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**Incentives for ‘Real Utopias’?**

**Motivations, Cooperation and Alternative Market Models**

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**Abstract**

In this paper, a brief account of John Stuart Mill’s views on socialism is given, exploring the possibilities that he envisioned for building a culture of cooperation which fosters other-regarding motivations and the articulation of this culture with pecuniary incentives and markets. Furthermore, the recent egalitarian proposal, made by Bowles and Gintis (1998), is scrutinized, and the lines of continuity and departure with Mill are emphasized. Some of the problems with these two visions of an alternative socioeconomic order, both in terms of desirability and feasibility, are also explored.

## **1. Introduction**

John Stuart Mill's attempt is perhaps one of the first to articulate a vision of a socio-economic order that combines democratic association in production and markets in exchange thus obtaining workers emancipation in a decentralized economy. For Mill, socialism was an extension of his liberal premises on property and personal liberty. But his articulation and advocacy of the ultimate compatibility between the principles of liberalism and socialism was always seen with suspicion and scepticism by free-marketers and Marxists alike, and this may account for the neglect of this aspect of Mill's political economy.

Presently, however, after the perceived failures of central planning, associational socialism has re-emerged and is advanced as a viable alternative. We will thus argue that Mill's reflections on socialism are still illuminating in respect to the hard questions that must be confronted by socialists today.

In this paper, we recall Mill's neglected contribution and compare it with those of contemporary advocates of decentralized forms of socialism, namely Bowles and Gintis. We next scrutinize the old and new contributions focusing on the tensions between the two at least seemingly contradictory principles of order – separation (in exchange) and association (in production). Ours, like Mill's is an inquiry which is framed by a moral economy perspective. This explicitly takes into account that economic activities are partially defined by the moral sentiments and norms upheld by individuals, while these are in turn influenced by the institutional arrangements that structure economic relations (Sayer, 2004). It also assumes that the aim and meaning of the improvement of society is broader than the search for efficient means for delivering consumer goods. As acknowledged by Mill, tackling the issue of values, at least when dealing with alternative economic arrangements is non-optional. In this moral perspective the justification for socialism stems ultimately from the prospects for human flourishing that it might entail.

We argue that it is precisely in the moral perspective that the combination of market and association upheld by Mill and is contemporary followers' remains problematic. Our scepticism stems from two types of considerations that will be explored. The first is one

of desirability. The prospect of multiple associations competing for survival in the open market might not be one of individuals developing their civic virtues as equal members of an enlarged community, but rather one of individuals entirely immersed in their productive communities, developing antagonistic sentiments and attitudes towards rival communities and their members. The second is one of feasibility. The organization of production in associations might not be in accordance with worker's desires, but even if it is, the market context might foster a culture of competition and success inimical of the other-regarding motivations that sustain cooperation.

In this paper, a brief account of John Stuart Mill views on socialism will be given, exploring the possibilities that he envisioned for combining a culture of cooperation in production which fosters other-regarding motivations with another which is based on pecuniary incentives in the market. In section three, we will explore the recent proposal made by Bowles and Gintis (1998), emphasizing the lines of continuity and departure with Mill. In section four and five, we deal with some of the problems that might be posed to these two visions of an alternative socioeconomic order, in term of desirability and feasibility. Some provisional conclusions follow in section six.

## **2. John Stuart Mill and socialism**

John Stuart Mill's political economy is often equated with an unqualified defence of the unfettered expansion of markets and private property, both seen as more or less natural and spontaneously generated institutions. Nevertheless, the following quotation is sufficient to disparage such a simplistic interpretation, revealing instead Mill (1869: 227) as a critique of the injustices of real existing nineteenth century capitalism and an upholder of the aspirations of the 'subordinate classes':

No longer enslaved or made dependent by force of law, the great majority are so by force of poverty; they are still chained to a place, to an occupation, and to conformity with the will of an employer, and debarred by the accident of birth both from the enjoyments, and from the mental and moral advantages, which others inherit without exertion and independently of desert. That this is an evil equal to almost any of those against which mankind have hitherto struggled, the poor are not wrong in believing. Is it a necessary evil? They are told so by those who do not feel it – by those who have gained the prizes in the lottery of life. (...) The classes, therefore, which the

system of society makes subordinate, have little reason to put faith in any of the maxims which the same system of society may have established as principles.

The sympathy that Mill shows for socialism thus stems from his critique of the unjustifiable inequalities of the capitalist system of his time, and especially from the consequences – economic and moral – of the subordination of the working classes to the command and direction of the capitalist class<sup>1</sup>. Mill's socialism was in a sense a consequence and the extension of his liberal premises to the relations of production within the capitalist firm. Although he viewed the employment contract as a legitimate transaction to the mutual advantage of both parties, he clearly spotted a contradiction between a concept of personal liberty as absence of coercion and the effective subordination intrinsic to the employment relation.

This led him to anticipate and advocate the free association of producers as a horizon for improvement of society where the above contradiction would be overcome. Mill thus breaks the divide, which Bowles and Gintis (1987) identify in the bulk of liberal thought, between the liberal polity, where the venerable principles of liberty, individual autonomy and self-government and individual rights are formally upheld, and the capitalist economy, where the effective enjoyment by the subordinate classes of those rights can be highly curtailed. According to Medearis (2005), workers cooperatives, the fundamental productive institution of Mill's favoured variant of decentralized socialism, are simply seen by him as the expansion of the best principles of the democratic polity to industry, therefore being a consequence of the access of the working class in the democratic realm of politics, and a means towards a genuine universalization of liberal aspirations (Clayes, 1987). It is in this sense that Medearis (2005: 141) also argues that “the most important of Mill's principled reasons for supporting democracy – especially the promotion of individuality and the enjoyment of freedom – were the same as his most important reasons for supporting socialism”.

Mill sees socialism as “a new order of society, in which private property and individual competition are to be superseded and other motives to action substituted” (Mill, 1869: 260). This is a type of social order where land and the instruments of production are

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<sup>1</sup> See, among others, Clayes (1987), Kurer (1992), Stafford (1998), Baum (2003) and Medearis (2005) for convincing arguments along this line. See also Hollander (1985) for an overview.

common property and the produce is apportioned, as a “public act”, according “to the ideas of justice or policy prevailing in the community” (Mill, 1848: 202). It was clear for Mill that the viability of socialism, as system of voluntary cooperation, quite independently of the particular types of institutional arrangements adopted, was in the end dependent on the development of a “high standard of both moral and intellectual education in all members of the community”, capable of superseding the resilient egoistic motivations that were promoted by private property and by the pecuniary individual incentives of capitalism (Mill, 1869: 271). This unavoidable moral dimension of socialism, involving the development of other-regarding-motivations, was one of its main attractions, and simultaneously a source of real practical difficulties. Those practical difficulties stemmed essentially from the fact that there are “lazy or selfish persons who like better to be worked for by others than to work” (Mill, 1869: 268). The enthusiasm with the socialist ideal was therefore qualified with a sceptical gradualism in the capacity of mankind, at least in the foreseeable future, to devise successful economic institutions that could dispense with incentives geared to self-interested motivations. Mill (1869: 268-269), therefore, argues that the socialists’ proposals for new social arrangements should take a realistic account of the character and motivations of “average human beings, and not only them but the large residuum of persons greatly below the average in the personal and social virtues”.

Notwithstanding the cautious assessment of the virtues of average human beings, Mill did not take human nature for granted. As McPherson (1982) and Baum (2003) have argued, Mill continuously stressed the link between the institutional arrangements of society and the type of individual motivations and values fostered, thereby signalling the capacity for change in character for example through education and other new social institutions: “the real education of the people is given to them by the circumstances by which they are surrounded (...) the unintentional teaching of institutions and relations” (Mill, quoted in Baum, 2003: 411). The institutional arrangements of society should in fact be evaluated by their capacity to “teach” individuals to permanently improve themselves (McPherson, 1982).

In Mill (1848: 773), it is clear that socialism, conceived as the process of gradual extension of a type of institution based on the principle of “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”, is desired. This is so precisely because of its capacity to nurture in a crucial sphere of human life – work and production – the potential ability for self-government and real autonomy, which is universally shared by individuals in a lesser or greater degree, and is awaiting to be unlocked by a proper modification of human made institutions (Baum, 2003). This is clear when Mill (1848: 763) states that:

If public spirit, generous sentiments, or true justice and equality are desired, association, not isolation of interests, is the school where 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.

The criteria of efficiency, which Mill, as we shall see, alludes in his discussion of this new institutional arrangement is clearly secondary when compared with the “moral revolution in society that would accompany it (...) 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” (Mill, 1848: 791). Socialism while requiring the virtues of “integrity, good sense, self-command and honourable confidence in one another” would be the type of social arrangement that might develop them (Mill, 1848: 789).

This is in the end a clear acknowledgment of what contemporary economists call the “endogeneity of preferences” and it is quite crucial for Mill’s cautious optimism on the possibilities of socialism. One may then say that, as Mill sees it, if preferences weren’t endogenous, in the sense that institutions would not have an impact on them, socialism could never be foreseeable as a real alternative. It is because Mill identifies a more or less spontaneous tendency for the more educated members of the labouring classes to create and adhere to associative schemes of production within capitalism, and the tendency for these to foster what Bowles (1998) calls ‘nice traits’, that socialism is seen by Mill as an emergent possibility.

In Mill’s discussion of socialism, as Bowles and Gintis (2000) pointed out, the crucial problem of the presence or absence of incentives – “incentives to labour derived from private pecuniary interest” (Mill, 1848: 211) – is thoroughly analysed. The degree of

importance of incentives, so conceived, is directly associated with the degree to which self-interest is present. This means that as long as self-interest is pervasive, “honest and efficient labour is only to be had from those who are themselves individually to reap the benefit of their own exertions” (Mill, 1848: 204). This fact is a potential cause of socialism’s inferiority, in terms of efficiency, when compared with capitalism. Socialism’s degree of inefficiency would tend to grow the feebler the “connection of every increase of exertion with a corresponding increase of its fruits” in terms of individual pecuniary rewards (Mill, 1869: 261). Imagining an extreme egalitarian socialist organization of production, where all the participants of production would receive an equal share of the results, Mill (1869: 262) argues that “the directing minds” would have no incentives to perform their important functions which are “that striking out of new paths and making immediate sacrifices for distant and uncertain advantages, which, though seldom unattended with risk, is generally indispensable to great improvements in the economic condition of mankind”<sup>2</sup>.

For Mill, however, this flaw of socialism, when compared with capitalism, would not be a serious one in the case of “ordinary workers”, since he recognizes the agency problem that stems from the practice of fixed wages under capitalism. As always, Mill is quite cautious. While considering that “the inefficiency of hired labour, the imperfect manner in which it calls forth the real capabilities of the labourers, is matter of common remark”, Mill recognises that capitalist firms can create incentive schemes to motivate self-interested workers, aligning their interests with those of the capitalists, mainly through “piece-work, in the kinds of labour which admit of it”, and better still, through profit-sharing schemes (Mill, 1869: 266-267).

Nevertheless, even if the conflict-ridden nature of capitalist social relations of production may be partially overcome under those “incentive-compatible” mechanisms, Mill pointed out that these relations of production tended to generate feelings of dispossession and alienation on the part of the majority of workers which were the

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<sup>2</sup> It is interesting to note that Mill anticipates here what would become a central theme of the Austrian critique of socialism – as voiced for example by Mises (1933). In fact, Austrians will argue that socialism’s main flaws are related to the absence of private property and genuine competitive markets, which would lead to the disappearance of the profit motivated individual entrepreneur motivated by the search for profits. The entrepreneur is considered to be crucial for the economic dynamism of society and its absence in socialism – due to the inexistence of incentives – could only have detrimental effects in terms of its economic performance.

result of a real subordination of their wills to those of the capitalists. The experienced disutility of work and the shrinkage that resulted from it were responsible for generating inefficiencies which were peculiar to capitalism, and which had a practical translation in the costly investments capitalists had to make in trying to control, monitor and discipline the workers. Mill thus anticipates arguments on the economic costs resulting from the opposition of interests between employers and employees that will be evoked for example by Bowles and Gintis (1998).

The democratic cooperative firm, directly owned and controlled by the workers themselves, – the embryo of socialism – was thus seen by Mill (1848: 779) as an efficient means to reduce the agency problem, which only partially is overcome within the capitalist firm:

Their rules of discipline, instead of being more lax, are stricter than those of ordinary workshops; but being rules self-imposed, for the manifest good of the community, and not for the convenience of an employer regarded as having an opposite interest, they are far more scrupulously obeyed, and the voluntary obedience carries with it a sense of personal worth and dignity.

Since the workers would now have a genuine interest in the economic success of their joint endeavour, economising on the costs of monitoring would then be one of the main virtues of cooperatives. This advantage stemmed from the fact that cooperatives created the incentives for mutual control, on the part of all participants in the production process, which “would be sure to be in favour of good and hard working, and unfavourable to laziness, carelessness, and waste” (Mill, 1869: 266). Mill, in fact, expected this kind of productive organization to unleash an enormous productive potential and creativity on the behalf of the majority of workers, which were stifled by the hierarchical structure of the capitalist firm. The confidence that Mill had in the possibility of joint cooperation and effort in production without the relations of subordination typical of capitalism was such that he conceived cooperatives to be capable of overcoming all the difficulties, related for example with the lack of capital, and successfully compete and survive in markets even if this included rival capitalist firms. Cooperatives would thus eventually become the dominant form of productive organisation in a gradual and peaceful process of transition between socio-economic systems.

Mill saw no opposition between the expansion of cooperative forms of production, thus progressively eliminating one of the worst evils of capitalism - the subordination of labour to capital - and market competition between associations. Here he dissents from the dominant strand of nineteenth century socialist tradition that, as he himself recognised, was quite critical of the inequalities produced by markets, of their anarchic and crisis ridden nature and of their corrosive impact upon the social values that Mill himself favoured<sup>3</sup>.

The critique of the market is clearly downplayed. For Mill markets, although perhaps as historically provisional as any human made institution, were in the “foreseeable future” irreplaceable. Firstly, they would create a unique stimulus for innovation in a cooperative dominated economy: “it would be difficult to induce the general assembly of an association to submit to the trouble and inconvenience of altering their habits by adopting some new and promising invention, unless their knowledge of the existence of rival associations made them apprehend that what they would not consent to do, others would, and that they would be left behind in the race” (Mill, 1848: 793). Secondly, markets were capable, within certain limits, of satisfying consumer’s wishes better than any other alternative institution. Thirdly, Mill saw markets as way of avoiding a concentration of power in state hands that could only lead to the development of an authoritarian arrangement and to the corresponding surrender of the individual autonomy. Furthermore, following Smith and preceding the Austrians: “the very idea of conducting the whole industry of a country by direction from a single centre is so obviously chimerical, that nobody ventures to propose any mode in which it should be done [...] the introduction of Socialism under such conditions could have no effect but disastrous failures” (Mill, 1869: 273-274).

According to Stafford (1998), the position that Mill took on the virtues of market competition taken together with his clear defence of the progressive extension of workers control of production, makes him a pioneering defender of something similar to a market socialist scheme, which the dominant strands of the more contemporary socialist tradition in economics have ceased, as we will see, to consider an oxymoron.

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<sup>3</sup> Mill’s long debate with the leading socialist intellectuals of his epoch - Saint-Simon, Fourier or Owen – is a feature of his intellectual journey. See Clayes (1987) on this.

### 3. Efficiency, incentives and “real utopias”

The ‘real utopias’ project, directed by Erik Olin Wright, is perhaps one of the fundamental cornerstones in the more recent efforts to seriously rethink the possibilities of radical departures from capitalism in a historical epoch marked by the apparent exhaustion of anti-capitalist social imaginaries. Its explicit purpose is to nurture “utopian ideals that are grounded in the real potentials of humanity, utopian destinations that have pragmatically accessible waystations (...) in a world of imperfect conditions for social change” (Wright, 1998: ix). “Realism”, however, as been taken as implying, in the contributions to this project, that markets, however defined, must be retained, when thinking about possible alternatives to capitalism<sup>4</sup>. Therefore, articulating a radical egalitarian discourse within a more or less restructured market economy is considered to be the challenge that must be addressed by critical social theorists who want to advance “real utopias”.

In this section, one contribution to this project, put forward by Bowles and Gintis (1998), will be analysed. This can be seen as an instance of a long trajectory of economic research, which can precisely be traced back to the classical discussion about the possibility of decentralized market socialism by John Stuart Mill. In their proposal, Bowles and Gintis (1998) argue precisely that equality and efficiency are compatible ideals within an institutionally redesigned market economy populated by worker-controlled firms. Wright (1998: xii) has perceptively summarized their proposal as a “left-wing affirmation of the positive virtues of markets under suitably designed rules of the game”, arguing that “equality and efficiency can both be advanced if assets are broadly redistributed from principals to agents”. In a sense, their proposal recasts and expands Mill’s, using the contemporary analysis of the “post-Walrasian” neoclassical paradigm of asymmetric information and principal-agent theory and exploring the consequences of the unavoidable incompleteness and costly-enforcement nature of contracts between parties with competing interests and power asymmetries – “contested exchange” – that are deemed to characterize the most important economic interactions in capitalist economies.

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<sup>4</sup> See Roemer (1996).

The informational and behavioural assumptions of the principal-agent model of neoclassical economics were extended by them introducing the issue of power relations thus showing how certain economic structures – like the hierarchical capitalist firm – could involve economic costs that were detrimental in terms of efficiency. These had mainly to do with the wage and surveillance costs that have to be deployed by capitalists to enforce the discipline and obedience of the workers, always threatened by the endemic conflict between agents and principals who for this purpose are seen as rational self-seekers.

In fact, through their long and productive joint collaboration, Samuel Bowles and Herbert Gintis have always argued for the efficiency gains to be obtained by changing the rules of the game that structure the social relations of production within the firm<sup>5</sup>. Combining the more recent developments within neoclassical theory with radical political economics, they have tried to argue, among other things, the superiority, in terms of efficiency, of the democratic firm – where the shares of the firm are owned by the workers themselves – when compared with its capitalist counterpart. At the same time they tried to answer the puzzling question of “what then prevents the spontaneous emergence of democratic forms of work organization?” (Bowles and Gintis, 1986: 83)<sup>6</sup>.

The efficiency gains arise from the fact that if workers were the owners of the firms, the locus of control and command will reside in them, and this would then decrease the costs of control and monitoring associated with the principal-agent relations within the capitalist firm. It is striking to see that their substantive argument is quite similar to the one made by John Stuart Mill which we mentioned above. Where they clearly have to depart from Mill is when they are compelled to solve the above mentioned puzzle about the reason why the development of capitalism clearly contradicted Mill’s optimism about the spontaneous transition of capitalist firms to workers controlled ones. In order to solve this puzzle, Bowles and Gintis (1986, 1993) then use the neoclassical paradigm of asymmetric information to argue that the possession of wealth entails a path-dependent easier and less expansive access to credit. This has partially to do with the fact that access to credit always involves the possession of collateral as a mean to

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<sup>5</sup> See for example Bowles and Gintis (1986, 1993, and 1998).

<sup>6</sup> See Spencer (2000) for a critical exposition of the tensions and contradictions that arouse from the integration made by Bowles and Gintis of the radical political economics’ agenda within neoclassical theory.

reduce the incentive incompatibility in credit markets (Bowles and Gintis, 1993). The lack of collateral, due to the lack of wealth, by the workers entails a crucial disadvantage, therefore setting a vicious circle which blocks the formation of democratic firms. This argument is restated in Bowles and Gintis (1998): “an asset-poor worker cannot borrow large sums at the going rate of interest, so cannot purchase the firm’s capital stock” (Bowles and Gintis, 1998: 8). In fact, this argument is part of one their most repeated thesis: the economy is permeated by differential power relations essentially due to the inequalities in the access to wealth.

Bowles and Gintis (1998) expand this thesis by trying to argue that a more egalitarian distribution of the property rights over a wide range of assets, well beyond the property of firms, can enormously increase efficiency<sup>7</sup>, by aligning the “control of non-contractible actions more closely with the residual claimancy of the results of these actions” (Bowles and Gintis, 1998: 46). The bulk of their realist utopia involves therefore a state-sponsored redistribution of assets to generate a more egalitarian society of associated property-owners.

Characteristic of Bowles and Gintis approach is the flexible manner in which they deal with basic behavioural assumptions. While for some purposes they rely on familiar assumptions of self-interest, for other purposes, namely collective action in workers cooperatives, they switch to a model of reciprocity. The arguments deployed in order to justify the merits of this redistribution are clearly influenced by the a-historical and a-social model of the rational self-interested individual – “acting strategically in pursuit of their own ends, subject to whatever incentive and monitoring systems they face” (Bowles and Gintis, 1998: 27). This is precisely the model used in mainstream principal-agent accounts to argue for the need of incentive-compatible devices, i.e., the deliberate use of monetary rewards and penalties by principals to influence the agents’ cost and benefit calculations so as to direct their self-interested actions to the ends desired by the principals. Bowles and Gintis (1998) wittingly twist this model, while remaining within their confines, by arguing that the best thing to do is simply to reduce, to the extent possible, the structural roots of the distinction between principal and agent.

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<sup>7</sup> It is worth noting that although the argument is always made on grounds of efficiency, the concept itself, as Levine (1998) has argued, is used rather vaguely, oscillating from viewing it as a synonymous of productivity enhancement to the apparent more theoretical precise concept of Pareto-optimality.

This means that they implicitly adhere to Mill's idea: once one recognises that self-interest is the most pervasive force one can only realistically expect that "honest and efficient labour is only to be had from those who are themselves individually to reap the benefit of their own exertions" (Mill, 1848: 204). This is clear when Bowles and Gintis (1998: 7) claim that:

The generic problem here is that behaviors critical to high levels of productivity – hard work, maintenance of productive equipment, risk-taking and the like – are difficult to monitor and hence cannot be fully specified in any contract enforceable at low cost. As a result, key economic actors, workers and managers, for example, cannot capture the productivity effects of their actions, as they would if, for instance, they were the residual claimants on the resulting income stream and asset value. The result of these incentive problems is that a highly concentrated distribution of capital is often inefficient.

It is interesting to note that the authors feel almost compelled to base the bulk of their argument about the advantages of redistribution on such a parsimonious view of human motivations, a view whose limits they thoroughly criticise in passages of the same article and elsewhere<sup>8</sup>.

There is an unresolved tension in Bowles and Gintis' account which stems from the fact that this parsimonious view is held for one purpose while at the same time they do recognise the diversity and complexity of the behavioural repertoire of individuals along with their context dependent nature (Bowles, 1998; Bowles and Gintis, 2000). In fact, their account on the pervasiveness of information asymmetries in economic interactions, resulting in the potential existence of an ample scope for opportunism and non-compliance within unavoidable incomplete contracts, authorizes the recognition that

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<sup>8</sup> Here they seem to share the behavioural assumption of another 'economic' contribution to the 'real utopias' project which states that in devising a new set of institutional arrangements for the economy one should accept the prevalence of self-interest. In fact, Roemer (1996: 15), also drawing on the theoretical framework of the principal-agent, has precisely argued that his proposed market socialist model assumes that "people responded to their immediate situations much as they do in capitalist societies, by trying to look after their material interests a good proportion of the time". Therefore, he prefers to be "agnostic on the question of the birth of the so-called socialist person", betting "in the design of institutions that will engender good results with ordinary people" (Roemer, 1996: 35). Ordinary people here stand for self-interested ones. This assumption is of course not neutral in terms of the institutional arrangements that he proposes which also tend to emphasize the need for pervasive individual pecuniary incentives to align their interests with those of society. The crisis of the socialist imaginary is nowhere more evident than in the idea that one should no longer entertain any serious hope for "human improvement" through a radical modification of institutional arrangements. This view was of course not shared by John Stuart Mill. See Tsakalotos (2004) on this issue.

“social norms and psychological dispositions extending beyond the selfish motives of *homo economicus* may have an important bearing on outcomes”. Furthermore, their behavioural economics’ research agenda has contributed immensely to persuade mainstream economists that “in addition to the invisible hand of competition and the fist of command, a well-governed society must also rely on the handshake of trust” (Bowles and Gintis, 1998: 6). This means that individuals are capable of exhibiting an enormous capacity for cooperation which actually solves many collective action problems that would be impossible to solve through voluntary participation in joint endeavours if they were the egoists that the theory assumes them to be. The question that should now be posed is the following: why do Bowles and Gintis base their arguments for redistribution of assets on a rhetoric of self-interest, individually geared incentives and competition while at the same time recognising that individuals are much more complex and that their proposal may even contribute to “foster a culture of self-interest, invidious distinction, individualism and materialism” which means that they accept the idea that preferences are endogenous (Bowles and Gintis, 1998: 47)?

The way for them to solve this hurdle is to posit that their redistributive proposal will somehow be combined with the existence of a necessarily plural governance system – composed of markets, the state and a diversified set of communities –, articulated to foster a diversified patterns of interaction so that “the social pressures individuals face in competitive market relations” are “complemented by the potentially cooperative relations they face within communities” (Bowles and Gintis, 1998: 55).

The acknowledgement, made by Bowles and Gintis (1998), of the capacity for cooperation of individuals is instrumental to their argument about the advantages of communities as governance structures which can functionally be articulated with the state and with markets. Communities thus have not only the capacity to supplant both their failures, but also the capacity to foster what Bowles (1998) has called “nice traits”, i.e., altruism, trust, reciprocity, commitment or a sense of duty to oneself and to others. Bowles and Gintis (1998) argue that the association of residual claimants in a community, as for example in a democratic firm can have several ideal features that may account for their eventual capacity to solve collective action problems<sup>9</sup>:

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<sup>9</sup> For general accounts on this subject see, among others, Bowles and Gintis (2005) and Ostrom (2000).

1. Social interactions among members of a community tend to be frequent, prolonged and to have a non-anonymous nature, favouring the emergence of social norms which facilitate the coordination of individual actions necessary to achieve shared goals;
2. Communication and persuasion are viable alternatives strategies to coercion and the deliberate use of pecuniary incentives<sup>10</sup> allowing: (a) a clear identification of the goals that must be pursued; (b) the individual expression of intentions and compromises with certain courses of action; (c) a higher degree of trust in the intentions of others since reputation effects are generated within communities;
3. The direct participation of members, as equals, in the definition of common rules is facilitated, a situation which may increase the degree of legitimacy of the norms that will be used to distribute the material and symbolic resources obtained through the joint efforts of the members of the community;
4. The costs of monitoring are lower due to the nature of social interactions which allow the possibility of a more direct knowledge of the different behavioural patterns of the participants;
5. Reciprocity, a behavioural pattern recently rediscovered by behavioural economists, seems to be salient in this context, which means that individual are particularly predisposed to punish even if at a cost to themselves, those who systematically do not cooperate in achieving the predefined collective goals<sup>11</sup>.

These communities, composed of property-owners, are seen as islands of cooperation which are surrounded by an ocean of competitive pressures coming from markets which provide in this context, or so they argue aligning themselves with Mill, “a decentralized and relatively incorruptible mechanism that punishes the inept and rewards high performers” (Bowles and Gintis, 1998: 24).

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<sup>10</sup> See Grant (2002).

<sup>11</sup> See Fehr and Gächter (2000).

#### 4. Associations Competing in Markets? Problems of Desirability

The re-reading of Mill's neglected legacy clearly suggests that he, in his intellectual journey, has hit upon an unresolved contradiction of the liberal tradition within which he was brought up. In fact, within this tradition, the principles of liberty, autonomy and self-government which are upheld on the polity and on the exchange side of the economy are suspended at the doorstep of the firm, particularly in respect to labour relations, whose legitimacy is unquestioned irrespective of the fact that it necessarily involves unbalanced power and subordination. The question however is that in trying to solve this contradiction, which is latent in Smith and other enlightenment philosophers, by advancing association, Mill may have fallen back on problems that his predecessors were addressing in the first place when they advocated the virtues of commerce and competition.

The point can be clearly made with the assistance of David Hume (1742: 1). After asserting, for the delight of orthodox economists of all times, that "in contriving any system of government and fixing the several checks and controls of the constitution, every man ought to be supposed a *knave*, and to have no other end, in all his actions, than private interest", Hume (1742: 1) immediately notes "that it appears somewhat strange that a maxim should be true in *politics* which is false in *fact*". The explanation would be that "men are generally more honest in their private than in their public capacity" since they "will go to greater lengths to serve a party than when their private interest is alone concerned". "Honor", he writes, "is a great check upon mankind; but where a considerable body of men acts together, this check is in a great measure removed, since a man is sure to be approved of by his own party for what promotes the common interest, and he soon learns to despise the clamours of adversaries" (Hume, 1742: 1).

The potential for moral corruption and social conflict of association and rivalry among association is further articulated in Smith both in *The Theory of Moral Sentiments* (TMS) and *The Wealth of Nations* (WN). In the first book he asserted that "the man within the breast, the abstract and ideal spectator of our sentiments and conduct, requires often to be wakened and put in mind of his duty, by the presence of real spectators", but "it is from that spectator, from whom we can expect least sympathy and

indulgence, that we are likely to learn the most complete lesson of self-command” (TMS, III.3.38); conversely the “propriety of our moral sentiments is never so apt to be corrupted as when the indulgent and partial spectator is at hand, while the indifferent and impartial one is at great distance” (TMS, III.3.41).

Obviously for both friends, Smith and Hume, a society with individuals deeply embedded in productive communities that compete in the market was not what they had in mind. For individuals in those communities the partial spectator is near and the impartial one far and each person can earn the admiration of fellow group members even when violating their competitors (Caldas *et al.*, 2006). What Hume and Smith envisioned was a market populated by individuals, not associations or communities. Their argument for separation and competition in a commercial society was at least partly a moral one: market exchange provided an alternative to robbery and pillage as a means to access desired goods; markets provided a frame for relationships between individuals across long spans of social distance and group boundaries, thus favouring virtues of trustworthiness and prudence; competition distributed power and enhanced mutual respect and moderation. This is clearly suggested in the WN where it is more unexpected: while discussing religion. The argument here developed for free-competition among religious preachers can be read as a metaphor for market competition that reveals Smith's real hopes and expectations in respect to a market society. Having observed that “in every religion except the true (...) each ghostly practitioner, in order to render himself more precious and sacred in the eyes of his retainers will inspire them with the most violent abhorrence of all other sects (...)” (WN, V.i.g.6), Smith advocates a model of free competition among “ghostly practitioners”. In a context, where there would be a great multitude of religious sects: “the teachers of each sect, seeing themselves surrounded in all sides with more adversaries than friends would be obliged to learn that candour and moderation which is so seldom to be found among the teachers of those great sects (...) the teachers of each little sect finding themselves almost alone, would be obliged to respect those of almost every other sect, (...)” (WN, V.i.g.8).

Nevertheless, as noted by McNally (1993), Smith stumbles upon the fact that the entities more frequently interacting in markets are collectives, namely firms, and that inside those collective entities relations of dependence and subordination prevail. He

settles then for the second best of a society where those collectives would be as numerous and powerless as possible, and workers would be free to exit, or rather to switch from one relation of dependence to another. A clearly unresolved tension thus exists in Smith between the utopian individualistic model and his second best solution which could only be overcome in a society of property producers along Jeffersonian lines.

Confronted with the same tension Mill (1848: 762) explicitly rejected the utopian individualistic solution of a society composed of peasant proprietors and artisans. Once again his argument is made on the grounds of both efficiency and morality: “a people who have once adopted the large system of production, either in manufactures or in agriculture, are not likely to recede from it (...) labour is unquestionably more productive on the system of large industrial enterprises”. He then adds that “in the moral aspect of the question, which is still more important than the economical, something better should be aimed at as the goal of industrial improvement, than to disperse mankind over the earth (...) having scarcely any community of interest, or necessary mental communion with other beings” (Mill, 1848: 763).

Smith and Hume’s points on the dark side of association remain relevant in respect not only to Mill’s market socialism, but also to his present day counterparts. Contemporary research by social psychologists on social identity not only corroborates but reinforces the philosophers’ insights: individuals not only easily identify with groups but also drawn astray from basic ethic concerns when relating to out-group members. Mill understands well that collective action in cooperatives depends on, and builds on, the moral disposition of individual to commit to collective goals. He understands well the moral demands of association. It is less clear though whether he is as aware as his intellectual forefathers of the dark features of group identity. The hard question for Mill is precisely whether the embeddedness of individuals in competing associations might create the intended “mental community with other beings”?

The same does not apply to the same extent to Bowles and Gintis. In different passages when referring to “community failures” they clearly formulate in a modern discourse Hume’s and Smith’s point: “the baggage of belonging, however, often includes poor treatment of those who do not [...] when insider-outsider distinctions are made on

divisive and morally repugnant bases such as race, religion, nationality, or sex, community governance may contribute more to fostering parochial narrow-mindedness and ethnic hostility than to addressing the failures of markets and states.” (Bowles and Gintis, 2005: 388). They rely, as we have seen, on institutional complementarities as a means to overcome the failures of pure forms of governance, be they market, state or community. The strategy is one of ripping the best of each world through combination, as a means to assure the crowding-out of the worst. What we are suggesting is that the particular combination of market and association as advanced by Mill and his contemporary followers could well lead to the opposite result of enhancing the worst of both worlds.

The mental community that Mill has in mind might indeed be hard to achieve in a society of market embedded associations, requiring instead an extension of democratic principles beyond the productive organization. In fact, the moral economy of socialism has always seen a potential tension between the social practices favoured by markets and the nurturance of what Wright (1998: 96) calls a “strong sense of community within a polity”. The construction of an enlarged community of citizens who participate as equals in their self-government presupposes, as Anderson (1999: 289) argues, an effective access to “the social conditions of their freedom at all times”. What this means is that there is a variety of goods whose access should be partially or totally detached from market-mediated relations and money. The expansion of a non-market socialized sector, organized by the democratic state, which is excluded by Mill, might be an inescapable material bedrock for the creation of sense of common destiny among the citizens of a polity capable of simultaneously transcending the isolation and atomization of the market, on the one hand, and the potential factional identities of associations on the other.

This was again very well put by Anderson (1993) when she developed the idea, closely following Walzer (1983), that the way a society chooses for distributing the goods has an expressive dimension, meaning that it conveys certain values while it undermines the expression of others. Her main thesis should qualify the enthusiasm of socialist’s followers of Mill with the virtues of markets: this institution may tend to block, by the patterns of interaction it favours, the expression of what she calls gift and shared values. Gift values find their worth in the fact that they are given for reasons other than self-

interest, having an expressive dimension that is associated with the fact that they convey a message about the intrinsic value of a social bond. This was vividly conveyed, for example, by Titmuss (1970) in his defence that blood donation and access should not be market-mediated: this was the only way to institutionalize a “commitment to one’s fellow human beings and a desire to serve them while being served by them” (Cohen, 1994: 9). Shared values, on the other hand, presuppose that certain goods are held in common, or accessible, as a matter of rights recognised by society, signalling the existence of an enlarged community to which its members are effectively jointly committed, among other things, by the consciously socialization of a part of the provision process of the goods that sustain a communities’ livelihood (Anderson 1993). This of course also presupposes non-market institutions of provision because the good that is shared must be held in common or freely accessible by all, meaning that its fruition or use expresses the participation in an enlarged collective endeavour.

## **5. Associations Competing in Markets? Problems of Feasibility**

The prospect of a smooth transition to socialism, with worker cooperatives outcompeting and progressively replacing privately owned firms, was connected in Mill with the perception that such a futurity corresponded to a deep rooted desire of the working classes for autonomy. “The working classes”, writes Mill, “have taken their interests into their own hands, and are perpetually showing that they think the interests of their employers not identical with their own (...)” (Mill, 1848: 756). Moreover, once launched, the cooperative movement would tend to prevail, among other reasons, because the best and more able workers would be the first to engage in the movement: “When (...) cooperative societies shall have sufficiently multiplied, it is not probable that any but the least valuable work-people will any longer consent to work all their lives for wages merely” (Mill, 1848: 756).

However, one of the teachings of capitalist development to associational socialists everywhere is that such a desire from workers cannot be taken for granted. Apparently, the experience shows that worker-managed firms tend to emerge in periods of economic downturn as a last resort by workers to avoid the consequences of bankruptcy and unemployment (Singer, 2004). Conversely, the attribution of rights to workers through

legislation and social protection policies seems everywhere to have numbed what Mill took as the deep rooted aspiration of a class. In 1921 Commons wrote: “We do not find that ‘labour’ wants to participate in the financial responsibilities of ownership. (...) What we find that labour wants, as a class, is wages, hours, and security, without financial responsibility, but with power enough to command respect” (Commons, 1921).

The implication of Commons perceptive remark in terms of Bowles and Gintis’ perspective on the labour relation is straightforward. What might sustain their above discussed dual perspective on motivations - self-interested orientation in respect to principle-agent labour relations; reciprocity based in the workers association - is the notion that the employment contract not only is incomplete but biased in accordance with a balance of power that is unfavourable to the worker, and thus permanently contested. Now, if the power imbalance is somehow compensated by restrictions imposed on the strong part, either by legislation or norms internal to the firm, the attitude of workers in respect to the formal and informal obligations of the labour relation may be richer and more nuanced than envisioned both by Bowles and Gintis and by standard principal-agent theory. In a labour relation framed by norms there are grounds for judging the standing relations in terms of justice or fairness, and workers, as captured by the popular motto “a fair day’s work for a fair day’s pay”, currently make such judgement. As put by Wright (1998: 90) “work is, to a variable extent, regulated by various kinds of norms which create a sense of obligation and responsibility on the part of both workers and bosses”. What is finally at stake here is very well put by Spencer (2000: 558) in his critique of Bowles and Gintis’ models of labour relations in which “an exclusively conflictual picture of capitalist production” is given. The implication in terms of the prospect for a spontaneous transition to socialism is clear. As long as workers feel that they can “command respect”, they, as a class, may not find the associational alternative attractive enough to engage in the adventure of setting up cooperatives.

Besides, even if the desire of workers for association and the corresponding financial responsibility of ownership is admitted, the question remains of whether it is feasible to achieve and retain democratic control within the firm in a situation where the market is the dominant mechanism of coordination. The evidence collected in Gunn (2000: 453)

points to the fact that in a market context the members of democratic firms suffer strong pressures to conform to the norms of “enterprise egoism of isolation”. Could the space of association and cooperation of the direct producers survive the dynamics of competition fostered by the market? In a competitive market context, one may expect that the fortunes of associations will vary widely, therefore giving rise to inequalities in income and wealth. From these inequalities, one may infer a potential reconstitution of the material preconditions for subordination and dependence. If nothing would be done to consciously prevent it, the workers of bankrupted associations would inevitably be constrained to enrol in a newly reconstituted “industrial reserve army”. On the other hand, entrepreneurs of the more successful associations would be tempted by the prospect of becoming the only “residual claimants”, and given the availability of individuals who would be prone to work as wage earners, they might achieve exactly this, thus putting in motion the process which would reconstitute the division of society into opposed classes so abhorred by Mill and Bowles and Gintis. As noted with scepticism by Commons, if labour seems to succeed in control of industry on some occasions “it is because certain individuals succeed, and then those individuals immediately close the doors, and labour, as a class, remains where it was” (Commons, 1921: 284).

## **6. Concluding remarks**

This paper recalled Mill’s neglected contribution on socialism and related it to the recent attempt, made by Bowles and Gintis, at reconciling markets and associations. From a stand point which is sympathetic to Mill’s approach, namely to his moral perspective, we have identified in the particular combination of markets and associations advanced by Mill and his contemporary followers, problems of desirability and feasibility. Considering the desirability of the proposed arrangements, we argued that the prospect of associations competing for survival in the unfettered market, with individuals embedded in those productive communities, could easily conflict with Mill’s moral desiderata of development of civic virtues under socialism. Furthermore, we argued that there is a need to reconstruct the link, which is absent in both Mill and Bowles and Gintis, between non-market institutional arrangements and the development of a sense of belongingness to a wider democratic community. In respect to feasibility

we questioned Mill's premises on the intrinsic desire of workers, as a class, for association. Mill's confidence on the spontaneous emergence of worker cooperatives should be qualified in light of historical experience. Reality teaches that where labour relations are normatively regulated workers may tend to conform to relations of dependence and avoid entrepreneurial adventures. Even where cooperatives do emerge and succeed their sustainability is problematic. Given the dynamics of market competition, and the effects on associative entrepreneurs of a culture of invidious comparison and personal success fostered by the market, cooperation would be permanently subject to disruptive pressures.

The point of the present exercise was not one of arguing in favour of any kind of alternative socialist economy with planning as an essential coordination device. Neither was the point that of establishing the impossibility for radical change. Much to the contrary, we view the questions posed as an incentive for a further articulation of robust "real utopias" in which markets and associations cease to be viewed as opposed pure principles of order. The central intuition therefore is that a defence of potential institutional complementarities must recognise that this is not a combination which can be sustained without profound changes in the institutions being combined. What we mean by this is that as the market may be more or less embedded in the social fabric, and market forces be tamed by consciously democratic control, so associations in production may be more or less open and flexible, allowing for the participation and joint deliberation of diverse stakeholders with often opposed interests (Devine, 2002).

The idea is that of individuals having multiple affiliations within a regulated economy composed by a varied set of associations who participate in the provision process, as envisioned by O'Neill (2003). Individuals, with multiple affiliations and allegiances, may then escape the dreadful prospect of becoming either separated atoms interacting in markets or "knaveish" creatures locked in closed communities.

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