

## **How Can Basic Income Activate and Encourage Labor-Managed Firms? : A Two-Track Strategy for Economic Democracy<sup>1</sup>**

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### **1. Introduction: Basic Income and Labor-Managed Firms (LMFs) in terms of Economic Democracy**

Anyone who contemplates expanding abstract values such as freedom, equality, citizenship, and democracy in a radical and emancipatory way meets and struggles with the idea of basic income. For those who support and advocate basic income, it is obvious that it is positioned as follows. In terms of freedom, basic income is an essential element in any attempt to fulfill real freedom for all (Van Parijs, 1995; Van Parijs and Vanderborght, 2017), or republican freedom (Raventós, 2007; Casassas, 2016; Casassas and De Wispelaere, 2016; Standing, 2017); in terms of equality, basic income is a necessary condition to change current extreme socioeconomic and gender inequalities (Fraser, 1994; Zelleke, 2008, 2011; Yi, 2017); lastly, in terms of citizenship and democracy, basic income can expand and deepen socioeconomic rights and economic democracy, which move beyond civic and political rights, and procedural democracy, by ensuring that fair and desirable social dividends are paid to all, regardless of demographic and economic situation, occupational class and status, and so on.

However, as regards economic democracy, it seems that not only basic income but also labor-managed firms (hereafter LMFs, a.k.a. worker-managed firms, workers' self-management, or democratic firms) are the main measures to deepen and develop economic democracy in our time. Prior to discussion, in this paper I will follow David Casassas (2016: 1)'s definition of economic democracy: "the fourfold capacity ( i ) to decide what social relations we wish to "enter" in order to

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work; (ii) to determine the (im)material nature of the space where we decide to stay and work, which requires the capacity of having a “voice” that is effectively listened to; (iii) to opt for “exiting” in this space in case its nature and functioning go against what we wish for our lives; and (iv) in case we opt for leaving, to resort to an outside-the-previous-workplace offering tools for second and subsequent opportunities; that is, to effectively “restart” our (re)productive lives in other terms and conditions.” In view of the pursuit of this economic democracy, basic income and LMFs are regarded as having nuanced emphasis points. While basic income is expected to contribute to the prosperity of economic democracy in the (much) broader sense of the various elements that make up our lives beyond the realm of production, work, and the workplace, LMFs are expected to contribute to the development of economic democracy in the realm of production, work, and the workplace in the traditional sense (i.e., corporate and/or industrial democracy).

Despite its importance in terms of economic democracy, however, LMFs (including workers’ cooperatives) have not been studied in relation to basic income. This is in stark contrast to cases of job guarantee (JG) and participation income (PI), which are both actively discussed and researched topics with regard to basic income, as both the quantity and quality of jobs are forecasted to be questionable, especially in developed countries. But even though LMFs have not yet been much discussed, they are far bolder in terms of economic or industrial democracy than JG or PI. To see how they relate to basic income is crucial in pursuing a critical and emancipatory social science and social policy.

In this paper, I explore the possible pathways and mechanisms by which basic income can influence the activation and proliferation of LMFs, under the perspective that the introduction of basic income and the rise of LMFs constitute the core of economic or industrial democracy. First, I examine the comparative advantages and disadvantages of LMFs over capitalist firms. Next, I explore the possible routes and mechanisms by which the introduction of basic income affects the activation and prosperity of LMFs. Finally, I emphasize that the introduction of basic income and the activation and proliferation of LMFs as a two-track strategy for economic democracy can be a major emancipatory option in our time.

## 2. Review of Comparative Advantages and Disadvantages of LMFs

Bowles and Gintis (1993: 92–94) emphasized several ways in which LMFs, which they referred to as “democratic firms”, can be more efficient than capitalist firms. Firstly, in LMFs, workers can participate directly in ownership, management, and decision-making. Motivational advantages arising from this are called the *participation effect*. Secondly, as residual claimants, workers in LMFs can work harder to increase the firm’s total income (which increases workers’ residual claims), resulting in the *direct residual claimancy effect*. Thirdly, as residual claimants, workers in LMFs have an incentive to monitor other workers to increase the firm’s total income, which may result in the *mutual monitoring effect* that creates a more effective monitoring system than in capitalist firms. Fourthly, while capitalist firms spend too little on wages instead of spending too much on monitoring, LMFs can increase wage incentives instead of spending less on monitoring than capitalist firms due to effective mutual monitoring structures. This is called the *wage incentive effect*.

Despite these strengths in terms of efficiency, however, LMFs remain very limited in number, size, and scope. This seems to be due to the weaknesses of LMFs compared to capitalist firms, as these weaknesses can be sufficient to offset the advantages previously mentioned. Bowles and Gintis (1993: 95–96) pointed out the following three constraints. Firstly, it may take a fairly long time before a company can be managed democratically, and if said company cannot efficiently establish democratic operation and decision-making structures, the costs may be significant. This is called the *democratic capacities constraint*. Secondly, the current capitalist economic system is favorable to capitalist firms, as is the current socioeconomic environment. This is called the *economic environment constraint*. Thirdly, as workers-cum-capitalists, workers in LMFs are required to invest their wealth in their own firm. This means that they have to take high risks because their investment assets and wages are both solely determined according to the company’s performance; that is, the lack of risk and portfolio diversification can seriously hamper the selection of LMFs by potential workers. This is called the *wealth inequality constraint*.

Furthermore, Kwak (2013) suggested that the small-scaleness of LMFs can be explained the reason that as the number of workers within an LMF increases, the agency advantages of the LMF decrease while the labor search costs continue to increase via simple economic models. Moreover, he showed that the lower the capital intensity is, the more homogeneous the workers are, the lower the

labor turnover rate is, the more favorable environments for LMFs are created compared to capitalist firms.

Both Bowles and Gintis (1993) and Kwak (2013) provided convincing social scientific explanations for the small-scaleness of LMFs compared to capitalist firms under the current capitalist economic system; however, they did not sufficiently explore the conditions necessary to change the current mechanisms operating against LMFs. This is the topic I will cover in the next section.

### **3. How Can Basic Income Activate and Encourage LMFs?**

At the individual level, regular, predictable, unconditional, and universal basic income can provide a basis for economic agents to pursue (economic) activities that fit their aspirations and preferences. This allows more potential people to favor enterprises or organizations with democratic decision-making and operational structures, and thereby some new potential workers may enter more in LMFs by reducing the magnitude of the risks associated with working at LMFs. In other words, the wealth inequality constraints faced by workers at LMFs may be considerably mitigated. Additionally, mutual monitoring costs, labor search costs, and labor turnover ratios can be further reduced, and worker homogeneity can increase as more potential workers that are more well-matched and well-suited to LMFs voluntarily enter into these workspaces. This may also considerably reduce democratic capacity constraints.

In terms of funding problems, although basic income cannot be mortgaged (Van Parijs and Vanderborght, 2017: 10), it enables the sizeable pooling of funds among people belonging to an LMF. In the case of external funding such as bank loans, financial provision can be facilitated by increasing the predictability and stability of the financial situation within an LMF. Moreover, these mechanisms can enable LMFs to compete relatively well with capitalist firms in industry sectors where capital intensity is comparatively high. The current economic environment constraints may be significantly lessened.

Finally, at the firm level, LMFs have been shown to be disadvantageous in terms of innovation (including new employment and risk-taking new investment) and an irrational price and quantity adjustment mechanism, so-called the “negatively sloped supply curve”, due to selfish and opportunistic behaviors seeking to maximize short-term per capita wage or income (Ward, 1958; Domar, 1966; Kim, 2016: 40, 269-270). These disadvantages can be alleviated by the introduction of

basic income, by including the current economic situation as an important component in the objective functions of workers in LMFs. In addition, it is possible to add innovation to the strategies of LMFs by closely connecting the strategy of maximizing the profits or wages of individual firms or workers to the whole economic performance of a given society, which can enhance macroeconomic stability.

Basic income will be a solution that is different from previous historical attempts for LMFs. Historically, as in the cases of Yugoslavia, Chile, Bolivia, Peru, Argentina, and Venezuela, there are some plans for promoting the growth of LMFs. However, representatively, the experience of workers' self-management in Yugoslavia shows that the introduction of a self-management system throughout society led to mass unemployment, the emergence of privileged groups, the lack of change and participation in the economic agents in workers' self-management systems, selfish and opportunistic behaviors of individual firms and workers, and an increase in the disparities between regions, firms, workers, and workers and the unemployed due to capital concentration and centralization (Sirc, 1979: 44; Flakierski, 1989: 44, 50, 80; Kang, 1990: 114; Jo, 1992: 184–186; Kim, 2006: 258–259, 263–264; 2016: 40–43; Marković, 2011: 122). Similarly, Venezuela's attempts under the Hugo Chávez regime, which sought to nurture workers' cooperatives at the national and regional level, resulted in selfish and opportunistic behaviors, the rise of privileged bureaucrats, and the phenomenon of isomorphism to capitalist firms; this was primarily due to the attempts not being based on voluntary changes and participation of people (Fuentes, 2011: 25, 32, 34–36; Kim, 2016: 46–48, 50–51, 53–55, 62–63, 67). From the experience in Yugoslavia and Venezuela, it becomes clear that some preconditions for the activation and prosperity of LMFs should be established; and that a different strategy is needed than the activation and proliferation of a state-led formation of LMFs at the national and regional level. Basic income can be one of the best options for LMFs.

#### **4. Conclusion: A Two-Track Strategy for Economic Democracy**

A Marxist criticism of basic income is that it may help to “emancipate from labor,” but it will not contribute to “emancipation in labor.” This view, however, overlooks the various mechanisms by which basic income can activate and encourage LMFs. Firstly, the risks of workers-cum-capitalists could be mitigated by regular basic income payments, which could increase the number of potential people who participate in LMFs. Secondly, the scarcity and small-scaleness of LMFs compared to capitalist firms could be countered by facilitating long-term, stable pooling of funds and cofinancing, as it is

easier to meet the minimum capital size for start-up businesses, and it is possible to increase capital intensity and decrease financing risks. Thirdly, the number of workers within an LMF could increase generally as a result of regular basic income by attracting prospective workers who share the values and appreciate the characteristics of LMFs, and by addressing the problem of surging labor search costs via better matching between potential participants and LMFs. These mechanisms are expected to have a positive impact on the proliferation and sustainability of LMFs by enhancing the comparative advantages (productivity, democratic decision-making and participation, etc.) of LMFs over capitalist firms and can be applied to the creation of new LMFs, the transition of existing capitalist firms to LMFs, and the development of existing LMFs. Considering these points explicitly, basic income has considerable potential to contribute not only to “emancipation from labor” but also to “emancipation in labor.”

Value orientation of LMFs, expanding economic democracy to workspaces, is worthy of itself. However, it is not sufficient to identify the legitimacy and justification of LMFs, nor is it adequate to set up LMFs by elevating them to policy options that would solve current issues with the quantity and quality of jobs (cf. the Korea Federation of Worker Cooperatives and Korea Social Economy Network, 2018). What is crucial is to properly position LMFs as potential means to further corporate or industrial democracy; to identify and acknowledge that there are some socioeconomic conditions and social-scientific mechanisms that can hamper the expansion of LMFs in the capitalist economic system, despite LMFs’ various inherent advantages; and to operate promising potential mechanisms to change socioeconomic conditions for LMFs. LMF is not a sufficient condition or necessary condition for the introduction of basic income, while the basic income is not a sufficient condition but a necessary condition for the activation and proliferation of the LMFs. Basic income can indirectly stimulate LMFs by reducing the various disadvantages and obstacles that LMFs face compared to capitalist firms at the individual and firm levels.

Therefore, an alternative measure to deepen and develop the economic democracy (including corporate democracy and industrial democracy) that we should pursue from now on is the activation and prosperity of LMFs based upon the introduction of basic income, which we call it the “two-track strategy for economic democracy”. On the one hand, basic income can directly contribute to the prosperity of economic democracy both in and out of the realm of production, work, and the workplace.

It can facilitate the genuine decommodification of labor power (Wright, 2005: 202; Standing, 2011), strengthen workers' bargaining power in terms of wages, working conditions, etc. (Wright, 2005: 201–202), and lead to economic democracy that encompasses production and reproduction spheres by changing the current socioeconomic structure characterized by production centrality and bias, paid work centrality and bias, and strong work and family ethics. On the other hand, basic income can indirectly contribute to the development of corporate and/or industrial democracy via activation and prosperity of LMFs.

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