

The Just Third Way:
Basic Principles of Economic and Social Justice
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> Are there limits to freedom?

Are there limits to democracy?

Are there limits to peace?

> Are there limits to justice?

Think about these questions in terms of the present war in Iraq and the Israeli-Palestinian conflict in the Holy Land. Think of the stated objectives behind America's use of military power and the economic power of global capitalism. I think you'll agree that, of these four values, only justice has no limits. Without a clear understanding of justice, we cannot recognize the limits, or the effective paths, to freedom, democracy and peace.

What is Justice?

To paraphrase Victor Hugo: "More powerful than all the money and military might in the world is an idea whose time has come." A new worldview of justice, properly understood, is the most powerful force to be placed in the hands of ordinary people and new leaders to transform degrading, oppressive and dehumanizing systems. This new worldview points the way to a lasting and humane solution to global conflicts. As Pope Paul VI reminds us, "If you want peace, work for justice."

Before we can apply its principles, we need to ask ourselves, what is "justice"? Louis Kelso (the philosophical father of the "Just Third Way") and Mortimer Adler (the Great Books philosopher and Aristotelian scholar who once taught the Philosophy of Law at the University of Chicago Law School) articulated a classical definition of "justice":

"Justice, in its most general formulation, imposes the following moral duties or precepts upon men who are associated for the purposes of a common life: (1) to act for the common good of all, not each for his own private interest exclusively; (2) to avoid injuring one another; (3) to render to each man what is rightfully his due; and (4) to deal fairly with one another in the exchange of goods and in the distribution of wealth, position, status, rewards and punishments." [1]

Understanding Social Justice and Social Charity

In his seminal work, *The Act of Social Justice* (1943), the late Marianist priest Father William Ferree, a co-founder of our interfaith center, argued that the dignity of the human personality is the basis of any sound theory of justice. Describing justice at the individual or personal level, Ferree wrote:

For Pope Pius XI [in his 1931 Encyclical, *Restructuring of the Social Order*], the theory of justice is based squarely on the dignity of the human personality. His position is that charity regulates our actions toward the human personality itself, that Image of God which is the object of love because it mirrors forth the Divine Perfections, and in the supernatural order shares those perfections. The human personality, however, because it is a created personality, needs certain "props" for the realization of its dignity. These "props" or supports of human dignity, which include such things as property, relatives and friends, freedom and responsibility, are all objects of justice. To attack a human person in his personality itself, as by hatred, is a failure against charity; but to attack him by undermining the supports of his human dignity, as by robbery, is a failure against justice. [2]

In defining justice at the social level—how individuals should act when their institutions are in need of reform—Ferree wrote:

The same thing is true in the field of social morality. The human community, as such, shows forth the perfections of God in ways that are not open to individuals. This fact is very clearly stated in paragraph 30 of the Encyclical *Divini Redemptoris*:

"In a further sense it is society which affords the opportunity for the development of all the individual and social gifts bestowed on human nature. These natural gifts have a value surpassing the immediate interests of the moment, for in society they reflect a Divine Perfection, which would not be true were man to live alone."

Society itself, therefore, as thus revealing further the perfection of God in His creatures, is worthy of love: of a love directed not only towards the individuals who compose the society, but also toward their union with each other. This love is social charity.

Moreover, as society thus makes available to man the further perfection of his potentialities of mirroring the Divine Perfection, it is also a support for these perfections, and hence is an object of the virtue of justice. This justice, Social Justice, which is directed at the Common Good itself, requires that the society be so organized as to be in fact a vehicle for human perfection. [3]

Dr. Robert D. Crane, a global strategist, prolific writer on Islamic jurisprudence and another co-founder of the Center for Economic and Social Justice, has authored a brilliant paper published on the web site of the Global Justice Movement. His paper discusses how the seven fundamental principles of *maqasid al shari'ah* offer a "paradigm- for a spiritual renaissance in all

faiths that can transform the world." [4] Dr. Crane's writings are aimed toward mobilizing "a minority of courageous Muslims determined to fill the intellectual gap that has weakened the Muslim umma for more than six hundred years." These fundamental principles of Islamic law are, in my opinion, consistent with the "Peace through Justice" vision of our center, the founding ideals of America, and the UN's Universal Declaration of Human Rights.

Understanding Economic Justice

If social justice consists of organizing with others to change social institutions, then the pursuit of economic justice is an indispensable part of social justice. Principles of economic justice deal with all institutions affecting the production, consumption and distribution of economic goods and services. They deal with the more urgent material human needs, in contrast to the higher spiritual, intellectual, cultural and social needs that must be satisfied for the fullest development of every person. Since institutions are artifacts created by people, not God, transforming and perfecting them is a continuing responsibility of each of us, once we share a common vision and common principles of effective action.

Among all the writings on the subject of economic justice, the clearest set of principles I have encountered are in a 1958 book, *The Capitalist Manifesto*, [5] co-authored by Louis O. Kelso and Mortimer J. Adler. While the book was a best-seller when published, most scholars never got past the cover of book, undoubtedly because of its (in my view) misleading title. Kelso and Adler challenged basic assumptions of conventional paradigms of political economy. They developed a simple yet profound theory of economic justice that sheds new light on the impact of technology on human work and the development of modern civilization. They described the systemic political and moral flaws of national "full employment" policies and how today's global economic order creates an ever-expanding gap in economic power, opportunity and incomes between a wealthy elite and propertyless workers.

As a lawyer Kelso saw that the design of our "invisible" institutional environment and social tools determines the quality of people's relationship to technology. Such intangible things as our laws and financial systems determine which people will be included or excluded from access to economic opportunity, power and capital incomes.

Access to capital ownership, asserted Kelso, is as fundamental a human right as the right to the fruits of one's labor. Kelso argued that the democratization of money creation and capital credit is the "social key" to universalizing access to future ownership of productive wealth. This social key could enable every person, as an owner, eventually to gain income independence through the profits from one's capital.

Kelso's general theory and vision have been trivialized and virtually ignored by academia and the mainstream media. This explains in large measure why economists cannot understand or solve within their outdated paradigms most of the problems arising from economic globalization. Nevertheless, before his death in 1991, Kelso gained international fame as the inventor of the

Employee Stock Ownership Plan or "ESOP," one of the tools he developed to democratize access to money and credit.

Kelso's Economics of Ownership and Justice

At the heart of what Kelso called "binary economics" [6] is a simple but revolutionary proposition. Kelso stated that people could legitimately create economic value through two (thus binary) factors of production:

>> Labor (which Kelso defined as all forms of economic work by people, including manual, intellectual, creative, and entrepreneurial work, and so-called "human capital"), and

> Capital (defined by Kelso as anything non-human contributing to the production of marketable goods and services, including tools, machines, land, structures and infrastructural improvements, management systems, and patents). Kelso, like another post-scarcity thinker, Buckminster Fuller, attributed most changes in the productive capacity of the world since the beginning of the industrial revolution to technological improvements in our capital assets, and a relatively diminishing proportion to economic work.

Capital, in Kelso's terms, does not "enhance" labor productivity, i.e., labor's ability to produce economic goods. It makes many forms of labor unnecessary. According to Kelso, productive capital is increasingly the source of the world's economic growth and therefore should become the source of added property incomes for all.

The Three Basic Principles of Economic Justice

Kelso based his ideal market system on three essential and interdependent principles of economic justice:

(1) Participation, the input principle. If both labor and capital are interdependent factors of production and if capital's proportionate contributions are increasing relative to labor, then equality of opportunity demands that the right to property (and access to the means of acquiring and possessing property) must in justice be extended to all.

(2) Distribution, the out-take principle. Property rights require that income be distributed based on the value of what one contributes to production—one's labor, one's capital, or both. Assuming that capital ownership is spread broadly, the free and open market under Kelso's system becomes the most democratic and efficient means for determining just prices, just wages and just profits. If both sales revenues and all labor costs are set by globally competitive market forces, then

profits, the revenues left over after all labor costs of an enterprise are subtracted, represent a market-based return to capital in the form of profits to be shared among all the firm's co-owners.

The principle of distribution for the virtue of charity (according to need) complements the distributive principle for the virtue of justice (according to contribution). Charity, however, should never be a substitute for justice. Without justice people will not be motivated to produce enough wealth for themselves and to engage in charitable acts for the needy, and the needy will never become self-sufficient.

(3) Limitation, the feedback or, in moral terms, the anti-greed principle (which some Kelsonians call the principle of "Harmony" and others call "Social Justice.") This principle, exercised through organized efforts to transform unjust institutions, guides the restoration of balance between "participation" (input) and "distribution" (out-take) when either principle is violated. It puts limits on monopolistic accumulations of capital and other abuses of property.

The Four Pillars of an Economically Just Society

All wage systems ignore one or more of what can be called the "Four Pillars," the essential principles for building a more just economy. During periods of economic reform, leaving out any one of these pillars weakens the entire fabric of the economy and leads to eventual collapse. Applying the Kelso-Adler theory of economic justice, policies for transforming unjust economies include:

- >> Expanded Ownership of Productive Assets
- > Limited Economic Power of the State
- >> The Restoration of Free and Open Markets
- >> The Restoration of Private Property

Expanded Ownership of Productive Capital: The Moral Omission of All Existing Economies

One of the most crucial problems that Marx addressed in his economic theories was that ownership of productive assets—"capital"—was limited to the very few. As a result, no high technology market system could possibly produce sustainable growth, since working people would have only their labor to sell in direct competition with labor-displacing technology and a growing world population of workers willing to work for lower wages. Unfortunately, Marx's solution to this mismatch between the rising productiveness of technology and market-based consumption incomes was to concentrate productive wealth and power even more by mandating

state ownership of all productive assets. This resulted in enormous concentrations of wealth and power in the hands of a new elite. The real problem that Marx faced, however, was not private ownership of productive property, but concentration of private ownership. Turning Marx upside down, Kelso would make every worker an owner of a growing stake of income-producing property. This would both achieve economic justice for all and stabilize and sustain growth in any market economy.

Limited Economic Power of the State

Limiting the economic power of the state ultimately involves the goal of shifting ownership and control over production and income distribution from the state to the people. To do this, the economic power of the state should be specifically limited to:

- > Encouraging sustainable and life-enhancing growth and policing abuses within the private sector;
- > Lifting barriers to equal ownership opportunities, especially by reforming the money-creating powers of the central bank to provide widespread access to low-cost capital credit as the key to spreading ownership and economic empowerment for workers;
- > Preventing inflation and providing a stable currency for sustainable development;
- > Protecting property, enforcing contracts and settling disputes;
- > Ending economic monopolies and special privileges, except for limited terms for holders of patents, copyrights and other intellectual property rights;
- > Encouraging democratic labor unions to become democratic ownership unions that organize to turn all workers into owners and promote economic justice in the ownership, governance and management of all private sector enterprises;
- > Protecting the environment; and
- > Providing social safety nets for human emergencies.

Within these limits the state would promote economic justice for all citizens. Coincident with this objective would be the goal of reducing human conflict and waste and erecting an institutional environment that would encourage people to increase economic efficiency and create new wealth for themselves and the global marketplace. Increased production would increase total revenues for legitimate public sector purposes, reducing the need for income redistribution through confiscatory income taxes and social welfare payments.

Restoration of Free and Open Markets

Artificial determinations of prices, wages and profits lead to inefficiencies in the use of resources and scarcity for all but those who control the system. Those in power either have too little information or wisdom to know what is right, or will set wages and prices to suit their own advantage. Just prices, just wages, and just profits are best set in a free, open and democratic marketplace, where consumer sovereignty reigns. Assuming economic democratization in the future ownership of the means of production, everyone's economic choices or "votes" on prices and wages influence the setting of economic values in the marketplace.

Establishing a free and open market would be accomplished by gradually eliminating all special privileges and monopolies created by the state, reducing all subsidies except for the most needy members of society, lifting barriers to free trade and free labor, ending all non-voluntary, artificial methods of determining prices, wages and profits. This would result in decentralizing economic choice and empowering each person as a consumer, a worker and an owner.

Wealth distribution assumes wealth creation, and technological and systems advances, according to recent studies, account for almost 90% of productivity growth in the modern world. [7] Thus, balanced growth in a market economy depends on incomes distributed through widespread individual ownership of the means of production. The technological sources of productive growth would then be automatically linked with the ownership-based consumption incomes needed to purchase new wealth from the market. Thus, Say's Law of Markets—which both Marx and Keynes attempted to refute—would become a practical reality for the first time since the Industrial Revolution began.

Restoration of Private Property

Owners' rights in private property are fundamental to any just economic order. Property is not the things that are owned. Property is the bundle of rights that determines one's relationship to things. (In the modern era, we recognize that property owners cannot legitimately treat other persons as "things," as in more dehumanizing cultures.) Property secures personal choice, and is the key safeguard of all other human rights. By destroying private property, justice is denied. Private property is the individual's link to the economic process in the same way that the secret ballot is his link to the political process. When either is absent, the individual is disconnected or "alienated" from the process.

Restoring the idea as well as the fact of private property—especially in corporate equity?would involve the reform of laws that prohibit or inhibit acquisition and possession of private property. This would include ensuring that all owners, including shareholders, are vested with their full rights to participate in control of their productive property, to hold management accountable through shareholder representatives on the corporate board of directors, and to receive profits commensurate with their ownership stakes. Private property links income distribution to economic participation?not only by owners of existing assets, but also by new owners of future wealth.

Money and Credit for Building a Just Market Economy

Control over money and credit (i.e., financial capital) largely determines who will own and control productive capital in the future.

When the subject of money and money creation comes up, we sometimes forget that money is a man-made thing, and is morally neutral. Its goodness or badness depends solely on how it is created and how it is used. Like the secret ballot in politics, money is a uniquely "social good," an invention of modern civilization, a means for measuring economic values and enabling people to participate in a market economy.

And that is the crux of the matter. Money is created and credit extended these days systemically in ways that keep the rich wealthy, and the poor in their place. Consumer credit, for example, is available virtually to everyone, while access to capital (or "productive") credit is restricted to use by those who meet the universal requirement for collateral, i.e., the rich. Thus, the poor and middle-class get the most risky and highest cost credit, while the rich get the lowest-cost and least risky kind of credit. It is more than an outworn truism that you need money to make money, or that lenders will only extend capital credit to people who don't need to borrow.

For example, let us look at the \$2 trillion of growth assets added each year in the US public and private sectors, consisting of new technology, plant and equipment, physical infrastructure and rentable space. [8] Amounting to a growth increment of \$7,000 for every man, woman and child, these productive assets will be financed in ways that add almost no new owners. If capital credit were to become as universally accessible as the political ballot, capital assets could become a growing source of independent capital incomes for all persons and their families.

What makes capital credit special is that by nature it is procreative or "self-liquidating." That is, capital credit is restricted to the purchase of assets that are expected to pay for themselves out of the revenues generated from the capital project which it financed, and thereafter these assets are expected to earn a continuing flow of profit for whoever owns the assets. Capital credit is inherently counter-inflationary. Consumer credit, on the other hand, does not generate its own repayment, and any repayment must come out of the user's other resources. When used to any significant extent, consumer credit greatly reduces the purchasing power of the user.

The Democratization of Productive Credit: A New Right of Citizenship

The primary social means to bring about expanded ownership of productive assets involves the democratization of productive, self-liquidating credit.

By making productive credit available on a truly democratic basis, society moves people toward economic self-sufficiency and independence. A broad dispersion of wealth and power serves as

the ultimate check against abuse of power by the state or by the majority against minorities or individual citizens.

Why is Access to Ownership the Antidote to the Injustices of Global Capitalism?

Americans generally and academics in particular, can describe problems. They flounder, however, for new solutions in fighting threats to regional and global peace, freedom and the rule of law. Many agree that economic growth equitably shared is necessary for overcoming poverty – the taproot of conflict, revolutions and war – within and among nations. But few ask new questions, such as: What are the systemic flaws in current development models?

If "ownership is a sine qua non of development," as expressed by World Bank President James Wolfensohn, why have the strategies of Western development experts failed to create nations of owners, from the bottom-up? What in the current system of economic globalization produces an ever-widening and dangerous gap in economic power and economic self-determination between haves and have-nots among nations and within all nations in the global marketplace? Can free markets, free trade, private property and limited government be made compatible with economic and social justice? What minor systemic changes could be introduced to transform the globalization process into a blessing, especially for the poorest of the poor, in Iraq, Gaza, on the West Bank, in Afghanistan, Kashmir, Indonesia, the Philippines, Chechnya and other breeding grounds of human hopelessness, group hatred, and the next rounds of suicide terrorism?

A Different Perspective on Economic Globalization

Conventional development approaches are based on wrong-headed, win-lose assumptions that argue that scarcity is inevitable and shared abundance is impossible.

R. Buckminster Fuller, a post-scarcity thinker, architect, and engineer, refuted the conventional wisdom by pointing out: "There is only one revolution tolerable to all men, all societies, all political systems: Revolution by design and invention." Besides offering a still untried vision for tapping technology's untapped synergistic potential, Fuller then issued this challenge to the world: "[M]ake the world work for 100% of humanity in the shortest possible time through spontaneous cooperation without ecological offense or the disadvantage of anyone." [9]

In contrast to Fuller's optimistic approach to global development, pessimism and a sense of hopelessness around the world has been fueled by a growing awareness of a force that is greater than the power of any nation state in the world – the force of economic globalization. This is the conclusion of best-selling author William Greider in his 1998 book, *One World, Ready or Not: The Manic Logic of Global Capitalism*. Greider points out that economic globalization – driven by a financial elite with the power to shift billions of dollars almost instantaneously from one

country to another – is a reality and will not go away. The ability of those who control money and finance to topple seemingly invulnerable heads of state was evidenced in the overthrow of the Suharto regime in Indonesia.

The subordination of most world political leaders to the controllers of money was predictable at least a century ago when one of the world's earliest financial capitalists, Baron Mayer Anshel Rothschild, was quoted as saying, "Permit me to control the issuance of a nation's money and credit, and I care not who makes the laws." [10]

For most people, however, economic globalization means a growing gap between rich and poor, technological alienation of the worker from the means of production, and the phenomenon of "wage arbitrage." It means an environment in which global corporations and strategic alliances can force workers in high-cost wage markets to compete with labor-saving tools and lower-paid foreign workers.

Even the United States, which today seems to be enjoying relative economic prosperity in the midst of the world's financial downslide, is showing similar symptoms. The USA has one of the widest gaps between the "haves" and "have-nots." [11] American business has the widest pay gap between CEOs and ordinary workers. Low unemployment masks an underlying displacement of workers by technology and cheaper foreign labor, resulting in greater economic uncertainty and shakier retirement incomes.

This lack of direction is reflected in growing demands that "something be done," but with a conspicuous absence of anything substantive, other than the stale prescriptions of the past.

Is There a "Just Third Way"?

Media pundits continue to mention a "Third Way," but none of them seems to know quite what it is. People on the left who are positive toward the idea present it as socialism with a capitalist whitewash; people on the right present it as capitalism with a socialist veneer.

Many skeptics, correctly in our opinion, view the "muddled middle" formula for the "Third Way" as an attempt to give moral legitimacy to the Wall Street capitalist approach to economic globalization. This formula attempts to blend political democracy with economic plutocracy, an inherently unstable mix. The Washington Post on August 30, 1998 editorialized that "there is in fact no third way."

In contrast to the intellectual fuzziness now pervading high policy circles, this paper asserts that no third way is a true third way or a "Just Third Way" if it:

- > Does not economically empower the people,
- > Keeps economic and social power, especially over advanced technologies, concentrated in the hands of an elite,
- > Keeps most people in a status of servile dependency on the state or other people,
- > Lacks a coherent theory and principles of economic justice to guide policy makers,
- > Lacks a structured system for closing the gap between the rich and the poor within the evolving global marketplace,
- > Ignores the central role of such "social tools" as money, capital credit and central banking in determining how all people can acquire access to assets and economic power in the future, and
- > Remains trapped by inherently bankrupt Social Security and other income redistribution schemes, instead of encouraging asset-backed systems to link future consumption incomes with future wealth production.

Is there a solution? Yes. There is a "Just Third Way" that goes beyond the traditional answers supplied by the right and left. It offers a new vision and alternative model for development for countries of the world in which they can succeed to their fullest potential within the framework of a global marketplace.

The Just Third Way

Let's examine more closely the Washington Post's statement that no third way exists. On the one hand there is capitalism, an economic system governed by market forces but where economic power is concentrated in the hands of a few who own and control productive capital. An illustration of this system is Bill Gates, who without any extra effort, went from \$16 billion to over \$40 billion – a greater accumulation of assets than those of 50% of the American people combined. Most workers-for-hire have great difficulty meeting their consumer debt, let alone accumulating any income-producing assets. Indeed, "capital breeds capital" but only for those who own most of it.

On the other hand, socialism, in all its forms, is an economic system governed centrally by a political elite that enjoys even more highly concentrated ownership and economic power. And in practice, socialism doesn't work. The world is full of examples of traditionally state-dominated economies that cannot meet their massive foreign debt obligations or compete effectively in the emerging global marketplace.

Logically, a "just third way" would be a free market system that economically empowers all individuals and families through direct and effective ownership of the means of production.

A mistake made by many academics and economists today is to equate democracy and the market system with the top-down, Wall Street capitalist model, with its growing gap of wealth and power between the rich and the poor. That there is excessive corruption under capitalism and socialism, even where governments are democratically elected, should come as no surprise. Lord Acton warned us years ago about the inherent corruptibility of systems that concentrate power. And without a workable market-based version of economic democracy, extending the political ballot to a majority of propertyless poor people in a developing economy is a recipe for political upheaval, as India learned in its recent election.

Capitalist theorists like Milton Friedman pay no attention to concentrated ownership of labor-displacing technology. Marxist theorists do, but conclude that the state should own and regulate all means of production. Keynesians offer a feeble synthesis between these two models of development based on the premise that maldistribution of ownership is acceptable, perhaps even necessary. [12] The "Third Way" model of the muddled middle follows the Keynesian model.

As recognized by William Greider in chapter 18 of *One World, Ready or Not*, Louis O. Kelso fathered a comprehensive systems approach to solving the structural problems faced by Russia, Indonesia and many other economies that have become dependent on those who today control money and credit.

Kelso's revolutionary insights helped him to solve an economic enigma: How Say's Law of Markets –rejected both by Marx and Keynes– could achieve sustainable and balanced growth in a modern global economy. His legal background enabled him to see how the structuring of basic laws and institutions creates a system that either concentrates or decentralizes ownership and economic power, that encourages participation by all or creates barriers to participation. Blended with the keen insights of Buckminster Fuller's design science revolution in physical technologies, Kelso, a master architect of social technologies, provided the comprehensive institutional framework and practical financial tools, like the ESOP, for lifting up the world's poor without pulling down the world's rich.

Lessons from the First American Revolution

The connection between widespread distribution of property and political democracy was evident to America's founders. This understanding was reflected in the 1776 Virginia Declaration of Rights, the forerunner of America's Declaration of Independence and Bill of Rights. Following John Locke's triad of fundamental and inalienable rights, the Virginia Declaration of Rights declared that securing "Life, Liberty, with the means of acquiring and possessing Property" is the highest purpose for which any just government is formed.

With the abolition of slavery and feudalism, the United States insured that no American would ever again become the property of another. Through this and other limitations on the rights of private property, a just government transcends the weaknesses of a pure laissez-faire approach to

ownership rights. However, by fulfilling its duty to all its citizens to lift barriers to private property in the means of production, government builds a permanent political constituency for a sustainable free market economy.

Looking Beyond Socialism and Capitalism

Power exists in society whether or not particular individuals own property. If we accept Lord Action's insight that "power tends to corrupt and absolute power corrupts absolutely," our best safeguard against the corruptibility of concentrated power is decentralized power. If Daniel Webster is also correct that "power naturally and necessarily follows property," then democratizing ownership is essential for democratizing power.

In the economic world, property performs the same power-diffusion function that the ballot does in politics. It does more. It makes the ballot-holder economically independent of those who wield political power.

Both socialism and capitalism concentrate economic power at the top. It makes little difference that under capitalism the concentration is in private hands and under socialism the concentration is in the hands of the state. Both systems are excessively materialistic in their basic principles and overall vision. Both, in their own ways, degrade the individual worker. Both bring forth economic systems that ignore and hinder the intellectual and spiritual development of every member of society.

Amalgams of the two systems, as in America's so-called "mixed economy" or the Scandinavian welfare state model, differ only in their degree of social injustice, corruption, economic inefficiency, human insecurity and alienation which permeate each level of class-divided societies. What then would be a genuine alternative economic model for moving toward a freer, more just and economically classless society?

Mistakes of the Left and the Right

Most schemes being promoted by experts keep repeating the mistakes of the past. From the academic right come proposals that assume that free markets alone will bring prosperity and justice to workers. However, the right never explains how the unrestrained forces of the market can ever match consumer production (i.e., aggregate supply) with consumption incomes (i.e., aggregate demand), where ownership of advanced labor-displacing technology is owned by a tiny fraction of the world's consumers, and old capital "breeds" (i.e., finances) new capital in ways that create few if any new owners. A systemic mismatch is inevitable, together with social conflicts, disorder and a growing gap between the rich and the rest of society. Bill Gates of Microsoft, with his \$43 billion, and his fellow billionaires [13] cannot possibly spend all the consumption income earned by their productive assets.

From one side of the muddled middle come ideas to fight economic globalization by retreating behind defensive proposals to restore mercantilism, protectionism and economic balkanization. Others in the middle react to the dangers of globalization with "Marshall Plan" proposals to pump billions in new foreign money each year into transforming economies. They promote welfare state systems that would ensure every worker displaced by privatization a wage packet in return for his labor, while ignoring a worker's right to own and share profits from new and denationalized enterprises.

And from the academic left, clinging to the cobwebs of socialism, come proposals to rectify imbalances from maldistribution of capital ownership, generally by fighting the immutable laws of supply and demand in favor of new forms of collectivism and redistributive taxation. This would ensure systemic dependency by putting all citizens on the dole, regardless of their efforts or the demands of justice. And it would concentrate economic power and leave even fewer checks than under capitalism.

Beyond the Wage System

Higher wages are not the focus of the Just Third Way. The Just Third Way is a systematic approach, balancing the demands of participative and distributive justice by lifting institutional barriers that have historically separated owners from non-owners. [14] This involves removing the roadblocks preventing people from participating fully in the economic process as both workers and owners. Then more people can then begin earning higher incomes from their own capital, as well as from their labor.

The emphasis of the Just Third Way is not on redistribution of income. Its focus is on providing people with social means and a legal system that will encourage them to create their own new wealth and share in profits broadly and equitably.

The Transformation of Human Work

In striving to "make every worker an owner," the Just Third Way recognizes that by nature every person is a worker. Under the wage system framework, the concept of "work" has been stripped of much of its dignity, consigned only to that portion of human endeavor dealing with "making a living." In its larger context, however, work involves physical, mental, entrepreneurial and spiritual forms of human activity, from manual labor to meditation.

Within the paradigm of the Just Third Way, the highest form of work is not economic labor, but unpaid "leisure work"—the work of building a civilization, work that no machine can perform. Throughout history, creative work has mainly been engaged in by individuals with independent incomes, those who were supported by a patron or by someone else's labor. The Just Third Way provides a means whereby more people can engage in "leisure work" and be supported by an

independent capital income produced by their own "technology slaves."

The Homestead Act: A Historical Precedent

In the 1860s, Abraham Lincoln's Homestead Act turned thousands of people into owners of frontier land, the single most valuable productive asset at the time, by giving them the opportunity to earn ownership of one hundred and sixty acres. The land itself wasn't given away. Each homesteader had to develop the land and work it for five years. He was then granted title.

Since ever-improving technology accounts for most of the newly produced wealth in the today's world, limiting everyone to ownership opportunities in the land and natural resources would merely result in a growing population dividing up a static amount of wealth into ever smaller pieces, ensuring poverty for themselves and their descendants. There are, however, social technologies that can be used to democratize individual ownership of a type of wealth—new tools of production being added to the world's expanding technological frontier—that has no limits save human creativity and ingenuity.

One New Social Tool: The Employee Stock Ownership Plan

One modern financial technology to enable the acquisition of companies by their employees is known as the Employee Stock Ownership Plan (ESOP). The ESOP has been enacted into over twenty US laws and is being increasingly used in the United States, the United Kingdom and a growing number of other countries. What makes it different from other ways for workers to purchase ownership shares is that the ESOP is a credit democratization vehicle designed specifically to attract capital credit to enable many workers with little or no assets to gain significant ownership opportunities, and to pay for their shares from corporate profits, not reduced take-home income.

The Capital Homestead Program: A National Plan for Growth through Economic Democracy

The ESOP was designed by Kelso for workers in the corporate sector as a first step toward a capital homesteading plan for all citizens. For America's domestic and foreign economic policies to work for the greatest number of people, such policies have to build a universal political constituency for free enterprise growth. A Capital Homestead Program [15] promotes such a broadened constituency by applying principles of justice at both the macro- and micro-economic levels.

Components of a national Capital Homesteading plan are interdependent, supporting the total

program like the legs of a tripod:

- > Conforming national monetary policy to supply-side economic goals,
- > Simplifying the national tax system, and
- > Linking tax and monetary reforms to the goal of expanded capital ownership.

Reforming national monetary policy to conform to supply-side economic goals.

Central banks were invented to create money. Speaking somewhat flippantly, the economist Paul Samuelson calls central banks "legal counterfeiters." They can create good money linked to productive growth or bad money with no asset backing. Only the latter is inflationary.

Through Capital Homesteading reforms economic growth would be freed from the slavery of past savings (old money), while creating a domestic source of new interest-free money and expanded bank credit to finance new capital repayable out of "future savings." [16] A two-tiered interest policy by the central bank would sharply distinguish between productive and non-productive uses of credit.

Under the first tier future increase in the money supply would be linked to actual growth of the economy's productive assets, creating new owners of new capital through widespread access to low-cost capital credit repayable with future profits. Thus, the central bank would create (i.e., "monetize") interest-free credit. Lenders would add their normal markup as service fees above the cost of money, establishing an unsubsidized minimal rate for financing technological growth. This would provide the public with a currency backed by increasingly more efficient instruments of production.

The second tier would allow substantially higher interest rates for non-productive purposes, for which "past savings" would remain available. The central bank would be restrained from future monetization of national deficits or encouraging other forms of non-productive uses of credit, causing upper-tier credit to seek out already accumulated savings at market rates.

Through capital credit insurance Capital Homesteading would also provide a rational way to deal with risk, as well as an additional check on the quality of loans being supported by the central bank. Capital Homesteading would promote private sector insurance and reinsurance pools to offset the risk that the enterprises issuing new shares on credit might fail to repay the loans. Such capital credit default insurance would substitute for "collateral" demanded by most lenders to cover the risk of non-payment, thus enabling the poor and others with few assets to overcome the collateralization barrier that excludes poor people from access to productive credit.

Simplification of the national tax system.

A just tax system would encourage accelerated rates of sustainable and life-enhancing growth in wealth-producing assets, enable all citizens to become economically self-sufficient in the process

through growing "Capital Homestead" accumulations, and tax every citizen's consumption incomes above poverty levels at a rate sufficient to balance the government's budget. Each citizen could establish from the time of birth a tax-deferred Capital Homestead Account (CHA) to provide him or her a dividend income for supplementing income from other sources and to provide for his or her retirement. The tax system would also eliminate the traditional double taxation of corporate profits in ways that would maximize greater savings and investments in new plant and equipment, and would remove other features that discourage ownership. Such a simplified tax system would also force political candidates at all levels of government to compete on which of them could provide the best government at the lowest cost.

Taxes on property and capital improvements would be discouraged as impediments to development. Inheritance, gift and wealth taxes would be redesigned to spread broadly ownership of large aggregates of existing wealth, rather than passing monopolistic accumulations of wealth and economic power from one generation to the next. [17]

Linking tax and monetary reforms to the goal of expanded capital ownership.

Once Capital Homesteading is elevated as a major objective of national economic policy, monetary and tax policy makers and all public sector economic institutions would be encouraged to upgrade their programs to maximize ownership opportunities for all citizens. [18]

Immediate Applications for Fighting Global Terrorism.

Oil Shares for Iraqi Citizens: One Cost-Free Application of the Just Third Way [19]

America, its coalition allies and the UN should support denationalization of the oil fields of Iraq to serve as a catalyst for building a "Just Third Way" economy independent of foreign capital or international development assistance. First, the Iraqi National Oil Company would be converted into a professionally managed joint stock corporation. Initial shares would be issued at no cost to every oil worker and Iraqi citizen – uniting Shiites, Sunnis, Kurds and other Iraqis in one fell swoop – and guarantee each of them first-class shareholder rights to the profits and voting control of the company. Preferential oil production leases could be offered to competitive operating companies that are broadly owned. To lay the foundations for Iraq's future economy, projects to be owned by Iraqi citizens should be launched using advanced U.S. technologies that produce power and water from sea water and waste. Future government revenues would then come from increased citizen incomes, reducing non-accountable political control by a military or political elite, or by foreign oil interests.

Initial shares would be non-transferable for 10 to 20 years, except for inheritance upon death. Tax-sheltered equity accumulation accounts would be given the power to borrow interest-free, non-recourse productive credit on behalf of the shareholders for future share issuances to meet the expansion and modernization needs of the former state-owned oil company, as well as new

enterprises, with the debt secured and repaid by the projected dividends on the newly issued shares.

One cautionary note: Experience with employee stock ownership plans has shown that it is not sufficient merely to give people ownership and expect any significant change in their behavior and value systems. It is essential that management systems be introduced during the planning and implementation phases of Capital Homesteading to offer a new servant leadership philosophy and structures and processes for diffusing economic power and ownership. One such system called "Justice-Based Management" [20] systematically builds internal ownership cultures necessary to educate all co-owners and managers to the new social contract and philosophy of leadership.

The Abraham Federation: A Just Third Way Solution to the Israeli-Palestinian Conflict [21]

The initial rush to recognize a "Palestinian State" by the US State Department and many European leaders, though well-intentioned, is unlikely to achieve a lasting peace through justice for Palestinians, Israelis and other persons living in the disputed territories. Who wants to be a non-Jew in a "Jewish state," a non-Muslim in an "Islamic state," a non-Christian in a "Christian state" ? or, for that matter, a Jew in a "Palestinian state"? What is needed now is a much bolder vision to stop terrorism and bring all parties into a new framework – beyond the exclusionary two-state formula – to begin negotiating beyond zero-sum politics.

Over perhaps a decade of peace and reconciliation, justice-oriented Israelis and Palestinian leaders, supported by an international police force, could establish a new model nation-state based on a radically new "inclusionary" process of nation building, where economic justice would become the basis of social and political justice in the daily lives of each citizen. It would offer a modern fulfillment of the biblical concept of "Jubilee" [22] , but instead of redistributing land, a finite resource, the new nation would redistribute future opportunities for every citizen to become an owner of land and whatever can be built upon the land.

Under an "economic bill of rights" every citizen would gain equal access to future ownership opportunities, guaranteeing a level playing field in citizen participation as property owners in future economic growth and profit sharing. By decentralizing access to economic power and economic independence through Capital Homesteading policies and a federation central bank, citizens would control government, not vice versa. Everyone's faith, spiritual life and political beliefs would then be respected and guaranteed by the rule of law. National "sovereignty" would be built from the ground-up, based on securing the inherent sovereignty of every individual and the sanctity of the family unit. With "ownership-sharing" economics surpassing politics in the daily lives of its citizens, economic power would be widely diffused and the power of the state would be subordinated to the power of the people. [23]

Pursuing Justice, Not Utopia

Mankind will probably never achieve the "perfect" economic system where all drudgery is eliminated and everyone is free to do the work they prefer. However, before the opportunity passes, it becomes imperative for all economies of the world to implement effective programs of expanded ownership of productive assets. The alternative is a pendulum swing between capitalism and socialism, where any period of stability merely serves as preparation for the next violent overthrow.

Many aspects of the Just Third Way will be determined by reforming tax and banking laws that affect the process of democratizing productive credit. How this democratization is brought about – the timing, priorities and procedures – are social issues best discussed in an open and democratic fashion by people aspiring to build a free and just future for themselves.

We have reached a rare moment in history. Having discarded the failed systems of socialism and communism, many nations are now struggling to protect their citizens against the loss of economic sovereignty under the Wall Street capitalist model of economic globalization. Before the pendulum swings back to socialism, all nations of the world have a chance to implement for their citizens a new and bloodless economic revolution. This positive global revolution would be consistent with the unrealized ownership vision and ideals of America's founding fathers and the ancient principles of justice expressed in Islam, Christianity and Judaism. It could enlist the poor of the world to help win the war against global terrorism.

As they search for a better life, the citizens of developing and transforming economies – as well as those living in the developed countries themselves – need something better than the outmoded and dehumanizing systems of traditional socialism and capitalism. Nations now have the power to create new property for the poor, without taking existing property from the rich. Leaders who believe in Peace through Justice now have in their hands a new model for economic globalization, a true and just third way forward.

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[12] John Maynard Keynes, *The Economic Consequences of the Peace*, 1923, p. 19.

[13] *Forbes*, September 30, 2002.

[14] The moral framework of the Just Third Way is discussed in greater detail in Chapter V of

Louis Kelso and Mortimer Adler's profound book with the misleading title, *The Capitalist Manifesto* (New York: Random House, 1958). A further refinement of the specific principles can be found in *Curing World Poverty: The New Role of Property* (1994).

[15] For a comprehensive blueprint of monetary, tax and other macroeconomic reforms for transforming any economy to one that conforms to the Just Third Way, see Norman Kurland, Dawn Brohawn, and Michael Greaney, *Capital Homesteading for Every Citizen*, Economic Justice Media, 2004. For a Just Third Way strategy of tax reform, see "Beyond ESOP: Steps Toward Tax Justice" in *Curing World Poverty: The New Role of Property* (1994) and other publications of the Center for Economic and Social Justice, Washington, DC.

[16] *Ibid.*, pp. 1-10, 43-64.

[17] For more specific details on tax reform, see chapter 8 of the book, *Capital Homesteading for Every Citizen*, pp. 65-80

[18] *Ibid.*, pp. 28-32, 81-84.

[19] *Ibid.*, pp. 209-211.

[20] *Ibid.*, pp. 85-92.

[21] Norman G. Kurland, "A New Framework for Peace in the Middle East," *Curing World Poverty: The New Role of Property*, ed. John H. Miller, Social Justice Review, St. Louis, 1994, chapter 12, 2004 updated version appears at <http://www.cesj.org/homestead/strategies/regional-global/abrahamfederation-nk.html>.

[22] According to the Bible, the fiftieth year following seven seven-year periods was the "Year of Jubilee", or Sabbatical year, to be celebrated by the freeing of Hebrew slaves, the remission of debts and the restoration of ancestral property to its original owners. *Encyclopædia Britannica*

[23] This would institutionalize the main purposes of a just government as expressed by George Mason, the father of the American Bill of Rights, who also authored the Virginia Declaration of Rights. The latter declared that "all men are by nature equally free and independent and have certain inherent rights . . . namely, the enjoyment of life and liberty, with the means of acquiring and possessing property, and pursuing and obtaining happiness and safety." A critical omission in Jefferson's authorship of the Declaration of Independence was Mason's (following John Locke) heavy emphasis on access to the "means of acquiring and possessing property" as the ultimate source of personal economic sovereignty and all human rights. This omission, some suggest due to Jefferson's moral ambiguity over slavery, can and has led every nation since the beginning of the industrial revolution away from broad-based ownership of wealth-producing assets as the source of personal self-determination and the ultimate check against the potential abuses of concentrated public and private power. The constitution of the Abraham Federation could correct this flaw.



Managing From Below

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This article makes a case for workers' self-management through bottom-up strategies and decisions. The Mondragon system of 89 industrial cooperatives, operating in the Basque region of northern Spain, is viewed as a worker-designed organizational network that ensures equality as well as efficiency. The criteria for assessing the Mondragon experience include job retention and expansion, healthy labor relations, individual and collective motivation, organizational performance, and wealth creation. The implications of a worker-managed economy for American scholars and practitioners are discussed.

Managing a business has traditionally been conceived of as a top-down process of making decisions. The owner or appointed administrators do the planning (Steiner, 1969), lead organizational events, and strive to achieve pragmatic results (Drucker, 1964).

Research on the process of managing emphasizes concepts such as control, strategy, and implementation of decisions. Perhaps too many traditional analyses cling to the assumption that organizational results come from the top, that excellence and/or effective cultures are derived from the upper echelon. This view suffers from a bias toward those in formal positions of power, attributing favorable characteristics to those who happen to occupy the top deck of the organizational chart. Such attitudes often tend to ignore the power and the contributions of those at lower levels.

However, another stream of thought has heavily emphasized the importance of shared power and worker participation. McGregor (1960), Likert (1967), and other early researchers laid the foundation for a bottom-up managing of organizations. The more recent popular works of Ouchi (1981) and Peters and Waterman (1982) have emphasized the importance of humane work structures, the use of groups, and democratic organizational values.

This article provides a brief overview of the trend toward a bottom-up approach and then focuses in depth on a system of managerial democracy in Spain. Finally,

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the implications of such an approach for researchers and American managers are evaluated by discussing the problems and prospects of contemporary worker-managed enterprises.

Toward a System of Worker Participation in Management

The traditional form of labor-management relations in the United States has been the collective bargaining approach. Essentially an adversarial system growing out of earlier decades in this century, it has primarily consisted of fighting for bread-and-butter issues. More recently, new concerns have arisen which have broadened the agenda from wages to health and safety, job security, and so on. The latest thrust has been to institute a bargaining process which also emphasizes joint decision making and the social rights of workers.

Many firms have moved in the direction of work-place democracy, regardless of collective bargaining arrangements or unionization. Socio-technical strategies (Davis & Taylor, 1979; Hackman & Oldham, 1980) have attempted to give workers a voice in the redesign of their jobs. Autonomous work teams at Volvo (Gyllenhammar, 1977) and General Motors (Guest, 1979) have functioned to alter the traditionally exclusive domain of management to make production decisions. Especially since the late 1970s, mainstream U.S. industry has begun to experiment with a variety of innovations to involve workers, at least partially, in the managing of conventional firms (Lawler, 1978).

A more dramatic shift toward worker participation is occurring in some 6,000 American firms with a degree of employee ownership. In the past several years, a number of major airlines and trucking companies have given workers formal representation at the board-of-directors level in exchange for wage concessions. Although not state-mandated, as are the extensive systems of codetermination in Europe, the seeds of a broader, more fundamental change in power are being sown (Woodworth, 1984).

In the minds of most managers and organizational researchers, efforts to involve employee-owners are probably viewed as still somewhat experimental (Bernstein, 1980; Whyte & McCall, 1980). The bulk of worker participation efforts are clearly controlled and usually initiated by management (Conte & Tannenbaum, 1978; Hammer & Stern, 1980). The question of whether or not workers could actually run industry is debatable.

Internationally, some evidence is beginning to emerge that answers such a question affirmatively, or at least addresses its possibilities. The Mondragon system of nearly 90 worker-owned cooperatives sheds light on the possibility of a worker-managed economics. Drawing upon scant reports by other researchers and limited data of my own, a case is made for the potential of a bottom-up strategy for managing organizations.

The Mondragon Model

The Mondragon system consists of 89 small- to medium-sized industrial cooperatives in the Basque region of northern Spain. After several decades of severe

unemployment in the town of Mondragon, the first small worker cooperative was established in 1956. Subsequently, other co-ops were created, all based on the practical need for jobs and on the democratic ideals of a labor-managed economy.

The cooperatives worked together in forming a support organization, Caja Laboral Popular (CLP) (The People's Savings Bank). It began to operate as a source of funding and expertise services in 1960. The CLP and the associations of cooperatives continued to grow and expand. By 1984, the CLP had over 300,000 individual depositors and assets of \$1 billion. During the past decade, Mondragon has produced about 5% of the entire national output in certain consumer goods and comprises 14% of the total industrial output of the province of Guipuzcoa, where the Basque community is located (Bradley & Gelb, 1981).

General Structure

The cooperatives of Mondragon are all internally organized in basically the same way. The members of each cooperative are the ultimate authority. The general assembly of all members meets at least annually and is empowered to examine and approve the balance sheet and vote on organizational procedures. The assembly also elects those workers who are to serve on the supervisory board, which is a type of board of directors (Aranzadi, 1976).

The supervisory board appoints the managers who, in turn, are responsible to the board and through it to the general assembly. This indirect accountability of management has proved to be one of the strengths of the Mondragon cooperatives. It is important to note that managers can never be on the supervisory board. Management is directly responsible for administrative tasks.

The management council is an advisory and consultive body. The members of the council are usually managers, top executives, and outsiders with special expertise and skills.

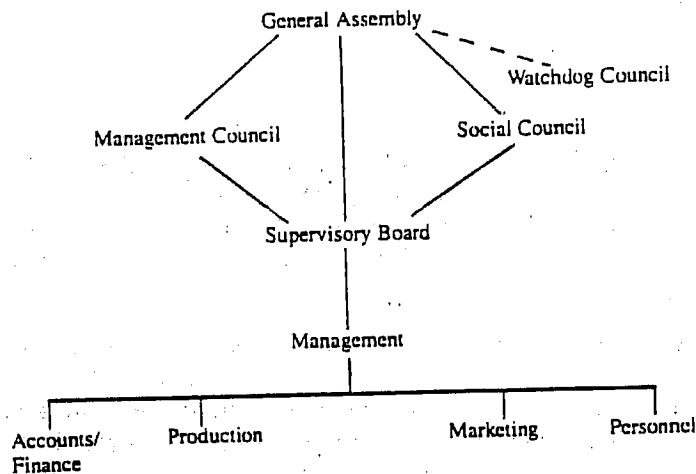
The members of the cooperative also elect the social council, a body having wide prescriptive and advisory powers regarding all aspects of personnel management—work safety, social security, and wage levels. The watchdog council is the ultimate safeguard in ensuring the democratic running of the cooperatives' affairs. The general assembly elects three members to watch over the supervisory board and the two advisory councils and to inform cooperative members of any irregularities.

Figure 1 illustrates the organizational structure of the cooperative.

Membership

The Contract of Association states that "membership in the Associated Cooperative shall be voluntary and open to all persons who can render the services for which it was established, provided they agree to assume the responsibilities membership entails." This open-door policy ensures that all those who desire and qualify for membership can apply for it. Members who do decide to join and who have the needed skills or training pay an initial contribution in cash of approximately \$3,000. This initial investment and the allocation of funds to the individuals' capital accounts make the workers owners of the cooperative.

Figure 1
Organizational Structure of the Mondragon Cooperatives



Decision Making

The major decisions of each cooperative are determined in annual meetings of the general assembly. Simple majority vote is sufficient in determining any policy, approval of a budget, admission of new members, or disciplining violators. Decisions are not determined by the number of shares a person has in the company, but rather on the basis of one person/one vote. This bottom-up structure of workers' control provides a network of participation channels and ensures the democratic sharing of organizational power. Power is not concentrated in an elite group of decision makers at the top, but remains with the membership as a whole.

Distribution of Wealth

The Mondragon system is unique in that money does not stay strictly within the cooperative. Under the Cooperative Law of Spain, it is permissible to form "second degree cooperatives," organizations that are not entirely worker-owned and controlled but which have associated cooperatives as institutional members. The Caja Laboral Popular is the primary second degree cooperative of the Mondragon system. It is designed to attract the savings of the local community and invest the money in the associated cooperatives. The bank provides computer services, conducts feasibility studies for new cooperatives, and loans up to 50% of the capital needed to launch a new business. Other bank support efforts include securing land for construction, designing new plants, and training workers as they launch their own businesses.

The initial capital contribution made by all new cooperators represents their capital share in the new enterprise. Thus, each new cooperative is financed in part by the capital contribution of its members and augmented by loans from the CLP. The employees' earning structure, being governed by solid principles and ideals of solidarity and equality, is different from that of a traditional firm. The maxi-

num range of earnings is set at a 3:1 ratio. In other words, the gross earnings of the highest paid managers cannot be more than three times that of the lowest paid worker-members.

Work Structures

Because the emphasis of Mondragon is on job creation and democratic control, work structures center on training and job security. For example, in the past the cooperatives' policy has been to send workers back to school to develop further expertise rather than lay them off during slow or bad times. Sometimes workers are temporarily sent to other cooperatives.

Nevertheless, cooperative factories that compete in markets have to organize their work efficiently. This has led to the division and diversification of work and the implementation of new technologies. Jobs center on teamwork rather than on assembly-line labor. The goal is to build a participatory organization by objectives rather than the traditional management by objectives. For instance, in a new furniture factory, all the work is planned by worker teams. A performance index is allocated to the entire team, which then decides how these gains should be distributed among members.

In 1977, several industrial cooperatives jointly established a research and development (R&D) center called Ikerlan in order to compete more efficiently with new technologies and products made elsewhere. Much time and money are devoted to the design of new components for existing products, to the study of competitors' products, and to keeping abreast of international developments.

Social Organization

Because Mondragon is not a communal system, work and social life are somewhat segregated. However, Mondragon is a complex of organizations, and its cooperative structure and ideals have had an important spillover effect on such social structures as education.

Education has been an important part of the Mondragon model from the beginning. The first cooperative firm was preceded by 13 years of education. Jose Maria Arizmendi, the visionary priest whose ideals significantly shaped the Mondragon system, continually repeated the words, "Knowledge is power; socializing knowledge implies the democratization of power."

The League for Education and Culture was organized years ago as a full-fledged cooperative with a general assembly and supervisory board designed to support the socio-economic system of Mondragon through education. There is great coordination between the educational system and the cooperatives. Students are trained in the skills needed by the cooperatives, and the students' training and research help shape the future. Students are not only trained technically but are also socialized regarding the ideals and functions of Mondragon.

The Results of Bottom-Up Management

In response to the query, "Can workers run industry?" the Mondragon experience suggests an affirmative answer. Out of the rubble of war and economic stagnation, over 25,000 jobs have been created. Starting with one co-op in 1956, there were eight by 1960, 60 by 1970, and today a total of 89 cooperative firms. Some of the worker-owned firms are fairly large, such as Ulgor, which has 3,400 members and six factories. It is the leading manufacturer of appliances in Spain, producing 300,000 refrigerators and 250,000 stoves a year. Some 25% of its products are marketed internationally. Other firms are smaller, ranging from agricultural equipment to steel construction, graphic arts, plastics, and robotics.

The worker cooperatives are supported by second-degree institutions such as the peoples' bank, a localized system of social security called Lagun Aro which provides welfare benefits and cooperative medical care, an R & D center, a technical school, and a college of engineering. An elementary cooperative educational system of 44 schools, day-care centers, 14 housing co-ops, some fifty cooperative supermarkets, and 7 agricultural co-ops round out the community structure for building an egalitarian society.

The track record of these cooperative businesses is impressive. Of 89 business start-ups thus far, there has not been a single failure, in contrast to the typical U.S. experience which suffers from a 50% failure rate in the first several years (Greene, 1985). Nor has the Mondragon system suffered massive layoffs during economic downturns. For instance, when the OPEC oil crisis hit in 1974, instead of losing their jobs as did their counterparts in traditional firms worldwide, Mondragon workers in hard-hit firms were simply transferred to the technical school for a few months to obtain new skills. Then they moved into other firms in the cooperative system which were experiencing growth, without losing a single day's pay in the process. In sharp contrast to most industries during that period, Mondragon increased employment by 7.5% while profits grew 26% and exports shot up 56% (Johnson & Whyte, 1977). Over the past decade, total cooperative sales have increased at a rate exceeding 25% annually, while industrial investment has grown 15% each year. Mondragon has a philosophy premised on Schumacher's *Small is Beautiful* (1973) logic, keeping the size of most firms well under 500 members. Such a scale seems to foster healthy interpersonal relationships and strong identification with the enterprise. An important result of this is that there has been only a one-day strike in the past 25 years of cooperative existence, and that was over job classifications in a large co-op. A labor relations climate such as this seems rather enviable when compared with the problems of distrust, alienation, and conflict which characterize all too many conventional firms.

Future Research

In an comprehensive review of the literature, Strauss (1982) concluded that workers' participation in management

has had only limited success. It has involved top leadership more than the rank and file, and it has almost ignored middle and lower levels of management. It has not brought substantial power or influence to the

ordinary worker: nor has it unleashed workers' creativity or even actively involved them in making production decisions. (pp. 254-255)

Mondragon may be an exception to the general rule. Yet, so far, economists have expressed the greatest interest in Mondragon, and the research to date emphasizes overall economic performance. What is less clear is why this success has occurred. These small- to medium-sized cooperatives suggest a rich data base for management and organizational researchers.

There is a need for academics to study important features of the Mondragon system. As yet, there is no systematic investigation of unique aspects of the Spanish cooperatives which are most relevant for conventional businesses elsewhere. In the current quest for quality and productivity in American industry, it seems that all the hoopla about Japanese management may be a bit overdone. We ought to also consider lessons from across the Atlantic in northern Spain.

For instance, there is much discussion in the United States these days about business life cycles—birth, growth, maturity, and decline (Hirschhorn & Associates, 1983; Kimberly & Miles, 1980; Whetton, 1980). Some theorists argue that over time there is an inevitable bureaucratic stodginess and loss of entrepreneurial spirit. The evidence from Mondragon suggests that fossilization is not inherent in all corporate systems, and that renewal and revitalization processes may nurture an ongoing entrepreneurship. One could postulate that by keeping the size of each co-op small, linking all firms with the R & D center, and creating a blue-collar entrepreneurial climate through worker ownership, a firm could be virtually guaranteed ongoing innovation. Certainly, this area is a fruitful and relevant issue for management researchers:

A long-standing debate between capitalist and socialist theorists is about which system is superior. The cooperatives of Mondragon suggest a potential third way which includes the strengths of grassroots capitalism and self-reliance combined with concern for the collective good and structures of workers' control.

To what extent are the two views compatible? Can the Mondragon system be evaluated along the lines of Likert's (1967) survey of organizations? Would such methodology reveal Mondragon to fit a System 4 ideal? Or would it move completely off the scale, perhaps to a new System 5?

Perhaps other conceptual models would be more appropriate. For example, Bernstein (1980) has delineated six components necessary for a truly democratic enterprise: participation in decisions, full sharing of company information, economic feedback, guaranteed individual rights, due process, and a democratic consciousness. What is needed is the application of such a model to the Mondragon experience, a testing process which might further refine the Bernstein or Likert models, as well as assess the effectiveness of workers' self-management as an organizational phenomenon.

The research implications of Mondragon suggest numerous other fruitful possibilities for investigation. For instance, Long's (1978) study of Employee Stock Ownership Plans (ESOPs) reported that worker-owners scored higher than non-owners on measures of company integration, satisfaction, and involvement. Further data on Mondragon could amplify the potential for employee ownership in facilitating the emergence of an economically and psychologically healthier work

environment in the United States. Policy-related research along lines which would predict the conditions under which worker ownership leads to an improved quality of working life would be not only of theoretical interest but also of use to employers, unions, and state and national legislators.

Future studies could also add important insights to the broader literature on management. Additional research could consider a largely neglected variable in evaluating participation, the degree of worker ownership of a firm. Figure 2 represents a two-dimensional approach for researchers.

Figure 2

Extent of Worker Participation

		Low	High
		Traditional firms (most U.S. industry)	Volvo, General Motors, and other QWL experiments
Extent of Worker Ownership	High	Majority-owned ESOPs	Mondragon co-ops
	Low		

What is needed is an empirical study which utilizes cases from each of the four cells, comparing them in terms of key issues such as economic performance, worker attitudes, degree of participation, mechanisms of participation, extent of stock ownership, and so on. A systematic collection of data from a sample of each cell would be useful in understanding the interplay between ownership and participation. Monitoring a project like this for a 3-5 year period would provide important longitudinal data currently unavailable.

In such a study, firms with high ownership and high participation would seem to fit Dahl's (1979) criteria for a truly democratic process: equal votes, effective participation, enlightened understanding (access to information), final control of the agenda, and inclusiveness. It could be predicted that the Mondragon system would fully fit such criteria, but how would conventional U.S. firms stack up? Or even most employee-owned enterprises? Such research could raise further conceptual inquiry about what it really means to have a free and democratic society.

A study of this nature would also have implications for the action research of organizational development (Argyris, 1970; Beckard, 1969). It would suggest, among other things, that organizational intervention could lead to a genuine redistribution of organizational power rather than simply tinkering with structure so that employees "feel good." Some theorists (e.g., Argyris & Schon, 1978; Watzlawick, Weakland, & Fisch, 1974) have conceptualized different types of change, distinguishing between first order change, which grows out of an established framework, and second-order change. Mondragon may serve as a classic illustration of second-order change, in which the framework itself is significantly altered as workers themselves begin to design and manage the process of organizational evolution.

The issue of power raises another important line of research which might profitably flow from the Basque model. A predominant view in the literature is that management derives its power from its expertise, its ability to reward or punish,

and/or the very legitimacy of its position in the organizational hierarchy (French & Raven, 1959). Although such an interpretation seems warranted in the context of the conventional organization, other studies have questioned the validity of such a perspective. Tannenbaum, Kavcic, Rosner, Vianello, and Weiser's (1977) work on authority across five different cultures is particularly important in delineating different sources of power. In the Mondragon system, decision-making power indeed flows from the general assembly to top management. Further research may provide more conclusive support for the notion that power can also be derived from below.

Another spinoff for future studies centers on the question of management/labor relations. Mondragon illustrates the essential trust needed between managers and workers, a condition which appears related to a flattened hierarchy, minimal class differences, including a 3:1 wage ratio, and so on. The more conventional corporate culture emphasizes social division, executive perks, and little information sharing (Jackson, 1983; Locke & Schweiger, 1979). Perhaps more research will reveal that what produces worker commitment is not an open-door policy but an opening of the books. Consistent with other data (Bernstein, 1980), Mondragon suggests that interpersonal feedback may not be as valued as economic feedback.

Finally, longitudinal research comparing Mondragon with other systems of participation and ownership may forge a new theory of business organization. The roots of such thinking are evident in the work of Braverman (1974) and others (Edwards, 1979), who argue that the structural reasons for conventional business derive from the historical push to make workers merely the executioners of managerial decision making. Taylor's *Scientific Management* (1911/1967) is the clearest evidence of early attempts to bifurcate thinking and work itself.

Mounting research in recent years, amplified now with the Mondragon evidence, may soon enable scholars to formulate a new paradigm which reintegrates workers and the organization. Whyte and McCall (1980), Lawler (1978), and others have begun to see these approaches to corporate democracy as forerunners of a new conceptual model. What should follow is the outlining of such a theory, one which links micro and macro analyses of worker participation to form a more comprehensive model of organizational effectiveness.

Implications for American Managers

The Mondragon experiment suggests some important issues for U.S. managers to consider. Of course, it could not be replicated in an across-the-board fashion in an American setting. One must acknowledge unique aspects of the Spanish experiments, such as economic deprivation, the Basque culture, and the communal network of Mondragon's cooperative economy. Although dominant values in America emphasize individualism (Harris & Moran, 1979), there are also regions with a strong collective orientation, as exemplified by the farm co-ops of Minnesota and the plywood co-ops of the Northwest (Schaaf, 1977). The transferability of the Spanish cooperative experience to America would necessitate an integration of co-op principles with solid operational strategies. Moreover, Mondragon should not be dismissed as a mere case study, because it consists of nearly

100 organizations intricately linked in mutually reciprocal ways with a dynamic that has lasted over a quarter of a century.

What are the lessons of Mondragon? A major conclusion is that managing from below can be as productive as top-down. Indeed, the central thesis of this article is that management is not a noun, but a verb demonstrating action. Managing is a process that can, in some circumstances, be effectively carried out by workers rather than solely by executives. Mondragon is an example of a worker-management partnership, an approach that challenges contemporary theories which hold that executives must plan, control, and execute decisions.

Mondragon suggests that the potential of workers has yet to be tapped. The cooperative system has transformed a mere job into a more meaningful, high-quality life which integrates the career, the family, and the larger political community. Instead of merely putting in their eight hours, co-op members are responsible decision makers and entrepreneurs. With full access to financial information, they help create and support sound business strategies. Equality and efficiency are not antagonistic, but mutually reinforcing.

A third lesson from the Basque experience is that important benefits accrue by creating mechanisms for sharing not only psychological ownership, but actual stock. As Gurdon (1982) observes, a number of U.S. firms are recognizing this factor and extending ownership to their employees. However, other research is appearing which suggests that legal ownership on paper is not sufficient unless there is a concomitant system for participation and influence by worker-owners (Meek & Woodworth, 1982; Olson, 1982). Mondragon illustrates the need for a vibrant climate which facilitates innovative experimentation to see what is possible. It also emphasizes the importance of institutionalizing bottom-up power structures to prevent regression to traditional managerial approaches in conventional firms.

Finally, Mondragon counters the myth that democratic decision making is by nature ineffective. Perhaps the most common response about worker participation from American managers is that cumbersome communication wastes time and blocks the ability to achieve quick results (Macy, Ledford, & Lawler, 1981). With Basque cooperatives, the evidence is in the other direction, implying that groups skilled in consensus methodology can out-perform conventional, hierarchical decision making. A handful of studies by the London School of Economics (Bradley & Gelb, 1981) and other researchers (Gorrone, 1975; Thomas 1982; Thomas & Logan, 1982) reveal that in some industrial sectors, Mondragon profits are twice those of traditional capitalist firms. Overall, productivity is higher in the Mondragon group than in conventional firms throughout Spain.

With the clear articulation of core values and basic policies, Mondragon suggests that day-to-day decisions can be arrived at very effectively. For one Mondragon worker, a young woman who is also on her firm's board of directors, efficiency alone is not sufficient: "What we're really trying to prove here is that business and human needs are not necessarily contradictory. Our experience shows that a people's economics is possible."

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