SOCIAL EQUALITY AND THE CORPORATE GOVERNANCE OF A PROPERTY-OWNING DEMOCRACY[1]

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In recent years, a number of theorists have argued that Rawls's vision of a property-owning democracy seems like a promising way to institutionalise an ideal of social equality. In this paper, I distinguish two economic aims that appear central to these accounts of social equality: widespread *security* and *control*. I then argue that, insofar as Rawls's property-owning democracy retains many large-scale corporations, it is poorly placed to realise these two economic aims unless it is supplemented with an adequate regime of corporate governance. I go on to assess three possible regimes of corporate governance for a property-owning democracy: (1) investment fund activism; (2) worker-managed firms; and (3) labour-capital partnerships. I argue that all three regimes offer different trade-offs between widespread economic security and control; however, there are social egalitarian reasons – albeit of a provisional nature – to see regime (3) as a superior option to regimes (1) and (2).

Keywords: property-owning democracy; social equality; corporate governance; labour-capital partnerships; labour-managed firms; investment fund activism

Nos últimos anos, uma série de teóricos tem argumentado que a visão de Rawls de uma democracia de proprietários parece ser uma maneira promissora de institucionalizar um ideal de igualdade social. Neste artigo, faço a distinção entre dois objetivos económicos que parecem importantes em termos de igualdade social: a generalização da *segurança* e do *controlo*. Defendo então que, na medida em que a democracia de proprietários de Rawls permite manter muitas grandes empresas, é incapaz de concretizar estes dois objetivos económicos exceto se for complementada com um regime adequado de governo das empresas. Prossigo avaliando três

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possíveis regimes de governo das empresas para uma democracia de proprietários: (1) ativismo de fundos de investimento; (2) empresas geridas pelos trabalhadores; e (3) parcerias trabalho/capital. Defendo que estes três regimes oferecem diferentes *trade-offs* entre a segurança económica e o controlo generalizados; porém, há razões sociais e igualitárias – embora de natureza provisória – para ver o regime (3) como uma opção superior aos regimes (1) e (2).

Palavras-chave: democracia de proprietários; igualdade social; governo das empresas; parcerias trabalho/capital; empresas geridas pelos trabalhadores; ativismo de fundos de investimento

0. Introduction

There has been a renewed interest in the idea of a property-owning democracy in contemporary political theory, particularly among those who subscribe to social egalitarian views. Broadly speaking, social egalitarians are concerned with preventing inequalities of power, rank and status among citizens that entail domination and lead to the erosion of self-respect. Many such theorists have come to see the idea of a property-owning democracy that Rawls (2001, pp. 135–79) advocates in his later work as a promising way to organise economic life in accordance with these aims (Dagger, 2006; Freeman, 2013; Hsieh, 2012; O'Neill, 2012; White, 2015; Williamson, 2012).[2]

Rawls's idea of a property-owning democracy draws heavily on the work of James Meade (1964). Although there are gaps in Rawls's account, he clearly follows Meade in viewing the widespread private ownership of productive assets as the *sine qua non* of this form of political economy.[3] This has been taken to have two attractive features from a social egalitarian standpoint: first, it affords all citizens economic *security* in the sense that they have a substantial and reliable income from productive assets and are therefore less vulnerable to domination by wealthy fellow citizens or state officials. Second, it allows all citizens to enjoy the self-respect that comes from *controlling* their own economic lives insofar as they have each been put in a position to manage their own economic affairs.

In this paper, I argue that, in an economy that retains many large-scale corporations, widespread private ownership of productive assets is insufficient,

2 I explain why I classify these theorists as social egalitarians in the next section.

3 For simplicity, I take "widespread" to mean "universal" in an individualist sense.

and quite possibly counter-productive, for realising the social egalitarian aims of widespread economic security and control. This is because, in a society of many small dispersed shareholders, each shareholder will have neither the incentive nor the expertise to hold the managers of complex large-scale corporations to account, thus ceding effective *control* of productive assets to management. Furthermore, in such circumstances we can often expect corporate managers to pursue managerial perquisites, organisational growth and short-term investment risks, rather than sustainably maximising shareholder returns, thus undermining the economic *security* of shareholders. So, any vision of a property-owning democracy that looks to realise the social egalitarian aims of widespread economic security and control must supplement a focus on widespread ownership of productive assets with a theory of corporate governance.

With this concern in mind, I assess three possible regimes of corporate governance that have been proposed by theorists in the property-owning democracy literature: (1) shareholder activism by investment fund managers (Alperovitz, 2012; Meade, 1964; T. Williamson, 2012); (2) labour-managed firms (Freeman, 2013; Krouse & McPherson, 1986; Malleson, 2014; Schemmel, 2015; White, 2015);[4] and (3) labour-capital partnerships, such as German-style codetermination (Hussain, 2012; Meade, 1986, 1993). I draw two conclusions. First, I argue that, taken in their most promising forms, regimes (1) and (2) reflect different trade-offs between the aims of widespread economic security and control. For instance, in regime (1) property owners sacrifice effective control to fund managers for the sake of greater economic security, whereas in regime (2) property owners sacrifice economic security by concentrating their savings in their own businesses for the sake of greater effective control. Second, I argue that regime (3) looks likely to do as well as regime (1) in terms of widespread economic security and better than regime (1), though not quite as well as regime (2), in terms of widespread economic control. As such, if we adopt certain plausible assumptions about the types of trade-offs between widespread economic security and control that social egalitarians should be willing to make, and the rates at which regimes (1), (2) and (3) trade off these two economic aims, then there are reasons for social egalitarians to prefer regime (3) to regimes (1) and (2).

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4 Malleson and Schemmel see this as a departure from a property-owning democracy towards a liberal socialism, but I side with Freeman and White in seeing certain forms of worker-management as compatible with a property-owning democracy.

In terms of structure, I use the next section to clarify the two central concepts in my argument, namely "social equality" and "property-owning democracy", and elucidate why theorists have come to see the latter as a promising institutionalisation of the former. I then build on this analysis in section two to argue that a property-owning democracy risks undermining social equality unless it includes an adequate regime of corporate governance. Sections three and four are then devoted to assessing the three abovementioned regimes of corporate governance from a social egalitarian standpoint, and section five concludes.

1. Social Equality and a Property-Owning Democracy

For many contemporary theorists, social equality is seen as a favourable alternative to the distributive notions of equality that came to dominate debates about social justice in the 1980s. Theorists in these debates generally looked to identify the correct *distribuendum* of egalitarian justice (e.g. Arneson, 1989; Cohen, 1989; Dworkin, 1981). In contrast, social egalitarians argue that the primary purpose of egalitarian theory should be to specify a form of political community in which individuals stand in social relations that are not significantly stratified by socially imposed differentials of power, rank or status (Anderson, 1999; Miller, 1997; Scanlon, 1996; Wolff, 1998; Young, 1990). Put another way, egalitarians' *primary* concern should be *social*, rather than *distributive*, equality.

This commitment to a social conception of equality has precedents in diverse traditions of political thought,[5] and this probably explains why, although there is a broad consensus among contemporary social egalitarians about what they are against, there is less agreement on the specifics of a positive social egalitarian vision. Nevertheless, I believe we can pick out two economic aims that appear central to a number of contemporary social egalitarian theorists, as well as to other theorists who are "socially-egalitarian-inclined".[6]

The first such economic aim is widespread *security*. This can be seen as one element of a broader social egalitarian concern with social arrange-

5 For example, in Rousseau's republicanism, Wollstonecraft's feminism (Fourie, Schuppert, & Wallimann-Helmer, 2015), Tawney's socialism, Marx's communism (Wolff, 2015), Walzer's communitarianism (Miller, 1997), and Rawls's liberalism (Scheffler, 2003).

6 In this category I refer to the Rawlsian theorists Freeman, Williamson, Hsieh, and O'Neill, and the republican theorists Dagger and White. For brevity's sake, I hereafter refer to all these theorists as social egalitarians.

ments that leave citizens vulnerable to domination by other private citizens or state officials. The basic worry is that, if some citizens have an unreliable source of income, then this can leave them particularly vulnerable to such domination. For instance, if they are reliant on the whims of either an employer or state official for their income, then they may feel the need to act deferentially towards them, rather than as a civic equal. Similarly, if they lose a large portion of their income, then they will thereafter be vulnerable to being forced into degrading or humiliating economic relationships in order to survive. These types of concerns are detailed in the writings of a number of contemporary social egalitarians (Anderson, 1999, pp. 297–300; Dagger, 2006, p. 166; Scanlon, 1996, p. 12; White, 2015, p. 4; T. Williamson, 2012, p. 226; Wolff, 1998, pp. 113–15).

The second economic aim that appears to be central for many social egalitarians is widespread *control*. This can be seen as one element of a broader social egalitarian concern with social arrangements that erode citizens' self-respect. The basic worry is that, if decisions that have a large impact on the economic lives of certain citizens are reserved for other citizens, then members of the former group will not see themselves as the civic equals of the latter group, and this will undermine their self-respect. For instance, if a certain group of citizens are not given the chance to manage their own investments, but are instead given a weekly allowance by a wealthy benefactor or the state, then this will erode their self-respect. Or if workers are not given a meaningful input into decisions about their working conditions, then this will also erode their self-respect. These are best understood as concerns about paternalism: even if these citizens were to enjoy a high weekly allowance, or pleasant working conditions, they are still being treated as one might treat a child, and this is a legitimate threat to their self-respect. This type of concern can be seen in the writings of a number of contemporary social egalitarians (Anderson, 1999, p. 301; Dagger, 2006, p. 161; Freeman, 2013, pp. 23,32–3; Hsieh, 2012, p. 157; O'Neill, 2012, p. 89).

In recent years, many social egalitarians have commended Rawls's vision of a property-owning democracy (e.g. Dagger, 2006; Freeman, 2013; Hsieh, 2012; O'Neill, 2012; White, 2015; T. Williamson, 2012). As already noted, the defining feature of Rawls's property-owning democracy is the widespread private ownership of productive assets, including financial and human capital. This is primarily to be achieved by the state applying steeply progressive inheritance and gift taxes at the beneficiary's end, and then redistributing the receipts more equally, in particular through the provision of high quality education (Rawls, 2001, p. 161). These "predistributive" policies operate alongside an economy that allocates goods using the price mechanism (Rawls, 1999, pp. 241–42), traditional welfare state social insurance programmes (1999, p. 243,301, 2001, p. 276) and redistributive taxation of incomes and expenditures (2001, p. 161).[7]

A number of social egalitarians view this type of society as a promising way to realise the economic aims of widespread security and control. First, certain theorists emphasise that Rawls's property-owning democracy is well placed to offer all citizens economic *security* in the sense that they each have a substantial and reliable income from the productive assets they own (Dagger, 2006, p. 166; Hsieh, 2012, p. 155; White, 2015, p. 7; T. Williamson, 2012, p. 230). Second, certain theorists emphasise that citizens in this type of society appear well placed to enjoy economic *control* insofar as they each have the skills, resources and opportunities to manage their own economic affairs (Freeman, 2013, pp. 23,32–33; Hsieh, 2012, p. 157; O'Neill, 2012, p. 89). However, in the next section I argue that Rawls's property-owning democracy risks undermining both widespread economic security and control unless it is supplemented with an adequate regime of corporate governance.

2. Managerial Threats in a Property-Owning Democracy

One notable gap in Rawls's depiction of a property-owning democracy is his lack of attention to the size, structure and regulation of corporations, beyond noting that there may be a place for labour-managed firms (Rawls, 2001, p. 178). Contemporary social egalitarians with a penchant for Rawls's property-owning democracy have largely followed him in this regard.[8] In this section, I shall argue that this is a significant oversight because, in an economy that retains many large-scale corporations, widespread private ownership of productive assets is insufficient, and quite possibly counter-

7 In my view, Rawls retains a prominent role for welfare state institutions in his vision of a property-owning democracy, but if the reader disagrees, then consider this as a charitable reinterpretation of Rawls's vision.

8 To clarify, most theorists who have addressed this issue defend some form of economic democracy on the grounds that it prevents hierarchical relationships between managers and workers (Freeman, 2013; Hsieh, 2012; O'Neill, 2008). An exception is Hussain (2012) who argues for a corporatist property-owning democracy on the grounds of improved social stability. But it remains an open question whether either of these arrangements adequately addresses the managerial threats to widespread economic security and control that I outline in this section.

productive, for realising the social egalitarian aims of widespread economic security and control.

Let us begin by focussing on the threat that large-scale corporations pose to the realisation of widespread economic *control* in a property-owning democracy. To recall, for social egalitarians one of the main attractions of Rawls's property-owning democracy is that the widespread *ownership* of productive assets puts all citizens in a position to *control* their own economic affairs. This type of control is seen as an important social basis of self-respect, in contrast to paternalistic arrangements. But, if this type of society retains large-scale joint-stock corporations of the type that have come to dominate modern capitalism, then its economy will be structured around an institutional form that *separates ownership from control*. This is because, in a joint-stock corporation, the owners (i.e. shareholders) appoint a board of directors/managers who then oversee the running of the business.[9]

Of course, in theory the shareholders are seen as *principals* who task the directors/managers, as their *agents*, to faithfully realise their interests in getting the best possible return on their investments. But, as Jensen and Meckling (1976) argued in an early contribution to a vast literature, in practice there is a problem of asymmetrical information between the principals and their agents in the modern corporation: the directors/managers are likely to have a level of expertise and familiarity with the workings of the company that is not matched by the shareholders, thereby making it hard for the latter to hold the former to account effectively.

Somewhat counter-intuitively, this principal-agent problem is exacerbated in the context of a property-owning democracy, like Rawls's, that ensures widespread ownership of shares. This is because, as Berle and Means (1932, pp. 44–67) first pointed out, in a society of many small dispersed shareholders, where each shareholder owns only a very small amount of any particular corporation, then any given shareholder will have neither the incentive nor the expertise to hold the directors/managers of any given corporation to account. Furthermore, Williamson (1975, pp. 126–29) has convincingly argued that this principal-agent problem is exacerbated in larger firms, because there is a more complex bureaucracy for directors/managers to hide behind. As such, in a property-owning democracy that retains many large-scale corporations, widespread private ownership of productive

9 Sometimes boards of directors are comprised wholly of the firm's managers (executive directors), sometimes they are comprised wholly of people from outside the firm (non-executive directors), and most commonly they include a mix of the two.

assets is quite possibly counter-productive for realising the social egalitarian aim of widespread economic control.

There are two reasons why social egalitarians might be concerned by this lack of widespread economic control. First, they might be worried about it in itself. For instance, suppose we follow Alfred Marshall (1920, p. 253) in thinking that, although numerous small shareholders may lack the power to hold the directors/managers of large-scale corporations to account, we can nonetheless expect these directors/managers to pursue their shareholders' pecuniary interests out of a sense of moral duty. Even if this holds true, this economic system is based on powerful directors/managers acting paternalistically towards the vast majority of powerless property owners. From a social egalitarian perspective, this sort of paternalistic arrangement is a legitimate threat to these property owners' self-respect.

The second reason why social egalitarians might be concerned by the directors/managers of large-scale corporations enjoying economic control comes into view if we plausibly stipulate that, oftentimes, these directors/managers will not pursue their shareholders' pecuniary interests out of a sense of moral duty. In this scenario, the presence of large-scale corporations threatens to undermine not only shareholders' economic control, but also their economic security, understood as a substantial and reliable income stream from their shareholdings.

Adam Smith first raised this worry about the directors/managers of large-scale corporations pursuing goals other than ensuring the most substantial and reliable returns to shareholders (Smith, 1776, p. 700), and more recent empirical work supports his concern. First, there is evidence to suggest that directors/managers often maximise managerial perquisites and the growth rates of their companies, rather than returns to shareholders (Marris, 1998; O. Williamson, 1964). Second, there is evidence to suggest that, when faced with a market for managerial talent with a high turnover, directors/managers will pursue risky business strategies that boost shareholder returns in the short-term but leave the corporation, and its owners, at risk of heavy losses thereafter (Narayan, 1985; Palley, 1997).

From a social egalitarian perspective, these managerial behaviours pose two threats to the economic security of property owners. First, if directors/managers prioritise perquisites and organisational growth, then shareholders will reap a poor return on their investments, and will therefore be more reliant on income streams from employment and the state. Second, if directors/managers succumb to short-termism, then this will leave shareholders vulnerable to the systemic risk of losing many of their investments in the long run, even if they are diversified across a number of companies. In either scenario, property owners will not enjoy a substantial and reliable income from their productive assets, thus leaving them vulnerable to domination.

In sum, insofar as Rawls's vision of a property-owning democracy retains many large-scale corporations, it is not a promising institutionalisation of widespread economic security and control unless it is supplemented with an adequate regime of corporate governance. Hence, I will now assess three possible regimes of corporate governance that have been proposed by theorists of the property-owning democracy in terms of, first, whether they neutralise the abovementioned managerial threats to the realisation of widespread economic security and control and, second, whether they introduce other threats to the realisation of these economic aims.

3. Common Corporate Governance Options for a Property-Owning Democracy

In this section, I will assess the two most commonly proposed regimes of corporate governance in the property-owning democracy literature: *investment fund activism* (3.1) and *labour-managed firms* (3.2). These two regimes are not explicitly proposed by theorists as ways of tackling the managerial threats to economic security and control that I outlined in the previous section; however, each regime finds support among social egalitarian theorists. As such, it is appropriate to assess each regime in terms of how well placed it is to ensure widespread economic security and control in the context of a property-owning democracy that retains many large-scale corporations. In doing so, I will consider each regime in its most promising form.

3.1 Investment Fund Activism

The first regime of corporate governance that I will focus on is *investment fund activism*. Thus far I have been assuming that small shareholders in Rawls's property-owning democracy invest directly in large-scale joint-stock corporations. But, in those modern capitalist societies where small shareholders ultimately own the majority of corporate shares, most of their shares are invested in large-scale joint-stock corporations by investment funds, such as pension funds and mutual funds. These investment funds typically consist of the savings of a large number of workers, and the managers of these funds then act as financial intermediaries who make investment decisions on behalf of the ultimate share owners (Mueller, 2003, pp. 94–8).[10]

In the property-owning democracy literature, Meade (1964, p. 40), Williamson (2012, pp. 236–8) and Alperovitz (2012, pp. 274–5) all advocate a central role for investment funds. But, although these theorists argue for a property-owning democracy on broadly social egalitarian grounds (e.g. Meade, 1964, p. 39; T. Williamson, 2012, p. 226), they do not assess whether investment funds might neutralise managerial threats to the realisation of widespread economic security and control. So our task is to answer the following questions: first, to what extent can we expect a property-owning democracy that adopts a regime of investment fund activism to neutralise managerial threats to the realisation of widespread economic security and control? Second, does such a regime introduce other threats to the realisation of these economic aims?

Beginning with widespread economic *security*, the prospects are promising. To recall, there are two managerial threats to the realisation of this economic aim in a society of small shareholders: first, directors/managers prioritising perquisites and organisational growth; second, directors/managers succumbing to short-termism. The introduction of investment funds looks like a promising way to combat the first of these managerial threats. This is because, unlike any given small shareholder, the managers of large investment funds have the expertise and incentives to hold the directors/managers of corporations to account (Tricker, 2015, pp. 246–8). Following Hirschman (1970), we can distinguish two ways in which they might do so. First, they could "exit" corporations whose management appears to be underperforming by selling the shares under their control. Second, they could exercise "voice" in underperforming firms by using the voting rights of the shares they control to take an active role in managing the corporation in the ultimate share-owners' pecuniary interests. Either way, the more symmetrical distribution of information between investment fund managers and the directors/managers of corporations allows for a better functioning capital market.

Things are more complicated when we come to the second managerial threat of short-termism. This is because there is evidence to suggest that, in modern capitalist societies where investment funds predominantly exercise

10 In legal terms, the investment funds own the shares, but I will speak of the investors in these funds as the "ultimate owners" in order to keep track of the genealogy of ownership of productive assets.

"exit" but not "voice", the directors/managers of corporations tend to engage in risky short-term profit-maximisation that can leave their companies vulnerable in the long run. However, this mainly occurs when fund managers make their "exit" decisions based on fairly simple decision rules that favour corporations that prioritise short-term gains (Black & Fraser, 2002; Vitols, 2001, p. 340). As such, if we stick to the method of assessing each regime of corporate governance in its most promising form, then we can plausibly imagine a regime of investment fund activism that combines more nuanced exercises of "exit" and "voice" by fund managers to ensure substantial and reliable incomes for the small property owners whose wealth they manage.

So a regime of investment fund activism looks well placed to neutralise managerial threats to the realisation of widespread economic security. However, it does not look so well placed to neutralise managerial threats to the realisation of widespread economic *control*. This is because the gains in economic security that small shareholders enjoy in this regime stem from handing over investment decisions to fund managers. However, similar principal-agent problems to those that applied to the relationships between small shareholders and the directors/managers of joint-stock corporations will also apply to the relationships between small shareholders and the managers of investment funds, albeit to a lesser degree. As such, investment funds will only do a better job of ensuring that small shareholders enjoy substantial and reliable incomes from their shareholdings if their managers either act on a sense of moral duty towards these small shareholders, or are forced to pursue these small shareholders' pecuniary interests by state regulatory agencies. In either scenario, widespread economic security is being achieved through paternalistic measures that trade off, to some extent, small property owners' investment control.

Furthermore, a regime of investment fund activism only achieves widespread economic security by introducing another threat to the realisation of widespread economic control. Up to this point I have discussed economic control purely in terms of citizens being provided with the skills, resources and opportunities to manage their own investments (hereafter: *investment control*). But in section one I noted another form of economic control that social egalitarians see as an important social basis of self-respect: the control that comes from workers having meaningful input into decisions about the conditions in which they work (hereafter: *workplace control*).

Now, the gains in economic security that small shareholders enjoy in a regime of investment fund activism stem from corporations being run purely in their pecuniary interests. This being the case, there is no space in this regime of corporate governance for workers to exercise control over the conditions in which they work. If they happen to work in good conditions, then these workers are lucky, not powerful, in the same way that a child who receives a large weekly allowance is lucky and not powerful. As such, a regime of investment fund activism achieves widespread economic security for citizens *qua* property owners through measures that threaten the realisation of widespread economic control for citizens *qua* workers.[11] So, when assessed in its most charitable form, a corporate governance regime of investment fund activism does well in terms of realising widespread economic security, but this comes at the expense of widespread investment and workplace control.

3.2 Labour-Managed Firms

The second regime of corporate governance that I will focus on is *labour-managed firms*. In the property-owning democracy literature, Freeman (2013), Krouse and McPherson (1986), Malleson (2014), Schemmel (2015) and White (2015) all advocate labour-managed firms for broadly social egalitarian reasons. However, these theorists do not offer much detail on the specific forms of labour-management they favour, nor do they assess labour-management in terms of how well it neutralises managerial threats to widespread economic security and control.

To keep things manageable, I shall focus on the most promising form of labour-management that is compatible with the private ownership of productive property that characterises a property-owning democracy. In my view, this is the model of labour-managed firms that Meade (1986, pp. 17–28) and Dahl (1985, pp. 91–2, 140–42) describe, in which the workers of a firm own all of its shares in equal proportion. This might take the form of each worker owning one share that is only transferable to other workers in the firm upon departure, or it might take the form of collective ownership of shares in a joint corporate account that pays out equal dividends to each worker. Either way, each worker must initially invest an equal amount in

11 An anonymous reviewer noted that some liberals, such as (Taylor, 2014, p. 448), see *widespread ongoing opportunities* to create workplaces that allow worker-control, rather than the *actual existence* of such workplaces, as the appropriate social basis of self-respect, in which case this version of a property-owning democracy looks more promising. Whilst I recognise the importance of this deeper disagreement about the appropriate social bases of self-respect, my arguments in this paper are addressed to those social egalitarians who accept the more demanding *desiderata* of actually-existing workplace control.

the firm's capital and is thereafter entitled to the same rate of dividend from the firm's profits and to one vote at shareholder meetings. The internal management structure of the firm and the wage levels that accrue to positions of differential responsibility are among the things to be decided by shareholders using a majoritarian decision rule. (Whereas Dahl advocates something like this model of labour-management, Meade prefers the labour-capital partnerships that I examine in the next section.[12])

Again, we are faced with two questions: first, to what extent can we expect a property-owning democracy that adopts this model of labour-management to neutralise managerial threats to the realisation of widespread economic security and control? Second, does this arrangement introduce other threats to the realisation of these economic aims?

Beginning this time with widespread economic *control*, the Meade-Dahl model of worker-management looks better placed than the regime of investment fund activism to neutralise managerial threats to widespread *investment* control. This is because the Meade-Dahl model avoids the residual principal-agent problem that arises between small property owners and fund managers in the regime of investment fund activism. It does so by ensuring that property owners retain direct control rights (in a democratic, rather than liberal, sense) over their investments. Although principal-agent problems might be thought to return if worker-owners create hierarchical structures of internal management in their firms, this should be offset to a large degree by worker-owners having the incentives and expertise to hold any such managers to account. So, the Meade-Dahl model of worker-management looks relatively well placed to put citizens in a position to manage their own investments. In addition, unlike the regime of investment fund activism, the Meade-Dahl model of worker-management does not introduce a threat to the realisation of widespread *workplace* control. This is because the one-worker-one-vote system adopted in this model of labour-management offers workers meaningful input into decisions about the conditions in which they work.

Moving on to widespread economic security, the Meade-Dahl model of worker-management again looks better placed than the regime of invest-

12 Vanek (1970, pp. 1–8) describes an alternative form of labour-management within which workers do not own the firms they work in, but instead capitalise their firms by selling perpetual bonds in a private bond market (Vanek, 1970, pp. 177–81). In my view, which I do not have space to defend here, Vanek's model looks as well placed as the Meade-Dahl model in terms of realising widespread economic security and workplace control, but worse placed in terms of realising widespread investment control. Hence, I focus on the more promising Meade-Dahl model.

ment fund activism to neutralise managerial threats to this economic aim. This follows from the fact that the shareholders are now also the directors/managers of the firm (or, if they create separate managers, the shareholders are now in a better position to be effective principals). However, the Meade-Dahl arrangement introduces a new, and more substantial, threat to widespread economic security. This is because it relies on each worker concentrating their savings in the firm that they work in. An oft-cited weakness of this arrangement is that it leaves the income that workers enjoy from their productive assets highly vulnerable to market fluctuations in a way that the diversified portfolios of property owners in a regime of investment fund activism are not (Meade, 1986, p. 20; Miller, 1990, p. 87). As such, in a property-owning democracy that employs the Meade-Dahl model of worker-management, we can expect to find a class of ex-workers without independent sources of wealth, who are therefore vulnerable to domination by other citizens or state officials.

To summarise, this section assessed the two most commonly advocated regimes of corporate governance in the property-owning democracy literature – investment fund activism, and labour-managed firms – in terms of the social egalitarian *desiderata* of widespread economic security and control. I argued that a regime of investment fund activism looks well placed to realise widespread economic security, but that this comes at the expense of widespread economic control. I then reached the opposite conclusions for a regime of labour-managed firms. So, it looks like social egalitarians with a penchant for Rawls's property-owning democracy must supplement this social system with either a regime of corporate governance that trades off a substantial amount of citizens' economic control, or one that trades off a substantial amount of citizens' economic security. However, in the next section I highlight an alternative regime of corporate governance that looks as well placed as the regime of investment fund activism in terms of realising widespread economic security, whilst enjoying some of the advantages of a regime of labour-managed firms in terms of widespread economic control.

4. A Superior Option?: Labour-Capital Partnerships

The regime of corporate governance that I focus on in this section has gained little attention from contemporary social egalitarian theorists with a penchant for Rawls's property-owning democracy. It is the regime of *labour-capital partnerships*. Again, to keep things manageable I shall restrict myself to two models of labour-capital partnerships that are compatible with the private ownership of productive property that characterises a property-owning democracy.

The first model of labour-capital partnerships I shall consider is *German-style codetermination*. This refers to a regime in which large-scale corporations have a two-tier board structure. First, there is a board of directors, half the members of which are elected by the corporation's shareholders to represent their interests, and the other half by the corporation's employees to represent their interests. This board of directors then appoints members to a separate management board that runs the day-to-day activities of the corporation. Furthermore, the board of directors has a range of powers that allow it to determine the strategic direction of the corporation and hold the management board to account, and typically members of the board of directors have a level of expertise that matches that of the members of the management board (Proctor & Miles, 2002, pp. 87–96). In the property-owning democracy literature, Hussain (2012) advocates German-style codetermination, but he does so for reasons of increased social stability rather than widespread economic security and control.

The second model of labour-capital partnerships I shall consider is one advocated by Meade. As he notes, the simplest way to understand this type of partnership is to imagine it being applied instantaneously to an existing joint-stock corporation. If we begin with a joint-stock corporation that pays out 20 percent of its revenue to capital owners, and 80 percent to employees, then this can be transformed into one of Meade's labour-capital partnerships by the issuance of two kinds of share certificates. First, Capital Share Certificates will be issued to all of the capital owners at a distribution that is *pro rata* to their existing income from the corporation (i.e. totalling 20 percent of the corporation's revenues). Second, Labour Share Certificates will be issued to all employees *pro rata* to their individual earnings from the corporation (i.e. totalling 80 percent of the corporation's revenues). Both types of share certificates carry an entitlement to the same rate of dividends; however, whereas Capital Shares can be traded on the stock market, Labour Shares are tied to an individual working partner until they retire or voluntarily leave the corporation. The capitalist shareholders and the labour shareholders then each elect the same number of members to a board of directors/managers that runs the company (Meade, 1986, pp. 38–53, 1993, pp. 107–10).[13]

13 Meade specifically advocates an arrangement whereby labour-capital partnerships can accept new partners on worse terms, calling these firms "Discriminating Labour-Capital Partnerships"

So, we must once more answer two questions: first, to what extent can we expect a property-owning democracy that adopts either model of labour-capital partnerships to neutralise managerial threats to the realisation of widespread economic security and control? Second, do either of these arrangements introduce other threats to the realisation of these economic aims?

Beginning with widespread economic *security*, both models of labour-capital partnerships look as well placed as the regime of investment fund activism to neutralise managerial threats to the realisation of this economic aim. To recall, I initially distinguished two managerial threats to the realisation of this economic aim in a society of small property owners: first, directors/managers prioritising perquisites and organisational growth; second, directors/managers succumbing to short-termism. Both models of labour-capital partnerships are compatible with the introduction of investment funds to manage property owners' portfolios, and, as was noted earlier, this looks like a promising way to combat the first of these managerial threats. In addition, unlike with the Meade-Dahl model of worker-management, there is no need for property owners to concentrate their shareholdings in one business, thus avoiding this separate threat to economic security.

However, in either model of labour-capital partnerships, investment fund managers are not the only ones with a say over how property owners' investments are used, because there is employee representation on corporate boards. Does this introduce a new threat to widespread economic security for small property owners? It does not because, in short, there is evidence to suggest that employee representatives generally have a greater interest in protecting the long-term viability of a company, even if this sometimes comes at the expense of short-term profit-maximisation (Streeck, 1997; Vitols, 2001). As such, when assessed in their most promising forms, these models of labour-capital partnerships are as well placed as the regime of investment fund activism to neutralise not only the first managerial threat of prioritised perquisites and organisational growth, but also the second managerial threat of short-termism.

Moving on to widespread economic control, both models of labour-capital partnerships look only as well placed as a regime of investment fund activism to neutralise managerial threats to *investment* control. This is because, in both of these corporate governance regimes, small property owners effectively hand over control of their investment decisions to oth-

(1993, pp. 117–24). However, in what follows I frame my remarks so that they apply to either Discriminating or Non-discriminating versions of Meade's Labour-Capital Partnerships.

ers – either fund managers, or a mixture of fund managers and employee representatives – and then rely on either paternalistic motivations or wider legal arrangements to align the incentives of these empowered individuals with their own pecuniary interests. As a result, neither a regime of investment fund activism nor a regime of labour-capital partnerships look as well placed as a regime of labour-managed firms in terms of neutralising managerial threats to widespread investment control, because only in the latter regime do small property owners retain control rights over their investments.

But, crucially, in terms of realising widespread *workplace* control, both models of labour-capital partnerships look better placed than a regime of investment fund activism, though not as well placed as a regime of worker-managed firms. To recall, I noted earlier that the gains in economic security that small shareholders enjoy in a regime of investment fund activism stem from corporations being run purely in their pecuniary interests, thereby eliminating any space for workers to exercise control over the conditions in which they work. In contrast, the one-worker-one-vote system adopted in a regime of labour-managed firms gives priority to ensuring workers a meaningful input into decisions about the conditions in which they work. As such, it follows that the even split of employees' and capital owners' representatives on the boards of labour-capital partnerships places this regime squarely in between a regime of investment fund activism and a regime of worker-managed firms in terms of realising widespread workplace control.

To summarise, both models of labour-capital partnerships considered in this section look as well placed as a regime of investment fund activism to realise widespread economic security and investment control, and better placed to realise widespread workplace control. Conversely, both models of labour-capital partnerships looks better placed than a regime of worker-managed firms to realise widespread economic security, but worse placed to realise widespread investment and workplace control.

This result has two potentially significant implications for social egalitarian supporters of the property-owning democracy. First, if we assume that social egalitarians are wary of trading off too much widespread economic security for the sake of increases in widespread economic control and *vice versa*, then the corporate governance regime of labour-capital partnerships looks like a "golden mean" between the regimes of investment fund activism and worker-managed firms. Second, if it can be shown that the regimes of investment fund activism and worker-managed firms each trade off widespread economic security and control in different directions at the same rate of one-to-one, and if we assume that social egalitarians are indifferent between equal increases in widespread economic security and control, then they should prefer a corporate governance regime of labour-capital partnerships to a regime of investment fund activism or worker-managed firms. This is because, if this trade-off rate holds, then a regime of labour-capital partnerships will realise a greater combined amount of widespread economic security *plus* control than the other two corporate governance regimes.

5. Conclusion

I began this paper by delineating two economic aims that are widely shared by social egalitarians, many of whom have a penchant for Rawls's property-owning democracy: widespread economic *security* and *control.* I then argued that both of these economic aims would be threatened by the directors/managers of large-scale corporations in Rawls's property-owning democracy. As such, I assessed three possible models of corporate governance for a property-owning democracy in terms of whether they neutralise managerial threats to widespread economic security and control, and whether they introduce other threats to the realisation of these economic aims. My main conclusion is that there are social egalitarian reasons to favour a corporate governance regime of labour-capital partnerships. But this conclusion only follows if a number of conditions hold regarding the types of trade-offs that social egalitarians should be willing to make, and the rates at which different corporate governance regimes trade off different economic aims. Each condition, though plausible, requires further examination. I hope to have persuaded social egalitarians who find Rawls's property-owning democracy attractive that these issues are worth pursuing.

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