

Social Ownership : A Comparison of the Property Rights, Social Choice and Economic Justice Approach

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1. Introduction

Social ownership has become a permanent source of debate. Most authors argue it has shown its inefficiency and that it better should be removed. Several privatization strategies are devised that leave almost no place for social ownership. We will once more review the issue, trying not to focus just on one approach, but enlarging the discussion in some unusual but hopefully fruitful directions. Finally, we shall fall back upon some well known intuitions, but we hope the new formulation shall contribute to the debate.

The category of social ownership has been first extensively studied by the property rights economics, a forerunner of institutional economics. Of course, it had its place earlier in socialist political economy¹, that however lacked analytical rigour and that will not be considered here. In the early seventies, FURUBOTN and PEJOVICH (1974b) developed their arguments about the intrinsic deficiencies and difficulties of the self-managed economy. Their conclusions did not go totally unchallenged (STEPHEN, 1975), but mainstream economics did take over their argument, as exemplified by MECKLING and JENSEN (1979). This critical current seems now also dominant in Yugoslavia (POSLJEDNJI DANI DRUŠTVENOG VLASNIŠTVA, 1990).

We then leave this traditional pattern of thinking on social ownership for some normative economics of welfare and social choice theory. We analyze what are the consequences when we want to introduce axiomatically some ethical principles. We follow ROEMER (1988) showing us some of the implications of social ownership. Finally we look into theories of justice developed by Harsanyi and Rawls for a justification of social ownership as a moral and socially just institution. Can social ownership be derived as a necessary, desirable and just institution by decisionmakers in the original position? If so, has this some practical implications in the real world?

At least, we try to show that it can be fruitful to enrich the traditional discussion with these two viewpoints.

2. Property Rights Economics

We summarize in a non-formal way the main points of the property-rights advocates.

We define social property in a way it fits the Yugoslav situation. Social property is a special form of collective property of the means of production and of other resources such that they belong to the community and not to one collective, group or individual. So, in theory everybody and nobody owns these means.²

FURUBOTN (1972) was one of the first to criticize such an arrangement analytically. His main argument holds that workers will not be interested in future investment in their own firm out of profits or savings, because they have no claim on the principal. They prefer to consume or invest in self-owned assets. In any case, they will first exhaust bankloans. They will only invest own means when the rate of interest equals the bank rate plus a remuneration for their forgone principal. Moreover workers want to recuperate their investment in a rather short time period, at most the time of their future working career in the firm.

JENSEN and MECKLING (1979) label this the horizon problem. The authors further argue workers will not even be much interested to maintain the real worth of the means of production.

¹ The point of departure could perhaps be found in the work of B. KIDRIČ (1952).

² MALI LEKSIKON SAMOUPRAVLJAČA (1972), P.6. STRAHINJIĆ, C. (1980) p. 45. USTAV (1974) art 12, 129-131.

Accounting tricks will diminish real depreciation. A part of the real value of the capital stock will be transformed into current income and distributed to the workers.

The property rights structure of the Yugoslav self-managed firm generates some more problems. The authors distinguish the horizon problem from the common property problem, a slight variation on our first investment problem. Workers are self-interested welfare optimizers. Their interests will necessarily clash. Newcomers are granted at once the same claims on current income. Senior members will react with policies of underinvestment or restriction of membership. In either case, Pareto-optimality will be not be reached.

The nontransferability of the claims causes related problems. As the worth of firms cannot be valued at a stock market, the pattern of allocation of the means of production will necessarily display inefficiencies. Moreover, employees suffer from serious portfolio problems as the ability to diversify assets has been curtailed. In sum, the property rights structure of social property does not provide a viable solution to the problems of risk and uncertainty.

Finally, there exists a control problem in the self-managed firm. In the view of the authors it has to be ascribed more to the institutional set-up than to the property rights structure of the economy.

There has been some discussion about technical points in the literature.

STEPHEN (1980) has attacked Furubotn's assertion that self-managing collectives will first use external resources before financing investments out of retained profits. He shows that welfare maximization should reverse this priority rule. However, MILANOVIĆ (1983), while granting Stephen this point, argues that in fact the cooperative will then fail to use the resource with the lower social opportunity cost.

The relevance of this discussion fades out a little, as borrowing of external funds has been conditioned on partial self-financing.³

Most of the above arguments are picked up by today's privatizers.

(*POSLJEDNI DANI DRUŠTVENOG VLAŠNIŠTVA*, 1990). The introduction to this book tells us that social property hampers the installation of political democracy and an efficient market economy. Most authors elaborate on this theme, focussing on the economic implications of social property. Only privatization can bring a solution to the economic crisis. For example, MENCINGER (1990) argues full responsibility will not be taken up until ownership titles are clearly distributed. The functions of risk taking and efficient undertaking require well defined rules fixing rights and responsibilities.

KALOGJERA (1990) argues for the transformation of the social capital into shares and the introduction of a capital market. The federal law on the circulation of social capital has incorporated a great deal of the privatization philosophy.⁴ It is not clear, however, how much of the social economy should be privatized and whether the issuing of internal shares should be supplemented by the issuing of external shares. A Slovenian law-proposal transcends the hitherto extending practice in Yugoslavia of issuing internal shares and starts creating regulations for transferable shares.⁵

We now return to the discussion of principles and like to comment as follows.

Just one institutional characteristic has been picked out: the social property. But it is clear that the whole legal and institutional surrounding will determine how the economy really works. Economic policy will greatly influence the performance of the institution of social property.

Further, a certain type of economic agent has been selected out: a short-time self-interested welfare maximizer. How realistic is this individualistic creature? It looks at least an extreme representation.

³ In 1972 a Yugoslav law was enacted specifying that a bank could not make a loan to a business firm for investment in fixed assets unless the firm secured at least 20 percent of the total cost from its own funds. (FURUBOTN, 1974, p. 269)

⁴ For a discussion of this law, see Kovač, B. Nacionalizacija i privatizacija, *Ekonomaska Politika*, 11.12. 1989, p. 23-26.

⁵ Slovenija. Strogo kontrolisa na privatizacija. In: *Ekonomaska Politika*, 25. 2. 1991., p. 17-18.

Finally and in the light of the previous remarks, most problematical aspects of the social property institution could be remedied. In my view, the most serious challenge lies in the risk and uncertainty argument. Is a good working capital market an inevitable condition for an efficient developed economy? Are their other institutional arrangements possible that respect social ownership and in the same time resolve problems of efficiency and evaluation of worth? On the other side, can this argument alone decide on the question? We argue it should not. A trade off has to be considered between the desirability and moral value of social property and some loss of efficiency.

The limits of the property rights approach have to be carefully stated. As FURUBOTN & PEJOVICH (1972) characterize the approach, the organization per se is not the central focus: rather, individuals who are assumed to seek their own interests and to maximize utility subject to the limits established by the existing organizational structure.⁶

So the strength of the approach turns into its weakness: social welfare functions are either ignored or ruled out on grounds that such constructs have use only when choices are to be made by some agency or group external to the individuals directly affected.⁷ The property rights approach is based on assumptions that show an extreme individualist basis of choice. In the next section we try to transcend this bias.

3. The social welfare approach of J. Roemer

On the cross-road of welfare economics and social choice theory, Roemer does research on the implications of the concept of social ownership. What does it really mean in axiomatic terms to impose the requirement of social ownership? This can be seen as an exercise in normative economics, or just as a description of the implications of a normative approach.

ROEMER (1988) does not exactly define what is meant by social ownership. Instead, he tries to define some necessary properties that would imply some restrictions on the articles of a desired constitution. This constitution is a construction in social choice theory that aims at describing a desired situation. The implications of this normative construct are then clearly analysed as a consequence of axiomatic assumptions.

The normative situation Roemer wants to describe with a constitution is characterized as follows. Two agents with unequal ability to work own commonly the land on which corn has to be cultivated by investing each (unequal) labor. The normative principles are thus given by the private ownership of their skills and the public or joint ownership of the land. In fact, they also share a common utility function and their labor can be translated into units of standard labor, so that a production function can transform the labor and land into corn. An enumeration of land, a production function, an utility function and skill levels of the individuals is called an economic environment. An economic constitution or allocation mechanism will be a rule that assigns some feasible allocation of labour and corn to both individuals. Of course there are a lot of these rules, and it is now a matter to specify conditions that restrict the economic constitutions to a class that display the desired features. These restrictions on the behaviour of the rules will be translated into axioms.

Roemer needs five axioms to fix the self-ownership of capabilities and the right on public ownership of the external world, supplemented by some other technological requirements.

Axiom 1: Pareto optimality

The first axiom defines efficiency by Pareto optimality. This means that it should be impossible to find another feasible allocation that gives both of the agents greater utility.

Axiom 2: Land monotonicity

When the amount of land has increased, then both agents should be at least as well off in terms of welfare as before. The axiom is intended as a necessary condition of public ownership of the land.

⁶ FURUBOTN & PEJOVICH (1972), p. 1137.

⁷ FURUBOTN & PEJOVICH (1972), p. 1157.

Axiom 3: Technological monotonicity

When the technology (the production function) has improved, at least as much corn should be produced as before. Each agent should be at least as well off in terms of welfare as before. Technological monotonicity represents the public property right that agents have in technology, which is taken to be part of the external world.

Axiom 4: Limited self-ownership

When an agent is at least skilled as the other, then he should be rendered at least as well off as the other. This right on self-ownership is limited in the sense that one could require that a more skilled agent should be strictly better off.

The axiom implies that equally skilled agents should be rendered equally well off.

Axiom 5: Protection of infirm

A less skilled person should not suffer for the greater ability of the more skilled. This can be formalised by requiring that the less skilled person should not be worse off than in a world where both agents would be equally (the other also less) skilled. This axiom does not imply that the more skilled should share the fruits of his skill differential to the less skilled. It only prescribes there are no negative externalities from being less skilled.

When these five restrictions are imposed on then constitutions, the Roemer can prove there is only one that satisfies these conditions. It is the unique constitution that assigns in any environment the Pareto optimal allocation of corn and labor that equalizes the utility levels of the agents.

This is a very strong requirement. So the conclusion can go either way. Or one sticks to these conditions and then a strong institutional design has to be set up to satisfy the conditions. Or one thinks these conditions are too strong and one has to give up some of the axioms, f.e. these that imply common ownership.

Of course, the weight of each axiom has to be verified. For example, CHRISTIE (1989) has criticized Roemer's monotonicity requirements as too strong and as unworkable in the real world. ROEMER (1988) himself gives much weight to the common ownership features. They are most responsible for the equalization of welfare. Common ownership fades out self-ownership of capabilities. Common ownership also clashes with strict self-ownership. People's capitalism - that takes equal distribution of the means of production as a starting point before a free market does its work - also clashes with the five axioms.

Roemer defines an economic environment as a vector of economic elements. The moral character of a constitution is defined by the restrictions imposed on them. Should it not be possible to define an ethic environment, so adding to the economic vector some moral elements? In fact, moral elements could then be seen as additional restrictions on the economic constitution. This focusses the discussion on the ethical questions.

Roemer has analyzed the strong implications of the concept of social ownership. It leaves unanswered the question why we should impose social ownership. We propose an answer to this question in the framework of a third approach.

4. Theories of Justice

RAWLS (1972) is of course the most known advocate of a theory of justice. In reality, HARSANYI (1955) formulated earlier a version of the hypothetical situation in a search for generally acceptable ethical preferences.⁸ The ethical component is given by the fact that persons have to make component is given by the fact that persons have to make choices while not knowing which place they will occupy in society. They have knowledge about the society, the possible roles, technology and so on, but their personal interests cannot play in the choice. This forces them to an impartial choice, imagining they could occupy any place in the society. Harsanyi uses thus a thin veil of ignorance, in contrast to Rawls. The choice situation of the Rawlsian actors is much more uncertain, covered by a thick veil, granting only a mini-

⁸ Of course, one could go back to Hume, Smith and other philosophers who put the impartial spectator on stage.

mum of information in the hypothetical situation. For our purposes the Rawlsian situation fits better, as we suppose some institutions still have to be chosen by the actors in the hypothetical situation. The point we want to derive so far is that an institutional set-up can be morally justified by the hypothetical situation with a thick veil.

There has been some discussion in the literature (BARRY, 1989) whether a decision on principles taken in the hypothetical situation should be carried over in real life. The point is in my view heavily related to the acceptance of pure procedural justice. Principles and institutional choices are justified because they are the result of a fair procedure. If one does accept that the hypothetical situation is a fair situation, then one has to accept the outcomes of decision making in that situation. Is the hypothetical situation a relevant frame for our decision making? We think we do not dispose of decisive arguments, but we ourselves find it a valuable moral point of view. The original situation is a prototype of a situation that guarantees an impartial decision. One could argue there is not enough information in this situation to decide anything, or one could hold that decisions can be taken only led by one's interests. Both objections are not wholly valid. The original situation seems to have enough structure to derive principles and desired characteristics of institutional set-ups. The second objection rejects a model of man that is only driven by personal interest. Moreover, some common goals in society cannot be defined as the aggregation of the preferences of all the individuals. Real life shows these ideals exist and in my view they are also morally justified. Of course, we accept there can be a lot of discussion about the exact derivation of results in the hypothetical situation, not in the least about the relevant decision procedures. We conclude that some reservation should be made to our future assertions and derivations, but we hold that none the less there is some moral justification for our thought experiment.

What we now want to argue, and this is the central thesis of this section, is that the institution of social ownership can be derived logically and with enough force within the hypothetical situation. So we find a general moral justification for social property, that should not be rejected by rational decision-makers in society.

This proposal is of course not self-evident. RAWLS (1972) himself gives some remarks about economic systems and their property regimes, but argues that his theory of justice does not prejudge the choice of regime.

We first follow A. PAZNER and D. SCHMEIDLER (1976) who in the contractarian framework of Rawls seek to determine ex-ante a determinate distribution of economic resources. Rational individuals in the original position can be expected to agree unanimously on the egalitarian distribution of resources. When they do not know which position they will take in society, decision rules will lead them to this egalitarian position.⁹

Now we recall ROEMER's result on the implication of social property. He showed common property necessarily leads to an equal distribution. So, we now suggest that common property could do the job PAZNER & SCHMEIDLER require as the logical outcome of the contractarian approach in the hypothetical situation. Rational individuals in the hypothetical situation should choose for a basic structure of society of which common property of the means of production is a fundamental feature. This choice could be seen as an insurance policy granting equal opportunities to all members of society once the veil of ignorance lifted.

5. Conclusion

In the first part we have presented arguments of the property rights theorists against the common property as an inefficient institution. We pointed at the underlying anthropological assumptions and value options of the approach. Social choice theory in Roemers interpretation has laid bare some logical implications of common property. In the theory of justice, using Pazner's egalitarian interpretation of Rawls's contractarian approach, we finally have found a convincing justification of the institution of common property.

⁹ This is equally true for the minimax, the minimax regret and insufficient reason decision rules. (PAZNER & SCHMEIDLER, 1976).

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Summary

In this article, we confront three main approaches to the problem of social ownership.

We first analyse the most common objections to the concept of social ownership, as formulated by the property rights school (e.g. Furubotn & Pejovich). Though some of the arguments are contested by other authors, their approach seems now have been accepted as the standard view on the problem of common ownership. The main arguments for privatization strategies are based upon this approach.

Next we recall some of the principles and requirements a desirable social economic order should satisfy.

We take here into consideration the implications of some criteria formulated by the social choice approach of J. Roemer.

We then extend the discussion to the moral foundations of some theories of justice (Rawls, Barry) and explore whether one can find a good justification for the concept of social ownership on these grounds.