Economic Democracy

Murray, Michael

Bemidji State University

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ECONOMIC DEMOCRACY

Michael J. Murray

Bemidji State University

Economic Democracy and Markets

Economic Democracy is a socioeconomic philosophy that encourages economic participation by all members of society. Economic Democracy seeks to decentralize, deconcentrate, and scale down production. It centers on 1) fostering regional development through the expansion of local economies, 2) encouraging local governance and local control, 3) expanding economic participation and local democracies, 3) increasing direct involvement of workers and customers into the production process 4) re-invigorating localized production through the expansion of family firms and family farms 5) supporting unique regional identities and cultures 6) and guaranteeing a basic income so all citizens have the means to be effective participants in their local economies (Witt and Lindstrom, 2004; Solomon 1996). Witt and Lindstrom (2004) contend –and proponents of Economic Democracy would agree— that the most sustainable economy is one in which consumption of goods and services are derived from local resources and local labor (ibid. pp. 1).

To achieve Economic Democracy requires a mix of decentralization and public ownership and control. Contemporary scholars of Economic Democracy call for the development of localized economies and increased self-reliance. This includes the building up of workplace cooperatives, non-profit organizations, credit unions. It also includes incentivizing local consumption by implementing local currencies and supporting neighbors-helping-neighbors by developing time banks. Given that Economic Democracy is conducive with decentralization, but also fosters collectivism, there was early disagreement over whether Economic Democracy is advanced through free-markets or through collective decision- making.

Friedrich A. Hayek (1944) was a strong and influential advocate of the power of free-markets to advance Economic Democracy. Democracy for Hayek must be decentralized because socioeconomic welfare is expressed through a multitude of ends. The comprehensive scale of principles and values of the citizenry govern the hierarchy of ends. Hayek contends that it is not possible for any centralized body –even a localized democratically elected representative body— to encompass the knowledge and resources needed to direct economic activity and required to weigh the different needs of different people. In most circumstances, governing bodies are unable to decide democratically among different courses of action. Hayek concludes that because of this outcome, individuals should follow their own principles and values and govern their own actions (ibid. pp. 63-79). Governments should do very little, stand as an overseer, serve as a Night Watchman to ensure the workings of free markets without suppressing individual freedom (see Nell, 1998, chapter 2). Hayek recognized that at times that collective action is required for the achievement of what he defines as "social ends". Customarily, social ends are thought of as policy goals that maximize social welfare, such as full employment, price stability, economic growth, and ecological sustainability. However, Hayek defines social ends to mean simply the alignment of individual ends. In which case common action is limited to the extent to which there is agreement on both the common ends and a particular scope of action.

Unlike Hayek, many contemporary proponents of Economic Democracy argue that free-markets actually hinder achieving substantive Economic Democracy because free markets concentrate wealth in the hands of the few. Contemporary proponents favor a localized orientation to governments operating for the collective welfare of their communities. In doing so, local governments encourage social and economic advancement of neighborhoods, businesses, and community members, and advance local self-reliance by expanding local ownership and control of businesses through the formation and growth of worker cooperatives, non-profits, credit unions, local currencies, and time banks.

One can trace their theoretical arguments against markets back to Karl Polanyi. Polayni (1944) referred to 'market society' to mean the adoption of free-market rational by the economy will also be the rationale adopted by society. Yet, the hegemony of free-market ideology assures that society will only serve in the limited interest of markets and *not serve* the greater interests of society's citizens. Free markets achieve great wealth, but it leads to concentrations of wealth and power. Because of wealth concentration, decision-making is not in the hands of the affected, rather the elite Captains of Industry, Robber Barons, and other corporate stakeholders make decisions. Decisions can positively, or adversely, affect the community. Nevertheless, either way, substantive Economic Democracy is lost because free-markets concentrate wealth, therefore economic control becomes dependent upon one's financial weight (Branco 2010, pp. 34).

In contrast, Economic Democracy is a response to social and economic inequality manifested by market ideology embodied within capitalism and market-socialism. Unlike these forms, Economic Democracy shifts economic power away from corporate capitalists and central planners to local communities with participatory democracies. Economy Democracy develops creative human faculty, farms cooperation and empathy, and recognizes the embeddedness of our economy in the ecological world. Economic Democracy strives to create "…an equitable, efficient economy that promotes self-management, solidarity, and variety under real world conditions (Albert and Hahnel 1991)". The goal of Economic Democracy is to decentralize decision-making, expand participation to all members of the community, and move towards achieving an egalitarian society.

Hahnel (2005) argues that often times Economic Democracy is conflated with economic freedom. Economic freedom is the freedom of individual choice in the production and consumption of output free of external constraints whereas Economic Democracy strives toward a participatory economy. A participatory economy is demonstrated when economic decision-making is done by those in "proportion to the degree in which they are affected by different economic choices (ibid. pp. 53-54)." A participatory economy may strive for absolute equality as a goal, yet it is up to community members to set democratically the acceptable range of inequality. Economic Democracy centers on empowering individuals and neighborhoods by increasing local participation; focuses on strengthening communities by enriching local economies; and reinforces economic and ecological sustainability through local self-reliance.

Economic Democracy and Sustainable Development

Like Economic Democracy, sustainable development is a contested term in economic science. For purposes here, sustainable development is consistent with Economic Democracy when studied through the interdisciplinary lens of the Ecological Economics method rather than the free-market based approach of Environmental Economics. This division in method embodies the distinction between strong sustainability and weak sustainability (Neumayer, 2010). The field of Ecological Economics accepts the “strong” view of sustainability. It requires sustainable development to be a multi-dimensional calculation of the physical, biological, economic, and social structural and functional impacts between societies, the economy, and the natural ecosystem (Söderbaum 2012, pp. 107). In this sense, the Ecological Economic approach to sustainable development becomes both normative and prescriptive, paving the way for Economic Democracy.[i] When understood as a holistic concept, sustainable development is furthered when economies are smaller and use resources in an ecologically sustainable manner. This means down-sizing production, producing and consuming resources locally in an efficient manner, and encouraging social and economic participation and redefining what is meant by “value” by supporting “good works” such as community gardens, support for the arts, neighborhood clean-up, and community re-development.

Communities and Local Self-reliance

To further the dual goals of sustainability and Economic Democracy means to encourage local self-reliance. The guiding principle of local self-reliance is:

“…that you should never assign to a large entity what can be done by a smaller one. What the family can do, the community shouldn't do. What the community can do, the states shouldn't do---and what the states can do, the federal government shouldn't do (Morris, 1982)."

The city is becoming an ecological nation, with local self-reliance as its goal. Local self-reliance is to support local communities to the point where there is no external reliance. As David Morris (1982), co-founder of the *Institute for Local Self-Reliance* explains, local self-reliance means different things to different people. Ecologists use the term in reference to sustainable methods of production. In a self-reliant, closed-loop system, there is effort garnered to reduce, reuse, re-purpose, and recycle during every stage of production. At the end of the process what was once classified as waste is now transformed into socially useful by-products. Ecological self-reliance gives communities the ability to meet their own needs from local resources and reduces external dependencies and encourages increased local use of renewable resources particularly wind and solar (Solomon, 1996, pp. 28). This effort also requires meeting the needs of the community utilizing local resources, so encouraging local businesses and community re-development become vital components in achieving local self-reliance.

Businesses refocused on local self-reliance become integral members of their communities and stand as advocates for community development. This refocus expands self-reliance into social and economic spheres. In its broadest sense, local self-reliance is to "stop the leakage" of natural, created, and monetary capital from leaving local communities so that the community has the physical, economic, and social capacity for self-sustainability (Morris, 1982). Self-sustainability includes meeting the biological needs of the community through local agriculture; meeting the economic needs of the community through investment and reinvestment in local businesses; meeting the financial needs of the community through local finance and community-centered banking; and meeting the social and psychological needs of the community through time-banks, time-sharing, and the development of participatory democracies.

To meet these needs communities require local resources. Local resources are attained by first meeting the economic and financial needs of the community. This means encouraging local economic development through investments in small local businesses focused on their community and local economic development (Gunn and Gunn 1991, pp. 22-58). Small business development relies on "alternative institutions" alongside traditional businesses.

Gunn and Gunn (1991) categorize alternative institutions as a special classification of businesses that operate to serve regional needs and support community development. Alternative institutions are organizations that "attract local resources to the community and recycle them there, respond to the community because their governing bodies incorporate a majority of local citizens and make use of democratic decision making processes, and aggregate and make use of the social surplus that encourage local development (ibid. pp. 60)." Unlike for-profit corporations, alternative institutions are valued based upon their social contribution to their local economy rather than by profit generation. Alternative institutions include non-profit corporations and credit unions, cooperatives, and workplace collectives (ibid. pp. 60).

An important member within the family of alternative institutions is the credit union. A credit union is a member owned, non-profit, tax-exempt, financial institution. Credit unions are directed either to serve the needs of a particular group of constituents such as a given profession (i.e. teacher's credit union), a specific group of employees and retirees (i.e. Blue Cross Blue Shield Credit Union of KS), or a given community (i.e. community development credit union). All credit unions are important for advancing local self-reliance, but because of their mission, community development credit unions play a prominent role by encouraging small business development, supporting minority-owned businesses, and boosting local economic development and housing (Gunn and Gunn 1991. pp. 62).

Credit Unions are the cooperatives of the financial world. A board of directors similar to other for-profit financial institutions oversees the operations of credit unions. However, unlike the boards of for-profit financial institutions, the depositors are the credit unions stakeholders and they elect the board of directors charged with oversight and guidance regarding the mission and direction of credit unions.

Credit unions, and specifically community development credit unions, play a critical role in encouraging self-reliance and supporting community economic development. Small businesses come to rely on community development credit unions for their financing needs. Investments in small local businesses are too costly for big banks and pose too much risk (ibid. 63-64). Because credit unions are charged with a very specific mission (and because they are non-profit), they are able to incur larger transaction costs and undertake smaller loans. The acquisition of finance has become an important revenue sources for small business development.

In terms of advancing Economic Democracy, credit unions and other non-profits are important pieces to the puzzle because of the services they provide to local communities rather than organizing in a democratic fashion themselves. There is no federal mandate directing non-profit corporations, including credit unions, to be organized democratically. Nor are there requirements that their board of directors be a diverse representative of members. The reason is that non-profits differ in size, from international organizations focused on a specific cause to localized non-profits focused on an individual region or community. Larger institutions are simply more effectively managed using traditional styles of leadership and governance than when managed democratically. The range in which non-profits have the ability to administer decisions democratically is based upon their size and the scope of their activities. That said, just because some non-profits choose to not operate in a democratically, many still do, especially the smaller one with localized missions. Because many non-profits rely on local (tax-exempt) donations to thrive and survive, they must continually show evidence of their public works. Further many non-profit organizations choose to address community needs collectively rather than individually (Gunn and Gunn, pp. 82-83).

Non-profit organizations feel a strong sense of community and are an integral component toward the advancement of communities. Non-profit organizations operate by a different model than for-profits. Non-profit organizations link local, state, and federal funds to provide crucial social services to enhance community welfare. Such services may include food banks and community shelves, homeless shelters, arts councils, community clean-up, community gardens, and countless other services (Gunn and Gunn, 1991). Non-profits administer these services because traditional businesses cannot accomplish them. Traditional businesses operate on the acquisition of profits, not the promotion of general welfare. Non-profits operate in spaces where there are no monetary profits to be earned. Non-profits operate where traditional businesses lack the incentives to provide community enhancing social services.

Worker Cooperatives

Proponents of Economic Democracy advocate for expanding worker participation into the management and control of production. Worker cooperatives are typically smaller, decentralized institutions in which all workers democratically participate in the decision-making process (Gunn 2011, 317). Workplace participation helps to “facilitate personal growth and development…maintains and facilitates equality of respect, dignity, and status among participants … protects everyone’s interests equally … gives employees a stake in their work, the experience of responsibility, and provides training in collective decision-making (Solomon 1996, pp. 23).” Workers have a say in all technical, administrative, and financial decisions. Ownership is not divorced from employee’s involvement in their workplaces; decision-making becomes decentralized. Localized, decentralized, decision-making helps foster ecological sustainability as the worker/owners are more readily able to rely on locally produced inputs and small-scale technologies such as locally produced solar and wind power, rather than traditional forms of energy that require complex bureaucratic management (ibid. pp. 24).

Reliance on local suppliers keeps money in the community. This in turn leads to an increase in demand for local products and services and increased local employment. Further, instead of technology displacing the workforce it will be utilized to serve the needs of workers rather than replace workers. Workplace cooperatives give workers, as citizens, a sense of ownership in the economic well-being of their communities.

Combined with the evolution of political institutions refocused on local self-reliance, workplace cooperatives can contribute to ecological sustainability by encouraging the decentralization of the electric grid that is dominated by large-scale utility corporations. Decentralization of energy leads to energy independence for local communities, opens up avenues for democratization, and makes economists rethink the economics of energy, because businesses and homeowners become both the producers and consumers of electricity.

Local Currencies and Community Time Banks

National corporations export wealth out of communities into major urban areas and mega-cities. The exportation of wealth undermines local community efforts and suffocates local economies, devastates indigenous populations, creates disincentives for the use of renewables, and contributes to environmental destruction (Witt and Lindstrom, 2004). Advancing economic democracy requires diminishing the scale of production. This requirement can be achieved by building up of worker cooperatives and small businesses, and fostering local self-reliance through the production and consumption of local resources with local labor, thereby mitigating the disastrous side-effects from national corporations.

Small-scale localized production is more ecologically sustainable; yet it is not economically feasible when these businesses must compete with national and international mega-corps. The advancement in the Internet has expanded the reach of national and international competitors to nearly every city in United States and many cities internationally. With this sort of competition, it becomes increasingly difficult for small-scale producers to survive in their own communities.

The implementation of local currencies is one vehicle for supporting local businesses. Local currencies are simply “minted” by the local Chamber of Commerce or a regional non-profit advocacy group. They are “bought” by community members at a fixed exchange rate, and spent within their local economies at small businesses. To entice circulation of local currencies, businesses typically ensure that products purchased with the local currency becomes less expensive in real terms than if the same product is purchased with U.S. Dollars. Local currencies revitalize small businesses and it redistributes wealth among local businesses and workers rather than exporting wealth outside the community (Witt and Lindstrom, 2004, pp. 1). Local currencies currently operate in 37 states. Further there are three interstate local currencies, 1) “Blue Money” operating in Vermont and New Hampshire, 2) “Deseret Currency Association” operating in counties of Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, and Utah; and the 3) “Four-corner exchange” operating in the Pacific Northwest.

Similar to local currencies “time dollars” or “time banks” are complementary currencies that are used to encourage congeniality, generosity, and community outreach. The missions of time banks are unique. They may be set up to address specific community needs or focused on a specific population. Neighbors earn time dollars by volunteering their time, typically one hour for one time dollar. Time dollars are then “stored” virtually in a community time bank, and then “spent” later. Non-profit organizations help communicate the services demanded with the skill-sets of volunteers by setting up virtual exchanges. These exchanges allow community members to volunteer their services and to acquire time dollars; or it allows members to find volunteers for their own projects and to “spend” their earned time dollars. Time banks reduce social isolation, build a sense of community, and foster community development within a region.[ii]

The Basic Income Guarantee and Job Guarantee

To move in the direction of an egalitarian, ecologically sustainable society requires enacting bold new policies. Community members cannot become active in their local communities and their local economies if they are without income. The underlying principle is that the ability of the citizenry to attain and maintain a socially determined minimal standard of living is required for Economic Democracy to succeed. To provide these means two policies have been proposed in recent years, the Basic Income Guarantee and the Job Guarantee. The USBIG network has advanced the theoretical foundations of the Basic Income Guarantee. The political theorist Thomas Paine in his pamphlet *Agrarian Justice* first advanced the principles of the basic income guarantee. For Paine, the conception was to compensate workers for the "loss of his or her natural inheritance by the introduction of landed property (Paine, [1795] 2009, article 22)." Landed property was a key feature in European feudalism. In contemporary society this has been replaced by corporate capitalists and the effect is still the same today as it was in Paine's time. Modern day corporate capitalism both robs workers of the democratic workplace and robs them of the means to the income necessary to be active participants in their communities. Guaranteeing a minimum income to all individuals circumvents social exclusion and therefore it is vital for the advancement of Economic Democracy. Key advocates of the basic income guarantee included three Nobel Prize Laureates Milton Friedman, James Tobin, and Paul Samuelson. Another advocate included the influential Institutional economist John Kenneth Galbraith (Steensland 2007, pp. 70-78). Contemporary advocates include economists Karl Widerquist and Michael Lewis (1997), both co-founders of the USBIG network.

Economists who counter the Basic Income Guarantee schemes include Philip Harvey (2003) who argues that the basic income guarantee does not secure one's right to work. Pavlina Tcherneva (2003) puts forth that the guaranteeing a basic income disincentives workplace employment, and Tcherneva and L. Randall Wray (2005) argue that basic incomes would be highly inflationary and create an inflation trap (pp. 20-21). The proposed alternative to the Basic Income Guarantee is the Job Guarantee. Rather than securing the right to a basic income, the Job Guarantee secures the right to employment. In this case, the government would guarantee employment to everyone who is willing and able to work. Rather than being inflationary the Job Guarantee wage becomes an anchor for private sector wages supporting price stability (see Wray, 1998).

The projects done by workers employed by the job guarantee program can be used to advance local self-reliance. They may be used to support local non-profits and cooperatives. For instance these workers may plant community gardens, maintain state and national parks, engage in city clean-up, rebuild neighborhoods, start or enhance art councils. The community benefits are endless. (Forstater, 2013). Further if job guarantee workers are paid partly in local currencies, this would ensure recirculation of those funds throughout the community. All and all, the job guarantee brings the benefits of guaranteed income required for attaining the means for all community members to be active participants while also reinforcing measures for local-self reliance and community re-development.

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[i] This approach is in contrast to the relatively narrower field of Environmental Economics, which

adopts the “weak” sustainability method that suggests a monetary trade-off between environmental destruction and economic growth. Social, political, and economic institutions are abstracted from the latter’s approach. Consequently, the method of Environmental Economics is a market-based analysis and fails to advance Economic Democracy (see Söderbaum 2012).

ii See www.timebanks.org for further information.