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Democratic equilibria: Albert Hirschman and workplace democracy

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ABSTRACT
This paper clarifies the usage of Albert Hirschman's categories of market behaviour as of exit and voice in debates about workplace democracy by taking seriously his critique of the neoclassical analysis of competition. Pro-market liberals are generally hostile to the idea of workplace democracy and tend to favour top-down hierarchies as a way of organising labour. This hostility is generally inspired by the neoclassical analysis of exploitation and efficiency, which leads them to defend distributions achieved through exit-based competitive equilibria. Following Hirschman, I propose to consider a hypothetical alternative: a democratic equilibrium, reached through the use of voice. I show that it would present the same appealing characteristics than its competitive counterpart while also accounting for the non-ideal conditions in which markets operate. Support for free markets should entail support for workplace democracy minimally understood as a strengthening of voice.

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Philosophical defences of competition in labour markets heavily rely on the neoclassical defence of competition. On the other hand, justifications of workplace democracy are often grounded in the opposition between two different strategies available in markets – exit and voice, following Albert Hirschman. The aim of this essay is to take this dichotomy seriously as a critique of the neoclassical view.

There is a strand of liberalism – call it the neoclassical view – that considers competition, that is the widespread application of strategic exit in markets, as an appealing mechanism because it generates distributions that generally satisfy two principles: efficiency and power mitigation. Conversely, a commitment to these two principles would rule out workplace democracy, that is the use of

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voice in markets, since it generates efficiency losses. I will address this argument by taking it for granted yet showing that its implications change as soon as one abandons the neoclassical understanding of market exchanges that supports it. My aim is to produce an argument for workplace democracy that is acceptable to market liberalism and to clarify the use of Albert Hirschman's ideas of 'exit' and 'voice' in justifications of workplace democracy.

It is to be noted that I shall not defend a particular conception of workplace democracy; I shall only talk of a 'reinforced workers' voice'. The theoretical argument presented in this paper is, therefore, meant to appeal more practical applications. In the first part, I first present the neoclassical argument for competition in labour markets. I then show how this argument has led several market-oriented liberals to reject workplace democracy. Using Hirschman's critique of neoclassical economics, I finally show that the reasons market-oriented liberals commit to market competition should lead them to support workplace democracy as well and not to reject it. Their commitment to competition in labour markets and their rejection of workplace democracy simply comes from misguided economic assumptions.

I. The neoclassical account

Neoclassical economics considers that market competition produces distributions that present two appealing and interrelated characteristics – what I shall call efficiency and power mitigation. I explain these two properties in turn.

A market where prices are fixed only through the balances of preferences within given external constraints is said to be in a competitive equilibrium. Consider the following situation:

> *Jane Hiker in the desert*
> Jane Hiker is stranded in the desert and for some reasons has no means of surviving. She dies alone and miserable.

Contrast it to this next example:

> *Monopoly in the desert*
> Jane Hiker is stranded in the desert and will die unless rescued. Suddenly, she meets the hiring manager of Rescuer Widget, a widget producing company, who offers her a job for (putatively exploitative) wage X. Jane Hiker does not want to die, so she agrees.

Why does Hiker accept such an outrageous offer? She prefers any transaction (A) to a baseline of non-transaction – here dying (B). Thus, her preference ranks: [A $>$ B], with A being of the lowest possible value. The manager from Rescuer Widget, on the other hand, is ready to hire a worker's labour on a higher rate (B′), but since she can extract the same labour value at such a low price (A′), so she does. Her order of preferences, therefore, ranks [A′ $>$ B′], with A′ being the lower possible. Now consider:[1]

> *Competition in the desert*
> [Same as Monopoly in the desert] But suddenly, another person, a hiring manager from Saver Steel S.A, comes and offers a job as well. Following competitive pressure, both offer a wage close to price Y.

Both hiring managers want to hire Jane. Thus, a third preference appears in everyone's range. Both managers would like to remunerate her at a very low wage – option A′ and A+ in their respective orders of preferences, but since they have to outbid each other's to steal the deal, no one can satisfy it. The price then rises to Y, and both can satisfy a second-order preference, which is hiring Jane at normal rate (B′ and B+). The competitive pressure creates a new option C for Jane who will choose it over A (accepting any job) and B (dying). She still prefers interaction to a non-interaction baseline (B), but C is less costly for her than A.

The first appealing characteristic of *Competition* is efficiency – markets convey condensed and valuable information through the price mechanism that channel resources where they are needed the most, thus supposedly solving the problem of limited information and lack of communication that characterise interactions in complex human communities (Hayek, 1945). In the example above, the appearance of the manager from *Saver Steel* and her higher salary outcompeted *Rescuer Widget*'s rate. Jane Hiker exiting the deal to take on *Saver Steel*'s offer sent an information to *Rescuer Widget* about the quality of her own offer.

Efficiency in resource allocation is, therefore, a consequence of competition – when she is in a situation of monopoly, *Rescuer Widget* has no information about the quality of the offer she makes. Suppose an alternative version of *Monopoly* taking place on another planet. Jane Hiker is a scientist who is running out of oxygen and Bill Rescuer is an eccentric and out of touch billionaire who has a spare bottle. Both wear space suits that limit their communication capacity to one word per day. Bill Rescuer wants to be nice, so he wants to give his spare bottle, but since he is a libertarian, he does not want to do that for free and ask what he thinks is a reasonable amount of money, which is ten million sestertii – the amount he tips his barista.[2] He cannot know that this money is more than most today's humans make in a lifetime. On the other hand, Hiker cannot tell him anything else than 'yes' and cannot explain that signing such a contract would represent a disproportionate cost. The only way she could do that would be to accept a competing offer at a lower price from her colleague who just passes by. Bill Rescuer would then know without having to talk it

[1] Cases of hikers lost in the desert are common in the literature on exploitation, see among many others (Wertheimer, 1996; Zwolinski, 2012). They are mostly used to analyse the ethics of cases of apparent abuse or exploitation such as those occurring on the labour market.

[2] As Hillel Steiner has pointed out, exploitation in market is rarely intentional (Steiner, 2017).

out that there is something wrong with his offer through the price mechanism alone. Humans in vast communities are in the same situation – prices convey information about everyone's preferences and the scarcity of the good.

The second characteristic of competitive market equilibria is power mitigation, understood here as the incapacity of market actors to interfere with each other's. Following Arthur Pigou, unfairness in markets is understood in two ways (Pigou, 1920, chap. XIV). The first form is a difference of wages due to circumstances external to the market itself and the immobility of labour. For example, two countries might know two different average salaries in the same sector of the economy. This difference might be due to lack or presence of natural resources, scarcity of capital, etc., without it being the result of an underpayment of labour or exploitation. The second type of unfairness is exploitation proper, that is for Pigou when monopolistic elements within markets create a certain range of indeterminacy where the wage will be set by the extent of that monopoly's bargaining power over the supply of labour (Coldwell, 1990; Persky & Tsang, 1974). So, from a Pigouvian point of view, in *Competition,* Rescuer Widget breaks Saver Steel's monopoly and the market clears at a non-exploitative price. *Monopoly* is, therefore, a case of exploitation, that is, Rescuer Widget's monopolistic power creates a difference between Jane Hiker's marginal input (what she will produce for Rescuer Widget and the equivalent of which she would get in a competitive setting) and her wage (the value of X), this difference being gained by Rescuer Widget[3] Competition therefore prevents the appearance of any price indeterminacy that would allow such an abuse.[4] At its simplest version then, the argument goes like this – in markets, if everyone wants to abuse you, then no one really can since everyone is a price taker.[5]

This characteristic that is 'power mitigation' is a basis of liberal defences of free markets. One of the core concepts of liberalism is that freedom is non-interference. Competition prevents interference by dissolving monopolies. This was the basis of Adam Smith's argument against mercantilism, since competition keeps the market price – what a commodity is bought for – close to what Smith calls its natural price – what a commodity costs to produce in term of natural resources and of remuneration of labour and capital, thus

[3] Arthur Pigou conceived exploitation as a phenomenon related to labour specifically, so I spelled out the cases above accordingly. They make some discreet references to the idealised 'desert cases' that dominate the literature on exploitation.

[4] All market transactions consist in someone's abusing someone else vulnerability – the difficult question is which vulnerability it is wrong to abuse, and to which extent this abuse crosses an ethical red line.

[5] The idea that monopoly is the only source of wrongful exploitation and that market competition results in fair distributions has been contested, see (Arnsperger & De Villé, 2004; Sample, 2003; Wood, 2016). Showing how exploitation is possible in competitive markets – that it is their defining feature in fact – is also the main point of Marxist economics and political theory, see on this (Marx & Engels, 2010; Roberts, 2017; Roemer, 1982, 1985; Vrousalis, 2013, 2014).

diminishing rent (Smith, 1993).[6] Late classic liberals and libertarians are the ones who insisted the most on the market properties of power mitigation (Hayek, 2001; Nozick, 1974, chap. 8; von Mises, 1998, chap. 15.6). This view is perfectly summarised by Von Mises: 'The freedom of man under capitalism is an effect of competition. The worker does not depend on the good graces of an employer. If his employer discharges him, he finds another employer'(von Mises, 1998, chap. 15.6).

In more recent analytic philosophy, Alan Wertheimer's seminal monograph *Exploitation* offers a thorough defence of competitive equilibria as non-exploitative (Wertheimer, 1996). He would defend transactions such as *Competition* as a standard of a fair transaction as contrasted to transactions such as *Monopoly*. Liberal-egalitarians and left-libertarians complete the argument about the market's property of power mitigation with a concern for background injustice. John Rawls did not write much about just wages, exploitation and commutative justice in general, considering market properties such as efficiency as secondary norms within a theory of justice whose primary concern are background institutions. He however granted that competitive equilibria obtained against the background of such just institutions are a 'workable' and 'feasible' standard 'being explicitly framed to coordinate the multitude of possible criteria into one coherent and workable conception' (Rawls, 1971, p. 273).[7] A similar view is defended by Hillel Steiner (Steiner, 1984). Rawls and Steiner basically gave Pigou's account of exploitation some ethical thickness by problematising the background conditions that have influenced market prices.

As a competitive equilibrium, *Competition in the desert* strikes us as fair transaction because it mimics what a counterfactual fair transaction would look like, that is one that is efficient and not exploitative, even if it is a case of abuse of vulnerability just as Monopoly. It is not the abuse that is the problem here, but rather its extent. This is because the idea that Jane would have a ceteris paribus claim-right to be rescued at no cost is indeed highly implausible, for it generates supererogatory obligations on the rescuer.[8] Rescuing Janes costs something, and it is an action that needs to be incentivised, there is, all other things being equal, no problem with Jane ensuing a cost here.[9]

[6] For a historical perspective on how liberals defended markets precisely for the properties of power mitigation, see also Anderson (2017, chap. 1).

[7] In *A Theory of Justice* that is. See also Rawls (2001, chap. 14).

[8] See on this (Schmidtz, 2000; Sample, 2003; Arneson, 2016), among others.

[9] Suppose I buy a hotdog because I am hungry. Have I been exploited? If we assume a neoclassical account of exploitation – as the one offered by Alan Wertheimer for example – then it depends on what happened just before I made my choice. If there was only one hotdog seller who overcharged me because they were the only person around, then the answer is yes. If I was able to choose between many uncoordinated hot-dog sellers, then the answer is no, whatever is the nominal price of the hot dog. Note that these examples are meant to discuss the morality of market transactions wherein two partners exchange something, they are not concerned with whether one's rescue should be funded by the state or an insurance mechanism (for example) or whether I have a general right not to starve that warrants certain distributive or welfare policies (for instance). One can agree with these two propositions while still agreeing that 'Competition in

For market liberals, this capacity of free markets to meet an independently defined standard of justice is the main argument brought in their favour. This view should sound intuitive enough to anyone familiar with liberal arguments for market competition. Robert Mayer has called this view 'neoclassical' because of the influence I just discussed, so I will do the same here (Mayer, 2007).[10]

Before moving one, let me discuss a particular example of this argument at play. Take the current disputes on sweatshop labour, considered by some as the most blatant form of exploitation in today's world (Powell & Zwolinski, 2012; Snyder, 2010). People who do defend sweatshops' low salaries and bad working conditions tend to do that precisely because they consider them as the result of competitive equilibria – sweatshop labour would in fact be case close to *Competition in the desert*. Salaries paid by sweatshops – even if low by western standards – are higher than the ones offered by local businesses because they are the result of a competition between sweatshops and local employers and are, therefore, in the relevant sense, the product of competitive pressure (Zwolinski, 2007). Sure, most sweatshop labourers cannot meet their needs, but this is only because their labour is highly unproductive and is thus remunerated accordingly. Exploitation is therefore not the correct wrong at play, rather, and I think this is really the point sweatshops advocates are trying to make, it belongs to the first category of unfairness defined by Arthur Pigou. This sort of unfairness might, in the end, be corrected only through economic growth that will raise the price of labour with the standards of living (Tomasi, 2012, chap. 3).[11]

II. Markets against workplace democracy

The neoclassical view that I have just laid out has had a pervasive influence on debates about workplace democracy.[12]

the desert' is a transaction that is non-exploitative or otherwise unproblematic (it is, for what it is worth, my case).

[10] Allen Wood also acknowledges this influence (Wood, 2016), and so does McPherson in his classification of theoretical justifications of workplace hierarchies (Mcpherson, 1983). For the record, I do not believe there is anything inherently problematic about it, Marx's account of exploitation for example was also inspired by the economic consensus of his times about the labour theory of value (Marx, 1976, chap. 9), although whether Marx's account needs the acceptance of what is now an outdated economic theory is heavily contested (Cohen, 1979; Arneson, 1981).

[11] Sweatshops are mentioned here as an example of how the neoclassical view of competition works. The lack of space prevents me from engaging with it more extensively, and especially how it relies on false empirical assumption about the nature of sweatshop labour that is characterized by widespread coercion and abuse of workers. For insights on how the view I mention here is incorrect empirically see (Arnold & Bowie, 2003; Arnold & Hartman, 2006; Snyder, 2010). For a defence of this view see (Flanigan, 2018; Powell & Zwolinski, 2012; Zwolinski, 2007, 2012). For an empirical counter-objection to this view, see Neu (2017), for a theoretical one, see Kates (2015).

[12] For a complete review of the state of the art on workplace democracy, see Frega, Herzog, and Neuhäuser (2019). On the economics of workplace democracy, see a more outdated review by Michael Mcpherson (1983). In this paper, I will only mention the works that are relevant to the point made.

Those who embrace it see firms as nothing more than a nexus of contracts between the various parties (Alchian & Demsetz, 1972; Easterbrook & Fischel, 1991), which is therefore subject to the beneficiary effects of competition. On the most extreme view, Robert Nozick, and with him the vast majority of libertarians and market liberal theorists, have argued that free markets do allow workers to create cooperatives, and if none appear, it simply means that workers are not ready to accept the trade-offs inherent to that mode of production – possible lower wages due to the decreases of efficiency inherent to democratic decision making. If people accept to enter contract in hierarchical firms, that means these are satisfactory and there is nothing more to the story. Whether democracy in the workplace is a preference that the market is able to satisfy is an open question, and tellingly, Robert Nozick does not seem to consider other institutional means of satisfying it.[13]

Liberal egalitarians are more divided on the issue, although most take workplace democracy more seriously and discuss stronger cases than Nozick's straw man. Those who support it generally reject the neoclassical view by rejecting the idea that firms are more than simple nexi of contracts and are in fact analogous to states or other political organisation that yield a form of political power that should be kept in check.[14] If Americans have democratic rights in the United States, then workers employed by Rescuer Widget for Saver Steel should have the same democratic rights on their workplace. Robert Dahl (Dahl, 1985)[15] defended the perhaps most influential version of this 'firm/state analogy', making democratic rights a matter of justice in both cases. Just as states', the firms' authority must be under control (McMahon, 1994).

Liberals who reject workplace democracy contest this analogy. Richard Arneson, for example, rejects any right to democratic voice within the firm on the basis of an instrumental understanding of democratic rights – these are

[13] If I could indulge in the same sort of mildly irritating rhetorical questions Nozick was so famously fond of, I would make my point in this way:Why when discussing worker's increased control would Nozick immediately use the straw man of the inefficient cooperative with cumbersome and inefficient political meetings? Interestingly, John Tomasi does the same in *Free Market Fairness* when he criticises the politicisation of the workplace (Tomasi, 2012, chap. 6). I wonder why this limited political imagination seems to be a pattern of libertarian thought. I also wonder what would Nozick say about the evidence showing that democratic workplaces tend to have similar levels of efficiency and identical behaviour than non-democratic ones when markets are fully competitive, and that any difference is generally explainable by market failures (Bowles & Gintis, 1993)? *Surely,* he would have considered the information asymmetry between the ranks and files and management to explain this inefficiency and why they tend to fail – an asymmetry that could be corrected if cooperatives would be more common and workplaces more democratic. I think it is very telling that he chose to beg the question in this way.(I apologise to my reader, but this was too tempting). On the economics of cooperatives, see among others (Samuelson, 1957; Dow, 1993; Dow & Putterman, 2000; Pérotin, 2016). For further reflection on why cooperatives fail, see Elster (1989). Note that the present paper does not necessarily advocate for cooperatives, only for increased worker's voice.

[14] For a discussion of this view, see Hart (2009). For why it is incorrect to understand nature of the firm, see Ciepley (2013).

[15] On Mayer's objections to Dahl, see Mayer (2001b). For a reply by Dahl, see Dahl (2001). For a follow up by Mayer, see Mayer (2001a).

useless in the firm since employees can always leave (Arneson, 1993).[16] Robert Mayer follows a similar line when he denies a moral right to democratic voice in firms on the basis of the differences between the firm and the political community, although he remains open to other justification for workplace democracy (Mayer, 2000). Some libertarians have given their own version of this objection: since they see the state as the oppressive institution par excellence, they conversely consider that the firm is the institution of relevantly strong voluntary membership given the possibility of exit (Cowen, 2017; Narveson, 1992). Exiting one's country, if the right exists at all, is simply more costly than quitting one's job, and the state yields much more power than the average firm.

The case for the analogy argument has been revived by Helene Landemore and Isabelle Ferreras, who discussed several objections to it (Landemore & Ferreras, 2016). To the argument on the right to exit (Landemore & Ferreras, 2016, pp. 67–69), for example, they reply that expertise-specific workers have often limited exit options, and that most workers do not have alternative jobs to turn to. Tom Malleson, on the other hand, has compared hierarchical firms to the patriarchal marriage (Malleson, 2013). According to this analogy, workers should be freed from their bosses by increasing their bargaining power and through the promotion of democratic workplaces, just as women were liberated by the tyranny of their husband through the capacity to divorce and through the promotion of egalitarian relationships.

Contra the approaches mentioned above, I will offer a justification of workplace democracy that bypasses analogies between the firm and the state and accept the view that the firm is a nexus of contract.[17] I see several reasons for this. The first is that accepting the neoclassical view from the start will force concerns for efficiency into my arguments. The analogy between the firm and the state has indeed been criticised on the basis that contrary to the latter, the former is placed under efficiency constraints (Singer, 2018b). The reason people join firms (instead of working for them as independent contractors for instance) is to reach efficiency gains through lowered transaction costs. When these gains fall under what would be obtainable in a competitive market, the incentive to join a firm disappears. The upshot is, as Abraham Singer notes, that unless workplace democrats accept to make compromises on workplace governance for the sake of efficiency, they will soon have nothing left to democratise. The argument has a lot going for it, one could actually follow Malleson's analogy for instance and notice that the disappearance of patriarchal marriages has been indeed a disappearance of marriages tout court.

[16] See also how this argument can also be deduced from John Rawls' theory of justice (Singer, 2015, pp. 79–80). On Rawls and workplace democracy, see Hsieh (2005, 2008).

[17] I think this analogy is a non-starter – it might be useful as a form of clarification in the way Anderson uses it in her paragraph 'Communist Dictatorships in Our Midst' to illustrate what she means by private power (Anderson, 2017, pp. 37–41), but I see no particular reason to take it further – I will discuss Anderson's view later.

People marry less, because the dilution of patriarchal structures and norms has diminished the advantages of the division of labour inherent to this type of matrimonial contract. The second reason is that I hope to make an argument for workplace democracy convincing to free market liberals and libertarians who accept the neoclassical analysis of competition. Most of them make very little case of democratic rights that they see as derivative of (Hayek, 2001; von Mises, 1998, chap. XV.6) or secondary (Tomasi, 2012) to their economic counterparts and reject workplace democracy for that very reason. The case for workplace democracy will have been made stronger if it can be compatible with a general pro-market viewpoint. Third, and most importantly, taking the neoclassical view seriously is precisely what leads me to Albert Hirschman. His idea that market strategies of exit and voice are nothing else but two similar mechanism of lapse recovery was meant to point out the limits of the neoclassical perspective on competition. Incidentally, Hirschman often appears in debates on workplace democracy,[18] but his contribution has not been really properly laid out, simply because the object of his critique has not been properly appreciated. This has led workplace democrats to underestimate what a powerful ally Hirschman is.

III. Exit and competitive equilibria

The best way to criticise a normative argument based on an empirical model is to cast doubt on the capacity of the latter to support the former. A noted critique of the neoclassical view, Albert Hirschman believed that its proponents have misunderstood how competition really works and what it can really achieve. In this part, I reformulate the neoclassical argument for competition in the light of this critique.

For Hirschman, neoclassical economics misunderstand how firms and other market actors react to lapse, slack, and in general, to comparative deterioration in quality (Hirschman, 1970). This led to a false appreciation of what competition is and what it can achieve, 'for the image of the economy as a fully competitive system where changes in the fortunes of individual firms are exclusively caused by basic shifts of comparative advantage is surely a defective representation of the real world' (Hirschman, 1970, p. 2).

In *Competition*, the appearance of *Saver Steel* creates a lapse in the quality of the offer of *Rescuer Widget* that is corrected *by* Jane Hiker – and presumably the other workers – leaving *Rescuer Widget* for *Saver Steel*. This behaviour – that Hirschman's coins as 'exit' – corrects the now inefficient distribution since it satisfies Jane Hiker's preferences while forcing *Rescuer Widget* to correct its course to recuperate a flying workforce. This behaviour by Jane and other workers is

[18] He is especially cited by the most recent literature on the topic, see among others (Dahl, 1985, chap. 3; Malleson, 2013; Landemore & Ferreras, 2016).

how competition generates the properties of efficiency and power mitigation in *Competition*.

However, *exit* can fail as a mechanism of lapse recovery. Hirschman lists several reasons why. One interesting reason is capital concentration, although Hirschman does not use this exact term. He takes the example of the failure of the national Nigerian railways company to improve the low quality of its services even when facing competition because it could rely on the financial backup of the government (Hirschman, 1970, chap. 5). The same goes for sweatshops. Given the fabulous wealth of the garment industry, which is mostly responsible for their creation, shortages of labour would need to reach overarching scales to be effective.

The other, related, reason why exit might fail he calls 'competition as collusive behaviour'. which occurs when the dissatisfied leaver is easily replaced. So, take the following amended version of *Competition in the desert*:

> *Saturated market in the desert*
> [Same as in competition in the desert]. But at the same moment, Johan Hiker arrives, who is also about to die unless rescued. *Saver Steel* having already hired the workforce it needed, *Rescuer Widget* makes her an offer with exploitative price X, which Joan Hiker accepts.

If Jane Hiker exits *Rescuer Widget* for *Saver Steel* the first will simply hire Johan Hiker instead. This is the meaning of the sentence so many employees hear from their management: 'if you do not like it, quit, there are ten people queuing who want your job!' Even if the labour employed by sweatshop is unskilled and has a higher rate of turnover – due for instance to the absence of firm-specific skills – competition might not deliver the desired effects.

There is however a more fundamental reason why exit-based strategies might sometimes be defective: the productive surplus that often characterises market-based human societies makes lapse and slack affordable. Just as in the *Competition* example above, a lapsing firm is immediately replaced. When competition keeps everyone on their toes, there is no margin for lapse, one sinks at the first misstep (Hirschman, 1970, chap. 1). This is, Hirschman notes, the reason why neoclassical economists never really conceived exit as a mechanism of lapse recovery at all – they did not need it to for their models to work since they assume that any slacker is immediately replaced.

In reality, however, most firms can easily sustain a certain amount of slack and revenue losses (Hirschman, 1970, p. 6):

> The wide latitude human societies have for deterioration is the inevitable counterpart of man's increasing productivity and control over his environment. Occasional decline as well as prolonged mediocrity in relation to achievable performance levels-must be counted among the many penalties of progress.

And going further (Hirschman, 1970, p. 7):

> Recognition of this unpleasant truth has been impeded by a recurring utopian dream: that economic progress, while increasing the surplus above subsistence,

> will also bring with it disciplines and sanctions of such severity as to rule out any backsliding that may be due, for example, to faulty political processes.

To put the problem in the context of labour markets, most firms have the capital and the means to stay understaffed, to have a hard time recruiting, to sustain a high turnover – in other words, they do not necessarily have the incentives to perform optimally. *Competition in the desert* is a distorted view of how labour markets work because most firm such as *Rescuer Widget* can afford, to a certain extent, to ignore the problem of workforce flight. Firms will not always try to tie every lose end – they will simply perform above the threshold that keeps them from existence-threatening losses – which in the case of sweatshops and multinational firms, to go back to this example, is obviously extremely low. Competition in other terms does not always provide the incentive to reach an optimal level of performance that would lead to distributions characterised by efficiency and power mitigation.

Now, neoclassical liberals could make the following counter-objection: if exit strategies do not correct lapse, then it means that this was not a lapse as far as they are concerned, and that a competitive equilibrium has already been reached. In the cases above, both Jane and Johan Hiker may not have got their respective absolute preferred options, but they obtained satisfaction on the preference that is possible to satisfy given the conditions in which these markets operate – and the latitude to slack is simply one of them.[19] We come back here to Pigou categorisation of unfairness, such a situation would be unfair in the first sense, but is not a case of exploitation[20] and exit-based competition only appears to fail but in fact the distribution that has been achieved is the optimal one given how much can be distributed.[21] For the neoclassical perspective, the lack of exit options is not a problem that justifies giving workers democratic rights, to the contrary, it shows that the system worked – the market has cleared given the existing conditions.

This is where Hirschman's dichotomy between exit and voice will turn out to be helpful. Suppose indeed that we add now a little twist to the examples

[19] Note that in *Saturated market,* the appearance of Johan Hiker also allows *Saver Steel* to slack since *Rescuer Steel* loses its incentive to outbid it and vice versa. Neither employer needs to compete here to attract new employees since labour supply equals or exceeds demand.

[20] One first problem with this reply is that we would lose here the intuitive distinction between Competition and monopoly. After all, Monopoly might be said to satisfy conditions of power mitigation and efficiency in a very minimal sense since Jane Hiker has a way out – she can just choose to die. The relevant baseline then would be Hiker in the desert, compared to which Monopoly in the desert stands at equilibrium since it added an option to Jane Hiker's range of preferences. Rescuer Widget's first offer created a new option within Jane Hiker's ranges of preference that she would not have, had the offer not been made. Conversely, Jane Hiker's vulnerability creates a new option in Rescuer Widget's preferences as well. Both are better off, compared to the counterfactual reality where such a transaction would not happen.

[21] The capability approach as developed by Amartya Sen and Martha Nussbaum contest such a view. The entire debate about adaptive preferences justifies the lower preference structures that develop in poverty against that objection. On how the two interact see (Teschl & Comim, 2005). On how adaptive preferences might undermine autonomy, thus possibly weakening the neoclassical argument in the case of sweatshop, see (Colburn, 2011).

described above. If Rescuer Widget is a monopoly, Jane Hiker and her fellow workers could refuse to accept any position from the factory owner or any other employer until the offer fulfils a desired standard – say, they are paid a given minimal salary. By choosing this option, none of the workers will get the net benefit provided by the exploitative contract, but this action – call it *Strike 1* – may bring future, better deals with other employers who thus have to raise the bid to fill their empty positions. Suppose alternatively that Jane and the workers would have accepted to work for monopolistic *Rescuer Widget* but would decide not to leave once *Saver Steel* opens an establishment nearby – instead, they ask for similar pay or working conditions, call this *Strike 2*. Why not, in other terms, *voice* instead of *exit?*

This is the sort of strategy that I will discuss and defend now. I will show how what Hirschman calls 'voice' is a mechanism of lapse recovery that when used in labour markets leads to distributions that display the same properties of power mitigation and efficiency that characterise distribution obtained through competition; even if they are different from distributions achieved through competition alone.

IV. Democratic equilibria

What can justify the use of voice in the workplace and its distributive outcomes? In short: the same arguments that justify exit-based competition. The corollary is that if one supports market competition because of the two already identified properties – power mitigation and efficiency – one should support similar mechanisms that present these same properties or do it better.

Can a distribution that is modified by worker's voice present the same two appealing characteristics discussed so far?[22] Let me tackle efficiency first. Prices formed in competitive equilibria do convey information; however, one of their obvious limitation is that they do not necessarily convey all the information necessary for market actors to make fully informed decisions, democracy here has clear epistemic value (Gerlsbeck & Herzog, 2019). If I buy a pair of shoes for two hundred sestertii, this amount of money might tell me how much this model and this brand are in demand as compared to the quantity that was produced. They will, however, give me little information on the conditions these shoes were made in, or say, the level of animal welfare of the cattle that gave the leather, or what was the carbon footprint of their production. The same goes for wages, workers, when they accept the positions they are offered, accept the features of their position as a whole package whose content is not necessarily indicated by the price of their labour.

[22] For a general review of the main economic argument presented against democracy on the grounds of inefficiency, as well as a reply, see Kelman (1988).

To take the previous example, when Jane Hiker signs a contract with a firm offering sweatshop-like conditions, she accepts a package of twenty units (the marginal cost of her labour determined by exit-based competition), that are divided in say, fifteen units of wage (X amount of sestertii paid in monthly instalments), three units of workplace safety (paid from the firm's budget), and two units of benefits (paid holidays and parental leave, for example). Opponents to regulations-setting minima on workplace safety or on other perks consider that they will harm the preference of the workers since they cannot get more than these twenty units (since they correspond to their marginal input), and any increase in the units devoted to, say, workplace safety and benefits will mean a decrease in the units devoted to wage, whereas it was precisely the wage that lead them to accept sweatshop labour in the first place (Zwolinski, 2007). Regardless of its soundness, this argument overlooks the fact that if the workers had a different preference on how their compensatory packages should be divided, that would be precisely the sort of information management does not have or cannot obtain from exit-formed labour prices.[23]

The neoclassical view will not see this as a problem of efficiency however – if the need for better working condition was strong enough while being possible to satisfy, the share of the workforce that looks for such an improvement would immediately move to a firm ready to accommodate it, or create an incentive for this accommodation. The problem is that even in a competitive setting, there is no real trade off to be made between price (how much a worker is ready to drop from their salary in exchange of an improvement of any other part of their remuneration package) and quality (working conditions and perks) in job markets – good working conditions usually come tied with good wages and bad working conditions usually are tied with low wages. As Hirschman notes, this is typically a case where quality consciousness will not be correlated with a disposition to exit. Voice would in this case prevent efficiency losses, as the more it is used, 'the more quality-inelastic can demand be without the chances for recuperation stemming from exit and voice combined being impaired' (Hirschman, 1970, p. 36). By being bargaining tools, *Strike 1* and *Strike 2* are information sending strategies to the same extend than *Competition* is. Jane and her fellow workers send a feedback to management that what they offer has become unacceptable.

I grant that voice can be interpreted as something broader and less committing than workplace democracy, for instance, simply a better communication between the rank and file and management. As Hirschman notes, voice is 'an art constantly evolving in new directions' (Hirschman, 1970, p. 43). But enshrining its usage in the structure of the firm through a less hierarchical organisation and the creation of bargaining opportunities is necessary to obtain

[23] After all, when it comes to her compensation package, it might be totally possible that Jane Hiker would rather subscribe to the following distribution: 9 for wage, 1 for safety, and 0 for benefits. I would like to thank @ and @ for pointing my attention to this fact.

the full effect of the mechanism, especially that given that is triggered when the opportunity cost of using it is low as it 'is costly and conditioned on the influence and bargaining power customers and members can bring to bear within the firm from which they buy or the organizations to which they belong' (Hirschman, 1970, p. 40). Moreover, it is the only way to obtain the effects of power mitigation, to which I turn now.

That voice has power mitigating properties may sounds obvious to those workplace democrats that support the analogy between the firm and the state, but in the present case, it needs to be spelled out carefully. Since Ronald Coase, firms' hierarchical structures have only been discussed in the light of the efficiency gains and economies of scale that they allow, and not as places of power dynamics (Coase, 1937).[24] Economic growth, and the multiplication of exit opportunities that it created, was thought to be sufficient to dissolve managerial discretionary power and to mitigate any possible abuses that are ubiquitous in hierarchical organisations. This point of view changed with the regular occurrences of economic recession and stagflation that limited worker's exit opportunities on one hand; and with the improved access to the public debate of structurally disenfranchised categories of workers, like women or minorities, which revealed the exploitative practices of which they were generally the first victims, on the other hand.

These evolutions changed how the firm is conceived. In Elizabeth Anderson's words, although the idea goes back at least to Karl Marx, firms are increasingly seen as forms of 'private government' (Anderson, 2017, chap. 2). Regardless of the economic conjecture, they are places that are primarily defined by the power of the few – the top and middle management – exercise on the many – the rank and file. Market mechanisms of power mitigation do not apply there, since in Anderson's words, the firm's boundaries are where 'markets end, and authoritarian centralized planning and direction begin' (Anderson, 2017, p. 39). When workers contract with a firm, they enter a sphere that is not controlled publicly, they submit to a regime of unaccountable government that is the private business and property of the ruler. And hence, even in the developed world, workers are often denied bathroom breaks, are controlled for what they are doing during their working time and their time off, and are penalised for not doing, or not doing enough, what their contract did not mention they need to do in the first place.

The main problem with Anderson's argument is that it does not address the neoclassical counter objection mentioned at the end of Part III.[25]

[24] On the opposition between Ronald Coase and Arthur Pigou's views, see Singer (2018a).

[25] She discusses it when replying to Tyler Cowen's comments at the end of *Private Government* (Anderson, 2017, chaps 6–7). Cowen justifies firms' authoritarian organization as a trade-off that is in the end beneficial to the workers. Anderson replies that she is concerned with abuses of managerial authority beyond what is necessary for these efficiency gains, not against the existence of this authority itself. Note that Cowen's assertion that exit options are sufficient to oppose these abuses assumes exit is an overall effective strategy, which is an assumption the present paper seeks to criticize.

Under a situation of market competition any unpleasant aspect of work and dictionary managerial power might only be a means of labour mobilisation that is necessary for efficiency gains (Alchian & Demsetz, 1972) – the same efficiency gains that motivated the workers to enter the firm in the first place. Just as in the case of sweatshops, abusive management might be accounted in the price of labour and is the only way for the firm to stay afloat in a competitive market. In this context, practices that look exploitative only fall under Pigou's first categorisation of unfairness – as before, there is not enough productive surplus to support better working conditions or better wages.

This is, however, a problem that Hirschman's explanation of the limits of exit can account for. The fact that the firm may afford a departure from the competitive equilibrium means not only that it has the time to predict any lapse that may put it at risk, it also means that it can allow a certain amount of workforce flight as long as the incurred losses remain above its subsistence threshold. This is a margin the firm has that the worker does not, which creates a space of indeterminacy (to put things in Pigou's terms) that may be abused by the firm's management and that cannot be closed with simple bargaining power obtained through the threat of exit. As Hirschman points out, added competitive pressure can even make things worse, since its pushes away the potentially most vocal malcontents (Hirschman, 1970, pp. 47–49).

This makes exit powerless against all the exploitative and abusive experiences that characterise the contemporary workplace, the petty humiliations, the occasional unpaid overtime, the uncomfortable working conditions, and the constant control that sometimes borders on harassment. These practices, often symptomatic of a larger managerial culture aiming at obtaining incremental gains in productivity[26] – are possible precisely because markets create the material conditions that allow firms to resist strategic exit while depriving the workers from the only alternative they have, that is voice.

Firms may therefore always engage in this sort of power abuse simply because they are always to some extent immune to exit-driven competitive pressure. Bad working conditions are therefore not the symptom of a market failure or a necessary cost to reach competitive equilibrium. It is not a direct consequence of the firm's organisational structure either – which is the point Anderson and the proponents of the firms/state analogy above miss – the problem is what Hirschman has called above the 'penalty of progress', the very surplus created by market institutions.

Without voice and only exit, the worker might be a price taker, but the firm is very much a price maker. Voice, however, allows this sword to cut both ways. Once it is accepted that firms can afford a certain level of lapse, the debate on the firm' organisational structure, hierarchical, democratic or else, simply

[26] As an example, see this discussion of the evidence of the negative effect on working environment of lean production (Hasle, Bojesen, Langaa Jensen, & Bramming, 2012).

becomes one on who should pick up the slack. Workplace democracy is hence justified as a fairer way to share the costs of sub-optimality, or conversely, how to divide the productive surplus obtained above the firms' subsistence threshold. In other words, if departures from competitive equilibria are not life threatening, then the rank and file workers may ask, to some extent, for better conditions, better wages or a better remuneration package without the firm immediately running out of business because of decreased profit, of course up to a threshold fixed by external market conditions. The neoclassical conception of exploitation as a deviation from a distribution achieved at market equilibria – where, say, McDonalds cannot increase its employees' wages because it would lose its clients to Burger King, meaning McDonald cannot be possibly exploiting its workers in that context (Wertheimer, 1996, chap. 8), is therefore incorrect.[27]

Is there a way however that voice, as Hirschman puts it, may be 'overdone' (Hirschman, 1970, pp. 31–32), that is induce a decrease in efficiency? There are several responses to this. One obvious problem with the discussion so far is its high level of idealisation. In many cases, unfairness is in fact the products of extra-economical injustices that created in the first place a vulnerable class of people ready to take any deal. Sweatshops, to come back to this example, are often the consequences of forced rural flight caused by land appropriation (Neu, 2017), and the role of land enclosure and coercion as means of labour mobilisation in the development of capitalism are a well-studied subject (Beckert, 2015; Polanyi, 2001). Workplace democracy may help markets not to simply reproduce pre-existing unjust social institutions and may re-enfranchise people who literally lost their voice.

But one needs not make a historical argument. Labour's inherent low mobility, especially compared to capital, and heterogeneity – combined with wider structural problems such a chronic unemployment or the emergence of slow growth economies – make it hard to believe that exit alone will bring about distributions meeting the two criteria of efficiency and power mitigation. Given all these constraints, voice here can be shown to increase efficiency following the idea that second bests distributions may only be achieved by departing even further from the conditions necessary to an ideal equilibrium (Lipsey & Lancaster, 1956).[28] Incidentally, Arthur Pigou himself had a positive opinion on unions and their capacity to re-equalise bargaining power and to simulate situations of competition (Pigou, 1920, p. 559):

[27] Note that like most contemporary accounts of exploitation, Wertheimer's stays quite vague on what it takes to achieve a non-exploitative benchmark – since he only defines exploitation as 'unfair advantage taking of unfairness'. This is not incompatible sensu stricto with the idea of reinforcing voice in the mechanism of distribution since voice-deprivation might be considered as unfair. His reflection on the value of economic competition could deter one to read him in this way, however.

[28] On the relevance of this second best theorem for business ethics and corporate governance, see Heath (2009, chap. 3, 2014).

> Even when the gap (between marginal products and the supply curve) is large the occurrence of exploitation is not certain, and in occupations where the workpeople have been able to organize themselves into strong Trade Unions, supported by reserve funds and bargaining for their wage rates as single collective wholes, it is not even probable.

Even if the introduction of voice might modify the initial market-based distribution, this does not mean that a loss of efficiency or power mitigation has occurred. In fact, and this replies to the counter-objection that concluded the third part, it is possible to rearrange the distribution while obtaining gains in efficiency and power mitigation. Voice so conceived is only correcting a lapse from another type of equilibrium that maximises these two properties while balancing both mechanism of exit and voice. I propose to call this distribution a *democratic equilibrium*.[29]

By being the normative clerks of neoclassical economists, market liberals and libertarians share their 'defective representation of the real world' (Hirschman, 1970, p. 2) and have misunderstood the nature of inefficiency and exploitation. There is also, in general, something to be said in favour of a society where abuse is impossible because contractual agreements maintain space for bargaining, as opposed to one where virtuous behaviour is drilled by economic incentives and the risk of sinking at the first misstep. The question the present argument asks is however simpler:[30]

V. If you are pro-market, how come you are not a workplace democrat?

To wit, if you are pro-market, there is no reason for you not to be a workplace democrat, at least in a minimal sense; unless your opposition to workers' voice is purely ideological.

This paper provides a very general justification for workplace democracy, through the increase of the rank and file workers' voice. This is a more of a foundational work that I hope have undermined the confidence that liberals with a neoclassical sensitivity place in workplace hierarchy, and have made them more open to non-market-based ways of challenging them, regardless of whether that would imply full fletched workers' ownership or simple increased public voice, as exemplified by the recent *#me too* movement that showed how exit was powerless, among others, to face sexual abuse in the workplace.[31]

29 A democratic equilibrium differs from a competitive equilibrium because voice has participated to its emergence. Voice, for Hirschman, is the characteristic of the sphere of politics, hence the name – a feature acknowledged by workplace democrats who always characterise it as strengthened workers' voice. This difference in how the equilibria appear is the key difference; it might be possible that their distributive results are the same.

30 A question to ask especially to liberals contemptuous of politics rights such as John Tomasi for example (Tomasi, 2012).

31 Joni Hersch has argued that sexual harassment is not an abuse of power but the product of a rational exchange between utility maximizing individuals (Hersch, 2011). The mere fact that this paper exists

I have simply made theoretical space for bargaining and deliberative practices within reasonably free and competitive markets. From here, further arguments can be proposed in favour of particular models of workplace democracy.

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shows that there is something neoclassical perspectives cannot understand about exploitation and the real nature of workplace relations (and I suspect, simply do not want to).

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