

Catholic Social Teaching and Economic Democracy in Eastern Europe?

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The developing teaching of the Catholic Church on economic justice in recent years has increasingly emphasized the rights of people to active participation in the economy. Although the exact term is not to be found in official documents, some observers find in the Church's teachings not only the advocacy of increased participation but also a case for some form of "economic democracy". This paper examines the Church's teaching on participation in the economic realm and the possibilities of developing a more democratically controlled economy. Specifically it examines the feasibility of and prospects for implementation of economic democracy, with eastern Europe as a special focus of attention.

Catholic Social Thought and Economic Justice

Over the last one hundred years the hierarchy of the Catholic Church has produced a variety of official documents which reflect upon a range of social, economic and political issues. Collectively these documents have come to be known as the tradition of Catholic Social Thought. Increasingly there has been an emphasis in these documents on both the rights and obligations of all people to active participation in the various realms of human life. These rights and obligations are conceptualized around a three-faceted concept of justice which encompasses procedure, distribution and participation. Procedural justice refers to what is commonly called the "rule of law". Concerns which fall under procedural justice include the establishment of laws for regulating fair competition in the economic, political and sociocultural realms, as well as laws which guarantee fair and equal protection of civil rights and fair and equal procedure in the courts. Distributive justice is the principle by which all individuals are entitled to an appropriate share in the wealth and resources of society. Catholic Social Thought holds that the criteria

for just distribution cannot merely be what the market allocates, but rather must reflect the dignity and needs of the human person. Social justice involves the right of all human beings to actively participate in and contribute to the life of the community. All people have the right to participate in decisions which affect them, not only in the political realm, but also in the economic and socio-cultural realms (*Economic Justice for All*, 1986). It is especially this latter aspect which has led some commentators to characterize the Church's position in the rather succinct phrase "justice as participation".

The implications of this multi-faceted notion of justice for the economic realm are far-reaching and controversial. While the establishment and enforcement of a set of fair rules for economic competition and cooperation may meet the criteria of procedural justice, and while the guarantee of a given distribution of the social product may meet the criteria of distributive justice, the two, even together, are not sufficient to meet the broader criteria of economic justice. Justice in the economic sphere also implies a participatory aspect. Social justice involves some right to active participation in the realm of production. This right to participation in the economic sphere upheld by Catholic Social Thought is rooted in the dignity of the human person, the dignity of work and the status of human beings as co-creators (*Laborem exercens*, 1982).

What does participation in the economic realm entail? The Church's teachings have indicated that all workers should somehow be able to participate in ownership of the means of production (*Economic Justice for All*). Such participation may involve either the sale or distribution of shares to workers or some type of cooperative ownership. Participation in ownership, however, is not an end in itself. It is important only to the degree to which it allows workers to share in the distribution of the surplus and to share in decisions concerning how the surplus is to be distributed as well as decisions about the production process. In terms of distribution, workers may share in the surplus created by a company either through some form of profit sharing arrangement or through their ownership of shares in the company. A higher level of participation in distribution would involve the right to decide on how the surplus is distributed.

The most basic form of participation in the area of production involves the actual right to work, to be employed in the productive endeavours of society. Active participation cannot merely be understood as a right to employment, however, but also involves some degree of participation in decision-making in the production process. Participation here can also occur at several levels. Perhaps the most limited form of

participation in the shaping of economic policy within a firm is consultation. The lowest level of such participation would be consultation at level of the shop floor. Workers may also participate at a higher level through some form of advisory status to the board of directors. This generally occurs through the mediation of trade unions. Beyond advisory status, workers may participate in actual decision-making in firms at a number of levels as well. In some firms, workers are given the responsibility to organize production at the level of the shop floor. Workers may also have representation at the level of the board of directors. Finally, in cooperative firms, workers may have total control over all aspects of decision-making within a firm. A variety of different arrangements exist for the actual exercise of decision-making in such instances. Catholic Social Thought endorses such active participation by workers and recommends the formation of more participatory economic structures such as cooperatives. It goes so far as to say that the extension of democracy which led to increased participation in the political realm needs to be somehow incorporated into the economic realm (*Economic Justice for All*).

What type of economic system would be most capable of meeting the Church's concerns about increased participation? The Church itself has been reluctant to offer any systematic plan for a more participatory economic system. Extrapolating from its moral principles and values (e.g. subsidiarity, democracy, social participation, a limited defence of property rights, etc.), however, one could make a strong case for an economic system based upon cooperatives and worker-controlled firms (economic democracy) as the theoretical economic model most compatible with the Church's teachings.

The Anatomy of Economic Democracy

A democratically controlled economic system can be characterized as one in which democratically controlled firms constitute the majority of the productive enterprises and the base of the economy. There exist two basic forms of democratically controlled firms: cooperatives and worker-controlled firms. Cooperative ownership implies that only workers in the firm can hold shares in the company. There can be different arrangements for the distribution of shares among workers just as there also exist many different organizational structures. Worker-controlled firms, in contrast to cooperatives, allow for non-workers to hold shares in the enterprise, but without decision-making rights either with respect to the production process or the distribution of the surplus. The importance of the existence of worker-controlled firms, in addition to cooperatives, in a system of economic democracy is that this allows

for the functioning of a capital market, a condition which most economists feel is essential for an efficient allocation of resources in an economy. With respect to its macro-stabilization programs and social welfare programs, a democratic economy might look very similar to managed capitalism. The major differences might be in the development of support structures particularly aimed at cooperative enterprises and other measures which actively promote economic democracy.

The notion of an economic system based upon cooperatives and worker-controlled firms seems at a theoretical level to be extremely compatible with the moral sympathies of Catholic Social Thought. Such a system would in theory offer the possibility for everyone to share in ownership of the means of production, a goal advocated by the Church. A share in ownership should enable workers to participate both in decisions about production (e.g. product choice, the organization of work, etc.) as well as the distribution of the surplus produced, again goals advocated by the Church. It should also be noted here that a system of economic democracy dominated by cooperatives and worker-controlled firms need not entirely eliminate the possibility of capitalist production methods. Nor would it necessarily imply an absence of trade and cooperation with capitalist firms and countries. Thus, while it may place some increased restrictions on the operation of capitalist firms, a cooperative dominated economy could still guarantee a wide range of economic liberties considered essential for the efficient running of a market economy. But can such a system work?

The Feasibility of Economic Democracy

The notion of feasibility brings with it the question of criteria. One possible criterion of feasibility for an economy is whether or not it can produce the necessary goods required to meet the basic needs of its people. Such a minimal criterion, however, is not sufficient, for it abstracts away from the reality of competing systems and the influence which they have on economic performance and other social relations. A more realistic criterion of feasibility is whether or not an economic system can compete with the best available alternative form of production (in this instance the capitalist system) in terms of productivity and the creation of wealth. A system not able to produce the same level of material well-being may well be rejected by workers who prefer a higher standard of living over the possibility of increased participation in the workplace.

Can cooperatives and worker-controlled firms successfully compete with capitalist firms? A variety of arguments, theoretical as well as empirical, have been advanced both for and against the competitiveness

of cooperatives and worker-controlled firms. Starting with the empirical evidence, proponents argue that a great number of cooperatives actually do exist in western countries and effectively compete against capitalist firms. Moreover, they point out, one is able to find cooperatives across a range of economic sectors. There are even examples of attempts to form regional cooperative-based economies, Mondragon in Spain being perhaps the most notable example.

Critics, on the other hand, argue that while there are successful cooperatives they represent but a very small percentage of total goods and services produced in the economy. Moreover, while there are some examples of successful larger cooperatives in the industrial and other core sectors, the vast number of cooperatives tend to be in the service sector, agriculture or small scale industry. This is taken as an implicit argument for the inability of cooperatives to compete in core sectors which require substantial investment and rapid innovation. Critics also explain that the attempts to form regional cooperative-based systems have only met with success under certain conditions, most notably ethnic and religious homogeneity of the population. They are quick to point out that no examples exist of successful attempts to implement a cooperative-based economy at a national level.

At the level of theory, arguments tend to focus around the issue of whether production in democratically controlled firms is essentially inefficient. Critics, on the one hand, argue that there are endogenous problems in the very nature of democratically controlled participatory enterprises which do not allow them to compete successfully against hierarchically organized capitalist firms. Such critics claim that worker participation necessarily involves inefficiencies in production. Decision-making processes become longer and more involved. Democratically-run firms may also be less likely to make hard decisions about layoffs and other unpopular cost-cutting measures necessary to make the firm competitive. As well, it is claimed, there tends to be a greater avoidance of risk among workers and, therefore, less entrepreneurial spirit.

Advocates of an economic democracy, on the other hand, play down the possible efficiency problems associated with democratically controlled enterprises. Proponents respond to critics by reminding them that the organizational structures of democratically controlled firms vary, that there can be and often is a greater division of labour in such firms as they develop, and that innovation both in product development and production techniques are not incompatible with democratic organization. Moreover, they advance positive arguments for the efficiency of democratically controlled firms. They claim, for example, that in such enterprises the sense of ownership and the possibility of

participation in decision-making create a better work environment which leads to increased productivity. Happy workers are good workers. In addition to finding more meaning in their work, members have a financial motivation as they are aware that their monetary remuneration is not based upon an hourly wage but the actual output which they produce. This fact makes members both more likely to develop innovations in the production process and to police fellow workers who tend to shirk.

The primary problems that democratically controlled firms face, their advocates argue, are not due to internal organization but rather are exogenous problems attributable to the hostile environment in which they must be developed and compete. Such exogenous problems will be examined presently. The point to be made here is that if advocates of cooperatives are right with respect to the primacy of exogenous factors in the development of democratically controlled firms, then the fact that there is no historical example of a nationwide or international cooperative system is in no way evidence for the a priori impossibility of establishing such a system.

It would seem that neither the empirical evidence nor the theoretical arguments offered for and against lead to any conclusive statement on the viability of developing a participatory economy. It is most likely that only more extensive cooperative economic practice over time can indicate the degree to which and the sectors in which democratically controlled firms can effectively compete with capitalist firms. Only the further development of increasing numbers of democratically controlled firms and attempts at implementing systems of economic democracy under different social, political and economic conditions can help us to determine the limits of introducing democratic reforms into the economy. But how does one go about implementing a system of economic democracy and what are the major obstacles to doing so? Such questions form the basis of a theory of transition.

The Transition to Economic Democracy

A theory of transition to a more participatory economic system needs to deal with two basic issues. The first is the developing of methods for creating democratically controlled firms. Here two basic possibilities exist. One is the development of new cooperatives or worker-controlled enterprises. The effective and systematic development of such new enterprises would require a variety of support structures to deal with problems of financial management, personnel development, organizational methods, etc. The other way of creating democratically controlled enterprises is the conversion of existing capitalist (or state

owned) firms. Here the most obvious and widely advocated method is the "employee stock ownership program" (ESOP). Various modifications to the standard program and existing tax laws have been recommended to guarantee democratic control. David Ellerman, for example, argues that every worker in a firm and only workers should have one inalienable vote in the running of the company (1990). His argument is based upon the premise that since only labour is responsible for the output of a firm, only workers should have a voice in the running of the firm.

In addition to the standard organizational and technical problems involved in developing economic enterprises, democratically controlled firms face a number of exogenous problems which inhibit both their establishment and their ability to compete in domestic and foreign markets. An adequate theory of transition must also confront such complications. The greatest problem by far, at least in western, industrialized nations, is the status quo (Wisman, 1991).

The status quo in the west involves several factors. First, there is the present ownership and organizational structure of capitalist firms which is not receptive to the implementation of internal democratic reforms. While managers and shareholders of large corporations have some incentive to increase participation in limited ways by workers in order to increase productivity, there is also the fear that an increased role for workers in decision-making would be likely to decrease not only their influence and status but also their income. Managers and investors are vulnerable though. Institutional investors (such as union pension funds) have already become the largest source of investment funds in most western countries and individuals rarely own a majority of shares in any single firm. Although control generally resides in management and/or a small group of investors (who are able to organize themselves to take advantage of what has been a general lack of interest by institutional investors in company policy), these institutional investors could in theory hold substantial influence over the company. Movements towards increased participation in decision-making by institutional investors are already widespread, though generally they focus more on "corporate responsibility" than democratic reforms within firms.

A second aspect of the status quo which works against the development of a cooperative economic system is the success of capitalism and what is often referred to as capitalist hegemony. Because of their success and the lack of any existing alternatives, proponents of capitalism have been able to make credible their claims both that no viable alternative to capitalism exists and that democracy is not possible without capitalism. They are aided in disseminating these claims by

what amounts to effective control of major social institutions, especially the educational system and the means of communication. A theory of transition to a democratically controlled economy would require plans for increased democratic control of the education system, as well as greater public input into control of the media and more alternative sources of information and cultural expression.

A third aspect of the status quo relates to the legal and financial institutions of capitalist economic systems. In particular, banks discriminate against democratically controlled firms in their lending practices and legal restrictions are often placed upon the functioning of cooperatives (Wisman). The development of credit institutions (and possibly government programs) specifically designed to meet the needs of cooperatives seems to be an essential feature for a shift to a participatory economy (Nuti).

These three aspects make it unlikely that there will be any dramatic increases in the number of worker-controlled firms or a move to economic democracy in the West in the near future. Such a transition, if it does occur, will most likely be a very long and gradual process.

The Possibilities of Eastern Europe

While the status quo is arguably the greatest problem confronting the development of democratically controlled enterprises in the west, such is not the case in eastern Europe. While there are many obstacles to developing an alternative "cooperative" economic system and many forces are working to take the countries of eastern Europe down the more traditional development path, the above-mentioned problems of the status quo in the west are not primary among them, at least not domestically.

With respect to the problem of ownership structure, eastern Europe is in the somewhat enviable position with respect to forming a participatory economy of not having a pre-existing (domestic) capitalist class with the range of privilege, power and influence enjoyed by those in the west. The fact that most of the means of production are still officially owned by the state in principle allows for greater opportunity for establishing large democratically controlled firms by the conversion of state-owned enterprises to cooperatives and worker-controlled firms. In practice many eastern European governments do not favour such a form of privatization as their first choice. Indeed, the desire of western governments and many eastern European governments is to see state enterprises sold to individuals and/or western firms. On the other hand, the realities which confront decision makers do not always allow for the implementation of their preferred solutions. First, there is popular

opposition in most countries to the wide-scale and indiscriminate sale of state enterprises to foreign companies. Second, there is not as much interest by foreign capital in investing in eastern Europe as initially thought by many (Economist, 1991). This has led the governments of Poland and the Czech and Slovak Republics, for example, to look for alternative privatization methods. In all of the countries of eastern Europe there have been movements by unions and other social groups to pressure for the handing over of state companies to workers and the formation of cooperative enterprises.

Also in eastern Europe, capitalist hegemony does not hold the same sway as it does in the west. The forty years of experience under "real existing socialism" was not all entirely negative and in any case cannot be wiped away overnight. While there is a romanticization of western economic practices in some circles, most people are suspicious of the virtues of capitalism and much more sombre about their prospects under such a system. Many people still believe that there are alternatives to capitalism. In eastern Europe it is often the case, though not universally so, that more experience with cooperatives has led to greater faith in their economic viability. Also, the formation of cooperatives from state enterprises, as opposed to closing them down or selling them to foreign companies, is at present perceived by many as a way of saving jobs, and as such enjoys much popular support in some regions.

In regard to the legal and financial institutions and systems in eastern Europe, these are in transition and certainly do not yet function up to western standards. But despite this generally lower level of performance, democratically controlled firms here are not as subject to discrimination and receive relatively favourable treatment in comparison with similar firms in the west.

Thus, the lack of the same *status quo* problems in eastern Europe as are found in the west, especially the lack of a politically and economically dominant capitalist class, combined with a shortage of western investment funds means that the formation of large numbers of new democratically controlled firms is a real likelihood. The representation of democratically controlled firms in eastern Europe in the next few years should far outmatch that of the west and may allow much more immediate possibilities for the transition to a democratic economy (Estrin, 1991; Mygind, 1992).

Yet, despite the relative advantages which eastern Europe enjoys with respect to the move towards a democratically controlled economy, there are still two formidable series of problems which diminish both the probability of such a transition and the possibility of it being successful if it does occur. First of all, there are forces, both national and

international, working to inhibit such a transition to economic democracy. At the international level, it is the case that governments promoting economic alternatives tend to suffer from a variety of official and unofficial discriminatory policies, including, among others, greater difficulties in attaining foreign aid and access to foreign markets, restrictions on the transfer of technology, less favourable terms for credit and debt renegotiation, etc. Bringing an end to such discriminatory practices would presuppose a high level of cooperation among democratically controlled firms in different nations, strong support from sympathetic foreign governments and the bringing to bear of intense political pressure on national governments by a variety of organizations and social movements. Domestically, as we have already stated, the move to economic democracy is opposed by many newly formed political parties, especially those of a traditional liberal bent. Moreover, even governments sympathetic towards the notion of moving towards a democratic economy through the transformation of state-owned enterprises into worker-controlled firms might be reluctant to follow such a path diligently. They cannot but be aware that any attempt to implement such a policy would be subject to severe penalties and sanctions by international trade and financial organizations which look unfavourably upon such forms of privatization.

Secondly, even if a government does decide to promote the formation of democratically controlled firms, their possibilities of competing successfully will be diminished by the adverse conditions under which they will have to operate. First of all there is the general economic situation of eastern Europe with which to contend. Overcoming the legacy of forty years of central planning and adapting to a market economy is itself no mean feat to accomplish. More than this, however, such firms, as we have stated above, will probably feel the wrath of international trade and financial institutions. This means they will be likely to have less access to western credit, technology, information and markets. Moreover, they will not be able to expect much help from their governments who will also be suffering from a variety of possible sanctions including an inability to renegotiate debt as well as trade and technology embargoes (Gowan, 1990).

Because of the adverse conditions under which democratically controlled firms must be developed and compete, it is unlikely that whatever happens in eastern Europe will finally settle disputes about the viability of a system of economic democracy. For proponents the best possible scenario, of course, would be the widespread development of democratically controlled firms in both the core sectors and the periphery which prove to be economically competitive in international

markets. While such an outcome would go a long way towards proving the feasibility of economic democracy, it is highly unlikely for reasons which we have indicated.

A more realistic scenario would be the widespread establishment of worker-controlled firms in certain industries which will be competitive in markets where they can exercise comparative advantages (e.g. agricultural). In the case of such an outcome, proponents can claim some victory for the competitiveness of worker-controlled firms while critics will continue to point to their inability to operate in the core sectors.

A less optimistic scenario might have the development of worker-controlled firms which are unable to compete and which are eventually resold or dissolved. Under these circumstances liberal critics will feel even more justified in their claims that democratically controlled firms necessarily introduce inefficiencies into the production process. But even here a proponent may have a defence. It might still be argued that the success or failure of these enterprises has been conditioned more by the general economic conditions in eastern Europe, the sector of the economy in which they operate and discriminatory practices than by their nature as democratically controlled firms.

Perhaps the worst case scenario for proponents of economic democracy is not an unsuccessful attempt at implementation, but rather a lack of interest in the development of cooperatives and worker-controlled firms at all. If it were the case that democratically controlled firms had no social basis of support, then this would seriously call into question the viability of economic democracy, much more so than theoretical arguments about efficiency. (Moreover, it would lend support to critics of the Church's teaching, who claim that its calls for increased participation are both undesirable and unrealistic because most people do not want the responsibility of active participation.)

While it is trite to state that this is an historic time in eastern Europe, it is historic in ways which are not commonly perceived. The transition of eastern European countries from state socialism may now offer such favourable conditions for the development of a more participatory political economy as will not be seen for many years to come. Two points are of particular importance. If the present opportunity to create democratically controlled firms out of state-owned enterprises is missed it will be extremely difficult to create such structures in the future once a capitalist economy has been firmly established. Also if state enterprises are not turned into cooperatives now, with the move to an increasingly information-based economy and polarization of different sectors of the economy, it is unlikely that

cooperatives will be able to break into and compete in the core sectors in the future. Rather they would be relegated to a marginal existence in the agricultural and service industries.

At this historic time, the Church in eastern Europe has had very little to say about the direction of the transition process. In particular it has been very quiet about the issues of creating more participatory economic structures. At best its stance has been an advocacy of a slower move to a capitalist economy than that advocated by "shock therapists" and the retention of adequate social welfare programs.

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