**Cooperative Economics: An Interview with** [**Jaroslav Vanek**](http://www.ru.org/51cooper.html#author)

**interviewed by Albert Perkins**

Albert Perkins: Professor Vanek, how did you first develop your ideas on economy?

**Jaroslav Vanek:** I had four major influences. First, I experienced the evils of communism when I was a refugee in Czechoslovakia from Stalinism, and later, when I came to the West, I also experienced the evils of western capitalism. Then, in between, I was fortunate enough to spend time with my late brother who did extensive work for the I.L.O. (International Labor Organisation) and wrote the first book about the workers' councils in Yugoslavia. I learned many of my basic ideas from him. He was a sociologist and I was an economist, and I was able to transpose his ideas into my field. Third was the doctrine of the Catholic Church. Pope John 23rd went a long way toward suggesting the desirability of economic democracy. Finally, I was influenced by Dubceck's model of social democracy. It could have been more successful than the Yugoslavian experiment, but for the Soviet tanks. I have had several interests in my life, including the area I call economic democracy. Economic democracy is a transposition of the idea of political democracy. It implies that economic life is governed by people who are involved in thateconomic life. Capitalism is based on property rights, and democracy on personal rights. Perhaps the most important aspect of capitalism, its objective function, is to maximise profit. If you look at it more carefully, profit is revenue minus labor costs and other costs. This means then human beings enter the defining objective function of the system with a negative sign.  By contrast, economic democracy has an objective function where people are on the positive side of the equation. The idea is to maximise the welfare of the people participating. This is an enormous difference, and I'm convinced that the tragic difficulties of our culture -- ecological devastation, starvation, etc. -- can be traced to this negative side But capitalism could be cured slowly if we developed economic democracy. One of the main reasons why the western world is so schizophrenic is that we have political democracy and economic autocracy.

**AP:** What would such a system look like?

**JV:** The system should be a market system, not ruled from a central ministry, but by the rules of supply and demand This is the only true market economy.  The capitalist economy is not a true market economy because in western capitalism, as in Soviet state capitalism, there is a tendency towards monopoly. Economic democracy tends toward a competitive market. The system is composed of households, enterprises government and so on. The main distinguishing characteristics are in the area of production. Productive enterprises are small republics. Everyone who works is a member and the enterprise is run democratically directors are elected democratically and stockholders have no control.

**AP:** Do you see all firms run cooperatively?

**JV:** There are many possibilities. In Mondragon you have cooperatives developed from the Rochdale principles, characterised by democratic management. And the Yugoslav firms, although poorly designed, were democratically run and semi-cooperative. In an article to the Russian Academy of Sciences concerning Khabarovsk, I argued that during the transition period they should have democratic, but not necessarily cooperative enterprises. These could be associations of workers in a democratic firm who would lease the assets of the factory from the state. The American ESOP co-op provides a good model. By insisting on co-ops we narrow things down unnecessarily. The idea of economic democracy is broader than just co-ops. Visualize two sets of loops. One set is co-ops and one set workers participation. Where they intersect on the co-op side we could have housing, credit etc. On the other side we can have participation as simple as suggestion boxes. There are workers coops where the owners make $2000 a week while the workers make $200. 1 wouldn't call that economic democracy.

**AP:** Why aren't co-ops working in the West?

**JV:** If you go to a bank and ask for a loan to start a co-op, they will throw you out. Co-ops in the West are a bit like sea water fish in a freshwater pond. The capitalist world in the last 200 years has evolved its own institutions, instruments, political frameworks etc. There is no guarantee that another species could function if it had to depend on the same institutions. In capitalism, the power is embedded in the shares of common stock, a voting share. This has no meaning in economic democracy. Economic democracy needs its own institutions for one simple reason. Workers are not rich. Let's face it, most working people in the world today are either poor or unemployed. They do not have the necessary capital to finance democratic enterprises. Hence, we need some instruments and institutions which make this possible. Why? Because we know that once democratic firms are organized, or even if they have all the elements of democratic principles, they work far better than capitalist enterprises.

**AP:** Tell us why'?

**JV:** There are many reasons. First of all, if you know that your employer is maximizing profit and you are a negative aspect of production for him, it creates a terrible situation. In the UK recently, the miners said "Don't fire the miners. Fire Prime Minister Major." This is the conflict. Major is like a director of a state enterprise. But if the director is elected by the workers to represent their will, as in Mondragon, there is a greater likelihood of mutual respect. One of the greatest advantages of economic democracy in well organized co-ops is mutual supervision. Normally the foreman must be paid three times more than the average worker, because he is really a slave driver who doesn't produce anything. In fact the workers will produce as little as possible in this situation. We have found from studies that the opposing forces of alienation and cooperation can be exceedingly strong. In French construction coops, capital productivity is double the norm. The democratic firm can produce two buildings while the capitalist firm produces only one. The reason for this increased productivity is that in a democratic firm the workers supervise each other while in capitalist firms they cover each other's theft or poor work. In GM you will be called a pig if you expose a theft by a fellow worker. Then there is the savings of materials. Capitalist firms invest in a lot of unnecessary machinery. They replicate the inclination of the average Americans buying things they don't need. The democratic firm can adjust to the optimum level of intensity. Productivity is not measured only in dollars and output but also in happiness and job security. Job security is more important than whether you earn three or four or five hundred dollars a week. In fact, one of the main theoretical and practical characteristics of the cooperative system is job security. In capitalist firms workers are constantly being laid off and fired Unfortunately, the people that would benefit most from economic democracy have infinitely less power than the people who rule, the captains of capitalism who create laws, customs, bartering systems, and especially schools. By and large, the economic departments of America's universities are institutions for brain washing. They pour a certain culture into students' heads which teaches them that the capitalist system is the best thing in the world. Our politicians have called Russia the evil empire, which might have been true at one time, but since it has disappeared, our system has become the most evil in the world.

**AP:** What sort of support systems do we need to get cooperative enterprises off the ground? Perhaps you could use Khabarovsk as an example.

**JV:** First of all, we must take into consideration the history of Russia. The problem is the Harvard school -- and Western leaders have often echoed this --wants to take a textbook example of capitalism and transpose it onto Russian soil. Russia has had a functioning state socialist system for over 75 years. To suddenly import an alien system is exceedingly difficult. Certain support structures are necessary if a new system is to be accepted. We know the evils of the police state, one party system, absence of democratic expression etc., but all was not bad with socialism. Income distribution was, if anything, overly just: medical doctors could earn half that of miners; and workers enjoyed reasonable job security. Both are necessary conditions for the Russian mentality of fairness of distribution and job security. However, economic democracy provides for a more equitable income distribution, and far greater income security. A major historical coincidence that will help, whether we like it or not, is that, in Russia, bureaucratic ministries organized most of the industrial sector. A ministry for shoes, another for mining and so on. The capitalist model abolishes this structure and substitutes a stock market. This bureaucratic structure is still in place and by incorporating it into the incoming system, the transition can be smoothed. Thus, before we discuss the implementation of economic democracy in Russia, we must first consider the historical evolution of the Russian people over the past 75 years. When we do this we see the enormous difficulties that a proposed capitalist system must face. For example, several important ingredients in a successful capitalist system are risk taking, entrepreneurship and a moneyed class. None of these three are present in Russia. On the positive side, the historical conditions that led Russia to accept a system that offered equitable income distribution and job security will make them much more open to the implementation of economic democracy.

**AP:** Will there be less people working in the ministries?

**JV:** Yes. Perhaps by as much as 50 percent. However, we must not totally eliminate the possibility of capitalism in Russia. Some of the younger and more able bureaucrats may wish to set up private enterprises. It's not my preference, but it may be theirs. Anyone who reads this interview would benefit greatly by watching the video the BBC made on the Mondragon co-ops in Spain. You can see the practical implementation of much of what I am saying. Economic democracy is based on a competitive system, with a large number of autonomous firms which, by themselves, cannot fulfill all the functions of a large company. General Motors, for example, is so big it can it can do its own R&D, banking, credit, accounting, transportation, marketing etc. Democratic companies, which are smaller and more personal, need support systems to help in these areas. These would be second level co-ops. They would follow in the same spirit of the larger firms, maximizing welfare and income for all its members.

**AP:** How would the poor be able to capitalise their co-ops?

**JV:** There are existing enterprises already in place. These can be leased to the workers at a reasonable price. It could be in the form of a fixed lease contract that would give an incentive to the workers to earn extra income. The lease money would have to be efficiently allocated to those who need it for start up costs. The best use of finance is to develop second level co-ops. If we have mining in an area, we should also have local production facilities. Rather than ship copper to Moscow for smelting, they could build a smelter and factories for the production of copper commodities for sale in their local market as well as for export.

**AP:** What are their prospects for success?

**JV:** The Russians are being bombarded by big money on one side, and on the other, by some Vanekian notions of economic democracy. The odds are a million to one. It should be said, however, that in the early days of perestroika, there were some very successful co-ops. Too successful. They were killed by the bureaucrats because they caused unrest as other enterprises failed. But education and information are important, as well as pilot projects so these ideas can be tested in context. Perhaps Khabarovsk will be one of these test cases.

**AP:** What are the possibilities of developing successful co-ops in America?

**JV.** It will not be easy. However, the present economic crisis may worsen and eventually create a shock that may help the large scale development of economic democracy in the US. The itinerary, of course, would be entirely different from that in Russia because our history is so different. Americans are familiar with political democracy but it will be difficult for them to move away from the Wall Street power that bought the last two presidents. Labor unions, though not very strong today, are still important tools. They could help both in the collective bargaining process, and as part of the support structure for the new economic democracy. Some developments that fit into Economic democracy are already at work in the US. The so-called ESOP, worker controlled businesses, is a step in the right direction. Another is profit sharing. They are opening new vistas. Galbraith points out that many people hold shares but don't exercise power. if the present crisis deepens, we may complete these experiments of worker ownership and profit sharing and use them to create support organisations. In my life to date, I have engaged in a series of transformations, or what I call praxis progressions, going from critical reflection to action: from Stalin's serfdom to the freedom of the Western white upper class; from capitalism to economic democracy and self-management; from neo-classical economics to a critical, history-based and human-oriented study going beyond the confines of economics; from comfortable agnosticism to a deep, all-pervasive Christian faith; from believing in Western-style economic development to assisting a sustainable human betterment of the world's poor through cooperation, solar energy and human technology; from the AEA to association with the poor of Calcutta, Lima, Nairobi or Manila, who indirectly are victims of the former. The inflated standard of living enjoyed by the rich of the world can never, for many reasons, become the way of life of the 80 percent who are poor. The sane levels at which all humanity can survive indefinitely is somewhere near the order of ten times less than today's rich, and ten times more than today 's poorest. For the latter, whose only wealth is solar energy, there is the promise of a  significant improvement over the long haul. This I would call the economics of hope. By contrast, the potentially cataclysmic road of our present, self-centered mainstream economics and "atom defense" of our ill-gotten riches is what I call the economics of damnation. The road ahead appears bright for the poor (if the rich do not destroy it), and assisting and learning from it appears to me to be the only redemption for the rich.

*from Prout Journal*

***Jaroslav Vanek*** *is Professor of Economics at Cornell University, where he directs the program on "Participation and Labor Managed Systems" . Vanek is a leading authority on, and advocate of, cooperative economics. He is currently working on strategies for the transition to worker-managed economies in post-communist countries. Vanek also founded and heads STEVEN, a company which designs appropriate technology for use in the Developing World .*

***This article was published in New Renaissance magazine Vol. 5, No. 1***