


COMMUNITARIAN ECONOMICS : CRITICISMS AND SUGGESTIONS FROM THE LEFT

CHARLES DERBER

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Communitarians have helped diagnose a national crisis that is threatening families and neighborhoods and undermining our democracy and sense of common purpose. Furthermore, communitarians have begun prescribing some of the moral medicine to heal our wounded communities. But restoring morality, family values, and community will take more than a critique of individualistic values and a dedication "to shoring up the moral, social, and political environment" the credo the Communitarian Network proclaims on its stationery. Left out of the prescription is a new economics, an essential foundation for a renewed morality and civil society.

Communitarians have rightly sounded the alarm about social crises, such as the fate of our children: the innocent victims of tidal waves of divorce, broken families, domestic violence, and child neglect and abuse. But they have been startlingly silent about the convulsive changes in the national economy that sabotage generous parenting and put children at risk: the new age of job insecurity and temporary work; the plant closings and mass firings by companies fleeing abroad; the decline in real wages that has necessitated the two-income household; the growth of poverty among working families, to cite a few examples.

Shuttered manufacturing plants and deindustrialized ghost towns hint that our larger communitarian crisis is intimately linked to the basic realities of our economic system. Capitalism, the most dynamic and socially disruptive of all economic orders, has always been an engine of what Joseph Schumpeter called "creative destruction," relentlessly tearing down old loyalties and

communities in the quest for new markets. Ever since the British enclosures that threw the peasantry off the land, the history of capitalism has meant social dislocation, with the drive for profit leaving a trail of uprooted workers and broken communities. National values and intact families and communities are anchored in the economic and political arrangements that determine how we make and distribute our daily bread. In *The Moral Dimension* Amitai Etzioni details a powerful communitarian critique of our governing economic paradigm, showing that our communities are in peril precisely because of the radical individualism of our economic thought and practice. But communitarians have not translated such analyses into policy prescriptions, limiting their focus instead to moral discourse and change in the micro-institutions of families, schools, and neighborhoods. The communitarian movement has abdicated the critical task of envisioning an economics aimed at the reconstruction of community. Communitarians must propose a structural analysis and politics that attacks the economic foundations of our problems.

1. The Free Market Paradox

The post-Cold War economics debate will not be about whether to embrace markets, but about what kind of markets to embrace. While the emerging contest is, at the most obvious level, between the American, Japanese, and European variants of the market economy, the deeper and more interesting competition is between two fundamentally different structural models: the "free market" model as exemplified by the American economy under Ronald Reagan and George Bush and the "social market" model as imperfectly embodied in the social democracies of Western Europe and in the Mondragon cooperative economy in the Basque region of Spain. Drawing on these models, communitarians can conceive and implement new forms of the social market appropriate to their own societies. The consensus that markets are fundamentally individualistic reflects a vision limited to the free market model. The idealized free market is a sophisticated accounting system for registering individual preferences and balancing supply and demand among millions of disconnected buyers and sellers. But while the free market registers the desires of each individual, it largely ignores the spill-over effects that transactions have on the rest of society. When a factory pollutes, the social cost of bad air and lung disease (what economists call "externalities") is a real one,

but one the owner can ignore. Society at large, after all, pays the bill. The pure free market offers no incentive to protect society and no disincentive to antisocial behavior; social neglect thus accumulates, with the market turning a blind eye to the millions of small and large externalities that affect society every day. A market system that is blind to social costs and benefits can produce explosive short-term growth and profits, but it ultimately shreds the social fabric that, as Adam Smith acknowledged, makes markets possible in the first place. Despite his faith in the "invisible hand" that allegedly directs individual greed and ambition for the good of all, Smith saw the danger of the free market's reliance on selfishness. The free market requires trust and solidarity for buyer and seller to do business, but its religion of self-interest relentlessly chips away at all forms of social solidarity.

Smith's late eighteenth-century world had strong communities that sustained values of loyalty, altruism, and social obligation, and Smith wrote that such communities cultivated "a natural sympathy" that allowed people in economic competition to live peaceably and harmoniously with one another. In Smith's day, civil society (with all its incivilities) constantly regenerated social values. But we don't live in Smith's day, and our eroded community does not have sufficient restorative force to prevent the free market from sabotaging the conditions of its own survival.

2. Underlying Assumptions : The Social Market

As modern free market societies like the United States succumb to violence and urban decay, the attractions of the social market alternative become palpable. Social market systems, such as Sweden and Mondragon with rates of violence and social decay far lower than those in the United States tackle the basic free market problem by rejecting many of the free market's individualistic assumptions. Social markets presume that economic actors include communities as well as individuals, that social costs and benefits can be registered and measured, that cooperation is as essential to productivity and growth as is competition, and that there are a wide array of possible market incentives that can both preserve the social fabric and sustain economic viability. The social market writes social costs and benefits back into the equation, in part by internalizing the externalities. The social market gives social stakeholders including workers, consumers, neighbors, and "public interest" representatives a voice in corporate decisions, and it structures

incentives to guarantee that no transaction can proceed without regard for its consequences to the larger community. The “ideal type” social market is defined by such structures as social accounting systems for factoring social costs and benefits into economic decisions; social accountability mechanisms ensuring that businesses and other economic actors are responsive to community interests ; distribution mechanisms ensuring a measure of income equality to preserve equity in the community; and forms of economic participation and governance that institutionalize the logic of democratic community inside business itself. While actual social market economies such as Sweden, Austria, and Mondragon differ radically in their approaches to these shared imperatives, they all reject both classic laissez-faire and statism, neither of which is compatible with the social market strategy. Instead, they rely on their own combinations of government intervention, employee and community representation, and self-disciplining social business practice. No country has fully developed the social market, but the vision is hardly utopian. It is being partially implemented in many different countries and is spreading, driven both by moral and economic arguments that address the concerns of liberals and conservatives alike. For liberals, the payoffs are greater equality, power sharing, and social responsibility; for conservatives, they are higher productivity, stability, and economic yield. But communitarians see the most profound virtue: a moral economics that links individual enterprise with the common good. The social market is, at root, a project for social solidarity, molding economic institutions to manufacture responsibility and community, as well as profitable commodities. But this is more than idle idealism or do-goodism. For an economy to prosper, it must respect and nourish the social bonds and moral concerns that make civil commerce possible. Indeed, social organization and solidarity are the great intangible ingredients of economic success. Japan, a relatively authoritarian form of the social market, has created its economic miracle by melding the communitarian values of Confucianism into the market. Social market systems in the West will unfold differently, infused by more democratic Western visions of community. Like the free market, the social market rejects government ownership of the means of production and comprehensive central planning. It is thus not a veiled reintroduction of classical socialist economics. But it does reconfigure markets to achieve such values as community and social solidarity. Socialism relies on taxes and the regulatory and social policy of an activist state. Cooperativist economies do it

differently through, for example, democratic ownership arrangements, allowing workers or consumers to speak up for the needs of their communities.

3. Social Market Alternative #1 : European Social Democracy

The best-known examples of social market systems are the social democracies of central Europe: Sweden, Norway, Holland, Austria, and Germany. During the Cold War, they were lumped with the United States and Japan in opposing East Bloc socialism, but European market systems are almost as different from the American free market as they are from socialism.

After World War II, West Germany explicitly identified itself as a "social market economy." Alfred Muller-Armak, a minister of state under Ludwig Erhard, coined the term in 1949 to describe his own blueprint for a modest welfare state. Erhard enacted this very limited social market vision in the 1950s, introducing an elaborate national pension and health scheme and an industrial relations system that put workers on the boards of directors of large German industrial concerns. The German version of the social market, a blend of Christian Democratic politics, social democratic trade unionism, and Catholic reformism, relied on state intervention to preserve and nurture a semblance of community values and civil society in the postwar economic wreckage.

The European social market framers particularly in Scandinavia envisioned government as the social conscience of market economics, a vision that reflected some of the socialist dreams of the labor unions and parties that helped establish it. In 1928 the Swedish socialist leader Per Albin Hansson conceived social democracy as a "people's home" in which government would help reshape society in the spirit of "equality, concern, cooperation, and helpfulness." But these dreams were moderated by the power of the capitalist classes. Social democracy is the a compromise between socialist and free market economics.

Sweden's ingeniously designed social markets, especially its labor market, deserve close attention. The Swedes recognize that employment is the umbilical cord connecting the individual to society and that tolerating unemployment is the fastest way to put communities at risk. Through most of the Cold War period, the Swedish system of economic governance bringing together national business, labor, and government in a unique social

compact kept unemployment under 2 percent, while also sustaining low inflation and high productivity growth. National and local boards tracked job market trends; coordinated job training and research; and intervened early to help revitalize lagging regions or industrial sectors. Full employment, viewed by free market economists as inflationary and unachievable, helped produce not only social harmony and intact communities but also decades of growth as high as anywhere in the developed world.

Swedes pay about 50 percent of their income in taxes to support the education, health, child rearing, housing, and other social needs of their population. A massive market distortion in free market terms, Swedish policy has averted the social catastrophes suffered by the United States. Like the United States, Sweden faces daunting challenges in the new global economy. But the Swedes who can still boast of having among the lowest violence, crime, infant mortality, and homelessness rates and among the best health, education, housing, and day care in the world at least do not have to rebuild their schools and cities. Unlike the United States, the Swedes have spared themselves the terrible costs of reconstructing their social and moral foundations.

From a communitarian perspective, this is a major accomplishment, ultimately arising from the social democratic covenant protecting and uniting all Swedes. By giving each individual a "stake in the system" in the form of universal access to housing, health care, and jobs social democracies generate the most basic communitarian return: loyalty and commitment to society itself. The fall of the Swedish labor government in 1992 points to newly visible limits of the Swedish model as a communitarian strategy. Swedish economic growth collapsed in the mid-1980s, as many of its major industries such as ship and auto building succumbed to foreign competition. In 1992 the Swedish unemployment rate skyrocketed to a startling 14 percent. Swedish labor costs are too high to maintain global competitiveness, and Swedish taxes are proving too high for many Swedes. Sweden's new economic problems hint at surprising weaknesses in the capacity of the Swedish model to sustain civil society a potentially fatal flaw apparent to some observers even before the current crisis. After spending several years in Scandinavia, Alan Wolfe makes the case that the Swedish welfare state both builds and erodes community. Wolfe acknowledges the contributions to equality of Sweden's enlightened universal health care, family, and other welfare policies, and he also appreciates that when everyone sends their

kids to the same school and when everyone receives care in the same hospitals, society's cohesion and sense of common fate increases. But Wolfe is disturbed by eroding family ties, declining volunteerism, increasing tax evasion, and other telltale indicators of the fraying of community. It may be the social democratic state's very success that is now contributing to its problems. The Swedish state embodies community and caring, cradling its infants in well-appointed public day care centers and humanely tending to its elderly with personalized "meals on wheels" and expansive geriatric counseling programs. But as the state learns how to carry out these "caring" functions, ordinary citizens may be forgetting how to do them. As state social workers become old people's best friends, family and neighbors may drop by less. As children get enlightened "surrogate parenting" in government day care centers, parents may focus more on their own lives. Wolfe concludes that "the new welfare state increasingly enables middle class people to buy the labor of others who will perform their moral obligations for them... By intervening in civil society to an extent that no one could have anticipated, "the state has led to a decline in a sense of individual moral responsibility that threatens the ability of Scandinavian societies to find new sources of moral energy."

A related problem is the rise of a professionalized class of economic apparatchiks and social service providers. As the power of the new class increases, the civic impulse declines, and ordinary citizens become passive and apathetic. Particularly disturbing are reports about bored and anomic Swedish youth, who seem unmotivated in schools and display little interest in politics or community affairs. Throughout the population are indications of growing political alienation. The verdict is still out regarding Swedish civil society, but Wolfe has undoubtedly hit upon the great difficulty of the welfare state version of the social market : governments have undeniable limits as champions of morality and community, which must be sustained in the hearts and actions of ordinary citizens. While states help make democratic communities possible, they can sabotage them by becoming the primary guardians of morality or the main purveyors of affection. The ideal balance between state intervention and restraint is unclear, but the excesses of statism in the social democratic model begs for an alternative in which the state plays a less central role.

4. Social Market Alternative #2 : Cooperativism and Mondragon

Mondragon is not a household name, but it should be. It consists of a remarkable group of worker-owned and managed companies in the Basque region of Spain. Having developed into a world-class manufacturing giant, Mondragon is an impressive symbol of the cooperativist type of social market economy. It has its own limitations, but without any dependence on expansive government it may be the most attractive real model for a communitarian economic future in the United States.

Mondragon reflects a cooperativist impulse that has a long but neglected history. Cooperativism is an alternative to free market capitalism based not on government but on new forms of community and cooperation within society and business itself. As such, it seems antithetical to the emphasis on the state that gave rise to social democracy. Cooperativism, which emerged in France after the revolution of 1789 in the thinking of Robert Owen, Charles Fourier, and Henri de Saint-Simon, sought, in Martin Buber's words, "to substitute society for State to the greatest degree possible, moreover a society that is genuine and not a State in disguise." It envisioned, as the Saint-Simonians proclaimed, an "Association of Workers" bonding ordinary employees together to control their own workplaces and industries. It also understood that building new egalitarian bonds of solidarity in civil society was the road to economic health. Paul Hirst describes cooperativism as "an alternative to both liberal individualism and socialist collectivism," based on the premise that "individual liberty and human welfare are both best served when as many of the affairs of society as possible are managed by voluntary and democratically self-governing associations."

Mondragon started as a daring effort by one Catholic priest and five of his followers to create a small cooperatively owned manufacturing enterprise known as ULGOR. It has since expanded into a complex of over one hundred industrial cooperatives, linked to cooperative banks, farming enterprises, schools, universities, supermarkets and other consumer stores, hospitals, and even a cooperative social welfare system.

Begun in the 1940s by Jose Maria Arizmendi, a priest deeply influenced by the cooperativist tradition, Mondragon demonstrates how markets without state intervention can operate on communitarian principles. Part of the secret is the design of Mondragon's cooperatives, which addressed the fatal flaws of pre-Mondragon co-ops. Pre-Mondragon co-ops still partially linked ownership to capital, so more shares entitled a worker to more votes (as is the case today in many American

employee stock ownership plans). Mondragon reconceived ownership as a social right attached to membership in the cooperative community. Each Mondragon worker has only one vote for the same reason that each citizen in a democracy does: all have the same human stake in the community and therefore are entitled to the same degree of representation. Cooperative members invest money in the co-op and receive interest on their contribution but the biggest investor has the same vote as the smallest. Mondragon's ownership rules prevent any outside investors from taking control of the firm; they keep insiders from employing nonvoting wage workers; and they help to account for the solidaristic ethos that keeps the highest co-op salary only six times that of the lowest. As a community member, a Mondragon employee's moral claims on the enterprise are radically different than a free market wage worker's. Firing a worker is akin to disowning a son or daughter as in Japan, a mortal wound to the corporate family. British journalist and cooperativist advocate Robert Oakeshott, who has publicized Mondragon to the rest of the world, reports that there has not been a single involuntary layoff in Mondragon's history. Cooperative bylaws stipulate that in case of unavoidable stoppage or downsizing, affected employees are assured of employment in other cooperatives. If an emergency dictates layoffs, worker-members are assured payment of 80 percent of their salary until returning to work, a proviso Oakeshott characterizes as equivalent to "an employment guarantee." In return, Mondragon co-ops expect and generate unusually high levels of employee responsibility, the flip side of the communitarian bargain struck by worker-owned companies. Mondragon's co-op members are among the world's most motivated and self-disciplined employees, and they have imposed upon themselves, as Oakeshott reports, a formidably "tough regime of labor and work discipline." They upbraid and sanction through pay cuts fellow employees who do not live up to their collective codes of commitment and hard work. They commit heavily to the governance and communal life of the firm, electing board members to run the firm, participating directly in governance and strategic planning through the General Assembly, managing themselves in work teams and social councils, and helping supervise fellow workers. They reinvest the great proportion of their dividends, profit shares, and life savings into the firm, reciprocating the

long-term commitment the firm has made to them. Reinforcing the communitarian covenant that binds the co-op to its members

is the unique community connecting the base co-ops to each other and to the cluster of secondary co-ops. Mondragon proves that market firms can cooperate extensively and thereby enhance their economic viability and prosperity.

Many communitarians have been rightly skeptical of co-ops, for while clearly accountable to their worker-owners, they need not serve community needs any better than traditional capitalist firms do. Mondragon's co-ops, however, distribute between 10 and 15 percent of their profits to the local community (as mandated by their bylaws), and the co-ops contribute extensively to educational, social, and cultural activities in the Mondragon area. Moreover, base co-ops and the co-op bank, the Caja Laboral Popular, study the impact of their decisions on the community, and they modify their business plans accordingly. The intimate and mutually sustaining relationship between the co-ops and the community dates from the founding of the first co-ops. In 1956, when the five founders of ULGOR started to raise money for their new venture, they went first to their own savings, then to friends and neighbors. As in Japan, where late-night drinking in restaurants and geisha houses builds community within and between firms, eating and drinking clubs played a surprisingly pivotal role in midwifing Mondragon and in keeping it going. ULGOR's founders were all members in good standing of the chiquiteos, the Basque drinking clubs of between 10 and 20 members that are vital to Basque solidarity, and the starting capital for ULGOR came heavily from drinking club associates.

Ethnic homogeneity and long-standing Basque solidarity help explain the co-ops success, and many observers note that the Basques had a rich communal life long before the rise of the co-ops. Still, the new economic system has provided a more stable employment base and transformed communal life. In addition to the co-op factories, a new set of cooperative social institutions each jointly owned and managed by employees, clients, and the larger community now knits Mondragon together. These include cooperative hospitals and clinics, kindergartens, schools and technical colleges, day-care centers, insurance companies, and retail stores. This nontraditional communitarian infrastructure services the social needs of the population, undergirds the stability of families, and sustains Mondragon's tangible warmth and morality.

Oakeshott argues that Mondragon's economic model can be adapted successfully to more heterogeneous and less communal cultures such as Great Britain and the United States, offering

economic renewal and powerful communitarian medicine for ailing civil societies. If co-ops are a radical departure from current American business practices, they were no less radical a departure from the traditional Basque economy. While consistent with Mondragon's traditional communitarian values, they were grafted onto an agrarian and craft economy and cannot be viewed as organic to the Basque region. Mondragon has proved that a cooperativist, nonstatist social market can become a world-class competitor, but as a purely private-sector, nongovernmental model, it nonetheless has its limits. While bringing prosperity to its members, Mondragon provides no guarantees to those not lucky enough to work in one of the co-ops. A model for a big and deeply stratified country like the United States has to offer an approach to the problem of structural unemployment and underemployment. While offering a sterling example of job creation, Mondragon's magic dims for those mismatched for the job market and unable to work. Government is also necessary to protect the rights of co-op members. Researchers in the 1980s found that Mondragon's female employees endured harassment from fellow workers, obstacles to promotion, and underrepresentation in co-op decision-making bodies. Such discrimination reflects parochialisms in the community that cannot assuredly be eliminated by the community itself. Enlightened co-ops and communities can go a long way by themselves to protect minorities, but the rights of individuals in any cooperativist system still require governmental protection.

The problem of income inequality between communities leading to radical inequalities among geographically dispersed co-ops is another potentially intractable problem for those envisioning Mondragon as a model for national economies. Mondragon's social market is exquisitely structured to build solidarity within and across co-ops in a given community (as noted earlier, co-ops restrict income inequality to a six-to-one ratio and also maintain mechanisms for partially redistributing income from better-off to worse-off co-ops), but just as Mondragon does not substantially redistribute income or wealth from workers to the unemployed, it does not offer a clear strategy for equalizing wealth among communities of vastly different resources. Theoretically, solidarity extending across entire regions of the country could lead prosperous areas to subsidize poorer ones, but such solidarity exists only in far more localized communities. The social welfare states of Europe arose to provide public remedies to this problem,

and it is difficult to imagine any strategy for national equality that does not depend partly on government.

5. Towards Synthesis

The limits of Sweden and Mondragon as models are formidable, but each offers partial solutions to the shortcomings of the other. In the emerging post-Communist economic competition, social market systems can prevail by evolving towards a new synthesis of social democracy and cooperativism. Historically, social democracy and cooperativism have seemed contradictory, since one relies on a centralized national government and the other is voluntaristic and rooted in decentralized communities. But there is an underlying convergence in philosophy and practice, rooted in the communitarian values of both models. Both view the social costs of the free market as unacceptable and avoidable, and both look to a market alternative guided by the principles of community, democracy, and social justice. In very different ways, both institutionalize market-based systems of social accountability intended to reconcile prosperity with equality and civil society.

Both also address the problems of the other. Social democracy has developed the governmental apparatus to attack the problems of minority rights, inequality, and large-scale poverty and unemployment, problems for which cooperativism has no proven answers. Cooperativism offers the participatory foundation both in the community and in the workplace to nourish the civil society and economic dynamism that a statist social democracy cannot sustain.

Communitarian thinking has begun to affect American discourse on a wide range of social policy questions. But if communitarians want to solve the crises of morality, family, and community, they have to introduce the logic of community into the market itself. Communitarian economic models, which creatively integrate social democratic and cooperativist principles, can become powerful sources of both economic and moral renewal in advanced, culturally diverse capitalist societies. It's time to start talking about how.