

NEW WORK FOR THE VISIBLE HANDS OF BUSINESS

David Ellerman

Introduction

Perhaps the abiding theme of Richard Cornuelle's thought was libertarian skepticism about the efficacy of government in addressing social problems. But what is the best nongovernmental means to address these problems? Cornuelle was far from the sort of libertarian who glorified the individual and saw appeals to community and society as creeping socialism. And it was in this quest for community that he saw the independent sector as the best hope for "reclaiming the American dream" (1965). It was a vision of the independent sector more as community-based little platoons and Tocquevillean associations than as large, bureaucratized nonprofits vying for government grants to "implement social programs."

It is safe to say that Cornuelle's vision of the independent sector has not been realized. What part of his vision needs to be rethought? Cornuelle's 1991 "New Work for Invisible Hands" shows at least one direction for that rethinking. My goal here is to indicate one way in which the rethinking initiated in that article could be carried further.

Cornuelle's Critique of Libertarian-Austrian Thought

A striking feature of "New Work" is how Cornuelle forcefully raises issues that have been rather neglected in libertarian thought and Austrian economics, which, "lacking any analytical device but market theory" (1993, 186), has trouble giving a satisfactory account of social associative action (e.g., the independent sector) or an account of what goes on inside firms. These lacunae are shared with the new institutional economics of neoclassical economics, as Herbert Simon notes: "A fundamental feature of the new institutional economics is that it retains the centrality of markets and exchanges. All phenomena are to be explained translating them into (or deriving them from) market transactions based upon negotiated contracts, for example, in which employers become 'principals' and employees become 'agents'" (1991, 26-7).

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Cornuelle was writing about this shortcoming of libertarian thinking when the socialist experiments of the twentieth century were collapsing. The decline of communism was widely seen as a historical verification of the Austrian critiques of a socialist economy in favor of a market economy, and, more broadly, the critiques of planned organizations (*taxis*) in favor of spontaneous orders (*cosmos*). This leaves a big problem, however: accounting for the “visible hand” (Chandler 1993) of organizations that are so important, if not characteristic, of the modern, industrialized market economy, as Cornuelle noted: “As the dust settles on the ruins of the socialist epoch, a second crippling deficiency of libertarian thought is becoming more visible and embarrassing. The economic methodology that the Russians have lately found unworkable still governs the internal affairs of firms in capitalist and socialist countries alike. An economy presumably works best if it is not administered from the top; a factory presumably works best if it is (1991, 3).

Herbert Simon made a similar point at the time: “The economies of modern industrialized society can more appropriately be labeled organizational economies than market economies. Thus, even market-driven capitalist economies need a theory of organizations as much as they need a theory of markets (1991, 42).

These deficiencies in both Austrian and neoclassical economics are relevant to Cornuelle’s abiding concern for empowering nongovernmental social action to address social problems. Essential to the thriving of a democracy and a republic is a citizenry that is not only capable of taking initiative and thinking independently but also is accustomed to exercising those virtues in the *institutions* of daily life. To have social efficacy, these virtues have to be exercised in association with other people in *organizations* that will amplify individual efforts.

The Employment Relation Versus Democratic Capabilities

However, outside of the family, the institution of daily life where people spend most of their waking hours is the workplace, which is organized on principles quite different from those of other voluntary associations, namely the employer-employee relation (which is twentieth-century newspeak for the master-servant relation),¹ where most people are employees who are rented,² hired, or employed by an employer, as Cornuelle notes: “When freemen went to work in factories [in early capitalism], their status was not unlike that of the iron-collared serfs who had preceded them. Their employment was a kind of voluntary indenture, tacitly renewed each day, in which the worker agreed to submit to supervision for a certain number of hours for an agreed-to amount of pay. Workers were free in one sense,

but painfully unfree in another. Feudalism had only moved indoors (1991, 3).

Many of the effects of this relationship have been ameliorated by modern industrial and labor legislation and by the labor movement, which embodied at least a residual of associational life and social efficacy for the employees. Nonetheless, the employer-employee relationship remains fundamentally unequal, Cornuelle notes: “But the system has yet to be altered elementally. Working people are far, far freer than slaves or indentured servants, but they are not as free as their bosses and not nearly as free as they might be (1991, 4).

This raises many questions and has many implications, but for our specific purposes here, the point is the effect of “what people do all day long” on their capabilities as citizens in a democracy and a republic:

The regimentation of work has created a political majority whose attitudes about themselves and their world are heavily conditioned by a lifelong habit of subordination—what Hayek has called an “employee mentality.” How can people see the value of independence and self-propulsion when they work in a system in which they are dependent and subordinate? There is little in their daily experience which would cause them to conclude that a society is kept alive by a continuous process of adaptation, led by independent, enterprising people. They are bound to see society as something static—something to be administered. Employed people can scarcely be expected to revere qualities they have been carefully instructed to repress. Instead, they tend to become what the way they work requires: politicized, unimaginative, unenterprising, petty, security-obsessed and passive (Cornuelle 1991, 4).

The path that Cornuelle was on leads to an “elemental” change that transforms the role of the people working in a firm from being employee-servants to being owner-members of the firm. In fact, he is practically “channeling” the words of John Stuart Mill, who, 130 years earlier, addressed the same concerns and arrived at workplace democracy and worker ownership as the solution (1899).

The concept of deliberative democracy (Thompson 1970, Gutmann and Thompson 1996, Elster 1998) distinguishes itself from the concept of democracy *simpliciter* by emphasizing the importance of public discussion, active citizenship, and associational life. The concept of deliberative democracy is older than the phrase. In the nineteenth century the concept was often treated under the name “government by discussion.” Although a thorough intellectual history could go

back to Socrates and Aristotle, for present purposes one could list more recent contributors such as Alexis de Tocqueville, John Stuart Mill, Walter Bagehot, James Bryce, John Dewey, Ernest Barker, A. D. Lindsay, Frank Knight, James Buchanan, Bernard Crick, Charles Lindblom, and Jurgen Habermas.

Was Cornuelle on Mill's Path?

One way to place Cornuelle in this tradition is to compare his line of thought in *New Work* to John Stuart Mill's treatment of these issues. Mill's contribution to the understanding of government by discussion is best known from his books *On Liberty* and *Considerations on Representative Government* (both included in 1972 [1861]). In *Considerations*, Mill argues that political institutions should be judged in large part by the degree to which they "promote the general mental advancement of the community, including under that phrase advancement in intellect, in virtue, and in practical activity and efficiency. . . ." (ch. 2). Indeed, he states, a defect of a representative government may be that it does not bring "into sufficient exercise the individual faculties, moral, intellectual, and active, of the people" (ch. 6):

As between one form of popular government and another, the advantage in this respect lies with that which most widely diffuses the exercise of public functions; . . . by opening to all classes of private citizens, . . . the widest participation in the details of judicial and administrative business; as by jury trial, admission to municipal offices, and above all by the utmost possible publicity and liberty of discussion, whereby not merely a few individuals in succession, but the whole public, are made, to a certain extent, participants in the government, and sharers in the instruction and mental exercise derived from it (1972 [1861], ch. 6).

Mill saw representative government as an "agency of national education" (ch. 2) and mentioned "the practice of the dicastery and the ecclesia" (ch. 3) in ancient Athens as institutions that developed the active political capabilities of the citizens.

In his *Principles of Political Economy*, Mill considered how the form of work would affect those capabilities and how the workplace association could become a school for the civic virtues if it progressed beyond the employment relation. Like Cornuelle, Mill started with the virtues of association and community: "But if public spirit, generous sentiments, or true justice and equality are desired, association, not isolation, of interests, is the school in which these excellences are nurtured. The aim of improvement should be not solely to place human beings in a condition in which they will be able to do without one another, but to enable them to work with or for

one another in relations not involving dependence” (1899, Book IV, Chapter VII).

Previously, those who lived by labor and were not individually self-employed would have to work “for a master,” Mill noted, but that could change: “But the civilizing and improving influences of association, . . . may be obtained without dividing the producers into two parties with hostile interests and feelings, the many who do the work being mere servants under the command of the one who supplies the funds, and having no interest of their own in the enterprise except to earn their wages with as little labor as possible” (ch. VII).

One step in this direction would be various forms of association between capital and labor. But that is only a halfway house: “The form of association, however, which if mankind continue to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and workpeople without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves” (1899, Book IV, Chapter VII).

Under this form of cooperation, Mill foresees an increase in the productivity of work because the workers have the enterprise as “their principle and their interest”:

It is scarcely possible to rate too highly this material benefit, which yet is as nothing compared with the moral revolution in society that would accompany it: the healing of the standing feud between capital and labour; the transformation of human life, from a conflict of classes struggling for opposite interests, to a friendly rivalry in the pursuit of a good common to all; the elevation of the dignity of labour; a new sense of security and independence in the labouring class; and the conversion of each human being’s daily occupation into a school of the social sympathies and the practical intelligence (ch. VII).

Thus Mill brings us back to the basic question about the civic-economic connection: “each human being’s daily occupation” is what sort of school? Is it a school for being a good “employee”³ or a school for being an active and productive member of a company with positive spillover effects for the civic virtues in the local community?

If Mill’s conclusions on these issues are a roughly correct estimate of Cornuelle’s trajectory, then there would be other implications for the second and third sectors of society in Cornuelle’s vision.

Re-Constitutionalizing the Corporation

The more natural site for collective action to address community problems would be where people are involved in effective collective action all day long: their work organization. But today the structure of most companies of any size—namely, securitized absentee ownership on the stock market—institutionalizes irresponsibility by disconnecting the far-flung shareholders from the social and environmental impact of their “corporate governance.” Or viewed the other way around, that structure prevents the local managers and staff in widely-held companies from using their principal outside-the-family organizational involvement to address local problems. That responsibility gap in turn increases the need for a stronger third, independent sector to address those problems.

A few social commentators have pointed out the institutionalized irresponsibility of the absentee-owned joint-stock corporation. In his 1961 book aptly entitled *The Responsible Company*, George Goyder quoted a striking passage from Lord Eustace Percy’s *The Unknown State: 16th Riddell Memorial Lectures* in 1944: “Here is the most urgent challenge to political invention ever offered to the jurist and the statesman. The human association which in fact produces and distributes wealth, the association of workmen, managers, technicians and directors, is not an association recognised by the law. The association which the law does recognise—the association of shareholders, creditors and directors—is incapable of production and is not expected by the law to perform these functions” (38).

The elemental solution is to re-constitutionalize the corporation so that the “human association which in fact produces and distributes wealth” is recognized in law as the legal corporation where the ownership/membership in the company would be assigned to the “workmen, managers, technicians, and directors” who work in the company.

Conclusion

We have seen the trajectory of Mill’s and perhaps Cornuelle’s thought in this direction of anchoring business ownership in the managers and staff in a firm so that they can use their everyday collective activity to address their local concerns, which would naturally go beyond just making a living. That would create new work for the visible hands of business. It would create the best opportunity for a *decentralized, nongovernmental approach to social problems*—which was the core of Cornuelle’s abiding vision.

NOTES

- ¹ For instance, Ronald Coase takes the characteristic feature of “the firm” to be that it is organized on the basis of the “legal relationship normally called that of ‘master and servant’ or ‘employer and employee’” (1937, 403). Coase quotes from an earlier edition of the British law book on the “Law of Master and Servant” (Batt 1967).
- ² Paul Samuelson wrote, “Since slavery was abolished, human earning power is forbidden by law to be capitalized. A man is not even free to sell himself: he must *rent* himself at a wage” (1976, 52, emphasis in original). Fischer, et al., write, “We do not have asset prices in the labor market because workers cannot be bought or sold in modern societies; they can only be rented. (In a society with slavery, the asset price would be the price of a slave.)” (1988, 323).
- ³ Immanuel Kant considered being a servant so disqualifying as to make a person unfit to participate in civic affairs such as voting. To be “fit to vote, a person must have an independent position among the people.” Thus Kant distinguished between “the *active* and the *passive* citizen,” where “the latter concept seems to contradict the definition of concept of the citizen altogether.” Specifically, “Apprentices to merchants or tradesmen, servants who are not employed by the state, minors (*naturaliter vel civiliter*), women in general and all those who are obligated to depend for their living (i.e., food and protection) on the offices of others (excluding the state)—all of these people have no civil personality,” Kant wrote (1991 [1797], 126, Section 46).

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