THE FUTURE, DYNAMICS AND FUNDAMENTAL PRINCIPLES OF GROWTH OF ECONOMIC DEMOCRACY

A four-part paper to be presented to the IAFEP in Mondragon, July 2006

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ABSTRACT:

My contribution consists of four related studies of an economy based on principles of economic democracy.

The first is inspired by the new phenomenon where large Mondragon cooperatives initiate and organize firms in their respective areas of activity in other countries, for the most part aiming at securing proximity of suitable labor availability and suitable product markets. Using a theory of mine developed elsewhere, an attempt is made to justify and explain such a phenomenon. In essence the theory of economic democracy can be seen as consistent with this phenomenon, provided that it is interpreted as a parental involvement of the parent firm in Mondragon which will lead to a democratic solution through a process of maturation. Such a process however must be lived and defined through what we can call a “praxis progression”.

The second paper, also inspired by a system of support organizations in San Francisco, explores in theory and practice the logic and optimality of support organizations in a world of economic democracy. For the Mondragon audience it is good to note that the pivotal system of cooperatives here are highly successful bakeries – bearing the name of ARIZMENDI.

The third contribution – perhaps most significant in the global context – shows, using an analytical framework similar to the other two, that the democratic solution of the economy not only renders our world non-schizophrenic, but in practice most powerfully contributes to the healing of world ecology and survival. This is done through a systematic comparison of ecological impacts of economic democracy versus capitalism from a number of essential points of view.

The fourth contribution could be written only a few days before the IAFEP gathering in Mondragon, because it is based on a visit to the Copreci firm in Dvorce, Czech Republic. It is mostly a supporting document and further elaboration of the first paper of this collection.

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I: THE FUTURE AND DYNAMICS OF ECONOMIC DEMOCRACY

INTRODUCTION

It may be useful to begin this discussion with a brief history of the subject; not the whole history starting from Buchez, the Utopians and Rochdale, but the more recent history beginning after the Second World War. Following that war the winning systems were both capitalist systems, one based on private capital ownership, the second based on state capital ownership. That is, both systems were seeking to serve the interests of capital--one that of the private owners, the other the interest of the state--as if the workers were just a resource to serve capital. More concretely, especially with respect to the western private capitalism, the system worked as if profits were to be maximized, that is the incomes and well-being of the workers were to be minimized.

By contrast, many intellectuals and practitioners somehow intuitively felt that there is something “rotten in the state of Denmark.” Especially in the West, priding itself on its democratic principles, the question arose why there should not be democracy in all domains of human life, both the political and the economic.

If such reflections were based just on an intellectual exercise, the whole matter might have gone to sleep and disappeared. But there were some concrete developments in the real world. [We may concentrate on two,] specifically the Yugoslav system of self-governing socialism and workers’ councils stemming from the socialist tradition in the East; and in the West, the experience of Mondragon in Spain, stemming from the traditions of Rochdale and the social doctrines of the Catholic Church. Of course there were many other experiences such as the hopes of the Prague Spring of 1968, but at this stage of our discussion they do not have to concern us.

What must also be noted in defining our subject are the many attempts, especially in the West, which tried and are trying to introduce participation by workers not based on their personal rights but based on the rights of worker ownership, in particular the development of the ESOP (Employee Stock Ownership Program). But this subject, whether good or bad, also does not concern us in the present paper.
2. THE POST- WORLD WAR II REAL WORLD IN OUTLINE

Our uneasiness about the dominant presence of two capitalist systems – private in the West and state in the East – was vindicated to a considerable degree by real events of the past half century. Starting from “the bottom of the pile” the Soviet system, where the state controlled both the political and economic spheres, collapsed, so to speak, of its own weight. And in this process it was assisted by the presence of the virulent western economies.

In the West, priding itself on its political democracy, the system of private capitalism combined with the market mechanism also did not fare very well. With free markets of all, including the (quasi-slave) market for human labor, enormous surpluses were realized, increasing without limit the power of the major holders of capital. And this power spilled over into the political domain to the degree where we can now speak of dollar-cracy rather than democracy.

The Yugoslav system, wherein the asymmetry of the west occurred in reverse, with a one-party state political power and an attempted worker participation in the economic domain, also had a hard time to survive. This was especially so for two reasons: first, the historical divisions within Yugoslavia; and second, the foreign policies of the West which never appreciated the Yugoslav experiment in economic democracy.

A more subtle observation is in order. The two perhaps most successful western economies, those of Germany and Japan, performed exceedingly well while they practiced some degree of worker participation: in Germany through the system of co-determination, and in Japan through a “family-like” position of the worker in the enterprise.

Most remarkably and meaningfully, the Mondragon system, born soon after the Second World War, not only survived but expanded and underwent some positive organic transformations. However, our hopes of witnessing a multiplication of new Mondragons throughout the world were not realized. We will return to this subject later in our paper, after having presented something that allows us to bring more order into the conceptual framework suggested by the real events sketched in this section.

Indeed it is necessary to develop an analytical framework which would allow us to categorize and further evaluate the systemic state of the world just outlined. We do so in the next section by summarizing what I call the “Unified Theory of Social Systems.” For the reader who may want to have a deeper understanding of the subject, I refer to my self-published study of the same title, UNIFIED THEORY OF SOCIAL SYSTEMS: A Radical Christian Analysis. The book is also available online, at:

http://dspace.library.cornell.edu/handle/1813/642
or URL:  http://hdl.handle.net/1813/642

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3. **UNIFIED THEORY OF SOCIAL SYSTEMS: AN OUTLINE**

Thus we live in a dollar-cracy where dollars of capital control the economy and its enterprises: where capital controls monopolistic and oligopolistic markets, and where enormous capitalist fortunes control, through campaign financing, most of the political process; where the poor members of society are far less likely to vote than the wealthy, who in addition to their disproportionate voting participation, also have far more leisure to construct their political “ambushes.”

To get out of this mess and to be able to design an optimal way forward, we must secure fundamental laws which should be self-evident.

1. Neither slaves nor human labor are marketable commodities. Human beings are the very subject of social participation and they cannot be, like slaves, subjects of the market mechanism, whether as persons, or providers of servile labor.
2. Social/human groups must participate in the determination of their joint interests.
3. Such participation in social decisions must be governed by the **intensity** of involvement (e.g. one person one vote in the case of social equality, or the well-known capitalist principle of one share, one vote).
4. Participation in social decisions must also be governed—and this is the major innovation of our optimal strategy—by the **nature or quality** of involvement, in categories which are qualitatively distinct and cannot be quantitatively compared to each other. For example, the quality of involvement of workers in an enterprise is categorically distinct from the involvement of the stockholders who may never have seen the factory they own, and who are most likely to hold an atomized portfolio of dozens of securities.
5. Finally, there are the methods, frequency, and structure of participation, which will determine whether participation is better or worse.

It is quite obvious that under all five headings there is a broad potential variability, such as self-determining labor or labor contract under [2], the limitless variability of portfolio ownership under [3], or frequency of voting under [5]. The variability under [4] is the very cornerstone of the unified theory and also the foundation of the fundamental theses of this paper.

While the quality of involvement can be multifarious and defined by each particular case, it is possible to list the most fundamental categories. They are: (1) intellectual involvement, (2) indirect involvement, (3) direct involvement, (4) vital involvement, (5) parental involvement, (6) spiritual involvement, and (7) loving involvement.

To give just one application, showing the perversity of our dollar-cracy world, we note that typically the workers of capitalist enterprises who are very seriously, directly if not vitally involved, have no participation in decisions and are subject to profit maximization, whereas the stockholders, whose involvement is indirect and most often atomized, possess the total power of decision, exercised either directly or indirectly through appointed boards or managers. In
addition and perhaps more gravely, the situation here is one negating the first fundamental principle of optimality.

3. LOOKING AT THE REAL WORLD

As we noted already, the Mondragon system survived so to speak with flying colors in the time when other world systems either perished or were undermined. It underwent significant internal changes of structure, but these were perhaps a stimulus rather than a hindrance to the growth of the system. It survived in spite of an oligopolistic capitalist environment exercising pressure on a small and alien cooperative species.

But as we have seen, we did not witness a proliferation into additional Mondragons numbers 2, 3, 4, 5 et cetera throughout the world. Perhaps it was the special conditions in evolution, so well described in the BBC film, that brought about Mondragon, including the person of Father Jose Maria Arizmendi that permitted this unique occurrence.

But now we are witnessing a new and unexpected phenomenon which is the main focus of this analysis. Mondragon like the entire western industrial world has been increasingly subjected to violent global forces where productive resources, best illustrated by the Chinese economy, became more available at costs dramatically lower than in the western capitalist world. Most significantly, we think here of wages more than a thousand times lower. And we need not remind ourselves of the fact that just about everything transportable is flooding American and western markets, produced in low-wage countries and generating catastrophic trade deficits for the rich countries.

Obviously the Mondragon industries selling in the same markets face similar if not identical forces of competition. And here the Mondragon system had to seek its own modes of adaptation. This was done not by creating new Mondragons in other parts of the world, but rather through creation of satellite or infant industries outside of Spain by individual large Mondragon firms.

For a superficial observer, especially an economist of the western neoclassical capitalist tradition, this was judged as a multinational type exploitation (so well known from the present-day global markets) of cheap labor abroad. But on closer scrutiny, with the analytical tools outlined earlier, this may be an erroneous conclusion.

The different large industrial firms of Mondragon have by now (writing in 2005) created around the world in various countries their “offspring” firms using the technologies, skills and technical organization of the parent firms. There are perhaps a dozen such firms in central and eastern Europe. The largest one, employing some 1500 workers, is found in Poland and some half-dozen exist in the Czech Republic. Two of them I have visited and studied personally in 2004. I report on these experiences in the following section. In concluding this section, I can state a strong presumption that what we are witnessing here is not a case of multinational type exploitation, but rather, in the spirit of section 3 above, a case of parental involvement of the
Mondragon mother firms. These appear to be “infants” of the Mondragon parents, undergoing – or to undergo – a family evolution passing from infancy through adolescence to maturity. And the forces surrounding such growth are most likely to resemble the evolution of healthy family relationships.

4. MY VISIT WITH TWO AFFILIATE FIRMS

We now turn to our description of two specific cases of infancy. At the biennial meeting of the IAFEP association in Halifax, I learned from Prof. Anjel Errasti that satellite/offspring firms were established in my old country of the Czech Republic, specifically in locations near the old historic city of Olomouc in Moravia. We arranged to meet in Czech Republic, Prof. Errasti using some of his holiday, with the intention to visit these firms.

We visited two firms of between 100 and 200 workers. They use very advanced technology and equipment, for the most part based on machinery brought from the parent firms in Spain. However it can be said that the technology is “in progress.” In one instance a possibility was discussed of replacing a labor-intensive segment of the production process by a more automated one; in that case, however, the cost of such substitution was quite considerable, and thus the decision was not yet taken in an environment of considerable excess availability of labor.

The location of both firms is determined among other factors by the proximity of markets, that is several firms producing kitchen stoves in central and eastern Europe using the Mondragon supplies of component parts, in particular electric hot plates and gas stove burners; but other components are also produced, such as high quality heat-controlling sensor for ovens. The firm producing electric hot plates actually acquired a formerly shut-down foundry to produce the metal plates.

Wages are obviously far less than incomes in the cooperatives in Mondragon, but their level in Moravia is clearly quite attractive, given the scarcity of employment opportunities. Actually in one of the firms we were told that there is a significant waiting list for employment.

The personnel of the firms is entirely from the local region, with the exception of the Basque directors of the two firms respectively. With these two directors we were able to discuss and learn a lot about the operation and spirit of the firms. I was very pleasantly surprised to find a certain sympathy for my concept of parental involvement and interpretation of the satellite firm as a project in progress akin to human development from infancy to maturity. I will elaborate below on this subject.

Even at this early stage (a few years) of existence of these firms, I observed an honest effort on the part of the administration to introduce participative elements into the production process, as realized in the parent firms in Spain. First, we noted that at least in certain stages, where this is possible, a working team can determine job rotations which render the rapid cadence of the process much more acceptable.
Another instance of internal participation was the recording within work groups of defective components, and consultation on that subject with the technical manager on a daily basis. Some members of the top administration were being invited for an internship working with the parent firm in Mondragon, to acquire organizational and other skills. Other technical personnel on a higher level were designing internal production processes in the firm. Also we took part in an informal gathering of workers in the middle of the morning, discussing with the technical direction questions and incidents of faulty components. Last but not least, the management introduced a system of cafeteria luncheons to enhance worker satisfaction. I visited with the kitchen personnel preparing an excellent lunch of smoked meat and sour cabbage and dumplings of such high quality that I regretted we were not participating in the lunch.

5. THE SPIRIT OF THE EXPERIENCE

It was my main concern to test, with the two young directors, the validity of my theses concerning the principles of parental involvement. I sensed that the external critique that the firms resemble capitalist-type multinational propagation through direct investment was very much on their minds. One could even say that they felt uncomfortable, not only about the external critique, but in the context of their personal consciousness. After all the firms, while working very efficiently and successfully, produce surpluses akin to capitalist profits, or akin to the surpluses within the Mondragon mother firms. But of course those surpluses do not go to any stockholders, but rather are allocated in a not quite clearly defined manner to various community purposes of the Mondragon system.

Having written a short note which was read by the two directors, I sensed their psychological sympathy with the concept of parental relationship. It was as if some of their critical concerns were somewhat appeased. In our discussions I felt that coming from the world of economic democracy of Mondragon, it is their honest desire ultimately to transform their firms into a species resembling that of their origin rather than an alien species of capitalist dependency and exploitation. And it is my hope, as suggested in the appendix considerations, that an avenue in that direction can be found. The paper of Prof. Errasti for the Halifax conference elaborates in some detail on the possible modalities of such transformation.

6. A HOPE FOR THE FUTURE

Those of us who hoped over the past fifty years to find a road towards an expanding economic democracy in the world were disappointed because Mondragon grew in itself but we did not witness a broad worldwide proliferation of other Mondragons. But what I witnessed in Moravia and other parts of the world with satellite “infant” firms may give us new hope. If it is possible to create new democratic firms along the lines here outlined and bring them through adolescence to maturity, and if such mature offspring –like the human species—could further procreate along a pattern similar to that adopted by the parents, there may be hope, in the sense of our section 2 above, to move to a world of optimal participation, and not a world of exploiting capitalism.
Without going into the details, there should be such a possibility. Indeed a typical parent on the one hand--in the context of our discussion--and the offspring on the other, are both in a position to benefit from the experience. The process of maturation from infancy to adulthood should be based on dialogue of those involved, finding the optimal process (in economists’ language, moving toward the contract curve) beneficial to all involved.

II: THE FUNDAMENTAL PRINCIPLES FOR GROWTH OF ECONOMIC DEMOCRACY

INTRODUCTION

In my preceding paper on the future and dynamics of economic democracy I recalled that from the time of the Second World War emerged two major systems, one based on private ownership and the other on state ownership. A democratic economic system based on human principles of democracy remained rather unknown, and to the extent that it existed at all it was or became an idealistic Cinderella which students of democratic principles in economics hoped for as a utopian vision of the future [e.g., see my Participatory Economy].

But several developments tended to give us a more concrete hope. First there was the experience of Mondragon in Spain based on work of Father Arizmendi and his friends, and a limited group of similar developments which suggested--at least to more careful students of economics--that there may be something quite positive about the democratic system in production and economics. Second, a rather extensive body of economic theory analyzing self-management and democracy in the place of work--to this day not widely known and partly contradicted by simplistic results [see Vanek, Ward etc] indicated the potential superiority of such a system in several respects as compared to the dominant capitalist model. And third, many empirical analyses, even by capitalist economists [see Blinder and many others] confirmed positive and even superior attributes of the democratic or cooperative system. Even entire economies, using some partial aspects of democratic “humanism” such as Germany or Japan, or in a different context Yugoslavia, support such results.

These and similar considerations brought us to the hope that something like the Mondragon system might proliferate through a large number of similar situations which might put us on the road of worldwide democratization of the economy. As I noted in the paper on the future and dynamics, this hope did not materialize in practice. The purpose of the previous paper was to indicate that there might be another road toward proliferation of economic democracy, based on “parental” forces.

I am writing now to moderate--and perhaps make more hopeful--the previous analysis through a more careful examination of the typology of dynamic forces which are affecting our subject. I would like to indicate a way out of the complex situation at hand through a
worldwide evolution towards a fully democratic system, both in political and economic dimensions. I believe such a system would be more just and thus support a more peaceful world.

The essence of our rather extensive and complex argument can be summarized through an allegory. The democratic economy—which is humanly and technically more efficient and desirable—can be compared to a healthy tissue consisting of cells of given optimal and desirable dimensions: growth of such tissue, like that of a normal embryo, takes place through a division and or multiplication of other similar cells. By contrast, the system based on capitalistic or capital-democratic principles is comparable to cancer which grows without limit in a pathological manner. Often it not only grows larger than the healthy tissue, as a tumor, but in doing so it prevents or even destroys the normal healthy part of the body. The pathology is of multiple dimensions when seen in the real world, distorting distributive justice, distorting human love and affection, distorting or destroying spirituality, distorting beauty, culture and even generating crime of many kinds.

II. THEORETICAL FINDINGS RELEVANT FOR OUR ANALYSIS

The first thing to note is that the two objective functions or decision-making principles of the two systems are diametrically opposed to each other. While a democratic firm tends to maximize the income and welfare of its working members, the capitalist system is based on the principle of profit maximization; and that implies, by definition, labor income and welfare minimization, subject only to the conditions of the labor market.

In a world of increasing, constant and diminishing returns to scale of operation, the income/welfare maximizing firm will tend to produce at the point of maximum efficiency, but will not tend to grow larger because increasing size of operation cannot increase the objective of highest income per worker. By contrast, the capitalistic firm will always tend to grow because such growth will tend to increase its objective of profit, as long as the market can absorb its product. To grow, the market must be increased, and this leads to the well-known effect of ever stronger advertising and pushing of the product. And this in turn affects overuse of resources, especially of energy, ecological destruction, mental destruction through materialistic distortion of desires and preferences, and many other detrimental effects on human minds, which become like those of herds of animals instead of intelligent and moral human beings. Moreover the democratic firm tends to produce the most efficient and just distribution of incomes/wages, unlike the capitalist solution which often tends to absurd income differentials of many thousands of per cent.

Based on its characteristics, the democratic firm tends to remain relatively small, with no pathological advertising and pushing. And thus growth of the “human tissue” of the democratic economy needs a process of multiplication of efficient firms – organic cells. This brings us to some process of supporting structures which generate and optimize such growth. And even if such institutions are present, this is not a sufficient but only a necessary condition for growth, because the cancerous effects of the competing system can be so strong as to prevent continuing growth of the democratic sector and the metamorphosis of the entire
economy. Just the broad educational culture, including schools and advertising can simply eliminate the concept of creating a democratic economy. An extreme form of such “brainwashing” is the “embedded” notion that capitalism is an integral part of democracy [see Michael Novak].

Such a suppression is a possibility even though we know from theory and practice that the democratic firm operating at a most efficient scale is generally more efficient, using its resources more economically, than the capitalist firm.

III. SUPPORT STRUCTURES AND THEIR CHARACTERISTICS.

Almost certainly the most significant concrete case of a working support structure is the support system of Mondragon consisting of the Caja Laboral Popular and several other support institutions. It is that situation which initially inspired our more academic and theoretical work and our hope for expansion of a democratic economy beyond the experience of Mondragon. It is not only the cornerstone of our understanding of the necessary conditions for growth of democracy in the economic domain, but also it provides us with an exhaustive taxonomy – or listing – of the possible functions of support structures for economic democracy. They are supporting activity in these domains:

1. Cooperative and technical education
2. Financing
3. Product definition
4. Technology
5. Technological development
6. Legal assistance
7. Organizational knowhow
8. Market analysis
9. Labor/membership questions.
10. Insurance, health, old age services

Not all of these functions are necessary for a growing democratic economy, nor are they sufficient. The necessary and sufficient conditions of the support system for growth and development of economic democracy will concern us in the following section. Such conditions, if they can be found, are the cornerstone of a democratic world. For the moment in
this section, let us discuss some support structures in the real world in order to be able later to draw from them operational conclusions.

The case of Mondragon we need not discuss here, as there are many who know the case and because there is a lot of material on the subject. The second case of support structure is the one discussed in my earlier paper. We referred to it as the “parental” situation, where the support structure role is played by an existing Mondragon cooperative seeking nearer product markets and labor availability. In fact whether this parental role can transform itself into a democratic and cooperative situation, we do not know yet. I hope to visit some of the Olomouc firms prior to the 2006 Mondragon conference and report on the subject.

The third case is far less known and deserves more careful exposition. It concerns developments in San Francisco in the USA: in a special “distant” manner it also is related to Mondragon and involves a two-tier support structure of organizations which may provide us with some additional insights.

The first tier and one which involves a “symbolic” link to Mondragon is a system of cooperative bakeries bearing the name ARIZMENDI related to a specific support structure of the same name. The cooperatives as bakery enterprises are extremely successful, having earned several prizes. On the organizational and “procreation” side of new organic cells or cooperatives they provide an excellent example of the birth-pains of individual coops. We cannot discuss them in detail here but someone interested in the “concrete” of the situation might find it very useful to consult with or possibly read the materials produced by the founders of the first-tier support structure.

Perhaps the most important and problematic support activity for the member bakeries is here in the domain of accounting and accounts reporting. Another support activity is in domain of technology and especially the related problem of skill-training. The obvious related lesson is that an existing working cooperative with its multifarious knowhow is a sine qua non of a supporting structure which then can lead to formation of new other organic “cells”. This was the case in the original Mondragon experience [recall the first coop producing small heaters]. Similarly the offspring firms in Moravia discussed in my previous paper. And the same is the case with the Arizmendi bakeries.

The attempt to start from a support structure which would then generate actual working firms/cooperatives is most difficult if not impossible. Often however this may be the case with intellectuals in universities who can neither bake nor produce heaters nor produce parts for kitchen stoves, but who want to contribute to the development of a world based on economic democracy. This was the experience of this writer who at Cornell University with Professors William F. Whyte, Herbert Mahr, Chandler Morse and others made such attempts. These may have contributed to some of our students learning skills, but did not initiate a democratic sector of the economy.

The second tier of the San Francisco experience is the NOBAWC organization – the Network of Bay Area Worker Cooperatives.— the write-up of which is reproduced herewith.
This support organization serves a large number of cooperatives, some quite large and older than the Arizmendi system, which is also one of its members.

ABOUT NoBAWC

Who We Are

The Network of Bay Area Worker Cooperatives or NoBAWC (pronounced “no boss”) is a grassroots organization of democratic workplaces dedicated to building workplace democracy in the San Francisco Bay Area and beyond.

As the name implies, NoBAWC is comprised primarily of worker cooperatives. A worker cooperative is an enterprise that produces goods, distributes goods and/or provides services and is owned and controlled by its worker-owners. Ownership of a worker cooperative is vested solely with the worker-owners on an equal basis. Moreover, worker-owners control the resources of the cooperative and the work process. Each worker-owner has equal decision-making power and ultimate authority rests with the worker-owners as a whole. Worker control can be exercised directly or indirectly by worker-owners. If exercised indirectly, members of representative decision-making bodies (e.g. a Board of Directors) must be elected by the worker-owners and be subject to removal by the worker-owners.

In addition to worker cooperatives, NoBAWC includes many Bay Area workplaces that incorporate democratic principles even though they do not satisfy the above definition of a worker cooperative. These include workplaces in transition toward becoming worker cooperatives and those that are democratically run but not worker owned. This latter category includes consumer cooperatives and non-profits that are democratically run by their staffs.

NoBAWC is comprised of small and medium-sized workplaces employing from a few to over 200 workers, representing diverse industries and sectors of the economy (see the Members Page of this website for a listing of our member workplaces). Although all are democratic, their legal and organization structures vary. Most are for profit while some are non-profit, most provide a living for their workers while some are volunteer-run and many utilize direct democracy while others use both direct and representational structures. A number of these workplaces have been operating successfully for many years, with some celebrating more than 30 years in business.

What We Do

NoBAWC is dedicated to helping build the worker cooperative movement in the San Francisco Bay Area and beyond. To realize this, NoBAWC:

1) Provides support for our members. This includes maintaining and sharing information relevant to worker cooperatives, providing technical and organizational assistance, offering joint marketing and promotional services, developing group benefits, improving access to financial resources, strengthening ties between worker cooperatives and developing relationships with other segments of the cooperative/labor community.

2) Helps develop new worker cooperatives by offering some technical assistance and referrals to those developing worker cooperatives.

3) Promotes worker cooperatives in our community. This includes developing community awareness of worker cooperatives as sources of meaningful employment, providers of quality goods and services and viable alternatives to conventionally owned and managed businesses.
How We Make Decisions

NoBAWC is a participatory democratic organization where the membership determines general policy direction and is the final decision-making authority. There are 4 levels of decision-making in NoBAWC: (1) Board decisions (2) Committee decisions (3) General membership meeting decisions and (4) General membership referenda. Board and committee decisions are made by consensus or modified consensus. All Board and committee decisions are appealable to a general membership meeting. General membership meeting decisions are also made by modified consensus and can be appealed to a general membership mail-in referendum. NOBAWC has one paid staff person who sits on a Board of Directors elected (and subject to recall) by the membership. The Board is responsible for making decisions within the policy framework established by the membership.

[source: http://www.nobawc.org]

The next case to be noted, perhaps somewhat different from the cases presented thus far is perhaps somewhat different but it also derives from the theoretical findings presented above; namely the fact that democratic firms may tend to be smaller but usually are at least marginally better producing than capitalist firms. The latter may find themselves bankrupt under certain market conditions and thus the capital owners lose interest. But the worker communities, often driven by an instinct of self-preservation, can take over and – thanks to their superiority – survive and sometimes survive with flying colors.

The situation lately reported from Argentina where hundreds of firms are being taken over by worker communities belongs here also. It is presumed, without my being able to document it, that some government or popular organization is giving a lending hand to such developments.

On the other side of the spectrum, there are many associations of exiting worker cooperatives who function primarily as professional associations, and which are not growth-system oriented. Sometimes political conditions are not conducive to such orientations. In my old country of Czechoslovakia, for example, there are over four hundred worker cooperatives, some quite large, which were formed under the communist regime and which have in Prague an office of association. But to my best knowledge they do not resemble the Caja Laboral of Mondragon.

There are also professional associations of very small producers mostly not involving worker communities, but only individual producers or families. This writer as a beekeeper is a member of such a body, the Ithaca beekeepers association. In fact, our association does play some role of supporting activity in terms of education, technical assistance and help to new potential beekeepers.

THE LESSONS, CONCLUSIONS AND A SYNTHESIS

For a system of economic democracy – compared to a healthy organic tissue – to grow and ultimately heal from the cancer of a capitalist economy, the following conclusions and principles ought to be considered by those who support such healing:
1. A democratic firm or cooperative has as its principal objective to maximize/attain the welfare/income of its members, while the well-known objective of a capitalist firm is to maximize profit; profit being defined as revenue minus costs of the firm including labor costs, the capitalist principle amounts to minimize human welfare of the workers.

2. Economic theory [see my General Theory of Labor Managed Systems] tells us that given [1] above the democratic firm will always seek in a technology of increasing/diminishing [or constant] returns a production point subject to maximum factor productivity.

3. Conclusion[2] is most desirable because the democratic firm will not only be maximally efficient, but will not tend to seek unlimited growth and thus imply monopolistic tendencies.

4. By contrast the capitalistic firm maximizing profit has in its nature unlimited growth, like a cancerous tumor, tending to eliminate competition and destroy attempts at economic democracy..

5. Moreover the capitalistic firm with its large size and minimization of the worker income tends to lead to extreme inequalities of compensation [hundreds of millions for some CEO’s] and this in turn leads to resentment and what is worse undermining of the political democratic process [negating the notions of those who think that capitalism is the best form of democracy].

6. As is well known, to attain such unlimited profit and growth the capitalistic firm will use increasingly high pressure advertising which *per se* is not only inefficient use of resources, but tends to destroy normal human cultural and spiritual characteristics .

7. The way out of the dilemma to expansion of a healthy tissue of democratic firms is offered by the SUPPORT STRUCTURES discussed in this paper.

A] The fundamental principle of such organic support structures – perhaps comparable to the queen in a beehive, or to the parents of a healthy loving family, is what we may refer to as the SOCIAL SELF-INTEREST which translates into the second great commandment, of loving one’s neighbor as oneself.

B] In practice and in most of the concrete cases discussed in this paper, this implies that an efficient democratic firm or cooperative creates or contributes to the formation of a support structure which can provide the initial [or parent] firm with some or all of the functions and services and which, to be itself more efficient, offers the same services to other firms which it creates or helps to create.
Global warming, flooding of low-land continents, extreme air pollution, running out of oil and gas reserves: this is the state of mind of all those who take seriously and try to do something about the present situation of global ecology. This is best witnessed by the KYOTO agreements. The fact that countries such as the United States, the capitalist superpower with its super-powerful oil-vested president G. W. Bush refuses to adhere to the protocol under the pretext that this would hurt American industry is quite symptomatic and may serve us as the point of departure for our discussion.

Many thoughtful and experienced writers – e.g. see Lester Brown -- give us serious analysis and recommendations on what should and could be done about the situation. Others less positively are prophets of doom if we do not deal with the problem.

But these writers and all those dealing with the problem seem to be forgetting that the most significant cause which got us into the crisis and which will in ever-increasing degree accentuate the crisis, and perhaps be the very cause of the doomsday, is our capitalist system ruling the world. Bush’s rejection of Kyoto for the sake of protecting the profitability of American oligopolistic industries is perhaps the best indication of the precipice where such policies are leading.

If there were no alternative to such causes of disaster, my writing would be a futile exercise. But there is a broad alternative, and this paper is intended to argue the case. In fact, in our world based on democratic political systems, the alternative is the most logical one—an economic system based on democratic principles in production and the economy as a whole. Such an alteration would not only rid us of many of the ecological destructive forces, but it would also rid us of the schizophrenia of an overall system based on democracy of people and autocracy of capital.

I will begin by first giving more precise definitions of the two alternative systems considered, and then proceed, starting from the more general to the more specific, in explaining the comparative merits or demerits of the two systems.

First of all, what are the principal objectives of the two systems? As every child living under capitalism knows, the capitalist system is based on the principle of profit – or more precisely, profit maximization. It must be noted, at this level of abstraction, that because labor is one of the costs in the profit
function, *ipsa facta* profit maximization implies minimization of human income and welfare.

By contrast, a democratic firm is aiming to maximize human income and welfare while buying or borrowing in the capital market its capital needs.

Both systems are based on the principles of free competitive markets. But even here, as we will see below, the capitalist alternative has built into itself an inherent tendency toward monopoly formation whereas the democratic alternative does not. Our American history tells us clearly that such a tendency is recognized by the establishment of antimonopoly legislation.

From the point of view of ecology there are at least two major general considerations: first, because ecological improvement is a cost for the capitalist manager, he/she will tend to minimize such costs, often rendering living conditions of workers in the vicinity of the plant unsanitary, or exporting such costs through outsourcing to overseas or elsewhere. By contrast, for the democratic firm run by those who live in the vicinity and maximize their welfare, the decisions from the ecological point of view will be quite different!

The second major general consideration in our comparison has to do with the most significant tool of ecological improvement in the very long run – the very long run which concerns us most in finding solutions for ourselves and the future generations. In the democratic firm the objective of the working community is not only income, but in the long run it is the welfare of the members and that welfare includes not only money earned but also, and increasingly with advancing technology and living standards, leisure. Perhaps in twenty or forty years we could envisage a four hour workday or three day work week; with the additional free time earned devoted to a virtually unlimited number of enjoyable activities not calling for commercial production and use of resources and energy.

By contrast, the capitalist who sees as the objective maximum profit, will always tend to maximize the volume of profitable production, destroying rather than improving the ecological outcomes for society.

Closely related but equally significant is another comparative behavior of firms under the two systems. As we indicated in our related paper on support structures, the democratic firm will tend to produce with maximal efficiency and will not tend to grow beyond that scale of production. The capitalist firm will tend to increase without limit its sales and output, using promotion and advertising, often offering goods and services of little value. But such increases in output entail increased use of energy and natural resources, not to speak of useless and mind-twisting advertising activity and not to speak of the inherent tendency towards monopoly or [under antitrust] oligopoly.
Another complex of comparative advantages of the democratic principles in the economy has to do with what is today the principal problem of the mainstream of our world: globalization. And this discussion calls for a set of significant preliminary remarks. Globalization is based on the notion, emerging from the economic collapse of the nineteen thirties and from the ensuing analysis, recommending free trade. That analysis was basically correct at that time. But today it is fundamentally flawed, yet recommended by those – the capitalist owners – who benefit from producing at ten cents in China and selling in the ten dollar wage world of increasing pain for the workers. The mainstream economists are only too willing to support such justifying theories, often for opportunistic reasons.

This statement many of my colleague economists may disagree with. But an economic theorem here is in order: capitalism maximizes return to capital. The main characteristic of the economic profession is a high degree of what economists call human capital. But to maximize such returns the profession must defend what pleases the big capitalist corporations and institutions: defending capitalism itself or globalization with free trade. To do otherwise and defend economic democracy or national production and employment, even if for the benefit of an ecologically sane world, would lead to negative returns in many ways. The life experience of this writer is a clear confirmation of the theorem. We may refer to it as the Jezabel and four hundred prophets theorem.

In a world of ten thousand per cent wage differentials, the standard theory of gains from trade, however, is not applicable because that theory is critically based on the postulate of full employment. If employment and the quality of employment become a key variable of adjustment, with terrible hardships in the capital-exporting countries, the free trade theorems collapse, and a new understanding must be sought [see my works on Destructive trade].

But globalization implies many un-ecological results. First of all, outsourcing can take place to locations like China or the Philippines where pollution of environment is less or not at all regulated, the benefits from such advantages accruing to the capital owners, at the terrible expense of domestic workers. The same is true about the benefits from dramatically lower wages in the outsourcing regions.

By contrast the democratic firms by definition will keep at home, under regulation, if such is necessary, and the employment destruction will not occur. Or can any reader imagine a democratic firm moving with its employment and assets to Taiwan?
Equally dramatic is the effect of globalization on the volume and distances involved in transatlantic trade, polluting and destroying the maritime environment in more forms than one.

With an economic system based on democratic principles, such detrimental impacts would be reduced many-fold, while saving the welfare of tens of millions earning their daily bread through work instead of capital profitability. Some might argue that with economic democracy in the advanced economies, firms in the poor world would still tend to out-compete domestic cooperative firms. But it must be realized that some partial protection would be called for, based on the requirement of full and good quality employment. And for justice and equity the corresponding tariff revenues could be returned to the most needy countries in the world for their own domestic needed production [instead of smelly-glue Nike shoes]. [for more detail, see my DT India publication]

The distance *cum* volume argument applicable to the international trade situation has its parallel on the domestic plane [see JV+FV ref.]. With not only more rational production under economic democracy but also smaller equilibrium firms, the transportation costs and polluting effects would be dramatically reduced by the coefficient of 1/N where N is the number of equally distributed firms over the territory such as the United States. For example, with a single monopolistic capitalist firm in Chicago and nine democratic firms optimally spaced over the country and producing the same output, the distance traveled to delivery to equally spaced consumers would entail a reduction in fuel and transport costs by two thirds, i.e. to 1/[sq rt of N] that is 1/3.

The democratic firms would not only produce more rationally, protecting ecologically the environment, but also they would be likely to save on fuel and materials for the following reason which the reader can understand by putting oneself into the working person’s shoes. Would it be more desirable, under self-determination, to produce automobiles or other products of high quality, or on a rapidly moving assembly line fixing fifty car bumpers per minute to lowest quality mass-produced automobiles? The high quality cars would not need to be more expensive per unit of use, because under economic democracy such ecological and rational production preferred by the workers would replace the rat race of producing planned-obsolescence products for maximum profit.

It is the experience of democratically run firms and systems to include education as one of the objectives of the firm or of its supporting structures. The experience of Mondragon is an instance par excellence. But with such increased emphasis on education, one can expect proliferation of ecological consciousness and thus appropriate collective action. The support structures which can deal with the area of education can also act for all participating firms in questions of ecological information, coordination and even regulation.
IV: LESSONS FROM A VISIT TO COPRECI-MORAVIA ON JUNE 20
2006: MOSTLY RELEVANT FOR PAPER #1 ABOVE

This is a brief report on our visit to the Copreci firm in Dvorce, Moravia (Czech Republic) as a follow-up on our visit there about a year ago. It is also a set of reflections in the context of the first paper prepared for the 2006 conference of IAFEP in Mondragon, Basque country. I will not repeat the arguments of that paper, but the reader might want to see it as a background to the dynamics of economic democracy as reflected by the evolution of Copreci in Moravia.

The first striking thing is that the Copreci factory is not at all part of an industrial zone, but in a picturesque setting outside a small town in the northern Moravia hill country, surrounded by fields and meadows, some of which may become the basis for future expansions of the plant.

After passing through a factory gate, we were expected in the parking lot by Mr. Fernando Retegi (son of Mr. Retegi whom I first met in Mondragon some 30 years ago as the director of the technical school there). We entered the factory, visited Mr. Retegi’s office and supporting staff, and several administrative departments. Especially we were introduced to the new general manager of the firm, Mr. Eysan Rychlik, a Czech national who spent a year of training in Mondragon and is now a member of the Copreci cooperative. Mr. Rychlik recently took over that function from Mr. Retegi, who is now serving as a coordinator and director of expansion for all of Copreci in central and eastern Europe. During the visit we were shown an enormous map of Europe with many dots marking Copreci customers, production centers, and suppliers. We also spent time walking through and observing the production departments, and speaking or trying to speak (under a rapid cadence of production) with some of the manual workers.

PERFORMANCE

Viewing the Copreci enterprise in Moravia, we cannot but witness to its truly excellent performance as a commercial enterprise. Older production halls have been refurbished and brought to perfect condition, filled by new machinery, whether brought from Mondragon or purchased. New production halls are being built and further planned. (Mr. Rychlik could not see us
immediately because he had to meet the mayor of the town to complete the purchase of additional land.

The factory runs non-stop in three shifts, sometimes engaging in what they call “four shifts,” implying shifts extended to 12 hours with overtime. The principle products are control valves for gas cooking stoves—simple ones costing .85 Euro produced for lower-income countries, and a more advanced model for the countries of western Europe with an automatic safety shutoff, costing 3.50 Euros. In other and newer departments, the product mix is being expanded in the direction of other stove components, and even components for other appliances.

The customers for Copreci valves are many large producers of appliances in Europe, such as Whirlpool, General Electric, Candy, and others.

The operation of the entire complex is profitable, with doubling of physical output in one year, and corresponding expansion of employment. There is an abundant employment pool in a region suffering from a degree of unemployment. We were told that average gross income is on the order of $600. per month.

The financial production surpluses are used, together with bank loans, to finance the factory expansions.

The workforce of over 200 works very hard, I would say, under conditions that generate material satisfaction, even if not, especially at the lower echelons, creating a fully cooperative or participative spirit. We will return to this question.

GENERATING OF OFFSPRING

In the first of my papers for this conference I discuss the theoretical aspects of Mondragon cooperatives forming subsidiary firms in other countries. As the reader of that paper will recall, it is possible to understand such developments as an aspect of parental involvement of the mother cooperative in the “child” being conceived—in our concrete case, the Copreci enterprise in Moravia. In this connection, these developments are perfectly consistent with the unified theory of social systems as presented and referred to (as electronic publication) in my first paper.

The Copreci experience fits such interpretation if we deal with time horizons similar to human development of some 15 to 20 years, from birth to maturation. We are now approximately in the stage of childhood, where in many respects we observe a parent-like tutelage by the mother cooperative, but at the same time elements of maturation where various forms of independence
and participation become observable. These will be presented in the subsequent
two sections on functional participation and cooperative structure participation.

Even at this stage it may be useful to note briefly a development—not
familiar from human child development—where the existence of Copreci
indirectly contributes or tries to contribute to further generation of offspring.

FUNCTIONAL PARTICIPATION

We make the distinction between functional cooperative participation
and participation through direct democracy and membership. The second will
be become the next heading of our discussion.

What I refer to as functional participation is related to more or less
frequent dialogue and interaction between and among the higher and lower
echelons of the productive process. Without being able to reproduce in detail
the presentation given to us by Mr. Retegi, we reproduce and plan to offer to the
conference copies of a table summarizing these multiple participatory forms.
On one side we see targets such as safety, service, quality and productivity and
others. The other dimension shows an explanation of these targets and the
departments, managers, project leaders, technicians, shift leaders, inspectors,
and workers responsible to participate in meeting them. The table itself
indicates in many instances the expected frequency and concrete involvement in
such interactions. It is understood that all such interactions are dialogical and
all present can express their opinions.

COOPERATIVE STRUCTURE PARTICIPATION

We can summarize what we have to say in a number of broad
observations.

1. The Copreci firm in Dvorce is not a firm like Copreci in Mondragon, in
   the sense of the maturation process already outlined.

2. As we understood it, the philosophy of long-range transition to a more or
   fully democratic form is one of “penetration from above.”

3. The newly and as we have seen effectively appointed general manager,
   a Czech citizen and is already a member of the mother cooperative in
   Mondragon. According to his own testimony, he sees the penetration of
   full democratic participation as a gradual accession of lower and lower
   echelons of the workforce similar to his own adhesion.
4. But Mr. Rychlik warns us that this may be a slow and perhaps never complete process, depending very much on, using his own words, the “heart” rather than an intellectual conception of democracy.

5. This is confirmed by my own brief observation of a few words exchanged with a hard-working woman on the production line, who had enough time and generosity during a painstaking rapid process to make me feel that she appreciates her hard work and income, but she knows, and I would say cares, little about cooperatives or cooperative structures.

6. To this I add personally as a Czech-American citizen that the experience with cooperatives, especially in agriculture, of the 40 years of Communist government in Czechoslovakia, tarnishes in people’s minds the very concept of cooperative.

7. It seems that the present management is aware of the problems under 5. and 6. They are planning in the near future to publish and offer to all workers new and old, a document creating the consciousness of what the Mondragon Cooperative Corporation is all about.

8. While there is not much awareness of the possible cooperative structures by the production workers, there are significant elements of participation already in application. Among these perhaps the most practically significant is the ability within a production unit to rotate, I believe in a self-determined manner, among more and less pleasant types of work. Another instance, already intimated, is the critical dialogue between production workers and their supervisors, which happens every week during working time, on the shop floor.

9. Another “democratic progress” should be seen in the removal of the former Basque manager Mr. Retegi as general manager, and his replacement by a local manager; however a person who not only became a member of the Mondragon cooperative but also spend a year in Mondragon, working with and learning about the system.

10. Mr. Retegi, the former general manager, now functions as the link between the mother cooperative Copreci in Spain, and especially as an “instrument of procreation” of new infants. Here we allude to the fact that we had to wait to meet with him during a period when he was visiting eastern Ukraine, to plan for and organize another Copreci factory there. This factory would serve and adjust to conditions of the eastern European region.

CONCLUSION
In concluding this report on our visit to Copreci in Moravia, I would like to emphasize the following point. I am gratified to conclude that the Mondragon cooperatives’ expansion throughout the world are not a form of multinational capitalist expansion, but a new, never formerly observed phenomenon of the regeneration of cooperative production as exemplified by Copreci in Moravia. It is also to me personally a confirmation that the principles of democratic participation by intensity and nature of involvement, as presented in my Unified Theory, are a valid and improved interpretation of the evolution of human self-determination.

Indeed, democracy as we practice it in the political sphere in the West and as some in the west are trying to implant through violence may be a good thing, but certainly not the most complete form of human self-determination. The “democracy” of shares of capital in the world is not only humanly suboptimal, but is bound to lead humankind to disastrous endings; endings which are hard to predict in detail but which are certain.
The notion of economic growth having a greater influence on democracy was a very popular opinion in the 1950s. The most important work on the subject has been done by Lipset 1959 [13] where he states that economic development is one of the prerequisites for democracy. However, this is true. Economic growth when investigating the effects of democratic variables such as increased government spending, increased private investment due to higher economic freedom, and even social unrest.[19] Although they have performed better than expected, many more changes lie in the future, while cases like Tunisia and Libya have had a much better period before their transition to a democratic regime.[23] Reasons being their culture, history and many others. A 2002 Carnegie Scholar and a 1999â€“2000 Hoover Institution Fellow, his research has been published in leading journals such as the Quarterly Journal of Economics, American Economic Review, American Political Science Review, and Journal of Economic Literature. Professor Robinson is on the editorial board of World Politics. 11. Conclusions and the Future of Democracy 1. Paths of Political Development Revisited 2. Extensions and Areas for Future Research 3. The Future of Democracy. A fundamental question in political science and political economy is which factors determine the institutions of collective decision making (i.e., the political institutions). Fundamental principle of democracy is the consent of the governed. It refers to the idea that a government's legitimacy and moral right to use state power is only justified and lawful when consented to by the people or society over which that power is exercised. Democracy is wide enough that not even a single country can claim that its fully democratic. Democracy or Non-democracy -- from the perspective of economic development. Guo, Gang Department of Political Science University of Rochester May 1998. "It fully shows that the Chinese not only make reputable economic achievements, but also have the ability and confidence to succeed continuously on the path to democracy." (People's Daily, May 26, 1998, page 3). It feels a little strange to read this in the official editorial of the national newspaper of the Chinese Communist Party, but this assertion provides us with a good starting point in our inquiry into the relationship between democracy and economic growth. The relationship between political democracy and economic growth has been a center of debate in the past fifty years. A corpus of cross-country research has shown that the theoretical divide on the impact of democratic versus authoritarian regimes on growth is matched by ambiguous empirical results, resulting in a consensus of an inconclusive relationship. Through this paper we challenge this consensus. In contrast to the current consensus, we show that once the microscope of meta-analysis is applied to the accumulated evidence, it is possible to draw several firm and robust conclusions regard