Economic democracy: the need for a vision (part 2)

This is the second part of our discussion of the concept of economic democracy (part 1 available at http://www.iwca.info/?p=10145). Section 1 of this piece is a brief historical survey of the doctrine of economic democracy in this country: how the aims and ideals under discussion were once live factors and mainstream currents in the labour movement, when there was such a thing. We do this to show that we are not pulling these aims and concepts out of thin air: they come from somewhere and are not without precedent. Section 2 deals with nuts and bolts. We survey the theoretical model of a democratic economy as outlined by the Czech economist Jaroslav Vanek, before discussing the two most important real-world examples of economic democracy: the Mondragon group of cooperatives in the Basque country and the experiment with self-management in the former Yugoslavia. We conclude that Mondragon has succeeded because it closely follows the key characteristics of Vanek's theoretical model while the Yugoslav experiment failed because it diverged so markedly from it, particularly in its interpretation (or lack of one) of property rights. Thus we determine that Vanek's theoretical work has been significantly validated and gives us a strong and credible starting point from which to build a model of a democratic economy, along with a guide to the necessary institutions.

1) 'The straining of the spirit of man to be free': the doctrine of workers' control and economic democracy in Britain

> The essential difference between the various economic forms of society, between, for instance, a society based on slave-labour, and one based on wage-labour, lies only in the mode in which this surplus-labour is in each case extracted from the actual producer, the labourer.
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> Karl Marx[1]

Part 1 of this endeavour attempted to outline the philosophical, historical and political justification for the IWCA's contention that 'total social change' requires 'the democratisation of politics and the economy'. Our basic argument was that wage labour under capitalist economic conditions, where capital and the means of production are under private control, is not free but is in fact a form of bondage, and that human emancipation can be brought about not by putting control of the means of production in the hands of the state, but only by placing them under democratic control. Private control of the means of production, far from guaranteeing freedom, abrogates it, and the removal of the right of access to property from the mass of the population is

[1] Karl Marx (1867), *Capital, vol. 1*, Chapter 9: 'The Rate of Surplus-Value': http://www.marxists.org/archive/marx/works/1867-c1/ch09.htm. We do not add anything here to Marx's account of the expropriation of surplus-value from the working class through the process of wage-labour, simply because there is nothing to add to it.

the ‘original sin’ of capitalist private property. This insight strikes a dagger through the heart of the assertions of Hayek and Friedman that capitalist private property is synonymous with, and a prerequisite for, the maximisation of individual freedom. After outlining the ‘why’, we begin now to move to brass tacks: the ‘what’ and ‘how’. We concluded part 1 with one definition of ‘what’ provided by Noam Chomsky:

> And if there is something degrading to human nature in the idea of bondage, as every spokesman for the Enlightenment would insist, then it would follow that a new emancipation must be awaited, what Fourier referred to as the ‘third and last emancipatory phase of history’ – the first having made serfs out of slaves, the second wage earners out of serfs – which *will transform the proletariat into free men by eliminating the commodity character of labour, ending wage slavery and bringing the commercial, industrial and financial institutions under democratic control* [italics added][2].

This passage was selected, first because it is articulate and pithy; and second because aside from Chomsky there are very few current major thinkers who think in these terms (Robert Dahl and Robin Archer being two others). Chomsky’s use of the concept of personal freedom as an argument for socialism may be startling to some: in recent decades we have become accustomed to the right claiming the concept of freedom for themselves. This in itself demonstrates how utterly our side has been defeated, not just by capital but by the middle-class left as well, that our aims and ambitions are now characterised by such miserable, wretched political, intellectual and spiritual poverty. It is taken almost as read that capitalist freedom cannot be transcended. The values and assertions of the enemy have been allowed to take hold, our sights have been lowered and our eyes turned to the ground. Once, when our side had a little more guts, and in the midst of material conditions far worse than we know now, the demand for freedom was a staple of the working class movement and democratic control of the economy was instinctively seen as the way to achieve it. Better wages weren’t enough: the goal was the abolition of wage slavery. Marx once wrote: ‘Instead of the *conservative* motto: “*A fair day’s wage for a fair day’s work!*” they ought to inscribe on their banner the *revolutionary* watchword: “*Abolition of the wages system”!*’[3], and for a time many did (the IWW in America adopted this injunction word for word). Fabianism, reformism and compromise were not always the dominant strains of the ‘labour’ movement in this country: industrial unionism, syndicalism and guild socialism, though not without their flaws, were once at least live contenders, with the notion of freedom through economic democracy at their heart. It is useful to take a brief survey of the kind of attitudes and principles that once motivated radical working class thinking. This is not to engage in nostalgia: it is to demonstrate what is to be aimed for and the scale of ambition required. Tom Mann, one of

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[2] Chomsky, p18-19.
[3] http://www.marxists.org/archive/marx/works/1865/value-price-profit/ch03.htm

the leaders of the 1889 London Dock Strike and one of the ablest working class militants of his day, argued in 1910:

> The present-day degradation of so large a percentage of the workers is directly due to their economic enslavement; and it is economic freedom that is demanded ... But there is no possibility of achieving economic freedom, nor even taking any steps towards that end, unless the workers themselves are conscious that what they suffer from, as a class, is economic subjugation and consequent exploitation by the capitalists. Moreover, unless the workers themselves protest against this subjugation and exploitation, and themselves form organisations for the specific purpose of persistently fighting the enemy until freedom shall be won – then all else is nothing ... But it must be made clear that neither industrial organisation, nor parliamentary action, nor both combined, can achieve the emancipation of the workers *unless such emancipation is definitely aimed at*. Unionism that aims only at securing peace between employers and men is not only of no value in the fight for freedom, but is actually a serious hindrance and a menace to the interests of the workers. *Political and industrial action direct must at all times be inspired by revolutionary principles*.[4] [italics added]

Note here that Mann's primary concern is with *freedom*, with control, not just a bigger slice of the cake or marginal reform of existing conditions. On the way to achieve it, Mann was of the view that:

> The struggles of the future will have to be fought scientifically. The relationship of union to union for syndicalist purposes must be equal to an amalgamation of all unions in any one industry. Without this the capitalists are certain to win – and only fools would think of fighting them when we know that they are organised by whole industries and not, as we are at present, by small ineffectual sections. Industrial syndicalism, therefore, and not sectional trade unionism, must be the basis of all future industrial activity for fighting purposes. In an industry there may be fifty trades. For each trade there may be one or more unions, each designated a 'trade union' because it consists of the men connected with that trade. When, for the purpose of waging the Class War, these unions coalesce into one compact organisation for the whole industry, this union of unions is properly termed an 'industrial union'. As the title implies, the workers of all trades and occupations connected with the industry are represented, including, of course, the labourers. It is

[4] Tom Mann (1910), 'Forging the Weapon' in Ken Coates and Tony Topham (eds.) (1970), *Workers' Control* (London: Panther), p27-8.

> this union of unions, inspired with the revolutionary spirit of syndicalism, that will do the fighting of the future[5].

In their anthology of the historic literature of the workers' control tendency in Britain, Ken Coates and Tony Topham declare that 'The ideas of Industrial Unionism were pioneered in Britain by [James] Connolly'[6]. What Connolly's industrial unionism stood for was democratic, bottom-up government and organisation along industrial, rather than geographic, lines:

> … the administration of affairs will be in the hands of representatives of the various industries of the nation; the workers in the shops and factories will organise themselves into unions, each union comprising all the workers at a given industry; that said union will democratically control the workshop life of its own industry, electing all foremen etc., and regulating the routine of labour in that industry in subordination to the needs of society in general, to the needs of the allied trades, and to the departments of industry to which it belongs; that representatives elected from these various departments of industry will meet and form the industrial administration or national government of the country ... this conception of socialism destroys at one blow all the fears of a bureaucratic State, ruling and ordering the lives of every individual from above, and thus gives assurance that the social order of the future will be an extension of the freedom of the individual, and not the suppression of it. In short, it blends the fullest democratic control with the most expert supervision, something unthinkable of any society built upon the political state ... Under Socialism, States, territories, or provinces will exist only as geographical expressions, and have no existence as sources of governmental power, though they may be seats of administrative bodies ... The power of this idea to transform the dry detail work of trade union organisation into the constructive work of revolutionary Socialism, and thus make of the unimaginative trade unionist a potent factor in the launching of a new system of society, cannot be over-estimated. It invests the sordid details of the daily incidents of the class struggle with a new and beautiful meaning, and presents them in their true light as skirmishes between the two opposing armies of light and darkness[7].

Just as important for us, if not more so, was what motivated Connolly's vision: as hinted at in the passage above, it was rooted in the notion of individual freedom, the illegitimacy of wage labour, and the belief that state control of the economy was not enough. The aim wasn't just to attain material improvement, but to attain liberation:

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5 Ibid.

6 Ibid., p5.

7 James Connolly (1908), 'Industrial Unionism and Constructive Socialism' in P. Berresford Ellis (ed.) (1988), *James Connolly: Selected Writings* (London: Pluto), p150-1, 151-2, 153. Also available at http://www.marxists.org/archive/connolly/1908/sme/inconsoc.htm.

> When the workers come into this world we find that we are outcasts in the world. The land on which we must live is the property of a class who are the descendants of men who stole the land from our forefathers, and we who are workers, are, whether in town or country, compelled to pay for permission to live on the earth; the houses, shops, factories, etc., which were built by the labour of our fathers at wages that simply kept them alive are now owned by a class which never contributed an ounce of sweat to their erecting, but whose members will continue to draw rent and profit from them while the system lasts. As a result of this the worker in order to live must sell himself into the service of a master – he must sell to that master the liberty to coin into profit the physical and mental energies. A shopkeeper in order to live must sell his goods for what he can get, but a worker in order to live must sell a part of his life, nine, ten, or twelve hours per day as the case may be. The shopkeeper, if he is lucky, may get the value of his goods, but the worker cannot get under the capitalist system the value of his labour; he must accept whatever wage those who are unemployed are willing to accept at his job. This is what I call wage-slavery, because under it the worker is a slave who sells himself for a wage with which to buy his rations, which is the only difference between this system and negro slavery where the master bought the rations and fed the slave himself[8].

In the spirit of Mann and Connolly (and also using an historical framework that prefigured Chomsky by nearly sixty years), by 1912 the Reform Committee of the South Wales Miners Federation declared their ultimate objective as:

> One organisation to cover the whole of the Coal, Ore, Slate Stone, Clay, Salt, mining or quarrying industry of Great Britain, with one central executive ... Every industry thoroughly organised, in the first place, to fight, to gain control of, and then to administer that industry. The coordination of all industries on a Central Production Board, who, with a statistical department to ascertain the needs of the people, will issue its demands on the different departments of industry, leaving to the men themselves to determine under what conditions and how, the work should be done. This would mean real democracy in real life, making for real manhood and womanhood. Any other form of democracy is a delusion and a snare. Every fight for, and victory won by the men, will inevitably assist them in arriving at a clearer conception of the responsibilities and duties before them. It will also assist them to see, that so long as shareholders are permitted to continue their ownership, or the State administers on behalf of the shareholders, slavery and oppression are bound to

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[8] James Connolly (1903), 'Wood Quay ward, election address, Dublin, January 1903' in Desmond Ryan (ed) (1951), *The Workers' Republic: a selection from the writings of James Connolly* (Dublin: At the Sign of the Three Candles), p44-5. Also available at http://www.marxists.org/archive/connolly/1903/01/woodquay.htm.

> be the rule in industry. And with this realisation, the age-long oppression of labour will draw to its end. The weary sigh of the over-driven slave, pitilessly exploited and regarded as an animated tool or beast of burden: the medieval serf fast bound to the soil, and life-long prisoner on his lord's domain, subject to all the caprices of his lord's lust or anger: the modern wage-slave, with nothing but his labour to sell selling that, with his manhood as a wrapper, in the world's market-place for a mess of pottage: these three phases of slavery, each in their turn inevitable and unavoidable, will have exhausted the possibilities of slavery, and mankind shall at last have leisure and inclination to really live as men, and not as the beasts which perish[9].

We conclude this brief, and by no means complete, survey of the ideas and principles that once animated the working class movement, when there was such a thing, with the testimony of William Straker, a former Durham miner and secretary of the Northumberland Miners' Association, to the Sankey Commission on the future of the mining industry in 1919. This passage is so memorable and to the point that it is worth quoting in its entirety:

> In deciding what is to be the character of mines administration it is necessary to remember that workmen are more than machines, or even 'hands' as they are so often termed. Industrial unrest is a question about which everyone is concerned, yet there is a general lack of appreciation of what is the real root of this unrest. In the past workmen have thought that if they could secure higher wages and better conditions they would be content. Employers have thought that if they granted these things the workers ought to be content. Wages and conditions have been improved, but the discontent and the unrest have not disappeared, and many good people have come to the conclusion that working men are so unreasonable that it is useless trying to satisfy them. The fact is that unrest is deeper than can be reached by merely pounds, shillings and pence, necessary as they are. The root of the matter is the straining of the spirit of man to be free. Once he secures the freedom of the spirit he will, as a natural sequence, secure a material welfare equal to what the united brains and hand can wring from mother earth and her surrounding atmosphere. Any administration of the mines, under nationalization, must not leave the mine worker in the position of a mere wage-earner, whose sole energies are directed by the will of another. He must have a share in the management of the industry in which he is engaged, and understand all about the purpose and destination of the product he is producing; he must know both the productive and the commercial side of the industry. He must feel that the industry is being run by him in order to produce coal for the use of the community, instead of profit for a few people. He would thus feel

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[9] The Miners' Next Step (1912), Reform Committee of the South Wales Miners, in Coates and Topham, p19, 23-4. Also available at http://www.llgc.org.uk/ymgyrchu/Llafur/1926/MNS.htm.

> the responsibility which would rest on him as a citizen, and direct his energies for the common good. This ideal cannot be reached all at once owing to the way in which private ownership has deliberately kept the worker in ignorance regarding the industry; but as that knowledge, which has been denied him, grows, as it will do under nationalization, he will take his rightful place as a man. Only then will labour unrest, which is the present hope of the world, disappear. The mere granting of the 30 per cent and the shorter hours demanded will not prevent unrest, neither will nationalization with bureaucratic administration. Just as we are making political democracy world-wide, so must we have industrial democracy, in order that men may be free[10].

The idealism articulated in all of the above is inspiring, not least because such ambitions have been all but forgotten on our side today. That is not to say that these ideas were perfect then, or could be imported wholesale into the present, but if the aim is to build a working class movement in the here and now then the *principles* which motivated their thinking – which are essentially correct– should motivate ours as well, and be spread as widely as possible (‘Political and industrial action direct must at all times be inspired by revolutionary principles’, after all). If not these principles, which ones? If not these aims, what else?

However, nothing is to be immune from honest criticism. One problem with the above, and in particular syndicalism, lies in firstly its conception of workers solely as *producers* and not consumers (the inverse of the conception of workers under liberal capitalism or state socialism, where they are recognised solely as *consumers* and not as producers); and in the problem of coordination between different industries. As GDH Cole (one of the few middle class intellectuals in this discussion) said in his sympathetic critique of syndicalism – the idea of an industry coming under the *sole* control of the workers in that industry: ‘That absolute ownership of the means of production by the unions to which some syndicalists look forward is but a perversion and exaggeration of a just demand. The workers ought to control the normal conduct of industry, but they ought not to regulate the price of commodities at will, to dictate to the consumer what he shall consume, or, in short, to exploit the community as the individual profiteer exploits it today’[11]. It was for the same reason that Chomsky, insofar as he specified what economic democracy might look like, argued that ‘state power must be eliminated in favour of democratic organisation of industry, with direct popular control over all institutions by those who participate in – *as well as those who are directly effected by* – the workings of these institutions.’[12] [italics added]. The crucial point here is that *just* workers’ control of industry isn’t enough, in a macroeconomic sense: the legitimate interests of the wider public as consumers and citizens need to be taken into account also. For this reason, trade unionism or syndicalism alone

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10 William Straker (1919), in Coates and Topham, p263-4.
11 GDH Cole (1917), ‘Collectivism, Syndicalism and Guilds’ in Coates and Topham, p47-8.
12 Chomsky, p35-6.

should not be fetishised as being synonymous with working class advancement: Mann has already drawn attention to the revolutionary shortcomings of sectional, reforming unionism, and even industrial unionism as envisaged by Connolly would still need space for representation of consumer interests.

On how the interests of workers in an industry and consumers at large might be reconciled, and how coordination might be attained between industries, we have already seen Connolly suggesting that ‘representatives elected from these various departments of industry will meet and form the industrial administration or national government of the country’, and the South Wales miners advocating for ‘the coordination of all industries on a Central Production Board, who, with a statistical department to ascertain the needs of the people, will issue its demands on the different departments of industry, leaving to the men themselves to determine under what conditions and how, the work should be done’. In part 1 we expounded on, and debunked, Hayek’s conception of contemporary capitalism as being equivalent to free markets and the unplanned coordination of economic agents through the price mechanism: we showed that, in fact, a good deal of capitalist enterprise at the larger level is planned and *not* merely subject to or a function of the free market. Nevertheless, the price mechanism *does* play a part in capitalist organisation: Hayek’s writings on the transmission of information through prices, while exaggerated and ideologically motivated, are not complete lies. The price mechanism is simply that: a mechanism, and there is no reason why it should not be used, where appropriate, in the kind of economy we have in mind. If it is the best means of bringing about coordination between democratically-controlled industries and firms then so be it. This is not a new observation: left-wing economists such as Oskar Lange and Abba Lerner wrote about the role prices and market mechanisms might play in a socialist economy in the inter-war period. The issue isn’t state vs. market, it is democratic vs. private control. Later on we shall look at the work of Jaroslav Vanek, who in the 1970s attempted to map out a model of a labour-managed market economy. These two strands – a Connollyite industrial republic, and a market-led labour-managed sector – are not necessarily antagonistic. They can co-exist and complement each other.

GDH Cole put forth the idea of ‘Guild Socialism’ as a method of reconciling the interests of producers with those of consumers. He defined guild socialism as:

> … a division of functions between the State as the representative of the organised consumers and the trade unions, or bodies arising out of them through industrial unionism, as the representatives of the organised producers. These bodies we call National Guilds, in order both to link them up with the tradition of the Middle Ages and to distinguish them from that tradition. We who call ourselves National Guildsmen, look forward to a community in which production will be organised through democratic associations of all the workers in each industry, linked up in a body representing all workers in all industries. On the other hand, we look forwards to a democratisation of the State and of local government, and to a sharing of industrial control between producers and consumers. The State should own the

> means of production: the guild should control the work of production. In some partnership as this, and neither in pure collectivism nor in pure syndicalism, lies the solution of the problem of industrial control[13].

This is pretty much in keeping with the vision of Connolly, the Welsh miners and Chomsky expressed above: workers' control of industry, linked by some administrative body at some unitary geographical level to help co-ordinate industries and the macro-economy (a large-scale industrial economy, whether capitalist or democratic, will require some kind of central administration – this is simply economic necessity). This is the kind of tradition we are drawing on in trying to create a pro-working class economic model of our own. Like them, Cole was motivated not just by material improvement, but by freedom and emancipation for the working class:

> What, I want to ask, is the fundamental evil in our modern society which we should set out to abolish? There are two possible answers to that question, and I am sure that very many well-meaning people would make the wrong one. They would answer *poverty*, when they ought to answer *slavery*. Face to face every day with the shameful contrasts of riches and destitution, high dividends and low wages, and painfully conscious of the futility of trying to adjust the balance by means of charity, private or public, they would answer unhesitatingly that they stand for the *abolition of poverty*. Well and good! On that issue every socialist is with them. But their answer to my question is none the less wrong. Poverty is the symptom: slavery the disease. The extremes of riches and destitution follow inevitably upon the extremes of licence and bondage. The many are not enslaved because they are poor, they are poor because they are enslaved. Yet Socialists have all too often fixed their eyes upon the material misery of the poor without realising that it rests upon the spiritual degradation of the slave ... The collectivist, immersed in the daily struggle of the worker for a living wage, has thought only of distribution. High wages under State control have been the sum of his ambition; he has dismissed, as artists, dreamers or idealists, those who, like William Morris, have contended that no less fundamental is the question of production – the problem of giving to the workers responsibility and control, in short, freedom to express their personality in the work which is their way of serving the community[14].

The vision spelt out above is utterly compelling, so why did it not take hold? Why did it cede to Fabianism, which eventually transmogrified into New Labour in the face of rampant neo-liberalism and capitalist globalisation? We have seen already in part 1 the hostility of the Fabian tendency to the idea of workers' control in principle. Also, the defeat of the 1926 General Strike

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[13] Coates and Topham, p48.
[14] Ibid, p49, 47.

and the triumph of Bolshevism all mitigated against this line of thinking. But more than that, a model of a democratically controlled economy had not been fully fleshed out, compared to the Fabians (who had Keynes in their corner). As Robert Dahl said of the battles within the Labour party for and against workers' control as WWII drew to an end: 'The debates indicate that the *form* in which workers' control would be expressed was sometimes an astonishingly vague concept in the minds of all those who rose up to attack or defend the *principle*. The arguments reveal with sharp clarity, therefore, the inherent conflict between those to whom socialism is a means of economic planning and those to whom it is a means for reconstructing the position and function of the workingman in industrial society … If these debates proved nothing else, they at least demonstrated beyond doubt the vast fuzzy-mindedness surrounding the form that worker-control was to take. The idea of worker-control has a number of potential meanings, several of which were often fused in the conflict over abstract principle'[15]. What this boils down to is that while high-minded idealism is necessary in the formation of humane goals and visions, the only appropriate way to approach the attainment of these goals is with utter, hard-headed ruthlessness and calculation. The workers' control tendency evidently thought that the superiority of their principles alone would be sufficient to win hearts and minds and see off the state socialist tendency. They were wrong then, and such a stance would be even more wrong now. Those of us who believe in economic democracy must match our opponents in terms of theory and the credibility and practicability of our ideas: idealism alone is not enough, and never has been.

Some remarks to close this section: the kind of ideas we have been discussing here are not solely museum pieces or academic curiosities. In the '70s the think-tank the Institute for Workers' Control (IWC), under the leadership of the former Nottinghamshire miner Ken Coates, revived this line of thinking, and they weren't raving in the wilderness: at least one major trade union figure, Ernie Roberts of the Amalgamated Union of Engineering Workers, was fully signed up to the notion[16]. Furthermore, some of the ideas propagated by the IWC were fleetingly implemented by Tony Benn, in the shape of funding awarded to workers' cooperatives, while he was Industry Secretary during 1974–5, to the abject horror of the permanent Civil Service, before he was moved to the Department of Energy[17]. In 1995, as alluded to above, Robin Archer, presently of the London School of Economics, argued that economic democracy – defined as 'an economic system in which firms operate in a market but are governed by those who work for them' – offered a 'programmatic goal' with which socialism could ''pose a radical challenge to the political and economic institutions of advanced capitalism'[18]. Also, and it may be no more

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[15] Robert A. Dahl (1947), 'Workers' Control of Industry and the British Labor Party', *American Political Science Review*, **41**(5) (Oct., 1947), p887, 890.
[16] Ernie Roberts (1973), *Workers' Control* (London: George Allen and Unwin).
[17] Robert Oakeshott (1978), *The Case for Workers' Co-ops* (London: Routledge and Kegan Paul).
[18] Robin Archer (1995), *Economic Democracy: the politics of feasible socialism* (Oxford: Clarendon), p5.

than rhetoric, Hugo Chavez in Venezuela has recently expressed support for the idea of nationalised companies being placed under workers' control[19].

However, we haven't as yet addressed the biggest obstacles to the re-establishment of these kinds of ambitions and principles, namely deindustrialisation and globalisation. We have been using the term 'economic democracy' rather than 'workers' control' not just because, as stated above, workers' control on its own is not enough, but also because, to put it bluntly, there is not much left for workers in this country *to* control. Although we can look to the working class past for a degree of inspiration and to help us clarify our thoughts and aspirations, it is anachronistic to talk of building a democratic industrial republic along Connollyite lines when so much of domestic industry has been destroyed. It might have made sense as recently as the seventies or even the eighties, but not now, when 20% of the adult population is considered 'economically inactive', and a large proportion of those who have work do so in insecure, service sector industries. Furthermore, a consequence of the decline of the 'old' economy and the rise of neo-liberalism has been the weakening of – for want of a better phrase – working class identity and consciousness (and values): people are increasingly inclined – and in fact are *compelled*, by contemporary economic logic – to see themselves first and foremost as individuals, or consumers, or hustlers, rather than as part of the working class or any economic collective with shared interests. Why should youths in Dagenham or Sunderland see themselves as proud working men when there is no work for them to do? Why should they exercise themselves about democratising the productive process when they are shut out of it? A recent item in New Internationalist explained the political and social impact of neo-liberal reforms in Chile: 'Terms like "class struggle", "exploitation" and "equality" have been erased from the political lexicon ... As salaried jobs get axed, legions of domestic servants, field hands, street hawkers and other labourers are transformed into self-employed "micro-entrepreneurs" whose health and pensions benefits come out of their own pockets ... In this economy, no-one is too poor to consume on credit'[20]. If this sounds familiar, it is because, as Cecil Parkinson openly said, the economic reforms enacted by Thatcher in this country followed the blueprint first established by the 'Chicago boys' under Pinochet in Chile[21].

But even more than this, what really overwhelms such a vision is the reality of globalisation and capital liberalization (which are also the underlying causes of deindustrialisation). If the IWCA, or anyone else, were ever allowed to come to power in this country on a platform of economic democracy, the capitalists would simply be able to pull their money out and invest where the

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19 http://www.venezuelanalysis.com/news/4464
20 Lezak Shallat, 'New Speaking to Deaf Ears', *New Internationalist*, November 2009, http://www.newint.org/features/2009/11/01/santiago/.
21 Cecil Parkinson, interview with *El Mercurio Weekly Report*, October 1980, reproduced in Phil O'Brien and Jackie Roddick, *Chile: the Pinochet decade* (London: Latin American Bureau, 1983), p16-17.

climate is more favourable to their interests. In an era of almost unlimited capital mobility, capital enjoys the whip hand over not only labour but also elected governments: the priority *has* to be to provide a profitable business environment, otherwise the privately controlled capital resources will simply go elsewhere. Neo-liberalism was motivated not only by the need to crack down on labour strikes, but to also enable *capital* to strike if need be. This aim (increasing the strength of capital relative to labour, and the polity) was one of the main factors behind the great drive towards capital liberalization – the removal of controls on money movements – over the past thirty years: the Thatcher administration removed exchange controls almost immediately on coming to power in 1979. This is perhaps the biggest obstacle to what we might call 'economic democracy in one country'. What can our side do about this? Frankly, not much under existing conditions. Capital (money) is inherently more mobile than labour (people), which is what makes globalised capital such an elusive enemy: relatively immobile labour cannot effectively fight relatively mobile capital. The unilateral re-imposition of exchange controls is the obvious option, but even if it were possible to do such a thing there would be consequences. One would be extra-Parliamentary action and resistance from the capitalist classes deprived of much of their power. Another might be a spike in the cost of government borrowing on the international bond market, with the country being seen as a less than safe destination for investment and lending. It is possible that the first could be overcome through sheer brute force (and winning the loyalty of the military as evinced by the survival of Chavez in Venezuela and Correa in Ecuador, something Allende never did in Chile). The second, however, is more problematic unless a nation is able to resort to financial autarky.

However, there is another dynamic at work. As the current financial crisis is amply showing, capital liberalisation is inherently unstable and volatile: as Martin Wolf of the *Financial Times* has put it, 'In deregulated financial systems crises are inevitable, like earthquakes on a fault zone. Only timing is uncertain'. This is something Keynes understood better than anyone ('Ideas, knowledge, art, hospitality, travel – these are the things which should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primary national'), and the post-war Bretton Woods system – which delivered the greatest prolonged period of economic growth the capitalist system has ever known, and which Keynes was instrumental in designing – was founded on the institution of fixed exchange rates and stable, strictly controlled capital movements (or 'financial repression' as it would now be termed). However, although it delivered unprecedented economic growth, there was a political problem with Bretton Woods capitalism: with capital unable to flee at will, it gave the domestic working class, wherever it was, a target it could hit. This is the bind capital finds itself in: liberalised capital is politically strong but economically unstable; 'repressed' capital is economically stable but politically vulnerable. It is just possible that we could be heading back toward 'financial repression' and capital being broken down to the national level: even the IMF is now publishing research papers stating that capital controls could be a legitimate policy tool, in contrast to the received wisdom of the past thirty years[22]. Perhaps the correct term to use is 'deglobalisation': certainly, this is the term used by Bill Gross, joint managing director of PIMCO, the world's biggest bond fund, who is of the view that 'The future of the global economy will likely be dominated by delevering, deglobalisation, and reregulating'[23]. 'Deglobalisation' is also the term that the left-wing Filipino economist Walden Bello uses to describe his own alternative to neo-liberal globalisation[24]. There is calm and logical talk in the financial press of a brewing trade war between the US and China[25], a worldwide resort to protectionism and a threat to the world liberal trading order[26]: to quote Martin Wolf again, 'I am beginning to wonder whether the open global economy is going to survive this crisis'[27]. It is just possible that the contradictions of neo-liberal globalisation may produce a move toward 'deglobalisation', purely as a means of the capitalist system protecting itself. Such a move, should it happen, would offer opportunities for our side to regain some of the traction and leverage against capital that has been lost. It may once more give us a target than can be hit, but this time round we must be ready: like Milton Friedman said, 'Only a crisis produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around', and that crisis is here.

Finally, we have made much use of the concept of 'freedom'. What precisely do we mean by this? In Part 1 we used Marx's concept of 'free, conscious activity', something that is denied to the wage labourer by his need to sell his labour, by the constraints on his time and his access to resources. Marx talks of a higher form of society in which 'labour has become not only a means of life but life's prime want'[28], and Chomsky describes Marx as seeing 'the revolutionary more as a frustrated producer than as a dissatisfied consumer'. Elsewhere Marx remarked that 'as soon

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22 http://www.imf.org/external/pubs/ft/survey/so/2010/POL021910A.htm

23 Bill Gross, 'The future of investing: Evolution or Revolution?', April 2009, http://europe.pimco.com/LeftNav/Featured+Market+Commentary/IO/2009/Investment+Outlook+April+2009+Gross+The+Future+of+Investing+Evolution+or+Revolution.htm

24 See http://www.fpif.org/articles/the_virtues_of_deglobalization.

25 Martin Wolf, 'Currencies clash in new age of beggar-my-neighbour', *Financial Times*, 28 September 2010, http://www.ft.com/cms/s/0/9fa5bd4a-cb2e-11df-95c0-00144feab49a.html; Paul Krugman, 'Taking on China', *New York Times*, 14 March 2010, http://www.nytimes.com/2010/03/15/opinion/15krugman.html; Martin Wolf, 'Why China's exchange rate policy is a common concern', *Financial Times*, 9 December 2009, http://www.ft.com/cms/s/0/35c95d26-e463-11de-a0ea-00144feab49a.html.

26 Michael Pettis, 'The last chance to avoid a global trade war', *Financial Times*, 22 August 2010, http://www.ft.com/cms/s/0/9191856a-ae08-11df-bb55-00144feabdc0.html; Michael Pettis, 'Competitive devaluations threaten a trade war', *Financial Times*, 1 December 2009, http://www.ft.com/cms/s/0/24b5c0c6-dead-11de-adff-00144feab49a.html; Paul Mason, 'Sterling panic = cage fight: markets vs the state', 2 March 2010, http://www.bbc.co.uk/blogs/newsnight/paulmason/2010/03/sterling_panic_cage_fight_mark.html.

27 Martin Wolf, 'China and Germany unite to impose global deflation', *Financial Times*, 16 March 2010, http://www.ft.com/cms/s/0/cd01f69e-3134-11df-8e6f-00144feabdc0.html

28 http://www.marxists.org/archive/marx/works/1875/gotha/ch01.htm

as the distribution of labour comes into being, each man has a particular, exclusive sphere of activity, which is forced upon him and from which he cannot escape. He is a hunter, a fisherman, a herdsman, or a critical critic, and must remain so if he does not want to lose his means of livelihood; while in communist society, where nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes, society regulates the general production and thus makes it possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticise after dinner, just as I have a mind, without ever becoming hunter, fisherman, herdsman or critic.'[29] And he distinguished between a sphere of production which would always remain a 'realm of necessity', and a sphere of leisure – 'the true realm of freedom'[30],and sees the replacement of 'the detail-worker of to-day, grappled by life-long repetition of one and the same trivial operation, and thus reduced to the mere fragment of a man, by the fully developed individual, fit for a variety of labours, ready to face any change of production, and to whom the different social functions he performs, are but so many modes of giving free scope to his own natural and acquired powers'[31]. One particularly memorable piece of writing on this subject is by Bertrand Russell. Russell saw 'pure anarchism' as 'the ultimate ideal, to which society should continually approximate', but saw Guild Socialism as '[t]he best practicable system … which concedes what is valid both in the claims of the State Socialists and in the Syndicalist fear of the State, by adopting a system of federalism among trades for reasons similar to those which are recommending federalism among nations'[32]. On freedom he wrote:

> … if production were more scientific and better organised, a comparatively small amount of quite agreeable work would suffice to keep the whole population in comfort ... If civilisation and progress are to be compatible with equality, it is necessary that equality should not involve long hours of painful toil for little more than the necessaries of life, since where there is no leisure, art and science will die and all progress will become impossible ... When elementary needs have been satisfied, the serious happiness of most men depends upon two things: their work and their human relations. In the world that we have been picturing, work will be free, not excessive, full of the interest that belongs to a collective enterprise in which there is rapid progress, with something of the delight of creation even for the humblest unit. And in human relations the gain will be just as great as in work. The only human relations that have value are those that are rooted in mutual freedom, where there is no domination and no slavery, no tie except affection, no economic or conventional necessity to preserve the external show when the inner life is dead ... In

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29 http://www.marxists.org/archive/marx/works/1845/german-ideology/ch01a.htm
30 http://www.marxists.org/archive/marx/works/1894-c3/ch48.htm
31 http://www.marxists.org/archive/marx/works/1867-c1/ch15.htm#S9
32 Bertrand Russell (1918), *Roads to Freedom: socialism, anarchism and syndicalism* (London: George Allan and Unwin), p13.

> the world which we should wish to see, there will be more joy of life than in the drab tragedy of modern everyday existence. After early youth, as things are, most men are bowed down by forethought, no longer capable of light-hearted gaiety, but only of a kind of solemn jollification by the clock at the appropriate hours ... There is often in men of science, even when they are quite old, something of the simplicity of the child: their absorption in abstract thought has held them aloof from the world, and respect for their work has led the world to keep them alive in spite of their innocence. Such men have succeeded in living as well as all men ought to be able to live; but as things are, the economic struggle makes their way of life impossible for the great majority ... The world that we must seek is a world in which the creative spirit is alive, in which life is an adventure full of joy and hope, based rather upon the impulse to construct than upon the desire to retain what we possess or to seize what is possessed by others. It must be a world in which affection has free play, in which love is purged of the instinct for domination, in which cruelty and envy have been dispelled by happiness and the unfettered development of all the instincts that build up life and fill it with mental delights. Such a world is possible; it waits only for men to wish to create it[33].

Summary:

- *When the labour movement was at its strongest, it was clearly and instinctively recognised that attaining greater control over the economy for the working class should be the ambition, not just a fairer distribution of wealth or state domination of the economy. The objective was freedom, and this is an ambition that our side needs to regain, and reclaim from the right.*

- *A major failing of the labour movement was the failure to define precisely what economic democracy might mean and how it might be achieved: idealism is not enough.*

- *'Pure syndicalism' on its own is as unsatisfactory as pure state socialism: it gives power to the workers in an industry, but none to the wider public.*

- *Neo-liberal globalisation and financial liberalisation are major obstacles to the building of 'economic democracy in one country'.*

2) Case studies in economic democracy

i) Jaroslav Vanek's model of a labour-managed market economy

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[33] Ibid, p64, 64-5, 203, 205-6, 210.

In this second section we shall look at some case studies in economic democracy, both real-world and theoretical. This is with a view of building a practical, workable model of a democratic economy. We begin with the work of the economist Jaroslav Vanek from the 1970s. During this period Vanek was professor of economics at Cornell University in the US, and director of its 'Programme on Participation and Labour-Managed Systems'. That such a thing existed at a major American university then, and is so scarcely imaginable now, is a sign of how comprehensive the neo-liberal victory since then has been. Vanek says of himself that 'I experienced the evils of communism when I was a refugee in Czechoslovakia from Stalinism, and later, when I came to the West, I also experienced the evils of western capitalism … Economic democracy is a transposition of the idea of political democracy. It implies that economic life is governed by people who are involved in that economic life … One of the main reasons why the western world is so schizophrenic is that we have political democracy and economic autocracy'. He saw economic democracy as an alternative to both private capitalism and state socialism, and attempted to map out a theoretical model for a 'labour-managed market economy'[34], or at least the market sector of a democratic economy. We shall here try to outline the basics of what he proposed. This doesn't necessarily mean that every aspect of his work should be unquestioningly accepted, but it does acknowledge that the best, most thorough and far-reaching work on the subject so far is Vanek's, and so he is our logical starting point. If the neo-liberals have Friedman, and social democracy has Keynes, then it seems that the nearest economic democracy has so far is Vanek.

Vanek's model was defined by five basic characteristics, and one derived behavioural principle. Firstly, all economic enterprises are to be controlled and managed democratically by *all* those who work within them, and *solely* by those who work within them, on the basis of majority rule and one man one vote. There will be no hired labourers who do not possess voting rights, and there will be no external shareholders who *do* possess voting rights: every enterprise is to come under direct *labour-management*. The second, related, principle is *income sharing*: all income after costs generated by the enterprise is to be shared in an equitable manner, decided upon democratically within the enterprise. Thirdly, the full *decentralisation* of decision-making away from the state and down to individuals and democratically-run firms, and the fullest possible use of the market mechanism to enable this, establish prices and bring about coordination between enterprises: 'all buyers and sellers – that is, firms, households, the government, and so on – act freely and to their best advantage in all markets at prices equalizing supply and demand'[35]. Fourthly, the members of an enterprise enjoy collectively the *usufruct* of the capital assets of the enterprise but *not* full ownership, meaning that while they control how the capital is used and

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[34] Jaroslav Vanek (1970), *The General Theory of Labor-Managed Market Economies* (Ithaca: Cornell University Press); Jaroslav Vanek (ed.) (1975), *Self-Management: economic liberation of man* (Harmondsworth: Penguin); Jaroslav Vanek (1977), *The Labor-Managed Economy* (Ithaca: Cornell University Press). Also: Jaroslav Vanek (1971), *The Participatory Economy: an evolutionary hypothesis and a strategy for development* (Ithaca: Cornell University Press).
[35] Vanek (1970), p2.

enjoy full entitlement to any profits, they can neither destroy the assets nor sell them and distribute the proceeds as income. This characteristic addresses the crucial question of the ownership of capital in Vanek's model, and we shall focus on it in depth later on. Fifthly: *freedom of employment*. Finally, the key behavioural principle: just as firms in theoretical capitalist economics are motivated by the principle of profit-maximisation, in Vanek's model they are motivated – in economic terms at least – by the principle of *maximisation of income per employee*. Of these characteristics, it is probably the fourth which is the most interesting, significant and which brings the others together. But we shall examine each of these features in turn.

On the first feature, that of intra-firm democracy in the form of direct *labour-management*, Vanek does not suggest much in the way of specifics (indeed, there is only a certain amount that can be said about it from a purely theoretical angle). He states that in a democratic enterprise 'All control, management and income (after payment of all costs and taxes) should always remain in the hands of those who work in a given enterprise, whatever their number; the underlying operational principle being a fully democratic rule on the basis of equality of vote. The philosophical and moral basis of this must always remain the work in common of a group of men and nothing else, in particular not, as was often the case with traditional producer cooperatives, some kind of ownership of shares or basic contributions. This is nothing but an expression of a fundamental humanist principle upon which any viable self-managed economy must be based[36]… The process of management is one based on democratic majority rule, with each member of the enterprise given equal voice. The management activity itself consists of a combination of direct decision-making in major matters, and indirect decision-making in other instances through elected representatives, including the director of the enterprise'[37]. So here we see a common sense combination of both direct and representative democratic structures within firms, with day-to-day decisions delegated to elected officials where necessary and longer-term decisions decided upon by direct vote. In all instances it is management that is appointed by and directly accountable to the wider workforce, not the other way round. Vanek believed the Yugoslav economic experiment with self-management (which will be discussed later) was the nearest that had been achieved to a self-managed economy (though he was still critical of the Yugoslav system in many ways). Vanek's brother, Jan, described the internal structure of a Yugoslav self-governing enterprise, as laid out in Yugoslav law, thusly in 1972:

> Free combinations of workers, a self-governing decision-making structure, availability of necessary productive assets and their social ownership, freedom to engage in productive or other lawful economic activities, the development imperative and the plurality of purpose appear as the major characteristics of the enterprise … The *work collectivity* comprises all those working in the enterprise: manual workers,

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[36] Vanek (1975), 'Introduction', p34.
[37] Vanek (1970), p1.

> technicians and managers alike, all enjoying equal rights as members. Within the limits of the law, the collectivity adopts rules and plans, defines the internal structure of the enterprise, elects collective management bodies and appoints individual managers. Wherever possible, the collectivity decides directly on all major issues in a general assembly, by way of referendum or in any other manner as may be provided by the enterprise's own by-laws (statutes). Except in smaller enterprises (less than seventy workers) a permanent representative body, the *Workers' Council*, is elected to deal with all policy issues and other items reserved to it by law, the enterprise by-laws or other rules, including appeals against all other decisions. The Workers' Council comprises at least fifteen but often up to a hundred members; half of these are elected each year, exclusively from the members of the work collectivity (other than the Director of the enterprise). No immediate re-election for a second term is permitted. Each year the Council elects its executive, the Management Board, which deals with current issues of a general nature … The Workers' Council and the Management Board also appoint all members of higher management. There is a single executive Director (or General Director) of the enterprise, appointed by the Workers' Council for a four-year term … The Director directs all current business and implements the decisions of the collective management bodies. He is also legally responsible for the observance of statutory provisions. Accountable to the council, he may be dismissed within his term for bad management or gross incompetence[38].

For Vanek, as with the labour movement when there was such a thing, it is simply taken as read that the right to control and manage economic enterprises should rest with the people who work within them, *not* those who happen to own the capital assets: 'in a productive activity where a group of men cooperate in a joint effort, the right to control and manage that effort rests with all members of the group'[39]. Contrasting them with self-managed systems, Vanek refers to capital-controlled systems as simply 'dehumanized'. However, while Vanek instinctively rejects private *control* of capital, he doesn't necessarily see this as conflicting with the notion of private *ownership* of capital: 'Capital assets still can be owned by individuals or anybody else outside the enterprise, but the owners cannot decide on the complex of human activities which constitute the production. The owners can only expect an adequate compensation for the use of their assets, established through market forces or in any other manner. The owners – be it society or otherwise – also may require adequate guarantees or insurance against spoilage or any other loss of value of their property'[40]. Capital is treated as just another factor of production in Vanek's model: dehumanised and available for hire, like labour is now, entitled to rent but *not* profit, and

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38 Jan Vanek (1972), 'The worker-managed enterprise as an Institution' in Jaroslav Vanek (1975), p258.
39 Vanek (1970), p5.
40 Ibid., p5.

conferring no right of control. The crucial question of the ownership of capital will be addressed fully once we get to the fourth characteristic.

Another of the benefits of self-management is the alleviation of the alienation of labour. For Vanek, ‘labour management thus appears as a principle founded on integral, active human involvement. As such it is in sharp contrast with management and control by the owners of capital, who need not be and most often are not humanly and actively involved. The moral, psychological, and social implications of these facts are far-reaching. Perhaps the most important is that we have in labour management a pre-condition for a truly egalitarian and classless society. Moreover, the status and dignity of human work and activity is increased and thus a more natural balance is attained with the “status of ownership”. Finally, in an active involvement in labour management resides a way – perhaps the only way – out of the alienation of the workingman in modern industrial society’[41]. Also for Vanek, another economic advantage offered by labour-management is the optimisation of effort by workers, induced for reasons that are fairly obvious: ‘Without any doubt labour-management is among all the existing forms of enterprise organisation the optimal arrangement when it comes to finding the utility-maximizing effort – that is, the proper quality, duration and intensity of work – by the working collective. Not only is there no situation of conflict between management and the workers that might hinder the finding of the optimum, but the process of self-management itself can be viewed as a highly efficient device for communication, control of collusion and enforcement among participants. This should be contrasted with the situation of most other enterprises where the worker normally will be furnishing a minimum effort consistent with the retention of his job’[42]. Self-management offers workers reasons, interests and incentives to maximize their performance that do not exist under capitalist control.

The second characteristic, *income sharing*, derives naturally from the principle of labour-management: if work is a cooperative, democratic effort, it stands to reason that members ‘should share the net return of their joint activity’[43]. Indeed, why else would one be a member of such a collective? However, as Vanek points out, labour is not homogenous. The enterprise will be left with the decision of how to distribute its net income among its members, who possess many different skills and abilities. Should every hour worked be rewarded equally, from the janitor to the director? Or should more skilled labour, which adds more value, attract a higher reward? Vanek sees such decisions as being governed by two forces: ‘Conditions of the labour-market, or, more precisely, of the quasi-labour market, because there is no conventional labour market in a labour-managed economy; and the collective will of the working community as it emerges from the democratic decision-making process of labour management. Since the labour-managed firm in equilibrium (i.e., when maximizing income for each labourer) will equalize the

[41] Ibid., p5.
[42] Vanek (1977), p25.
[43] Vanek (1970), p5.

income of each labour category to the corresponding marginal value product, the first set of forces will guarantee that the allocation of labour throughout the economy will be at least approximately consistent with maximum aggregate output. The second set of forces, on the other hand, will guarantee a reasonable distribution of income, consistent with the generally accepted notion of justice for a particular period of time'[44]. In simpler language, this means that, in the first case, labour-managed firms aiming at the maximisation of income per labourer will keep adding labour (i.e. taking on workers) in each skill category up to the point were the value added to the firm by the last labourer hired (the marginal value product) is equal to the income per labourer in his skill category (income per labourer being decided upon democratically). If a skilled labourer is not receiving rewards equal to his marginal value product, he is free to move on to where he will receive due reward for the value he adds. For Vanek, this working of market forces driven by firms looking to maximise income per labourer will produce an efficient allocation of skilled labour throughout the economy; it will also 'guarantee the absence of major inter-firm income differentials'[45]. The second force, democratic decision-making within firms on how the surplus is to be shared out, will produce a degree of *distributive* justice, acting as a restraint upon inequalities in income.

Vanek believes that the two forces working together temper each other, and produce acceptable outcomes in the realms of both efficiency and justice: 'this "dual" optimization of social welfare, striking a balance between the mechanistic rules of efficient resource allocation and a collective expression of distributional justice, seems to be a solution superior to that offered by either set of criteria in isolation. The cardinally important thing is that the "dual" system guarantees that major mistakes will not be committed in either the allocational or the distributive sphere'[46]. As Vanek makes clear – and will be examined later – the survival rate of democratic enterprises, such as producer cooperatives, in the capitalist environment is not great, and if a democratic economy is to be established and sustained it needs to be at least comparably efficient with its non-democratic counterpart, or it simply will not survive. This means utilising the factors of production – in this case skilled labour – in as optimal a manner as possible. One could point to the problem that, if both democratic and non-democratic (capitalist) spheres co-exist in an economy, skilled labourers could use this to bid up their price in the democratic sector, on threat of going over to the non-democratic sector where democratic pressures over distributional justice do not exist. However, going over to the non-democratic sector means forfeiting what is to be had within what Vanek calls the 'special dimensions' of the democratic economy: having control over your own labour, less alienation and dehumanisation than in the capitalist sector.

This leads onto the third characteristic, *decentralisation*. This is not a command economy run from the centre: decisions are to be devolved as far as possible to firms and individuals through

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44 Vanek (1977), p24.
45 Vanek (1970), p393.
46 Vanek (1977), p24-5.

the market mechanism. Vanek argues that, at least in theoretical terms, the solely economic performance of his model at least equals that of the theoretical capitalist market economy. As alluded to above, market incentives – ‘all variable factors of production, including labour, and including capital in the long run, must in equilibrium earn their respective marginal revenue products … In the long run a fully competitive labour-managed firm must operate always at a point of maximum physical efficiency’[47] – work to bring about levels of efficiency at least comparable to those in theoretical market capitalism. There are some differences between the two models. Vanek believes that industries in his model will tend to be more competitive (i.e. a tendency for smaller firms) than in the capitalist model, reducing the market power of each firm: ‘labour-management can be expected not only to yield market structures more competitive than any other free economy, but also to prevent a good deal of wasteful and harmful sales promotion … all other things being equal, the point of maximum efficiency, which also is the point of long-run equilibrium for a labour-managed firm, will be reached for a lower level of output than for a firm operating with a hired labour factor. And thus, figuratively speaking, there will be room for more firms in a given industry. The next point also hinges on the most efficient scale of operation. The labour-managed firm will never grow beyond that scale, whereas a capitalist firm often will, its growth being governed, even after greatest technical efficiency is reached, by the desire for profit maximization[48] … in general oligopolistic market structures will be more competitive under labour management than under capitalism, and thus the degree of monopolistic price-cost distortion will be less’[49]. However, Vanek believes that in a monopolistic situation, a capitalist-managed monopoly realising positive profits ‘will be less restrictive, and employ more labour per unit of capital than its labour-managed equivalent’[50].

In the sphere of macroeconomic performance, Vanek argues that a labour-managed economy will be free of wage-price rigidity, deriving from ‘the absence of conflict and countervailing union power in the labour-managed enterprises and the residual nature of labour remuneration. This price-wage (or more exactly, price-labour-income) flexibility prevents states of unemployment of the Keynesian type in the labour-managed economies’[51]. In Vanek’s model, there are strong, self-corrective market forces to solve involuntary unemployment (which will be discussed when we get to characteristic five), and ‘the labour-managed economy will be far less susceptible to long-range inflationary pressures’[52]. But aside from all these, Vanek believes that the ‘special dimensions’ of his model, which produces optimum incentives in governing the level and quality of output produced by every individual labourer, are the model’s greatest economic strength, and would produce economic performance which would, pound-for-pound, far surpass that produced by the capitalist system. This leads him to conclude that ‘the labour managed

47 Vanek (1970), p382.
48 Vanek (1977), p18-19.
49 Vanek (1970), p383.
50 Ibid., p384.
51 Ibid., p390.
52 Ibid., p391.

economy is not only highly efficient in absolute terms, but also more efficient than other existing economic systems. This holds from the point of view of both allocational and distributional efficiency. This evaluation is based entirely on economic criteria'[53], before one even considers political, psychological or philosophical factors.

However, Vanek does allow the state some part to play: he ascribes to it the role of 'steering' the economy (the capitalist economy requires the state to do something similar, regardless of 'free market' rhetoric). 'Steering' can include research and development, and providing economic data. But the most important role the state might play in Vanek's model relates to the fourth and most important of its five characteristics: the allocation and ownership of capital resources in a democratic economy. Vanek's concerns in this regard relate to the poor economic record and survival rate of workers' cooperatives in the hostile capitalist environment, a record that Oakeshott describes as 'at best only modestly positive'[54]. Why have these small-scale experiments in economic democracy not succeeded, by and large, much less grown and expanded? Vanek believes the answer lies in the nature of their funding and financing. Cooperatives have tended to be funded out of retained earnings: they only invest out of whatever money they make themselves. They are usually either unable or unwilling to source external financing from capitalist lending institutions, due to mutual hostility on both sides. Vanek believes that it is this – the reliance on internal funding, and the absence of *external* funding – which explains the relatively poor performance, and lack of growth, of cooperative enterprises in the real world: 'self-financing as a general rule will be an important impediment to the formation of new firms, and thus may considerably undermine the dynamics and long-range development of a labour-managed or cooperative economy … without external funding, one way or another, there will be very little entry and formation of new firms'[55]. For one thing, Vanek notes that in the case of a cooperative enterprise with substantial retained earnings, there is nothing to prevent 'the members of the firm from converting the value of real assets into money, depositing that money in a bank, and earning the corresponding interest income. Everyone employed by the enterprise now can become a collective rentier earning a share of the interest on funds deposited. Provided that there are sufficient resources, he may never work again. This is certainly an undesirable situation from the national point of view, whether we take the position of a socialist country or any other'[56].

But more than that, for Vanek self-financing on its own is an extremely inefficient, sub-optimal way of allocating investment funds – capital – and it will not suffice as a general method of growing and building a democratic economy on the macro-level. If the *only* source of capital in our democratic economy is to come from retained earnings, where is the incentive or

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53 Ibid., p403.
54 Oakeshott (1978), xvii.
55 Vanek (1977), p174, 175.
56 Ibid., p173.

wherewithal to create new enterprises? The existing enterprise will only tend to either disperse its earnings among its membership or invest further in itself. There would be no reason to create new enterprises with this retained capital because ‘it would be giving additional income to the men newly employed in the new firm without partaking of that output themselves’[57]. And even investing further in itself is not an attractive prospect unless it is highly likely to generate higher returns than simply depositing the retained earnings and collecting the interest. So for Vanek, there *is* a need for a financial sector and a capital market in his model, playing the traditional role of finance in enabling savings to be turned into investment: ‘The confusion and the inefficiency that [self-financing] will generate in the allocation of scarce capital resources throughout the economy will be easily recognized by anyone with even a rudimentary training in economics. By contrast, again with predominantly or entirely external financing, there will be an overall tendency to equalize returns to capital on the margin throughout the economy and thus, for a given allocation of labour, generate an optimal allocation of capital’[58]. Again, this is on the understanding that capital is simply a dehumanised factor of production available for hire, like labour is now, conferring no right of control and no entitlement to profit. In Vanek’s model, it is *labour* that hires *capital*, not vice-versa.

Vanek recognises that his model requires a legal redefinition of the concept of property, just as the state committed to a democratic economy ‘must have written into its constitution articles on producers’ democracy (embodying something like our five defining characteristics) in very much the same way as many countries over the past two hundred years have written articles on political democracy’[59]. He restricts his redefinition of property to assets which he defines as both *social* – ‘more than one person must be involved in one or another of the several possible attributes of the property’ – and *productive* (Vanek himself admits that a more precise definition of what comprises a ‘productive asset’ is necessary) – the means of production, in other words. The ownership of such assets, Vanek argues, must be divided up between two distinct sets of legal owners, the *usufruct* (U) owner and the *basic* (B) owner. The U-owner ‘always and unalienably must be all those who collectively use the asset in production. The B-owner, on the other hand, can be anyone, and its principal function and right is to extract what we may call the scarcity rent (but not any kind of surplus or profit) of the productive social asset’[60]. So for instance, say the productive asset is a factory. The U-owners are the workers who use it, cooperatively and democratically however they see fit. The U-owners are entitled to all net income from their use of the productive asset, to be shared amongst them however they see fit. Their chief obligation is to pay the B-owner rent for use of the productive asset, and any compensation for depreciation (similarly, the U-owners are entitled to restitution for any *appreciation* of the productive asset), but the B-owner has no entitlement to any of the income

[57] Ibid., p174.
[58] Ibid., p175.
[59] Vanek (1970), p7.
[60] Vanek (1977), p181.

generated by the U-owner through use of the productive asset, nor any right of control how the asset is used once it is rented out. Both parties are subject to taxation by public authorities, such as they are.

As stated above, in Vanek's model the B-owner could be anyone: private individuals, financial institutions, the state, or some or all of the U-owners themselves (though in this case, B-ownership is individualised and divorced from their role as U-owners). For this reason, Vanek believes that, in theory at least, 'a labour-managed need not be a socialist economy. Indeed, the actual form of ownership of physical and financial capital is not the basis of distinction relevant here; what makes an economy or a sector of it labour-managed is the manner and the right of controlling a common activity of a collective of producers. And thus we can have labour-managed economies which are socialist, and those which are not. Moreover, either economy – but especially the non-socialist one – can be mixed in the sense that two sectors, one labour-managed and the other more traditional, may coexist in it … In fact, the distinction between labour-managed and non-labour-managed is far more significant than the distinction between socialist and non-socialist. While the former involves a whole way of life bearing on every hour of a man's active day, the latter, from an individual's point of view, may not mean much more than a different distribution of wealth and income'[61].

However, Vanek is of the view that 'there will be a great advantage if [B-ownership is] assumed by the society as a whole, represented by a democratic government'[62]. Vanek's preference is for the administration of capital markets and investment to be overseen by a National Labour Management Agency (NLMA), 'an institution – or a set of more or less independent institutions – designed to fill the needs of a labour-managed economy beyond those that can be taken care of efficiently by the labour-managed firms on their own … in the case of national ownership of capital of the labour-managed sector, the NLMA would be the repository and administrator of that ownership … transformation of socialist – or government – ownership of capital into a national one, administered by an NLMA, independent in its current operations from the government, would also be desirable'[63]. Here we return to the role of the state, such as it is, in our democratic model (as Connolly said, 'States, territories, or provinces will exist only as geographical expressions, and have no existence as sources of governmental power, though they may be seats of administrative bodies'). Vanek's example runs thus: a labour-managed firm borrows the capital it needs from the NLMA at interest rate r^*, r^* being 'established nationwide by the government, reflecting economic conditions and in particular the relative scarcity of capital ... The authorities or society at large, through a vote or otherwise, can within limits decide on the rate r^* as a matter of national economic policy'[64]. Once operational, the firm must

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61 Vanek (1970), p397.
62 Ibid., p7.
63 Ibid., p312, 319, 321.
64 Vanek (1977), p200, 205.

withdraw proportion *r** from its returns every year, and use these funds to either 1) invest further in itself, 2) invest in or create a new firm, or 3) deposit these funds with a savings institution, where they shall be loaned out for further investment. Whichever option is chosen, these funds will be used for investment – never consumption – and 'the economy will accumulate and expand its capital stock indefinitely at the rate *r**'[65], avoiding the under-capitalisation which typically retards the growth of individual, self-financing workers' coops. For Vanek, this will produce a dynamic market equilibrium, wherein firms will have the means and incentive to continue expanding up to the point of optimal efficiency, which will in turn 'guarantee the most efficient allocation of capital throughout the economy given the existing location of the labour force'.

The fifth characteristic is *freedom of employment*: every member of the national labour force is free to choose and/or change employment as he sees fit, while each firm is free to hire or not hire new employees; however, the right of enterprises to fire members may be constrained by the law, or by the enterprise itself. What about unemployment and the right to work in Vanek's model? As stated above, wage rigidity does not exist in Vanek's model, removing a source of unemployment present in the Keynesian model. However, he concedes the possibility of short-run unemployment in his system, but believes that the continued long-run forces of entry and expansion for new and existing firms that exist within his model tend to act as a natural corrective to temporary unemployment. For Vanek, the unemployed 'will be in a considerably favoured position in competing with existing firms for capital funds for development of new projects. Indeed, with very low unemployment incomes those currently unemployed will be able to offer considerably better terms to the lender. And thus any significant degree of unemployment carries with itself strong, even if perhaps not overly speedy, self-correcting forces'[66]. One of the macroeconomic objectives of the state, as part of its 'steering' role, is to create economic conditions conducive to full employment.

Finally, the key behavioural principle: just as firms in theoretical capitalist economics are motivated by the principle of profit-maximisation, in Vanek's model they are motivated by the principle of *maximization of income per employee*. This will be the prime *economic* principle driving each firm (though it need not be the *only* concern: it can have other, more social goals as well). This principle will provide the incentive to keep expanding and adding labour up until the point where adding further factors of production decrease the net income of the firm, producing growth and optimising efficiency. In the event that the enterprise needs to lose labourers in order to maximise income per worker, Vanek argues that retirement or voluntary cessation would contribute much of this; and also that 'contrary to common sense, reductions in employment in the labour-managed firms would generally coincide with periods when business conditions for the industry as a whole were very good, and when there would be a strong impetus for the entry

[65] Ibid., p205.
[66] Ibid., p22.

of new firms; the released employees would then form natural nuclei for the formation of new firms'.[67]

So, what can we take from all this? Vanek's most important insight comes from his diagnosis of why old-style individual worker cooperatives have often been inefficient (internal funding), and the remedy he proposes for a democratic macro-economy: a system of external funding via a capital market administered by an NLMA or something similar. Closely allied to this is his theory of property rights: U- and B-ownership of capital, with profits and control accruing to the U-owner, and the B-owner entitled to nothing but rent. Vanek's suggestion that, for a labour-managed economy, capital might come under national, democratic ownership and that 'in the case of national ownership of capital of the labour-managed sector, the NLMA would be the repository and administrator of that ownership' – that the NLMA act as the 'B-owner' of capital in the labour-managed sector – is reminiscent of GDH Cole's vision of Guild Socialism wherein '‘The State should own the means of production: the guild should control the work of production. In some partnership as this, and neither in pure collectivism nor in pure syndicalism, lies the solution of the problem of industrial control'. Vanek has given us a workable, practical economic framework where this might be realised (it is precisely for this reason that Vanek's work has been forgotten and neglected by mainstream economics. Why his work has been neglected by the left, however, is a question the left must ask itself).

Again, let it be said that we do not necessarily endorse every aspect of Vanek's model: for one, the present author would instinctively feel more comfortable with every hour worked by every labourer within an enterprise being rewarded equally. However, Vanek does argue strongly that there is a case for differentials from the point of view of efficiency, and that democratic structures would temper this with a degree of distributive justice. He also argues that in his model, the tendency toward the equalisation of capital marginal products (i.e. maximum efficiency) among firms will also tend to bring about a convergence in worker incomes amongst firms and industries. There are also some minor quibbles regarding some of the specifics of theoretical macro- and microeconomic performance that Vanek outlines in his model, and his treatment of unemployment is rather perfunctory; additionally, he perhaps underplays the role the state/administration may have to play. As Part 1 showed, the notion of 'the market economy' is somewhat overstated: economic development has tended to see –*require* – a move away from market coordination toward planned coordination; the development of new, large-scale technologies over the course of years and decades such as IT, aviation and biotech has tended to come from the state (usually the military), not the private sector, who have neither the resources nor incentive for such long-term research and development. So possibly Vanek underestimates how large a role the non-market sector of a democratic economy might be, and a more workable model would need more focus on how the state/public authorities might function, and how democratic control will be maintained in the non-market as well as the market sphere. The

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[67] Vanek (1970), p4.

market can get to places that planning cannot reach, but equally planning can do things the market cannot. To whatever extent capitalism utilises the market, it is reasonable to assume that economic democracy will at least do the same, and Vanek shows us how this can be accomplished in a democratic fashion.

Essentially, Vanek's democratic model of a market economy does not greatly differ from the capitalist model of a market economy except in one fundamental regard: capital exercises no control or authority over labour, and cannot extract any surplus value from labour. It is this – Vanek's theory of property, coupled with his related diagnosis of the importance of external financing if an efficient macroeconomy is to be built along democratic lines- which are his key insights. As we shall see in our other case studies, a workable theory of property is essential to building any kind of economy: property rights form the foundation of any economy, and those of us committed to economic democracy must find a theory of property consistent with it. Vanek's theory allows for the theoretical possibility of both state and private B-ownership of capital, something many will find instinctively disagreeable. If Vanek's theory is unsatisfactory for our purposes then let the hunt for a better theory begin, but do not pretend that the property question can be ducked, for it is in the question of property that we face what will be later described as 'the basic dilemma of socialism: who controls the great economic power materialized in public property and social capital?' Vanek offers one method whereby this question can be plausibly answered in a democratic fashion. If a more democratic method can be found then let us find it, but do not pretend that the dilemma can be skirted.

Summary:

- *Vanek's model economy is defined by five basic characteristics: 1) direct labour-management of economic enterprises; 2) income sharing; 3) decentralisation of decision-making power away from the state and down to individuals and democratically-run firms; 4) the members of a firm enjoy the full* usufruct *of capital assets, but not full or basic ownership, meaning that while they control how the capital is used and enjoy full entitlement to any profits, they can neither destroy the assets nor sell them and distribute the proceeds as income. They must pay rent to the basic (or B-) owner of their capital. This is Vanek's U-B theory of property rights; 5) freedom of employment. The labour-managed firms of Vanek's model are motivated by the principle not of profit-maximisation, but of* maximisation of income per employee.

- ***Vanek's formulation of U-B property rights is the most important insight in this document****. It fundamentally alters the relationship between labour and capital, rendering capital as simply a dehumanised factor of production, entitled to rent and no more. Control over work and any profits accrues to labour, not capital.*

- *Vanek's recognition of the need for a system of external financing to supply capital to economic enterprises, rather than relying on self-financing, is perhaps the second most important insight.*

ii) Mondragon

Our second case study is the Mondragon group of cooperatives in the Basque Country of northern Spain. Mondragon is widely held in the literature on the subject to be the world's most successful example of a worker-owned enterprise[68]: starting from literally nothing in 1956, by 2008 the Mondragon Cooperative Corporation (MCC) was the seventh largest business group in Spain, holding total assets of €33.499bn and employing just shy of 93,000 people (up from 25,000 in 1992) in 256 different enterprises (including 106 cooperative firms and 129 subsidiary companies, as well as a clutch of associated support bodies and organisations), which held a total of €2.178bn of stakeholder capital. Furthermore, Mondragon is not a cottage, small-scale endeavour: its firms are active and competitive in high-tech, capital intensive sectors such as machine tools, industrial components, conductors, construction and the manufacture of domestic appliances, yet 83% of the workforce in its industrial area are cooperative members, or *socios*[69]. In addition to industrial coops, it encompasses agricultural and housing coops, educational institutes, the social security coop Lagun-Aro and the Eroski chain of cooperative superstores. Mondragon has managed to avoid the inefficiencies and organisational/managerial weaknesses that Vanek traditionally ascribed to worker coops: indeed, Vanek himself said of Mondragon in 1975 that 'In its fully democratic structure, charging of real return on capital, and predominant funding from sources other than collective retained earnings, it also comes closest to the optimal design of a labour-managed system'[70]. It is these two latter points that are of most interest: Mondragon appears to be living proof of Vanek's theory that external financing, rather than self-financing, is key to building a successful, efficient labour-managed economic sector. Not that the founders of Mondragon needed Vanek to tell them this: they worked it out for themselves years before Vanek came up with his theoretical model (so rather than Mondragon passing the Vanek test, it appears to be Vanek who passes the Mondragon test). Our look at Mondragon will be in

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68 See Robert Oakeshott (1978), *The Case for Workers' Co-ops* (London: Routledge & Kegan Paul); Henk Thomas and Chris Logan (1982), *Mondragon: an economic analysis* (London: George Allen & Unwin); Keith Bradley and Alan Gelb (1983), *Cooperation at Work: the Mondragon experience* (London: Heinemann); William Foote Whyte and Kathleen King Whyte (1991), *Making Mondragon: the growth and dynamics of the worker cooperative complex* (Ithaca: ILR Press); George Cheney (1999), *Values at Work: employee participation meets market pressure at Mondragon* (London, Ithaca: Cornell University Press); *The Mondragon Experiment* (BBC documentary), http://video.google.com/videoplay?docid=7565584850785786404#.

69 Mondragon 2008 Annual Report, available at http://www.mondragon-corporation.com/language/en-US/ENG/Economic-Data/Yearly-Report.aspx.

70 Jaroslav Vanek, 'Introduction', in Vanek (ed.) (1975), p26.

two parts: first a recounting of its origins and structure including the genesis of the Caja Laboral Popular – 'the only successful and democratically-structured workers' bank in history'[71] – which has proven so vital to Mondragon's success; and secondly a discussion of how Mondragon has had to change and adjust in response to the challenges posed by neo-liberal globalisation. We should acknowledge at this point that there is a paucity of good recent primary and secondary literature on Mondragon in English (it was examined comprehensively during the eighties, but it would seem that the triumph of neo-liberalism has knocked out much of the enthusiasm for studying the subject), and only a limited amount of technical information on their website. What follows is an attempt, within these limitations, to draw out what can be learned from the Mondragon experience in relation to the construction of a pro-working class economic model.

The origins of Mondragon can be traced back to 1943. A socially minded Catholic priest, Jose Maria Arizmendiarrieta (henceforth simply 'Arizmendi'), had been posted, somewhat reluctantly, to the town of Mondragon in the Basque province of Guipuzcoa in the north of Spain. The region had been devastated during the Spanish Civil War: the Basques had generally supported the Republican government against Franco; Arizmendi himself, though unable to fight due to physical impairment, joined the army and worked as a Basque language military journalist. Captured by the fascists after the fall of Bilbao, Arizmendi only escaped death by identifying himself as a soldier in the Basque army, whereby he was classified as a prisoner of war: had he identified himself as a Basque journalist, he would have been executed. Once in Mondragon, he set up a technical school in 1943, soliciting contributions from the citizens of the town, with the aim of enabling young people to learn a trade. There had been a tradition of working class organisation and cooperativism in the Basque country, and in addition Pope Pius XI's encyclical of 1931 extolled the virtues of cooperativism (Vanek also points to the influence of Catholic social doctrine on his own thinking, in his case Pope John XXIII). However, 'More surprising (and disappointing for some) is the apparent absence of any strong links between Mondragon and the Spanish anarchist movement'[72].

In 1956 five graduates of the school, in collaboration with Arizmendi, set up their own cooperative firm, ULGOR (an acronym of their surnames), making paraffin stoves. These five acolytes of Arizmendi had tried, unsuccessfully, to implement cooperative and democratic ideas in their existing workplaces. They determined that only by striking out on their own could they 'put into practice their ideas on "the primacy of labour among factors of production"'[73]. Start-up capital was borrowed from the people of Mondragon, and friends and relatives, on the understanding that the firm would attempt to create new jobs for the region. This – the creation of worker-owned jobs – remains Mondragon's avowed primary objective. ULGOR opened for business in 1956 with 24 employees. Around this time other cooperative enterprises started

[71] Oakeshott, p165-6.
[72] Ibid., p169.
[73] Thomas and Logan, p19.

springing up in and around Mondragon. These enterprises began to forge links with each other, and soon realised they had problems in common, in particular the restrictions they all faced in their access to finance for expansion. Arizmendi's solution to this difficulty, which he anticipated very early on, was to set up a cooperative bank designed to serve this need for the coops. Arizmendi 'found out that a banking-type operation could be set up as a credit cooperative under Spanish law. He also discovered that, if registered as a "workers" credit cooperative, such a bank could pay an extra 1 per cent over the going legal maximum on its interest rates'[74]. This, coupled with the personal standing of those involved and native Basque pride and solidarity, encouraged local people to deposit their savings with the nascent bank. So in 1959, three years after the formation of the first manufacturing cooperative, the Caja Laboral Popular (CLP) – the People's Savings Bank – was born, and 'the systematic mobilization of local savings behind the development of the Mondragon coop group was under way ... ULGOR's founders had in effect solved one of the most acute problems of cooperative history: reliable access to adequate capital. Moreover, they had done so without in any way impairing the group's independence'[75].

The role that the CLP, and its associated bodies, plays in the Mondragon complex is roughly analogous with the role Vanek earmarked for the NLMA in his model (again, it should be stressed that Arizmendi saw the need for this in practice decades before Vanek saw the need for it in theory). It not only serves as a source of finance for Mondragon coops, it also has planning and advisory functions: it forensically evaluates every prospective cooperative that applies for a loan and continues to work closely with each one afterwards. It is the Caja which acts to nurture and incubate fledgling cooperative enterprises. As David Ellerman has written, the Caja – particularly its Empresarial Division – is the source of *institutional* and *social* entrepreneurship within Mondragon: just as Thomas Edison referred to his industrial research laboratory as an 'invention factory', so Ellerman refers to the Caja's Empresarial Division as 'a factory factory ... Technical innovation has become a medium-to-large-scale undertaking. Depending on the field, technological research now requires a certain critical mass of intellectual, financial, and organisational structures usually beyond the reach of the individual'[76] (this applies to capitalist systems as well: again, there is no such thing as an industrial free-market economy). The Caja does not simply wait for people to come to it to start a new enterprise, it has 'an active program of reaching out into the cooperatives and into the communities to locate potential groups of entrepreneurs'[77], and works with them until their enterprise is able to fly. This careful role played by the CLP is a major factor in why 'of the 103 worker cooperatives that were created from 1956 to 1986, only 3 have been shut down. Compared to the frequently noted finding that only 20 per

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[74] Oakeshott, p175.
[75] Ibid.
[76] David Ellerman (1984), 'Entrepreneurship in the Mondragon Coperatives', *Review of Social Economy*, **42**(3).
[77] Whyte and Whyte, p72.

cent of all firms founded in the United States survive for five years, Mondragon's survival rate of more that 97 per cent across three decades commands attention'[78]. From its humble origins, by 2008 the Caja held assets of almost €21bn and had 401 branches throughout north-eastern, northern and central Spain[79], with deposits just shy of €14bn and lending that year of €16.576bn[80].

The Caja itself is run as a cooperative, its governing council being made up of a combination of Caja workers and representatives of the associated coops. This puts the Caja in the somewhat unusual position of having a large degree of control over it asserted by its main borrowers. The relationship is equalised by the 'Contract of Association' which all Mondragon coops who borrow capital from the Caja are obliged to enter into. This contract gives the Caja significant oversight powers over those it lends to. The contract requires prospective cooperatives to commit to 'a set of basic principles regarding employment creation, capital ownership, earnings differentials, distribution of surplus, and democratic organisation'[81]. Membership of cooperatives should 'be open to all those whose services are appropriate', provided they are prepared to assume the work and responsibilities of a worker-member. Prospective members are screened for suitability, undergo a period of probation, and must pay a capital contribution and entry fee (which can be borrowed initially from the Caja or simply deducted from future income. In 2009 the fee was €13,380). This capital contribution represents the worker-members' stake in the enterprise. This is crucial: it designates Mondragon members not as hired labourers, but as part-owners of their firm; all members are both capital *and* labour: in Vanek's terms, they are individual B-owners, as well as collective U-owners. As befitting their status as worker-owners, cooperators are not simply paid a 'wage' as such: each member has a capital account with the firm in their name, and their own share of the surplus is paid into their account each year (of the entry fee, Logan and Thomas wrote in 1982, 15% was allocated to the cooperative's reserves, with the other 85% entered under the name of the individual). This capital stake cannot be monetised until retirement, and no more than 7.5% annual interest can be paid annually on individual worker-member capital accounts from the Caja. This is in keeping with the principle spelled out in Vanek's model: capital is entitled to a given level of return but no more, and has no entitlement to profit (only labour does). 30% of each firm's profits (or surplus, if you will) are allocated to the reserve and social funds of each coop, with at least 10% going to the social fund (monies set aside for social, cultural and educational purposes), with the remaining 70% disbursed among members in proportion to hours worked and pay level (pay level being decided by qualifications, responsibility and unusually hard or dangerous work). Losses, where they happen, are distributed according to the same formula, booked against the reserve fund and the individual accounts of members. Mondragon adheres to a 'three-to-one' principle where the

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[78] Ibid., p3.
[79] Caja Laboral Economic and Social Report, 2008, currently offline.
[80] Mondragon 2008 Annual report.
[81] Logan and Thomas, p23.

maximum ratio between highest and lowest earners within a cooperative before tax is three to one, ‘although there is the possibility of extending the range to 4.5 for a few who have very special responsibilities and talents. Non-members may be hired on contract and paid more when they are essential to the firm’[82]. In addition to internal solidarity, Mondragon is also concerned with solidarity with fellow Basques and the wider Basque economy, and as such ‘the lower paid cooperators earn slightly more than their equivalents in local factories; middle-range wages and salaries are about the same, while upper management and directors earn far less than their counterparts elsewhere’[83].

The most important condition laid out in the Contract of Association is the insistence on a democratic structure for each new cooperative, along the lines established by the first ULGOR coop. The governing principle is that all those in positions of responsibility are elected and are accountable to the membership: power relations are bottom-up, not top-down. Cooperatives are not all identical, but the general structure appears to run thusly: ultimate power in a Mondragon coop rests with its General Assembly (*Junta General de Socios*), in which every member is not only entitled but obliged to participate. It meets at least once a year, and EGMs can be called if one-third of members demand it. The General Assembly elects the nine members of the governing council, the *Junta Rectora*, the chief policy-making board of the coop. These are elected to four-year terms (half either standing down or standing for re-election every two years), and are unpaid for their work on the council. The *Junta Rectora* appoints management and has overall responsibility for setting management policies and objectives (again, it is management that is subordinate to the governing council and ultimately the General Assembly, not vice versa). Managers are appointed for four years and ‘cannot be dispensed with except in the case of some grave fault which is duly denounced by the Board and sanctioned by an Extraordinary General Assembly’[84]: once appointed they are given their mandate and left to get on with it unless their conduct is grossly unacceptable. Management in turn are allowed to speak at meetings of the *Junta Rectora* but cannot vote. Oakeshott describes this arrangement as ‘a highly sophisticated attempt to reconcile the need for genuinely democratic structures with the need for efficient management and management continuity’[85]. Two bodies work alongside, and report to, management and the *Junta Rectora*: the management council, or *Consejo de Direccion*, which represents the voice of management, and the *Consejo Social*, the Social Council, which serves as the elected voice of the grassroots membership, and represents them to management and the governing council: ‘Social Council decisions are binding in such matters as accident prevention, work safety and work hygiene, social security, wage levels, administration of Social Funds, and welfare payments. Each worker votes for a representative at section level, with whom meetings

[82] Ibid., p71.
[83] Logan and Thomas, p25.
[84] Ibid., p28.
[85] Oakeshott, p189.

are held at least once a week, and each cooperative must hold a general plenary session of Social Council section-representatives at least once every thee months'[86].

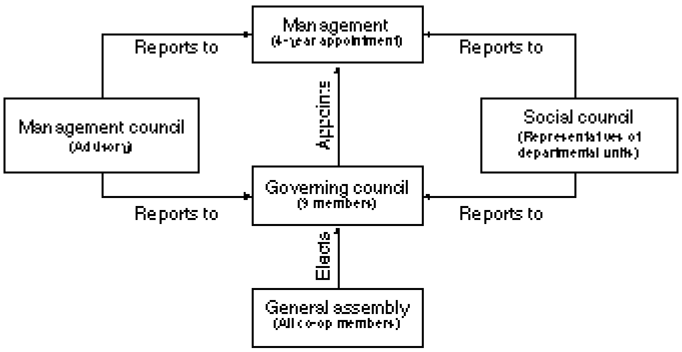

Figure 1.
The organizational structure of a Mondragon co-operative

Diagrammatic representation of the internal structure of a Mondragon coop[87]

Oakeshott describes these arrangements – which look to resolve the antagonism between capital and labour, stress democratic decision making, and attempt to reconcile the interest of the individual with the whole – as 'an extraordinarily subtle and imaginative exercise in social engineering which make all other attempts at industrial structure building – whether by the Webbs or Ernest Bader or the Rochdale pioneers – look like the artefacts of Stone Age workshops'[88]. He is certainly right to praise the ingenuity and resilience of the Mondragon system, and the term 'social engineering', while perhaps somewhat indelicate, is not inappropriate either. The Mondragon system is characterised by its effort to build up a culture of solidarity, just as neo-liberalism is characterised by its need to create a culture of selfishness and narcissism, to remake people in its own image. In capitalist economics this is represented by the figure of *homo economicus*, the rational, selfish, utility maximising individual. This is the model of humanity that neo-liberalism thinks is appropriate and aspires to drive us all toward. Mondragon's view of human nature is very different, and is summed up by the title of a biography of Arizmendi: *El Hombre Cooperativo*. Vanek recognised the need for educational programmes in a democratic economy in order to help nurture, acculturate and develop cooperative values, and this remains visible at Mondragon (which began as an educational initiative). Alongside this, as Oakeshott remarks, is a tough-minded approach to discipline, with penalties ranging from suspension without pay up to expulsion for unacceptable behaviour such as persistent lateness and absenteeism, theft or 'the display of public or violent incompatibility in a way which interferes with collaborative teamwork': 'The tough-mindedness is the direct antithesis of what ordinary people tend to expect from cooperative ventures. This is how far the

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86 Logan and Thomas, p28-9.
87 Taken from Mark A. Lutz (1997), 'The Mondragon Complex: an application of Kantian ethics to social economics', *International Journal of Social Economics*, **24**(12), http://www.emeraldinsight.com/fig/0060241204001.png.
88 Oakeshott, p190.

Mondragon group is from basing its discipline on an "idealistic" but sloppy assumption that all worker-members will "naturally" behave well'[89].

What we have seen so far may be thought of as the 'golden age' of Mondragon. The purely economic studies of Mondragon from the early eighties found that its performance was at least the equal with that of the capitalist sector. Seemingly, a sustainable model of a democratic economy with inherent growth potential had been successfully constructed: 'Mondragon's behaviour is therefore in line with the theory of a self-managed economy, in which adjustments in the capital–labour ratio and the entry of new firms are of critical significance ... On theoretical grounds there is therefore no reason why the Mondragon model could not apply equally well to a provincial or a national economy'[90]. However, the early-to-mid eighties were challenging years for the world economy, and Mondragon was not immune: the focus had to shift from creating new enterprises to safeguarding existing ones. This, coupled with the impending entry of Spain into the European common market in 1992, necessitated a consideration of whether and how Mondragon might be able to survive *and* hold onto its cooperative ideals in an increasingly globalised, neo-liberal world. This rethink led to significant changes: the Empresarial Division of the Caja was granted independence; in 1987 the ratio between highest and lowest earners was allowed to increase from 1:4.5 to 1:6; and whereas previously cooperatives were autonomous and linked to each other solely by their ties to the Caja, in 1991 it was decided that there should be 'a move toward greater centralisation through expansion of the managerial superstructure and pursuit of a univocal strategy regarding the cooperatives' presence in the market', as well as to allow 'salaries of top managers to rise to 70 per cent of established market equivalents'[91]. This resulted in the creation of the Mondragon Cooperative Corporation, an umbrella body encompassing all the Mondragon enterprises. The chief body of the MCC is the Cooperative Congress, consisting of 650 delegates from the various coops, the purpose of which is to 'establish the strategic criteria by which the Corporation is to be administered, through the planning and coordination of its business units'. The Congress in turn appoints a Standing Committee and General Council to oversee the Corporation as a whole, the four divisions – Finance, Industrial, Retail and Knowledge (which consists of training, education and R&D) – and the cooperative firms within them[92].

These changes, this turn toward 'greater centralisation' and 'pursuit of a univocal strategy', were not universally welcomed. One group within Mondragon, ULMA, seceded in 1992 rather than become part of the MCC. Cheney's 1999 study looked specifically at how the Mondragon group was adjusting to having to deal with increasing 'market pressures'. Cheney found that managerial thinking developed within the capitalist sector was becoming prevalent within

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89 Ibid., p197.
90 Logan and Thomas, p169.
91 Cheney, p49.
92 Details of MCC structure available at http://www.mondragon-corporation.com/language/en-US/ENG/Who-we-are/Organisational-structure.aspx.

Mondragon, and noted an increasing emphasis being placed upon customer satisfaction and technocracy rather than solidarity and the transmission of cooperative values: 'I found that most interviewees who had been with the company more than a few years drew a sharp contrast between the "family"-like experience of work in the past and the current "corporate" model. *Socios* spoke with much affection for the days when communication among employees seemed relatively easy, informal, and spontaneous. They also reminisced about an easier pace of work – not fewer hours so much as "less intense" times on the job … there was a growing perception of a distinct managerial class within the cooperatives … Nearly all of my interviewees in 1994 and 1997 spoke of the declining importance of the general assemblies, the increasingly blurred line between the functions of the governing councils and the management councils, and the lack of a role for ombudsmen in most cooperatives' social councils … the domain within which most employees see themselves as having influence is narrowing'[93]. In common with almost everywhere else, Cheney also noted increasingly consumerist and careerist attitudes among the younger elements: one young engineer told Cheney 'Younger generations of *socios* are more likely to see cooperativism in terms of what it can do for them rather than what they can do for it', and an older press operator declared 'We [longtime *socios*] don't have the energy and the younger generation don't have the desire'[94]. In purely economic terms, one cannot quibble with the results that 'New' Mondragon has delivered: the corporation has grown from 25,000 employees in 1992 to almost 93,000 at the end of 2008, 16% outside of Spain (Mondragon has actively participated in the globalisation process). However, by Mondragon's own admission, a consequence of this rapid expansion has been that 'only somewhat less than a third of the Corporation's workers are cooperative members at present' [95], due to its buying up of private firms and expansion outside of the Basque Country. The Mondragon Corporation has not just survived during the neo-liberal era, it has thrived. But at what cost?

The present author's own view is that, having studied the most contemporary accounts, the changes Mondragon has gone through in recent times represent, for the most part, pragmatism rather than sell-out. In the first instance, the MCC recognizes that such a low proportion of *socios* is unacceptable, and has stated that 'This percentage of worker-members will have substantially increased in three years' time, when Eroski [the Mondragon chain of superstores] has completed its cooperativisation process for all its non-member employees, who work mainly outside the Basque Country and Navarra. When this process is complete, the percentage of cooperative members in the Corporation as a whole could be over 75%'. With regards to the private firms that the MCC has acquired, at the May 2003 Congress 'the decision was taken to drive the creation of formulas that allow for the participation in ownership and management by

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93 Cheney, p74, 75, 148.

94 Ibid., p115, 103.

95 Mondragon FAQ: http://www.mondragon-corporation.com/language/en-US/ENG/Frequently-asked-questions/Corporation.aspx.

employed workers that pursue their activities in our non-cooperative companies'[96]. Furthermore, Williams' 2005 study would appear to indicate that the democratic deficit complained of by *socios* above is being addressed, and that conditions have improved sufficiently to persuade ULMA to rejoin Mondragon: 'After 1997, the General Assembly [the Cooperative Congress of the MCC] perceived that communications within the rapidly growing organisation were becoming problematic. Communications improved dramatically when in 2002 the General Assembly, on the advice of the Governing Council, established "interest groups" among worker members with similar professional interests. Attendance at General Assembly concurrently improved noticeably from around 60 per cent in 1997 to over 80 per cent in 2004. The interest groups now discuss all kinds of problems from worker relationships to future challenges. Worker members now almost unanimously report that conditions are vastly improved and that they would work for MCC even if the pay scale were significantly lower than the general labour market … Recent interviews with workers reveal a high degree of satisfaction with the openness of the organisation as well as fairness of management in dealing with both workers who are members and the decreasing number of non-member and part-time workers. The "interest groups", resembling the Japanese model of quality groups but focused on worker-management relationships as well as entrepreneurial future concerns, is a form now recommended for all of the cooperatives. Their implementation and ongoing impetus appears to be preventing the weaknesses found within the social councils of some of the cooperatives in the 1990s. Much improved worker attendance at the *consejos* and remarks made in interviews of workers for this current study would affirm that observation'[97]. The first principle of guerrilla warfare is survival, and Mondragon did what was necessary to survive in hostile, neo-liberal times. Mondragon would have been useless in its mission to spread cooperative values if it hadn't been able to find a way to survive as a business first and foremost, and it did. The recent developments outlined above would seem to indicate that Mondragon's commitment to democratic values, while tempered with pragmatism, remains as strong as could be. A greater concern should be the decline in cooperative values among younger people in the Basque Country, an insidious threat which even the Mondragon initiative struggles to resist.

Let us conclude our look at Mondragon by addressing a more fundamental criticism, and then by summing up. The criticism: is Mondragon sufficiently democratic? Does it meet the criteria of workers' control? Noam Chomsky, who we drew upon extensively in Part 1, argues not: 'Mondragon is basically a very large worker-owned cooperative with many different industries in it, including some fairly sophisticated manufacturing. It's economically quite successful, but since it's inserted into a capitalist economy, it's no more committed to sustainable growth than any other part of the capitalist economy is. Internally, it's not worker-controlled – it's manager-controlled. So it's a mixture of what's sometimes called industrial democracy – which means

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[96] Ibid.
[97] Richard C. Williams (2007), *The Cooperative Movement: globalization from below* (Aldershot: Ashgate), p118, 121-2.

ownership, at least in principle, by the work force – along with elements of hierarchic domination and control (as opposed to worker management). I mentioned earlier that businesses are about as close to strict totalitarian structures as any human institutions are. Something like Mondragon is considerably less so'[98]. Let us leave aside his point about the environmental sustainability of Mondragon for now and address the core issue he raises: just how democratic is it possible for economic enterprises to be? How are questions of power and authority to be dealt with? Chomsky is quite right to state that Mondragon is characterised by manager control rather than worker control: the difference between Mondragon and totalitarian, top-down capitalist enterprises is that management is democratically elected and accountable, and enterprise objectives are set democratically by all members. It consists of both direct and representative democratic structures: it does not dispense with authority, it democratises it. But, once management is elected and authority has been democratically delegated to them, members are expected to respect the chain of command (we use the military term deliberately). Arizmendi himself wrote in the constitution of ULGOR, the first Mondragon coop: 'Work is the means adopted for attaining a higher level of satisfaction for human aspirations and demonstrating collaboration with the other members of the community to promote the common good. To ensure that it is contributed freely, productively, and in a manner that makes everyone's collaboration viable, the members shall respect its discipline, namely a hierarchy'. Chomsky has stated elsewhere: 'Power, unless justified, is inherently illegitimate. The burden of proof is on those in authority to demonstrate why their elevated position is justified. If this burden can't be met, the authority in question should be dismantled. Authority for its own sake is inherently unjustified. An example of a legitimate authority is that exerted by an adult to prevent a young child from wandering into traffic'. In this we would entirely agree with him (arguably so would Hayek: he would state that the power of capital over labour is entirely justified, just like the power of the adult over the child). So the question is: are Mondragon's hierarchical structures justified? Can *any* hierarchical structures in an economic enterprise be justified?

Again, the issue here seems to be pragmatism rather than principle. In any large-scale enterprise it will be necessary for there to be some delegation of authority: if one is working in a factory producing large-scale excavation equipment; if one is part of a team *using* large-scale excavation equipment; if one is working in an electricity grid control centre, it will not be possible for every individual to do as he pleases if anything is to be accomplished (or if everyone is to make it through the working day in one piece). It is no more possible or reasonable for every individual to have total direct control over every aspect of his work (such as when he shows up, or how often, or what he feels like doing) in an industrial enterprise than it is on the battlefield, the football pitch, a symphony orchestra or in any other form of collective, interdependent effort. This is simply organisational necessity. As Engels memorably put it:

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98 http://books.zcommunications.org/chomsky/sld/sld-4-02.html

Modern industry, with its big factories and mills, where hundreds of workers supervise complicated machines driven by steam, has superseded the small workshops of the separate producers; the carriages and wagons of the highways have become substituted by railway trains, just as the small schooners and sailing feluccas have been by steam-boats ... Everywhere combined action, the complication of processes dependent upon each other, displaces independent action by individuals. But whoever mentions combined action speaks of organisation; now, is it possible to have organisation without authority? Supposing a social revolution dethroned the capitalists, who now exercise their authority over the production and circulation of wealth. Supposing, to adopt entirely the point of view of the anti-authoritarians, that the land and the instruments of labour had become the collective property of the workers who use them. Will authority have disappeared, or will it only have changed its form? Let us see.

Let us take by way of example a cotton spinning mill. The cotton must pass through at least six successive operations before it is reduced to the state of thread, and these operations take place for the most part in different rooms. Furthermore, keeping the machines going requires an engineer to look after the steam engine, mechanics to make the current repairs, and many other labourers whose business it is to transfer the products from one room to another, and so forth. All these workers, men, women and children, are obliged to begin and finish their work at the hours fixed by the authority of the steam, which cares nothing for individual autonomy. The workers must, therefore, first come to an understanding on the hours of work; and these hours, once they are fixed, must be observed by all, without any exception. Thereafter particular questions arise in each room and at every moment concerning the mode of production, distribution of material, etc., which must be settled by decision of a delegate placed at the head of each branch of labour or, if possible, by a majority vote, the will of the single individual will always have to subordinate itself, which means that questions are settled in an authoritarian way. The automatic machinery of the big factory is much more despotic than the small capitalists who employ workers ever have been. At least with regard to the hours of work one may write upon the portals of these factories: *Lasciate ogni autonomia, voi che entrate!* [Leave, ye that enter in, all autonomy behind!]

If man, by dint of his knowledge and inventive genius, has subdued the forces of nature, the latter avenge themselves upon him by subjecting him, in so far as he employs them, to a veritable despotism independent of all social organisation. Wanting to abolish authority in large-scale industry is tantamount to wanting to abolish industry itself, to destroy the power loom in order to return to the spinning wheel ... it is absurd to speak of the principle of authority as being absolutely evil, and of the principle of autonomy as being absolutely good. Authority and autonomy

> are relative things whose spheres vary with the various phases of the development of society[99].

It will be remembered that in Part 1 we drew attention to Hayek's claim that both fascism and socialism were totalitarian because they alike refused to recognise 'autonomous spheres where individuals are supreme', with which we countered that the capitalist institution of wage labour was no different, that 'the origin of capitalism is characterised by the *removal* of the means of independence – the right of *access* to property – from the mass of the population, turning them into rightless proletarians'. Here, it must be conceded that *no* form of large-scale industrial organisation, even the most democratic, can wholly respect 'autonomous spheres where individuals are supreme': it is the price of civilisation and interdependence that individual autonomy must be abrogated to some degree. The one way of life which does preserve 'autonomous spheres where individuals are supreme' is for the individual to subsist off the land, and people should be allowed to do this if they wish – as Thomas Paine said, land is 'natural property' to which every individual is entitled to an equal share – but in turn those who are unwilling to pay the price of civilisation must forego its communal benefits as well. If one is attached to clean running water, access to electricity, factory produced goods, the internet and means of travel other than the horse, then one must accept that there are certain structural limits to personal economic freedom. It is the task of economic democracy to lower and equalise those limits as far as humanly possible.

So, at issue with regards to Mondragon is not the *principle* of its hierarchical structures – as stated, *some* authority is necessary – but their degree and extent. Can economic enterprises be more internally democratic than those we see at Mondragon and still be viable? Perhaps, and if so then all to the good (again, it should be remembered that Mondragon has had to survive in hostile environments, from Franco to neo-liberalism). But the key point is that Mondragon has shown that it is possible to build a democratic macroeconomic sector, provided capital is available and allocated in a rational manner, and that supporting institutions, attitudes and discipline are in place. Vanek wrote that it 'must take an act of political will, or a philanthropic (not profit- and power-oriented) group of men to provide the necessary characteristics of the capital market which would support the smooth and efficient operation of a participatory economy or participatory sector'[100], and with the creation of the Caja Laboral Popular we see this borne out at Mondragon. The triumph of Mondragon trumps the failures of individual worker coops which led the right and the middle class, Fabian left to sneer at the notion of workers' control – what Beatrice Webb called 'that pernicious doctrine' – as nothing more than a pipe

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[99] Friedrich Engels (1872), *On Authority*, http://www.marxists.org/archive/marx/works/1872/10/authority.htm.

[100] Vanek (1977), p197-8.

dream, a 'proletarian distemper'. Mondragon gives us a glimpse of what the independent, risen working class can accomplish, and a model to replicate.

Summary:

- *Mondragon is the most significant example of a labour-managed economy extant.*
- *Crucial to Mondragon's success is the Caja Laboral Popular, its own cooperatively run bank. It was recognised early on that Mondragon cooperatives would require a source of external funding, and the CLP provides this.*
- *In this, and the direct, individual ownership of capital by the members of each firm (consistent with U-B ownership), we see Vanek's model realised.*

iii) Yugoslavia: 'the readiness to assault the heavens'

Our third and final major case study is that of Yugoslavia. From the early '50s up until 1989 Yugoslavia ostensibly committed itself to the creation of a socialist, decentralised, labour-managed market economy, the only such type of experiment with economic democracy that has ever been attempted on a country-wide basis. The degree of commitment to the stated goal throughout that period ranged from the purely rhetorical to the very real: Vanek said that his *General Theory* was originally 'intended to deal specifically with the economy of Yugoslavia, which by and large has adopted a labour-managed system. The Yugoslav economy is thus the principle inspiration of our study'[101]. The Yugoslav experiment logged some major successes and had some major failures, and ultimately it *did* fail. Nevertheless, the scale of it makes it arguably an even more important case study than Mondragon, for better or worse, and even its failures can be – and are – enormously instructive. Our task here is to attempt to isolate the causes of its failure, and take whatever can be learned from them.

The origins of the Yugoslav experiment can be traced back to the Second World War. Yugoslavia's unique post-war experience was in large part a product of its unique *wartime* experience. In the words of the economist Branko Horvat – one of the chief theoreticians of the Yugoslav experiment: 'Of all the European countries occupied by fascist invaders, Yugoslavia was the only one to liberate itself by its own forces. The National Liberation War coincided with a genuine social revolution. This meant two things: an unbelievably high morale – the readiness to assault the heavens, as a poet said – and also an almost unbelievable degree of devastation of the country'[102]. Harold Lydall writes that the Yugoslav Partisans were 'the only resistance

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[101] Vanek (1970), p6.
[102] Branko Horvat (1976), *The Yugoslav Economic System* (White Plains, NY: International Arts and Sciences Press), p6.

movement in occupied Europe to hold a continuous base of operations with its own organs of government'[103]. The Yugoslav experiment grew out of avowedly and consciously militant – *not* conservative – antifascism. In April 1941 the United Kingdom of Yugoslavia was invaded by German, Italian, Bulgarian and Hungarian Axis forces. Croatia became a quisling collaborationist state which attempted to ethnically cleanse Serbs, Jews and gypsies from its territory through massacre and forced conversion to Catholicism; part of Serbia also came under quisling administration, while the rest of the country came under direct Axis occupation. As Dennison Rusinow recounts, the anti-Axis resistance wasn't uniform: 'There were in effect three wars waged concurrently and by shifting combinations of persons and groups – a national liberation struggle against German, Italian and other occupiers, and the two civil wars, one among the Yugoslav nationalities and another among those who would restore the old and those who would establish a new regime and political economic system'. The latter – those seeking to establish a new political and economic system – were the Partisans, led by the Communist Party of Yugoslavia who supplied the most motivated, dedicated and daring elements, many of whom had invaluable military experience from the Spanish Civil War. On the conservative side were the Chetniks: anti-Axis, pro-Serb army officers who wanted to see the old order restored, and who frankly regarded the Partisans as a greater long-term threat than the Nazis: inevitably, the Chetniks ended up as collaborationists. The Partisans offered a place for the best and bravest of the left-leaning elements and independent anti-fascists to gather around, and their explicit pan-Yugoslav stance meant that they were 'the only group which could appeal to people of all nationalities throughout the country', with their 'slogan "brotherhood and unity" and in the promise of a Federal State and manifested in the all-Yugoslav composition of their own leadership'[104]. By October 1944 the Partisans (with limited Soviet assistance) had liberated Belgrade; in March 1945 a provisional government was created, headed up by the Croat/Slovene head of the Partisan forces Josep Broz, or Tito; and the monarchy was formally abolished in November 1945. The Communist-led Partisans finished the war as the most popular and credible political formation in Yugoslavia. Their wartime achievements gave them something which the other Eastern European communist regimes did not have: a legitimacy which derived from their *own* strengths and military prowess, not Moscow's.

In the immediate post-war period, the communists began to restructure and rebuild the devastated economy along orthodox Stalinist lines, as embodied in the 1946 Constitution which was modelled on Stalin's 1936 Soviet Constitution. Apart from agriculture (which underwent strict agrarian reform, with large estates broken up and redistributed among the peasants), the economy underwent wholesale nationalisation and came under central state control: businessmen who had collaborated had their property confiscated without compensation (many collaborationists were killed in the immediate post-war period, while the Chetniks and other conservative elements continued resistance against the new regime until 1946). Within a few

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[103] Harold Lydall (1989), *Yugoslavia in Crisis* (Oxford: Clarendon Press), p1.
[104] Dennison Rusinow (1977), *The Yugoslav Experiment, 1948-1974* (London: Hurst), p3.

years pre-war production levels had been restored and 'the regime was ready to begin "building socialism" with the classic Soviet formula of electrification and industrialisation'[105]. But in 1948 Moscow turned against Yugoslavia: 'Stalin accused Yugoslav Party leaders of revisionism and antisovietism … The Yugoslav Communist Party was excommunicated from the "family of brotherly parties", various treaties were abrogated unilaterally, development loans were cancelled, trade with Yugoslavia (amounting to about one-half of her total foreign trade) was reduced to virtually nothing by the middle of 1949, and a complete economic boycott was established'[106]. What lay behind this denunciation of Yugoslavia on Moscow's part? Rusinow writes that 'The basic issue in the great quarrel of 1948 was very simple: whether Tito and his Politburo or Stalin would be dictator of Yugoslavia. What stood in Stalin's way was Tito's and hence the Yugoslav regime's autonomous strength, based on the uniqueness in Eastern Europe of Yugoslavia's do-it-yourself and armed Communist revolution and its legacy'[107]. Similarly, the British diplomat Sir Duncan Wilson wrote: 'The Soviet leaders had from the first mistrusted this self-confidence and, as they saw it, the narrow horizons of the Yugoslav Partisan and Party leadership … Stalin did not like the way in which the Yugoslavs had gone ahead with the construction of their own model of communism, without sufficiently consulting the numerous Soviet advisers, military, economic and political, on the spot in Yugoslavia … He wanted to bring the Yugoslav regime into line with the other much more subservient governments and parties in Eastern Europe. Tito himself and his immediate subordinates must be replaced by more pliable characters. This was the essence of the matter'[108].

Though Stalin broke with Yugoslavia, it was some time before the Yugoslavs were able to psychologically break with Stalin*ism*. Their first reaction to their expulsion was to attempt to prove their faithfulness and fidelity to Moscow and its doctrine. One bone of contention had been the Yugoslavs refusal to nationalise and collectivise agriculture along Stalinist lines. Yugoslavia was a 75% peasant society at the time: peasants formed the backbone of the Partisans and the Party membership, and the Yugoslav leadership felt it impossible to nationalise agriculture without alienating the base of their support. The peasantry 'interpreted the slogan "the land to those who cultivate it" in the sense in which agrarian radicals throughout history have understood it. This meant private ownership of family farms, free from overbearing landlords, absentee owners, speculators and usurers. Collectivisation was to them as much an enemy as the old landowning classes. Even in the Soviet Union Lenin did not attempt collectivisation in the early post-revolutionary period, and it was ten years after the seizure of power by the Bolsheviks before Stalin introduced it'[109]. Moscow denounced this failure to collectivise as 'adventurous and non-Marxist' and declared the Yugoslav party a 'party of kulaks', and so in an effort to re-

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105 Ibid., p20.
106 Horvat, p8.
107 Rusinow, p25.
108 Duncan Wilson (1979), *Tito's Yugoslavia* (Cambridge: Cambridge University Press), p50, 51.
109 Fred Singleton and Bernard Carter (1982), *The Economy of Yugoslavia* (London: Croom Helm), p102.

ingratiate themselves the Yugoslav regime changed tack and attempted to force through agricultural collectivisation between 1949 and 1952. Horvat wrote of this experiment that ‘the collectivisation drive increased the number of peasants’ work cooperatives, but with its compulsory deliveries, administrative controls, and the rest, it depressed output”[110], a situation that was exacerbated by droughts in 1950 and 1952, causing especially catastrophic collapses in agricultural product. But by this time, thinking among the Yugoslav regime was beginning to shift. The break with Moscow had not caused the roof to fall in, while on the contrary the attempt to collectivise agriculture and return to Moscow’s favour almost had (similarly, industrial output also lagged badly in 1951 and 1952). Yugoslavia had begun forging trade and diplomatic links with the West, which in turn allowed them to avoid starvation during the drought years. But furthermore, the psychological hold of Moscow and Soviet orthodoxy had been broken. Rusinow wrote: ‘As a Yugoslav historian noted: “Yugoslav Communists posed to themselves a dilemma: either there exist real Communists and true socialism in the USSR – in which case the Soviet Communist Party is right in the clash with the CPY – or else socialism there is deformed and Communists there are no longer communists, in which case the CPY is the true Marxist Party and Stalin and the CPSU leadership no longer stand on true socialist positions”. Once the logic of this argument had been discerned and stated, Yugoslav polemicists and serious political thinkers moved on with alacrity to “discover” wherein the Soviet deformations of socialism consisted and what had led to them’[111].

We can hear directly from the horse’s mouth, namely one of the key architects of the Yugoslav revolution, Milovan Djilas, how the Yugoslav communists began to discover and ascertain where the ‘Soviet deformations of socialism’ sprang from, and how these inconsistencies might be resolved:

> Soon after the outbreak of the quarrel with Stalin, in 1949, as far as I can remember, I began to reread Marx’s *Capital*, this time with much greater care, to see if I could find the answer to the riddle of why, to put it in simplistic terms, Stalinism was bad and Yugoslavia was good. I discovered many new ideas and, most interesting of all, ideas about a future society in which the immediate producers, through free association, would themselves make the decisions regarding production and distribution – would, in effect, run their own lives and their own future … One day – it must have been in the spring of 1950 – it occurred to me that we Yugoslav Communists were now in a position to start creating Marx’s free association of producers. The factories would be left in their hands, with the sole proviso that they should pay a tax for military and other state needs ‘still remaining essential’ … Debates on issues of principle and on the statutory aspects soon began, preparations that went on for some four or five months. Tito, busy with other duties and absent

[110] Horvat, p14.
[111] Rusinow, p48.

> from Belgrade, took no part in this and knew nothing of the proposal to introduce a workers' council bill in the parliament … His first reaction was: our workers are not ready for that yet! But Kardelj and I, convinced that this was an important step, pressed him hard, and he began to unbend as he paid more attention to our explanations. The most important part of our case was that this would be the beginning of democracy, something that socialism had not yet achieved; further, it could be plainly seen by the world and the international workers' movement as a radical departure from Stalinism. Tito paced up and down, as though completely wrapped in his own thoughts. Suddenly he stopped and exclaimed: "Factories belonging to the workers – something that has never yet been achieved!" With these words, the theories worked out by Kardelj and myself seemed to shed their complications, and seemed, too, to find better prospects of being workable. A few months later, Tito explained the Workers' Self-Management Bill to the National Assembly[112].

And so the stage was set for the first attempt at economic democracy at the national level, consciously imagined as a direct, and more truly Marxist contrast to Soviet communism, where 'Centralisation as the principle of organisation is to be replaced by decentralisation, a centrally managed economy by a self-governing economy'[113]. In June 1950, the Basic Law on the Management of State Economic Enterprises and Higher Economic Associations by the Work Collectives was enacted, and all economic concerns which had been nationalised were from then on to be 'managed by working collectives on behalf of the social community, within the framework of the state economic plan'[114]. The state was assigned a 'steering' macroeconomic role (as earmarked by Vanek) rather than one of detailed central planning, concerning items such as setting 'the rate of accumulation and the distribution of investment'[115]. Horvat describes the basic structure of self-managed enterprises during this period thus: 'All workers and employees of a firm constitute the work collective. The collective elects a workers' council by secret ballot. The council has 15 to 120 members elected originally for one year and more recently for a two year period. The council is a policymaking body and meets at intervals of one to two months. The council elects a managing board as its executive organ. The board has 3 to 11 members, three-quarters of whom must be production workers. The director is the chief executive and is an ex-officio member of the managing board … The safeguards against the creation of a managerial class are the workers' majority in the managing board and the provision that members of self-managing bodies may be elected only twice in succession'[116].

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112 Milovan Djilas (1969), *The Unperfect Society* (London: Methuen), p157, 158.
113 Horvat, p11.
114 Quoted in Singleton and Carter, p122.
115 Horvat, p13.
116 Hprvat, p156-7.

The changes in economic management were coupled with changes in local government. The basic unit of Yugoslav local government was the commune, which was governed by an elected People's Committee of between 15 and 50 members. With the arrival of self-management, and the passing of a new Constitution in 1953, this structure was changed so that 'each People's Committee was composed of a People's Chamber, elected directly by all citizens, and a Producers Council, composed of representatives of the workers' councils in the commune. The People's Committees exercised a general oversight of the economy of its area, and also had a specified role to play, in collaboration with the workers' council of an enterprise, in the appointment and dismissal of its director'[117]. There was also a formal commitment to decentralisation in the political sphere, from the Federal government to the republican governments to the communes.

In the early days, Yugoslavia was still a largely peasant society and the majority of enterprises employed less than 30 people; even in 1959 there were still only 125 which employed more than 2,000 workers. Decentralisation was a process, rather than a singular event: at first, 'Yugoslav workers were no more the masters of their factories than were the British miners who listened to Sir Hartley Shawcross announcing, on 1 January 1947, "We are the masters now", as the National Coal Board took over the mines … The powers of the workers' councils, either independently or in collaboration with the communal authorities, were strictly circumscribed by law. They had a say in the appointment and removal of the director, and played a part in the general formulation of policy. Beyond this the most important function was to decide on the allocation of a limited proportion of the surplus income of the enterprise. The greater part of this allocation was determined by law [for reserves and investment], but after the fulfilment of statutory obligations, there was a limited discretion to decide between payments of personal income or social expenditure for the benefit of the whole workforce. In the latter category, payments to sports funds, holiday homes, housing funds and the provision of welfare facilities were included'. Over time, workers' councils accrued more powers: in 1953 'public competition for the director's office was introduced, and the representatives of the commune retained a two-thirds majority in the selection committee'[118], and the 1957 Labour Relations Act 'extended the powers of workers' councils concerning recruitment, dismissal and discipline. During the next few years further legislation widened the powers of workers' councils over the distribution of income. At the same time the process of decentralisation and self-management was spreading to non-economic activities, such as education, culture, health, welfare and social insurance'[119].

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117 Singleton and Carter, p125.
118 Horvat, p158.
119 Singleton and Carter, p125-6.

It will be noted that much of this picture bears more than a passing resemblance to the structures we have seen at Mondragon. These Yugoslav structures also enjoyed comparable success. During the period 1952-1960, Yugoslavia ‘achieved the highest rate of growth in the world: per capita gross national product expanded at the rate of 8.5 per cent per annum, agricultural output at the rate of 8.9 per cent, and industrial output at the rate of 13.4 per cent’[120]. In his highly critical 1989 study of the Yugoslav system, even Harold Lydall has to concede that ‘for most of the period from 1950 to 1979 [after which the economy went into a death spiral] Yugoslavia not only survived but prospered. Real national product rose rapidly, millions of ex-peasants were given jobs in the social sector; industrial production expanded rapidly, and exports of manufactured products came to dominate the export trade … The average annual rate of growth of real social product over this period was 6.3 per cent. During the first decade the rate was slightly higher, and in the last nine years slightly lower. But this rate of retardation was scarcely a reason for serious concern … the rate of growth of real social product per capita was 5.3 per cent, and of fixed capital in the social sector (from 1954 to 1979) 8.3 per cent. But labour productivity in the social sector, which was rising at 4.3 per cent per annum in the 1960s, rose at a rate of only 1.8 per cent per annum in the period 1970-9. Many of these growth figures were high by international standards, although not as high as in some exceptionally rapidly growing countries such as Japan or the smaller economies of East Asia’[121].

As Lydall implies, the good numbers recorded by Yugoslavia in the fifties do not tell the whole story. They covered up certain weaknesses which were causing ‘serious concern’ at least as early as the ‘60s. One negative characteristic of the Yugoslav economy in the ‘50s was a severe balance of payments deficit. This is not unexpected in a rapidly developing economy. However, a more serious weakness, and one which persisted, was ‘the low rate of labour productivity and the inefficient use of capital … the pattern of investments was distorted by the artificial protection given to certain industries by tariffs and subsidies. The range of products produced, especially for export, bore no relation to the realities of the market. Overinvestment in some sectors – including public buildings – was accompanied by underinvestment in industries which were based on the utilization of resources which would have given Yugoslavia a comparative advantage on world markets’[122]. A 1961 Yugoslav planning document found that ‘Technical equipment is always weak, and, especially in the building industry, forestry and commerce, the equipment of many factories is old. This defect seriously hampers … growth in the productivity of labour’. In an attempt to correct these weaknesses and inefficiencies, further market forces were released within the Yugoslav economy: foreign trade was liberalized and the currency devalued, the financial system was overhauled, and the power of trade unions – as distinct

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[120] Horvat, p12-13.
[121] Lydall, p3, 24.
[122] Singleton and Carter, p130, 132.

from workers' councils – to supervise wage levels and differentials in self-managed enterprises was removed. The effect was disastrous, as Horvat explains: 'The three reforms of 1961 were poorly prepared, partly inconsistent, and badly implemented. As one might have expected, the sensitive market economy reacted violently. Everything went wrong: in one year, the rate of growth of industrial output was reduced to one half of its 1960 level, imports soared, exports stagnated, wages surged far ahead of productivity … The insistence on financial discipline created a serious shortage of money with strong deflationary effects. The abolition of income control led to wild increases of wages unrelated to productivity increases. The liberalization of foreign trade increased the balance of payments deficit'[123]. Another Yugoslav planning report 'criticized deficient planning, an imperfect market, arbitrariness in income distribution, and inconsistencies in investment decisions'[124]. The economic crisis prompted further changes to the economy in 1965, along with another new Constitution, and '[s]ignificantly enough, the solution to economic troubles was sought in further decentralisation, perfection of self-government autonomy, development of a more competitive market, and integration into the world economy. What followed appeared to be a second, more radical and more consistent edition of the 1961 reform'[125].

The Yugoslav responses to economic difficulties seemed to lack the pragmatism of those found at Mondragon. It is almost as if they became fundamentalist decentralisers – in economics if not in politics – in response to their excommunication from the Stalinist church to which they were originally so devoted: if in doubt, marketise. Horvat seems to acknowledge as much when discussing the failure of the 1965 reforms to get the economy to fly right: 'The reform was much better prepared politically than the one in 1961, but not economically. Economically it was based on a rather naïve idea of the viability of the laissez-faire principle. Monetary policy appeared to be practically the only available device of economic policy. In order to stabilize prices, the government applied a credit squeeze. It worked, but it also produced deflation with unemployment and stagnation … As a result, unemployment appeared. In a few years, several hundred thousand workers went abroad to find employment. After 1967, there was some acceleration of growth, but by 1970 the first serious signs of inflation became visible … There were monopolistic abuses of the market. Economic power tended to become concentrated, particularly in the financial sector. Income differences increased … there was a massive abuse of taxation and other regulations. As usual, governmental inefficiency began to generate corruption. A certain number of clever and ruthless individuals exploited the deficiencies of social organisation and quickly accumulated personal fortunes by legal and illegal means … on top of all this,

[123] Horvat, p21, 23.
[124] Ibid., p23.
[125] Ibid., p21.

latent nationalist antagonisms suddenly erupted [in Croatia and Kosovo]. Political instability increased substantially'[126].

The response to these continued difficulties was predictable and none too original: 'economic and administrative decentralisation and political recentralisation, all in quite extreme forms'[127], as encoded in yet another new Constitution in 1974 and the 1976 Law Concerning Associated Labour, which heralded the final act of the Yugoslav experiment. These demanded a re-organisation of every enterprise in the social sector: they were all to be broken up into constituent units called Basic Organisations of Associated Labour (BOALs). Just as the economy was supposed to be made up of autonomous enterprises run democratically and interacting with each other in the marketplace, so each individual enterprise – now renamed as 'work organisations' – was to be made up of a federation of autonomous BOALs, bound by voluntary self-management agreements: it was not just the wider economy that was to be decentralised, but individual enterprises too. A BOAL was comprised of one work unit within an enterprise, such as a department of a factory, or a workshop, or 'any group of workers whose work results can be evaluated independently of the results of other workers'[128]. Each BOAL had its own workers' council, its own assets, and its own income, the distribution of which it would decide upon itself, and organised its own work autonomously. Instead of any state planning, macreoeconomic decisions were arrived at through bargaining between agents and the striking of self-management agreements. These decentralisations in the economic sphere were accompanied by increased centralisation in the political sphere, where 'the LCY [the League of Yugoslav Communists, the renamed Communist Party] was restored as the final authority over all other decision-makers. This authority would be exercised through its direct participation in all the institutions of the state and of self-management down to the BOALs … the 1974 Constitution broke all precedents by providing for the LCY's direct representation in government bodies – the collective State Presidency and the communal, republican, and federal assemblies'[129].

Soon after these reforms, the Yugoslav economy went into terminal decline. For all the economic difficulties Horvat noted above, during the '60s the Yugoslav economy still grew at 6% per annum, and at 5.6% through the '70s. But during the period 1979-85, growth was *minus* 0.9% per annum, while real net personal income per worker in the productive social sector fell 4.7% per annum, or 24.9% over the period, and in 1979 inflation was running at 20%. Not only did this ultimately lead to the end of the Yugoslav experiment in the shape of the Markovic reforms of 1989 (Tito had died in 1980), it also brought back to

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[126] Ibid., p25, 27, 37.
[127] Ibid., p39.
[128] Laura D'Andrea Tyson (1980), *The Yugoslav Economic System and it Performance in the 1970s* (Berkeley, CA: Institute of International Studies), p7.
[129] Ibid., p8.

the surface chauvinistic nationalism, particularly in Serbia, which ultimately led to the Balkan horror of the 1990s. Inter-regional economic inequalities were never adequately alleviated under Tito: the northern Habsburg republics of Croatia and Slovenia began as the most economically advanced parts of the country, ahead of the Ottoman south, and remained there. As the Yugoslav experiment was coming to its end in the mid/late eighties, demagogues such as Slobodan Milosevic – head of the Serbian communist party – switched effortlessly from socialism to nationalism, exploiting the frustrations generated by the economic crisis using historical grievances both real and imagined.

So why did this happen? Why did the Yugoslav experiment fail? Can it simply be ascribed to the reforms of 1974 and 1976? Was this a decentralisation too far, putting paid to efficiency and productivity? Perhaps: in the best analysis of the latter stages of the Yugoslav experiment, Laura D'Andrea Tyson writes that in some enterprises 'decentralisation trends have apparently gone too far, with individual BOALs constituting themselves as small enterprises complete with their own administrative, clerical, and technical staffs. This has increased overhead costs for the individual BOALs and for the enterprise as well'[130]. There is something of a trade-off between efficient economic functioning and direct democracy – this is the point Engels was trying to make – and, as stated above in the case of Mondragon, if more directly democratic economic structures can be found which retain efficiency, then all well and good. It is possible that these reforms led to inefficiencies which led to the terminal decline of the Yugoslav experiment. Yet it should also be remembered that this period was a particularly difficult one for the economy worldwide, following from the oil price shocks. And, as we have seen, the Yugoslav experiment was having economic difficulties as far back as the early '60s, so its demise cannot be attributed to the creation of BOALs or the global economic climate alone, though these may have contributed to the timing. There were deeper, underlying issues. Harold Lydall, a critic hostile to the very notion of self-management or economic democracy, notes that economic decentralisation was accompanied by political *centralisation*, with a great deal of politically motivated interference in the economy, meaning that, in Lydall's words, 'the liberating doctrine of "self-management" was transformed into its opposite – a new system of all-embracing state administrative intervention and control – the dominant purpose of which was to ensure the maintenance of (federalised) state power … It is never easy to manage a genuinely federalised country. But the worst difficulties can be avoided if there is a unified market, and a unified fiscal and monetary system. Under these conditions, it would even be possible to operate some kind of self-management economy, although not a very efficient one unless there were genuine opportunities for free entry. But a federation of one-party socialist states operating on self-

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[130] Ibid., p23.

management principles seems to be one of the worst of all possible worlds. This is, unfortunately, the corner into which Yugoslavia has painted itself'[131].

Many of Lydall's points are echoed by more sympathetic critics. In 1987 the Yugoslav Prime Minister Branko Mikulic said 'It is estimated that more than half of the foreign debt was invested in projects which turned out to be mistaken, or was used for consumption'[132]. A 1987 study found that fixed investment productivity in Yugoslavia was only 70–75% that of Greece, Turkey, Spain and Portugal, and that 'if, over the whole of the period 1949-80 productivity of Yugoslav fixed investment had been as great as the average of these countries, the social product of Yugoslavia in 1980 would have been at least twice as large as it in fact was'[133]. This is clearly a key factor in the failure of the Yugoslav experiment: as mentioned above, the less than optimal allocation of capital was a persistent problem for the Yugoslav economy dating back to the early '60s at least. So what accounts for it? It will be remembered that Jaroslav Vanek laid down strict institutional conditions necessary to bring about the efficient allocation of capital in a democratic economy, namely the external financing of firms at the scarcity price of capital rather than self-financing, which for Vanek inevitably tends to produce sub-optimal distribution of investment resources, with firms being 'not only too small with respect to an efficient scale, but also … undercapitalised'[134]. These conditions, which Vanek believes *were* met at Mondragon, were *not* met in Yugoslavia. In 1971 Vanek observed that 'Save in exceptional instances, the Yugoslav firm is not only a producer of its goods or services, but also generator of its capital. More specifically, the firms in Yugoslavia are called on to finance their investments – that is, plant and equipment – either from retained earnings or from borrowed funds, ultimately to be repaid from retained earnings … to the extent that we find the actual performance of the Yugoslav economy efficient, we can conclude that it would be even more so with predominantly external financing'[135].

In a more urgent assessment in 1973, Vanek wrote that the interest rate in Yugoslavia should have been in the region of 15% if it accurately reflected economic fundamentals, but found instead that '[t]he interest payments actually made by Yugoslav industries are only a very small fraction of that amount, and the situation is rendered even more acute in view of the continuously depreciating value of money through inflation … The situation is primarily the result of collective self-financing, partly voluntary, partly induced by moral suasion … With self-financing, of course, the product and income of capital is transformed, in major part, into rents accruing to those currently employed in the Yugoslav labour-managed industries. Not only does this lead to unequal distribution of incomes,

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131 Lydall, p235-6, 82.
132 Lydall, p53, 83.
133 *Ibid*., p83.
134 Jaroslav Vanek (1977), *The Labor-Managed Economy* (Ithaca: Cornell University Press), p55.
135 Jaroslav Vanek (1971), *The Participatory Economy* (Ithaca: Cornell University Press), p41-2, 43.

because the rents can vary a good deal from industry to industry and from firm to firm, but also the subjectively low cost of capital is bound to produce, for those who have capital (i.e. existing firms), unnaturally high capital-labour ratios. This implies low employment capacity of existing firms, and scant hope of creating new firms to employ those unemployed at home or those migrating *en masse* to West Germany and elsewhere'[136]. So in isolating the source of Yugoslavia's misallocation of capital resources – through its failure to develop a rational, efficient system of external financing for enterprises – Vanek also deduces that this misallocation was *also* the source of the problems of unemployment and income inequalities which bedevilled the Yugoslav experiment. On the latter, Vanek found wide income differentials for individuals with equal skills depending upon which firm or industry they happened to work in, and for Vanek '[w]ide inequalities, whatever their reason, always imply structural inefficiency' with structural efficiency defined as 'the equalization of capital costs and capital productivities of the last units of capital employed among firms and industries'[137]. The artificially low rates of interest produced a tremendous excess of demand for loanable funds, with the result that funds were often allocated for non-economic reasons, such as favouritism or politics. This further retarded the creation and entry of new firms, which is essential in Vanek's model both for preventing unemployment and for equalising incomes across industries.

And Tyson arrived at almost identical conclusions in her study, namely that the inefficient allocation of investment resources in the Yugoslav economy derived from the failure to construct an efficient, objective system of supplying finance to enterprises, relying instead on firms to finance themselves from retained earnings: 'From an economy-wide point of view, optimality of capital-use required that all investment projects be evaluated using the same measure of aggregate capital scarcity. There is only one way to ensure this outcome in a self-managed system: complete external financing of enterprise investment by either a central, state-run capital fund or a private capital market that charges its enterprise borrowers an interest rate that just equals the marginal productivity of capital in the aggregate. Clearly, the Yugoslavs have decided against both of these alternative forms of external financing in favour of internal financing either by individual firms or by groups of firms in a self-management association. Internal or self-financing, however, in no way guarantees that the return to capital will be equalized across investment projects, since individual investors may employ widely differing profitability and return standards in deciding on potential investment projects … Inter-enterprise differences in imputed capital returns will in turn be reflected in inter-enterprise differences in incomes paid to workers – the imputed return to labour … the newly proposed methods of cooperative or pooled self-financing do not solve the capital allocation and "underinvestment" problems caused by self-financing of enterprise investment in a system of attenuated collective ownership

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136 Vanek (1977), p57-8.
137 *Ibid*., p65.

rights. The only way these problems can be solved is by introducing a system of external financing based on the principles of private or state ownership. Unfortunately, for political and ideological reasons, such a system has been an impossibility in Yugoslavia'[138].

Tyson not only arrives at the same diagnosis as Vanek, she also addresses the obvious next question: *why* was a rational financial system not put into place in Yugoslavia, as had been done at Mondragon? Why was it 'an impossibility, for political and ideological reasons'? The question brings us to another characteristic of the Yugoslav experiment, namely its theory and definition of property rights. This is no small matter: property rights form the founding institution of all economies. It will be remembered that Vanek's model included a distinct outline for how capital should be owned in a democratic economy: full 'U-ownership' of capital, including control of any surplus produced, should always reside with all those who work with it, while 'B-ownership' entitles one to scarcity rent of capital but no right of control over those who work with it or what they produce. B-ownership, in Vanek's model, can reside with private individuals, the workers (on an individual basis, like at Mondragon), the state, or financial institutions (such as his proposed National Labour Management Agency), but the economic relationship between those who hold capital and those who work with it remains clear and delineated at all times: the holders of capital are entitled to a certain rent from labour, but they have no control over how the capital is used, or how the product or any surplus is distributed, for that control alone –'U-ownership'- remains with those who work with the rented capital. One may agree or disagree with Vanek's proposed model of property rights, but it is clear and definite. Yugoslavia *lacked* any such clear definition as to where the ownership of capital lay. The Yugoslavs regarded state ownership of property as Stalinist, and private ownership as capitalist. They came up with the concept of 'social ownership' as an alternative. What precisely *was* social ownership? A good question: Horvat himself says that the answer 'is not so easy and simple. The legal experts agree that social ownership implies self-government, that it is a new social category, that, if it is a legal concept, it does not imply the unlimited right over things characteristic of the classical concept of property, and that it includes property elements of both public and private law. In practically everything else, there is disagreement'[139]. Ferfila writes that 'Social ownership was always presented as the unquestioned and untouchable foundation of Yugoslavia's socialist society, the essential and permanent feature that defined it … Throughout the entire existence of social ownership as the official foundation of the Yugoslav self-management system, the dilemma was never resolved how to legally define this new concept of property'[140].

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[138] Tyson, p15, 17.
[139] Horvat, p169.
[140] Bogomil Bogo Ferfila (1991), *The Economics and Politics of the Socialist Debacle: the Yugoslav case* (Lanham, MD: University Press of America), p132, 139.

Supposedly the means of production were to become ‘social property’, with the workers of each enterprise not owning its capital but instead holding it in trust for ‘society’, a concept which was never fully defined. What this meant, in Vanek’s terms, was that ‘U-ownership’ ostensibly resided with the workers in the manner he would have approved of, but the concept of ‘B-ownership’ did not appear to exist at all: ‘B-ownership’ resided with ‘society’, whatever that meant. Because both private and state ownership of capital were considered illegitimate – unlike at Mondragon – this mitigated against the creation of external financial institutions, state or private. As Tyson summarises: ‘Bank allocation of investable resources as a mechanism for the distribution of capital had become ideologically and politically suspect by the early 1970s: it was deemed to be inconsistent with the exercise of enterprise self-management rights in investment decision-making’[141]. The Yugoslav theory of property rights, insofar as there was one, was not consistent with the creation of a system of external financing, and only consistent with self-financing, with all its tendencies for underinvestment and inefficiency. ‘Social ownership’ tended to amplify these tendencies.

Another economic difficulty with ‘social ownership’, rather than the clear lines of responsibility and control in Vanek’s model, was what Tyson called ‘the responsibility problem’, namely the difficulty in making firms or individuals bear responsibility for errors, incompetence or laziness. Under Yugoslav law a person could not be laid off except for criminal or severe personal misconduct, and if someone’s job was eliminated for economic reasons the enterprise was required to find them ‘equivalent substitute employment’. The consequence of this was that ‘there are no effective sanctions for bad decisions by workers. The lack of such sanctions partly explains some of the persistent economic problems plaguing the Yugoslav economy – losses, “excessive” personal incomes, financially unsustainable investment projects, and excessive credit and money creation’[142]. Lydall quotes a director as saying in 1985: ‘It mostly comes down to this: if you feel like it, work; if not, you need not; no one can do anything to you. Every day we have more and more workers who, knowing that no one can do anything to them, decide to do little or nothing’[143].

Finally, there were political difficulties with the concept: in the absence of any clear legal or institutional definition, ‘social ownership’ in practice simply came to mean state ownership. As Lydall wrote: ‘The trouble is that there is no clear definition of “social ownership”. It may be said that it means that all social sector assets are owned by “society”; but the practical significance of this can only be that such assets are owned by the state, which is “society’s” specific agent. But this conflicts with the Yugoslav desire to

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[141] Tyson, p14.
[142] Ibid., p26.
[143] Lydall, p115.

reduce, or even eliminate, the power of the state over the economy. The Yugoslav concept of socialism, therefore, is full of contradictions'[144]. And similarly, a profoundly sympathetic observer of the Yugoslav experiment, Robert Dahl, wrote: 'sovereign authority over the enterprises seems to rest *de jure* with the state and *de facto* with the leadership of Party and state. As a result, ownership of enterprises by "society" is almost entirely symbolic. Since even the prohibition against selling off assets is enforced by the state, here too the distinction between state and social ownership is shadowy … because the rights, powers, and privileges of ownership cannot be directly exercised by "society" but must be vested in society's institutions, in practice "social" ownership guarantees that leaders who control the government of the state will play a powerful role in shaping the institutions of self-management'[145]. So we can see how Lydall came to believe that Yugoslavia, despite the best of intentions, ended up with 'the worst of all possible worlds': significant state ownership of and political interference in the economy, but without the effective financial architecture that the state could have put in place, or the efficiencies that a clear delineation of U- and B-ownership might have provided; an absence of political democracy; and a market sector full of perverse incentives, inevitably producing inefficiency and leading to collapse.

So what, in summation, can be taken from the Yugoslav failure? When compared to the success of Mondragon, what becomes apparent is that Vanek's model of external financing and U-B property rights seems to be vindicated: the crucial institutions in his system are apparent at Mondragon and were absent in Yugoslavia, and at least one impartial economic observer – Tyson – attributes the failure of the Yugoslav experiment directly to this. Of the two features, it is property rights that matters most: it was because of the Yugoslav take on property that a system of external financing did not develop. There will be those reading this who find Vanek's theory of property rights – which allows for both private and/or state ownership of capital in his system, though entitled to no more than rent – instinctively repulsive and wholly inimical to the very concept of economic democracy. But is there a viable alternative? Yugoslavia's 'social ownership' certainly did not provide it. Could 'social ownership' have worked in a democratic, rather than dictatorial, polity? Perhaps, but the concept must be fully defined and worked out: what certainly will *not* work is going in blind, as the Yugoslavs did. Again, property rights form the fundamental institution of any economy. Those of us committed to extending democracy into the economy cannot shrink from directly addressing the question of property rights, like the Yugoslavs did. As Robert Dahl said: 'Thus social ownership cannot escape what Najdan Pasic calls "the basic dilemma of socialism: who controls the great economic power

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[144] Ibid., p94-5.
[145] Robert Dahl (1985), *A Preface to Economic Democracy* (Berkeley: University of California Press), p145, 147.

materialized in public property and social capital?"'[146]. The Yugoslavs never fully addressed that question, fudging it off onto 'society', a relationship they never clearly defined. Vanek has given us a model of a democratic economy including a theory of property rights, and the experience of Yugoslavia and Mondragon seems to show that it passes muster. Is there a better alternative? If so, let us hear it.

Summary:

- *The Yugoslav experiment began as a conscious attempt to foster an economically democratic socialism, in contrast to the 'deformations' of Stalinism.*

- *We see similar intra-firm structures in Yugoslavia as at Mondragon, and as outlined by Vanek*

- *Unlike Vanek and Mondragon, the question of property rights and democratic ownership of capital was never addressed in Yugoslavia, let alone resolved. Instead of U-B ownership, there was 'social ownership' of capital. This concept was never satisfactorily defined, and effectively led to state ownership. The failure to outline a coherent system of property rights also mitigated against the creation of a system of external financing to supply firms with capital, which in turn led to further economic inefficiencies. These failures all increase the validity of Vanek's model.*

- *Yugoslavia had a degree of economic democracy but not political democracy: while they shook off Stalinism, perhaps they didn't shake off Leninism.*

3) Conclusion: a summation, and some speculative thoughts

> [T]here's a certain amount of work that just has to be done if we're to maintain [our] standard of living. It's an open question how onerous that work has to be. Let's recall that science and technology and intellect have not been devoted to examining that question or to overcoming the onerous and self-destructive character of the necessary work of society. The reason is that it has always been assumed that there is a substantial body of wage slaves who will do it simply because otherwise they'll starve. However, if human intelligence is turned to the question of how to make the necessary work of the society itself meaningful, we don't know what the answer will be. My guess is that a fair amount of it can be made entirely tolerable. It's a mistake to think that even back-breaking physical labour is necessarily onerous. Many people, myself included, do it for relaxation.

[146] *Ibid.*, p145.

For those of us committed to freedom and economic democracy, the property question is key. What forms of property are appropriate for the maximisation of economic liberty and democracy for *all*? Can such forms be built while maintaining economic viability and efficiency? These are questions that the neo-liberals, and capitalists of any hue, do not have to face. As was shown in Part 1, the 'original sin' of capitalism is that its central institution of private property *removed* from the mass of the population what Thomas Paine considered the individual's entitlement to an equal claim on the gifts of nature, or 'natural property': for Paine, writing in 1795, 'Every individual in this the world is born therein with legitimate claims on a certain kind of property, or its equivalent'. As we stated in Part 1, Paine's concern was not with the equality of men, but with the *independence* of men, with autonomy. The right of access to property, or the means of production (or subsistence), was rightly considered a prerequisite for this. It is this independence which capitalist private property took away when it removed that right of access from the mass of the population, turning independent peasants into dependent wage-labourers. This is something that the philosopher king of neo-liberalism, Hayek, and those who follow him are supremely comfortable with. It is not incumbent on them to produce a model of a democratic economy, as democracy is something they openly despise[147]. They tolerate it only formally in the political sphere, so the last thing they want is to allow it into the economic sphere. They are perfectly content with property exercising dominion over people, and why shouldn't they? We, however, are not. Our task is to find a way to reconcile property with freedom and democracy; to restore to man, as far as can be done in a modern context, his 'legitimate claim on a certain kind of property, or its equivalent'.

The modern industrial economy can be split into two sectors: market and non-market. In nature, man is entitled to the whole product of his labour, whatever he can wring from the gifts of nature using his own prowess. This is not the case under capitalist conditions of production. Property – by which we mean the means of production – is under private control: the majority are given no claim over it. The hired labourer is only allowed to work at the behest of the owners of the means of production, and the product of his labour does not accrue to him, it accrues to the capitalist. This is the source of the proletarian's dependence, exploitation and alienation. Vanek's system of U-B property rights for socially productive assets – wherein U-ownership, or the *usufruct*, meaning control over how capital is used and any surplus that is produced, belongs to labour; while the *basic* or B-owners of capital (be they the workers themselves, external institutions or private individuals), are entitled to rent from those who work with their capital but nothing more – restores to the labourer, in the context of the market sector of a modern industrial economy, what was his in nature: control over his own labour and its product. Property rights are the key

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[147] See Hayek's remarks on democracy in the closing section of Chapter 5 of *The Road to Serfdom*, and the support he expressed for Pinochet and the Salazar regime in Portugal in 1981 at http://www.fahayek.org/index.php?option=com_content&task=view&id=121.

institution in any economy, and Vanek has given us a system which both democratises property relations and is (unlike the concept of 'social property' in Yugoslavia) economically coherent. U–B ownership removes capital's prerogatives and dominion over labour, depriving capital of anything except rent, with control over how capital is used and any surplus deriving therefrom going to labour, and bringing us towards 'the primacy of labour among factors of production'. Vanek's conception of property, allied with the practical example we have seen at Mondragon, gives us democratic economic relationships in the market sector. It enables those committed to economic democracy to decentralise and utilise the market mechanism without fear of compromising democratic ideals or the interests of labour, and also provides a method of supplying capital to economic enterprises. It gives us the base of a *democratic* market sector of the economy, taking our side beyond statism or nebulous 'social ownership'.

We also see in Mondragon, Yugoslavia and in Vanek's theoretical model what democratic *microeconomic* structures might look like. There is a good deal of overlap among the three in their picture of intra-firm structures: governing councils elected by the whole membership, which in turn appoint management to minimum terms, with additional organisations and structures to give ongoing input and guidance. This type of structure has appeared consistently across the three major case studies above, so one must assume that there is some innate suitability to it. Again, if even more democratic structures can be constructed which are economically viable, then very well, but one imagines that any reforms would be a matter of degree, rather than anything fundamental. However, there is one issue with these structures which we have not yet brought up which is of tremendous significance, namely *size*. At Mondragon, coops have been traditionally limited in size to 500 persons. This is because the Mondragon cooperators 'have discovered that even given the best of intentions and the most dedicated of cooperative principles, the consensus-seeking process can only function properly if the size of the coops is kept on a human scale. By this is meant that there are few levels of bureaucracy intervening between coop members and decision makers, decision makers are well known and accessible, and the cooperators can usually deal with each other as human beings. This is the efficiency secret behind the Mondragon organisational success ... a 300-member coop with a twelve-member governing council and three top managers would have a 20:1 ratio between key decision makers and members. ULGOR, at its height, had 3500 members, a ratio of 233:1 – and it was at ULGOR that serious problems developed between membership and management'[148].

But if enterprises have to be kept limited to a size of 500 in order to maintain cooperative values, this presents us with a problem. Is a modern-day economy comprised of enterprises no bigger than 500 people viable? How can economies of scale be exploited if enterprises are so limited in size? At Mondragon, this problem is dealt with by allowing larger coops to 'spin off divisions or

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[148] Roy Morrison (1991), *We Build the Road as We Travel* (Philadelphia: New Society Publishers), p80, 81.

divide as they grow ... It might be possible to have large, centrally administered coops with satellite divisions, but the evolving model has been to create large numbers of independent coops associated in groups, but maintaining a high degree of independence and initiative'[149]. But Mondragon, for all its successes, is still only one part of a provincial economy in Spain. Is it possible to replicate that model on a grander, truly macro scale? Say, for instance, there were a workers' takeover of Ford, or Mittal Steel. Would this necessitate breaking these organisations into constituent parts of no bigger than 500 people? Would this be viable? Is it possible to 'have large, centrally administered coops with satellite divisions', or is something like the BOALs in Yugoslavia the only way? Would it be feasible to break down essential utilities such as the water, electricity, gas and telecommunications infrastructures into 'large numbers of independent coops associated in groups, but maintaining a high degree of independence and initiative'? These are, as far as the author knows, genuinely unanswered questions. How democratic is it possible for large economic structures to be? Can they be successfully broken down into constituent units while remaining effective? These are still steps into the unknown. It seems that more work needs to be done on democratic structures on the industrial level.

But this brings us to a related issue. It will be remembered that in Part 1 we discussed, and debunked, the 'myth of the market economy'. While it is rhetorically useful for capitalist ideologues to associate capitalism with the market, and thus with freedom, the more prosaic truth is that 'in many sectors of the economy the visible hand of management replaced what Adam Smith referred to as the invisible hand of market forces'; that 'the shift from market coordination to planned coordination within business organisations has become an increasingly central characteristic of a successful capitalist economy', and 'the modern large Western corporation and the modern apparatus of socialist planning are variant accommodations to the same need'. This is simply the reality of economic development: purely market mechanisms can only bear so much. As economies develop and enterprises gain in size, market mechanisms become less effective, and relevant. Similarly, the neo-liberal ideal is a minimal state which keeps law and order, protects property rights, enforces contracts, issues currency and administers other central bank functions, and collects tax for the purpose of defence and whatever minimal welfare provision is deemed necessary, if any. Everything else is to be left to individuals interacting in the marketplace. That is their ideal, but again, reality is somewhat more compromised. As economies develop and become more complex, and the market becomes less effective and relevant, so the activist role of the state necessarily increases. Successful economic development has traditionally been dependent on state action, not the market. Large scale research and development, such as that which produces advances in IT, high technology, pharmaceuticals or biotechnology, which takes decades to produce results, is beyond the ken of the private economy (the internet and the computer you are reading this on would not exist but for decades of publicly funded research and development by the US military). Similarly, if strategically vital economic

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[149] Ibid., p81, 127.

enterprises come under threat, such as Network Rail or great swathes of the Anglo-Saxon financial system, the state has to intervene: *that* kind of statism is not only welcomed, but necessary. Our side faces a similar dilemma. We may also have an ideal of a minimal state, enforcing *our* system of property rights but otherwise leaving economic agents to get on with it in the market place, but that is to ignore economic reality and overstate the capability of the market mechanism. In any developed industrial economy – capitalist or democratic – the state is simply *required* to play a role of sorts, so what role would it play in ours? Our model differs from that of the capitalists' not on the question of state vs. market, but on private vs. democratic control. Vanek's system of property relations shows us the way to economic democracy in the market sector, but what of the *non*-market sector?

As we have seen, Vanek outlined a 'steering' role for the state: issuing currency and setting the interest rate in line with macroeconomic objectives. But how are macroeconomic objectives to be decided? Vanek states that 'the authorities or society at large, through a vote or otherwise, can within limits decide on the [interest rate] as a matter of national economic policy'. This brings us to another key point: the necessity of new political forms. The Yugoslavs had economic democracy, but didn't have *political* democracy. Such forms will have to be found if there is to be *macro* as well as microeconomic democracy, if the state – in whatever role it plays in the economy – is to be made democratically subordinate. We have also seen Vanek proposing the creation of a National Labour Management Agency, 'an institution – or a set of more or less independent institutions – designed to fill the needs of a labour-managed economy beyond those that can be taken care of efficiently by the labour-managed firms on their own'. If something like the NLMA were to be the vehicle for providing any necessary non-market functions in our economy, as the capitalist state does now, the obvious question is: which functions? Again, political mechanisms would need to be devised to make the NLMA or any other non-market structures subject to democratic will. One seemingly natural function for the NLMA is to take 'B-ownership' of the financial system, taking it out of private control and putting it to use as the external supplier of capital to the democratic sector of the economy, in line with Vanek's model ('in the case of national ownership of capital of the labour-managed sector, the NLMA would be the repository and administrator of that ownership'), again subject to satisfactory political forms being found (the Caja Laboral Popular being an obvious template). There is every justification for seeing the financial system as a public utility, as the massive state bailouts necessitated by the current financial crisis – which are still threatening to pull the global economy into a depression – have shown. To again quote the *Financial Times'* Martin Wolf: 'The UK government has to make a decision. If it believes that costly bail-out must be piled upon ever more costly bail-out, then the banking system can never be treated as a commercial activity again: it is a regulated utility – end of story. If the government does want it to be a commercial activity, then defaults are necessary, as some now argue. Take your pick. But do not believe you can have both.'[150]

What other functions should the NLMA have? What other non-market functions will it be necessary to provide? Vanek proposed that 'there will be a great advantage if [B-ownership is] assumed by the society as a whole, represented by a democratic government'. Earlier on we noted that 'There will be many reading this who find Vanek's theory of property rights – which allows for both private and/or state ownership of capital in his system – instinctively repulsive and wholly inimical to the very concept of economic democracy. But is there a viable alternative? Yugoslavia's 'social ownership' certainly did not provide it'. The question still stands. Is direct worker-ownership as at Mondragon feasible on a large scale? If Mondragon-type structures are limited in size to 500 people, what is to be done with larger formations? Suppose an administration committed to economic democracy were to take power tomorrow, how comfortable would we be with leaving B-ownership of large-scale economic institutions – say BP – in the hands of those who enriched and empowered themselves under capitalist property relations, even if deprived of any right to further profit? Should they be allowed to retain even B-ownership of capital? Vanek's proposal of the NLMA acting as an economy wide 'B-owner' firmly addresses 'the basic dilemma of socialism: who controls the great economic power materialized in public property and social capital?', which the Yugoslavs did not. But again, economic democracy must be accompanied with truly effective political democracy, another area where the Yugoslavs failed.

GDH Cole said of his vision of Guild Socialism that 'The State should own the means of production: the guild should control the work of production. In some partnership as this, and neither in pure collectivism nor in pure syndicalism, lies the solution of the problem of industrial control'. We have already noted the similarity between this and Vanek's proposal for B-ownership of socially productive assets to lie in the hands of the NLMA. However, we all want a minimal state, so let us speculate a moment and try to limit its role as far as possible. The Mondragon model of labour-managed *and* labour-owned firms operating independently should be given free reign wherever possible and wherever feasible, whether they take the form of 'centrally administered coops with satellite divisions' or 'large numbers of independent coops associated in groups, but maintaining a high degree of independence and initiative'. Such firms should – and must – be allowed to succeed or fail in the marketplace on their own terms. However, as we have seen, one of the problems with 'pure syndicalism' is that it takes account solely of the interests of the workers in a firm or industry, with no say for consumers or wider society. As such, any economic structure which is responsible for 'the necessary work of society' in Chomsky's words cannot legitimately be left in the *sole* control of its workers, even if Mondragon type structures are feasible on a large scale: mechanisms must be in place to make

[150] Martin Wolf, 'Big Risks for the insurer of last resort', *Financial Times*, 5 March 2009, http://www.ft.com/cms/s/0/825cf2ea-09b9-11de-add8-0000779fd2ac.html.

such structures democratically accountable. For many structures, this mechanism *will* be the marketplace: if the public disapproves of what an enterprise does, it will fail, with full liability falling on its owners (we have seen the consequences of the 'responsibility problem' in Yugoslavia).

But what of non-market structures? Structures which cannot be sustained without strategic assistance from the central administration? Structures which are too big or too important to be allowed to fail, or which are not viable on their own? Sectors such as oil, steel, gas, aviation, big agriculture, finance, hi-tech research and development, infrastructure and so forth? These sectors are not subject to market forces *now*, regardless of what capitalist ideologues say: they necessarily *overpower* market forces, *or* must be protected from them. What should be done with these in our democratic economy? These structures, logically, should come under the aegis of the NLMA. These structures form 'the great economic power materialized in public property and social capital'. This appears to define for us what should be the role and limits of the state in our democratic economy: **to take care of the necessary work of society which cannot 'be taken care of efficiently by the labour-managed firms on their own'** (again, with the proviso that the most effective forms of political democracy be instituted). Another way of defining it may be 'free markets where possible, democratic planning where necessary'. One may think of the non-state sector as a 'democratic industrial republic', wherein every citizen has a guaranteed right to work and a proportionate share in the rewards. NLMA ownership of this sector of the economy – 'the great economic power materialized in public property and social capital' – coupled with these rights and responsibilities accruing to the individual, restores in the *non*-market sector the natural right of access to property in a modern day industrial context, as U-B property relations do in the market sector. Those who wish to branch out on their own and form labour-owned and managed firms in cooperation with others, and chance their arm in the marketplace, are at all times to be encouraged and enabled to do so.

But these are only speculative thoughts. Again, the key and central institution of any economy is its system of property rights, and Vanek has given us a formulation consistent with economic democracy in the market place. That, essentially, is all we are changing. We are not ending the principle of private ownership of capital (though it is likely to be less prevalent in our democratic economy). We are not fundamentally altering the balance between state and market: that, as now, will be a question of pragmatism, not principle (though the aim will be a 'minimal state'). What we are doing is altering property relations so that the owners of capital are deprived of all economic power except the ability to charge rent on their holdings. Control over how capital is used once rented out, and any surplus that derives from that use, will go to those work with it, not to those who own it. This (coupled with more substantive forms of political democracy) is our fundamental change: the *usufruct* of economic activity will belong to labour, not capital. How things develop beyond that point is a matter of evolution, not prescription. As Vanek said, a democratic sector could even be built up alongside the non-democratic sector in the first instance, provided a method of accessing finance was in place. This would be feasible now, given the level of public ownership in the financial system. It is also possible – indeed *necessary* – to imagine a version of 'globalisation' on our terms. As stated earlier, a degree of 'deglobalisation' will probably be necessary before our side will even be able to get back in the political game. But, just as the capitalists embraced globalisation once their vision of property became victorious on a global scale, so might we be able to envision a global, integrated union of democratic economies.