Firms, States, and Democracy: A Qualified Defense of the Parallel Case Argument*

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Abstract

The paper discusses the structure, applications, and plausibility of the much-used parallel-case argument for workplace democracy. The argument rests on an analogy between firms and states according to which the justification of democracy in the state implies its justification in the workplace. The contribution of the paper is threefold. First, the argument is illustrated by applying it to two usual objections to workplace democracy, namely, that employees lack the expertise required to run a firm and that only capital suppliers should have a say over the governance of the firm. Second, the structure of the argument is unfolded. Third, two salient similarities between firms and states regarding their internal and external effects and the standing of their members are addressed in order to asses the potential and limits of the argument, as well as three relevant differences regarding the voluntariness of their membership, the narrowness of their goals, and the stiffness of the competition they face. After considering these similarities and differences, the paper contends that the the parallel-case argument provides a sound reason in favor of democracy in the workplace —a reason, however, that needs to be importantly qualified and that is only *pro tanto*.

Keywords: firms, states, parallel-case argument, workplace democracy.

* Previous versions of the paper were presented at ICADE and at the Chaire Hoover d'éthique économique et sociale at the Université de Louvain. I am grateful to these audiences, and to audiences in Barcelona, London, Madrid and Princeton, for the central concern of the paper was persistently raised by them. For comments, I am also grateful to Borja Barragué, Jahel Queralt, two anonymous referees for this journal and especially to Andrew Williams. The usual disclaimer applies. Funding was provided by the ARC project 09/14-018 on 'Sustainability' (French speaking community of Belgium) and the Catalan Agency for Management of University and Research Grants.

1. INTRODUCTION

Over the last decades democracy has rapidly expanded worldwide. While in 1946 only 20 out of 71 independent states were democratic, the number increased to 48 in 1989, to 77 in 1994, and to 92 in 2009 (Marshall and Cole 2009: 10-11). The expansion of democracy in the state, however, has not gone hand-in-hand with a parallel expansion of democracy in other realms, such as the workplace.[1] Rather the contrary. The number of cooperatives may have decreased over the last decades.[2] And attempts to extend the German system of co-determination have either been blocked —as in the case of the Fifth Directive drafted by the European Community in the 1970s— or failed altogether —as in the case of the Bullock Report in the UK (Gold 2005; 2010). Further, once a battle cry among workers and a central research topic in industrial relations, labor economics, and political philosophy (Christie 1984: 112-128), since the 1980s workplace democracy has attracted a declining interest among scholars, political parties, and workers alike.

Yet, the recent resilience of co-operatives to the Great Recession has strengthened their presence in the world economy, and has aroused the interest in this and other forms of workplace democracy once again (Birchall and Ketilson 2009; Lansbury 2009; Birchall 2013). Some recent philosophical work on economic and workplace democracy has also contributed to the debate (Hsieh 2008; Schaff 2012; Perry 2014; Anderson, forthcoming; Landemore and Ferreras, unpublished; see also the essays in Gosseries and Ponthiere 2008; and O'Neill and Williamson 2012: Part II).

Among those who have championed the idea, some have called into question the consistency between the widespread commitment to democracy in the state and the skepticism with which its extension to the workplace is nowadays received. Indeed, it has been argued that firms' decisions influence workers' lives as much as governments' decisions; that managers have as much power over workers as public officials have over citizens; or that large companies influence the society as much as the state does.[3] From this point of view, non-democratic firms have sometimes been depicted as autocratic institutions within which the economy is centrally planned, freedom of movement and speech is heavily constrained, and failure to obey can result in instant exile.[4]

1. Democracy is minimally defined throughout the paper as a form of collective decision-making that gives a binding say to all the affected and/or subjected individuals on a roughly equal basis.

2. For some evidence in the US farming context, see United States Department of Agriculture (2004).

3. For references, see section 4, in which these arguments are discussed.

4. Noam Chomsky (1998: 19) has expressed this view as follows: "What kind of freedom is there inside a corporation? They're totalitarian institutions —you take orders from above and maybe give them to people below you. There's about as much freedom as under Stalinism".

However, there may be good reasons against democracy in the workplace that do not apply to the state, and the converse may also be true. Indeed, it has been often claimed that firms and states are too different for the analogy between them to work. For example, it has been argued that firms are voluntary associations while states are not, that firms are for-profit while states are not, and that firms are meritocratic while states are not.[5]

The goal of this paper is to analyze the structure, applications, and limits of the analogy between states and firms that is often used to argue for workplace democracy, i.e. what Joshua Cohen (1989) has labeled as the parallel-case argument for workplace democracy.[6] According to this argument, firms and states have a number of similarities that make any argument against workplace democracy plausible either in both realms or in neither realm. In this paper I will advance a qualified defense of the parallel-case argument. As I shall argue, firms and states are analogous regarding two salient features (their internal effects and the exercise of power within them). In addition, I will address a number of potential differences between them (regarding the voluntariness of their membership, the narrowness of their goals, and the toughness of the competition they face) that may block the analogy on which the argument is based. I will contend that, while relevant, these differences are often overdrawn, for they are of degree, not of kind. I will conclude that the parallel-case argument provides a sound, yet qualified and non-decisive, basis in favor of workplace democracy.

The paper is divided into five further sections. Section 2 briefly defines workplace democracy and illustrates the parallel-case argument by applying it to two common arguments against workplace democracy. Section 3 unfolds the structure of the argument. Section 4 discusses two salient analogies, while section 5 tackles three potential differences between firms and states. A conclusion closes the paper.

2. THE PARALLEL-CASE ARGUMENT AT WORK

This section has two goals. It firstly introduces the definition of workplace democracy that will be used throughout the paper. It then illustrates the parallel-case argument by applying it to two influential arguments against workplace democracy. (Those who are familiar with these issues may want to directly turn to section 3). Workplace democracy is defined as follows:

5. For references, see section 5, in which these arguments are discussed.

6. The argument has been most recently employed by Schaff (2012), and assessed by Landemore and Ferreras (unpublished). The classice references defending it are Walzer (1983) and Dahl (1985). For a detailed critique, see López-Guerra (2008).

Workplace democracy: A form of managerial organization in which workers have control rights over the management of the firm.

Workplace democracy has developed into many different forms since its nineteenth-century origins, including Robert Owen's cooperative experiments, the Israeli kibbutzim, the German co-determination system, and the US Employee Stock Ownership Plans (Dow 2003; Hansmann 2000; Wilkinson *et al.*, 2010: part III). The above definition is, thus, a fairly minimal and inclusive one. Even though it rules out forms of participation that are limited to employee information, communication, and/or consultation, it leaves open a large number of issues regarding the goals, procedures, and boundary conditions of workplace democracy. It also leaves open the relationship between ownership and control rights. Hence, under this definition workers are not required to have a share in the ownership of the firm in order to be granted control rights. They may be granted control rights either *qua* owners or *qua* workers.

The best-known instance of the first alternative is co-operativism, in which workers —and only workers— have equal control rights and supply capital, e.g. via debt contracting or by drawing upon their own savings.[7] Co-determination, on the other hand, provides the closest instance of the second alternative, in which workers are granted control rights without making any equity investment in the firm.[8]

Many arguments have been advanced in favor of these and other forms of workplace democracy.[9] Unlike other arguments, the appeal of the parallel-case argument is that, by tracing a tight analogy between firms and states, it moves the debate on the desirability of workplace democracy to the political realm, in which the desirability of democracy is taken for granted. In addition, since some of the arguments that are used nowadays against workplace democracy are very similar to arguments that were once used against democracy in the state yet are now seen as unacceptable and anachronistic, the parallel-case argument suggests that we may be using such arguments uncritically.

7. However, as Elster (1989) recalls, only rarely we find cooperatives so-defined, for non-working owners, non-owning workers, and unequal distribution of shares are common.

8. The best-known case of co-determination is the German system (Dow 2003: chapter 4; Fitzroy and Kraft 2005). In force since 1976, it makes compulsory for all limited liability firms with over 2,000 workers to have a supervisory board with ample powers (e.g. the approval of the annual budget or the ratification of important investments) in which both shareholders and workers are represented on a "near-parity" basis (because exclusively the shareholders elect the chairman of the board, who has a tie-breaking vote). For a theoretical model of co-determination with a more equal distribution of control rights among shareholders and employees, see Ferreras 2012.

9. For overviews of recent normative debates, see Dow 2003: chapter 2; Hsieh 2008, and González-Ricoy 2010.

In order to illustrate this, let us assume for a moment that the argument is sound, and briefly apply it to two usual arguments against workplace democracy, namely, that employees often lack the expertise required to run a firm (call it the *epistemic argument*) and that only shareholders should have control rights for they are the only suppliers of capital (call it the *argument from capital supply*). (Just to be clear, in this section I will not assess the merits of the parallel-case argument, something that will only be done in the next section. I only show how the argument could be used if it were sound.)

2.1. The Epistemic Argument

Firms are complex institutions that operate in constantly changing economic environments. Their management involves decisions about investment policies, production engineering, contracting, compensation, and budgetary planning, among many other technical and complex issues. Why, then, should workers be granted a say in their governance when they often lack the expertise required to make informed decisions about such issues? As an executive commented, "What? And let the monkeys run the zoo!" (quoted in Christie 1984: 115). According to the epistemic argument,

(A1) Complex institutions should not be governed by those who lack the expertise to govern them sufficiently well (i.e. to at least some specific level of competency).
(A2) Firms are complex institutions and workers lack the expertise to govern them sufficiently well.

Therefore,

(A3) Firms should not be governed by their workers.

However, consistently extended, (A1) allows for an analogous criticism of democracy in the state. Put simply,

(A4) States are also complex institutions and not all citizens have the political expertise required to govern them sufficiently well.

Therefore,

(A5) States should not be governed by all their citizens.

As we shall see below in section 3, it is possible to resist (A5) by claiming that (A1) applies differently to firms and states due to certain relevant differences between them. For example, efficiency may be crucial in the firm yet not in the state and, accordingly, expertise may be crucial in governing the firm yet

not in governing the state. Since the goal of this subsection is just to illustrate how the parallel-case argument could be employed if it were sound, let us assume that (A1) applies equally to both domains. Two possible reactions follow to (A5). On the one hand, it is possible to accept (A1)-(A5). This was common until not so long ago. For instance, in defending the restoration of suffrage restrictions in France right after the Thermidorian coup of 1794, Boissy d'Anglas (1795) famously stated that "we must be governed by the best, and the best are the more educated". Jason Brennan (2011) has recently argued similarly. However, on the other hand, it is possible to deny that it is permissible to disenfranchise some group of voters regardless of how competently they cast their vote, thus rejecting (A5), which most of us would nowadays do. Now, from the latter option it follows that, if (A2) is true, then

(A6) (A1) should be rejected, i.e. expertise should not be a necessary condition for the governance of complex institutions.

It may be further replied that (A1)-(A5) is too radical an argument, for some degree of insulation of expertise from democratic control may not be at odds with political equality, as the insulation of central banks and constitutional courts from parliamentary decision-making in most democracies proves. This is surely a controversial argument, since it might be argued that the insulation of expertise from democratic control does pose a constraint on political equality, even though such constraint may be justified for reasons other than political equality. However, for present purposes, it is irrelevant whether the argument is sound or not. For, even if it were, it would also apply to firms, given that certain tasks can also be insulated from workers' control in democratic firms. Jeffrey Moriarty (2007: 344) has made the following claim along those lines: "It would be just as unwise to allow employees to elect their firm's Chief Financial Officer as it would be to allow citizens to elect their country's Chairman of the Federal Reserve Board".

The parallel-case argument does not imply that democratic firms ought to include this sort of insulation. It only shows that the scope and limits of democracy and the precise mechanisms of accountability that are to be used are as up for grabs in democratic firms as they are in democratic states. As Walzer (1983: 302) points out, "in a developed economy, as in a developed polity, different decisions are made by different groups of people at different levels of society. The division of power in both cases is only in part a matter of principle; it is also a matter of circumstance and convenience".

2.2. The Argument from Capital Supply

The parallel-case argument can be similarly applied to the argument against workplace democracy from capital supply, according to which workers should not be granted control rights over the governance of the firm because they supply labor but not capital. Workers can always choose to work for democratic firms, take over their own firm in case it goes bankrupt, or try to get a majority of its voting shares. As Nozick (1974: 250) put it, "persons may form their own democratically-run cooperative firms. It is open to any wealthy radical or group of workers to buy an existing factory or establish a new one, and to institute their favorite microindustrial scheme; for example, worker-controlled, democratically-run firms". In capitalist firms, however, shareholders supply capital. Accordingly, only they should govern the firm. In short, according to the argument from capital supply,

(B1) Only those who supply capital should govern the firm.
(B2) Workers supply labor but not capital to the firm.

Therefore,

(B3) Workers should not govern the firm.

Before turning to the parallel-case argument against (B3), the following caveat is required. Even if we accepted that only shareholders should have control rights over the governance of the firm, it might be argued that workplace democracy need not trump such rights, for it need not be compulsory. True, some (for example, Cohen 1989) have argued for an inalienable right to workplace democracy. Yet it might be argued that workplace democracy can be implemented gradually and voluntarily, by means of providing legal advice, tax benefits, or direct subsidies to democratic firms, rather than, say, through expropriation or prohibition of non-democratic ones (see Bowles and Gintis 1996: 66). Now, even when workplace democracy is not compulsory, a rationale is still required to justify why the state should promote democratic firms at the expense of non-democratic ones. To be sure, there is a notable difference between using state coercion to ban non-democratic firms, on the one hand, and using its public resources to promote democratic firms at the expense of non-democratic ones. However, in both cases public means are used to benefit one managerial option at the expense of the other. Hence, the argument from capital supply still poses a potential threat to the justification of a non-mandatory-yet-publicly-promoted workplace democracy.[10]

10. I am grateful to Joseph Mazor for pressing me to clarify this.

Let us now go back to premise (B1), according to which supply of capital implies exclusive control rights over the governance of the firm. As in the case of (A1), consistently extended, (B1) leads to a similar criticism in the political realm. The following one:

(B4) Not all citizens contribute equally to the revenue of the state, if at all.

Therefore,

(B5) Not all citizens should govern the state.

Again, assume that firms and states are similarly enough for (B1) to apply to both realms. If so, we are again faced with two options. On the one hand, we can accept (B5). This has been a usual way to argue for property and tax qualifications for voting throughout history. John Jay's "favorite maxim", according to which "those who own the country ought to govern it", largely expressed what was common sense until nineteenth —and twentieth— century extensions of the franchise (Jay, 1833: 70). Few would accept (B5) nowadays though. Now, if we reject (B5), then it follows that

(B6) Premise (B2) should also be rejected, i.e. supply of capital should not be a necessary condition to govern the firm.

3. THE STRUCTURE OF THE PARALLEL-CASE ARGUMENT

As we have just seen, by tracing a close analogy between firms and states, the parallel-case argument pushes the debate on the desirability of democracy in the workplace to the political realm, in which democracy is the default normative position. Further, since some of the arguments that are used nowadays against democracy in the workplace, such as the epistemic argument and the argument from capital supply, closely resemble arguments that were once used against democracy in the state yet few would accept nowadays, the argument suggests that we may be using such arguments uncritically. In this section I unfold the structure of the argument.

Robert Dahl (1985: 111) provides the best-known account of the parallel-case argument, according to which "*If* democracy is justified in governing the state, then it must *also* be justified in governing economic enterprises; and to say that it is *not* justified in governing economic enterprises is to imply

that it is not justified in governing the state". Of course, the second sentence is redundant. It is just a different yet logically equivalent way to express the material conditional stated in the previous sentence, namely, that

> *Parallel-case argument*: If democracy is justified in governing the state, then it is justified in governing economic enterprises.

Further, even though Dahl formulates it in merely conditional terms, his discussion of the PCA favors a biconditional conclusion. As López-Guerra (2008: 15) points out, it would be certainly awkward if Dahl agreed that democracy could be justified in the workplace yet not in the state, as mere conditionality implies. Even though the previous definition of the argument is enough for the goals of this paper, the following modified version of it follows:

> *Strong parallel-case argument*: Democracy is justified in governing the state if and only if it is justified in governing economic enterprises.

What links the antecedent and the consequent is that economic enterprises and states are taken to be analogous in some morally relevant sense. The parallel-case argument is thus an analogical argument. It refers to some similarities between two objects or systems of objects —namely, firms and states— in support of the conclusion that some further similarity exists (see Bartha 2010: chapter 1). It unfolds as follows:

(C1) Economic enterprises are similar to the state regarding certain features.
(C2) Such features are individually sufficient to justify democracy in governing the state.

Therefore,

(C3) Such features are individually sufficient to justify democracy in governing economic enterprises.

For this version of the argument to avoid being invalid, at least one further condition needs to obtain. In addition to their similarity regarding certain features that are sufficient to justify democracy in the state, firms and states ought to be similar regarding the absence of a number of aspects that may block the justification of democracy in either realm. For example, it may be the case that being subject to certain form of power by public officials is sufficient to justify democracy in the state, and that managers exercise the same sort of power in the firm. However, it may also be the case that democracy is inappropriate to govern firms because of the stiff competition they face in the market, while it is not to govern the state because states

do not face such competition in the international sphere, and that this difference is sufficiently strong to override the similarity regarding the sort of power exercised in both spheres.

In the next section I will consider two potentially relevant similarities between firms and states —regarding their effects and regarding the standing of their members. In the next one, I will turn to three potentially defeating differences between states and economic enterprises. Before turning to these similarities and differences, a caveat is nonetheless in order.[11]

The plausibility of the conclusions drawn from the argument depends on the moral relevance of the similarities and differences under consideration for the justification of democracy in either realm. Hence, it might be argued that the features considered below in this section —even when similarly present in firms and states— are irrelevant for the justification of workplace democracy because different governance schemes (notably, workplace democracy and political democracy) ought to be assessed according different moral criteria. An argument of this type has been advanced by López-Guerra (2008), who concedes that firms and states might be similar regarding one of the features that will be considered below, namely the exercise of power within them. Yet, he argues, economic justice, and not the exercise of power, should be the criterion employed in assessing the organization of the firm. Accordingly, the parallel-case argument fails because it overlooks the possibility that certain features that are morally relevant for the assessment of some governance schemes may be irrelevant —or not relevant enough to override some further differences that are morally more relevant— when assessing other schemes.

Two replies can be advanced. The first one is that López-Guerra's argument is compatible with the argument presented in this paper. The reason for this is that here I assume a pluralistic view of the values that are morally relevant to the assessment of democracy. Hence, as it will become apparent immediately below, my goal is not to assess if the features that I consider below are morally relevant for the justification of democracy. I make the normative assumption that they are, and that they need to be balanced against each other (something that I do not attempt to do here either). My goal here is rather to analyze if such features are similarly present in firms and states. If the normative assumption turned out to be wrong, then the conclusions drawn from the present analysis would have to be reconsidered.

The second reply is that, even if we accepted López-Guerra's argument, the parallel-case argument could still hold. López-Guerra seems to believe that, if we prove that the exercise of power is not a relevant moral criterion

11. I am grateful to a referee for this journal for pressing me to introduce this caveat.

(or not relevant enough to override some other criteria), we then also prove that the argument is invalid. But this is because he explicitly assumes that the parallel between firms and states has to be based on the exercise of power. To be sure, this has been the main basis in the existing literature, in which it has been assumed that democracy should be equally applied to firms and states because the same sort of power is exercised in both realms. However, there is no reason why the parallel-case argument could not be based on the similarity between firms and states regarding some other moral criteria (for example, how profoundly the decisions made by firms and states affect workers and citizens, respectively). And, once we accept this, it may be the case that firms and states are similar enough regarding these further criteria to make the argument work.

4. SIMILARITIES

Firms and states are similar in a number of ways.[12] However, not *all* the features that firms and states share are equally suitable to be included in this category. These should be limited to those features that may satisfy premise (C2), i.e. those features that may be sufficient for the justification of democracy in the state. Now, different normative theories of democracy will provide different accounts of which precise features count as sufficient in justifying democracy in the state. For instance, pure instrumentalist theories will consider only process-independent features, such as welfare maximization or the protection of fundamental rights, while non-instrumentalist theories will look at process-related features, such as the exercise of power by public officials.

In the remainder of this subsection I will consider two similarities that have dominated recent debates and that are plausible candidates to justify democracy in the state. More specifically, I will briefly consider, first, the external and internal effects of firms and states and, second, the power exercised by managers and public officials.

4.1. Effects

Let us begin with one of the several principles by which democracy has been justified in the state. According to the *principle of all-affected interests*, all which interests are affected by a decision ought to have a say in that

12. Here I refer to evaluative similarities, i.e. similarities in the values relevant to their assessment, rather than to non-evaluative similarities (e.g. they both are ways of distributing decision-making powers between individuals).

decision.[13] Since the goal of this paper is not to consider which principles may justify democracy in the state but to assess whether such principles apply equally to firms and states, let us assume that the principle of all-affected interests is sufficient to justify democracy in the state. In considering whether it applies equally to both realms, we need to look at those individuals that are affected by decisions made by firms and by states and the extent to which their effects are similarly pervasive. We can distinguish between two sorts of effects —namely, internal effects (i.e. effects on individuals who are members of the two sort of institutions under consideration) and external ones (i.e. effects on outsiders). Even though external effects turn out to be irrelevant for the issue at hand, let me briefly show why before turning to internal ones.

It has been often argued that firms' decisions have a pervasive influence beyond the limits of the firm, both social and political.[14] Further, it has been claimed that such influence is as pervasive as the influence of states —if not more— in the case of large companies. For instance, in 1999, General Motors' annual revenue was larger than the revenue of the Netherlands, Exxon Mobil's revenue larger than Spain's, DaimlerChrysler's revenue larger than Canada's, and so on (Chowla 2005: 3). As such, large companies' social and political influence often resembles, if not exceeds, that of states.

However, this analogy is irrelevant for the issue at hand for at least two reasons.[15] First, assuming that the analogy holds, it holds only —or to a much greater extent— for big businesses. The influence of small and medium businesses, by contrast, is not comparable to the influence of states. Second, even assuming that it holds for *all* firms, it does not have a bearing on the justification of democracy, neither within the state nor within firms. Under the principle of all-affected interests, all stakeholders, and not only workers, would have to be granted a say over firms' decisions. Similarly, aliens who are affected by the externalities of the state, and not only citizens, would have to be granted a say over its decisions. Accordingly, stakeholder democracy and global democracy would obtain, rather than democracy *within* the firm and *within* the state.

Consider now the more interesting case of internal effects. It can be argued that decisions made by managers affect workers as much as decisions made by public officials and elected officials affect citizens. On the one hand, firms' decisions can affect workers and their families directly

13. For a discussion and defense of the principle, see Goodin (2007). For a criticism, see Saunders (2012).

14. As Néron (2010: 336) has put it, "[firms] control vast human, organizational, and financial resources, and labor; they influence national governments and local communities; and they support (directly and indirectly) everything from education to the arts and sports".

15. I am grateful to two referees for this journal for pressing me to clarify this.

through day-to-day commands or the setting up of the working conditions. For example, in Europe almost as many employees die on average due to fatal accidents in the workplace as citizens die due to intentional homicide.[16] On the other hand, firms' decisions can affect workers indirectly, as a side effect of strategic decisions such as production planning or relocation. The relevance of these internal effects is enhanced by two further facts. First, workers spend one third of their adult lives in their workplaces, probably more time than anywhere else. Second, given that work is a central source of self-esteem in modern economies, these effects do not have a merely instrumental importance to workers. They are also intrinsically important.[17] In short, internal effects of firms' decisions provide —assuming that the principle of all-affected interests suffices to justify democracy in the state— a robust candidate to ground the parallel-case argument.

4.2. Standing

In defining the similarities between firms and states, most uses of the parallel-case argument have not focused on the influence of firms' decisions in contrast with the influence of states. Rather, they have focused on workers' standing in relation to firms as analogous to citizens' standing in relation to the state and, notably, on the power exercised by managers and public officials.[18] This is a feature that is often seen, at least in the state, as sufficient to justify granting control rights to those over whom such power is exercised (and, again, I will assume that this is the case). Accordingly, it is not very surprising that this version of the argument has been dominant.

It is not very controversial that employees are subject to the power of their employers. In contrast to self-employment, in which workers exchange the product of their labor in the market, rather than their labor force, the very point of the employment relationship is the subordination of the worker to the command of the employer. In large firms, managers rather than owners exercise command on behalf of the latter in the daily running of the firm. Managers, thus, have power over employees because they have the ability to make the latter perform actions that they would not otherwise perform. What is controversial, then, is not so much whether employers and managers have power over employees. It is clear that they do. And almost as matter of definition, since managers' ability to issue directives to which

16. In the EU there were 2.5 fatal accidents per 100,000 persons employed in 2008 and 3.5 intentional homicides per 100,000 inhabitants in 2011. See Eurostat (2012: 190) and United Nations Office on Drugs and Crime Homicide statistics, at *http://www.unodc.org/unodc/en/data-and-analysis/homicide.html* (accessed July 6, 2013).

17. On normative issues related to work and self-esteem, see Schwartz (1982), Arneson (1992), and Moriarty (2009).

18. Dahl (1985) is the classic reference relying on the power exercised within the firm.

employees have to conform is a core feature of the employment relationship. What is controversial is whether such power is similar to the power exercised by elected representatives and officials in the state. There are three potential differences between firms and states that might call into question that they are.

The first potential difference is that the power exercised by employers is more heavily constrained than the power exercised by elected officials. This could be the case because employers and employees sign a labor contract at the outset of the relationship that clearly specifies the terms under which the relationship will be conducted. By contrast, citizens and elected governments do not sign any such contract. True, in democratic countries citizens elect their representatives. But the latter enjoy ample discretion once they have been elected. They are not subject by binding instructions from the former, or by their own party manifesto. (It might be argued that party manifestos are contracts, but this is at most metaphorical because, unlike labor contracts, they are not legally binding). Accordingly, while employers' exercise of power is heavily constrained (by the employment contract), the exercise of power by elected officials is not.

However, this difference is overdrawn. Neither the discretion of elected officials is completely unconstrained, nor is the discretion of managers completely constrained. In the state, elected officials are legally constrained by vertical and horizontal forms of accountability. First, they are subject to regular elections, in which they need to be reelected. This poses a de facto constraint on the extent to which they can deviate from their electoral promises and party manifestos while in office. Second, their power is legally constrained by the constitution and the checks and balances of the other branches of the state. Managers in firms, on the other hand, enjoy ample discretionary powers beyond the terms of their employment contracts because such contracts turn out to be incomplete when they are applied to concrete cases and unforeseeable contingencies. Since it would be impossible or prohibitively costly to anticipate every detail and contingency at the outset of such contract, and since some flexibility is desirable to adequately address such contingencies, employers are unavoidably granted ample discretion to issue commands. [19]

A second potential difference is that —unlike citizens in non-democratic states, who do not have a say over decisions imposed upon them by public officials— employees in non-democratic firms do have a say over decisions imposed upon them. This is because they can elect the public officials who regulate the exercise of power in the workplace, and who decide, for that matter, whether the workplace should be democratized or not. Once

19. I fully develop this argument in González-Ricoy (2014: 244-248).

employees get their say in more general elections and are thus able to shape how corporations should operate, it may be argued, the case for democracy in the workplace becomes much weaker than the case for democracy in the state.

This, however, does not make the power exercised by non-democratic managers of firms operating in democratic countries irrelevant. To see why, consider the case of a country in which democracy applies at the state level yet not at the municipal level. I take it that the fact that citizens can elect public officials at the state level does not make the power exercised by public officials at the municipal level irrelevant, even if the latter have to exercise their power within the democratic limits imposed by the former, just as it does not make the case for municipal democracy irrelevant. Analogously, the fact that workers have a say at the political level certainly makes a difference for the issue at hand, since it constrains the power that managers can exercise upon them. However, it does not make such power innocuous as far as managers enjoy *some* discretion (something that, as pointed out before, is intrinsic to the employment relationship), and it does not make the case for democracy in the workplace completely irrelevant as a result.

A third potential difference is that the power exercised in the firm is more easily avoidable than the power exercised by public officials. As Arneson (1993: 139) has argued, employees can "generally escape the reach of ... unwanted policies by quitting one's job and taking another". Citizens, by contrast, cannot leave their country and enter another one so easily, if at all. The sort of power to which employees and citizens are subjected is, thus, very different. This is an important potential difference that might block the analogy, and it has been extensively discussed in the relevant literature. For now, however, let us put it aside, for it will be discussed in some detail immediately below in section 5.1.

5. DIFFERENCES

In the previous section I have argued that the similarities between firms and states regarding their internal effects, as well as their similarities with regard to the exercise of power within them, are good candidates to ground the parallel-case argument. Assume that this is correct —or that some further similarities between firms and states exist, and that such similarities are, other things being equal, sufficient to favor democracy both in the state and the firm. Even if that is the case, however, these similarities only provide *pro tanto* reasons in favor of workplace democracy. Further differences between the firm and the state may end up overriding them, thus blocking the justification of workplace democracy on balance. In this subsection I will focus on three potential differences. First, firms are voluntary associations while states are not. Second, firms have well-defined purposes while states

are open-ended. Third, firms face stiff competition by other firms while states do not face a similar competition by other states.

5.1. Voluntariness

The potential difference that has dominated the debates about the parallel case is that firms are voluntary associations while states are not. As Arneson (1993: 139) claims, "The most significant disanalogy between states and firms is voluntariness". The reason for this, according to Arneson and others (Narveson 1992; see also Dahl 1985; Mayer 2000; Hsieh 2008; Cordelli, unpublished), is that workers are entitled to leave economic enterprises at will, while leaving the state may be impossible or very costly. Two problems with how this debate has proceeded are (i) that the notion of voluntariness is rarely made explicit in full and (ii) that it is unclear whether the lack of exit rights necessarily entails that an association is involuntary (which most of the literature about the parallel-case argument assumes). Here I will not attempt to clarify these two problems. Rather, I will assume, following the relevant literature, that exit rights and the ability to exercise them without incurring excessive costs are necessary to deem an association voluntary. When the members of an association lack exit rights, or the costs of exercising them are unbearable (say, because of the absence of acceptable alternatives), then their agreement cannot be deemed fully voluntary.[20] In what follows, I will accordingly limit myself to discussing the potential differences between firms and states with this regard.

The basic reason why exit rights are deemed so crucial for voluntariness is that, when the members of an association are entitled to leave it without incurring excessive costs, by remaining inside of it they are taken to consent to the terms of the association. From this standpoint, firms might have been involuntary associations in nineteenth-century England, when Master and Servant Acts were in force and employees were criminally prosecuted for quitting their jobs. And involuntariness may sometimes persist nowadays in monopsonistic labor markets, or in markets of forced labor.[21] However, in free, competitive, and fully clearing labor markets, so the argument often goes, firms are voluntary associations because employees are entitled to

20. Notice, however, that the sort of involuntariness that results from the lack of exit rights is different from the sort of involuntariness that would render a contract nonbinding, as Scanlon (2000: 245) suggests. The mere absence of exit rights does not exempt the parties, thus, from their duty to honor their agreements.

21. According to the ILO's Forced Labour Convention No. 29, forced labor is all work or service that is exacted from any person under the threat of a penalty and for which the person has not offered herself voluntarily.

quit at will.[22] By contrast, states are involuntary because exit is impossible or prohibitively costly.

Two important implications follow. The first one has to do with the analogy between firms and states regarding their internal effects and the exercise of power within them. While citizens can hardly escape such effects as well as the exercise of power by public officials, employees can generally avoid them by terminating their employment contracts. Further, employees can use such freedom as an implicit yet ever-present threat against their employers. As a result, the latter may well *ex ante* modify their behavior so as to incorporate the interests of their employees, thus minimizing the possibility of such freedom being exercised, thus reducing the employee turnover rate. This is not to say that freedom to exit completely rules out employers' power over their employees, or that the latter are not affected by the decisions of the former any longer. Rather, it means that employees are affected and subjected by such decisions very differently, and to a lesser extent, from how citizens are.

The second implication follows from the first one. As I have argued in the previous section, the parallel-case argument can be grounded on the internal effects and the power exercised within firms and states being similar. Now, if they are not —because, unlike states, firms are voluntary associations, which members are entitled to join and leave at will— then the argument for workplace democracy based on the analogy turns out to be blocked. As Bowles and Gintis (1993: 97) put it, "if the capitalist economy is a sphere of voluntary private interactions, what is there to democratize?" Jan Narveson (1992: 53-54) nicely summarizes these two implications:

> "If a firm doesn't like the way you do your job, can it send men with guns who will put you in prison if you don't do it the way the boss says? ... It is fundamental to politics that political association is not essentially voluntary ... Once a gathering is plainly voluntary, then there simply is no case for imposing "democratic" structures and procedures on it."

However, this contrast between firms and states is overdrawn. Even though it is generally *more costly* to leave one's country than to leave one's job, the difference is one of degree, not of kind, for leaving one's country is, at least formally, as possible as leaving one's job. True, leaving one's country is very costly. It includes serious obstacles such as closed borders, linguistic

22. As a referee for this journal has suggested, markets might not need to fully clear for entry and exit from firms to be voluntary, provided that workers are sufficiently protected from unemployment, e.g. through employment benefits or a basic income. I have considered this alternative argument for the voluntariness of firms in González-Ricoy (2014: section 3). Here, however, I limit the analysis to the stronger argument according to which, even in the absence of such protection, entry and exit from firms in free and competitive markets is voluntary.

barriers, and travel expenses, in addition to the fact that moving from one country to another usually implies changing jobs, while one can change jobs without changing countries. However, leaving one's job does not go without sacrifice either.

Briefly consider the following reasons.[23] First, imperfect labor markets have involuntary unemployment, which makes it costly for employees to quit provided that they would not be able to find another job easily.[24] Second, even if labor markets cleared, there are additional exit costs that can lock-in employees, including the following four: (i) investment costs in developing firm-specific human capital; (ii) integration costs in the network of co-workers, customers, etc.; (iii) searching and transition costs from one job to another; (iv) psychological costs in quitting work altogether provided that work is a relevant source of self-esteem in modern societies.

Third, in addition to these costs, freedom to exit, even when costless, may not be sufficient for voluntariness when the alternatives are not acceptable. To see why, consider the following case:[25]

> A is an employee who toils in a humiliating job and wishes to change jobs. For A, leaving her present job is both available and costless. As the labor market fully clears, A has numerous job alternatives available. However, all these alternatives are as humiliating as her present job. Eventually, A decides not to quit and stays at her present job.

Is A's decision *fully* voluntary? I take it that most of us would respond in the negative (even though, as I said above in note 20, not in a sense that would render A's labor contract nonbinding), which shows that freedom to exit does not always suffice for voluntariness. When the range of options available to us is not acceptable, then formal exit rights, which A in the case above holds, do not suffice for voluntariness.

In short, leaving one's job may be less costly than leaving one's country. However, this is a difference of degree, not of kind, for leaving one's job also has important costs. In addition, when acceptable alternatives are absent, freedom to exit, even when costless, does not suffice for voluntariness. Accordingly, any conclusion on the justification of democracy in the workplace drawn from the parallel-case argument would be less compelling than the corresponding justification of democracy in the state. Yet it would not be forceless.

23. I have developed these reasons in more detail in González-Ricoy (2014: 239-241).

24. Shapiro and Stiglitz (1984) have shown that, under conditions of imperfect information, this is also the case in perfectly competitive markets, which need a sufficiently large unemployment rate to remain competitive.

25. Serena Olsaretti (1998: 71) advances a similar example.

Consider now two objections.[26] First, it might be argued that the mentioned costs, as well as the circumstances in which exit rights may be insufficient for involuntariness, vary enormously across employees and firms. For example, employees who possess scarce and valuable skills may bear lower costs if they quit than employees who lack such skills. However, these differences are also present in the state, in which exit costs are also very unevenly distributed across citizens and different states. Hence, some citizens might find it more costly to leave their country than others, and some countries may make it more costly for their citizens to leave than others. Accordingly, the analogy between firms and states regarding these differences holds and if democracy is justified in the state despite these differences, then it follows that it is justified in firms as well.

Second, even if democracy may be favored both in the state and in the workplace due to their similarly profound and unavoidable effects on citizens and workers, respectively, it may be objected that this argument can be blocked by appealing to the idea of freedom of economic association. Workers, it may be argued, have a right to freedom of economic association that empowers them to bind themselves to agree to obey commands of a non-democratic firm, and they have this power even if their set of valuable alternatives is very limited. I raise two points in response. First, as Joshua Cohen (1989: 48) has claimed in response to a similar objection, while it may be valuable to be able to choose the economic activity in which one engages as well as the parties with whom one associates, there may not be any fundamental interest protected by the liberty to sell labor for a wage and to be subjected to undemocratic command in the workplace instead of, say, working as a member of a co-operative. Second, even if we assume that freedom of economic association does entail a right to work for non-democratic firms, this freedom does not necessarily override workers' right to workplace democracy. Even though these two rights may sometimes conflict with each other, in the sort of economy envisaged by most proponents of workplace democracy —in which workplace democracy (unlike, say, mandatory schooling) is a right that can be alienated— it is not entirely implausible that both rights coexist.[27]

26. I am grateful to a referee for this journal and to Andrew Williams for raising these objections.

27. According to Bowles and Gintis (1996: 66), for example, "to argue against mandatory workplace democracy is to critique a straw man and to elide the fundamental issue, which concerns whether policies promoting workplace democracies are justified in the interest of giving workers the opportunity to participate in these forms of governance".

5.2. Narrowness of Purposes

Consider now a further yet related difference, namely, that firms are justified in having well-defined purposes, e.g. to maximize profits, while states ought to be open-ended, as Phillips and Margolis (1999) have argued. A reason for this is that, unlike firms, states are not voluntary associations. Firms are justified in having narrow purposes their employees can always leave if they disagree with such purposes. States, by contrast, have to remain open-ended because their citizens cannot leave them easily if they disagree. Hence, while it is acceptable for a firm to have certain narrow goals (say, produce and sell copies of the Bible), it is unacceptable for the state to do so.

An implication of this difference for the issue at hand is the following. When the goals of an organization are well defined and disagreement about them among its members is not very profound, the need for a collective decision-making procedure, democratic or otherwise, to set the goals that ought to be pursued is also weaker.[28] When, by contrast, goals are subject to more profound disagreements, the need for a decision-making procedure to handle such disagreements is stronger. It thus follows that if states are open-ended and have plural goals while firms have narrow purposes, then the case for democratic procedures in the state is stronger than the case for democratic procedures in the firm.

There are good reasons, however, to resist this clear-cut distinction. Firstly, according to Phillips and Margolis, purpose narrowness is allowed in firms and open-endedness is required in the state due to the fact that the former are voluntary organizations while the latter are not. However, as we have seen in the previous section, this difference is overdrawn, for exit from firms is often costly and the decision to stay, thus, not always fully voluntary (at least under the definition of voluntariness used before, which requires that meaningful exit rights are available and that does not necessarily render employment contracts nonbinding). Now, if firms are not fully voluntary associations, then the case for purpose narrowness becomes weaker and the difference between firms and states regarding the narrowness of their goals becomes less clear-cut.

There are further reasons to call into question that purpose narrowness should be allowed in firms and open-endedness should be required in the state. On the one hand, it is certainly the case that some libertarians have argued not only that making profits is perfectly respectable for economic enterprises, but also that it should be their only goal (typically, Friedman

28. As Przeworski (2006: 312) has put it, democracy presupposes, as a necessary condition, that "Interests or values are in conflict. If they were not, if interests were harmonious or values were unanimously shared, anyone's decisions would be accepted by all, so that anyone could be a benevolent dictator". A similar argument can be found in Waldron (1999) and Valentini (2012).

1970). However, this position has not gone without challenge, not least by Corporate Social Responsibility approaches and stakeholder theorists. Indeed, it is widely assumed nowadays that firms should have a diversity of goals, social and otherwise, other than maximizing profits. On the other hand, the requirement of open-endedness in the state can also be called into question. Today, it is widely accepted that states have to comply with a number of narrow goals that constrain their sovereignty, including the fulfillment of human rights and the responsibility to protect their population.[29]

In short, neither firms ought to have narrow purposes, nor the state ought to be completely open-ended. Of course, this does not imply that firms and states ought to have similar goals (just as different firms have different goals). It rather implies that the difference between firms and states regarding the narrowness of their goals is less clear-cut than it is sometimes argued and that, given that firms should also have plural purposes, the argument for ruling out the use of democratic procedures in their governance turns out to be less compelling.

5.3. Toughness and Efficiency

Jeffrey Moriarty (2005) has advanced a further difference that may have a bearing on the assessment of the parallel-case argument, namely, the tougher environment that firms face in the market compared to states in the international realm. In free-market economies, firms face stiff competition from other firms that attempt to drive them out from the market. They face continuous and rapid changes due to the appearance of new technologies and products, changes in consumers' preferences, the introduction of new legislation, periodical economic downturns that make them likely to disappear, and so on. Indeed, the US Census Bureau reports that the one-year failure rate for firms started in 2004 is 23.6 percent and the five-year failure rate for firms started in 2000 is 49.3 percent (Headd 2010). By contrast, states face a less tough environment. They are much more resilient to changing circumstances, and their downfall is rare or at least rarer than in the case of firms.

Two relevant implications follow from this difference. First, Moriarty claims that managers in firms should be granted extensive powers to face stiff competition in the market, as well as the ability to exercise them fast, that public officials need not have or not to the same extent. In times of economic downturn, he reckons, managers may need to be able to cut employees' pay, give shareholders smaller returns, or renegotiate contracts with suppliers, provided that some minimal constraints (e.g. safety conditions) are respected.

29. A classic contemporary defense of human rights as constraints on state sovereignty is Rawls (1999).

Public officials, by contrast, need not have this sort of power, or not to the same degree. The environment they face is less tough, and dissolution of the state less likely to ever happen. Second, even though this is a point that Moriarty does not make, it may also be claimed that stiff competition and the constant threat of downfall make efficiency, in terms of the ratio of output to input, more important in the firm than in the state.

The bearing of these two implications on the parallel-case argument is that both the need for extensive prerogatives and the crucial importance of efficiency may conflict with democratic decision-making, which may be too slow to adapt to changing environments, and may be less efficient than other decision-making arrangements.[30] Accordingly, since the need for extensive prerogatives and the importance of efficiency due to stiff competition is greater in the firm than in the state, democratic decision-making may be less suitable in the former than in the latter. These differences, in turn, may block the parallel-case argument for democracy in the workplace or, at least, make any conclusion drawn from other similarities that firms and states may share less compelling.

This is an important argument for, as the figures above suggest, firms certainly face stiffer competition than states. Three replies can be advanced, though. First, governments also face tough circumstances, and the availability of emergency powers and the importance of efficiency may also be crucial in the governance of the state. As Moriarty acknowledges, the difference between firms and states in this regard is one of degree, not of kind.[31] Second, as it has been argued above, democracy in the workplace is not at odds with delegation of extensive prerogatives to managers, with the only difference that managers in democratic firms are appointed by workers rather than, or along with, shareholders, and accountable to them. Third, it has been much discussed whether democracy in the workplace diminishes or improves efficiency.[32] This issue largely exceeds the scope of this paper. However, it may be too quick to assume that efficiency is at odds with democracy, either in the workplace or in the state. There are good theoretical and empirical grounds to believe that the contrary may be the

30. Classic references on the inefficiency of democratic firms are Jensen and Meckling (1979) and Alchian and Demsetz (1972).

31. As Andrew Williams has suggested to me, it may be argued that competition is not only a fact but also a desirable fact in the economic domain, given the benefits of creative destruction. The same, however, may not be true in the political domain, since the social costs of political bankruptcy are so much higher. While this may entail that the difference is ultimately of kind, I leave it open whether the difference holds, for it implies a moral assessment of the benefits of competition that, regarding the economic domain, is highly contested to say the least.

32. Some have argued that the fact that democratic firms are marginal shows that democratic firms are not efficient, for otherwise they would be created voluntarily. See Jensen and Meckling (1979). Elster (1989) has replied that they could be marginal due to endogenous preference formation, adverse selection, discrimination, and externalities.

case, at least under certain circumstances (see Bowles and Gintis 1993; Parks *et al.,* 2004; Levin 2006; for overviews of the debates, see Dow 2003; Hansmann 2000).

In short, the difference in toughness that firms and states face is one of degree. It should not be overdrawn when assessing the limits to the parallel between firms and states. In addition, the difference might turn out not to have much bearing on the parallel-case argument, first, because democratic firms are consistent with the sort of powers that tough market competition may require and, second, because, they may not be inefficient in their operation.

6. CONCLUSIONS

If the features upon which the analogy between firms and states is based turn out to be sufficient to justify democracy in the state, then the parallel-case argument provides a plausible reason in favor of democracy in the workplace —a reason, however, that needs to be importantly qualified, I conclude, for a number of reasons. First, while the paper has shown that firms and states are similar regarding their internal effects and the power exercised within them, it has not attempted to demonstrate that these features are morally sufficient to justify democracy in the state. Second, the paper has shown that there are a number of morally relevant differences that could override, or at least undermine, the similarities upon which the analogy between firms and states is based —even though it has also shown that these differences are often overdrawn, for they are of degree, not of kind. Third, further differences that have not been considered here may further undermine the analogy between firms and states, thus blocking the parallel-case argument in favor of workplace democracy. In short, the case for democracy in the workplace, when drawn from the analogy between firms and states, and provided that democracy is justified in the state, is plausible. Yet it is also not as strong as the case for democracy in the state. McMahon (1994: 259) is thus right in acknowledging that "the case for democracy in nongovernmental organizations is weaker than the case for democratic government", at least, when based upon the parallel-case argument.

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