ISSN 1848-0071
658+321.7=111
Recieved: 2014-02-22
Accepted: 2014-07-03
Original scientific paper

DAVID ELLERMAN'S THEORY OF DEMOCRATIC FIRM[1]

DINKO WASSERBAUER

External associate in ITAS Prvomajska d.d. Ivanec, Croatia
e-mail: dwasserbauer@gmail.com

This paper is about the nature, legal and financial structure of democratic firm in David Ellerman's view. Democratic firm is a company „owned" and controlled by all people working in it. It's ownership structure rests on principle that people have natural and inalienable right to the fruits of their labour. In addition, it's governence structure rests on principle that people have a natural and inalienable right to economic self-determination. In democratic firm voting rights and rights to the net income are restructered as personal rights assigned to the functional role of working in the firm. Net asset rights remain property rights and they are registered on the internal capital accounts and they are quite separated from membership rights. Most popular examples of democratic firms are workers cooperatives and ESOP companies. This companies are analysed through restructuring or lack of restructuring conventional bundle of property rights. However, there are many questions about economic democracy that are left opened.
Key words: democratic firm, economic democracy, membership rights, internal capital accounts, workers cooperatives, ESOP companies.

Teorija demokratskog poduzeća Davida Ellermana. Ovaj rad obrađuje poglede David Ellermana na prirodu, pravnu i financijsku strukturu demokratskog poduzeća. Demokratsko poduzeće je poduzeće u „vlasništvu" i kontrolirano od strane ljudi koji rade u njemu. Njegova struktura vlasništva počiva na načelu da ljudi imaju prirodno i neotuđivo pravo na proizvode svoga rada. Nadalje, njegova struktura upravljanja počiva na načelu da ljudi imaju prirodno i neotuđivo pravo na demokratsko samoodređenje. U demokratskom poduzeću su prava glasa i prava na neto dohodak restrukturirana kao osobna prava te su dodijeljena funkcionalnoj ulozi rada u poduzeću. Neto imovinska prava ostaju vlasnička prava zabilježena na internim kapitalnim računima te su posve razdvojena od članskih prava. Najpoznatiji primjeri demokratskih poduzeća su radničke zadruge i ESOP poduzeća. Analizira se način na koji ova poduzeća restrukturiraju ili ne restrukturiraju konvencionalnu košaru vlasničkih prava. Međutim, postoje mnoga pitanja o ekonomskoj demokraciji koja su ostavljena otvorena.
Ključne riječi: demokratsko poduzeće, ekonomska demokracija, članska prava, interni kapitalni računi, radničke zadruge, ESOP poduzeća.

INTRODUCTION

Economic democracy and thereby democratic firms are not new topics; they have centuries of history. But, it seems like, there is a rich history of keeping on same metodological dilusions and repeating practical mistakes regardles of what history is telling. Also, it seems like that David Ellerman did manage to perceive some of those dilusions and offer an alternative approach, by which some, if not all mistakes, could be avoided. So, this paper examines that approach, that is, it reviews most important features of Ellerman's theory of democratic firm. Democratic firm is defined as „a company which is „owned" and controlled by all the people working in it" [1]. In addition economic democracy „is a market economy where the predominant number of firms are democratic firms." [1]

The paper starts with reviewing of the basic principles on which the governance and ownership structure of democratic firm rests. After that, those principles are implemented in the enterprise and on that basis, there is description of legal and financial structure of democratic firm as well as the nature of it, which (above all) main feature is restructuring of conventional bundle of ownership rights. On the basis of given structure, we proceed with examination of main democratic firms models that can be found under capitalism; worker cooperatives and ESOP's and the focus of analysis is how they (or do not) restructure conventional bundle of ownership rights. Before conclusion we are asking some questions about democratic firm, and above all, economic democracy that are left open and that are preventing us to get complete picture about this field of social science.

It is important to understand what this paper is not about, that is, important topics and aspects of Ellerman's theory of democratic firm that are not examined here. Above all, there is no validation of Ellerman's property theory. It is more appropriate to do that in separate article with different focus. Except of democratic theory implementation on governence structure of a firm, this paper doesn't analyse organizational structure of the firm even the question arise later. Also, most appropriate model of democratic firm for other, and thus „postransitional“ countries is excepted from this paper. So there is almost no mentioning of hybrid democratic firm model or other more or less similar models.

Democratic firms and economic democracy have broad philosophical, historical, legal, economic, political, enviromental and generally social meaning. This article reviews just some aspects of them. Many aspects and questions are still open. But, that is normal and natural. By answering theoretical questions and by solving practical problems, new questions and problems arise.

TWO BASIC PRINCIPLES: LABOUR THEORY OF PROPERTY AND DEMOCRATIC THEORY

Ellerman's theory of democratic worker-owned firm rests on two principles: (1) structure of property is based on principle that people have a natural and inalienable rights to the fruits of their labour (2) the governance structure is based on principle that people have natural and inalienable right to democratic self-determination [1]. In this chapter we first examine the basics of the fruits-of-they-labour principle which is called *labour theory of property*, and then we will see how the *democratic theory* is applied to the firm

„Mainstream economic theory is only concerned with a transfer of property rights on the market. But to be transferable, property right first must be created. So, in any production process, the question of appropriation (acquistion of the inital or first-time property) arise.“ [1] There are two questions about property appropriation; *descriptive* and *normative*. Descriptive question is – how that one party rather then another appropriates whole product[2] of a production process. Or, other words who appropriates the whole product? It is not necessary the owner of the means of production, but the legal party who has, so called, *residual claimant role*. Residual claimant is a legal party who bears the costs of inputs used-up in production process (e.g. material inputs, labour cost and the used-up services of capital assets) and has ownership over the product which is a result of production process. That „residual“ is economic profit which is a value of produced inputs minus the value of the used-up inputs. Capital owner is a legal party that owns the means of production (e.g. capital assets like equipment and plant) used-up in production process [1]. These two roles can be easily separeted without changing the ownership over the means of production - rent out the capital assets. If the means of production are leased to another legal party, the lessor retains the ownership over the means of production, but if the leasee (if he doesn't sublesse the assets) takes over production process, then he has to pay up the costs of other inputs and he has a right to the outputs that are (positive) result of production process. Residual claimant is therefore contractual role, not the property right. The belief that „being the firm" (having a residual claimant role) is structural part of the bundle of property rights referred to as ownership over means of production, Ellerman calls *fundmental myth* [1] [2].[3]

The normative question of property appropriation is which legal party ought to legally appropriate the whole product. Other words, who ought to have residual claimant role. The answer comes from unique characteristic of labour - only labour can be responsible. „It is remarkable", says Ellerman, „how human science of „Economics" had not been able to recognize any fundamental difference between intentional human actions and service of things" [1]. Neoclassical economics uses two pictures of production process – *active poetical picture* and *passive engineering picture* where in both cases labour is symetrical with service of things.[4] But, the responsibility for action cannot be assigned to things, no matter of their causal efficacy. In the adjacent field of jurisprudence there is no assigning of responsibillity to things. Things can only serve as conductors of responsibility, never a source. If the burglar committs a crime the responsibility will not be assigned to equipment he used. The assigment of legal (*de jure*) responsibility is called imputation. „The basic juridical principle of imputation is that de jure responsibility is to be imputed in accordance with de facto or factual responsibility"[5] [1] . In the economic context the intentional human actions are called labour, so the juridical principle of imputation can be expressed as the labour theory of property, which holds that people should appropriate the positive and negative fruits of their labour [2].

Any party, says Ellerman, can become the residual claimant by becoming hiring party, that is, the party who hires (or already owns) all the inputs used up in the production. „The workers claim and right to positive and negative fruits of their labour is legally defeated by workers being hired, that is, by employment contract. When the person signs the employment contract i.e when is employed or rented, then he or she don't have legal responsibility for positive and negative fruits of his or her actions - that responsibility goes to employer. But de facto responsibility is independent of legal contracts because people do not suddenly become non-responsible tools when they sign the employment contract." [1] De facto responsibility stays, but it is the reaction of the law that suddenly changes. When the some venture is „jointly carried out" by employess it is legally percepted as fullfiling the employment contract. But if the crime is comitted then legal system will not allow fictional transfer of responsibillity, and the labour theory of property will be implemented. Suddenly, the enterprise becomes partnership of all people working in it. Ellerman uses nice and not so nice word for it- legal fiction and fraud. De facto responsibillity is not transferable like the service of things regardless of legal suprastructure. So the employment contract is naturally invalid contract because it alienate and transfers something that is factually inalienable. So, Ellerman's main argument is to disadopt inherently invalid contract. If we didn't have the legalize system of fraud, every enterprise would be partnership of everyone working in the firm. Every firm would be a democratic firm[6] [1][2]

The peoples right to democratic self-determination in work is also neglected by employment contract. Like the responsibility, decision-making capabillity is also something inalienable. „Deciding to do as one is told is only another way of deciding what to do. People cannot in fact alienate or taransfer decision-making capabillity-but person can delegate authority to make a decision to other persons acting as their representitives“ [1]. When the enterprise has at least one person employed, then it becomes the organization for governance of people and the question of the democracy arise. For aplication of democratic theory to the firm some aspects are especially important. First is the democratic principle that says that direct control rights (positive decision-making rights) over an organization should be assigned to the people who are governed by the organization so they will be self-governing. Secondly, democratic rights are assigned to persons as personal rights, not a property rights[7]. Democratic organization is thus, the people-based organization ,not property based organization. With this important notions and aspects, we can now move to the structure of democratic firm.

PRINCIPLES AND NATURE OF DEMOCRATIC FIRM AND ITS LEGAL AND FINANCIAL STRUCTURE

Most companies are based on renting human beings. Democratic firm theory represents an alternative to private and public renting of human beings where the employment by the firm is replaced with the membership in the firm. In the conventional capitalist corporation, shareholders own, as property rights, conventional bundle of rights which include: (a) membership or residual claimant rights: 1. Voting rights (e.g., to elect the Board of Directors) and 2. Net income rights to the residual and (b) net asset rights: 3. Net asset rights to the net value of current corporate assets and liabilities. „Restructuring of the corporate ownership to create a democratic firm does not mean just finding a new set of owners (such as the „employees“) for that bundle of rights. It means taking the bundle apart and restructuring the rights so that the whole nature of „corporate ownership“ is changed“ [1].

We saw that democratic firm is based on two principles; democratic principle of self-goverment and labour theory of property. These principles are correlated respectively with the first two rights in conventional bundle - voting rights and net income rights which will be called *membership rights*. Democratic principle implies that the voting rights should be assigned to the workers, and labour theory of property implies that residual claimant role should be assigned to the workers [2]. Now we can see how these principles are built in the structure of democratic firm.

Democratic principle of self-goverment is built in the structure of democratic firm by assigning the right to elect the governors to the functional role of being governed. Only people who are under authority of management are workers. External parties are outside the firm. So, by democratic principle neither the outside shareholders have the right to representative on the board - that is not democracy. Shareholders democracy also isn't democracy. Also, democratic socialism[8] is not democratic in theory and less in practice. Democratic firm can only be the corporation where the workers directly elect the Board of Directors. *Labour theory of property* is implemented in the legal structure of a company by assigning the residual rights to the functional role of working in the company. That means that workers of the company need to appropriate the positive (outputs) and negative (used-up inputs) fruits of their labour. Thus, if the P is unit price of outputs Q, and the R is the unit rental rate for input services K, then the residual PQ-RK (revenue minus non-labour costs) is labour income. So, labour income in democratic firms is accuring both as wages or salaries and as profits only there is timing difference between them [1]. Aplication of basic principles implies structure of democratic firm which will be analysed hereafter.

In democratic firm membership rights (voting rights and net income rights) are not property rights at all. They are personal rights assigned to the functional role of working in the firm – to the workers. Hence, only people working in the firm have a right to e.g. elect a governors - Board of Directors *on a one member – one vote principle* and only people working in the firm have a right to net income. Exception are workers on probationary period, but that is only temporary period. After that it is „up or out“[9], so all long-term workers are members of the firm. When worker is retiring or otherwise leaving the firm, then his membership right are „suspended“ and they „stay“ in the firm. So, workers after that don't have voting rights or net income rights. If they are leaving because of working in another democratic firm, then they (after initial probationary period) get membership rights in that firm. So, unlike the membership rights in capitalist corporation which are attached to shares (as property rights) and are transferable on stock market and private transactions, in democratic firm they are assigned to the functional role of working in the firm and they are not transferable, marketable and inheritable.[10] In contrary the treatment of third set of rights – the net asset rights is quite different. This is the most difficult question about the structure of democratic firm and is traditionally misinterpret as well as source of many problems, pitfalls and controversy in (lets call it) economic democracy movment [1]. So, we need to give it special attention.

For that purpose, let assume that democratic firm has some positive net surplus – economic profit. Theoretically, the workers can distribute all earnings as labour bonuses, deposit them on saving account and finance investment through loan. Then workers would not lose value of that earnings and they still will be able to finance investment e.g – new machine. Of course, the bank gets no voting rights or share in profits . Bank only gets interest on loan. There is no violation of „socialist principles“ because there is no private claim on social equity capital. But, how it is different that if instead of going thourgh all complications of paying out earnings, depositing them on a savings account in a bank and borrowing the money back, that firm directly retains earnings and opens individual savings account for each memeber *inside* the firm at which a certain portion of earnings is credited. Then the value of each account would be essentially loan capital-it would be hired by labour, it would receive interest and get no votes or profit. That accounts are called *internal capital accounts* and they have been developed in Mondragon (see below). They represent internal debt recoupable by individual workers but they are separated from membership rights [1].

There are two types of internal capital accounts. Individual internal capital accounts contain a value of standard membership fee plus value of retained earnings alocated to members in accordance to labour (mesaured by wages or salaries or in some cases hours of work, in workers cooperatives that measure is called *labour patronage*). They may represent the value of the past fruits of labour. That is, net asset value may come from labour of past members who don't have functional role of working in the firm anymore. There is no reason why they should lose their initial endowment and the value of their past labour just because they decide to retain earnings instead of distributing them as bonuses (equivalent of dividends). Hence, the third right should remain, in Ellerman's opinion, property right eventually recoupable by members. This is not violation of „socialist principles“ because membership rights remain the same regardless of the value on internal capital accounts – still there is *one member – one vote* principle and profits are allocated in accordance to labour [1].

There are roughly two ways for distribution of value from individual internal capital accounts. One way is to distribute them *upon retirement or otherwise leaving the firm* over a period of years. This way has, for Ellerman, several disadvantages. In this scheme the value on accounts of older workers are much bigger than of young workers, so they bear a higher risk. This could result with incentive by older (better trained and more exeperienced) workers to leave the firm „in the right time“ and reduce the risk. It is not good that payouts from accounts are function of unpredictable terminations because among other, in that case, it is difficult to plan cash flows of a firm. Finally 20,30 or 40 years is to distant time horizont to create motivation for younger workers. These problems can be solved with so called *account rollover scheme*. In this payout model account, allocation have some date and entries are paid out after some fixed time period on some type of first-in-first-out basis (FIFO). If the entry survives some risk of being debited to cover losses then it is paid out. Current retained earnings are allocated among all the members accounts, but the current cash payments are made to older entries and larger accounts and in that way the accounts of older and younger workers tend to equalize. Older workers then receive wages and five-year lagged rollover payments. Younger workers do not receive rollover payments during first (e.g.) five or seven years. It is like „they are paying a „mortgage“ to older workers until they become enough old to start receving „mortgage payments“. Thus, incentive to terminate membership is reduce because the payouts are independent of termination, accounts are equalized so is risk, younger workers have more motivation and cash flow planing is eased [1].

Democratic firm can always be endowed with some net asset value by say goverment unit or another democratic firm. There is no reason why this value should ultimately accrue to workers. So, democratic firm needs to have another type of account. Second type of account is *collective internal capital account*. It represents the value that is not recoupable to individual members. It is like a collective patrimony that is procurable to next generations. So, net asset value (asset value minus external debt) is equal to sum of individual and collective internal capital accounts. Ellerman finds another reason for democratic firm to have collective capital account-namely self-insurance. In uncertain world democratic firm cannot always pay 100% retained earnings. By having this type of account, firm allocates certain percentage of retained earnings to collective account as „self-insurance“ allocation and thus can assure that remaining percentage will be eventually paid out to members. In the case of liquidation, any net value left after paying out the external and internal debts should not accrue to current members, but to some charitable organization or to *all* past members (or hires) [1].

After we examined the basic characteristics of nature as well as legal and financial structure of democratic firm in

Ellerman's view, we can look how do empirical examples of so called democratic firms fit into Ellerman's view and what are the problems and consequences of different treatment of „ownership" rights. For that purpose we will restrict our analyses on two major types of „democratic" firms in capitalism; workers cooperatives and workers shareholding companies, specially ESOP companies.

WORKERS COOPERATIVES AND EMPLOYEE STOCK OWNERSHIP PLAN COMPANIES (ESOPs)

In the capitalism, two most popular and wide spread examples of companies that are usually called democratic firms are worker cooperatives and Employee Stock Ownership Plan companies (ESOPs). If we use Ellerman's shape as a standard for comparation there are not so many reasons to call many of these firms democratic firms. Main point is to consider how different types treat membership and net asset rights and what problems come out of lack of restructuring conventional bundle of ownership rights. We will start with workers cooperatives.

All cooperatives have two broad characteristics: (1) voting on a one person/one-vote basis and (2) allocation of residual on the basis of their patronage. Patronage is defined differently in different types of cooperatives. Worker cooperative is a cooperative where the members are people working in the company and where the patronage is based on labour (measured by pay or working hours). „Thus, a worker cooperative is a company where the membership rights (the voting rights and profit rights) are assigned to the people working in the company – with voting always on a one person/one vote basis and the profit allocation on the basis of labour patronage" [1]. There are three types of worker cooperatives; traditional worker stock cooperatives, common ownership firms and mondragon type of worker cooperatives. The main difference is in the treatment of third right, that is net asset rights.

The main mistake of *traditional worker stock cooperatives* (like plywood cooperatives in North America) is they use one legal instrument – membership share to carry both membership rights and net asset rights. Thus, membership share carries also essentially capital value accruing to any retiring member. Even the worker gets only one vote regardless of number of membership shares he owns and even the dividends are based on labour patronage, new worker must buy membership share in order to became a member – he doesn't became a member just on a basis on work. Value of membership share rises considerably. In successful plywood cooperative it may rise to 95 000$. Of course, potential member doesn't have enough money to buy membership share, so that types of cooperatives tend to employee new workers instead of giving them membership. When a first generation of members goes to retirement, whole cooperative might be sold to capitalist firm in order to finance founders retirement. Thus, traditional workers cooperatives tend to degenerate into capitalist firms either slowly (by hiring non-member workers) or quickly (by sale of company). That's why Vanek called them „mule firms" – they do not tend to reproduce themselves for another generations. „They are not labour-based firms, but rather confused combination of capitalist features (membership based on share ownership) and cooperative attributes (one vote per member)“ [1].

Labour-based democratic firm assigns membership rights to the functional role of working in the firm. But there are differences in tretment of the third right – right to the net asset value. *Common ownership firms* in England (as well as ex-Yugoslav self-managed firms but under another socio-economic system) treat net asset right completely as social or common property. This means that they assign membership rights to the functional role of working in the firm, but deny any recoupable claim on the fruits of past labour reinvested in the firm. So, there is a tendency to distribute all earnings as bonuses and finance investment by loan. But, any lender is quite suspicious to lend money to firm that doesn't have incentive to bulid its own equity and whose members don't have direct financial stake in company. That problem maybe will not accure in well-established firms like John Lewis Partnership. But small startup workers cooperatives will have these problems. So this model is maybe appropriate for small, labour-intensive and service-oriented worker cooperatives. Also, it creates the image of a worker cooperatives as *„dwarfish“, labour-intensive, under-financed, low-pay, marginal firms* [1] [3] Many of problems that accure in traditional worker stock cooperatives and common ownership firms, by Ellerman's opinion, can be solved with sistem of internal capital accounts that is social inovation of Mondragon.

Mondragon is most famous example in cooperative movment which grew from first worker cooperative in 1956. (ULGOR) to almost 300 more or less interrelated cooperatives and other organizations to year 2012 in the areas of industry, finance, retail and knowledge. „Autonomus development of the Mondragon cooperatives helped them to think through intelligent and creative answers to the problem of cooperative structure –instead of just copying the mistakes of the past“ [3]. It seems that Mondragon opposes almost all traditional arguments againts worker cooperatives. It is the seventh largest corporation in Spain with over 80 000 people working in it and worker cooperatives that produce many high-tech products. For example, first industrial robots developed in Spain, were developed in Mondragon [1] [3].

The Mondragon has many unique contributions, but four social inventions deserve a special attention. First is credit cooperative bank Caja Laboral Populare (CLP) established in 1959[11] which enabled a rapid grow of Mondragon. CLP had entreprenurial division which helped new cooperatives to built their business plans and much more than that[12] and which now is separate cooperative. Also, in Mondragon primacy of labour is bulit into other types of cooperatives e.g. consumer, agricultural or superstructural[13]. But, the most important feature for this paper is the treatment, that is restructuring of conventional ownership bundle especially system of internal capital accounts.[3]

In Mondragon membership rights are attached as personal rights to the functional role of working in a firm. After a probationary period, new member must pay a membership fee. That amount is initial balance on internal capital account. Membership rights are quite separeted from property rights. Members may have different value on their accounts, but regardlles of that amount every member has only one vote. Every member gets interest on account balance (usually 7%) There is also collective internal capital account. Spanish cooperative law requires that at least 10% of net earnings must be reserved for social and educational fund. With that amount Mondragon finance community schools, projects and unemploy-ment benefits. Additional 20% is allocated on collective account but unlike the 10% of social dividend that amount stays in the firm.

Remainder of 70% is allocated to individual capital accounts. So, it can be seen that Ellerman's democratic firm has almost completely identical structure to Mondragon. Exception is that in Mondragon payments from individual capital accounts are made after leaving the company. But, if the workers terminate employment because of for example working for competitor then the 30% of individual's account is forfeited and credited to collective account in contrary to termination because of circumstances beyond their control or retirement when the 100% of value is paid out [3].

Mondragon structure is also built into structure of hybrid democratic firm[14]. The point is that worker cooperatives are always been „all or nothing“, that is, there is no intermediate stage which allows workers to gain 100% ownership in few years. So, mondragon-type worker cooperative model is not always possible and appropriate. *Share ownership* is another type of worker ownership, but it has his own problems. There are two major forms of employee share ownership. Employees can own shares *directly*, which means individual ownership of certain employees and freedom of selling shares at freewill. Usually better-paid employees will purchase more shares and profits and control power will gravitate quickly to managerial ranks. Also lower-paid employess generally have smaller income and thus incentive for selling shares. So, that types of companies are soon degenerating into pure capitalist or managerial firms [4]. Many of problems of direct employee ownership can be solved by another model of share ownership – Employee Stock Ownership Plan (ESOP).

ESOP is a type of *indirect employee share ownership*. The main characteristic of ESOP model is a trust ESOT (Employee Stock Ownership Trust) in which the company-sponsor contributs shares or money to buy shares of company in which employee is working. Every employee has it's account in ESOT. Employees cannot sell these shares until retirement when usually company is buying back because it (usually) has right to first refusal. Actually, the main inovation of ESOP is buyout through loan- so called leveraged ESOP - where the workers on the basis of companies lending power get shares of the comapny. ESOP also has many tax advantages for company, prior owners, lender and workers. So, upon first ESOP legalisation 1974 (ERISA) until now there are about 11 000 ESOP companies with about more than 10% of (industrial) labour force working in ESOP companies. But of main interest is lack of restructuring conventional bundle of ownership rights [4] [5].

Conventional ESOP's are called ‚by Ellerman, *workers capitalist corporations*. This means that membership rights are not restructured as personal right assigned to the functional role working in the firm. They remain property rights attached to shares and thus organization is a property-based organization. Voting rights are proportional to the number of shares so there is not one-person/one vote rule. Yet, there is more than that- there is no legal requirement for full voting rights to be passed-through (that doesn't apply to public companies - 3% of ESOP's) except about most important questions. The trustee votes the shares and he is usually appointed by top-managers. Also, in any capitalist corporation profit are distributed in two ways - dividends and capital gains. So, profit goes to capital and it is proportional to number of shares that are owned, not labour. In that way ESOP's violate the basic principles of democratic firm. There is no change in the nature of ownership - only the owner is changed. In ESOP's, employees cannot be „masters“ as workers but as small capitalists [1] [4]. But, ironically ESOP's have some labor – based characteristics which are (not intentionally) solving some problems that democratic firms have, even mondragon-type of worker cooperatives.

Singnificant parts of legal structure of democratic firm in ESOP come from fact that ESOP is variation of pension plan. Participation in pension plan is correlated with working in the firm, and companies do not make pension contribution for people not working in the firm. In an ESOP, the shares are not individually owned as salabale property. They are in contrary held in trust which prevents the workers to sell their shares. It is also not a worker individual decision to become an owner; when the loan payments are made, shares are usually alocated among all employees in accordance to salaries or wages[15]. Like in pension plans, there is non-discrimination rule which prevents that contributions are restricted to only certain workers. Thus, „membership“ cannot be restricted to „old members“ who can sonner or later starting act greedy and prevent new people to be members, not just employees [5].

Now, we must transform our primarily focus from micro-level to macro-level, that is from questions about democratic firm to more difficult questions of economic democracy. That focus must be restricted to basic questions that is consistent with capacity of this paper.

OPENED QUESTIONS

The problems are not theoretic nature. Indeed, Ellerman provides very good theoretical setting for analysis of different worker ownership models in capitalism. By comparating his standards for analysis with different most popular examples of worker ownership models, his conclusions coincide with empirical results. On the (say) micro-level or on a level of particular enterprise we can found a very interesting and logic theory. But, many question arise when we need to transform our focus from micro-level of democratic firm to macro-level of economic democracy „where the predominant enterprises are democratic firms“. [1]

But, first of all, the question of pure application of democratic theory to the firm arises. In other words, can democracy in enterprise be so comparable to the (so called) democracy in political life (town or state). Is David Ellerman overseeing some fundamental differences between two forms? Is he insisting too much on representative democracy and can that representative democracy in firm be main principle of democratic self-determination of workers? Of course, even in the smallest enterprise there is a need for some delegation of authority (at least for now). But, is it the right to vote for governors enough or the main principle of structure of governence would be, for example, that any decision that can be made in that way, must be made on a lowest possible level, like for example Horvat [6] said. Ellerman didn't oversee the need for direct day-to day participation, but it seems that it is not a important feature of governance structure. If nothing else, there is a need for caution because representative democracy can be easy transformed to elitistic and self-perpetuating oligarchy.

Also, Ellerman model is based primarly on Mondragon, namely system of internal capital accounts. Rise and fall of value on individual internal capital account is based on retained earnings. To make earnings, enterprise must have goal of making profit. But, what about the workers in non-profit institutions like schools, hospitals or cultural institutions which do not exist to make profit, but contribute to national product as well as other workers. Same „objection“ is introduced by Horvat

[7]. Mondragon is maybe the most impresive example of democratic firm system, but in order to survive on global market, he nedded to adjust his principles. So, there is a rise of hired (part –time) workers especially outside the borders of Spain and Europe.[16] This is solved, in Ellerman's model by forbiding employment relation. But, what is not so clear is – can we just use the structure and principles of model that was bulit-up under different socio-economic system as the core of another system or the whole nature of that model must be (and will be) changed?

It is not clear what Ellerman's economic democracy is in concrete sense. Maybe some form of „famous“ *market socialism*? But is it the nature of market automaticly changed by forbidding employment relation? It would be logical that some aspects are, but is it prevented from having social consequences that are familiar for long time in heterdox theory? There are to many questions and too little answers.

And of course, the question of transformation (transition) to economic democracy. So called socialist-utopist two century ago, thought that the whole world will see the undeniable strenght of their communities and that capitalist will finance their projects. Mondragon has big influence over the world but is the unfriendly system and hostile environment that prevent the mondragon-type to be predominant even in one country, not to mention world wide. To be clear, it is not the Ellerman who oversees all of these question. He clearly said that his theory is not concerned with broader social aspects. It is just that we cannot use Ellerman's theory (without a certain dose of reserve) beyond the field of analysis and implementation most appropriate structure of democratic firms - in capitalism.

CONCLUSION

This paper gave a review of Ellerman's perspective of democratic firms in basic aspects. It covered principles, nature and structure and in that way it illustrated the core of Ellerman's theory. The main aspect of theory is restructuring conventional bundle of property rights, namely the membership rights, into personal rights. Also, important feature is keeping net asset rights as property rights and its reconstruction as internal loan capital. Through Ellerman's standards for comparation we can, in consistent way, analyse different types of familiar models of democratic firms and find empirical evidence. In that sense, we can also use Ellerman's structure as a background for practical implementation in already completely workers-owned companies, those companies where majority or minority ownership is in hands of workers or a companies that want to convert themselves into worker-owned companies.

The problems arise when we need to transcend to macro-level. It is not enought to say that by abolition of employment relation, the market, private property or enterpreneurship are not abolish but they nature is changed. Without detailed analysis of economic democracy which in mentioned articles and books are skipped, we cannot give a concrete conclusions about it. It is true that new society is borning out of old one. But, can the base from which it is borned be unchanged as a core of new society. Different institucional setting (socio-economic system) – different model is appropriate. Hence, having that on mind, we nedd to separate analytical background for examining particular examples of democratic firm from principles and structure on which the new society must be built.

FOOTNOTES

[1]David Ellerman is Visiting Scholar at University of Califormia at Riverside and Senior Fellow in Center on Global Justice at University of California at San Diego. Works in the fields of economics and political economy, social theory and philosophy, mathematical logic and quantum mechanics. He worked at World Bank (1992-2003) as economic advisor of Joseph Stiglitz. He wrote five books and dozens of articles. He is one of most popular theoretican of democratic firms and economic democracy.

[2]Whole product includes positive (outputs) as well as negative (used-up inputs) results of production.

[3]But, all this doesn't imply that capitalist owner class doesn't have prevailing social power in capitalism.

[4]For closer look of comparative views of production process see; [1] p. 11-14 and [2] p. 42- 46.

[5]„A person or a group is said to be de facto or factual responsible for a certain result if it was the purposeful result of their intetional joint actions“ [1]

[6]It is very important to understand that this argument does not imply preventing someone to have private ownership over capital. It just prevents capital owner to have residual claimant role as capital owner (he can have residual claimant role as member of a firm). It forbids someone to make natural invalid contract of hiring human beings. Ellerman is not for abolishing private property. In fact, he states that capitalism is breaking the basic principles of private property that is concidered as fundamental characteristic of it.

[7]„*Personal right* is a right that attaches to an individual because the person satisfies some qualification such as playing a certain functional role (examples are human rights or political citizienship rights). They are not transferable, salable and they cannot be concentrated. In contrary person don't have to satisfy functional role to hold certain *property right*. Property rights can change over night and can be (and mostly they are D.W) concentrated in a few hands“ [1].

[8]By democratc socialism Ellerman means the system where the bulk of a industry is in hands of a state which is political democracy [1] p. 35.

[9]If the worker becomes a member he need to pay standard membership fee. This payment can be arranged by payroll deductions.

[10]About nature of „ownership“ in democratic firm and its social aspects see: [1] p. 54-56. For inheritability test see: [1] p. 36.

[11]It is interesting what one of the founders said to famous Don Arizmendi when he propose the development of cooperative bank; *„We told him, yesterday we were craftsmen, foreman and engineers. Today we are trying to learn how to be managers and executives. Tomorrow you want us to become bankers. That is impossible“* [3] But, Father Arizmendi was persuasive.

[12]See: [3] p. 22-31.

[13]See: [3] p. 14-22.

[14]For model of hybrid democratic firm see: [1] p. 82-93

[15]Let us recall that alocation to individual capital accounts are made in accordance to labour patronage, and wage or salary can be measure of labour patronage

[16]There are many articles about modern problems of spreading Mondragon outside the Basque and Europe. See for example: [8] p. 195-199.

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