

## Capitalism, Economic Democracy and the Difference Principle \*

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### ABSTRACT

The article examines if Schweickart is right when he asserts that his preferred institutional regime, the “economic democracy”, should also be preferred by Rawlsians. There are grounds to believe that, when compared to capitalist regimes, economic democracy raises worst-off citizens’ expectancies regarding certain primary goods whose distribution is arguably subjected to Rawls’s difference principle, such as employment, leisure time, meaningful work and workplace democracy. Since, however, economic democracy is also prone to reducing levels of income and wealth, a definitive conclusion on the superiority of one of the types of regime seems unwarranted.

Keywords: Economic Democracy. Difference Principle. Capitalism. Rawls. Primary Goods.

### 1. INTRODUCTION

Recent literature on John Rawls has frequently covered the subject of institutional arrangements (or types of institutional regimes) that are more prone to the realization of Rawls’ principle of justice (*Justice as Fairness*). Rawls himself dedicated a fair amount of effort to this idea in his works, particularly in *Justice as Fairness: A Restatement*, in which he exhaustively explores one of his preferred regimes, the property-owning democracy (RAWLS, 2001, IV).

Part of the debate has revolved around the characteristics of property-owning democracy and the reasons why that kind of regime is superior to the welfare state (of which Rawls was, for a certain time, considered an advocate). Among others, one should refer a collection of works organized by Martin O’ Neill and Thad Williamson (O’ NEILL & WILLIAMSON, 2012) on a special issue of *Analyse & Kritik* (2013). In one, David Schweickart (SCHWEICKART, 2012) argues in favor of the superiority of a market socialism-based regime, the *economic democracy*, over capitalist regimes in general, which include both the traditional welfare state and the property-owning democracy.

The goal of this work is to assess the above claim. It is, however, a partial assessment, limited to verifying, under the premise of Rawls’ Justice in Fairness, if in fact there are reasons

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to promote the economic democracy's superiority over other capitalist regimes. To that end, this work's conclusion is more cautious than Schweickart's. It shall be argued that even though, under certain circumstances, economic democracy appears to be more prone to attend the difference principle than capitalism, the opposite is also true, under other circumstances. Furthermore, it also possible that particular versions of both kinds of regime are just incomparable, under the difference principle. In such cases, stability issue may hinder the regime whose combination of primary goods is significantly unbalanced with the citizens' preferences.

The work is organized as follows. The first part presents some clarification and methodological considerations on the comparison between institutional regimes, based on principles of justice, particularly the difference principle. In the second part, which is composed of two sections, there will be a brief exposition on Schweickart's economic democracy and then an examination of this kind of regime under the difference principle.

## **2. THE JUSTICE OF RAWLS (MAINLY, THE DIFFERENCE PRINCIPLE) AND THE INSTITUTIONAL REGIMES.**

According to Rawls, the primary focus of justice is society's basic structure, which he defines as "the way in which the major social institutions distribute fundamental rights and duties and determine the division of advantages from social cooperation" (RAWLS, 1999, p. 6). Under this perspective, justice constitutes a basis of evaluation of the institutions that comprise said basic societal structure.

This emphasis on institutions explains the preoccupation, exhibited by Rawls himself and in the literature pertaining to him, towards the question of which kind of institutional regime is the most just.<sup>1</sup> An institutional regime consists of a certain body of institutions. In *Justice as Fairness: A Restatement*, Rawls enumerates five kinds of regimes: *laissez-faire* capitalism, welfare (or state) capitalism, state socialism, property-owning democracy, and liberal socialism (RAWLS, 2001, p. 136). According to Rawls, only the latter two are compatible with the principles of justice as fairness (RAWLS, 2001, p. 138).

The question of knowing whether or not the existing institutions (whose characteristics correspond, in a more or less approximate manner, to those of a determined type of regime) adhere to the principles of justice is fundamentally dependent on the content of said principles.

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<sup>1</sup> Rawls discusses types of institutional regimes and, more specifically, one of his favorites, the *property-owning democracy*, in the 43rd paragraph of *A Theory of Justice* (RAWLS, 1999), and, in a more detailed manner, in the 4th part of *Justice as Fairness: A Restatement* (RAWLS, 2001).

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The difference principle should now be examined, but, for contrasting purposes, let us first consider the principle of basic liberties, which, notwithstanding to what political liberties are concerned, satisfies itself through a mere legal guarantee of liberties (RAWLS, 1996, pp. 325-326). In order to verify whether or not an institutional regime attends the principle of liberties (except, once again, to what political liberties are concerned), it is sufficient to observe the content of law and the manner in which it is enforced by authorities.<sup>2</sup> Let us now consider, on the other hand, the difference principle (RAWLS, 1999, pp. 65-73). In the version initially portrayed, the principle requires maximizing expectations of worst-off citizens, in relation to a certain index of primary goods, such as income and wealth (to simplify, the work will now refer to the difference principle as one restriction of such goods).<sup>3</sup>

Therefore, the question to be posed is: how can one determine if a certain institutional regime maximizes the expectations of worst-off citizens, in relation to wealth and income? This is a question whose answer does not depend, obviously, solely upon the content of law or in the manner in which it is enforced. For the difference principle, it does not matter how the institutions are outlined, but only the consequences of such institutions with regard to the expectations of worst-off citizens, in relation to wealth and income. The corollary of that is that two identical institutional regimes can be distinctly assessed, under the difference principle, if their consequences are also distinct.<sup>4</sup>

The consequentialist nature of the difference principle raises doubt in a debate that revolves around the question of knowing which kind of institutional regime is most compatible with justice. It is not just about, as seen above, the fact that two institutional regimes can display

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<sup>2</sup> If one claims that the principle of basic liberties is satisfied by mere legal guarantee, it does not mean that, in order to fully attend the principle, it is sufficient to proclaim such liberties (*e.g.*, in the Constitution). A state in which basic liberties are legally proclaimed, but recurrently violated by authorities, is not fair. Nevertheless, one can say that the principle of liberties (except political liberties) can be attended only by law and its enforcement, which is not the case for other principles of justice as fairness, such as the difference principle.

<sup>3</sup> For discussions on different interpretations of the difference principle, see Parijs (2003) and Williams (2011). Given the fact that the difference principle is subjected to the first principle and to the other part the second principle of justice (RAWLS, 1999, pp. 53-54 and 77), the maximization of less-fortunate citizens' expectations, pertaining wealth and income, should provide conditions that do not violate basic liberties and equal opportunity. In addition to that, the requirement of maximization is no obstacle to taxing (of wealth and income of the worst-off) for providing public goods, on a democratically determined measure (RAWLS, 1999, pp. 249-251). One can therefore understand that a perfectly just basic structure maximizes wealth and income of worst-off citizens, once basic liberties and equal opportunities are guaranteed and before tax payment, which is destined to the provision of public goods. Considering the latter issue, Queralt (2013, pp. 133-134) is inclined to reject the difference principle's maximizing version.

<sup>4</sup> It is implicit in the text above that the expectations of worst-off citizens, in relation to wealth and income, is based not only upon law, or the manner in which it is enforced by authorities, but also on other citizens' motivations. This is particularly true to a condition of both partial and total (ideal) compliance to law. For example, the consequences of a tax law that progressively taxes income, to worst-off citizens, depends upon, among other factors, the motivation of certain citizens (the wealthier ones) to continue to produce under such legislation.

differences among each other, despite being of the same type, but also that, even for identical regimes, the consequences can be distinct. The assertion that a certain type of regime is more compliant to justice should therefore be understood (at least as far as the difference principle and other such consequentialist principles are concerned), as an affirmation solely pertaining to the given regime's tendency to show results.<sup>5</sup>

These observations are valid under the difference principle and other parts of Rawls' concept of justice, which depend upon the consequences of the institutions that comprise the basic structure, *e.g.* the case of the principle of equal value of political liberties and equality of opportunities. The difference principle, however (as understood here), has a peculiarity of requiring the maximization of worst-off citizens' expectations and, as such, it is not satisfied with a certain result in absolute terms. Whichever are the effects of a given institutional regime on the expectations of worst-off citizens, in relation to wealth and income, one will only be able to state that such regime complies with the difference principle if there is no alternative regime whose consequences to the same expectations would be even more favorable.

The maximizing question of the difference principle begs the question of which regimes are being considered as possibilities. In other words, in order to conclude that a regime attends the difference principle, it is first necessary to define the group of relevant regimes for establishing the comparison. The regime that satisfies the difference principle is the one that provides, among others from the same group, the highest wealth and income expectations (among other primary goods) to the worst-off citizens.

In spite of its evident importance, the issue regarding the basis for comparison (or group of regimes to be considered for the difference principle's test) is, in a broad sense, neglected by Rawls and by the rest of the literature. Would that group only include existing regimes? Probably not, because, if so, the difference principle would lose a substantial amount of its strength as an ideal, so that one would be forced (once the other requisites are met) to recognize any of the current regimes as a fair one (such as that under which the worst-off citizens' expectations were the highest). But if the comparison should not be limited to existing

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<sup>5</sup> The above observations are consistent Rawls' precaution on the matter of taking sides between property-owning democracy and liberal socialism. When deciding between regime types, Rawls recommends looking "to society's historical circumstances, to its traditions of political thought and practice, and much else" (RAWLS, 2001, p. 139). It is possible, however, that this hesitancy relates not to the incapability of foreseeing the consequences of each type of regime, but to the difficulties of political order (which are greater in some places, and fewer in others) to make such regime succeed. In contrast, Rawls' peremptory denial of *laissez-faire* capitalism and welfare state (in the case of state socialism, the alleged incompatibility with justice is due to the violation of basic liberties) appears to be contradictory to the consequentialism of certain principles of justice, such as equity (RAWLS, 2001, pp. 137-138).

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regimes, which among the non-existing should then be considered? It is noted that all the paucity, to what determining a group of relevant regimes for the comparison is concerned, is accompanied by an equal-measure reduction on the reforming impulse of justice. For example, let us suppose that, by describing the regimes that meet the basis for comparison, one does not find that any of them have the effect of disseminating Cohen's equalitarian *ethos* (2008), that is to say, the effect of motivating talented citizens to exert occupations that raise worst-off citizens' expectations. If none of the regimes considered for comparison have such effect, one is forced to conclude that a given regime is fair, under the difference principle (because, among the compared ones, it is the one which maximizes the worst-off citizens' expectations), even if it is incapable of motivating talented citizens to put production effort towards the betterment of the worst-off. But if such a regime is regarded as fair, then the search for a regime that offers an antidote to selfishness will no longer be a matter of justice.

On the other hand, the more audacious the regime comparison, the harder it will be for current or long-lasting regimes to fulfil the difference principle's demand. Back to the example, if we attribute the power of motivating talented citizens to any of the valid regimes compared, in such a way that they produce in the utmost social and useful manner without requiring any incentive whatsoever, any existing regime that failed in displaying that effect and that, consequently, lowered the worst-off citizens' expectations, in relation to wealth and income, should then be regarded as unfair.

However, even if the difference principle's maximization test is demanding enough so that one considers not only all of the existing institutional regimes, but also those that, with moderate optimism, are regarded as capable of occurring in a near future, such principle, or a slightly modified version of it, can be applied for the comparison of imperfect regimes (that is to say, unfair according to the version of the principle which we so far have had at sight). In other words, one can stipulate that, if all the rest is the same, a regime X is superior to a regime Y if worst-off citizen's expectations, in relation to wealth and income, are higher under the former, when compared to the latter, even if none of these regimes are fair in the sense of maximizing the mentioned expectations. From here on, the difference principle shall be examined as a regulating principle for such comparisons.

In so far as comparing imperfect regimes is concerned, comparisons between existing and non-existing regimes are of special interest. Propositions of institutional reform can generally be described as propositions to supplant an existing regime with elements of a non-

existing regime.<sup>6</sup> In order to assess such propositions under the basis of difference principle, it is necessary to verify under which regime, the existing or the reformed one, the worst-off citizens' expectations are higher. Reform, however, raises questions regarding the analysis of consequences. While the consequences of an existing regime can be observed,<sup>7</sup> the same thing cannot be said regarding the consequences of non-established one. Surely the latter can be estimated, but then one would question under which behavioral models such estimation should occur. Will it be licit to presume that a new institutional regime will alter the human endeavor substantially, to the extent that behavioral patterns that are able to explain the consequences of current institutions will be replaced? Without any pretense of subscribing to the thesis of an immutable "human nature", the least one can say about this is that the very motivations and patterns of decision making, verified in current circumstances, should be presumed when estimating the consequences of a new institutional order, unless there are any reasons to conclude that an institutional reform is able to bring about a deep change in the human endeavor.<sup>8</sup>

The comparison between institutional regimes (existing and non-existing included) becomes more complex when other goods, beyond wealth and income, are included among those whose distribution is subjected to the difference principle. To that matter, there are two possibilities. One consists of applying the difference principle to the distribution of other primary goods that are mentioned by Rawls, such as "powers, prerogatives and positions of responsibility" and the "social basis for self-respect" (FREEMAN, 2007, p. 113; ARNOLD, 2012/ O'NEILL, 2012). The second possibility derives from the fact of considering that list of primary goods as an open, or non-exhaustive, one. Rawls clearly agrees with such possibility, as can be verified by the following excerpt:

If necessary, we can also include in the index realized native endowments and even states of consciousness like physical pain. However, for the sake of having an objective measure and relying on information that is readily available and easy to comprehend, it is much better not to include such goods in the index. But leisure time

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<sup>6</sup> Even when the reform proposition aims to replicate existing institutions in another place (or in the same place, but in a different time), it is justifiable to regard the proposed regime as non-existing, not only because it does not in fact exist in the place for which it is being proposed, but also because it shares characteristic of unprecedented regimes. Since the relevant matter is the consequences of an institutional regime, at least to what the principles of justice, such as the difference principle, is concerned, and given the fact that a single institutional arrangement can have distinct consequences in different times and places, a new regime will have uncertain consequences to some extent, even when it replicates characteristics of existing ones in a different time or place.

<sup>7</sup> Which is not the same thing as saying that they can easily be observed. The consequences of existing regimes are, in all cases, subject to empirical investigation.

<sup>8</sup> A lateral question consists of knowing how to assess a proposition for institutional reform, whose foreseen consequences only favor, in the long term, the worst-off citizens' expectations. What discount rate should be applied to the future benefits of a new regime?

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has a reasonably objective measure and is open to view. It also meets the essential condition that primary goods must not presuppose any particular comprehensive doctrine (RAWLS, 2001, p. 179).

In the excerpt above, Rawls undoubtedly considers the set of primary goods, found in other parts of his works (*e.g.* RAWLS, 1996, p. 181), a non-exhaustive one. He also sketches the conditions for something to be considered a primary good, namely: a) that the state of distribution of a given good is objectively verifiable; and b) that the idea that something is a good does not presuppose a particular comprehensive doctrine, that is to say, does not carry a particular relation with a certain conception of good life.<sup>9</sup> With that in mind, not only leisure, but also labor (in general), significant labor (as long as “significant” is defined in such a manner that the characteristics of significant labor are objectively verifiable)<sup>10</sup> and the power of managing a company can be taken as primary goods, susceptible to the difference principle.<sup>11</sup>

Due to the diversity of primary goods, the issue of comparison arises. Specifically, it must be considered that the various types of institutional regimes have wildly varying levels of success elevating worst-off citizens’ expectations, depending on which primary goods are considered. This variance is much less likely when income and wealth are the only two primary goods considered in a difference principle analysis. For example, regime X, whose consequences to worst-off citizens’ income are superior to those of regime Y, will almost certainly maintain its advantage if the only other good being considered is wealth. The same cannot be said, however, when other primary goods are added to the equation. It is not implausible that the regime X causes less unemployment than the regime Y and, therefore, stands out in raising expectations pertaining to the primary goods of employment and significant labor, but, on the other hand, the wealth and income of worst-off citizens (*e.g.* thanks to a generous unemployment insurance) are higher in X than on Y.

How can one address the issue of comparing regimes that display contradictory consequences where diverse primary goods, all susceptible to the difference principle, are

<sup>9</sup> More on “flexibility” of the set of primary goods can be found in Rawls (2001, pp. 168-176; 1996, pp. 178-187)

<sup>10</sup> For the idea that the opportunity to partake in significant labor can be one of the social bases for self-respect, see Moriarty (2009). Arnold (2012), by its turn, states that a more equal distribution of significant or “complex” work results from including the primary good of powers, prerogatives and positions of responsibilities among the goods regulated by the difference principle. Note, however, that once defined, as Arneson does (1987, p. 517) in objective terms (like the labor that is “interesting, calling for intelligence and initiative”), the significant labor can be considered a primary good in itself.

<sup>11</sup> Arguments that appeal for the difference principle in favor of a more equal distribution of power of a company’s management relate democracy in the workplace to primary goods such as powers, prerogatives and positions of responsibility and the social basis for self-respect. To that respect, see O’Neill (2008) and Arnold (2012).

concerned?<sup>12</sup> In that respect, one should first notice that the fact that such goods are incommensurable does not mean that two regimes with different effects upon the expectancies of the worst-off citizens, in relation to those goods, are incomparable.<sup>13</sup> Two goods are incommensurable, in the sense here portrayed, if there is no measure of equivalence between them (*e.g.* if it is not possible to define how much income corresponds to a given percentage of unemployment's reduction or a certain improvement on the index related to the distribution of significant labor). In order to conclude that the lack of such measure of equivalence implies the incomparability (under the difference principle) of regimes, however, it is necessary to agree to the assertion that a regime which elevates the worst-off citizens' expectations in relation to labor and lowers them in relation to income, under any circumstances, is, at best, worse or equal to a regime whose effects are the inverse. Such an assertion, however, is highly implausible. If the regime X provides the worst-off citizens with better perspectives, in comparison to those provided by the regime Y, and an (expectation of) income that is slightly inferior to the latter's, it is hard to resist to the conclusion that X is better than Y and that both regimes are therefore comparable.

It is one thing to say that some regimes with heterogeneous consequences, in relation to primary goods subjected to the difference principle, are comparable within the basis of the principle, but it is another thing entirely to say that regimes are always comparable. Having in mind that it is not possible to discuss here the related philosophical controversy,<sup>14</sup> this article shall be limited to suppose that, at least in some cases, it is not possible to assert that, between two regimes (X and Y), one is better than the other, or even equal (and therefore that such regimes are incomparable). The related implication is that, if two regimes are incomparable according to the difference principle (and equals, or also incomparable, in relation to the other principles of justice), then a choice between these regimes ceases to be a matter of justice (which obviously does not mean that the choice cannot be made based upon some other metric).

### **3. THE SCHWEICKART'S ECONOMIC DEMOCRACY AND THE DIFFERENCE PRINCIPLE.**

The second part of the article will be dedicated to economic democracy, a type of

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<sup>12</sup> The above issue, in other words, is that of comparing regimes between which there is no relation of Pareto dominance. As far as the difference principle is concerned, one regime is Pareto dominant over the other if, under it, the expectations of worst-off citizens are higher in relation to at least one of the primary goods susceptible to the difference principle and not lower in relation to the rest.

<sup>13</sup> For the distinction between incommensurability and incomparability, see Chang (1997, pp. 1-2).

<sup>14</sup> For such, works gathered by Chang (1997) and Chang (2002) can be consulted. Chang herself, an advocate for the widening of the notion of comparability, recognizes instances in which bearers of diverse values are incomparable.

institutional regime defended by Schweickart (2011; 2012). Schweickart (2012) asserts that this kind of regime is more prone to attending the demands of Rawls' justice than property-owning democracy. The first section of this part sums up the characteristics of economic democracy, while the second uses the precedent arguments to evaluate the conformity of this kind of regime to the difference principle.

### 3.1. ECONOMIC DEMOCRACY: A SYNTHETIC EXPOSITION

Five characteristics sum up economic democracy (from now on, ED): a) public ownership of means of production; b) democratic management of enterprise (according to the "one person, one vote" rule; c) public investment; d) market-oriented production; e) labor market.

#### a) *Public Ownership of Means of Production*

In ED, private ownership of means of production is only accepted for small companies. Regarding big companies, the means of production belong to the State, and the workers who control them must designate part of the company's earnings to the payment of a tax that serves to compensate the State for the use of production goods, as well as reimburse the State for the depletion of said goods caused by the companies' use of them (SCHWEICKART, 2011, positions 1.479-1.486).

#### b) *Democratic Management of Enterprise*

Companies in an ED (once again, with the exception of small ones) are managed by workers according to the "one person, one vote" rule. Workers assign directors and administrators directly or indirectly, through an administrative board whose delegates are elected by the workers (SCHWEICKART, 2011, positions 1.464-1.473).

#### c) *Public Investments*

In big companies within an ED, investment in the company is either self-financed (that is to say, financed by the own company's earnings, which the workers can decide to allot investing instead of sharing amongst each other) or financed through public resources. There are no private banks, nor is it allowed to obtain financing through issuance of shares to be acquired by private investors. Public loans are directly made to the companies, by either state or public banks, and the amount of funds available to companies from each region is, in principle, proportional to the population (SCHWEICKART, 2011, positions 1.524-1.528).

#### d) *Market-Oriented Production*

In contrast to the socialist experiences of central planning, the ED is a regime of market

socialism in which the decision of what and how much to produce is taken within the scope of each company (Schweickart, 2011, positions 1.464-1.465). The companies are encouraged to profit up to the point that the worker's income (or "dividends") is maximized; in order for that occur, the companies ought to attend the consumers' preferences (SCHWEICKART, 2011, positions 1.505-1.511).

#### e) *Labor Market*

Companies and workers are free when it comes to contracting and to adjusting labor. This means that a worker can decide to leave a company for another one and that companies can decide to dismiss workers, under the rule of democratic management. Additionally, companies can offer higher wages or more favorable terms in order to attract or keep workers with special aptitudes (SCHWEICKART, 2011, positions 1466-1.468).

### 3.2 ECONOMIC DEMOCRACY AND RAWLSIAN JUSTICE

What are the reasons to believe that the ED is superior to capitalism as far as the difference principle is concerned? The attention paid to said principle is justified because ED satisfies the principle of basic liberties, as it ensures the legal guarantee of such liberties (Schweickart, 2011, position 3.940). Due to this, generally speaking, it seems acceptable to assert that ED displays an effect upon inequalities of wealth and income such that it is at least as effective as capitalist regimes, as far the equitable value of political liberties and equitable equality of opportunities are concerned.<sup>15</sup> Therefore, if one demonstrates that ED is superior to capitalism in relation to the difference principle, it is possible that Schweickart is right when he asserts that Rawlsian should endorse socialism(at least the ED's socialism).

Before continuing the analysis of ED under the difference principle, some methodological considerations from the Part I should be recalled. First, given the consequentialist nature of the difference principle, one should be diligent when comparing types of institutional regime, since what matters is not the institutional arrangement pertaining to each type, but rather the consequences of its real manifestations. The type-based analysis is only justified as long as a certain type reveals itself prone to influence, regardless of circumstances

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<sup>15</sup> From a strictly Rawlsian standpoint, it would suffice that ED revealed itself slightly superior, as far as the equitable value of political liberties or the equitable equality of opportunities are concerned, in order to overcome existing regimes in terms of justice, given the lexical priority of the first over the second principal of justice and of equitable equality of opportunities over the difference principle (RAWLS, 1999, pp. 53-54 and 77). It is understood that a difference principle-based comparison still justifies itself, either because ED cannot present a sharp advantage over capitalist regimes in relations to the other principles of justice, such as equity, or because the strict relations of priority among Rawls' principles of justice, particularly between the equitable equity of opportunity and the difference principles, might not be defensible. For the latter point, see Arneson (1999).

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of time and place. Second, there is the question of comparing existing and non-existing regimes and that of the way of estimating the consequences of the latter. As discussed previously, one should not attribute motivational consequences, distinct to those observed under current regimes, to non-existing ones, if the reasoning behind such an observation is lacking in substantial justification. Schweickart shows himself quite realistic regarding that point, insisting that ED enables a better world through structural changes and without resorting to utopia.<sup>16</sup>

Bearing in mind Schweickart's description, the main arguments in favor of ED, as opposed to capitalist regimes, are related to labor. To comprehend such arguments, first one needs to consider a certain implication of private investment to capitalist regimes. In order to attract investors, all lucrative capitalist companies have an incentive to expand themselves. All else being equal, the higher the activity volume, the higher the profits and, consequentially, the more attractive an enterprise becomes to its current investors. That same incentive to expand does not exist in companies within an ED, since the rise of production is only advantageous to companies if there are scale gains (SCHWEICKART, 2011, positions 2.275-2.276).<sup>17</sup> Otherwise, increasing activity will have to be accompanied by a proportional rise (at least) of the number of workers, which would fail to benefit the company in an amount at least equivalent to the income of each new worker, individually considered.<sup>18</sup>

What consequences arise from the fact that incentives to company expansion are less present in an ED? One should note that, as with capitalist companies, inefficiency is an issue for companies in an ED. Since the production within an ED is market-oriented, inefficient companies are liable to be overcome by others. The difference is that, in an ED, the risk is smaller. An inefficient company risks being overcome by new ones, but not by already existing

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<sup>16</sup> Schweickart (2011, position 2.238): "Economic democracy will not Usher in Utopia, but if we make a few structural changes, a far better world becomes possible than most of us can now imagine".

<sup>17</sup> Another factor that reduces the stimulus to expansion is the interest of workers in conserving power over management, which dilutes as the number of employed workers on a company raises (SCHWEICKART, 2011, positions 2.278-2.285).

<sup>18</sup> But what keeps older workers from appropriating part of the profit derived from raising the production, through lowering wages of newly-admitted ones? This is theoretically possible, since, as already said, wage differences are permitted on the ED. The issue is important, as it will be seen further on, because a great deal of advantages that can be attributed to ED, to what the difference principle is concerned, are related to the incentive of expanding the company. What can be said in relation to admitting new workers on companies on the ED is that, on the one hand, such admission can occur under conditions that lead older workers to illegally enrich at the expenses of the younger ones', and on the other hand, the democratic management of the company should at least impose certain boundaries to such exploitation. In all cases, the possibility of wage differentiation constitutes a reservation to the idea (see the previous reference) that the growth of companies in ED is limited to the point in which scale gains equals zero.

companies that have already reached their expansion limit. In capitalist regimes, on the other hand, large, established companies are generally incentivized to take over the market share of inefficient competitors.

When paired with democratic management, the mentioned lack of takeover incentivization provides more beneficial working conditions to companies in the ED, even when such conditions sacrifice efficiency (to some extent). That bears implications to job permanency, length of working day (and, therefore, available time for leisure) and division of significant labor and primary goods whose distribution is subjected to the difference principle. Each of the cases shall be separately examined.

Should one expect more reluctance when dismissing workers from companies on the ED? As asserted, one reason to think this is the fact that an eventual inefficiency caused by such reluctance does not pose high risks for companies on the ED, unlike their capitalist counterparts. Another reason is worker control of management. Administrators who reveal themselves to be merciless in dismissing workers (especially when such dismissals are unjustified) have little chance of maintaining the support from the board of administration of the democratically-managed companies. This can be seen as a consequence of pure and simple self-interest, given the fact that an administration that does not show hesitation in cutting of personnel constitutes a threat to workers. With a little more caution, one can hypothesize that a certain *esprit de corps*, among workers, contributes to stability in the workplace.<sup>19</sup>

Schweickart (2011, positions 2.569-2.646) presents another argument in favor of ED, regarding employment. According to him, in capitalism, unemployment is not just a cyclical consequence, but also an indispensable means of disciplining the labor force. In other words, the danger of unemployment is necessary to assure good performance of workers that are indifferent to the company's success. In an ED, by contrast, there is nothing capable, by itself, of assuring full employment, and the fact that unemployment does not bear the same strategic importance as it does within capitalist regimes is advantageous for the State, which can act more efficiently to eliminate it, whether by directing public investment to job creation or as an "employer of last resort".

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<sup>19</sup> Schweickart ((2011, position 2.255) refers to "the natural solidarity engendered by democracy"). Such caution is justified, nevertheless, because unlike what occurs in capitalist companies, solidarity between workers in companies on the ED is potentially contrary to each worker's interest to maximizing their dividends. On the economic literature regarding cooperatives, it is interesting to note that, against the standard prevision on the goal of maximizing *per capita* income (WARD, 1958), there is evidence that cooperatives sacrifice this goal, to some extent, for the preservations of employment. For more on that subject, see *e.g.*, CRAIG and PENCAVEL (1993).

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Let us now examine the case of leisure (SCHWEICKART, 2011, positions 2.473-2.780). As with job stability, the ED displays characteristics that favor the reduction of work hours and, consequentially, the increase of available time for leisure. First, as stated above, the ED lowers the risk of corporate punishment for decisions that are contrary to efficiency. Frequently, a decision in favor of reducing work hours elevates the number of workers needed to produce the same quantity and imposes additional costs with training.<sup>20</sup> Additionally, the democratic control of management favors decisions to reduce work hours, as such decisions attend workers' interesting increasing free time, even if the decision causes some sacrifice on efficiency.<sup>21</sup>

Similar considerations are thus applied to significant labor (SCHWEICKART, 2011, position 2.771). As a more equal division of interesting tasks is a cause of inefficiency (because it raises costs with training or forces the reduction of profits derived from specialization), companies in the ED are, as stated, more capable of ensuring more equitable access to significant labor. Assuming that workers, in general, try to avoid dull tasks, one can expect democratic management of the workplace to contribute to interesting tasks being more equally shared than in capitalist companies.

One can therefore assert that ED is prone to providing everybody (particularly the worst-off citizens, given social contingencies unequal distribution of innate aptitudes) with more job stability, more available time for leisure and a more equal distribution of significant labor, all of which are primary goods (or means to primary goods, such as the social basis for self-respect) comprehended by Rawls' difference principle. Additionally, if workplace democracy is also considered a primary good (or means to the realization of one), ED has an obvious advantage over other capitalist regimes.

That being said, it is impossible to determine, before its implementation, the ED's measure of superiority, in relation to the given primary goods. Clearly, a substantial part of the advantage attributed to ED - pertaining to job stability, leisure and significant labor - is based on the supposition that inefficiency is more tolerable under such type of regime, given the lack of incentive for company expansion (or at least expansion beyond the point in which scale gains

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<sup>20</sup> There are, in fact, two possible causes for inefficiency related to work hours. From the efficiency stand point, work hours are too low if, on average, each worker could work longer without the loss of productivity, or without the loss of enough productivity to outweigh the costs of hiring a greater number of workers. In contrast, work hours are too high if productivity is being severely affected by the long hours. Within companies in which workers are free to determine their own work hours, both causes of inefficiency can be present.

<sup>21</sup> The fact that ED encourages decisions to reduce work hours to be made more frequently can also be favorable to employment (SCHWEICKART, 2011, positions 2.783-2.786).

cease to exist). Since they are subject to competition, companies in the ED can be punished by inefficiency. Decisions made on a management level that favor job keeping, work hour reduction and improvement on the distribution of significant labor at the expense of efficiency, will always bring about a certain risk and will, consequently, depend upon the weight attributed to the short-term benefits that such decisions enable.<sup>22</sup>

Companies in the ED are also prone unequal distribution of management power, in spite of the “one person, one vote” rule. Such inequality can be caused by the special aptitudes of certain workers, combined with the subjection of labor to the market. Workers whose talents are rare and necessary can, under the threat of abandoning the company, end up influencing management greatly.<sup>23</sup> This is particularly troublesome if we consider that the expectations of other workers, whose attributes are less desirable (and that risk being subjugated by talented ones), are the ones that matter most to the difference principle.<sup>24</sup>

One should also bear in mind that ED is inclined to reduce the worst-off citizens’ expectations, in relation to the primary goods of wealth and income. Schweickart himself recognizes this when he mentions the constant need for population growth under capitalism (and its undesirable environmental effects). There are various reasons to suppose that ED brings about a general decline (and therefore mainly to worst-off citizens) in wealth and income, some of which were already referred above. First, as mentioned previously, ED reduces the competition between companies (given the lack of incentive to expand) and, in doing so, enables inefficiency.<sup>25</sup> Second, the democratic management of the workplace enables certain decisions to be made, according to the workers’ interest (*e.g.* the interest for reducing work hours), even at the expense of efficiency. Third, there is the issue of innovation. If we bear in mind the fact that investing in innovation constitutes a means of expansion, then the same lack

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<sup>22</sup> A certain “myopia” that leads workers to neglect the long-term interest on the company’s continuity can influence decisions regarding primary good distribution that decrease efficiency.

<sup>23</sup> It is evident that this also occurs in capitalist companies. The above text is simply bringing attention to the fact that the ownership of means of production is not the only possible cause of management ranking.

<sup>24</sup> The fact that reducing wealth and income inequalities favors equality of opportunities - one of the arguments used to defend property-owning democracy (Rawls, 2001, p. 138; Freeman, 2007, p. 227; in another sense, O’Neill, 2012) - does not reduce the fear that more qualified workers, whose aptitudes are more requested than the others’, write the rules of the companies in an ED. The total realization of equality of opportunities does not prevent workers whose aptitudes are more requested than the others’ from becoming powerful, but rather shifts the source of their power to a “natural lottery” and away from social circumstances. For the principle of equitable equality of opportunity as a principle that seeks to link the chances of success to innate aptitudes, see Rawls (1999, p. 63).

<sup>25</sup> Naturally, the lack of competition and the risk of its consequential inefficiency are also verified in capitalist regimes, given the formation of oligopolies. The difference is that, in ED, the democratic control of management contributes to certain decisions being made in favor of workers with far greater frequency.

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of incentive to expand that mitigates competition ends up being an obstacle to innovation.<sup>26</sup>

What is the importance of the fact that the ED's economy is predictably less vigorous and, consequentially, reduces long-term expectations of wealth and income, to an analysis of this type of regime, according to the difference principle? On that point, Schweickart calls attention to a passage on the just savings principle, in which Rawls (1999, p. 258) asserts that "beyond some point it [wealth] is more likely to be a positive hindrance, a meaningless distraction at best if not a temptation to indulgence and emptiness". This passage, comments Schweickart (2012, p. 257), shows that wealth is not of immense value to Rawls and, therefore, the fact that ED does not induce wealth growth on the same level as capitalist regimes should be regarded with less importance by Rawlsians. Though this sounds reasonable, it is important not to disregard the usefulness of wealth as a point of difference principle comparison between institutional regimes. Wealth and income are primary goods in a Rawlsian sense, because of their instrumental role in enabling moral abilities (particularly, the ability to the conception of good).<sup>27</sup> There is no question that, when two regimes are compared under Rawlsian justice (particularly using the difference principle), the regime under which the worst-off citizens' expectations of wealth and income are higher proves to be, all the rest being equal, superior to the other.<sup>28</sup>

This does not mean that the difference principle leads to rejecting ED, because if (as it appears) the worst-off citizens' expectations of wealth and income are higher under capitalist regimes, then it is very likely that expectations regarding other goods are not the same. As discussed throughout Part II, there are good reasons to predict that, in ED regimes, the worst-

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<sup>26</sup> It is impossible to face here the old and sophisticated microeconomic debate over production in cooperatives. Even though such debate is possibly useful to evaluate the merits of ED, one must bear in mind that the behavior of companies in the ED cannot follow the same patterns as that of existing companies subjected to competition of capitalist companies.

<sup>27</sup> For the relation between the notion of primary good and the two fundamental moral abilities: a sense of justice and a concept of a good, see Rawls (2001, p. 169).

<sup>28</sup> In his comparison between ED and property-owning democracy, Schweickart faces the issue of wealth inequalities (which he admits that tend to be lesser under property-owning democracy than under ED, but, in all cases, lesser under both kinds of regime than under the welfare state). From the difference principle's standpoint, however, what matter is not the wealth differences themselves, but if such differences are necessary or not to maximize the worst-off citizens' expectations. Therefore, that does not serve as an argument in favor of ED (nor of property-owning democracy), if the capitalist regime possesses higher wealth inequality, but still elevates the worst-off citizens' expectations in relation to the given primary goods. Such conclusion will be inescapable as we limit our attention to the difference principle, understood as a principle pertaining to wealth and income. On the other hand, one can argue in favor of a type of regime that reduces inequalities under other principles of justice (e.g., the principles of equitable value of political liberties and equitable equality of opportunities), or even under the difference principle itself, if one understands that the reduction of inequality helps elevating expectations related to other primary goods. For example, it can be argued that a robust material inequality has the effect of undermining the social basis for self-respect (PENNY, 2013).

off citizen's expectations in relation to other primary goods (powers, prerogatives and positions of responsibility, social basis for self-respect, employment, leisure, significant labor and workplace democracy) are higher. Because of that, it is therefore possible that, between ED and the welfare state (or Rawls' favorite type of capitalist regime, the property-owning democracy), the difference principle, instead of indicating a *tout court* preference for a certain regime, serves only as a standard of comparison and a way to judge the comparability of different regimes.

Finally, bearing in mind the long-term consequences, even if ED and capitalism reveal themselves incomparable (or reveal that ED provides superior expectations), there is still the matter of ED's stability. Said stability depends heavily upon the preferences of citizens for primary goods (such as leisure, workplace democracy, and significant labor) that the ED provides more abundantly. Citizens must prefer these goods enough that the eventual lack of growth in wealth and income caused by an ED will not lead to a dissatisfied populace, else the ED runs the risk of becoming unstable.<sup>29</sup>

#### 4. CONCLUSION

In the present work, we examined the potential of a market socialism regime and Schweickart's economic democracy (ED) (2011; 2012), to the satisfaction of Rawls' difference principle. After a few methodological considerations, made in the first part, on the comparison of institutional regimes based on principles of justice and, particularly, under the difference principle, the second part presented the main points of Schweickart's proposition and evaluated its possible consequences regarding the distribution of primary goods. The most important conclusion is that economic democracy is definitely not absolutely superior to capitalist regimes, as far as difference principle is concerned, but, under certain circumstances, ED can reveal itself superior or incomparable to capitalist regimes, given its tendency to raise worst-off citizens' expectations in relation to primary goods that are not wealth or income. We

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<sup>29</sup> Two additional observations. First, notice that, in both ED and capitalist regimes, the combination of wealth, income and other primary goods does not depend solely on individual decisions. As the citizens in capitalist regimes can generally desire more available time for leisure (despite a certain sacrifice of wealth and income), but (due to institutional circumstances) fail to coordinate their actions to fulfilling said goal, for analogous reasons, ED can cease to attend workers' aspirations related to wealth and income. Second, one should not confuse what is said above with the affirmation that, when comparing regimes that offer different "sets" of primary goods under the difference principle, one should consider the regime which is better adapted to the citizens' preferences to be superior. This would be incorrect for the sole reason that the difference principle is a principle for maximizing expectations (of worst-off citizens), in relation to primary goods, and not a principle for satisfying preferences. What the text considers is that, between two regimes whose short-term consequences are distinct and (given the diversity of the primary goods involved) incomparable under the difference principle, a regime whose combination of primary goods does not attend the citizens' preferences is, therefore, a stable regime. I can't seem to add a comment, so I'll type here. I am unsure what this final sentence is attempting to say. It seems nonsensical to assert that failing to attend to citizen preferences creates a stable regime.

observed, however, that the stability of an ED regime is highly dependent upon its consequences (when compared to other regimes') not being substantially maladjusted to citizens' preferences. In other words, the long-term success of an ED regime depends upon the intensity of the citizens' preferences for primary goods such as leisure, significant labor and workplace democracy.

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