**Creating an Egalitarian Economy**

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*Last Tuesday, we examined the nature and sources of economic inequality and learned that, according to Thomas Piketty (2013), wealth and income inequality are natural consequences of capitalism, that is, of an economic system in which the owners of capital expropriate wealth jointly produced by capital and labor. Today we will consider: (1) an alternative economic model in which enterprises are owned and controlled by their workers, and (2) the problem of economic inequality across countries, its sources in the global capitalist trade regime, and an alternative trade regime and other policies that can end global poverty.*

READING #1

from Brian D’Agostino, *The Middle Class Fights Back: How Progressive Movements Can Restore Democracy in America* (Praeger 2012), [Chapter 6: Markets Without Capitalism](http://bdagostino.com/middle-class-fights-back.php)

**Producer Cooperatives: The Mondragon Model**

One of the best-kept secrets of the twenty-first century is a highly successful organization of worker-owned and -controlled enterprises, the Mondragon Cooperative Corporation, which grew in a few decades from a small workshop to one of the largest manufacturers of appliances and industrial components in Europe. Seymour Melman (2001, 2002), a pioneering American theorist of industrial democracy, identified Mondragon as a model for linking innovation, productivity, and economic democracy. Nembhard and Haynes (2002) believe that cooperative enterprises of this type hold great promise for African American urban redevelopment. The United Steel Workers and the city of Riverside are currently setting up Mondragon-affiliated producer cooperatives in California (Davidson 2009; Gigacz and Ting 2011). I view Mondragon as a viable model for working Americans who want to regain control of their livelihoods from a global capitalist economy that is eroding their wages and job security.

Producer cooperatives date back at least to the utopian socialist experiments of Robert Owen in the 1820s. Father Jose Maria Arizmendi, a pastor in Spain’s Basque region, studied the successes and failures of these early cooperatives and the writings of both Karl Marx and Catholic social teaching. In 1943, responding to the poverty and unemployment in his community, Arizmendi started a small technical school administered on democratic principles that became Mondragon University and expanded over the years to meet the educational needs of producer cooperatives.

After the war, a number of his students designed a small kerosene stove and began a manufacturing operation that became the first Mondragon cooperative. The enterprise was successful, and they consulted their pastor for advice about how to expand and organize on a larger scale. Arizmendi had studied how workers previously lost control of their cooperatives when they raised capital from outside investors. He advised his students to form their own cooperative bank to raise the funds they needed. They did, and the bank expanded alongside an increasing number of industrial cooperatives, providing interest-bearing accounts for the local community and capital for existing and new Mondragon enterprises. This three-part cooperative model—production, education, and finance—is one of the keys to Mondragon’s success. Producers need the innovation provided by education and training to succeed in a global marketplace. To retain control and internal democracy, they also need worker ownership of capital.

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The other major reason for Mondragon’s success is its internal organizational structure. Individual cooperatives are limited to about 500 members to ensure meaningful direct democracy. Worker-owners each have one vote and elect their managing director (and the managing director of the entire corporation) by a majority vote. A co-op’s key decisions are made by a governing board drawn from the workers themselves; the managing director participates in these meetings but has little influence over them and is expected to carry out their decisions.

Matters of compensation are decided democratically, and the highest-paid manager or expert earns on average no more than five times the compensation of the lowest-paid worker, compared to a more than 200 to 1 ratio of average CEO to worker pay in recent years in the United States (Mishel 2006). A worker-owner cannot sell her shares as long as she belongs to a Mondragon enterprise; rather, she sells them back to the co-op on leaving, at which point she collects capital gains and (if retiring) a pension. A person is first admitted to the co-op by agreement of the existing members, after working for a brief period as a nonmember, and once admitted cannot be laid off.

If a struggling co-op cannot support all its members during a given period of time, some are sent back to school for retraining or absorbed by other co-ops. Failure of Mondragon enterprises is extremely rare, with only four cases out of the 260 that have been created in 50 years, compared with an approximately 70 percent failure rate within 10 years for start-ups in the United States (Shane 2008). In the unlikely event that a Mondragon enterprise goes out of business, its workers are absorbed by other cooperatives.

Mondragon is a living refutation of the capitalist notion that workers will slack off without top-down management and the threat of job loss and that they are incapable of organizing production by themselves. With the leanest possible administrative hierarchies and with workplaces that are dynamic learning environments, its cooperatives exceed the levels of innovation and productivity of conventional firms. This accounts for their extraordinary success—more than $20 billion in annual sales today and enrollment of some 100,000 worker-owners in 260 enterprises spanning 40 countries (Mondragon Cooperative Corporation 2011). Mondragon is to economic democracy today what the United States was to political democracy in 1776, and Arizmendi is what Locke and Montesquieu were to the founding fathers. To renew itself and lead the world in the field of democracy once more, America needs to build on this pioneering Spanish model as it once built on English parliamentary traditions.

READING #2

from Brian D’Agostino, *The Middle Class Fights Back: How Progressive Movements Can Restore Democracy in America* (Praeger 2012), [Chapter 5: Government for the People](http://bdagostino.com/middle-class-fights-back.php)

**Ending Global Poverty**

Global poverty affects rich countries in at least three ways—the transmission of infectious diseases, downward pressure on wages, and terrorism. First, human contact through travel—vastly accelerated by commercial aviation—spreads throughout the world epidemics that originate in unsanitary conditions in developing countries (Wolfe 2011). This was the case with AIDS, for example, which most likely originated in the Congo River valley (Pepin 2011). Similar spillover effects occur within countries, as when infectious diseases in the South Bronx and other poor neighborhoods triggered by municipal service cuts were spread by commuters to affluent suburbs and then nationwide (Wallace and Wallace 2001).

Second, global poverty exerts downward pressure on wages in rich countries through immigration, whether legal or illegal, which increases the supply of labor. In addition, the availability of cheaper labor abroad creates an incentive for capital flight, which deindustrializes advanced economies and reduces the demand for domestic labor. While capital flight began in the United States in the 1970s, the practice eventually made its way to Germany and Japan, whose capitalists have more recently joined the global race to the bottom.

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READING #2 continued

Third, extreme inequality between countries and the resentment it produces create political conditions in poor countries conducive to terrorist movements. This inequality results primarily from a system of international

trade that enables the rich countries to become richer by exporting manufactured goods to the poor countries and impedes the latter’s efforts to develop their own manufacturing industries (Cobb and Diaz 2009; Diaz 2010; Reinert 2008; Stiglitz 2003, 2007). At the same time, capitalist advertising and consumer culture—transmitted through global media—heighten the awareness in poor countries of their poverty even as they undermine religious traditions and local cultures (Sachs 2002). It is surely no accident that the 9/11 hijackers—who were religious fundamentalists—struck the World Trade Center, a potent symbol in developing countries of capitalist economic and cultural domination.

For all these reasons, citizens in the United States and other developed countries need an understanding of what causes global poverty and how it can be eradicated. [[1]](#footnote-1) According to neoliberal theory, a global economy with no national barriers to the movement of capital or goods was supposed to industrialize the developing countries. The International Monetary Fund, backed by the power of the United States, imposed such “liberalization” on much of the developing world beginning in the 1970s, and Western banks and economists promoted it to the former Soviet republics in the 1990s. These policies produced disappointing results at best in Latin America and Asia, actually increased poverty in sub-Saharan Africa, and created a decade long economic catastrophe in the former Soviet republics before the latter recovered to the merely disappointing level (Stiglitz 2003).

Meanwhile, a number of Asian countries—most notably South Korea, Japan, China, and India—followed a diametrically different path and achieved dramatically better results (Reinert 2008; Stiglitz 2003). In this approach, which might be called the Asian development model, governments maintained formal and informal trade barriers to protect their own industries from American and European corporations. While neoliberal theory predicted that sheltering firms from the rigors of competition would reward incompetence, their corporations in fact thrived to the point of being able to produce high-quality goods at lower cost than their Western competitors. (China started on this path later than Japan and South Korea and is still working on the quality of its consumer goods.) As discussed in Chapter 2, their lower costs were initially based on cheaper labor, but the Asian development model also featured indigenous finance and capital accumulation, enabling Asian firms to catch up to and even exceed Western producers in capital investment in mechanization and automation.

In fact, contrary to neoliberal theory, Western countries that are rich today industrialized not through free trade but precisely through such government limitation of free trade (Reinert 2008; Stiglitz 2003). In the eighteenth century, for example, India was the world’s leading producer of quality textiles. In order to develop its own textile industry, Britain first had to ban the import of Indian products (Toussaint 2009). That policy gave British producers protected access to the British market, enabling them to stay in business long enough to learn to match the price and quality of Indian products. To be sure, it was industrial technology that eventually enabled British industry to compensate for India’s lower labor costs. But that industrialization took time and could never have occurred without the import ban enacted by Parliament.

Once Britain surpassed India in textile manufacturing, the former no longer needed trade barriers to compete. It was only then that Britain preached free trade to the rest of the world, turning the tables on India and getting rich by exporting more than it imported. Similarly, the United States could not compete with British manufacturing except by imposing steep tariffs on British imports. By the twentieth century, American producers were surpassing their European rivals, and after World War II, the United States became the world’s leading promoter of free trade.

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At the present time, the developing countries of Latin America, Africa, and parts of Asia need tariffs on foreign imports in order industrialize and capital controls to protect their emerging financial sectors from the big multinational banks (Reinert 2008; Stiglitz 2003, 2007). But the United States, Europe, and Japan use the World Trade Organization and other instruments of political and economic power to oppose such measures. Further, even while preaching free trade, they hypocritically maintain trade barriers against agricultural exports from the developing countries, the latter’s main source of foreign exchange revenue. Specifically, the advanced countries generously subsidize agribusiness, harming not only poor farmers in developing countries but also ordinary people in the advanced countries.[[2]](#footnote-2)

A government for the people, recognizing the indivisibility and global dimensions of human security, will take the eradication of world poverty as one of its goals. This can be accomplished by donating as foreign aid about 5 percent of the money that the United States currently spends on its national security state. In order to be effective, such aid programs must be controlled by the recipients, who understand local needs far better than outsiders (Stiglitz 2007). In addition, and most important, the United States should eliminate subsidies to U.S. agribusiness and promote an international trade regime that abolishes agricultural subsidies worldwide and permits developing countries to erect tariffs and capital controls, the only proven path to industrialization.[[3]](#footnote-3)

**MEDIAN INCOME BY COUNTRY**

SOURCE: Center for Global Development

https://www.cgdev.org/blog/world-bank-poverty-statistics-lack-median-income-data-so-we-filled-gap-ourselves-download-available

Norway $59,500 Russia $18,500 Tunisia $7,600

Switzerland $55,300 Iran $12,900 Morocco $5,650

United States $48,200 Turkey $12,200 Philippines $3,900

Canada $46,900 Ukraine $11,750 China - Rural $3,900

Germany $45,300 Brazil $11,400 India-Urban $3,550

Japan $34,500 China - Urban $9,100 India-Rural $2,550

Ireland $34,200 West Bank, Gaza $8,500 Ethiopia $2,350

Italy $33,500 Moldova $8,250 Nigeria $1,800

Israel $23,800 Mexico $7,700 Dem. Rep. Congo $1,100

1. In the analysis of global poverty that follows, I build on Cobb and Diaz (2009), Diaz (2010), Reinert (2008), and Stiglitz (2003, 2007). [↑](#footnote-ref-1)
2. As discussed in Appendix 5.1, agribusiness increases its profits by externalizing costs in a number of ways, including neglect of its workers’ and customers’ health needs, and by using unsustainable farming practices that boost present crop yields while imposing ecological costs on future generations. [↑](#footnote-ref-2)
3. Like many developing countries, the United States also needs to increase its exports in order to balance its trade accounts. In order for developing countries to industrialize using an export-driven model, highly industrialized European and Asian countries, which are currently net exporters, need to become net importers. This would occur naturally, other things being equal, in the kind of global trade regime discussed above, where agricultural subsidies are dismantled and developing countries erect tariffs on imported manufactures. The effect of these policies will be an eventual depreciation of the euro and the yen against the currencies of developing countries, which should be welcomed as an indication of increasing global equality. The United States, which has been the world’s net importer of last resort for more than a quarter of a century, and China, which has been a net exporter during the same period, each need to achieve balanced overall trade accounts. This will require a depreciation of the dollar and an appreciation of the renminbi. [↑](#footnote-ref-3)