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Self-Management in the Public Sector

by

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Preliminary, please do not quote.

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Summary

This paper discusses meaning and impact of participation in the state sector, both for the citizens and the state employees. The main difference between self-management in the economic system and self-management in public administration is shown to be the absence or secondary role of market coordination in the public sector. Hence auxiliary mechanisms, such as voting procedures, direct participation in the political process, economic and non-economic incentive schemes, and collective actions, have to be used to control and to coordinate the decisions made in different institutions and at different levels.

In a similar way, even at the micro level problems arise that can be attributed - at least partly - to the failure of the market mechanisms. Especially important are the problems of determining the limits of (public) organizations, of heterogeneous membership and of separating value-oriented decisions from decisions based on expertise and competence. This leads to the idea of participation in the public sector as a system of graduated responsibilities. Universities and hospitals are used as illustrative examples for the general considerations, and some practical suggestions are developed.

Finally it is argued that further progress will be achieved if the process of preference formation is explicitly taken into account. This leads to the idea of participation as a process of learning and communicating among all participants. A variety of regulation mechanisms from the political process, such as elections, control and direct participation, is shown to be necessary in order to endure the coordination between different units whenever market mechanism is not applicable.
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The role of the state in labor-managed market economies may be considered from different viewpoints. A first question in this respect could relate to the scope of state activity and interference into the decisions of the economic agents. Of course, by the very notion of a market economy, command planning of economic activities is excluded or at least confined to special cases (e.g. emergencies). But there is still a wide range of choices, ranging from a purely liberal model of competitive worker-owned enterprises up to strongly socialist arrangements with direct government interference into merely halfway autonomous enterprises.¹ The first possibility has been favored by John Stuart Mill (1848)², while the second model has been supported by the Czechoslovak reformers during the 'Spring of Prague' in 1968; they tried to avoid the alleged over-decentralization of the Yugoslav economy by a mix of state and associational socialism.³ An intermediate position, probably more leaning towards the liberal model, has been developed by Jaroslav Vanek (1970, part IV) and Roger McCain (1975). They start from the idea of a Western welfare state with its well-known tasks: providing public goods and social security, narrowing wealth and income inequalities, dampening cyclical fluctuations, supporting steady growth and performing all the other traditional government and administrative activities.

We do not deal here with this and related problems but merely would like to indicate that to the extent the model of a labor-managed economy works in practice, the role of the state would tend to decrease, although it would not have to wither away completely as Engels (1878) expected. A second problem which we will only touch occasionally might relate to the role of the state in the process of transition to and the implementation of

¹ But there are still all forms of 'market socialism' excluded that lack internal participation of workers in their enterprises, such as the famous models of Lange (1938) and Lerner (1936), or the present Hungarian system of partial market regulation.

² See especially Book IV, Chapter VII, § 6, in his Principles (1848).

³ For this, see e.g. Kosta (1976).
workers' management. Our main interest is in a third question that is, of course, connected with the first two but should be analyzed separately: What does labor-management mean in the state sector, both for the citizens and for the state employees, and which forms of coordination between the different interests of the various 'participants' do exist?

Our question, dealing mainly with the internal organization within public administration, seem to be a little bit outside the scope of economics. But, as we shall demonstrate later, there is a strong connection between the specific social feedback mechanisms in the economic and the public sector and the characteristic forms of participation in both these realms. Since most of the state activities are not regulated by market mechanisms (or at least according to market criteria), we can trace back some particular problems of employee and citizen participation to the peculiarities of political feedback procedures, such as elections and voting. Even though we cannot dissolve the whole problem into this feature of the public sector but have to consider additional aspects (such as the different degrees of involvement), we can look at participation in the public sector as an economic question even according to traditional definitions of economics: We can restate the question simply as follows: How does non-market allocation influence internal participation, and vice versa, compared with market allocation and workers' management in industry and agriculture? But before that we have to introduce and to explain some definitions that we will use in the subsequent sections.
II. Industrial_Democracy_and_Political_Democracy:

Some_Conceptual_Clarifications

Understanding the role of the state in labor-managed market economies presupposes some conceptual clarifications. Very often, and for good reasons, labor-management is both defined and justified as a (necessary) extension of democracy into the economic sphere. It is already difficult to determine the meaning of political democracy; but everybody has some commonsense understanding of it. 4 It is very unclear, however, and cannot be determined a priori what is meant by industrial or economic democracy. At least four different notions are attached to this term. But only one - admittedly broad - concept is consistent with the central idea of all proponents of labor-management, namely democratic decision-making within the firm by all employees. So, all forms of popular capitalism through consumers' sovereignty and more equal distribution of income and wealth will certainly not conform to this concept since they are not likely to change the basic authority and decision-making structures within the enterprise. 5 But it is similarly evident that a mere transfer of the mechanisms of political democracy into the industrial sphere would be impractical, to say the least. This mistaken idea of steering the economy through a system of committees at different levels (factory, branch, region, country) has been developed and supported by some representatives of the workers' councils movement after World War I, especially in Germany. 6 But how can joint boards of workers, consumers and suppliers reach any reasonable decision on allocation and prices? And how could the committees at the branch and region levels effectively be prevented from forming trusts and cartels? 7 Very likely, even taut central plan-

4 But even within the traditional 'political sphere' it is very difficult to give a clear meaning to the concept of democracy as has been shown convincingly by Robert Dahl in his After the Revolution (1970). There is no clear a priori evidence what should be labeled as 'democratic' and what not. In view of numerous important 'practical' problems of decision-making, Dahl chooses the term 'polyarchy' to denote 'empirical' democratic systems.

5 For a discussion of the internal structure of the traditional (capitalist) firm see Nutzinger (1976a).
ning would be superior to this 'democratic' bargaining system at different levels of the economy. But this third alternative, namely command planning even by a democratic state and elected bodies, is also in sharp contrast to our notion of economic democracy, although it would conform to the formal prerequisites of (political) democracy. This system would, almost by definition, abolish workers' management within the enterprise in any meaningful sense and would replace it by a hierarchical system even at the firm level, topped by - democratically elected or appointed-managers. These would be in charge of executing the democratic central plan, and they would have the democratic power to direct the workers to perform the necessary activities.

Clearly, all these formal applications of political democracy would not fit into our idea of selfmanagement, and it is hardly conceivable whether any one of them would be consistent with a reasonable concept of selfmanagement. Moreover, our examples suggest that market relationships both among the firms and between enterprises and consumers would be the only feasible way to give workers the decisive say in their firms. This, of course, is not to say that there might not be some direct participation by consumers and/or the government; but it would only supplement (not replace) the market mechanism if and where necessary, for instance because of externalities or the peculiarities of public goods. But apart from those cases that we will analyze later on in more detail it seems to us that the market mechanism is not merely the only feasible form of social coordination that is consistent with workers' management but it is also the only desirable form. A short comparison with

6 For this, see e.g. Huber (1966) and Sinzheimer (1976).
7 This was, for instance, the experience with two remnants of the German workers' councils movements after World War I, namely the Reichskohlerat and the Reichskalirat who behaved, in fact, as syndicates for carbon and potash, respectively. Recent plans for intensified cooperation between firms in Yugoslavia could lead to similar (mis-)developments if there is no effective counteracting economic policy.
8 This was the idea underlying Lenin's (1902) notion of 'democratic centralism'. Practice of this concept in the state socialist countries has confirmed our theoretical objections.
the state sector will show this.\textsuperscript{10}

The main advantage of market coordination - at least under idealized perfect competition - is the close connection between the firm's decisions and their social evaluation. If, for example, workers would choose to extend their leisure time or to improve their working conditions then they will have to bear the \textit{social} costs of their own improvement. The feedback mechanism that enhances this "payment to the society" without great political pressure or direct state intervention is the evaluation of these decisions on the marketplace: As long as the firm uses all its resources it will suffer a loss of output, and hence of income, which will necessarily result from extending leisure or improving the conditions of work. And even in cases where no such "punishment" or "payment" occurs, for instance because workers enjoy their work after more leisure or better technical equipment and increase productivity accordingly, also this lack of payment to the society is perfectly appropriate: in this case, the workers improved their conditions without demanding (net) resources from the society. As economists would like to say, they moved from the interior of their technology set to the boundary.

A similar situation arises in cases in which certain decisions (e.g. capital deepening) lead to additional costs in the short run, but to productivity increases in the long run. The working collective is then simply "borrowing" from the society, e.g. in terms of the direct monetary costs of improving the working conditions and in terms of reduced output at the beginning, due to some necessary adaptations to the changed conditions; and it is paying back later on in terms of increased and/or upgraded production. This, of course, is only a metaphorical way of describing the fact that the workers will first suffer income losses, but will earn additional income in the long run. Nevertheless, this view is helpful as it emphasizes

\textsuperscript{9}This system has been explicitly supported by \textit{Engels} (1873).

\textsuperscript{10}Perhaps the Chinese attempt at a \textit{non-market} decentralization within semi-autonomous and semi-autarchic units (rural communes, small enterprises) could be viewed as another possibility of solving the participation problem. Without investigating this question at length it is sufficient to note that in highly complex and developed (Western) economies no such opportunity for decentralization seems to be viable.
the feedback character of a market system under idealized conditions. So, market coordination gives not only room for effective participatory decisions within the firm, but it also links them with their social effects. Another related advantage of the market mechanism in labor-managed economy is the fact that it permits each working collective to determine its own combination of monetary and non-monetary rewards according to the specific preferences prevailing in each group as long as some minimal requirements, such as liquidity, are fulfilled. The frequent objection that market systems rely only on pecuniary rewards or profits and hence destroy workers' management simply overlooks this important feature of a labor-managed market economy.

On the basis of this rather simple logic of choice, a rather coherent theory of selfmanagement in the industrial sector has been developed, above all by Jaroslav Vanek (1970). But it comes also as no surprise that no coherent theory of participation in the public sector has been developed so far. The main reason for this is clearly the failure of the market model in public administration. This fact has different important consequences. The famous classical separation of state power into three distinct parts - legislation, execution, and jurisdiction - as developed by Montesquieu can easily be related to this fact. One important advantage of this separation is the possibility to restrict democratic procedures to the process of legislation; on the other hand, the administration in this model is only controlled, but not structured and governed by the principles of democracy.

This restriction of democracy to the field of legislation and to voting procedures can be interpreted and evaluated in different ways. From a Marxist point of view one would be inclined to look at this restricted political democracy as a mere form of class rule: it is then considered as a means of maintaining bourgeois power through 'formal' democracy obscuring

\footnote{For this, cf. Nutzinger (1976b), especially part II.}
the capitalists' 'real' domination over the working class, both in the sphere of production and of state administration. Here again, our 'feedback view' provides new insights beyond the classical Marxist and non-Marxist evaluations. This will become apparent after we have discussed the traditional views.

In contrast to the Marxists, most traditional political scientists would prefer to justify this separation and the resulting restriction of democracy by general functional necessities. Similar to the Marxists, but clearly with different evaluation, they see (political) democracy as a pure means of political administration, not as an end in itself. In this respect, modern writers differ from the classical participatory theory as developed by J.J. Rousseau and J.St.Mill.12 As is well known, this 'modern' view has been most clearly expressed by J.A. Schumpeter in his *Capitalism, Socialism and Democracy* (1943): "Democracy is a political method, that is to say, a certain type of institutional arrangement for arriving at political - legislative and administrative - decisions" (p.242). For Schumpeter, the so-called 'classical theories' which were based on the participatory and decision-making role of the 'people' 13 rested on empirically invalid assumptions. His own view (which has been shared by most of the later writers) emphasized the instrumental character of political democracy.

We can easily understand Schumpeter's theory of competing élites in the frame of our feedback model. His notion of democracy as a competition among qualified politicians and experts for the people's votes takes elections and other forms of political influence for the people as a kind of surrogate market: the performance of politicians and political parties is evaluated through the number of votes, and the possible denial of re-election serves as an indirect control mechanism against misuse of power, similar to the traditional model of competition as a means of preventing monopoly power. Schumpeter, in his own words, considered the democratic method as an "insti-

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12 For an excellent exposition of the classical theories, see Carole Pateman (1970), especially chapter II.
13 According to Pateman (1970, chapter I) Schumpeter and his followers misrepresented the classical theories by constructing the 'classical myth' as an easily damaged strawman.
stitutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people's vote" (p.269; emphasis added).

Without going into the details it is interesting to note how close this concept of political democracy comes to the traditional model of an industrial enterprise. In the capitalist economy, we have also a struggle of entrepreneurs or their delegates to get "the votes" of consumers (by purchasing their products), and to get "the votes" of workers (by entering the firm). If an employer fails to run the enterprise according to the wishes of the working collective, he will possibly not be "reelected" by his workers because they are free to leave the entrepreneur and to look for more attractive jobs and firms. And we have the same indirect control mechanism as in Schumpeter's notion of democracy: each decision made by the entrepreneur may be restricted by his fear (and the objective possibility) that workers can quit the firm in response to a particular decision. But hardly anybody would be inclined to consider the firm as a non-hierarchic and democratic institution for this reason alone.\footnote{See Nutzinger (1976a).} And it is highly doubtful if we can look at the firm simply as a specialized market for "monitoring" activities and at the employment relationship as an ordinary contractual arrangement, only because each worker can terminate his membership in the firm unilaterally, as a few economists seem to believe.\footnote{See, for instance, Alchian and Demsetz (1972).} Much more convincing and in accordance with everyday experience appears to be a notion of the firm as a primarily hierarchical institution, primarily organized by command and supervision, and not mainly by free contract and democratic voting procedures.

Turning back to Schumpeter's notion of political democracy, it becomes evident that his definition implicitly considers democracy in the sense of participation as a danger to his instrumental view of the democratic process: the operation of the state is endangered by direct interference of the people into
the democratically elected state bodies. This means that one aspect of democracy - namely the everyday operation of the democratic institutions - is given that much weight in the evaluation of its performance that participation can only hurt the smooth operation of public administration and hence should be avoided from the outset. As Carole Pateman puts it: "...a prominent feature of recent theories of democracy is the emphasis placed on the dangers inherent in wide popular participation in politics" (1970, p.1).

So we can in a first approximation contrast two conflicting views of democracy: the participatory model involving some direct control of state activities by the people, and the 'division of labor' model where the people elects and pays experts to do the political business for them. How do they relate to our basic topic? This will be investigated in the next section.

III. Social feedback mechanisms in the state sector

Schumpeter has been correctly attacked for obscuring important issues in democratic theory and for constructing a romantic 'classical myth' of direct participation. His important positive contribution, however, has been to emphasize the possible feedback mechanisms which could be applied in the realm of state activity. We have already noted the remarkable analogy between Schumpeter's notion of public administration and the traditional industrial sector in the preceding section. Before we deal with the reasons put forth by Schumpeter for his peculiar type of social feedback, we want to discuss some other possibilities of control in the state sector.

First, one would like to ask: Why should the state, instead of being a mere market analogy, not be constructed as a 'real' market? It is not self-evident that more or less market-related forms of organization, e.g. involving real prices, should be impracticable in public administration from the outset. Moreover, in almost all countries there are large fields and lots of activities in public administration which follow to some extent the market principle. Very often, a well-defined good

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16 See e.g. Pateman (1970), chapter I and II.
or service is offered by the state and paid by the citizen as a 'consumer', especially in communal administration and in jurisdiction. The main differences are the more or less compulsory character of many state services, frequently based on the state monopoly in the production and/or distribution of those services, and the peculiar pricing under such monopolistic conditions. But very often these goods and services are not really public, but to a large degree individual in the following sense: they are consumed by well-defined individuals who can be charged accordingly provided there are no superior criteria which oppose such charging even if it is technically possible. A well-known and illuminating example for the latter case is public education where there are lots of good reasons (which we do not have to discuss here in detail) not to rely primarily on the market mechanism in the sense of a strict *quid pro quo* exchange. But there might be still a large scope for market-oriented regulation which would not only improve the efficient allocation of educational services but would also improve *distributive* efficiency in this field.\(^{17}\) German experience, for instance, suggests that supply and quality of lectures will be positively influenced by a system of lecturing fees (or other incentive and reward systems\(^{18}\)), and that it is negatively correlated with the by now prevailing system of fixed salaries and prescribed minimum amount of lectures. This has important consequences for the meaning of participation in the state sector which we will analyze in the next section.

A short empirical look at the Yugoslav experience, however, will reveal the narrow limits to this approach. In Yugoslavia, up to 1965 the allocation of investment funds has been carried out by state agencies. These bureaucratic organizations had no sufficient incentive to allocate their funds in an efficient and speedy way to the enterprises, and the negative sanctions

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\(^{17}\) In many countries, the social structure of students leads to a 'redistribution from the poor to the rich' if they are financed by non-repayable scholarships. Repayment of those scholarships, e.g. by a tax system (as proposed by von Weizsäcker (1974)), is very likely to improve both efficiency and equity of scholarships.

\(^{18}\) They do not need to be exclusively monetary as we will show in the subsequent section.
through political control proved to be not strong enough to overcome the bureaucratic impediments. So, the distribution of credits was given to the banks who were assumed to behave according to market principles. Due to the high degree of concentration in the banking sector and to the high rate of inflation (which effected a negative real interest rate\textsuperscript{19}) this measure turned out to be an over-decentralization. True, now there was a social feedback between credit funding and rewards but it worked in the wrong direction, due to the domination of the banks over the credit market(s).

New power relations arose (or, as one might say as well, power was transferred from the state to the banks), and the banks tried to get influence in the internal decisions of the worker-managed enterprises. Accordingly, the less developed regions, branches and firms who had a heavy need for investment funds had the least chances of getting them, and they were subject to discriminating conditions. While in a well operating capital market the transfer of credit funding from bureaucratic state agencies to competing banking institutions would have certainly been an improvement, it was under the far less favorable Yugoslav conditions perhaps even an impairment compared with the previous bureaucratic 'solution'.

Now one could argue that the failure of the Yugoslav reform was simply due to a wrong timing, doing the second step before the first (namely providing competitive conditions on the capital market). But we can easily extend our example into a more general case illuminating the influence of property rights\textsuperscript{20} on allocation. As is well known from general equilibrium economics\textsuperscript{21} one important prerequisite for the efficient operation of a labor-managed economy is the tendency towards the equalization of (real) incomes per worker (or, more precisely, per working unit of a certain skill) between different firms and different branches\textsuperscript{22}. This has to be supported, inter alia, by founding new firms, and hence granting funds for them, in branches with more than average incomes per working unit. Since in a socialist model, by definition, no capital

\textsuperscript{19}More precisely: In order to prevent misuse of monopoly power, the maximum interest rate had been fixed by the state. This, in turn, resulted in negative real interest rates of about $\pm 10\%$ (=legal nominal interest rate $10\%$, minus $20\%$ rate of inflation). So, the interest rate as a means of allocation has been substituted by waiting lines, and the monopoly problem entered again in this way.

\textsuperscript{20}For a survey on this, see Furubotn and Pejovich (1972), (1974).
market in the traditional sense may be permitted, a supporting
institution, such as Vanek's (1970, chapter 15.4) National Labor
Management Agency (NMLA) is needed. This institution would be
in charge of stimulating new entry, financing new investment of
firms in order to keep up with the other competing enterprises,
and to dissolve inefficient firms whenever necessary. It should
be immediately clear that no efficient distribution will result
if this agency would be run according to the principle of maxi­
mization of income per any employee, although the same rule
will lead to optimal allocation in all other branches provided
that the distribution of investment funds is itself optimal.
Instead, we would have an even worse result as in the case of
Yugoslavia. Most probably, the NLMA, due to its monopoly power,
would not give the funds to the most deserving firms and in any
case not for the establishment of new firms - or only at discri­
minatory interest rates -, but to the existing large corporations
and to enterprises with more-than-average incomes. This
policy of a preferential treatment of the better-off firms will increase
concentration and monopoly power in the industrial sector, instead
of reducing income inequalities and thereby moving towards a
more efficient allocation of resources. In brief, it would de­
stabilize the system, instead of stabilizing it. In addition,
also the internal decision-making power of each working collectiv­
would be seriously endangered as the NLMA, backed by its monopoly
situation, could easily succeed in making prescriptions to the
firms and their workers, always with the threat of denying funds
for investment.
So, we are led to assume that this agency should not be run accor­
ding to the income maximization principle but as a traditional
part of the public administration. Yet, two similar dangers occur
in this second alternative. First, misuse of legal monopoly power
would be still possible even if the opportunities for political
control may be stronger. Second, and more important, informal
power relationships cannot be completely excluded. One important

21 See the formal proof by Drèze (1975) and the informal exposi­
22 This, in turn, emphasizes the crucial role of entrepreneurship
even in participatory firms. Cf. FitzRoy (1975) and Nutzinger
(1976c).
advantage may be seen in the fact that there will be no systematic bias in favor of rich and against poor firms as there is no material gain from a certain preferential treatment. And with regard to informal power relations, one could argue that they are not specific to state agencies but also occur in the traditional banking sector, especially if there is a high degree of concentration. But on the other hand, while it might be possible to prevent the NLMA from misuse of its power through strict regulation and control by the legislative bodies (which is highly doubtful), it could be even more difficult to induce efficient and speedy operation. 23 The well-known bureaucratic attitudes, such as slow operation and complicated formal procedures, surely have to be taken into account, although a participatory environment will contribute to an effective non-monetary social feedback through direct control by the population.

Considering our examples of social feedback mechanisms in the state sector, we are led to believe that in all cases in which market regulation is either impossible (e.g. with public goods) or inappropriate (e.g. for distributive reasons), the social feedback has to be performed through the democratic mechanism. In this general sense, we do agree with Schumpeter's general view of the problem. But clearly his restricted instrumental notion of democracy seems to be inadequate for solving our problem for different reasons. First, as already pointed out, the social control by elections is much too indirect as to work effectively; it may only rule out the worst cases. So, more direct democracy is likely to improve and to strengthen the social feedback. Second, in an economic system based on the principle of workers' participation, a 'division of labor' model of political democracy appears to be in clear contrast to the social structure and the basic values of the system. But one must be aware of the fact that both these reasons are somewhat tautological. Basically they seem to say that participation must be accomplished through participation. So, a close-up view of this question is necessary.

23 Scandinavian experience with the 'ombudsman' supports this suspicion: they have been established in order to protect the citizens against arbitrary actions of public administration. But in effect their main task turned out to be the struggle against administrative inaction.
When we are looking at the micro level of the state sector, namely at the different institutions and offices within public administration, again our social feedback approach gives some additional insight into the specific problems of 'democratic decision-making' in these organizations. We can easily derive at least three basic types of problems that are closely related to the non-market character of state agencies and have been largely neglected in the traditional public administration literature.  

Broadly speaking, we face in public administration three interconnected sets of problems which occur in all types of organizations but have a specific importance and character in the state sector:

(1) the boundaries of the organization;
(2) the heterogeneity of members, and
(3) the separation of value-oriented decisions from decisions according to competence and expertise.

We shall give a brief characterization of each topic.

(1) In the absence of market regulation, it is in general much more difficult to determine the boundaries of the organization to which an arbitrary participatory decision-making scheme should be applied. One dimension of this problem is well-known from large enterprises and relates to the determination of the basic decision-making unit within each firm. In Yugoslavia, this problem has been tackled by introducing a number of more or less autonomous 'working units' which are in contractual relations with each other, and only decisions at the enterprise level (such as investment and technical coordination between the working units) are dealt with by committees at higher levels. Clearly, this attempt at a decentralization of decision-making within the firm amounts to the application of market-oriented intra-firm relationships; similar developments with regard to profit-sharing and other incentive schemes occur in several corporations in Western countries. But

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24 For an overview on these general problems of organizations see Arrow (1974) and Hirschman (1970).
25 See Arrow (1974) for a detailed overview.
26 Cf. Horvat (1973) and Hagemann (1974).
such an attempt to introduce market-oriented decentralization within the firm and, at the same time, to maintain "the benefits of collective action in situations in which the price system fails" (Arrow, 1974, p.33), is not open to large areas of public administration, simply because there exists no price mechanism at all. So the question of democratic decision-making within sufficiently small groups or parts of large state organizations poses some additional difficulties because one indirect means of coordination via contracts and internal shadow prices may not be applicable. We shall illustrate this in the next section.

But even more serious is the second dimension of the problem: If we have market coordination between 'economic agents', such as firms and households, and hierarchical\textsuperscript{27} or participatory decision-making within each single unit of the economic system, then the question of 'who belongs to the organization' can be answered in principle, even though in practice lots of classificatory difficulties may occur: The working collective of a firm, including the management, will be considered as its membership, because it is providing labor-services to the firm and because it is linked to the firm by employment contracts. We will, in general, not include the consumers of the firm's output, nor the suppliers of material or money, since they are related to the firm by ordinary market contracting. Of course, there are lots of boundary cases in practice\textsuperscript{28}, but we can give clear theoretical definitions of the firm and its members\textsuperscript{29}. The same is not true for many public institutions, precisely because there is no simple demarcation according to the principle of market versus non-market coordination. In the subsequent section, we will consider several instructive examples in order to illustrate the difficulties arising from the absence of the market criterion. Here, we will only ask whether we would like to consider the student as a member (perhaps even an equal member) of the university, or as a consumer of knowledge provided by that institution, or as a supplier of sufficient public legitimation for the professors' non-teaching activities? Similarly,
one might ask if a draftee should be considered as an (equal?) member of a (professional) army, or as a (compulsory) customer consuming the basic virtues of soldiership, or as a (compulsory) supplier of drill material for the sergeants. In short, it is difficult to decide who should participate in decision-making as there are no general criteria for the membership in public institutions, but only practical considerations for each special case.

(2) Closely related to the first question is the problem of the heterogeneity of the members in state organizations. Again this problem occurs in many industrial firms, and Yugoslav practice has shown that there are remarkable differences in the degree of participation among different groups of workers. People with different claims, skills and expectations enter the firm, and accordingly the personal involvement in the affairs of the enterprise will vary to a considerable extent. But again, even a less qualified or part-time worker can gain decisive decision-making power in a long process of 'learning by participation'. In contrast, public institutions, such as the army, schools, universities or hospitals, are related to relatively short and transitory stages. This will not contribute to the expectation of long-term membership in those institutions, and hence not to the process of identification with the organization; a certain degree of identification is, however, necessary for active and responsible participation in the decision-making process of the institution to which one belongs. Of course, some of our examples refer to the situation of apprenticeship which occurs frequently in industrial enterprises too. But the important difference is the distinct probability of becoming a permanent member of the organization after the time of apprenticeship: it is high in industrial and other economic organizations, and low (if not zero) in our examples from the public sector.

29 This is true even if one should like to apply another definition of the members of the firm (e.g. including the suppliers of capital).
30 Cf. Obradović (1972) and Bertsch (1975).
31 As an index for this one can look at the low degree of union membership and participation in the German co-determination institutions among female, foreign and part-time workers.
(3) As has been correctly observed by Branko Horvat (1973, p. 252), it is both possible and necessary to separate "the value, interest sphere from the sphere of expertise; ... political authority from professional authority; and policy decisions from administrative operation". But this *theoretical separation between value-oriented decisions and decisions based on expertise and technical competence* poses lots of difficulties even in industrial enterprises: as already mentioned, the degree of participation in the decision-making process of the firm is positively correlated with the degree of job qualification and the position of the members in the *functional* hierarchy of the firm. Hence members with higher skill and job qualification have more authority and greater influence from two different sources: (1) their higher qualification and responsibility gives them *per se* a privileged position in the daily working process, and (2) their influence in the formal institutions of decision-making is higher, both because of their overrepresentation in these institutions and because of their expertise. To a certain extent, they are even free to *define* what should be considered as a value-oriented 'democratic' decision, and what constitutes a matter of expertise and technical competence. Also in the realm of undoubtedly value-oriented decisions, the higher qualified members of the organization will gain greater influence on the selection and presentation of alternatives which are subject to democratic voting procedures.

Again we argue that these problems are more difficult in many public institutions. The obvious examples are schools and universities. The rather disappointing experience from the German reform of the university system reveals the importance of this question. This reform movement became somewhat discredited because some of its proponents neglected this necessary separation that has special importance in educational institutions, although the German university reformers at the beginning of the process stated very clearly that "decisions requiring expert knowledge should not be subjected to dysfunctional decision-making processes" (Denninger *et al.*, 1968, p. 9). We shall analyze this question in the next section in more detail. Obviously the specific importance of the separation problem is intimately linked with the two preceding topics (boundaries of the organization and heterogeneity of mem-
bers), but it is useful to demarcate the question of expertise from the more general problem of defining the organization. In a large part of public institutions, direct citizen participation is hindered by the dominance of expert knowledge, and even the more specialized representatives in the legislative bodies are seriously handicapped since they cannot command the same degree of specialized knowledge as usually professionals in public administration do. Again, the absence of competitive mechanisms strengthens the power derived from expert knowledge: very often, this knowledge can only be gained within these public institutions and within the respective positions. And there is very often no competition (in the usual sense) for these expert positions, but they are bureaucratically allocated, preferably to members of the organization who share the values and attitudes of this organization. 32

Before we illustrate these three basic problems of democracy in public administration we would like to give a brief comment to the political science discussion of participation in the state sector. 33 First, it is interesting to note that the evaluation of participation in the public sector varies considerably, even among those scholars who favor generally democratic decision-making procedures. Robert Dahl (1970), in his excellent After the Revolution, supported self-management in the private sector but not in the public, mainly because of the large number of people involved in public organizations. On the other hand, W.N. Dunn (1975, p.1-2) argues "that changes now under way in public organizations constitute the leading edge in an unfolding societal transformation which will culminate in various forms of self-management". An approximately intermediate position is taken by G. David Garson (1975) who acknowledges "the rise of expertise, of centralized budgeting and programming, of computerized managerial information systems, ... the sheer growth of bureaucracy in size"; on the other hand he states that "it is equally possible to find evidence for new, more democratic relations of work which portend, in the title of George Berkley's new book, an Administrative Revolution" (p.2).

32 For this, see especially Smith (1975). - If the allotment of positions is carried out by elections, then the voting mechanism performs the role of a quasi-market, precisely in the sense of Schumpeter (1943).
Similarly diverging opinions and beliefs occur within the German discussion that, in addition, does not clearly distinguish between participation in the economic and in the public sector. Against Vilmar's (1974, 1975) admittedly broad and unstructured conception of 'general democratization' or of 'economic democracy', Michael Zöller (1975, p. 35) argues that the determination of social welfare or 'social interest' "cannot by any means take place at a level (such as the enterprise level) where only specific group interests are organized". But the central idea of a labor-managed market economy is the coordination of the specific interests of each single firm's workers though a system of effectively operating markets. The problem enters mainly because this model is not complete, due to externalities, public goods and similar 'practical' difficulties. Interestingly enough, Zöller's examples for the organization of selfish group interests to the disadvantage of the society at large are taken precisely from outside the economic sector, namely from public institutions such as hospitals, universities and political parties.

The mainstream of discussion among political scientists, both in Germany and the United States, centers on those questions such as the number of people involved (large number problem), the difficulties of organizing interests (e.g. interests of consumers, or old people) or the forming of preferences and attitudes within small groups. Important as these problems are, the logically antecedent step is to ask: How are these particular group interests and activities coordinated? It seems to us fair to conclude that the neglect of the different forms of social feedback in the various cases that can be observed in the traditional discussion has heavily contributed to the variety of diverging beliefs and opinions in this field. The more or less phenomenological approach to special cases must necessarily lead to different conclusions that all suffer from the same defect: they cannot be generalized. In order to develop some practical hints how a workable model of participation in the public sector could be derived, we look now at a few empirical cases.

33 This survey is by no means exhausting and concentrates on the problem of social feedback mechanisms. – For the German discussion see Vilmar (1974, 1975), Adam (1974), Zöller (1975) with further references.
V. Some empirical cases

In order to illustrate our general considerations on the nature of participation in public institutions, we take the case of universities and hospitals. Both institutions are characterized by the mix or the coexistence of market and non-market relations, by elements of free contracting and of state coercion, and by properties of public and private goods; in both cases, externalities are not negligible. Hence no simple view of those institutions - emphasizing one aspect and neglecting the other one - seems to be appropriate. A purely market-oriented description of university reforms "as institutional changes which attempt to influence the attitude and position of the demanders (students) of university products and their suppliers (professors) and which at the same time subject the property rights of the collective owners (i.e. the taxpayers) to severe limitations" (Watrin, 1976, p.6; italics added) will not give a sufficient picture of the problem at hand, but also the mere adoption of the principles of political democracy to universities fails to consider the complexity of this social organization. In Germany, as a practical compromise between the two extreme positions the institution of a group university has evolved which can be conceived as a gradated system of responsibilities for the different groups involved (professors, assistants, students, non-academic staff) whereby the ultimate decision-making power belongs to the group of professors.34

This ordering of groups according to the alleged academic qualifications, however, is very incomplete. For instance, if we link the degree of participation with the participants' expectations on their future membership, there is more homogeneity among groups I and IV (professors and non-academic staff) with more or less long-term expectations, and between groups II and III (assistants and students) which usually consider their university status as a transitory stage. A further differentiation can be made according to the criterion of expected future membership in an-

34At least, if this group acts unanimously. - For an analysis of the costs of decision-making for different groups, see Faber (1976).
other group (e.g. students becoming assistants) in this or another university.

Without exhausting the complexity of the problem, it is obvious that no simple social feedback mechanism will lead to an adequate coordination between the interests of each group and the aims of the whole organization, and especially not to an adequate coordination between the interests of the university and the claims and expectations of the society. Therefore we would like to suggest an eclectic approach combining different, if not heterogenous elements. We cannot provide an elaborate solution of the complex problem of participation in universities, but we would like to give some hints for the structure of a possible resolution.

First, even though we strictly oppose to the naive view of universities as markets for science, we would like to emphasize that the (re-)introduction of economic incentives into the university system is likely to improve its efficiency. One example already mentioned are scholarships which are repayable via taxation of the future increased income. Another important example are tuition fees for single lectures and seminars that could give an incentive to professors to supply more and better lectures (and not only the legal minimum), and to students to select more carefully among alternative courses. Problems of imperfect knowledge, of compulsory participation in many courses, and of income inequalities among students, however, pose severe, but not always unsurmountable limits to this incentive and reward approach.

But this observation leads to the idea of non-monetary incentive schemes. Even if there is compulsory participation in some courses, it is still possible to give the students the opportunity to evaluate the didactic performance of the teacher, e.g. though standardized questionnaires; this happens at several universities in the United States. If this evaluation becomes part of the professor's academic performance (and hence influences both his future income and his job opportunities at other universities), then we can expect a reallocation of his working time in favor of teaching. The existing German system does not give any incentive - both in
monetary and non-monetary terms - to "invest" in teaching activities, except in those which are joint products for publications. The introduction of non-monetary feedback mechanisms, such as public evaluation, will in many cases improve the performance of the organization for the society.

A third element that has been largely neglected (especially in the German discussion) concerns the role of professional management. Very often, even economics departments maintain a large apparatus of committees and delegates, lots of them qualified scholars, in order to deal with daily routine decisions that could be easily delegated to professional non-academic staff: without any regard to the gains from the division of labor that they teach in their elementary courses even professors of economics spend much of their working time for administrative activities that could be both better and cheaper performed by trained personnel. Of course, there remain important problems of control and responsibility; but even there, some specialization will be possible by delegating those tasks to a very limited number of scholars (including assistants and students) for a limited space of time. This would make room for the few basic decisions which have to be made jointly and directly by all members of an academic institution. The present preoccupation with routine affairs leads, in effect, to a stronger position for outside institutions (such as the state department of education) and to weaker decision-making rights for the direct participants.

Mueller (1975, section IIIB) analyses the importance of publications for the reported performance of professors in the frame of a Knightian uncertainty model. Unfortunately, the published version (Mueller, 1976) does not contain this interesting section.

This idea of non-monetary feedbacks is, of course, easily generalized for other cases, e.g. public evaluations of the activities of state employees by the citizens involved. It is interesting to note that the negative part of this feedback already exists: the chances of promotion in public administration are significantly reduced, if there are lots of official complaints ('Dienstausichtsbeschwerden') against single state employees. This system could be extended.

For an organizational scheme of university participation see Durasoff (1976).
This example again illustrates the problem of coordination between various levels: participatory decision-making at one stage is easily countervailed by relations of subordination between the different levels of state administration. Since each level may have its own democratic legitimation, no simple solution of the coordination problem is available. In a democratic society, however, there are lots of auxiliary mechanisms against the misuse of power, such as public discussion, the mass media, political parties, or the possibilities of collective action. And it seems at least plausible to expect that in an environment characterized by participatory work relations there are good chances for an effective political process. They will be at least much better than in Schumpeter's (1943) world where the political process comes close to the capitalist organization of production: there we have two competing élites, the politicians and the entrepreneurs, and democracy is restricted to the choice among the members of these élites.

An investigation of hospitals leads to similar conclusions. The main difference is here the more passive and (hopefully) more transitory role of the patient. With some justification, he could be considered as a consumer of this institution and hence not as a member. But even here, the idea of a gradated system of participation and responsibilities could apply. Some physicians have convincingly argued that medical treatment will be more effective if the patient is not taken as a mere object, but as a participant in the process of recuperation (cf. Lüth, 1974). Without fleeing into romantic ideals, it seems to us that beyond the sphere of expertise and professionalism there is room for participation even in these extreme cases. Further empirical and theoretical investigation is necessary in order to elaborate this generalized dynamic concept of participation as a process of learning and communicating. First steps into this direction have been made by Jaroslav Vanek (1976).
VI. Concluding Remarks

Our analysis of participation in the public sector was somewhat biased in favor of self-management in industry and agriculture as we related the particular problems of public administration to the absence of market coordination. Clearly, there are other social feedback mechanisms in the state sector (including market-oriented incentive schemes), but it seems to us that only a combination of different non-market feedbacks, such as voting, direct participation, economic and non-economic incentive and reward schemes etc., will produce a similarly satisfactory coordination between the different units as the idealized market will do without much additional assistance.

One could argue that the notion of an idealized market itself is misleading and that market coordination is not an appropriate point of reference since the economic system cannot operate without a developed system of public institutions and activities. We would not deny the idea that market coordination is not possible without large fields of non-market coordination in the state sector. Nor would we oppose to the assertion that the economic regulation based on extrinsic, mainly monetary rewards and incentives may even endanger participation because important elements of economic democracy, such as solidarity, altruism and communication between larger units, are hardly favored in a system which seems to rest on group selfishness.

But these arguments are not very specific to our line of reasoning. Myopic and selfish attitudes can develop at least as well in state and planning bureaucracies, as practice in the state socialist countries clearly reveals. The main aim of this paper was to show that we have no elaborate theory of the 'political system', but that we can obtain interesting insights into the nature of participation in the state sector if we compare it with workers' management in the 'economic system'. This approach is by no means exhausting, as important elements, such as socialization, education and non-economic value systems, are not taken into account. But it is an important first step that helps us to understand why the traditional discussion has not produced many interesting results: it simply missed the point, or at least one central point.
The second result of our considerations was the 'eclectic' idea that participation in the public sector must be based on a variety of feedback mechanisms and will take place in a variety of organizational forms. Not all of them will fit into an ideal notion of 'democratic decision-making among equal members'. But in our view participation is not an abstract ideal but a practical process of learning and communication. Undoubtedly these preliminary considerations are correctly characterized by adopting the final self-evaluation of an interesting paper on university self-management:

"This ... paper has primarily raised questions, which is its purpose. Even the 'answers' suggested here are sketchy, also raising additional questions. In the belief that self-management is a promising idea, whatever the obstacles and inherent difficulties, it is hoped that these questions will provide an initiative for further considerations" (Durasoff, 1976, p. 7).


Vilmar, F. (1975): "Wirtschaftsdemokratie. Theoretische und praktische Ansätze, entwickelt auf der Basis des DGB-Grundsatzprogramms", aus politik und zeitgeschichte B 16/75, 3-33


