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Notes and Comments

Electoral Engineering and Cross-National Turnout Differences: What Role for Compulsory Voting?

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Low electoral turnout is often considered to be bad for democracy, whether inherently or because it calls legitimacy into question or because low turnout implies lack of representation of certain groups and inegalitarian policies.[1] Yet there would appear to be a straightforward cure for low turnout: make voting compulsory. Of the twenty-five countries in the *International Almanac of Electoral History* for which Katz has collected institutional data, four have compulsory voting.[2] Turnout in these countries averages 89 per cent, as compared to 75 per cent in the other twenty-one countries (see Table 2, below).

One country with particularly low turnout in national elections is the United States (a fact that has often caused concern among those who worry about the health of American democracy),[3] and Arend Lijphart, in his 1996 Presidential Address to the American Political Science Association, has strongly suggested that compulsory voting be adopted in that country in order to remedy the problem.[4]

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[1] See Robert Salisbury, 'Research on Political Participation', *American Journal of Political Science*, 19 (1975), 323–41; V. O. Key Jr, *Public Opinion and American Democracy* (New York: Knopf, 1949); Frances Piven and Richard Cloward, *Poor People's Movements: Why They Succeed, How They Fail* (New York: Vintage Books, 1988); Ruy Teixeira, *Why Americans Don't Vote: Turnout Decline in the United States, 1960–1984* (New York: Greenwood Press, 1987).

[2] This number includes Italy (which is generally considered to have compulsory voting despite the ambiguous nature of the compulsion) together with Australia, Belgium and Greece. See Thomas Mackie and Richard Rose, *The International Almanac of Electoral History*, 3rd edn (London: Macmillan, 1991); Richard Katz, *Elections and Democracy* (New York: Oxford University Press).

[3] See, especially, Key, *Public Opinion*; Salisbury, 'Research on Political Participation'; Richard Brody, 'The Puzzle of Political Participation in America', in Anthony King, ed., *The New American Political System* (Washington, DC: American Enterprise Institute, 1978), 287–324; Piven and Cloward, *Poor People's Movements*; Ruy Teixeira, *The Disappearing American Voter* (Washington, DC: Brookings Institution, 1992); Steven Rosenstone and John Hansen, *Mobilization, Participation, and Democracy in America* (New York: Macmillan, 1993); Sidney Verba, Kay Schlozman and Henry Brady, *Voice and Equality: Civic Voluntarism in American Politics* (Cambridge, Mass.: Harvard University Press, 1995).

[4] See Arend Lijphart, 'Unequal Participation: Democracy's Unresolved Dilemma', *American Political Science Review*, 91 (1997), 1–14.

The classic case of a country in which low turnout appears to have been 'cured' by compulsory voting is Australia, where the introduction of mandatory voting in 1924 raised average turnout nearly 40 per cent, from 62.3 per cent to 90.7 per cent.[5] In other countries the consequences of adopting or abandoning compulsory voting have been less dramatic (3–10 per cent).[6]

The purpose of this article is to take issue with Professor Lijphart by questioning whether compulsory voting would be a suitable 'cure' for the 'disease' of non-voting in countries such as the United States where non-voting is considered to be a problem. This question involves two sub-questions: first, is compulsory voting an effective cure for non-voting, and, second, is non-voting a disease in need of a cure?

That compulsory voting raises turnout can hardly be doubted, and I will show that compulsory voting is most effective in low turnout elections (precisely those that provoke most concern). But I will also argue that low turnout is not a disease in its own right but rather a symptom of other features of the electoral context that voters experience in low-turnout countries. Attempting to 'cure' such a symptom will not cure the underlying conditions that lead to low turnout.

My basic contention is simple: people vote in order to affect the outputs of government in ways that are meaningful to them. Low turnout thus reflects a paucity of choices or a lack of evident connection between electoral choice and policy change. Raising turnout by making it compulsory does not directly affect either of these critical variables but may mask their effects. In what follows I defend this contention on the basis of findings from recent research into turnout cross-nationally, and I suggest that by focusing on the wrong remedy we may be 'shooting the messenger' with consequences for our ability to judge the success of other, more appropriate, reforms.

THE MOTIVATIONAL BASIS OF ELECTORAL PARTICIPATION

Three approaches have underpinned the study of electoral participation since the dawn of the behavioural age. One focuses on the *resources* that people bring to the political world – primarily education, wealth and time. Another focuses on the *mobilization* of voters through the activities of parties, candidates and interest groups. The third approach focuses on the instrumental *motivations* of voters to affect the course of public policy.[7]

The resource and mobilization approaches are particularly favoured by American political scientists, bent on explaining why some people vote while others do not. Such approaches have yielded impressive findings.[8] Unfortunately, these approaches cannot explain the largest differences observed empirically between voters and non-voters in the world today: differences that occur between one country and another. In other

[5] See Wolfgang Hirczy, 'Electoral Participation' (doctoral dissertation, University of Houston, 1992).

[6] Hirczy, 'Electoral Participation', p. 171.

[7] For a review of the literature relating to these approaches, see Mark Franklin, 'Electoral Participation', in Laurence LeDuc, Richard Niemi and Pippa Norris, eds, *Comparing Democracies: Elections and Voting in Global Perspective* (London: Sage, 1996), pp. 220–2.

[8] About half the variance in US turnout was explained by using these approaches in Verba *et al.*, *Voice and Equality*, p. 433.

work,[9] I have shown that when 21,600 voters from Europe and North America are taken together in one dataset, individual-level differences account for only 5.5 per cent of variance in electoral participation; a statistic that is multiplied virtually fourfold to 19.6 per cent when country-level differences are taken into account. A less often noted difficulty in focusing on individual-level differences is that they cannot readily explain *changes* in turnout within the same country from one election to the next. Yet countries do see large differences in turnout over time. Indeed one of the reasons for the widespread interest in explaining variations in electoral participation is that turnout has been declining in the United States (and perhaps elsewhere)[10] in recent years.

Education is the characteristic that best distinguishes between voters and non-voters in the United States, but if education is so important, why have recent increases in educational attainment not caused turnout to increase? Perhaps more importantly, why is it that two of the countries with lowest turnout (the United States and Switzerland) are countries with among the highest levels of education? And why is it that one of the highest-turnout countries is Malta, where only a tiny proportion of the population is university educated?[11] Evidently characteristics that discriminate between people who vote and those that do not in a low turnout country need not be the same characteristics as those which discriminate between countries with high turnout and those without. Indeed, logically, individual-level variation cannot explain high turnout since high-turnout countries have just as much variation in individual-level characteristics as do low-turnout countries. In countries like Australia, Austria and Malta virtually everyone votes, whatever their characteristics.

The same logical problem does not arise with mobilization. It is perfectly possible that efforts at mobilizing voters are more extensive in high-turnout countries. Indeed, compulsory voting may be viewed as a mobilizing tactic. However, leaving compulsory voting aside, studies of the effects of mobilization have found that real world differences in turnout obtained through differences in mobilizing efforts are small compared to the differences we are trying to explain.[12]

It is when we turn to instrumental motivations that we first find promise of explaining turnout differences from country to country and election to election. Some contests are quite simply more important than others and the fact that turnout varies with the importance of the election has been noted many times.[13] Yet this insight has often been neglected by scholars who focus on the behaviour of individuals. Among those who study differences between countries, by contrast, the importance of institutional and contextual differences has been a major theme in the literature of political participation

[9] Franklin, 'Electoral Participation', p. 223.

[10] There is dispute about recent European turnout decline, but this turns upon the number of years considered 'recent'. Since 1945 there was first a rise and then a fall in turnout, so turnout has declined from a high point in the 1960s, but not over a longer period.

[11] In European Union countries there is no relationship between turnout and average education levels. See Cees van der Eijk, Mark Franklin *et al.*, *Choosing Europe? The European Electorate and National Politics in the Face of Union* (Ann Arbor: University of Michigan Press, 1966), chap. 19.

[12] See Rosenstone and Hansen, *Mobilization, Participation, and Democracy*, pp. 129–33; van der Eijk and Franklin, *Choosing Europe?* p. 322.

[13] See, for example, Angus Campbell, Philip Converse, Warren Miller and Donald Stokes, *The American Voter* (New York: John Wiley, 1960), p. 100.

since the earliest studies;[14] and a link can be made between institutions and motivations if we consider differences in how much is at stake.[15] An election that does not decide the disposition of executive power (an election for the European Parliament, for example, or a US midterm election) can be expected to appear less important (and therefore less likely to motivate voter turnout) than one where executive power is at stake – especially if that election is a close one, the outcome seems likely to determine the course of public policy, and there are large perceived differences between contestants. For example, the unprecedentedly high turnout in the 1992 Louisiana gubernatorial primary contested by the ex Klu Klux Klan member David Duke shows what can happen, even in a traditionally low-turnout state, with an election whose outcome is expected to be close and whose protagonists arouse strong feelings.

This also means that an electoral system which ensures that no votes are wasted will presumably motivate more people to vote; and that a country like Switzerland, where the outcome of parliamentary elections has no discernible policy implications (because the same coalition takes office whatever the outcome and all important policy initiatives are in any case subject to referendum) will see lower turnout than a country like Malta, where every important political decision is affected by the outcome of a single electoral contest.[16] Of course, the mobilization approach can also to some extent take account of differing electoral contexts since important elections will stimulate more electoral activity by parties and candidates, but the instrumental approach subsumes such activities. A contest that stimulates voters to turn out in large numbers will evidently also stimulate parties and candidates to redouble their efforts to obtain the participation of those who might otherwise still have stayed at home. As to the resource approach, in an unimportant election (what we will call an election with 'low salience'), those who vote will no doubt be largely those who have individual reasons for doing so (high political interest and involvement due to their education and other characteristics); but an important enough election will bring to the polls even those with fewest resources.

In brief, the instrumental approach to understanding electoral participation is superior to the mobilization and resource approaches because it subsumes one and overrides the other, while explaining additional aspects of electoral participation that the other approaches cannot address. Indeed, this approach is the only one that makes sense when we focus on the importance of the electoral context in conditioning people's motivations; and only differences in context show promise of explaining differences in turnout between countries or over time.

[14] See Herbert Tingston, *Political Behavior* (London: King, 1937); Ivor Crewe, 'Electoral Participation', in David Butler and Howard Penniman, eds, *Democracy at the Polls: A Comparative Study of Competitive National Elections* (Washington, DC: American Enterprise Institute, 1981); G. Bingham Powell Jr, 'Voting Turnout in Thirty Democracies: Partisan, Legal and Socio-Economic Influences', in Richard Rose, ed., *Electoral Participation: A Comparative Analysis* (London: Sage, 1980); G. Bingham Powell Jr, 'American Voter Turnout in Comparative Perspective', *American Political Science Review*, 80 (1986), 17–43; Robert Jackman, 'Political Institutions and Voter Turnout in the Industrial Democracies', *American Political Science Review*, 81 (1987), 405–23; Robert Jackman and Ross Miller, 'Voter Turnout in the Industrial Democracies During the 1980s', *Comparative Political Studies*, 27 (1995), 467–92.

[15] See van der Eijk and Franklin, *Choosing Europe?* chap. 19.

[16] See Wolfgang Hirczy, 'Explaining Near-Universal Turnout: The Case of Malta', *European Journal of Political Research*, 27 (1995), 255–72.

EVIDENCE FROM EUROPEAN ELECTION STUDIES

My evidence is taken from a number of different research projects whose findings have already been reported, but in this essay I assemble these findings in a new way so as to support an argument that has not previously been made.

The most important of the findings come from the European Election Studies of 1989 and 1994 which involved personal interviews with about 25,000 citizens of European Union (EU) countries.[17] These data are particularly suited to addressing our present research question because European elections are prototypically low salience elections. Executive power is not at stake, and these elections have virtually no role in directing the course of public policy. Yet these elections do gain a sort of surrogate importance from their implications for national political developments in EU member countries. The importance of the elections in domestic political context depends, however, on the proximity of national elections. European elections that occur in the shadow of recent national elections have no salience, but European elections conducted later in the national election cycle obtain progressively more importance as means for commenting on national politics. At the limit, where European elections occur in conjunction with national elections (which occurred in three countries in 1989 and one country in 1994), the European elections 'borrow' all the importance of the accompanying national election.[18] Such elections thus provide us with a measure of electoral salience (months until the next national election) that is continuous in nature and equivalent in all twelve of the countries taking part. This variable effectively measures how much is at stake in particular countries participating in specific European elections.

Table 1 shows the effects of electoral salience in the context of a fully specified model that employs individual-level and contextual effects to explain why some people vote and others do not at two consecutive elections in twelve countries.[19] Turnout is reduced as time until the next national election lengthens, at the rate of three-tenths of 1 per cent per month, when other variables are held at their mean values, which does not sound like much. But with anything up to sixty months separating European elections that occur in the immediate aftermath of a national election from European elections that occur in conjunction with the next national election, the corresponding differences in turnout can approach 18 per cent. This is the largest effect in the table, other than that of compulsory voting.

This same table also shows the considerable effects of compulsory voting in low salience elections. Though in European national elections compulsory voting only raises turnout by some 7 per cent,[20] in elections to the European Parliament the much lower turnout allows compulsory voting to show its true potential. Indeed if, instead of holding other variables at their mean values, we compute the effects of compulsory voting when other variables are such as to yield turnout at its lowest (forty or more months before

[17] See van der Eijk and Franklin, *Choosing Europe?* Appendix A.

[18] See van der Eijk and Franklin, *Choosing Europe?* chap. 19; and Franklin, 'Electoral Participation', pp. 223–5, for detailed expositions of this argument and supporting evidence.

[19] See Franklin and van der Eijk, 'Turnout', for an explanation of the controls in force.

[20] See Franklin, 'Electoral Participation', p. 227.

TABLE 1 *Regression of Electoral Participation on Electoral Salience, Controlling for Individual, Systemic and Compositional Effects, in a Pooled EU-Wide Analysis*

	Logistic		Modelled effect where other variables are held at their means†
	B	Sig.	
Independent variables			
Time to Next National Election (months)	− 0.250	0.000	− 0.003
Compulsory Voting (0, 1)	2.280	0.000	0.276
Attitudes to Europe	–	ns	–
Controls for individual-level effects			
Political Interest (proportion)	0.185	0.000	0.102
Socio-Demographic Effect (proportion)	0.560	0.000	0.090
Appeal of Best Choice (proportion)	0.248	0.000	0.051
Campaign Effect (proportion)‡	0.917	0.000	0.122
Party Attachment (3-point scale)	0.355	0.000	0.038
Controls for systemic and contextual effects			
Sunday Voting (0, 1)	0.520	0.005	0.046
Proportionality of electoral system (%)	0.005	0.010	0.002
Links to social groups (R^2)	0.048	0.000	0.006
Effects of missing data			
Missing Socio-Demographic Effect	0.382	0.001	0.068
Constant	− 3.001		0.133
Pseudo R^2	0.310		

*Data for EES 1989 and 1994; $n = 21{,}000$.
†Difference of proportions in electoral participation corresponding to logistic regression effects of each variable when other variables are held at their mean values.
‡Effect unique to 1989 (indicator missing in 1994).
Source: Franklin and van der Eijk, 'Turnout'.

the next national election, in elections held on weekdays, with poorly proportional electoral systems, etc.) then compulsory voting shows even more powerful effects.[21]

One variable that does not produce significant effects in Table 1 is attitudes towards Europe. This omission is important, because many commentators have supposed that low turnout in European elections might reflect lack of legitimacy of European institutions, or lack of support for European integration. European elections turn out to be ideal venues not only for demonstrating the importance of electoral salience but also for demonstrating the lack of importance of variations in institutional support. In *Choosing Europe?* extensive efforts were made to measure attitudes towards Europe and its institutions, but variations in these attitudes did not account for turnout variations either over Europe as a whole (as demonstrated in Table 1) or in any individual European country.[22]

These data from European election studies provide the major evidence supporting my assertion that, in the absence of compulsory voting, turnout primarily reflects instrumental motivations. Turnout seems above all to be affected by voters' awareness of the consequences of their voting decisions.[23] Proportionality enhances the predictable consequences of a voter's choice, which are also more apparent as national elections approach. And in systems characterized by tight links to social groups, the loyalties that these linkages attest bring voters to the polls even in the presence of controls for campaign effects. Where systemic characteristics leave any room for individual variation, the quality of communications between parties and voters makes up the bulk of the difference. The three variables involved are political interest, campaign effects and the appeal of the most attractive party. Because of intricate variations from country to country which I have no space to unravel here, the nature of political interest is investigated elsewhere;[24] but in all cases the measure is effectively one of attentiveness. Turning to campaign effects, the most important component is the success of political parties in communicating to the electorate their political or ideological stance, which is the other side of the same coin. So in countries where public motivation is lacking and electoral participation is consequently imperfect, private motivation (where present) fills the gap so that attentive publics vote while inattentive publics are much less likely to do so. The fact that very much the same processes are seen to operate at the individual and systemic levels helps to validate the findings at both levels.[25]

To generalize these findings beyond the political systems included in the European Elections Studies, we must establish that other low turnout elections also suffer from a lack of immediately apparent consequences flowing from the voting act. In the next section I will argue that US and Swiss elections do suffer from precisely this deficiency.

[21] In such circumstances, the lower level of predicted turnout permits compulsory voting to show its potential. Ordinary least squares (OLS) regression shows the interaction more straightforwardly. See van der Eijk and Franklin, *Choosing Europe?* chap. 19.

[22] See van der Eijk and Franklin, *Choosing Europe?* Part II.

[23] This interpretation is reinforced by demographic effects which, for reasons of space, are reported elsewhere. See Erik Oppenhuis, 'Voting Behavior in the European Community: A Comparative Analysis of Electoral Participation and Party Choice' (doctoral dissertation, University of Amsterdam, 1995). Conspicuous among these effects in many countries are (not surprisingly) education and age, of which education in particular relates to the (acquired) ability of citizens to assess the consequences of their voting acts.

[24] See Oppenhuis, 'Voting Behavior', pp. 126–9.

[25] See van der Eijk and Franklin, *Choosing Europe?* p. 329.

TABLE 2 *Average Turnout in Free Elections to the Lower House in Twenty-Five Countries, 1960–95*

Australia (14)	95	Malta (6)	94	Austria (9)	92
Belgium (12)	91	Italy (9)	90	Iceland (10)	89
Luxembourg (7)	90	New Zealand (12)	88	Denmark (14)	87
Germany (9)	86	Sweden (13)	87	Greece (11)	86
Netherlands (7)	83	Israel (9)	80	Norway (9)	81
Finland (10)	78	Portugal (9)	79	Canada (11)	76
France (9)	76	UK (9)	75	Ireland (11)	74
Spain (6)	73	Japan (12)	71	USA (9)	54
Switzerland (8)	54				

Notes: Excluding US midterm elections and Dutch elections before 1968. Parenthesized are the number of elections included in each average.
Source: Katz, *Elections and Democracy* (based on Mackie and Rose, *The International Almanac of Electoral History*).

SEPARATED POWERS AND ELECTORAL SALIENCE

In moving beyond the special case of European elections we need to confront the question of how electoral salience is to be measured. Evidently, national elections vary in importance even within the same country, but these variations can be disregarded if we average the results of a series of elections, as we shall below. It is critical to establish that elections are more important in some countries than in others. Table 2 shows average turnout in the twenty-five countries with long enough histories of free elections to have been included in the *Almanac of Electoral History*.[26] In that table two countries stand out. The United States and Switzerland have turnout 17 per cent lower than the next lowest country (Japan). If any countries suffer from low electoral salience, surely it must be these. But how do we prove it?

In the case of Switzerland I have already asserted that low electoral salience is almost certainly due to the fact that, alone among democracies in Table 2, its elections do not determine the political complexion of the government that takes office. This is because, in Switzerland since 1947, the same government has always taken office no matter what the balance of political forces in the parliament. The governing coalition is based on a prior agreement among the three largest parties, not on the choice of the voters.[27] Not being able to affect the complexion of the government, Swiss voters have little incentive to turn out. The corresponding low salience of elections in that country seems hardly open to doubt.

In the case of the United States, the low salience of presidential elections has to be argued rather more elaborately. Such elections in the United States do affect the complexion of the executive branch of the government, but there is little guarantee that the legislative branch will have the same complexion. Moreover, even when both legislature and executive are nominally controlled by the same party, lack of party discipline and institutional jealousies make it impossible to be sure that government policies will be enacted. This, indeed, is what America's Constitution was designed to achieve. It may seem perverse to claim that American elections have low salience given

[26] See Mackie and Rose, *Almanac of Electoral History, passim*.
[27] See Hirczy, 'Electoral Participation', chap. 7

the razzmatazz that surrounds them and the enormous sums of money that are spent in publicizing them. Happily, there is a way to prove that separated powers are important determinants of turnout exactly because political power is, after some elections, more separated than after others.

When the same party controls the presidency and both houses of Congress, this oils the wheels of politics and makes it easier for that party to implement its programme. More importantly, in such periods it is difficult for candidates of the ruling party to avoid blame for any failures. Divided government, by contrast, mutes clear policy directions and makes it easier to pass the buck for policy failures.[28] Recent decades have seen extended periods of divided government, which might give this reasoning the potential to explain not only lower turnout in US elections than elsewhere, but also lower turnout in recent US elections than formerly.[29] This decline has been blamed on the increased alienation of voters and on the reduced perception that anything is at stake.[30] Divided government, by reducing accountability, should certainly reduce the sense of anything being at stake in elections. These consequences in turn should serve to lower the incentives to turn out and perhaps give rise to alienation. Longer periods of divided government should reinforce the sense that elections serve no function, further lowering the incentives for electoral participation. By contrast, a return to one-party government (especially if that government implements its programme) should have the opposite effect – restoring clarity of electoral choices, reducing information costs, and perhaps even returning turnout to previous levels.[31]

Because the United States has enjoyed a uniquely long period of democratic elections it is in fact possible to test this idea using a time-series of all presidential elections since the establishment of a mass party system in the 1830s. Table 3 shows the results of such an analysis.[32]

According to these findings, turnout is reduced by about half of 1 per cent for each consecutive year of divided government. Over the past 150 years, there have been several occasions when divided government has continued for twelve consecutive years, giving rise to the expectation of a 6 per cent reduction in turnout. Most of the time the effects are of course much less.

However, it is not the effects on turnout of divided government that interest us here, but the effects on turnout of separated powers. Divided government just makes those effects more extreme. The implication of these findings is that separated powers matter for electoral salience: the more separated the powers the lower the electoral salience.

[28] See David Mayhew, *Divided we Govern: Party Control, Lawmaking, and Investigations, 1946–1990* (New Haven, Conn.: Yale University Press, 1991); cf. Christopher Wlezien, 'The President, Congress, and Appropriations, 1951–1985', *American Politics Quarterly*, 24 (1996), 43–67.

[29] Cf. Brody, 'Puzzle of Political Participation in America', *passim*.

[30] On alienation, see particularly Teixeira, *The Disappearing American Voter*, p. 49; on what is at stake, see particularly Rosenstone and Hansen, *Mobilization, Participation and Democracy*, pp. 153–6.

[31] See Mark Franklin and Wolfgang Hirczy, 'Separated Powers, Divided Government and Turnout in US Presidential Elections', *American Journal of Political Science*, 42 (1998), 318–19.

[32] See Franklin and Hirczy, 'Separated Powers', pp. 320–1, for operationalizations and diagnostics.

TABLE 3 *Effects of Divided Government and Distance Between Parties on Turnout*

Divided government (years)	− 0.49*
Controls:	
Distance between first two parties (%)	− 0.27*
Election laws (proportion)	− 18.40*
Constant	80.47*
Adjusted R^2	0.86
N	39

*Significant at $p < 0.05$ (one-tailed).
Source: Franklin and Hirczy, 'Divided Government and Turnout'.

Contextual knowledge of the American political process in comparison with the process in Parliamentary democracies tells us that, even in the absence of divided government, American presidents often find it difficult to enact their programmes. Clinton's experience with health reform in 1993–94 was not unusual and serves as an illustration of the way in which separated powers stand in the way of clear accountability in US elections.

On the basis of this argument, in what follows I will take it for granted that separated powers reduce the salience of American elections just as long-standing agreements reduce the salience of Swiss elections.[33] The question is, by how much?

In past work,[34] what I have done is to define a dummy variable that picks out Switzerland and the United States as the two countries with particularly 'low salience' elections in contrast to all others for which relevant data are available (see Table 2). Table 4 shows the results of analyses in this larger universe of countries. It contains a variable, postal voting, that was not used in analysing European data since variations in national practices with regard to postal voting were not great enough to warrant its inclusion in the smaller universe.[35]

This table reiterates the message of Table 1, but over a larger set of countries. Provided we accept the interpretation of the 'Electoral salience' dummy variable as corresponding to the lower stakes associated with elections in Switzerland and the United States, it is clear that differences in turnout between countries are very largely due to motivational factors. Even if weekend voting and postal voting are both regarded as merely facilitative in character, taken together they account for less than 10 per cent of turnout differences. Proportionality accounts for more than that (some 12 per cent over the twenty-point

[33] In both countries turnout is also reduced by the sheer number of times that people are called upon to vote, but we cannot distinguish the effect of this empirically since it involves the same two countries (see Franklin, 'Electoral Participation', pp. 224–5). I do not doubt that the low salience of American elections is due in part to the effects of separated powers feeding through other practices (such as campaign finance and associated interest-group activities). Indeed, the ill-effects of separated powers might well be mitigated without full-fledged constitutional redesign, as I shall suggest below.

[34] See Franklin, 'Electoral Participation'.

[35] See Franklin, 'Electoral Participation', pp. 223–5, for descriptions of this and other variables in the table.

TABLE 4 *Explaining Turnout in Twenty-Five Countries*

Variable	*b*	(s.e.)
Proportionality†	0.62	(0.15)*
Compulsory voting‡	7.29	(2.12)*
Postal voting‡	4.06	(1.99)*
Sunday voting‡	5.29	(1.20)*
Electoral salience‡	− 28.19	(3.24)*
Constant	21.94	(14.78)
Adjusted R^2	0.866	
N	25	

*$p < 0.5$. †79–99 per cent. ‡Two categories.
Source: Adapted from Table 8.4 in Franklin, *Electoral Participation*.

range that proportionality encompasses), and electoral salience for much more (28 per cent).[36]

These findings are not the ones upon which I rest my case for the motivational basis of electoral turnout. They depend too largely on the interpretation placed on a dummy variable picking out Switzerland and the United States for special treatment. The real argument for the importance of motivational factors was seen in the previous section where, among those countries for which we have both individual-level and systemic data, it is clear that at both levels the important influences are motivational. The purpose of this section has been to show that, if we do interpret low turnout in the United States and Switzerland as motivational, then motivational factors dominate in the larger world just as they do in Europe – and to argue that there are plausible reasons for lower motivation in these two countries.

DISCUSSION

If turnout variations are largely the result of the character of the electoral process and the way in which that process feeds into the policy-making process, then what role is there for compulsory voting? Certainly there is every reason to suppose that compulsory voting would be effective in countries like the United States and Switzerland in which turnout is naturally very low. In countries of the European Union at European elections turnout is equally low unless compulsory voting is in force. However, in those EU countries where compulsion is employed, turnout is nearly as high as in national elections.

But what is gained by this higher turnout? European elections in countries with compulsory voting do no more to decide the course of policy making than they do in countries with lower turnout. In both cases the effects of these elections on policy are nebulous in the extreme and largely invisible to voters. Very similarly, in the United States many voters surely do not know what difference it makes whether a Republican is elected president or a Democrat. True, these two may have different policies, but neither can be sure of being able to put their policies into practice even should they win. Making voting compulsory would not change this.

[36] This is a little less than the amount (30 per cent) ascribed by Teixeira to what he calls the 'low benefits' of voting in US elections. See his *The Disappearing American Voter*, p. 22. Teixeira, however, divides the low benefits between a number of factors which add up to rather more than separated powers.

Separated powers were designed as a bulwark against tyranny. They achieve their object by making it difficult for any party or faction to gain control of the whole of the apparatus of government. This means that even democratically elected majorities are treated as potentially tyrannous and have great difficulty making any laws – including good ones.[37] Other countries take a different approach. They assume that bad laws enacted by an unwise majority will be changed when their character becomes apparent and a different majority is elected. In such countries, voters, not institutions, are seen as the bulwarks against tyranny. Because voters have this important role to play, elections are taken seriously and turnout is high. In the United States voters seldom play this role.

Parallels with the Swiss case are instructive. There, too, low turnout reflects the irrelevance of national elections in the determination of public policy. In Switzerland the most effective means for influencing public policy is through referendum votes. In the United States it is through lobbying activities.

Partly for this reason it has often been asserted that low turnout results in policies that benefit voters at the expense of non-voters. Past research has shown mixed evidence of such an effect.[38] Even though I agree with Professor Lijphart that higher turnout would bring forward candidates with different policies, generating different choices than are now on offer, what would be the point? Compulsory voting might work in the United States if previously non-voting groups were to see policies enacted that favoured them; but, in the absence of other reforms, any such results of compulsory voting would be hard to discern. A more suitable way to achieve the same end would surely be to make elections more consequential and to make those consequences more apparent, thereby making it worthwhile for candidates to propose policies designed to appeal to previously non-voting groups. Higher turnout *in and of itself* would probably not achieve this.[39]

Moreover, arguments for compulsory voting divert attention from other proposed reforms of the American electoral process: reforms which would address genuine deficiencies in that process rather than its superficial appearance. Addressing those deficiencies would surely have effects on electoral salience. Campaign finance reform, for example, by reducing the power of non-elected bodies should increase the relevance of elected bodies and so raise the stakes of elections to those bodies and the salience of those elections. Reducing the number of times in each decade that Americans go to the polls would increase the stakes associated with contests that remained and so raise their salience. The potential implications of other suggested reforms for electoral salience could be assessed in the same way.

On the basis of arguments presented in this essay, raising the salience of an election should have the effect of increasing the level of turnout. Turnout would then be serving, as it is now so often seen to do, as an indicator of the health of a democracy. An increase in turnout following reform would tell us that the reform had worked – so long as the usefulness of the indicator had not been compromised through the introduction of compulsory voting.

[37] Cf. E. E. Schatschneider, *The Semi-Sovereign People* (New York: Holt, Rinehart and Winston, 1960).

[38] Summarized in Lijphart, 'Unequal Participation', pp. 4–5.

[39] Despite these arguments, there would still be one reason for introducing compulsory voting in US elections: if voters were mistaken in thinking that their votes were unimportant, and if their mistaken failure to vote resulted in a different outcome than would have pertained with higher turnout. Perhaps voters are indeed mistaken, but we have seen that there are good reasons for their outlook. Indeed, my argument about voters' perceptions rests on the presumed unimportance of US and Swiss elections. If voters did not correctly perceive this then their turnout would not be low.

Free Riding off Capitalism: Entrepreneurship and the Mondragon Experiment

ANDREW HINDMOOR*

As the deficiencies of central planning have become more obvious, shares in market socialism have risen. Whilst accepting the case for competitive markets, market socialists question the desirability of and the need for capitalist forms of private property and share a commitment to more inclusive forms of ownership.[1] Whilst this leaves open the question of precisely what form of ownership is appropriate, many have advocated the use of labour co-operatives in which (i) only those who work for a firm are entitled to a share of its ownership, (ii) all those who work for a firm are entitled to a share of its ownership, and in which consequently (iii) profits and (iv) decision making are shared.[2] A frequently noted problem here, however, is the generally unimpressive record of co-operatives.[3] The one notable exception to this is the Mondragon group upon which a large number of academics have consequently pinned considerable – and, it will be argued here, excessive – hope.[4] The first Mondragon co-operative, ULGOR, was formed in 1956 in the Guipuzcoa region of Northern Spain. Since then, and despite an initial lack of capital and the hostility of the Spanish Government, the Mondragon group has prospered and today consists of over one hundred enterprises producing a wide range of goods including washing machines, office furniture, machine tools, bicycles, lifts, sports goods, teaching equipment, electrical conductors, membrane keyboards and nails.[5] In the first part of this Note it will be shown how Mondragon's success can be cited in response to three of the standard arguments deployed against co-operatives and, by extension, market socialism. In the second part, by distinguishing between two

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[1] Pranab K. Bardhan and John Roemer, 'Introduction', in Bardhan and Roemer, eds, *Market Socialism: The Current Debate* (Oxford: Oxford University Press, 1993), pp. 3–17

[2] John Bonin and Louis Putterman, *The Economics of Cooperation and the Labour-Managed Economy* (London: Harwood, 1987), pp. 1–5. It is not claimed that market socialism must rest upon the use of labour co-operatives although such a relationship is implied by, for example, Saul Estrin, 'Worker's Co-operatives: Their Merits and Limitations', in Julian Le Grand and Saul Estrin, eds, *Market Socialism* (Oxford: Clarendon, 1989), pp. 320–53.

[3] See Robert Nozick, *Anarchy, State and Utopia* (Oxford: Basil Blackwell, 1974), pp. 250–3. See also Michael Jensen and William Meckling, 'Theory of the Firm: Managerial Behaviour, Agency Costs, and Ownership Structure', in Louis Putterman and Randall S. Kroszner, eds, *The Economic Nature of the Firm* (Cambridge: Cambridge University Press, 1996), pp. 315–35. These arguments depend upon the assumption that capitalism is neutral between different forms of organizational structure.

[4] In addition to the articles subsequently cited the tributes to Mondragon include Robert Oakeshott, 'Mondragon: Spain's Oasis of Democracy', in Jaroslav Vanek, ed., *Self-Management: Economic Liberation of Man* (Harmondsworth, Middx: Penguin, 1975), pp. 290–6; Robert Oakeshott, *The Case for Workers Co-operatives* (London: Routledge & Kegan Paul, 1978); Charles Sperry, 'What Makes Mondragon Work?' *Review of Social Economy*, 53 (1985), 345–56; Terry Mollner, 'Mondragon: A Third Way', *Review of Social Economy*, 52 (1984), 260–71; Hans Weiner and Robert Oakeshott, *Worker-Owners: Mondragon Revisited* (London: Anglo-German Foundation, 1987); Keith Bradley and Alan Gelb, 'Co-operative Labour-Relations: Mondragon's Response to Recession', *British Journal of Industrial Relations*, 25 (1987), 77–97; and William Whyte, 'Learning from the Mondragon Experience', *Studies in Comparative International Development*, 30 (1995), 58–67. In this chorus of approval the only dissenting voice is offered by Sharryn Kasmir, *The Myth of Mondragon: Co-operatives, Politics and Working-Class Life in a Basque Town* (Albany: State University of New York Press, 1996), although the perspective adopted therein is sociological rather than economic.

[5] A full listing of all Mondragon's products is available (in English) at http://mondragon.mcc.es.

different forms of entrepreneurial action, it will be suggested that Mondragon actually cannot tell us very much about the general feasibility of co-operatives. This is because Mondragon depends upon the achievements of the capitalist economy within which it is embedded. The claim here is, it should be emphasized, a limited one. It is not that co-operatives are economically undesirable; only that Mondragon cannot, as many have claimed, be taken to establish their desirability. None the less, it is argued that co-operatives might struggle to emulate the performance of capitalist firms.

I. THE MONDRAGON EXCEPTION

For its proponents, Mondragon is proof that the claims made on behalf of co-operatives are more than 'the pious dreams of … impractical, other-worldly philosophers'.[6] Mondragon matters because it stands as an 'impressive refutation' of three arguments traditionally directed against co-operatives.[7] The first, drawn largely from micro-economic theory, is that because profits have to be shared between members, co-operatives will underinvest, be too ready to lay-off workers and be excessively capital-intensive.[8] Yet as one study of Mondragon's economic performance concludes, 'from virtually every perspective, it [Mondragon] appears to have outperformed the local capitalist environment'.[9] The second argument is in many ways a natural extension of the first. In order to compete effectively against capitalist firms co-operatives will have to compromise their ideological purity.[10] Yet Mondragon is, again, an exception. Each of the co-operatives continues to adhere to the Basic Rules of Association first laid down in 1956. First, and subject to the payment of a capital contribution, membership and hence ownership is open to all. Surplus profits are allocated either to the Social Fund which is used to promote local development, the Reserve Fund, or to member's Individual Accounts, the contents of which can be redeemed upon retirement. Secondly, and because ownership is equally shared, decision-making is democratic. Ultimate authority within each firm is vested in the General Assembly which meets at least twice a year and in which all members have one vote. Although most management functions are devolved to the General Council, the twelve members of this council are elected by and remain accountable to all the members. Thirdly, each firm continues to practice a policy of 'wage solidarity' so limiting income differentials.[11]

The third and very different argument to be considered is that co-operatives generate positive externalities – better labour relations, economic stability and responsible

[6] Cyrus E. Zirakzadeh, 'Theorising about Workplace Democracy: Robert Dahl and the Co-operatives of Mondragon', *Journal of Theoretical Politics*, 2 (1990), 109–26, p. 117.

[7] William Whyte and Kathleen Whyte, *Making Mondragon: The Growth and Dynamics of the Worker Co-operative Complex* (Ithaca, NY: Cornell University Press, 1991), p. 3.

[8] The standard reference here is Benjamin Ward, 'The Firm in Illyria: Market Syndicalism', *American Economic Review*, 48 (1958), 556–89. For a summary of such arguments, see David Schweikart, *Against Capitalism* (Cambridge: Cambridge University Press, 1994), pp. 88–96.

[9] Henk Thomas and Chris Logan, *Mondragon: An Economic Analysis* (London: George Allen & Unwin, 1982), p. 3.

[10] Derek Jones, 'Producer Co-operatives in Industrialised Western Economies', *British Journal of Industrial Relations*, 18 (1980), 141–54.

[11] Whilst the initial practice of paying no member more than three times the wage of the lowest paid has now been abandoned, 30 per cent of wages are still deducted at source and redistributed within both the firm and the group.

citizenship – from which the overall economy but not the individual firm benefits.[12] This means, first, that isolated co-operatives in a capitalist economy are unlikely to survive but, secondly, that it is wrong to extrapolate from the poor performance of co-operatives in a capitalist economy the likely performance of co-operatives in a market socialist economy from which capitalist firms have been largely eliminated. As David Miller concludes: 'what creates difficulties for co-operatives is not producing for a market economy itself, but producing in competition with capitalist enterprises … co-operatives operating in a capitalist environment may be "unsuccessful" but a market economy made up entirely of co-operatives can be stable and efficient.'[13]

The suggestion here is that capitalism may free-ride on co-operatives. In the case of Mondragon, it will be argued that the very opposite may apply. For now, note only that acceptance of this argument raises uncomfortable questions about market socialism's political feasibility. If a necessary condition for the success of market socialism is the prior elimination of most capitalist firms then this success will depend upon the willingness of the electorate to gamble upon a largely unknown system.[14] By demonstrating that co-operatives can prosper in a capitalist economy, Mondragon shows not only that this risk might be minimal but that there is an alternative 'piecemeal' strategy in which market socialism can be achieved through the gradual displacement of capitalist firms.[15] It is for this reason that Mondragon has attracted such interest.

II. ENTREPRENEURSHIP AND MONDRAGON RECONSIDERED

Are its proponents entitled to place such faith in Mondragon's success? Given the failure of so many other co-operatives, simple statistical prudence might suggest not. Yet the claim made for Mondragon is that it works because it has a superior structure to other co-operatives; a structure that could be copied by others with comparable results.[16] In particular, much is made of the rule that members are only allowed to redeem the contents of their individual accounts upon retirement and that those who leave prematurely forfeit their savings.[17] This rule, it is argued, encourages members to adopt a longer time-horizon and so resist the temptation, for example, to underinvest which exists when exit is costless. Alternatively, it can be objected that Mondragon's success tells us more about Guipuzcoa's close sense of community and history of political radicalism than it does about the viability of labour co-operatives.[18] The argument in this section is equally sceptical but focuses upon Mondragon's economic record: the starting-point being the familiar argument that whatever its other defects capitalism

[12] Peter Jay, 'The Worker's Co-Operative Economy', in Alistair Clayre, ed., *The Political Economy of Co-Operation and Participation* (Oxford: Oxford University Press, 1980), pp. 9–45 (on better industrial relations); Robert Dahl, *A Preface to Economic Democracy* (Cambridge: Polity Press, 1985), pp. 93–5 (on citizenship); and David Levine, 'Demand Variability and Work Organisation', in Samuel Bowles and Herbert Gintis, eds, *Markets and Democracy: Participation, Accountability and Efficiency* (Cambridge: Cambridge University Press, 1993), pp. 159–75 (on economic stability).

[13] David Miller, *Market, State and Community: Theoretical Foundations of Market Socialism* (Oxford: Clarendon, 1989), pp. 92–3.

[14] A similar argument regarding market socialism's political feasibility is offered by Christopher Pierson, *Socialism after Communism: The New Market Socialism* (Cambridge: Polity, 1995).

[15] Robert Oakeshott, 'Piecemeal', in Clayre, *Political Economy of Co-operation*.

[16] Saul Estrin, 'Worker's Co-operatives: Their Merits and Limitations', p. 184.

[17] Whyte and Whyte, *Making Mondragon*, pp. 40–3. They report that exceptions are made only when a member is forced to retire because of poor health.

[18] Oakeshott, *The Case for Worker's Co-operatives*, pp. 172–3.

successfully stimulates entrepreneurial activity.[19] Two theories of entrepreneurship will be examined, the second of which, it is argued, exposes the limitations of the Mondragon experiment.

The first – the 'Austrian' theory – was developed by Friedrich Hayek and Ludwig von Mises during the calculation debate.[20] Responding to the 'proof' that a socialist economy in which assets were publicly owned could be as efficient as a capitalist economy, the Austrians accepted that this would be so in equilibrium but argued that it was unclear how a socialist economy could be expected to achieve equilibrium. Improved co-ordination and movement towards equilibrium is, they argued, the result of competition between rival entrepreneurs constantly adjusting their prices to exploit perceived gaps in the market. Public ownership would inevitably stifle this competitive process and retard the movement towards equilibrium. In recent years, the Austrian tradition has enjoyed something of a revival and in the work of, for example, John Roemer it now provides the benchmark against which models of market socialism are judged.[21] Co-operatives are, it should be recognized, capable of this kind of entrepreneurial action. Confronted with a hard budget-constraint and forced to compete against other firms, they have a powerful incentive to try and satisfy consumer preferences. The profits captured by Mondragon's most successful firm, FAGOR, which is Spain's largest producer of washing machines, indicates that co-operatives can discover and exploit gaps in the market.

The rediscovery of the Austrian approach has threatened to eclipse a second and in many ways more radical account of the entrepreneurial process whose origins can be traced to the work of Joseph Schumpeter. In accounting for the growth of capitalist economies, Schumpeter emphasizes the importance of 'creative destruction': the introduction of new goods, new methods of production and new methods of organisation.[22] The difference between these two forms of entrepreneurship should not, Schumpeter argues, be underestimated. Entrepreneurial innovation is a consequence not of changes in demand but of changes in supply, consists of movement not towards but away from the prevailing equilibrium and occurs despite not because of existing consumer preferences.[23] Two further features of Schumpeter's account of the entrepreneurial process explain why such innovation is comparatively rare. First, the entrepreneurial qualities of courage, imagination and judgement necessary to 'act with confidence beyond the familiar range of beacons' are found in only a small proportion

[19] Anthony Flew, 'The Dynamic of Capitalist Growth', *Social Philosophy and Policy*, 6 (1988), 183–96; and Anthony Seldon, *Capitalism* (Oxford: Blackwell, 1990), pp. 15–27.

[20] See Friedrich Hayek, ed., *Collectivist Economic Planning* (London: Routledge, 1935), for the original contributions. Don Lavoie, *Rivalry and Central Planning: The Socialist Calculation Debate Reconsidered* (Cambridge: Cambridge University Press, 1985), offers a general summary of the debate.

[21] John Roemer, *A Future for Socialism* (London: Verso, 1994). The rehabilitation of Austrian theory is due partly to the efforts of Israel Kirzner; see, for example, *The Meaning of the Market Process: Essays in the Development of Austrian Economics* (London: Routledge, 1992).

[22] This term is used in Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (London: George Allen & Unwin, 1942), chap. 7. More generally, see Joseph Schumpeter, *The Theory of Economic Development* (Cambridge, Mass.: Harvard University Press, 1936).

[23] Schumpeter argues that innovation represents 'that kind of change … which so displaces [the economy's] equilibrium point that the new one cannot be reached from the old one by infinitesimal steps' (Schumpeter, *Capitalism, Socialism, and Democracy*, p. 64). By implication, larger amounts of the first kind of entrepreneurship cannot compensate for an absence of the second. On the distinctive nature of Schumpeterian entrepreneurship, see Nathan Rosenberg, *Exploring the Black Box: Technology, Economy and History* (Cambridge: Cambridge University Press, 1994).

of the population.[24] Secondly, because consumers are both conservative and fickle, even those entrepreneurs with the necessary personal qualities will frequently fail. The threat of bankruptcy, Schumpeter writes, 'threatens or actually overtakes many an able man'.[25]

Schumpeter himself, it should be acknowledged, foresaw a moment when innovation would become routinized, bureaucratized and relatively uncomplicated.[26] Yet this moment – which in Schumpeter's account would be followed by and indeed in some ways be equivalent to the triumph of socialism – has not yet arrived. It is certainly the case that corporations rather than individuals have come to dominate the entrepreneurial process.[27] Yet not only does innovation remain central to the entrepreneurial process but, as the recent history of such industries as computing indicates, these innovations often take the form of breakthroughs whose eventual effect is to revolutionize existing production techniques.[28] As many have argued in the case of the former Soviet Union, the failure to stimulate such innovations leads to economic stagnation.[29] Furthermore, innovation remains hazardous. As George Gilder notes in his hagiography to the entrepreneur, 'of the thousands of plausible inventions, only scores are tested by business, and only a handful of these [achieve] economic success'.[30]

If it is to be argued that an economic system based upon the use of co-operatives will be as efficient as capitalism then it must be shown that they are capable of the kind of innovation that has underpinned economic growth in capitalist countries. Yet this is precisely what the Mondragon example does not show. For, instead of attempting to break new economic ground, the first Mondragon firm, ULGOR, produced a paraffin lamp the design of which it acquired by simply dismantling and copying an existing French model. In later years Mondragon specialized in the production of electrical goods having acquired the licences to produce existing German products behind Spain's tariff barriers. Today the product mix is more varied, but Mondragon firms still produce only those goods for which there is an already established market demand. As two economists who have written a flattering portrait of Mondragon acknowledge, 'whilst the industrial co-operatives do a certain amount of research … most innovations as far as technology and new products are concerned have been introduced after obtaining licences from elsewhere.'[31]

To call such activity innovation is, from the Schumpeterian perspective, misleading. No doubt the production processes used in the manufacture of nails, bicycles and office furniture are both technically advanced and economically efficient, but they are used to produce products that have already been produced by others. It is in this sense that Mondragon can be said to free-ride off capitalism. Mondragon firms exploit the entrepreneurial innovations of others and whilst they do so effectively, their activities none the less remain part of what Schumpeter dismisses as the 'circular flow' of

[24] Schumpeter, *Capitalism, Socialism, and Democracy*, p. 132.
[25] Schumpeter, *Capitalism, Socialism, and Democracy*, pp. 73–4.
[26] Schumpeter, *Capitalism, Socialism, and Democracy*, pp. 131–3.
[27] See also John Kenneth Galbraith, *The New Industrial State* (Harmondsworth, Middx: Penguin, 1967).
[28] On the continuing importance of what the author describes as 'radial innovation', see Chris Freeman, 'The Economics of Technical Change', *Cambridge Journal of Economics*, 18 (1994), 463–514, pp. 474–9. On the computing industry, see Giovanni Dosi, *Technical Change and Industrial Transformation: The Theory and Application to the Semiconductor Industry* (London: Macmillan, 1984).
[29] See Joseph Stiglitz, *Whither Socialism*? (Cambridge, Mass.: MIT Press, 1996), pp. 204–5.
[30] Quoted in Schweikart, *Against Capitalism*, p. 129.
[31] Thomas and Logan, *Mondragon: An Economic Analysis*, p. 59.

economic activity.[32] In this respect Mondragon is not unusual. Most firms, including Mondragon's capitalist neighbours, remain equally parasitic. Indeed, it has been argued that Spanish firms more generally showed few signs of engaging in entrepreneurial activity during the period when they were protected from international competition by Franco's economic policies.[33] Yet, however typical, Mondragon's failure to engage in successful innovation limits its value as a study to be cited in support of the feasibility of co-operatives. The logic of Miller's earlier argument can now be reversed. Whilst an isolated co-operative in a capitalist economy can succeed without having to attempt entrepreneurial action, this success cannot be used as evidence for the viability of labour co-operatives in an economy from which capitalist firms have been eliminated and consequently in which there would be a need for some co-operatives to engage in entrepreneurial activity if economic growth were to be sustained.

III. DEMOCRACY, RISK AND ENTREPRENEURSHIP

The conclusion in the previous section cannot of course be taken to mean that co-operatives cannot stimulate the required entrepreneurial activity. In this final section and by continuing to draw both on Schumpeter's theory and the Mondragon example it will nevertheless be argued that two features of co-operative structure make it less likely that they will do so. By implication, this is a source of comparative disadvantage for co-operatives. This is not to suggest that innovation is always valuable. In a market socialist economy the government may well seek to regulate the entrepreneurial process and to discourage, for example, innovations that contribute to the destruction of the environment.[34] None the less, the argument that innovation is not always of value should not be taken to mean that innovation is never of value. Innovations may, to pursue the same example, economize on the use of scarce natural resources and so contribute to the protection of the environment. The argument here is also and inevitably more narrowly political. Whatever the philosophical attractions of a stationary-state economy, governments continue to be judged, at least in part, on their capacity to generate growth.[35] Part of market socialism's appeal is its promise to transcend the trade-off between efficiency and social justice and for this reason the suggestion that co-operatives may be unable to stimulate one kind of entrepreneurial activity is a serious one.[36]

It is a defining and for socialists an attractive feature of co-operatives that decision making within them is democratic. In the case of Mondragon, 'everything implied by a substantial modification in the economic, organisational and functional structure of the

[32] Schumpeter, *Capitalism, Socialism, and Democracy*, chap. 7. Schumpeter's account of the 'circular flow' corresponds almost exactly to that of the Austrian theory of entrepreneurship.

[33] See Manuel Roman, *The Limits of Economic Growth in Spain* (London: Praeger, 1971), pp. 88–98, on Spanish entrepreneurship. Keith Salmon, *The Modern Spanish Economy* (London: Pinter, 1995), pp. 165–9, emphasizes Spain's reliance upon foreign technology and 'traditional' low-technology industries such as tobacco and soft drinks.

[34] The most rounded discussion of the welfare limitations of innovation is offered by Schweikart, *Against Capitalism*, pp. 140–62.

[35] As Crosland observed, 'whether the case [for economic growth] is accepted by writers and intellectuals, the people themselves are quite determined on a rapid improvement in their living standards; and government will have to attend to their wishes' (Anthony Crosland, *The Future of Socialism* (London: Jonathan Cape, 1956), pp. 287–8).

[36] On the trade-off between efficiency and justice and the promise of market socialism, see John Roemer, 'Are Socialist Ethics Consistent with Efficiency?' *Philosophical Forum*, 14 (1983), 369–88.

co-operative' has to be approved by a majority vote in the General Assembly.[37] What impact will this have upon entrepreneurial capacity? It should be recalled that for Schumpeter very few individuals are capable of entrepreneurial action. Most individuals will fail to be impressed by proposals the efficacy of which can only be established after they have been acted upon. In a co-operative this innate conservatism will threaten the development of entrepreneurial projects. Furthermore, whilst it will be open to the losing coalition in any vote to leave and start their own venture, or for a entrepreneur not yet in a co-operative to recruit a set of workers willing to defer to their judgement, these strategies are not costless.[38] In the first case, it should be noted that under the rules currently employed within Mondragon, this minority coalition would risk losing their savings. Yet if these rules were relaxed or abandoned, the source of Mondragon's comparative advantage over other co-operative structures would be lost. For if exit were made easier, this might encourage strategic defection in the pursuit of short-term gains. In the second case, it can be noted that the entrepreneur's search for a quiescent workforce would represent an additional cost to be borne prior to the launch of any venture: a cost that the capitalist entrepreneur can avoid. However attractive in other respects, democratic decision making in this way confronts the entrepreneur as an additional barrier to entry.

A second defining feature of co-operatives is that their members are entitled to an equal share of profits. In a 'mixed economy' of both capitalist and co-operative firms, this might discourage a risk-taking entrepreneur intent upon pursuing what Schumpeter terms the 'spectacular prizes' of entrepreneurial success from starting a co-operative.[39] The value of the 'piecemeal' strategy which Mondragon's survival is taken to vindicate may therefore be limited. If this option were removed, a second problem would arise. The corollary of shared profits is of course shared losses. Yet as others have noted, the concentrated risk to which this will expose the members of a co-operative will discourage them from taking avoidable risks and favour projects that have a lower *ex ante* probability of failure.[40] Yet, as we have seen, it is precisely the willingness to take risks in the pursuit of an uncertain outcome that innovation requires. It may not be a lack of 'imagination and judgement' that discourages the members of a co-operative from stepping beyond 'the familiar range of beacons' but calculated discretion.[41] Once again, the Mondragon example is an interesting one. Academic attention is often focused upon the close relationship between Mondragon's own bank, the Caja Laboural Popular, and newly formed enterprises within the group. For Robert Dahl, the assistance given by the former to the latter ensures a 'quantum leap in the quality and type of entrepreneurship'.[42] For whilst in capitalist economies between 80 and 90 per cent of all new firms fail within five years, Dahl observes that in Mondragon only one co-operative has ever

[37] Taken from the *Mcc-Basic Principles*, http://mondragon.mcc.es.

[38] The first of these options is canvassed by, for example, Schweikart, *Against Capitalism*, p. 133–5, although this needs to be seen in the more general context of his argument that reduced innovation may be an attractive feature of a market socialist society.

[39] Schumpeter, *Capitalism, Socialism, and Democracy*, p. 73.

[40] Michael Jensen and William Meckling, 'Rights and Production Functions: An Application to Labour-Managed Firms and Codetermination', *Journal of Business*, 52 (1979), 469–506; Chris Doucouliagos, 'Institutional Bias and Worker's Aversion', *Journal of Economic Issues*, 24 (1995), 1097–118; Jaques Drèze, 'Self-Management and Economic Theory', in Bardhan and Roemer, *Market Socialism*, pp. 253–65.

[41] Schumpeter, *Capitalism, Socialism, and Democracy*, p. 132.

[42] Dahl, *Preface to Economic Democracy*, p. 158.

closed.[43] Yet if, as Schumpeter argues, failure is inevitable, this record suggests not great entrepreneurial ability but rather limited entrepreneurial ambition. In a capitalist system and precisely because ownership is not restricted to those who work in a firm, risks can be more effectively managed as investors can divide their resources between different firms, only some of which need be engaged in innovative activity. It is understandable that in Mondragon innovative projects are eschewed and bicycles, nails and washing machines produced.

[43] On the failure of capitalist firms, see Timothy Dunne, Mark Roberts and Larry Samuelson, 'Patterns of Firm Entry and Exit in US Manufacturing Industries', *Rand Journal of Economics*, 19 (1988), 495–515; and John Stanworth and Colin Grey, eds, *Bolton Twenty Years On* (Liverpool: Paul Chapman Publishing, 1991).