-economic systems are so far from that ideal that the paths to take are many and these will depend on both the initial starting point and on questions of political and social feasibility. (See graph 1).

Hence, if our starting point were a market economy, we would strive first to diffuse the ownership of property, or alternatively create a guaranteed income/employment program, and secondly we would search for mechanisms that would spread participation in management control.

Conversely, if the starting point were a centrally planned socialist system, the indispensable thing to do first would be to introduce the market in order to decentralize economic decision making and so widen decision making from the highly concentrated sphere of the planning system into the multiple centers of power and decision, which are the firms; secondly, establish mechanisms of labor participation in the firm's management; and lastly, turn over most of the property (except for that of strategic or public goods) from collective ownership to private hands, and diffuse it as widely as possible. In other words, the order of priorities would be inverted, depending on whether our starting point were a centrally planned socialist economy or a market economy with concentrated property. Nevertheless, in each case the guiding principle would be the same, to diffuse power as rapidly as possible, beginning with the most critical activities and factors in the economic and social stage in which the country finds itself.

The previous analysis thus suggests that there are several alternatives for development open to the countries of the Third World. Two of them, as much the diverse forms of historical socialism as the various types of authoritarian capitalism, try to accomplish it with a concentration of political power: the former, by favoring equity at the expense of a bigger concentration of political power; the latter, by favoring economic liberalization at the expense of equity. A third way is to attempt balanced development, as much in the economic (growth) and the social (equity) aspects as in the political (democracy). The precise proportion of such a balanced development obviously will vary with the circumstances. However, no matter how much the priorities may vary, it is indispensable to maintain a basic minimum in each of the three spheres, if one is to be faithful to the vision of man as a multidimensional being, whose freedom is the ultimate source of value, the necessary condition for the possibility of

virtue. Thus, the three approaches share in common the belief in rapid diffusion insofar as the economic sphere is concerned. However, where the first two juxtapose economic diffusion with a concentration in the political and/or the social spheres, only the balanced development approach systematically pursues diffusion in all three spheres via its analogue in the political and social spheres; decentralization, deconcentration, and participation.

6. Some Final Reflections on the Means

At this point, this essay should really conclude. Yet to avoid giving it too much of an abstract air, I'd like to suggest key areas of action were our starting point to be that of a newly democratic Chile as of today.

It would seem to me that 5 areas of action would require the most attention at this moment (supposing, to be sure, the fall of the military regime and the redemocratization of the political process).

1) Access to the mass media, most especially television (and its news programs), must be open to all. Some mechanism whereby television news broadcasting time be allotted to political parties, in accordance with their votes or some such formula, need be applied to make freedom of expression and of the press truly effective. For this is "the" most critical form of power of our age -- much more so than fixed property.

2) Education need be expanded, not so much in terms of numbers (a goal already reached grosso modo in Chile), but the quality of that education improved, and access to quality

education made independent of means. This implies necessarily investing in education far more than is currently the case (though, once again, in the spirit of decentralization, the educational system could be, in fact, privately managed though state financed, funding being a function of how far the child's educational performance is improved between entrance and exit). This emphasis on education is, of course, based on the notion that human capital is a critical form of property and so need be more equalized.

3) In an age where organization is itself an increasingly critical source of power, the formation of social organizations need be promoted, while establishing rules to permit (assure would be too strong) internal democratic control by constituents over the governing directorates.

4) The ownership of corporations, whose property is highly concentrated -- and at least those corporations and banks belonging, *de jure*, to economic conglomerates -- would be diffused throughout the economy: the smaller part to be distributed as shares to workers of those same firms, the larger part to workers at large (through the pension fund programs) in inverse proportion to their current income. This measure is quite radical, yet it is not apt to be socially divisive today. For, given the current domestic financial crisis, many, if not most corporations, are, *de facto*, insolvent, sustained by refinancing from overextended banks (currently intervened by the government) and their survival is due exclusively to the amount of money the government has given them¹⁸. In short, were the government to cease

subsidizing the banks, the banks would be forced to call in their loans -- making the government owner of a great part of the capital stock of most corporations and banks. Hence, the idea would simply be that the government claim (de jure) its true share in such banks and corporations, and then proceed to divest itself of such property, diffusing private ownership throughout society -- but putting the property no longer in their current (de jure) owners' hands, but in the hands of the bulk of the population. If debt need be socialized today -- because of the current crisis -- then let the benefit of future growth be similarly socialized, but not collectivized, diffusing property throughout society¹⁹.

It is a matter of prudence just how far such diffusion should go. As a minimum it should include all the failing corporations and banks of the large economic conglomerates. As a maximum, I would draw the line at all failing corporations traded in the stock market (some 250 are traded) and obviously only for that percentage to which they have been subsidized (possibly up to 2/3, since their current market value is but a third of their book value). Family firms, I would leave out -- for technical reasons (they have no shares), for reasons of efficiency (it would be difficult to find a better manager at the moment) and for political reasons (to maintain a broad base of support among small businessmen).

5) Insofar as state property is concerned, that portion of it that lends itself to productive competition or can be administered by a consumers' cooperative (for instance, public utilities such as electric power, water and telephone service) would be turned over to private hands, by distributing

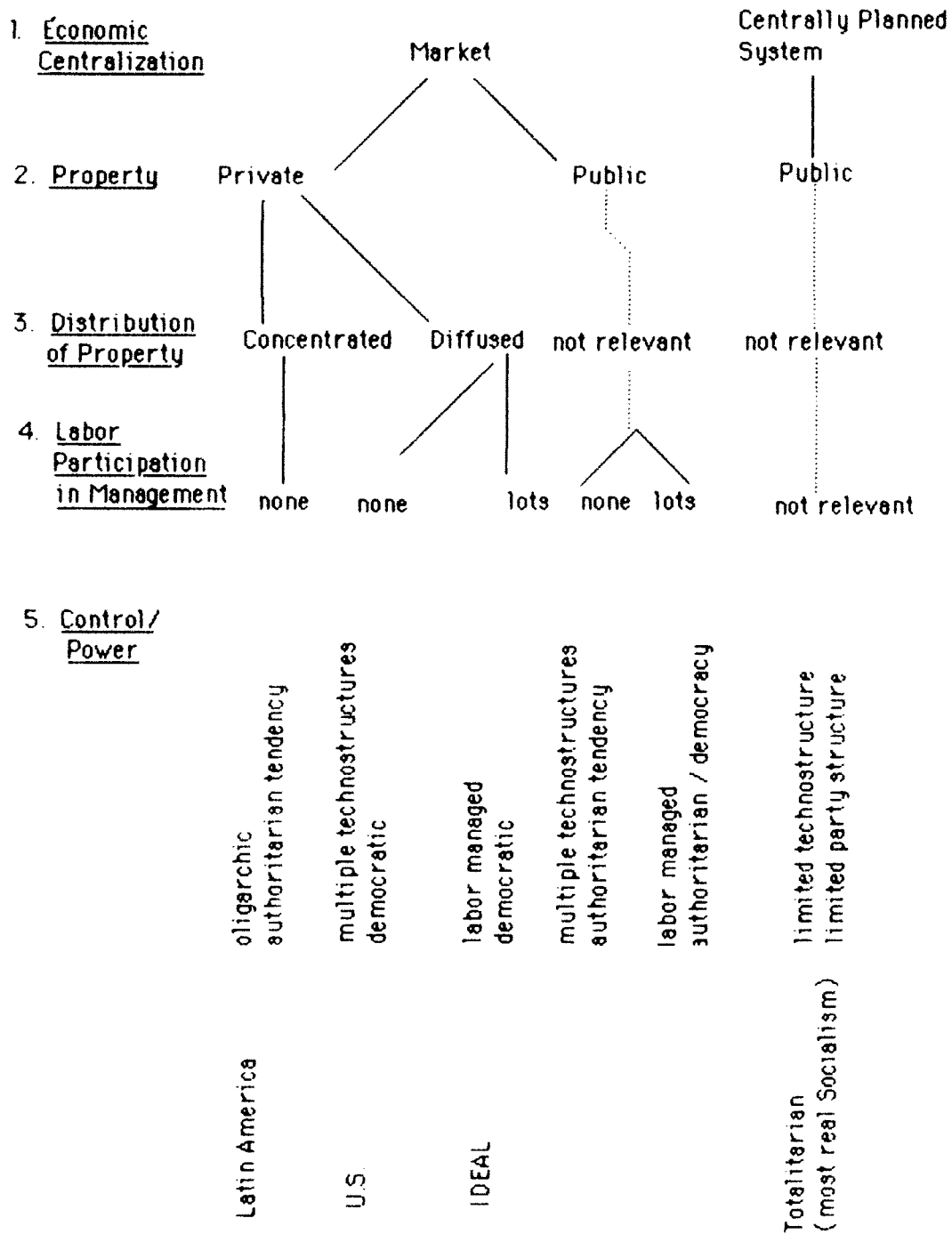
its ownership as widely as possible. The remaining state-owned firms would continue to remain in the public service, but operated autonomously with minimum government interference.

Therefore there would be various forms of ownership and management schemes in the system: family owned firms (with capital and management in the hands of its owners); workers' cooperatives with capital and management in the hands of the workers themselves; consumers' cooperatives, preferably for public service monopolies, in which capital and management would be in the hands of the consumers; labor managed firms, in which ownership bonds would be held by the public (though not state-owned) and management would be in the hands of the workers; state firms -- preferably in strategic sectors -- in which intervention would have to be necessarily great because of the strong impact such firms' behavior has on macroeconomic policy (for instance, copper in Chile, crude oil in Mexico and Venezuela, tin in Bolivia, etc.). However, though publicly owned, for reasons of efficiency and decentralization of power, it would be desirable that their operation be relatively autonomous (meaning that they should be managed as much as possible, as firms in the private sector).

Moreover, there would coexist diverse forms of management -- from the exclusively owner managed firms without worker participation (especially new firms in which the risk is assumed necessarily by the provider of the capital) to full labor management as with worker cooperatives and labor managed firms, along with all varieties of co-participation. This multiplicity of forms of ownership and management would strengthen democracy in two ways: on the negative side, it would make it more difficult for power to be concentrated, since ownership and management would be decentralized; and on the positive side, it would

increase the participation of the people in the decisions that affect them. How real that participation be will depend on the prevailing social ethos -- something that no social structure can assure by itself. However, the multiplication of the decision making centers in society by way of the market system, the wide distribution of property, and participation in management are not only in accord with democracy, but are structures that elicit and encourage participation, and in this sense they are the structures best suited for a pluralistic and democratic society. They are open structures that recognize the diversity of goals and interests in a society, and without suppressing them, tend to harmonize the pursuit of personal and organizational interests and ends with the common good of society as a whole.

Graph I



End notes

¹ It should be noted at the outset that democracy entails far more than a consonant economic structure. This paper restricts itself to the economic domain, and more especially to the role of property, because other papers in the larger project of which this forms a part will deal with these other issues - and most especially the paper dealing with the social organization and participatory structure more consonant with democracy.

² In this paper democracy is to be understood in its traditional sense in relation to the political sphere. For that reason I shall dispense with the phrase "political democracy," as it would be redundant.

³ The development of the USA is an important exception -- and I shall return to it -- as it was non-elite and depended on a big if not a majority middle-class, without a hereditary aristocracy or a preponderance of dispossessed people.

⁴ This refers, of course, not so much to motivation for social action as to its results, for it is known, at least since the days of Adam Smith, that conflict and competition at the micro-social level can be socially profitable at the macro level, provided that they are properly channeled. In essence, competition is a form of conflict, though neither antagonistic nor sterile, for all parties can serve their mutual interests thereby. That makes it socially productive, and thus converts it into a nonantagonistic conflict.

⁵ This, of course, applies only to unskilled labor as, in general, there is adequate competition for skilled workers.

⁶ For example, the guaranteed employment scheme strengthens labor's position, but it also strengthens the power of the state as such, whereas the wider distribution of property would strengthen the areas of autonomy in society, shortcircuiting the need of the state to act as an intermediary.

⁷ How to determine the level of this contribution is a subject of lengthy discussion in the literature. For my purpose, its determination is of secondary importance, so long as one agrees that the principle justifies a difference in distribution in accord with the size of one's contribution.

⁸ I say principally because there was always some kind of technological advancement (for instance, irrigation projects) or new forms of labor organization which justified the claim of a legitimate contribution by management. However, since innovation was slow during those times, the most profitable accumulation was one which directly or indirectly permitted the control of the labor force.

⁹ In technical terms, the small demand for land, considering the shortage of labor, left plenty of it unexploited with a marginal productivity or rent of zero. In other words, there was a "structural" type of land unemployment then, analogous to the unemployment of labor existing, for other reasons, today.

¹⁰ Not only, strictly speaking did this measure the surplus value extracted by the owner but by all other participants in the slave trade as well -- the hunter, the shipper and the distributor. They all profited from the wealth generated by the slave, something that rightfully belonged to him. Therefore, not only the owner but all the rest of the participants shared in this legalized theft.

¹¹ Always, of course, subject to prudential criteria, since it would be necessary to consider whether the efforts toward restructuring might not create worse situations (excessive disorder, economic stagnation, etc.).

¹² This section is obviously inspired by J. K. Galbraith, Anatomy of Power.

¹³ See A. Berle and G. Means, The Modern Corporation & Private Property, Rev. (N.Y. 1968).

¹⁴ See M. Djilas, The New Class. A similar phenomenon -- politically less serious, but economically costly-- has occurred with many state firms, especially in LDCs where the technocratic bureaucracy has used public property for private and personal ends.

¹⁵ This in no way implies that a market system requires no planning. It will indeed need such to maintain the major macroeconomic equilibria, to assure an appropriate distribution of income, and to coordinate and supplement decentralized decision making, but not supplant it.

¹⁶ Obviously, a labor managed firm does not mean that workers directly manage firms. No, firms would still have a hired managerial technostucture, but this would be responsible to a Board of Directors elected solely by the firm's workers.

¹⁷ This problem would be especially serious when the debt to guarantee ratio in one sector exceeds by much the average for the economy in general - as might tend to be the case with very capital intensive firms.

¹⁸ Obviously, in other circumstances, where firms were not bordering on insolvency and hence were not so heavily dependent on government subsidies for survival, such a proposal might be politically infeasible and socially divisive. In such a case, emphasis would have to be made on more gradual programs (i.e. guaranteed income and employment programs).

¹⁹ How to avoid property's ownership being reconcentrated in society is a real problem, which I will not deal with here. For one thing there is no clear tendency, as far as the literature is concerned, for such to take place inevitably. After all, as capital becomes relatively more abundant in a society, its return should decline. Secondly, institutional mechanisms can be designed (anti-trust laws, limits on ownership in any one corporation, etc.) to put a brake on any such tendency. Thirdly, it is not the reconcentration of property alone which is to be avoided, but of all forms of power. Hence the need to be especially attentive towards how control over the critical form of power in a specific historical epoch be evolving, not just of property.