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ECONOMIC ANALYSIS AND WORKERS'

THE POSSIBILITIES AND LIMITS OF WORKERS' ENTREPRENEURSHIP IN CAPITALIST ECONOMIES

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INTRODUCTION

Despite many references to "workers' entrepreneurship", academic debate on the economics of self-management in the last twenty years has, for the most part, eschewed a direct analysis of the precise content of the concept. This is perhaps not surprising in view of the continuing absence of a generally agreed upon interpretation of "entrepreneurship" in the mainstream of economic theory. Economists have tended to bypass the problem in the formal analysis of the firm, and formal models of the labour-managed firm have also tended not to be accompanied by very explicit analyses of the underlying visions of the character of entrepreneurship.

Among the few creditable exceptions have been Dubravčić with two publications (1970 & 1979) and Horvat (esp 1964, 1967, 1976 and 1977), which do attempt to come to grips with some of the central issues involved. It seems possible, nevertheless, to improve on these authors' analysis and indeed necessary to disagree with them on a number of points. The purpose of this paper will thus be to revisit the concept of entrepreneurship in the context of the labour-managed firm. Dubravčić's treatment will be used as our main point of departure. We shall examine in particular how far workers can act "entrepreneurially" in capitalist economies in view of Dubravčić's distinction between "short-term" and "long-term enterpreneurship".

EVOLUTION OF THE CONCEPT OF ENTREPRENEURSHIP

As is well known, the two main attempts to interpret the role of the entrepreneur this century are due to Knight (1919) and Schumpeter (1934).

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We shall not attempt here to review at any lenght the respective positions of these two main protagonists or indeed of any of the other contributors in the field. It will suffice to remind that, whereas Schumpeter regarded entrepreneurship essentially as "innovative activity", for Knight it consisted in the responsible direction of economic activity in general. Contracting agreements with input suppliers and guaranteeing them a fixed remuneration was for Knight the most essential aspect of entrepreneurship, the entrepreneur himself being entitled to an uncertain residual income (profit). Entrepreneurship was then very closely linked by Knight to the bearing of uncertainty or uninsurable risk. For Schumpeter, on the other hand, the bearer of uncertainty was the capitalist, as opposed to the innovator, although the two could, of course, coincide in the same person.

It is not an altogether straightforward task to capture fully the essence of either Schumpeter's or Knight's interpretations of entrepreneurship and to convincingly pin down the differences between them. It seems fair to observe, however, that both thinkers recognize the *dual* (i. e. mixed) character of the entrepreneurial phenomenon, having seen it both in terms of uncertainty-bearing and in terms of a specific economic activity. The difference was partly one of emphasis (Knight emphasized much more the uncertainty-bearing dimension) and partly one of identification of the type of economic activity characteristic of the enterpreneur (innovation for Schumpeter, general direction and input organization for Knight).[1] But in emphasizing risk-bearing, Knight was also rather more careful not to ingore the link with capital supply. Without capital ownership, it is difficult for the entrepreneur to offer an adequate guarantee of fulfilling contractual obligations.

Two more extremely important contributions by Coase (1937) and Alchian and Demsetz (1972), examining the "nature of the firm", also emphasized further key aspects of the entrepreneur's role as a specialized kind of economic activity or function. Stressing the cost-minimizing substitution of authority for market transactions between the entrepreneur and input suppliers within the firm (Coase) and the surplus-maximizing monitoring of input performance in teamwork situations (Alchian & Demsetz), both these contributions treated the firm primarily as a device for the achievement of efficiency in conditions of essential certainty. The firm's character as an institutional form to cope with uncertainty and the entrepreneur's corresponding role as the uncertainty-bearing agent was somewhat removed from the centre of the stage by both Coase and Alchian and Demsetz. But to the extent that the entrepreneur's residual position was still recognized, the dual nature of entrepreneurship was, ultimately, upheld by these authors, too.

In any case, as already suggested, these differences of emphasis did not affect the development of the basic formalization of the firm in neo-classical theory. As we have seen, notwithstanding the different

[1] Horvat (1976) points out, rather aptly, that while Knight stresses the speculative and "passive" role of the entrepreneur, Schumpeter emphasizes his "active" and creative one. But the fact that profits may go, wholly or in part, to someone other than the director—or innovator—entrepreneur does reduce considerably the appeal of both Knight and Schumpeter.

nuances, there was always fundamental agreement among economists about the dual essence of entrepreneurship as organization of economic activity with an uncertain outcome The entrepreneur of the neoclassical firm emerged then as a maximizer of a residual magnitude (profit). But whatever the economists' understanding, the formal model itself suppressed risk-bearing in two ways. Firstly, it represented the maximization exercise as one conducted under certainty, i.e., on the assumption of perfect information about demand and cost conditions. Secondly, it divorced completely the bearing of risk from input supply by defining the residual to be maximized as net of the (explicit or opportunity) costs of *all* the inputs. It divorced it, in particular, from the supply of capital, treating capital on a par with labour in all essential respects. It thus completely demoted the role of the capitalist in the firm. The model substituted, in effect, entrepreneurship as a third factor quite distinct from labour or capital.

The neoclassical model of the firm represents, thus, something of a retreat into mystique. One may conjeoture that the widespread acceptance of the model was due to the analytical convenience gained by treating capital and labour symmetrically rather than to the inherent merits of the idea of entrepreneurship as third factor of production. The firm could be treated conveniently as a "black box" transforming inputs into outputs. Alternative visions of exactly what went on inside the box were received as interesting pieces of philosophical speculation but without immediate relevance for modelling the firm.

The model was to be affected, however, by important developments which were taking place on the institutional front in the meantime. The modern corporation, growing very large, was tending to separate the direction of economic activity from the bearing of risk. Direction, whether conceived in general terms or as innovation, economizing on transactions or monitoring teamwork has come, almost exclusively, within the province of the "managers" while the vast bulk of the (financial) risks have come to rest on the shoulders of the shareholders. The applicability of the dual concept of entrepreneurship was seen increasingly to be limited to relatively small firms. In relation to the large business sector, where "separation of ownership from control" was becoming the norm, it now appeared more realistic to designate *either* the managers *or the* shareholders (but not both) as the entrepreneurs.

Alternative models were invented then distinguishing sharply between managerial and ownership interests and objectives. "Managerial utility", hinging on such matters as growth or sales maximization, largely displaced profit from the centre of the picture and relegated its pursuit to the status of a constraint on management. Theory thus came to increasingly reflect the diminishing influence of "ownership" in the corporation once "control" had effectively been taken away from it. Yet the break was still not a fundamental one; the new models continued to suppress the uncertainty factor and to define the residual (profit) net of all input costs, thus refusing to assign any special role, in terms of risk-bearing, to input suppliers, notably the suppliers of capital.

ENTREPRENEURSHIP IN SELF-MANAGEMENT. THE ILLYRIAN MODEL

It is against these theoretical and historical developments that the recent resurgence of interest in the economics of self-management has occurred. The new Illyrian vision of the workers' co-operative economy has emerged with its distinctive ideology and a distinctive analytical framework, the essentials of which are traceable mainly to Ward (1958) and Vanek (1970).

Self-management is now understood, primarily as labour management where the right to management or control is no longer founded on ownership of capital assets but on active involvement in production. But as well as managing the firm, workers also bear risks in that labour incomes are residual after the deduction of contractual obligations to suppliers of the other inputs. Thus, both on the criterion of management and on that of risk-bearing, the co-operative workers must be regarded as the entrepreneurs.

The formal model which has been developed to represent the new vision based, as is well known, on the maximization of net income per man, also departs considerably from the model of the neoclassical firm because the "residual net income" is identical with labour's income accruing after the deduction of all non-labour (notably capital) costs. The residual is then attributed entirely to the labour input rather than to the mysterious entrepreneurial input of neoclassical theory. Labour can thus be, and is described as, *the* entrepreneurial input. To the extent that labour hires capital in the co-operative world, a *reversal* of the usual opposite sequence is also sometimes spoken of. But the formal analogy is not complete since capital is not fundamentally regarded as *the* entrepreneurial input in the neoclassical firm. Strictly, it is the third factor rather than capital that plays this role. But the expectation must presumably still be, in terms of the neoclassical model, that the third factor will be provided by the capitalist who hires labour in the usual way.

It can hardly be disputed that the development of the Illyrian ideology and framework of analysis has opened up an exciting new avenue of thought. The formal model in particular has marked a solid avance in dispensing with the mystique of the "third" entrepreneurial factor. But rejection of neoclassical entrepreneurship has given rise to some new problems to which we now turn.

Among the various works on the labour-managed firm put forward in the Illyrian spirit and effectively in opposition to the neoclassical one, we can particularly distinguish Dubravčić (1970), who typifies most explicitly, perhaps, the underlying view of entrepreneurship.

Dubravčić (1970) considers entrepreneurship to rest squarely on the supply of a real productive factor. i.e., labour, under risk. "It is assumed that the function of entrepreneurial control is confined to a group of people who supply a certain input to enterprises. There are two possible co-operative entrepreneurial inputs, labour and capital, and one of them must be chosen to form the institutional basis of the activity of entrepreneurial control". In the producers' co-operative which

is characterized by the use of labour as entrepreneurial input as well as in its opposite, the capitalist firm, "the suppliers of the entrepreneurial input will have to control the management so as to safeguard their economic interests... Inasmuch as net revenue can be negative, the suppliers, performing the function of entrepreneurial control, will have to share the risks". It is then argued that "since the function of entrepreneurial control is assumed to be inseparable and actually indistinguishable from the function of supplying the entrepreneurial input... the rewards of any member of the co-operative will be proportional to the amount of entrepreneurial input that he supplies".[2]

Although this view of the matter seems to emphasize the function of entrepreneurial control, it must also, in stressing input supply on residual terms, have considerable appeal to all those who, like the present writer, feel uncomfortable about the relative neglect of uncertainty in the neoclassical model of the firm. For whether one regards risk-bearing, or direction (management or organization) as the more important of the two dimensions of the dual view of entrepreneurship, it must in any case be recognized that one cannot bear risk unless one supplies an input under risk (i. e., on residual terms). The view proposed is, ultimately, not inconsistent with the dual notion of entrepreneurship referred to earlier as well, to the extent that the actual management of the firm by its labour force, apart from constituting the fundamental principle of producers' co-operation, ensures that the risk-bearing factor is also the directing or managing one.

But one may still feel somewhat uneasy about certain aspects of this conceptual scheme. Firstly, it seems excessively strong to regard the function of "entrepreneurial control" as "inseparable and indistinguishable" from the supply of the entrepreneurial input. Secondly, it seems necessary to specify what is meant by "entrepreneurial" control and, particularly, whether the term is meant as a synonym for "management". If that is so, it can be readily objected that management under modern conditions need not, of course, coincide with input supply under risk, as is amply demonstrated by the experience of modern large corporation. The factor of size can be expected to lead to similar differentiation in co-operatives as well, as between the majority of workers on the one hand and a much smaller managerial team on the other. Another possibility would, of course, be to distinguish between "management" itself and "control of management" regarding, that is, the control of the managerial team rather than direct participation in the tasks of management as the essence of "entrepreneurial control". According to this view, the worker-entrepreneurs then enjoy largely the same (effective or ineffective) powers of control over management as the shareholders in a capitalist corporation. It is only in small-scale conditions that it may be permissible to ignore these difficulties. But even if entrepreneurial control could be identified with entrepreneurial input supply, it seems questionable to the present writer whether the bearing of the risk can be tied exclusively to the supply of labour. That is to say, it makes dubious sense, in general, to regard labour as *the*

[2] Dubravčić (1970)

only entreprepreneurial input. It is true that in co-operative conditions labour may be the *only residually remunerated* input, capital enjoying a contractually fixed return. But even so, labour can surely not be regarded as the *only risk-bearing input.* For even if the residual expected returns to labour can by themselves provide a big enough cushion against the risk of *income loss* by capital suppliers, they will not generally be adequate to guarantee them against a *capital loss.* And it is the latter risk, of course, that is quantitatively the larger, its size increasing with the degree of capital intensiveness appropriate to the particular firm or industry.[3]

But this is the general area of uncertainty in which formal models, not only of the co-operative firm but also of the neoclassical one appear particularly deficient. For unlike, e.g., Knight and Schumpeter who clearly recognized the special role of capital or the capitalist as a risk-bearing factor, modern theory tends to treat capital completely analogously to labour, as we have seen. Developments in co-operative theory, speaking of a reversal of the usual roles of labour and capital under labour management, can now be seen also to have suppressed the essential asymmetry of the relationship of the two inputs and to have prevented a clear recognition of the fact that most financial risk tends to be, ultimately, one of capital loss. If capital and labour are supplied by the same person or group, there is no problem in identifying the risk-bearer but it must be recognized that the risk is borne mainly by virtue of capital rather than labour supply. If, on the other hand, the two inputs are supplied by different persons or groups, there is, in the co-operative setting, some danger of confusion in the identification of the effective risk-bearer. For even if labour has a residual claim on income, as opposed to capital's contractual one, the lender or financier will still bear most of the risk, to the extent that residual labour incomes represent inadequate insurance against the main risk of capital loss. And these considerations must also cast doubt on the usefulness of the very concept of the entrepreneurial input defined exclusively in terms of residual remuneration. For the peculiarities of the residual position do not seem to capture all the relevant dimensions of financial risk-bearing.

We shall not attempt here to elaborate any further the argument of the last two paragraphs.[4] But it will be important to note that the formal Illyrian model can be seen to suffer from some of the same defects as the neoclassical one, once its logical foundations are closely examined. In particular, both of the simple formal models completely suppress considerations of uncertainty.[5] Outside the realm of simple

[3] Labour is not, of course, under any equivalent risk since, unlike capital, labour power cannot be wholly destroyed and the same labour can be employed elsewhere. Job loss is nevertheless unsettling and may actually be translatable as a capital loss as well if alternative employment opportunities over the workers's horizon are inferior.

[4] A more rigorous statement of the relevant principles will hoperfully be the subject of a future paper.

[5] The present author has, however, attempted a simple reformulation of the firm's maximization problem partly incorporating these arguments. See Zafiris (1977).

formalization, economists have, of course, been aware of the general nature of the problem, including both Knight and Schumpeter, as we have seen. We shall conclude this section by referring the reader to a more recent contribution by Wiles (1977, Ch. 13) to this particular discussion in the context of real-world self-management. Wiles emphasizes the special role of capital in risk-bearing by observing that capital must, in any system, be *chronologically* prior to labour. That is, the *founders* in enterprises must bear some risk before the workers.

ALTERNATIVE CONCEPTS OF ENTREPRENEURSHIP IN SELF-MANAGEMENT

As was the case with the mainstream theory of the firm, the discussion of entrepreneurship in the labour-managed firm has also proceeded largely independently of the Illyrian formal model. The discussion has been influenced in particular by the experience of self-management in Yugoslavia, but also by suggestions for reforms to promote workers' co-operation in advanced Western economies and indeed also in less-developed ones. Among the most worthwhile contributions which rather break away from the Illyrian framework we can single out particularly Horvat (1964, 1967, 1976 and 1977) and, as indicated in the beginning, Dubravčić (1979). Of these, Horvat's theoretical contribution is the more firmly based on Yugoslav experience and actually includes an alternative formulation of the maximization problem of the labour-managed firm, as is well known.[6] But Horvat also provides an interesting analysis of the meaning of entrepreneurship in a socialist economy such as Yugoslavia. Dubravčić (1979), on the other hand, deals more directly with the problem which concerns us here, i. e., workers' entrepreneurship in capitalism. We propose, therefore, to consider Horvat's contribution briefly and then to concentrate on the second paper by Dubravčić.

Horvat (1964) seems to visualize a Schumpeterian-type mechanism of continual "creative destruction" operating in the socialist economy through the medium of (collective) workers' entrepreneurship. The key difference under socialism, however, is that capital is socially owned and thus "accessible to every entrepreneur, after paying the price for its use (interest)". Horvat further suggests that "there is no necessity for the total amount of gross profit achieved by particular collectives to be appropriated by them as well... Gross profits break into two parts: net profits which, as a reward to members of the *kolektiv*, are used to induce the supply of the productive factor entrepreneurship and the remaining, if any, which by its very nature represents rent and, as such, is taxed away".[7] Analogously, the commune intervenes to subsidize "superlosses" as it taxes away "superprofits', the limits to both being "social".

Horvat's vision seems to lean towards a fundamentally Schumpeterian concept of entrepreneurship, primarily involving innovation. He

[6] See Horvat (1967) in particular.

suggests later that: "analytically, the arrangement establishes a separate factor of production whose price is profit".[8] The argument is repeated in Horvat (1976), where it is stated that "the basic ingredient of entrepreneurial decision-making is a constant stream of innovations". Horvat (1976) also amplifies his analysis of the division of income between labour incomes and "rents". Labour incomes are seen as the reward for "direct", "individual" labour which must not vary from industry to industry, in line with the basic socialist principle of "distribution according to work". Non-labour income in the economy consists of various types of "rent". In Horvat's scheme that can take the form of urban, mining, "technological", etc., rent and even interest can be treated as a special kind of capital rent. It is reiterated that rents must be taxed and not distributed as personal incomes.

What is left somewhat unclear in this scheme is precisely what constitutes profit as the price of enterpreneurship and as opposed to interest which is the price of capital. The question is perhaps of limited significance for Horvat since the intention is to tax both away. Entrepreneurship, unlike "direct" labour, requires "social" rather than "individual" rewards and "equal business conditions" must be established throughout the economy.[9] But the present writer, for one, would see considerable motivational problems in an arrangement which ruled out individual appropriation of the rewards of entrepreneurial activity, under any reasonable definition of the term. That may, of course, be no more than the consequence of his own habitual Western-type way of thinking and Horvat does put forward the principle of "distribution according to need" as a necessary supplement of the basic socialist one. But if it were desired to allow some appropriation of "profit" by the entrepreneurially-acting collectives, the problems of its identification and measurement would need to be faced.

Horvat is aware, of course, that the question of optimum pricing of entrepreneurship and of capital is an open one in welfare economics.[10] We may add that the problem is largely unresolved also in terms of positive economics and that Horvat's own treatment also leaves it relatively open in the context of his own scheme of the socialist economy. It will be our argument that the difficulty of separating entrepreneurial *income* from capital (and labour) ones is fundamentally due to the difficulty involved in identifying the corresponding *factors themselves*. It is a difficulty that seems to have been experienced by other authors as well, who argue for a separation of entrepreneurial activity from the supply of capital (or labour). Among these, we can mention Bajt (1978) and Dubravčić (1979), to whom we must now turn.

Dubravčić (1979) does represent a significant departure from Dubravčić (1970) in certain essential respects, as we shall see. He must not, however, be accused of inconsistency as he seems to be putting forward the second variant of entrepreneurship as an alternative to (and effectively in replacement of) the first.

[7, 8] Horvat (1964).
[9, 10] See Horvat (1976).

As in Dubravčić (1970), entrepreneurship, here too, is "clearly related to a combinative economic activity with an uncertain outcome".[11] But unlike the earlier version of the concept, entrepreneurship is now detached from input supply as such. Dubravčić (1979) is emphatic about the need to agree on the proposition that, in particular, "the entrepreneurial function must be separated from the supply of capital".[12] And while recognizing that this has generally proved impossible to put into effect, historically, in any economy, capitalist or socialist, Dubravčić points to Yugoslavia as the exception to the rule and the one real-world instance where this separation has been achieved. The second proposition on which he calls for agreement is the old one "that the entrepreneurial activity can be entrusted to labour suppliers — and that the transfer is desirable".[13] Indeed, in his proposed reform set-up the workers carry out most of the organizational tasks of the entrepreneur. But they are not, any more, the entrepreneurs by virtue of supplying their labour but as a result of a specific institutional arrangement assigning to them most of the actual management of the firm.

The criticism here is, precisely, that we cannot, in view of our argument in the earlier section, accept Dubravčić's basic proposition of separation of entrepreneurship from capital (and more generally input) supply. For we would be reducing the concept to mean management alone, and would be separating it from risk-bearing. We would then be guilty, effectively, of the same suppression of the risk factor as the formal model of the neoclassical firm. As long as the presence of uncertainty can be regarded as a crucial aspect of economic reality in a market system, any attempt to define entrepreneurship independently of risk-bearing must be resisted. The link between entrepreneurship and risk-bearing is so firmly established in economic philosophy that breaking it would fundamentally rob the concept of entrepreneurship of much of its generally-agreed meaning. It would then be questionable, in fact, whether the term should continue to be used at all. A concept of enterpreneurship, emasculated in this way to be almost synonymous with management, would be superfluous or else confusing, or both.

We have already mentioned the difficulties of separating entrepreneurial incomes from capital or labour ones. But if the distinction of the functions is clear in principle, we may ask why it should not be possible to impute appropriate parts of the firm's income to each one. In contrast, the line of argument which does relate entrepreneurship to risk-bearing and input (particularly capital) supply seems to accord more readily with the real-world experience of input returns actually varying with the amount of risk borne. For one can identify and measure a wide variety of "risk premia" attaching to capital and labour and differentiating the returns earned by these factors according to the risk characteristics of their employment in particular firms. We are proceeding here in the reverse sequence, i. e., from an identification of factor returns to an identification of the factor services. It should

[11] Dubravčić (1970)
[12, 13] Dubravčić (1979)

city. But the conventional distinction is itself not a straightforward one, despite its widespread — and indiscriminate — use by economists. It may not be inappropriate, therefore, to digress briefly to look at economic theory's common distinction between the short and the long run.

There seem to be two main problems with the traditional distinction. Firstly, the question may be asked why one should necessarily treat capital rather than labour as "the fixed factor". Horvat (1979) raises this question most cogently, and relevantly, in relation to self-management in particular, where stability of employment can be expected, realistically, to be a weighty consideration.

Secondly, the question of whether capital can be varied or not cannot always be regarded as an objectively determined fact over which the decision-maker has no control. In a large number of circumstances it would surely be more useful to visualize it as a matter of decision for the entrepreneur, whether or not to renew or expand the capital stock and by how much. Capital can, after all, be allowed to run down and some machines can be sold fairly quickly and without too much of a loss. The entrepreneur can decide then, to a large extent, whether a "short run" or a "long run" decision is appropriate.[19]

This second difficulty is particularly apparent in Dubravčić's scheme. For in his terms, the firm is either in "STE conditions" or in "LTE conditions". But if that is a matter of choice we may ask whose choice it would be in Dubravčić's scheme, in which different groups are in charge of different "runs". It may be necessary to specify some sort of arbitration mechanism to assign authority, in cases of doubt, to the workers or to the suppliers of the capital. Devising a mutually-acceptable mechanism for this might not, of course, be easy.

In any case, as already suggested, any sharp distinction between short and long runs appears unduly restrictive. It is particularly harmful for Dubravčić' sharing proposal. For even if we could separate clearly short run from long run types of decisions so that these could be entrusted to different groups, there would still be an overlap in terms of the effects of the respective decisions. Workers' actions (or inaction) taken within their area of authority would inevitably have consequences for the firm's longer-term prospects and thus for the interests of the suppliers of the capital. The workers' short-run management could enhance or undermine the long-term viability of the firm and the expectation must be, in any case, that it would be sub-optimal, to a greater or lesser degree, from the point of view of the capital interests involved. The same applies, of course, and probably *a fortiori* in connection with the possible consequences for the workers of the long-term decisions made by the suppliers of the capital. For the long-run type decisions of LTE must be regarded as the more important ones and would severely circumscribe the workers' ability to seek optimality for themselves in the exercise of their STE. Dubravčić appears to be aware of these

[19] It is perhaps more fruitful in general to think in terms of partial vs. total adaptation decisions rather than short-run vs. long-run ones. See Wiles (1963).

difficulties and suggests that it would be necessary for each group to have some say in the other's primary area of jurisdiction.

The mechanism proposed for specifying the respective areas of authority essentially works through "contracts" between the respective groups. There is no reason, in principle, why such contracts should not be feasible. In practice these would have to be, of course, fairly detailed documents setting out as many possible types of decisions as might be foreseen and the division of authority among the various interest groups for each one. Even then, obviously, there might be gaps in the specification and, as already hinted, some stipulation concerning "residual" jurisdiction would probably be needed.

More importantly, however, the entrepreneurship-sharing contracts which might actually be concluded in free negotiations between workers and capitalists might not devolve authority to workers along the STE/ /LTE lines envisaged by Dubravčić. For an arrangement in which workers have effective control of the vast bulk of "short-term" decisions might prove unacceptable to the suppliers of the capital because of the risk which even these decisions might carry, in many cases, for the capital interests. The crucial underlying factor here is of course the amount of financial risk borne in total and its division between the respective groups. Recalling our argument of the previous section, most of the risk is typically borne by capital. This fact, coupled with the essential interconnectedness of short-run and long-run decisions (which we have also discussed in this section), results in the usual arrangement of undivided management rights vested in the capitalists. The workers might attempt to shift the balance and purchase some of those rights. But the odds are that they would generally be unable to compensate the capitalists sufficiently to effect more than a marginal change. For as they would not be able to offer enough security for the capital invested, they could only acquire more rights by offering relatively high premia on rates of return on the capital (i.e., by including inordinately heavy "risk premia"). Obviously, this path could only be followed up to a point and would probably soon appear unattractive to the workers. That would, moreover, be rational behaviour from their point of view and would not indicate any undue reluctance to take on responsibility or risk, although such factors may also work in the same direction.

A very closely related problem of the proposed entrepreneurship division is, of course, the demarcation of the respective income rights. But in view of the difficulties discussed already, it is not surprising that it turns out to be rather hard to formulate a clear principle for the necessary allocation of the income between "short-run" and "long-run entrepreneurs". Dubravčić's suggestions on this point seem very imprecise. In particular, the "residual long-term income" which he assigns to LTE is not defined so that its difference from STE's "residual current income" is left wholly unclear. This is also true of Dubravčić's discussion of the "power balance" between the parties involved and his references to "bargaining" considerations.

We may ask why contracts of the type envisaged by Dubravčić and which, we have agreed, should in principle be possible, are not very common in mature capitalist economies, if indeed any examples can be found at all.[20] One possible explanation is, of course, the present state of company law which generally assigns all the residual income/capital and decision-making rights to the suppliers of the (equity) capital. But surely if alternative arrangements were to be dictated by the underlying economics, there would be more of a tendency for companies to be set up on terms which diversified away from this general rule, possibly even evading present law in its essentials. Still, Dubravčić appears to expect that the kinds of structures suggested in his proposals may come about spontaneously, to some extent, and not only in cases of crises of threatened bankruptcy, as has become common. But he is thinking, in addition, in terms of legislation to introduce them and encourage their creation.

One is left wondering, in the final analysis, about the possible long-term relative importance of three basic forces which might be relied on to help institute and spread entrepreneurship-sharing arrangements. These seem to be (1) the free play of market forces in competitive factor markets, where risk-bearing is adequately recognized by economic agents and competitively remunerated, (2) collective bargaining action by workers alerted to the possibility of entrepreneurship-sharing and pushing for its institution through their trade unions, and (3) state action to create the legislative framework and encourage the new system, possibly with the aid of material incentives and/or some compulsion.

It seems to the present writer, in view of the analysis advanced in this paper, that the prospects of workers' shifting towards themselves much of the total entrepreneurial role through freely-negotiated contracts in factor markets, are very limited. In addition to their relative lack of capital resources, which would enable them to take on a significant part of the capitalist's risk, there is also their traditional reluctance to adopt entrepreneurial attitudes. The same problem exists, on a collective scale, with the second possible route, i.e., via trade union action. In some advanced countries at least unions have been unwilling to push for a bigger entrepreneurial role for workers, concentrating instead on improving their terms of employment. We are bound then to consider the third, i.e., the governmental, alternative as the most promising one for creating the necessary conditions for entrepreneurship-sharing.

In that light, Dubravčić's optimism concerning (additional) spontaneous emergence of entrepreuneurship-sharing agreements does not seem justified. As has already been suggested, such optimism can be traced back to his generally misleading discussion of entrepreneurship and, in particular, to his insistence on separating it from capital supply. And our criticism of Dubravčić on this point must extend to other advocates of workers' co-operatism as well who have similarly tended to demote the role of capital supply.[21]

[20] Dubravčić (1979) points to joint ventures between capitalist and Yugoslav self-managed ventures as the nearest example of the proposed system.

[21] See, for example, P. Jay (1977) insisting that "labour as such... (should be) the entrepreneur, not labour as a shareholder". But workers' capital stakes *are* important in Mondragon, from which he seems to derive much inspiration.

GOVERNMENT ACTION FOR WORKERS' CONTROL

It might seem worthwile, therefore, to attempt to outline briefly what public action might actually be involved here. The basic alternatives which we can visualize have actually been suggested at various times in one detailed form or another and we shall not undertake here a comprehensive survey of the field. We must emphasize, however, that since, in view of our analysis, the possession of capital is a crucial precondition for playing the entrepreneurial role, we envisage that a way will need to be found in our case for the workers to acquire capital. For only on that basis will they be able to bear risk and to negotiate a greater share of the entrepreneurship for themselves.

Several alternative (albeit somewhat overlapping) types of public action suggest themselves. One possible type might involve a straightforward *redistribution* of capital to the workers. In its logically purest form, the idea amounts to capital grants from the state to the workers. The state could then seek to establish as competitive conditions as possible in factor markets and let workers negotiate entrepreneurship shares with the capitalists. Such a procedure might, however, appear too radical, not least because of its likely budgetary cost, if undertaken on any large scale. But a somewhat more covert variant of the same idea would be extensive government subsidies and/or guarantees for workers' loans. The budgetary cost of such a policy might not be much smaller than that of a policy of capital endowments but the procedure might be more acceptable in an essentially capitalist economy.

As an alternative to the above type of policy, which would eventually use the market mechanism, we could, however, imagine one which might fundamentally work by suppressing it. That would be the legislative transfer of important decision-making rights from the capitalists to the workers in enterprises, possibly coupled with parallel provisions re-allocating income rights in favour of the workers as well. That would effectively be a case of partial *appropriation-cum-transfer* of capital assets, rather like the institution of rent controls and tenants' rights. The burden of this would fall entirely on the owners of the assets rather than on the population at large, as would have been the case with re-distributive taxation. To that extent, considerable resistance might be expected from the group so affected, and it might be difficult to secure sufficient acceptance of the measures for the policy to succeed. But the experience of the vaguely analogous case of housing laws suggests that the problem may not be wholly insurmountable in this connection either.[22]

A third possible type of public policy in this area is, of course, what might be described as the decidedly socialist one and should perhaps be classified as the extreme version of the first. Rather than re-allocating initial endowments in capital resources, the government could actually

[22] The consequences of capitalists' resistance against the scheme would be rather more far-reaching than the landlord's opposition in the housing example, as any discouragement of investment would be felt much more quickly in the case of industrial assets.

socialize a large part (or even all) of the productive, capital. It could then grant extensive management/administration rights to the workers to run the firms. The supplier of the capital or long-term entrepreneuer here, that is, would be the state. Presumably the state would be, in that case, capable of transferring enough "entrepreneurship" to the workers to make their STE meaningful, to an extent that might not have been possible under freely negotiated contracts, with capital resources in private ownership. We are assuming, of course, a socialist government which chooses the "decentralized" route and does not opt for comprehensive planning.

Under "socialization", however, we need not necessarily read „nationalization" of capital assets. Nationalization tends to imply a distinct act of expropriation which will probably be either too "revolutionary" (if undertaken with no or inadequate compensation) or else too costly (at least initially) for the state finances and probably still unacceptable politically. Rather, reformers have tended to think in terms of a gradual build-up of "social" capital in the form of share issues to the workers out of profits (or in proportion to their wages) or, preferably, through the establishment of collective trust funds financed in the same way. The latter are usually conceived as not conferring individual and transferable capital rights on the workers and can thus form the nucleus of an ever-expanding social property for the benefit of a variable population of working preople.[23] They would, of course, confer voting rights and, after a point, these might become controlling ones to make a reality of self-management.

We could thus visualize this version of our third (i.e., what we have called the socialist) alternative as leading smoothly from the introduction of a few apparently harmless reforms to the establishment of a socialist system where more and more *new* capital would be invested as social property and whose terminal point might be an economy resembling, e.g., present-day Yugoslavia. And although leading to socialism, the transition might actually appear less radical than either of the first two alternatives outlined earlier. After all, enlightened capitalists or trade unions might themselves initiate (and in some cases have initiated) such "participatory" schemes. The role of the state could be limited to a minimal legislative or tax encouragement and possibly not even that.

Certain reservations must, however, remain. Firstly, it will be recognized that "social property funds" would require a considerable amount of time before they acquired a significant size. The momentum of a programme of reform might not be maintained for as long as would be needed. But more importantly, perhaps, we should recognize the inherent difficulty of building up workers' capital without explicitly arranging for them to receive, over time, a bigger share of enterprise income than their labour services can command in the market without intervention. Without a redistributive transfer involved at some stage (through tax concessions or otherwise), the workers would *effectively*

[23] For an interesting discussion of alternative schemes, see Horvat (1979).

need to save a greater proportion of their maximum potential income from the firms than the capitalists for their share of the capital to grow faster over time. The worker's relatively limited ability to save could be expected to put considerable obstacles in the way of a rapid build-up of workers' or "social" capital.

A FINAL PERSPECTIVE

A final comment must be made in connection with Dubravčić's ultimate vision of "a phase of mature capitalism where the entrepreneurial function of capital suppliers would be concentrated in financial institutions leaving industry as the prevalent concern of labour suppliers' entrepreneurship". For this is an interesting view of a possible development which, some might argue, can be observed already! That is, it would not be entirely unreasonable to think of the present system as, largely, one of "portfolios" at the ownership end of industry and "managers" on the ground, the "entrepreneur" being an old-fashioned personage who has disappeared from the scene. It is true also, of course, that a very large number of entrepreneurial decisions concerning the supply of risk capital are made by financial institutions. There might then indeed be a temptation to argue, as suggested earlier, that it is really not necessary to continue to speak of entrepreneurship at all. Sticking to old-fashioned concepts is potentially confusing and it might be better to invent new ones to describe new phenomena.

There might seem to be something in such a view but we shall not adopt it. For while capitalists can spread their risks by diversifying their portfolios, and while investment trust managers can themselves diversify their holdings of industrial shares to spread risk, it is still necessary for judgement to be exercised to decide the amount of risk to be undertaken in a particular venture, to consider or set the terms of remuneration to be required in view of that, and, ultimately, to decide the total amount of risk to be borne. To make all these judgements, somebody along the line, that is, if not a capitalist directly then his investment manager or the investment manager of a financial institution, has to carry out a close scrutiny of a firm requiring risk finance. The capitalist, or whoever acts on his behalf, cannot realistically relinquish that role in favour of any group of workers. That would imply, among other things, an indiscriminate attitude towards *all* firms requiring risk finance, which would be absurdly unvise both in private and in socio-economic terms. Entrepreneurship then, understood primarily as input supply under risk but including the main direction of economic activity, still seems to be here to stay. Whether we wish to retain the term in contemporary conditions, in view of the relative shortage nowadays of traditional-style entrepreneurs, is basically a matter of terminological preference.

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MOGUĆNOSTI I GRANICE RADNIČKOG PREDUZETNIŠTVA U KAPITALISTIČKIM PRIVREDAMA

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R e z i m e

Radničko preduzetništvo, a i preduzetništvo uopšte, neodređen je i višesmislen koncept. Odsustvo saglasnosti među ekonomistima o sadržaju ovog termina, naročito dolazi do izražaja u tekstovima o samoupravljanju, što može onemogućiti jasnu i preciznu analizu nekih važnih ekonomskopolitičkih pitanja.

U članku se autor samo kratko osvrće na šumpeterovsku (Schumpeter) i najtovsku (Knight) tradiciju, dok glavnu pažnju usmerava na neke novije doprinose ovoj oblasti sadržane u radovima Dubravčića i Horvata. Glavni autorov argument sastoji se u tvrdnji da postoji znatan jaz između teorijskih r a s p r a v a o preduzetništvu i formalnih m o d e l a preduzeća. U teorijskim razmatranjima doduše priznaje se ključna uloga podnošenja rizika kao glavnog konstituenta preduzetništva. Neizvesnost je, međutim, potisnuta i to kako u neoklasičnom modelu preduzeća koje maksimizira profit, tako i u ilirskom modelu samoupravne firme. Dalja, najčešće predviđana razlika između ova dva formalna modela sastoji se u tome što se u neoklasičnom modelu preduzetništvo tretira kao poseban faktor, dok je u ilirskom modelu ono inkorporirano u faktoru »rad«.

Autor tvrdi, da sa stanovišta značaja dimenzije neizvesnosti, preduzetništvo treba prvenstveno shvatiti kao ponudu proizvodnih resursa u uslovima rizika. Finansijski rizik je obično rizik od gubitka kapitala. Tako se pitanje u kojoj meri radnici mogu da igraju preduzetničku ulogu pretvara u pitanje u kojoj meri oni mogu ponuditi rizik kapital. Snabdevenost kapitalom za radne kolektive (prvenstveno u socijalizmu) i formiranje kolektivnih fondova putem učešća u profitu (prvenstveno u kapitalizmu) predstavljaju alternativne načine kreiranja najvažnijeg materijalnog preduslova radničkog preduzetništva.

Autor kratko raspravlja o Horvatovom tretmanu preduzetništva, kao faktora proizvodnje, koncentrišući se na Dubravčićeve prilaze iz 1970. i 1979. godine. On naročitu pažnju obraća na Dubravčićevu distinkciju »kratkoročnog preduzetništva« radnika u uslovima razvijenog kapitalizma. U članku se iznose neke primedbe na Horvatov tretman i izražavaju izvesne sumnje u pogledu valjanosti Dubravčićeve podele preduzetništva na kratkoročno i dugoročno (kao i mera ekonomske politike zasnovane na toj podeli). Autor smatra da je Dubravčićeva analiza iz 1970. godine korisnija i on pokušava da svoj rad zasnuje na njoj poređenjem uloga rada i kapitala kao utrošaka koji snose rizik. Na taj način, ponovnim isticanjem značaja kapitala, autor se nada da je u izvesnoj meri rasvetlio fundamentalne probleme prelaza na samoupravnu privredu.