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Property-owning democracy as an alternative to capitalism

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Alan Thomas, *A Republic of Equals: Predistribution and Property Owning Democracy*, Oxford University Press; Oxford, 2017; 472pp. ISBN: 9780190602116. £91 (hbk).

Abstract

Alan Thomas' *Republic of Equals: Predistribution and Property-Owning Democracy* sets itself the ambitious task of synthesising neo-republican political theory and Rawlsian justice as fairness. It is an important and challenging work that will set the stage for a great deal of the discussion not only on justice and republicanism, but also on property-owning democracy, market socialism and broader discussions of alternative economic institutions to come. After reconstructing the argument of the book, this review article turns to some specific points it raises that warrant further discussion. More precisely, it examines Thomas' critique of market socialism, arguing that it fails to do what it sets out to do: show that market socialism is incompatible with justice as fairness. Having discussed and rejected his critique of the main other model that Thomas considers, I then turn to questions of the feasibility of POD as a feasible alternative to familiar forms of capitalism.

Keywords

Economic democracy, exploitation, John Rawls, justice, justice as fairness, market socialism, Participatory Economics, Property-Owning Democracy, republican freedom, republican liberty

Introduction

Alan Thomas' (Thomas, 2017) most recent book, *Republic of Equals: Predistribution and Property-Owning Democracy*, sets itself the ambitious task of synthesising the political liberalism of Rawlsian justice as fairness with the Roman republicanism of

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Philip Pettit, which he argues strengthens both. To the former, this synthesis offers a 'better theory of institutions in the form of an expanded conception of the basic structure of society' (Thomas, 2017: xvi), and to the contestatory forum that Roman republicanism uses to identify citizens' interests it adds the independent certification of fairness. The broader goal of this project is to provide a philosophical contribution to theorising the growing inequality we are currently witnessing. That contribution is ambitious to say the least. In addition to synthesising republicanism and justice as fairness, one of Thomas' major aims is to systematically theorise a model of an economic system to replace familiar forms of capitalism, namely Property-Owning Democracy (hereafter POD), and to argue that, *contra* Rawls, *only* a POD can furnish justice as fairness with its required institutional realisation. After reconstructing the argument of the book, this review article will turn to some specific points it raises that warrant further discussion. More precisely, it will examine Thomas' critique of market socialism, arguing that it fails to do what it sets out to do: show that market socialism is incompatible with justice as fairness. Having rejected his critique of the main other model that Thomas considers, the article then turns to questions of feasibility. It raises concerns about whether POD really is a feasible alternative to familiar forms of capitalism in the long term, and notes how two competing models of alternative economic systems – market socialism and Participatory Economics – attempt to avoid them. Together, this challenges Thomas' arguments for the necessity and sufficiency of POD for realising justice as fairness and republican liberty respectively.

Reconciling republicanism and justice as fairness

Thomas begins by arguing that Roman republicanism and political liberalism can and should be reconciled, and that only a synthesis of the two can provide a stable implementation of justice as fairness. Here the distinction between Roman and more Athenian and Rousseauian republicanism is important. In contrast to the latter, Roman republicanism does not view political participation as a necessary part of the good life; consequently, a liberal republicanism need not privilege any one conception of the good.¹ Political participation is valued not as a necessary component of the good life, but instead as a means for protecting citizens' varied interests under a regime of law. Liberalism (in particular Rawls') and Roman republicanism converge in their concern for economic inequality, flowing from both a prior commitment to freedom and the fact that the institutional implementation of justice as fairness would be unstable absent measures preventing large private concentrations of wealth.

Thomas argues that they not only converge in this way, but need one another. Republicanism needs political liberalism's ideas about our higher-order interests rooted in our capacities for a conception of the good and a sense of justice. It also needs justice as fairness' explanation of 'what it is for domination to be non-arbitrary by certifying the procedure of the contestatory forum (which identifies the critical interests of citizens) as procedurally fair' (Thomas, 2017: 19). Equally, political liberalism needs the Roman republican concept of freedom to guide an institutional design that secures robust protections against domination. Thomas emphasises the importance of republicanism rendering domination not only costly, but structurally impossible.

An original and interesting synthesis, Thomas' liberal-republicanism remains solidly rooted in Rawlsian political theory. Having outlined the shape of his marriage of the two traditions, Thomas pauses to defend Rawls and Thomas' liberal-republicanism against some prominent criticisms. He responds to G. A. Cohen's critique of Rawls, whilst also arguing that justice as fairness can be defended only if implemented in POD, and that only POD offers a stable implementation of the difference principle. Thomas then goes on to argue that POD is also required by Rawls' equal basic liberties and fair equality of opportunities principles, and compares and contrasts his proposed constitutionalising of the background conditions required for a stable implementation of justice as fairness with two of its competitors.

Importantly, Thomas argues that both Rawlsian justice as fairness and Roman republicanism are particularly concerned with the accumulation of private concentrations of wealth, the major inequalities they imply and how this in turn leads to concentrations of political power and thus to what Thomas calls a 'drift to oligarchy' (Thomas, 2017: 10). Drawing in particular on the work of Thomas Piketty (2014), Thomas argues that even the most generous social democracies have failed to curb the accumulation of capital and the growth of inequalities of wealth and power in the long run, and that such accumulation in turn 'generates a "drift to oligarchy" even in liberal social democracies' (Thomas, 2017: xix). In this sense, Thomas' project is intended to contribute to theorising the growing inequality we are witnessing, by developing a contemporary normative political theory for guiding the institutional changes required for resolving the growth of inequality and drift to oligarchy inherent in capitalism.² It is therefore particularly important for Thomas to show that one model, POD, is both necessary and sufficient for overcoming the tendencies towards inequality and drift to oligarchy of familiar forms of capitalism – an issue I return to below and in the next two sections.

Thomas argues that POD is both necessary and sufficient for an adequate liberal republicanism that can address the inequality and oligarchy of contemporary capitalism. To that end, Chapter 6 outlines the history of POD, arguing that the model developed and defended by Meade and Rawls is sufficient for meeting that challenge. POD aims for a wide distribution of capital – economic, social and human – through a variety of means, including, *inter alia*: a free high-quality system of public education; progressive taxation of wealth and income; sovereign wealth funds; taxes on intergenerational wealth transfers through e.g. gifts and inheritance; and incentives for small savers. These means are expected to provide a feasible alternative to all previous forms of capitalism, such as social democracy, with their proven inability to thwart the growth of wealth inequality and drift to oligarchy over time. Thomas also makes the highly contentious claim that POD will render domination and exploitation structurally impossible – a claim that requires much greater discussion than there is space for here. The notion of POD as pre-distributive rather than redistributive, its focus on institutional design and on altering the holding of (economic, social and human) capital, is particularly important for contrasting it with social democracy, which is discussed and rejected in Chapter 7.

If POD is sufficient for realising liberal republicanism, Thomas also argues that it is necessary – rejecting Rawls’ claim that both POD and market socialism are compatible with justice as fairness. Chapter 8 therefore criticises market socialism for being inefficient and exploitative. Drawing on N. Scott Arnold’s work (Arnold, 1994), Thomas defines exploitation in terms of failure to reward people according to the ‘productive contribution in terms of the value it would realize on a competitively efficient market’, provided they have no realistic alternative(s) and that the value is extracted by another agent (Thomas, 2017: 225). Since wages and returns on capital under market socialism do not match what people could receive in an idealised capitalist marketplace, market socialism is judged to be exploitative. Two reasons for this are that market socialist firms will likely see ‘wage compression’, or lower wage inequalities, through which the less productive exploit the more productive (Thomas, 2017: 227) and because the labour market is thinner under market socialism, thereby reducing rights of exit and thereby the fair value of freedom of association (Thomas, 2017: 227–234). I return to this argument later in the article.

Finally, the remaining chapters defend Thomas’ view against criticisms that important components of Rawls’ justice as fairness mandate workplace democracy, the challenge of a more inegalitarian version of POD and concerns about whether the liberal-republicanism he sketches is adequately realistically utopian, respectively.

In a book as ambitious and wide-ranging as this, there will inevitably be many parts that deserve critical discussion and elaboration. The remainder of this review article, however, will focus on two of these only: the critique of market socialism for being exploitative; and the realist concern with the stability of POD over time.

The critique of market socialism

The very specific conception of exploitation that Thomas uses creates two problems for his critique of market socialism. First, many of the predistributive and redistributive features of POD (including taxes on wealth, capital and income) mean that because many people in POD, like many people in market socialism, will also take home less than what they could command in an idealised free capitalist marketplace, POD is also exploitative (Vrousalis, 2017), indeed extensively so. The wide variety of predistributive and redistributive measures POD contains are supposed to forestall market exchanges generating the kinds of inequality seen in familiar forms of capitalism – so much so that e.g. Rawls considers it an alternative to capitalism, rather than a form thereof. These will necessarily result in many people’s take-home wages deviating significantly and systematically from what they would be able to get in an idealised capitalist marketplace, and in a way that benefits other members of their society and to which they do not have a realistic alternative. POD thus features exploitation just like market socialism does, so this critique cannot be used, as Thomas uses it, to recommend the former over the latter.

Thomas claims that POD differs from market socialism, due to the latter's 'loss of the individual's right of exit': under market socialism one 'cannot simply move to another employer, as the employment market will be considerably less dynamic', supposedly because worker-owned firms will be less likely to hire new members, people will be less likely to start new firms and income between firms will vary greatly due to the lack of a stock market (Thomas, 2017: 227). Arnold originally argued that capitalism does better on the basis of a highly idealised account of capitalist labour markets, belied by the effects of the dismantling of welfare states and chronic unemployment the world is currently facing. Thomas cannot make use of the same argument, since he is comparing market socialism not to (familiar forms of) capitalism, but to POD. Unfortunately, Thomas fails to really back these claims up, and provides no sustained account of what an advocate of market socialism might respond to this critique. For example, the most prominent model of market socialism includes full freedoms to quit any workplace and apply for work at any others, as well as a generous welfare state that will serve as an employer of last resort (Schweickart, 1996, 2002). This certainly impacts effective rights of exit in ways that Thomas' argument needs to address if it is to work. As such, Thomas' argument here for POD over market socialism is insufficient as it stands.

A partisan of POD might also retort that the norms of reciprocity required by justice as fairness would exist in a POD but not under market socialism, rendering the former a well-ordered society and the latter not. As a result of this, those who take home less than they would in an idealised capitalist marketplace due to e.g. the taxation they would be subject to in POD³ would consider this to be fair, and would therefore not be exploited.⁴ There are many problems with this argument, the biggest of which is that it simply misunderstands the account of exploitation Thomas, following Arnold, is using. On this view, someone is exploited if and only if they receive less than the 'fair value' of their work, they have no realistic alternative and that value is extracted by another agent (Thomas, 2017: 225). Whether those whose value is extracted find it to be fair or not is not important for this definition of exploitation (though it may well be important for other reasons). As such, Thomas' account of exploitation, and of why market socialism is exploitative, does not hinge on market socialism's inability to realise a norm of reciprocity⁵ and thereby cause those who would take home more under familiar forms of capitalism to agree with it. This objection to my critique therefore fails because it is based on an erroneous interpretation of Thomas' analysis of exploitation.

Another problem with Thomas' critique of market socialism for being exploitative is its unquestioned assumption that an idealised capitalist-type competitive marketplace is the benchmark for determining what counts as exploitation. If Thomas' goal was to defend familiar forms of capitalism (as Arnold's is), then this assumption would perhaps be understandable, if unjustified. But since Thomas is more critical of familiar forms of capitalism – and since one of his major sources, Rawls, considers POD an alternative to capitalism – this cannot quite be Thomas' project.⁶ Taking one of the core idealised features of familiar forms of capitalist economies as the benchmark for determining what counts as fair

is highly problematic. Why should anyone considering alternative economic institutions use an idealised account of familiar capitalist economic institutions to determine what counts as receiving the fair value of one's work, which in turn determines what counts as exploitation?

One argument could be that exploitation, in this and Arnold and Thomas' sense, is supposed to be wrong here because it violates people's legitimate expectations and thwarts their ability to control their economic fate (Thomas, 2017: 221). But neither of these are plausible. Legitimate expectations are subject to a host of contextual factors, and there is no reason to suppose, as this argument requires, that people in a market socialist society will generally expect to be paid what they would be able to get in an idealised capitalist marketplace, rather than in the market socialist one that they have grown up, lived their lives and formed their social expectations under.

Moreover, there is no reason to think that the reduction of wealth inequalities in cooperatives will reduce people's overall ability to control their economic fates. Consider: that the reduced earnings for the wealthiest are captured by the less wealthy; that the decision to set wages in this way, should it be made, would be made either by workers themselves or elected managers, rather than by unelected and unaccountable managers and shareholders; that the reduced wealth inequality will arguably enable less of a distortion of politics on both national and local levels; the effects of voting rights within one's workplace on one's ability to control one's working life; and the joint democratic effects of the combination of cooperative enterprises with a greater role for local governments determining long-term investment. Given these familiar features of the most prominent model of market socialism (Schweickart, 1996, 2002), there are compelling reasons to think that market socialism offers much better prospects for control over one's economic fate than either familiar forms of capitalism or POD.

If these arguments are correct, then Thomas' case for POD being the necessary alternative to capitalism fails. The next section considers whether POD can be sufficient.

Property-owning democracy as an alternative to capitalism

Another concern I want to raise about POD is how feasible it is as an alternative to capitalism or familiar forms thereof. This challenges Thomas' argument for the sufficiency of POD for realising justice as fairness and republican liberty. For Meade, this problem does not occur, since his discussion is clear that POD is an alternative to e.g. the trade union state or the welfare state, which are also familiar, if different, variants of capitalism. The case is different with Rawls, whereas Thomas seems to consider POD a form of capitalism without capitalism's problems. Rawls wants us to believe that POD is not a form of capitalism at all – but on what basis? POD is certainly different from both neoliberal capitalism or social democracy, but retains many of the same basic economic institutions, such as private property in the means of production, the same capitalist-type competitive marketplace, wage labour, etc. A wider dispersal of capital and reduced inequality,

along with hopes of a better labour market, does not, in and of itself, change these basic institutional facts. I thus want to press the following realist concern: given that POD retains the basic institutional features of capitalism, how is it not just a different version of capitalism?

Furthermore, if POD retains these features, what is to prevent it from featuring the same tendencies towards inequality and oligarchic drift as all other forms of capitalism in a way roughly similar to all historical social democracies, such as Norway and Sweden? Thomas acknowledges that POD ‘will continue to involve comparatively large-scale holders of capital’ (Thomas, 2017: 331), but nevertheless thinks it will ‘remove the class-based conflict between capital and labor’, since labour will ‘now be made up of capital-holding citizens acting in concert’ (Thomas, 2017: 331). This seems naïve. If there are still large-scale holders of capital, it will still be in their interests to maximise profits at the expense of workers’ working conditions, wages and benefits; and it will be in workers’ interests to maximise the latter, at potential cost to the former. Importantly, retaining large-scale holders of capital means retaining a capitalist class with greater wealth and disproportionate economic and political power with respect to the rest of the population. They will likely use their greater wealth and power to push for political reforms that enable them to accumulate, retain and pass on that wealth and power to their relatives, which in turn will arguably drive POD to drift back into familiar forms of capitalism over time. The concern here is this: since POD retains many of capitalism’s basic institutions, including a capitalist class with greater wealth and power, it will, over time, likely slide back into familiar forms of capitalism with all their inherent problems. If so, then POD fails to be a feasible alternative economic system, since it is unlikely to be able to survive and reproduce itself over time without lapsing back into the forms of capitalism it is supposed to overcome.⁷

The problem of containing capital under capitalism (and, depending on one’s definition of ‘capitalism’, economic systems which share many of capitalism’s major features) is one that is arguably better addressed by other models of alternative economic systems. Both market socialism (Schweickart, 1996, 2002) and Participatory Economics (Albert, 2003; Hahnel, 2005; Hahnel and Wright, 2016; see also the discussion in Wright, 2010) seek to address this issue by democratising control over productive resources and the economy more generally – albeit in different ways. Market socialism does this by mandating that all large-scale firms be workers’ cooperatives, governed through a mixture of voting and the rule of elected managers and boards of directors and by giving local governments control over investment. This removes the existence of individual large-scale holders of capital altogether, as a result of which such a group cannot use their disproportionate wealth and power to drive a transition to capitalism. Participatory Economics, by contrast, addresses this problem by replacing private property in productive resources altogether, in favour of a network of democratic workers’ councils which democratically govern workplaces,⁸ thereby removing private holders of productive capital altogether. There are a lot more details to both models, and a variety of critiques and concerns raised about them, but these are outside the scope of our discussion. The point I want to make is that both these

models address a concern that I have argued that POD fails to: the concern that POD, by retaining large-scale holders of productive capital, with the disproportionate wealth and power that this implies, is likely to re-lapse into familiar forms of capitalism over time. They do this by removing large-scale holders of productive capital (market socialism) or private holders of productive capital (Participatory Economics) altogether.⁹

Conclusion

Republic of Equals is an important and challenging work that will set the stage for a great deal of the discussion not only of justice and republicanism, but also of POD, market socialism and broader discussions of alternative economic institutions, to come. It develops an interesting synthesis of republican and Rawlsian liberal ideas, and uses this synthesis to contribute to one of the most important problems of our time, namely the growing inequality and oligarchy and the disastrous effects they are having on our world. In this respect, however, I have two important concerns about its arguments. First, its critique of market socialism seems overly hasty and insufficient. Second, POD may not be feasible, not because it is impossible or too difficult to implement, but because it is not likely to be able to survive and reproduce itself over time, in light of the basic institutions of capitalism that it retains. This last point is an important criterion for anyone thinking about alternative economic institutions, and one that advocates of POD should take much more seriously than they have so far.

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Notes

1. There's a question about whether Thomas' (and, indeed, many others') assessment of Rousseauan republicanism is correct on this point (McCormick, 2007), but I leave this question aside here.
2. How 'inherent' to capitalism this is taken to be is debatable. Thomas seems to agree with Piketty that capitalism features an inherent tendency towards growing inequality coupled with the assertion that this is politically contingent.
3. Taxation is of course only one way in which some can take home less than they would in an idealised capitalist marketplace. As we have seen, there are others as well.
4. I would like to thank an anonymous referee for this argument, which I had not thought of.

5. And Thomas *does* think that what he calls mandatory market socialism fails to realise a norm of reciprocity; see Thomas (2017: 245).
6. There is a wrinkle in the argument here: whereas Rawls is explicitly anti-capitalist (O'Neill, 2014) and considers POD to be an alternative to capitalism, Thomas seems to consider POD a version of capitalism. In order to bracket this disagreement, I focus on referring to the non-POD forms of capitalism that have so far existed historically as 'familiar forms of capitalism', distinguishing them from POD. I think I agree with Thomas here that POD is best construed as a version of capitalism, but nothing much hinges on how 'capitalism' is defined precisely here. It is, after all, clear to everyone that at least the left version of POD that Rawls and that Thomas advocate is very different from e.g. the kinds of capitalism that right 'libertarians' advocate, as well as from welfare state capitalism.
7. I also briefly mention this concern with respect to Rawls in Rækstad, P. Forthcoming. 'Ventreliberalismen til John Rawls: Rettferdighet, Utopi, Kapitalismekritikk, og Realisme', in Kristjansson, M, Innset, O. and Dybedahl, O. Forthcoming Ingen mennesker er født frie: liberalismekritikk fra venstre. Oslo: Dreyer Forlag.
8. The literature discusses exceptions for individuals who work essentially for their own business – such as small-scale farmers – but these need not concern us here.
9. For a variety of reasons that I cannot engage with here, I prefer the latter system, because it will likely be freer and more democratic.

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