

## **Economic democracy and its relevance to degrowth**

Nadia Johanisova, Faculty of Social Studies, Masaryk University, Brno, Czech Republic  
(johaniso@fss.muni.cz)

*Steering paper for Working Group 18. Participative/Direct Democracy (Sunday 28 March 2010) at Degrowth Conference, Barcelona*

The question asked by the workshop convenors is: *What forms of “deep” democracy for a society that degrows?* I would like the workshop participants to look at a seldom explicitly discussed aspect of true democracy: its economic dimension. This paper will briefly focus on the following questions: Why economic democracy? What is it? How is it linked to degrowth? Which paths can we take to achieve it? (see also Johanisova 2007: chapter 1.2.2)

Pressures to make governments accountable and limit their political power have in many countries resulted in the checks and balances embodied in democratic political systems and in the rights of citizens to actively participate in politics regardless of economic/social status, gender, etc. There is also a significant and often unmarked tradition of local democracy in traditional communities on a local level, especially where land ownership is local and/or communal.

The loci of power, however, originally centered in state bureaucracies and/or local communities and municipalities, have gradually shifted to corporations and, more impersonally, to world markets, their power unleashed by free-trade ideology, information technology and economic de-regulation. In this dynamic process entailing the concentration of power in ever-fewer hands, companies make decisions based not on the public good, but on their own need to survive in an unforgiving market system. Pushed by debt to banks and shareholders to grow and to maximise profits, they pander to and create “effective demand” for spurious products, thus often missing real and basic needs in communities, if unbacked by purchasing power. At the same time, they squander resources and cripple communities by operating world-wide and externalising their costs. Thus growth continues while basic needs go unmet (see e.g. Korten 1995). Within the monetary and banking system, Lietaer (2001), Douthwaite (1999: 16 – 32) and others discern another power shift as commercial banks consolidate, grow and create an ever-larger percentage of money in circulation, leading among others to a massive hidden subsidy (Huber and Robertson undated). Finally, the process of enclosure of the commons and of commodification (Neeson 1993, Guha and Martinez-Alier 2000: 72-73, Shiva 1992, The Ecologist 1992) can in a radical perspective be seen as an economic power shift from ecosystem people to omnivores, from women to men, from communities to corporations, from South to North and from rural to urban.

Economic theory has since the days of Adam Smith supported de-regulation on the grounds that while it may foster concentration of economic power, it also fosters economic initiative, activity and growth, leading to a rising tide which raises all boats – the well-known trickle-down theory. However, not only has Adam Smith’s intuition in this respect proved to be wrong (as the steadily growing disparities between rich and poor show, see eg Gray 2002 and many others) but the new emphasis on degrowth, fuelled by resource depletion, and re-framing economic growth as a liability rather than an asset, is forcing us to re-think such assumptions.

While political democracy and political power control has been in the limelight, the concentration of economic power, and especially its antidote, the concept of *economic democracy* as a corollary of political democracy and a sine-qua non of true democracy, has received much less attention. It is often mentioned in passing but seldom defined.

If we tentatively *define economic democracy as a “system of checks and balances on economic power and the right of citizens to actively participate in the economy regardless of economic/social status, gender, etc.”*, *what strands of economic democracy can we find in current economic theory and practice?* The six items below are meant to spark an urgently needed discussion:

1. Many attempts to **regulate market mechanisms and corporate activities** may arguably fall under this heading. The freedom of corporations can quench the democratic rights of citizens and vice-versa. Obama’s struggle to limit the size and activities of American banks might fall into this category, as well as the decades long call for a Tobin tax (taxing all currency transactions) and many other initiatives. Ecological tax reform (higher taxation of natural capital consumption and lower taxation of work) could help internalise the externalities of large corporations, limiting their advantages in “economies of scale”. One problem here is that in an economically deregulated world, higher taxation and/or stronger regulation can drive corporations to greener pastures elsewhere. A solution might be for countries to scrap or modify the outdated “free trade” dogma and to implement innovative policies such as the “site here to sell here” approach suggested e.g. by Hines (2001). Arguably, corporations driven by deregulated markets have been the main engine of economic growth and regulation is needed to bring these engines back under control.

2. One important strand of a search for *economic democracy* might be the **support of social enterprises**: organisations which are typically owned and managed locally, have a democratic one-member-one-vote governance structure (rather than the undemocratic “one-dollar-one-vote” system typical of share companies) and are not committed to maximising returns on production. Such organisations may include a large variety of institutions including e.g. housing co-operatives, community-supported agriculture, producer co-operatives, non-profits with trading arms (such as fair-trade organisations), communal public transport schemes, small organic farms, farmers’ markets and many more. In the banking sector, they might include credit unions, ethical banks with charitable status, or owned by municipalities or foundations, and importantly, non-interest banks, which try to challenge one of the basic roots of economic growth: the charging of interest. Support for social enterprises is however difficult for many reasons, including their hard-to-pin-down definition and, paradoxically, state regulation to protect consumers from the externalities of large corporations, which often falls hardest on small producers and traders (Johanisova 2005).

3. A third aspect of economic democracy concerns **money creation**. Huber and Roberston (undated) make a convincing case for phasing out money creation by banks. New (“debt-free”) money according to them should be spent into circulation by central banks on behalf of the government. Lietaer (2001) and Douthwaite (1999) are more radical, suggesting a plurality of currencies, including currencies created by communities. Many such community currency systems, known variously as LETS, scrip, time dollars/time banks, etc., are already in existence in many countries, though they may be circumscribed, as in Britain, by institutional barriers such as tax liabilities or impact on benefits payments (Douthwaite 1996: 61–120, Williams 2005: 247–253). Money created communally has obvious implications for economic democracy. At the same time, if we were to use more debt-free money, the pressure on growth would lessen, since there would be less need to obtain new money for interest payments.

4. Economic democracy may also entail a **right to reclaim or re-create the commons**. The commons are most often understood to be local resources (land and water) held in communal ownership, or rather in stewardship (The Ecologist 1992:125). Rights to the land are allocated by custom, they may be invested in families, clans, whole villages, etc., and the system

usually has some way of excluding outsiders or punishing them if they abuse the commons (Berkes et al. 1989). All group members have both rights and responsibilities within the system, and all have some share in the benefits provided by the commons. They actively participate in the economy regardless of their economic/social status and gender. The culture of shared responsibilities means that no one group or individual can usurp economic power – a natural system of checks and balances exists (The Ecologist 1992: 129). Commons or semi-commons regimes are a reality in much of the third world. In their analysis of land tenure and social organisation in Mexico, Sarukhán and Larson (2001: 54) reveal that 80% of agricultural land and 70-80% of forests in Mexico are communally owned. They link small scale and communal ownership with low energy and material throughput and high ecological efficiency. The commons are not geared towards growth, prioritising permanence, environmental sustainability, power balance, non-commodified production and satisfaction of basic needs. Arguably, communal ownership deserves a higher profile and a more prominent place in the degrowth discussion. The commons concept can be and often is extended to other assets and spheres (e.g. Barnes 2006, Shiva 2005).

**5. Redistribution of the economic pie in terms of both income and capital assets** is arguably another aspect of economic democracy. As economies cease to grow, so do economic pies, and the issue of redistribution of wealth once more emerges as a crucial issue. Wealth however in a wider sense entails not only income (as in government transfer payments: pensions, unemployment benefits, and the like), but also access to capitals such as land, credit, buildings and knowledge. All these are needed for citizens to actively participate in economic processes and not be excluded as producers and investors. In this perspective, we meet again with the commons/communal property mentioned above, which can include such varied assets as communal arable and grazing land, forests and fisheries, but also community buildings, with community kitchens or store houses, non-profit sources of business information, business incubators, accessible organically-certified slaughter-houses, local seed-saving saving centres, etc. etc. I see links here also to item 2, since an important idea in the co-operative tradition (which is a major root of the modern social enterprise movement) was non-violent re-distribution of capital (land, physical capital and finance) from the haves- to the have-nots achieved via self-help and mutual help in co-operative enterprises. Intelligent and equitable land-reform can in this light be also seen as a tool of economic democracy. Unbridled market competition however tends towards the opposite, concentrating assets in ever- fewer hands as weaker players are subsumed by the stronger. Also the current tendency to higher capital-intensity, driven by tax incentives for machinery as well as by the fact that the true costs of energy are not included in its price, plays against the equitable distribution of capitals.

6. A last aspect of economic democracy inspired by the thinking of Vandana Shiva, as well as by discussions with my students, perhaps merits attention. It has close links to Shiva's concept of *economic freedom*. According to Vandana Shiva (Johanisova 1994), an **economically free person can decide for her/himself how s/he will consume and what s/he will produce**. This would entail, as consumer, access not only to large supermarkets, but also to small shops and local/fair trade/organic merchandise. As producer, it might involve the possibility of being self-employed and doing meaningful work, including crafts or work on the land. Such a re-framing of economic freedom expands the economic discourse from the human being as producer/consumer to the human being as citizen, with a right to ethical consumption and meaningful work. A system is envisioned here which would maintain and actively support a diversity of scales and a plurality of production modes, including subsistence and self-employment. The emphasis is shifted from quantity of output (growing

economic product) to quality of process (the work and provisioning process itself). There are links to items 4 and 5 (access to capitals) as well as 1 (regulation of markets and corporations).

*Literature:*

- Barnes, P., 2006: *Capitalism 3.0: A guide to reclaiming the commons*. Berret- Koehler Publishers, San Francisco
- Berkes, F., D.Feeny, B.J.McCay and J.M. Acheson, 1989: *The benefits of the commons*, Nature, 340, p. 91 –93 (Quoted in Burger et al. 2001)
- Douthwaite, R., 1999: *The ecology of money*. Schumacher Briefing No. 4, Schumacher Society, Bristol, Green Books, Dartington
- Guha, R. and J. Martinez-Alier, 2000: *Varieties of environmentalism: essays North and South*. Earthscan, London
- Gray, J., 2004: *The illusion of progress*. The Ecologist, Vol. 34, No. 9, p. 38-41
- Hines, C., 2001: *Localization: a global manifesto*. Earthscan, London
- Huber, J. and J. Robertson, undated: *Creating new money: A monetary reform for the information age*. new economics foundation, London
- Johanisova, N., 1994: *Monokultura a rozmanitost*. Sedmá generace, Vol. 3, No. 1, p.13-14. (Monoculture and diversity, interview with Vandana Shiva, in Czech)
- Johanisova, N, 2005: *Living in the cracks: A look at rural social enterprises in Britain and the Czech Republic*.  
Feasta, Dublin (available at <http://www.feasta.org>)
- Johanisova, N., 2007: *A Comparison of Rural Social Enterprises in Britain and the Czech Republic*. PhD Thesis,  
Faculty of Social Studies, Masaryk University, Brno (available at:  
[http://is.muni.cz/th/38023/fss\\_d/Johanisova-PhD.pdf](http://is.muni.cz/th/38023/fss_d/Johanisova-PhD.pdf))
- Korten, D., 1995: *When corporations rule the world*. Earthscan, London
- Lietaer, B., 2001: *The Future of Money: Creating new wealth, work and a wiser world* (Slovakian translation: 2004, Pradigma.Sk, Košice)
- Neeson, J.M., 1993: *Commoners: common right, enclosure and social change in England, 1700 – 1820*. Cambridge University Press, Cambridge
- Sarukhán, J. and J. Larson, 2001: *When the commons become less tragic: land tenure, social organisation, and fair trade in Mexico*. P. 45 – 69 in: Burger, J., E. Ostrom, R. B. Norgaard, D. Policansky, B.D. Goldstein, 2001, eds: *Protecting the commons: a framework for resource management in the Americas*. Island Press, Washington
- Shiva, V., 1992: *Staying alive: Women, ecology and development*. Zed Books, London
- Shiva, V., 2005: *Earth democracy: justice, sustainability and peace*. South End Press, Cambridge, Massachusetts
- The Ecologist, 1992: *Whose common future?* The Ecologist, special issue, Vol. 22, No. 4, p. 121- 210
- Williams, C.C., 2005: *A commodified world? Mapping the limits of capitalism*. Zed Books, London