

MILOŠ KOVAČEVIĆ

**TRANSITIONING TO PROPERTY-OWNING
DEMOCRACY IN SERBIA**

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Transitioning to Property-Owning Democracy in Serbia

Introduction

While there is general agreement that high levels of inequality are harmful, the deeper questions of *why* inequality is wrong, *what* type of economy we should aspire to, and *how* we should get there remain insufficiently explored. This policy brief seeks to answer the first question, focusing on two perspectives on economic justice: the responsibility-sensitive approach and the opportunity-sensitive approach. These approaches provide distinct frameworks for understanding economic inequality, each with its own philosophical underpinnings and implications for policymaking. Concerning the second question, the paper argues for a property-owning democracy, understood as a combination of economic democracy and coupon capitalism, as a vision of a just economy. Lastly, it suggests employee buyouts of companies as a solution and presents the succession challenge as an opportunity for a viable pathway towards property-own-

ing democracy. Based on interviews conducted with legal and economic experts, the policy brief concludes with concrete recommendations for the introduction of the European Employee Stock Ownership Plan (EurESOP) in Serbia.

Why Are Current Inequalities Unfair?

Rawls names justice as the main virtue of social institutions (Rawls 1999). However, the question of what level of economic inequality can be considered fair (if any) remains a topic of ongoing debate (Frankfurt 2015, Cohen 1994). In Serbia, the wealthiest 1% own nearly a quarter of all net personal wealth. The top 10% in Serbia capture 58% of the wealth, while the bottom half of the adult population holds only 4%. Regarding income inequality, the average post-tax income of the top 10% is 16 times larger than the average income of the bottom half of the population. Here, two approaches to just economic distribution are examined: the first centers on the notion of responsibility, while the second attempts to correct for conditions that are outside the control of individuals.

In general terms, the responsibility-sensitive approach to economic justice is rooted in the non-controversial idea that individuals should bear the consequences of their actions. Although this idea is widely accepted in a judicial context, significant deviations occur in the context of labor and production, in which capital owners are allowed to appropriate surplus value for which they are not factually responsible (Ellerman 1997). The artificial separation of the economic domain from the general principle of attributing liability is the main target of the responsibility-sensitive critique. Since there is no warranty for the exceptional treatment of the production process, this separation introduces inconsistency in moral reasoning and undermines justice. According to the labor theory of property, individuals have a natural right to the fruits of their labor (Schlatter 1951, Ellerman 1992). The labor theory of property is grounded in the concept of inalienable rights, understood as rights so intrinsic to human agency that they cannot be transferred or relinquished, even with consent. If the concept of inalienable rights is applied to

the workplace, then it follows that workers have an inalienable right to the products of their labor. This means that the employment contract, which allows capital owners to claim the surplus value generated by workers, is inherently unjust (Ellerman 1997). Thus, current economic relations generate significant economic inequalities through the violation of workers' inalienable rights.

On the other hand, the opportunity-sensitive approach to economic justice shifts the focus from individual responsibility to the broader social and economic structures that shape opportunities (McManus 2025). This framework acknowledges that an individual's productivity is influenced by factors beyond their control, such as inherited infrastructure, social circumstances, and privilege. For example, a worker's productivity may be higher in a country with robust infrastructure and strong institutions; hence, it is not merely the result of their individual effort but rather the collective actions taken over generations (Chang 2010). Similarly, privilege and luck play a significant role in determining economic outcomes. Since the responsibility-sensitive approach neglects these factors, it does not provide an optimal normative framework for evaluating economic systems. Meanwhile, the opportunity-sensitive approach to economic justice addresses the problem of differing capabilities and luck by linking the advantageous position of the privileged to the better position of the least advantaged. In other words, inequalities are only acceptable if they benefit those at the bottom of the economic ladder (Rawls 1999).

Although both approaches to economic justice permit a certain level of inequality, they also imply a significantly more egalitarian economic distribution than currently exists. Post-war social democracies in Western Europe have attempted to reduce economic inequalities with comprehensive and generous welfare programs financed through progressive wealth and income taxes. However, even during the peak of social democratic efforts to achieve economic justice, welfare states violated the fundamental political values of freedom and equality due to the inherent contradiction of redistributive policies. Due to their high concentration of wealth, the well-off have greater influence over

political processes, allowing them to effectively block transfers that are necessary in a well-ordered society. Considering the failure of redistributive policies to ensure economic fairness, a turn towards pre-distributive alternatives is warranted (O'Neill and Williamson 2014).

What Is Just Ownership Distribution?

Property-owning democracy is a system designed to widely disperse capital ownership, ensuring that no single group dominates economic life (Rawls 2001). This system, alongside liberal socialism, is considered capable of upholding both freedom and equality, unlike systems such as laissez-faire capitalism or authoritarian socialism. It operates through distinct branches of government tasked with preventing monopolies, ensuring full employment, establishing a social minimum, and funding public goods. However, the precise institutional mechanisms for implementing this system remain broadly outlined rather than specified in detail (Rawls 1999, 2001).

The two competing conceptions of a property-owning democracy are economic democracy and coupon capitalism (Schweickart 2012). Both models aim to democratize ownership and address economic inequality, but they do so in different ways. Economic democracy is a model where workers own and control the means of production in the companies where they work (Dahl 1985, Lutz and Lux 1988, Ellerman 1992). This model is rooted in the belief that ownership should be tied to labor, with workers holding shares that cannot be sold or inherited by non-workers. By limiting ownership to those actively involved in the company, this model ensures that firms remain under worker control and avoids absentee ownership. Meanwhile, coupon capitalism is a model where ownership of large enterprises is distributed evenly among all citizens through a voucher system. In this model, citizens receive shares in companies, which they can trade but not sell for money or inherit (Roemer 1994). This system creates a form of socialized capital where ownership rights are limited to prevent wealth concentration while maintaining market efficiency. Both models have their shortcomings. In coupon cap-

italism, shareholders cannot effectively control management because they own a small share in each company (Schweickart 2012, Malleson 2014). The dispersed ownership structure means corporate decisions remain in the hands of professional managers rather than citizen-owners. On the other hand, in economic democracy, ownership is tied to only one company, exposing owners to greater risk (Hsieh 2014). Workers bear the full consequences of their firm's performance, with no diversification to mitigate potential losses. Economic democracy favors those willing to accept higher risk for greater workplace control, while coupon capitalism appeals to those preferring financial security over managerial influence. Implemented alone, they would either unfairly prioritize the interests of risk-tolerant individuals or hierarchy-tolerant individuals. However, a sector-specific application of each model would enable citizens to decide between them according to their preferences. The smaller scale would allow for meaningful participation in decision-making. Thus, economic democracy is particularly well-suited for small and medium-sized enterprises (SME), where workers can effectively control and manage their companies. Coupon capitalism, on the other hand, is better suited for workers in large corporations, where shareholders' portfolios are more diversified and, therefore, less risky. The voucher system ensures all citizens benefit from capital ownership, while the large scale of enterprises makes worker control impractical, making dispersed ownership through coupons the more appropriate solution.

This mixed arrangement offers additional advantages by preventing workers from converting shares in SMEs into investments in conventional enterprises, ensuring that all means of production remain under either coupon capitalism or economic democracy. This exclusion of monetary purchases for ownership would effectively block property concentration.

A pragmatic transition toward property-owning democracy could begin by prioritizing economic democracy in SMEs as a prefigurative strategy that builds worker-owned enterprises within existing systems. This approach requires no robust state intervention or expropriation. This bottom-up strategy rep-

resents a more feasible starting point for fairer pre-distribution than coupon capitalism, particularly in Serbia, where state support for progressive economic policies is lacking. It may also potentially lay the groundwork for more transformative state-led reforms in the future.

How to Kick Off Worker Buyouts?

Employee buyouts are a concrete mechanism for transitioning into a property-owning democracy. The European Employee Stock Ownership Plan (eurESOP), developed by the Institute for Economic Democracy in Ljubljana, combines the most effective elements of the cooperative movement and the Employee Stock Ownership Plans that have successfully operated in the United States for several decades. It is an indirect, broad-based, and democratic form of employee ownership that ensures ownership remains anchored within the company's workforce (Gonza 2025).

The eurESOP operates through a special purpose vehicle, such as a cooperative, which purchases company shares on behalf of employees. The shares are gradually repaid using the company's profits, ensuring that employees do not bear the financial burden of the buyout. Over time, ownership is individualized through individual capital accounts. These accounts function as internal debt, which is settled when new employees join the firm, allowing senior employees to realize capital gains while maintaining democratic control over the company. The employees themselves should decide democratically on the specific criteria for determining labor contributions. The distribution method could be equal for all or adjusted to reflect differences in wages and seniority, provided the majority of workers agree.

In contrast to the Mondragon cooperatives, which exclude a significant portion of workers from membership due to high membership fees, the eurESOP encompasses all employees of the underlying company. This is because the eurESOP does not require employees to invest their personal savings or to put their assets at risk.

The eurESOP addresses several key challenges associated with employee ownership, such as the *horizon problem*—where employees prioritize short-term gains over long-term investment—and the *risk of degeneration into absentee ownership*. Unlike collectivized forms of employee ownership, such as traditional cooperatives, the eurESOP is not affected by the horizon problem due to the utilization of individual capital accounts. Additionally, collective ownership can lead to degeneration into absentee ownership. In traditional cooperatives, where employees collectively own the capital, there is an incentive for current workers to sell the business to external buyers to capitalize on gains. This occurs because, without the ability to sell shares to incoming employees, departing members must relinquish them without compensation. By implementing a rollover plan, which is a periodic share repurchase from older employees that is redistributed to new ones, the eurESOP additionally ensures that ownership remains within the company. This mechanism not only prevents the concentration of ownership of equity but also reduces disparities in risk-taking among employees.

The anticipated business succession presents an opportunity for a large-scale transfer of companies to employees. In the Serbian context, where SMEs dominate the economy and succession planning is often neglected, the eurESOP offers a particularly promising solution. In Serbia, SMEs make up 99.9% of all businesses and employ nearly two-thirds of the private sector workforce (Burzanović 2024). Among over 100 fast-growing, successful business owners surveyed in 2020, 66% expressed hopes for family succession, while 21% said they would also consider selling the company to another business. The rest mentioned either going public or selling to an investment fund or to another party. Regarding the anticipated timeframe for exiting their businesses, 34% of respondents said they expect this to occur within five to ten years, 29% said it would take longer than 10 years, 15% anticipated an exit within two to four years, and 17% stated that they did not plan to exit ownership at all (Ernst & Young 2020). Serbia's transition to a market economy in the 1990s has left many business owners without the experience or knowledge needed to plan for succession (Vuković 2017). Consequently, a

significant number of businesses are at risk of closure or destabilization. By promoting employee buyouts of the companies in which they work, Serbia can address the succession crisis while advancing property-owning democracy.

Slovenian companies have recently begun adopting the eurESOP model. Several companies have implemented it so far, including Inea, where 100% of the company shares are now owned by all 90 employees. Interest in the model is growing, with many more workers expected to become co-owners. The Institute for Economic Democracy has prepared a legislative proposal in cooperation with the Ministry of Labor, Family, Social Affairs, and Equal Opportunities to support the eurESOP transitions. This proposal offers tax incentives for business owners who transfer ownership to employees, for lenders financing these transitions, and for classifying ESOP contributions as tax-deductible. To prevent misuse, the proposal includes safeguards: tax benefits are linked to the share of ownership held by employees, at least 85% of permanent workers must participate, and employee-owned shares must be governed democratically by elected representatives. It is expected that the law will be passed by the end of the current government's mandate this year.

While the eurESOP presents a compelling solution, its implementation in Serbia faces several challenges, as the legal and institutional frameworks are not yet fully supportive of employee ownership (Momčilov and Knežević Bojanić 2024). To get a clearer understanding of the obstacles to eurESOP's implementation, as well as the best responses to them, interviews have been conducted with academics and consultants specializing in employee ownership and succession challenges. The key obstacles identified are the lack of recognition for individual capital accounts and rollover plans in Serbian law on cooperatives, as well as tax-related issues that disincentivize business owners from transferring ownership to employees (Lakić et al. 2023).

To overcome these challenges, a combination of market-level alternatives and state-level reforms is necessary. At the market level, promoting employee buyouts as a viable succession strat-

egy, particularly for SMEs, is essential. At the state level, legal and tax reforms are needed to create an enabling environment for employee ownership. It is recommended that the Serbian government introduce tax incentives for business owners who transfer ownership to employees, as well as legal provisions for individual capital accounts and rollover plans. The following reforms would not only facilitate the transition to employee ownership but also address the broader issue of economic injustice by democratizing and de-commodifying capital ownership.

Recommendations

1. Amendments to the Law on Cooperatives

After the pilot of the holding workers' cooperative within the current legal framework, the following amendments to the Law on Cooperatives should be made:

- Recognition of holding cooperatives as a specific type of workers' cooperative.
- Allowing transfer of full or part of the ownership to the holding cooperative.
- Ensuring that membership in holding cooperatives is only provided to employees in the underlying company.
- Increasing the vote threshold for selling the cooperative's assets.
- Recognition of individual capital accounts and a rollover plan.

The pilot would allow for identifying additional problems and barriers that may arise in practice, providing a better basis for legal changes.

2. Establishment of an investment fund for crediting the eurESOP transitions

The new public investment fund, or the new sector within the existing Fund for Development, should provide financing for the transitions of conventional companies to employee-owned companies with interest rates below the market level and generous grace periods.

3. Employee ownership-friendly tax treatment

Tax treatment that stimulates both the eurESOP transitions and the already established employee-owned businesses, including:

- Increase in inheritance tax.
- Tax exemption from capital gains tax when the share is sold to the eurESOP.
- Tax exemption from interest tax when the eurESOP buyout is credited.
- Tax exemption of companies that are majority owned by employees from corporate tax.

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