

# Honest Abe was a co-op dude: how the Donald can save America from capital despotism

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## Abstract

Few realize that the first Republican President of the United States, Abraham Lincoln, was an economic democrat who put labor above capital. Labor is superior to and independent of capital, the Republican president said, deserving higher consideration. Capital despotism is on the rise again, threatening the stability of economy and union. The biggest problem of democracy now is not the failure to fully extend political rights. The bigger problem is economic in nature. The threat today is from a lack of economic democracy – a lack of ownership, of autonomy, and of justice in the distribution of rewards and punishments. Co-operatives can help.

**Keywords** cooperatives; economic democracy; capital despotism; labor; Abraham Lincoln; Ronald Coase; the firm; National Cooperative Bank

“Labor is prior to and independent of capital. Capital is only the fruit of labor, and could never have existed if labor had not first existed. Labor is the superior of capital, and deserves much the higher consideration” (Abraham Lincoln, 1861).

Greetings, America, and good luck. Now more than ever the world stands to gain by cooperating with each other.

Good day in particular to Republicans, and congratulations. This is a new day. And, in a very real sense, it is your day. Republicans’ Day. Abe Lincoln’s Day. The people have voted. Ordinary workers – or, more exactly, a small number of extraordinary delegates – have had their say. And the whole nation – or anyway, the part of the nation that is voting and paying attention to “things that are trending” such as political elections – we need for you to succeed. To keep your word. You’re hired.

Now we need from you some sort of contract with America, like the one you tried in the Nineties, only seriously this time. Regular folks have been shoved aside for too long. The well-being of honest workers continues to sink with debt and despair. The economy is badly broken; wages are depressed or disappearing altogether; productive folks are still being sacked and pensions have been badly looted; meantime, overpaid bosses, supervisors, and “protective service” workers (a euphemism for police) have multiplied disproportionately in the

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ranks of the average firm while vacation and sick days vanish or can't be used without fear of loss. Something's gotta give.

America voted you into office, based on what you said you'd do differently. Now we need you to make good on your promise to "bring back the great state" of Illinois, as that state's newly elected Governor Bruce Rauner has promised. Make good on your promise, Republicans and Democrats alike, by cooperating with America to bring back family and wealth – bring back the freedom, the jobs, the manufacturing and democracy-first-philosophy we all want and need in every state of this great union.

You may not realize it but America voted for Republicans like you because you represent the party of Honest Abe, Abraham Lincoln, the first Republican President and Co-op Dude. Labor before capital, people over profits, that kind of thing.

That's what Honest Abe believed, he told Congress time and again. You heard that right: Lincoln was a co-op guy, *sans* Birkenstocks and vegan diet, true. Still, there it is.

Let's get the facts straight.

Economists in the know have acknowledged that the worker owned cooperative firm is the most perfect model of economic democracy and rational business organization dreamed up so far. That is true around the world, from Springfield all the way back to Shelbyville, economists who've examined such co-ops agree. Co-ops are more productive. And every worker is an owner.

From the Dutch blossoming of commerce in the 1600s to the Asian Spring of the 2000s, socialists and capitalists alike have not produced, it seems, a better, more efficient and democratic form of economic production and distribution. Co-ops win.

Not everyone is convinced.

If co-ops are so great, why don't they dominate the economy? Negligence and ignorance, more than any other possible cause, it would seem.

For example, the infamous "socialist calculation debate" in economics dragged on for two decades before a single word was said by either side, from Lange and Lerner to Mises and Hayek, about the nature of the firm. Nary a peep from economists about how or even why firms choose to organize into production units of a certain scale, large or small. Ronald Coase's article on "The Nature of the Firm" (1937) was good enough to fetch him a Nobel Prize. But Coase did not bring as much clarity to the debate as most economists believe.

Coase was vague and conventional to point of embarrassment. He made straw man assumptions about the firm being a hierarchical-capitalistic entity. Coase's firm, though more "tractable" and "realistic" than previous notions, is assumed to be run by a "master" or "masters," by capitalists who seek to maximize profit by bossing around "servants" – that is, wage earners possessing little autonomy, little or no ownership, and no voting rights on capital, their sole purpose being assumed to serve the "masters" of capital.

Said Coase, "If a workman moves from department Y to department X, he does not go because of a change in relative prices, but because he is ordered to do so." But if Coase

(himself a lovely man in person) would have taken a closer look at the real world, he could have found cooperative firms succeeding in stark contrast to the anti-democratic firms of his imagination.

The paucity of the co-op form in America is costly to more than pocketbooks. Worker owned co-operatives have been designed by people from all walks of life sharing Republican values of ownership, democratic decision making, autonomy, security, and voluntary cooperation. The surest defense against despotism is the immediate extension of universal economic democracy. That is the nature of the just firm.

If co-ops sound scary, or left wing, or creepy in that church-based or high school way, it's not your fault: with few exceptions, most people – economists included – make it all the way through graduate school never even hearing about the cooperative form of business.

Few are aware that Abraham Lincoln, the first Republican President of the United States, was a pro-labor, pro-democratic, Co-op Dude who put people first, “prior to and independent of capital,” as Honest Abe put it. And as nature, democracy, and common sense dictate.

*Oui, oui*, Madame, yes Sir, he was: Honest Abe was a Co-up kind of guy. He had a hip looking neck beard, too. Wore a flannel shirt sometimes; rolled up his sleeves, worked hard (and at various types of jobs), read difficult books, made difficult decisions, made deadline, and drank beer – all in cooperation with others. As Lincoln said elsewhere: “I am a firm believer in the people. If given the truth, they can be depended upon to meet any national crisis. The great point is to bring them the real facts, and beer.”

Cheers, a toast to Abraham Lincoln!

So far as we know Honest Abe did not himself belong to a worker owned co-op. But his theory of labor and capital imply that co-ops are prior to, and superior to, Corporate America and other forms of economic despotism on the road to serfdom, such as Kmart.

Republicans should be among the first to grasp this elementary principle of economics and democracy. Labor is us; thus we, labor, have the first, most valid claim to output, and we have the first say about its means and modes of production, whatever the ratio of capital to labor might be, small or large, capital intensive or labor intensive.

Let's remind our newly elected officials of the actual, not mythical, Republican philosophy of labor, as originally articulated by President Lincoln in his “First Annual Message” to members of the U.S. House and Senate (December 3<sup>rd</sup> 1861):

“Labor is prior to and independent of capital. Capital is only the fruit of labor, and could never have existed if labor had not first existed. Labor is the superior of capital, and deserves much the higher consideration.”

There it is, there's the writ, from the Patriarch of the Republican Party to the Industrial Workers of the World. It wasn't Marx and Engels who drunkenly scribbled (though the thought arises). The sober author of the quoted passage was the first Republican President of the United States, speaking truth to power – and power to truth – of labor's priority over capital.

So you don't have to be Karl Marx or George Carlin or a lunatic in the night to believe that economic democracy – and the priority of labor over capital – is as American and Midwestern Republican as corn dogs and kale.

“Capital has its rights, which are as worthy of protection as any other rights,” Lincoln noted. “Nor is it denied that there is, and probably always will be, a relation between labor and capital producing mutual benefits.”

But the primary emphasis on labor, and not on speculative finance or maximization of shareholder value, “is the just and generous and prosperous system which opens the way to all, gives hope to all, and consequent energy and progress and improvement of condition to all,” said Lincoln. He added:

“No men living are more worthy to be trusted than those who toil up from poverty; none less inclined to take or touch aught which they have not honestly earned.”

And finally:

“Let them [labor, that is, you and me] beware of surrendering a political power [to abstract capital] which they [that is, we human laborers, not mere machines or money] already possess, and which if surrendered will surely be used to close the door of advancement against such as they and to fix new disabilities and burdens upon them till all of liberty shall be lost”.

“Till all of liberty shall be lost,” Lincoln said, in his noble address against capital “despotism”.

In other words, the worker-owned cooperative model for doing business and earning a living is not as hippie-commie as it sounds. It was good enough for John Stuart Mill, too – the great English economist and philosopher. Even Friedrich Hayek, the Nobel laureate and free market muse of both Thatcher and Reagan, himself belonged to a co-op, back when he was on the faculty of the University of Chicago: The Seminary Bookstore Co-op, in Hyde Park, Chicago. (Full disclosure: I've been a member for many years.) Father Jose Maria Arizmendiarieta (1915-1976), the Spanish Catholic philosopher, educator, and founder of the Mondragon cooperative community, might be canonized for the humanity and jobs his work has brought to the Basque region of Spain and beyond.

The worker owned co-operative firm turns out to be as American as plywood and taxi cabs, too. In fact, those industries and many others have been partially produced by cooperatively owned and managed firms, though co-op industry share remains puzzlingly low in the U.S. and most other countries, Spain and Italy included. Even in the co-op friendly plywood industry of the Pacific Northwest co-op industry share peaked in the 20<sup>th</sup> century at less than one-half of total industry output.

The lack of co-ops in America appears to come less from economic incentive and more from sheer ignorance. Put plainly, most people don't know what a co-op is or does. (I reached 19 years of age before I heard the very words, “cooperative grocery store”, and 21 years before I first joined one.) People just don't know about co-ops, nor of how successful they've been from the cooperative milk and cheese makers of Jura, in early medieval France, to today's

taxi drivers and electrical engineers organized cooperatively in Madison, Wisconsin or Mondragon, Spain.

“One worker-owner, one equal vote” on all business matters. That is the foundation of ownership and democracy at the democratically and self-managed cooperative firm. Co-ops require six to seven times fewer supervisors and managers – the overpaid numbskulls we currently cope with. And everyone takes a turn supervising, just like safety patrols at school or in the management of common pool resources, such as timberland in mountainous regions of various nations.

Maximization of income per worker, democratic decision making, and employment stability are three of the other main inputs to the cooperative objective function. Worldwide that’s typical co-op practice, from Rome to Rio.

Thus the objective of the cooperatively owned and managed firm is to maximize the material, sociological, and psychological well-being of labor, minus the cost of capital and reinvestment for rational expansion or change in the mix of inputs and outputs. And get this: most co-ops allow the resigning, retiring, or perishing co-op member to transfer his or her asset and right to work to a family member – a way of keeping jobs for a stable community and healthy families that one does not find in the despotic firm.

Co-ops promote family values.

That’s because people are credits, not debits. Labor is us, labor is people. Lincoln, the first Republican President, understood that. Too many people today do not understand. They understand that co-ops are for hippies, reds, and other neck beards. That is not true. “We the people are not machines” is a line that Jefferson forgot to add to the Declaration of Independence. (To satisfy skeptics I concede that most humans are not machines, despite Fox News, iPhone 6+, and Obama’s polished voice.)

In his 1861 address to Congress, President Lincoln extended to the economic democracy what Senator Lincoln had summoned at least two years prior. In his “Annual Address” before the Wisconsin State Agricultural Society, in Milwaukee, Wisconsin, September 30th 1859, Lincoln told an assembly of farmers and brewers: “The world is agreed that labor is the source from which human wants are mainly supplied. There is no dispute upon this point.”

So, ye newly elected Republicans: summon your inner Abe. Stay true to Republican philosophy.

Start by injecting capital into the National Cooperative Bank, the still promising cooperative bank of the United States that the Reagan administration all but killed in 1981, less than two years after the necessary bank was first established by Congress. The Cooperative Bank – and other banks like it – can help to fulfill the promise of economic democracy, by supplying loanable funds and grants to build and to grow cooperative enterprise.

Pass legislation making it easier to establish a cooperative firm, corporation, and village or town, not unlike the successful producer and consumer models already found in the plywood cooperatives of the Pacific Northwest, the home appliance and solar panel and other small manufactories of Mondragon, Spain (which currently boasts over 100,000 worker-owners), and the giant grocery store co-op of Switzerland, called simply “Co-op”, which claims over 2.5

million current members. Pass legislation authorizing Congress to support cooperative education, conferences, and other institutions in aid of cooperative banks and firms.

We are destined to fulfill the promise of economic democracy in America. We owe it to ourselves, and to Honest Abe.

Besides the attack on the National Cooperative Bank, additional attempts to kick-start cooperatives have been resisted by Republicans and Democrats alike. *The 1994 Economic Report of the President* stated that “the Administration aims to increase the productivity of the work force by helping employers make better use of their workers through increased worker participation” (p. 128). The Report noted:

“Numerous studies have now demonstrated that cooperative techniques increase productivity substantially in a wide range of enterprises. By helping to disseminate information on what successful firms have been able to accomplish, the Administration hopes to speed the adoption of these practices throughout the economy.”

We are still waiting for the information dissemination and speedy adoption.

The United Nations called the year 2012 “The International Year of Cooperatives”, and sponsored a number of conferences and workshops worldwide to help to disseminate information and support for co-ops as promised by the Clinton Administration back in 1994. Unfortunately, few business and political leaders are aware of the U.N.’s recent initiative to boost the co-op sector.

Co-ops have existed in the United States since the days of Ben Franklin but today they represent less than 1 percent of the American economy. Back in the 70s, 80s, and as even recently as the 90s, however, worker-owned co-operatives saw a surge in empirical economic research and fare – in most regards – incredibly well when compared to today’s conventional firm.

Economists, not all of them known for holding democratic-cooperative ideals, have put co-ops to the test of statistical and economic proof. Jaroslav Vanek, David Ellerman, Katerina Berman, Ben Craig, John Pencavel, Alan Krueger (Obama’s Chief Economist), Louis Putterman, Christopher Gunn and many others have conducted rigorous empirical studies comparing and contrasting the economic performance of worker owned cooperatives.

What did they conclude? In their 1992 *American Economic Review* econometric study of veneer and plywood producers, for example, Craig and Pencavel (both at the time of Stanford University) found that co-op share prices are highly undervalued. Craig and Pencavel demonstrated empirically that there are \$1 million dollar bills (in the form of missed opportunities for investments in co-ops) waiting to be picked up on the street. Holding equal net discounted present value of joining and working in a co-op versus working in a conventional unionized firm, the share prices on offer for each firm type should be roughly equal. They’re not, the economists found. Co-op share price could rise by a factor of three in some firms and still make a profit for the worker-owner whose opportunity cost is a job at a unionized plant.

Employment stability and fairness in pay are better too. Much, much better. In the cooperative firm, economic democratic virtues are used to guide its policy for distributing rewards and punishments, unlike in the conventional firm, where vast inequality of income, autonomy, and surplus prevails.

Worker-owned co-ops are found to be more productive, holding input levels constant, economists such as Alan Krueger and Henry Farber agree; co-op workers have more job satisfaction; they have lots more say about the process and mission, and equality of status too; employment levels are far more stable (virtually no one loses their job); and income differentials are 2-or-3-or-4-to-1 at maximum versus the 500-or-550-to-one ratios of today's neoclassical firm.

In a disturbing (but hilarious) book, *Get Rich Cheating: The Crooked Path to Easy Street* (2009), Jeff Kreisler reports (pp. 76-81) on the incomes of CEOs. Kreisler names a dozen executives who took home as much as \$50,000 U.S. per hour on average, hour after hour, year after year, as the company they lorded over, including Merck and Fannie Mae, lost billions. Kicking in the head an already dead President Lincoln.

Cooperation at work, at the shopping center, and even in our housing and communities, is not what it could be. Not even close to what economists call the "production possibilities" of output and happiness.

The biggest problem of democracy is not the failure to fully extend political rights, however important. The promise of political and human rights is not perfectly fulfilled, true, though many gains have been made.

The bigger problem is economic in nature. The threat today is from a lack of economic democracy – a lack of ownership, of self-reliance, of autonomy, and of justice in the distribution of rewards and punishments at work – from the appropriation of company revenue to the lack of protection against pension raids and unfair taxes, capital despotism is rife.

"The road to serfdom" has many paths to choose from, Hayek warned in his important book of 1944, but too many Americans – including most economists and politicians – have forgotten the economic path, the road to serfdom caused by a lack of *economic* democracy. Unlike Lincoln.

The average American has failed to notice – or is so far unwilling to act upon – the fact that they themselves spend six or more hours per day working in or with an anti-democratic, speculatively financed, and capital-first firm or government or bank. Your bank and government and firm, for example.

Political activists frequently complain (we should be grateful) about one violation or another of political or human rights, forgetting about the oftentimes much, much larger and more devastating lack: economic rights.

The Republican Party could now be poised to make great strides for economics, democracy, and family values. The fight against despotism, against unwarranted loss of wages and wealth and democratic control; the fight against the alienating feelings induced by an increasingly antagonistic, speculative, overleveraged, and hierarchical-narcissistic capitalism must be priority number one.

We can learn from the successes and struggles of the 70-year-old Mondragon experiment: we learn that good American manufacturing jobs can be won back by restoring the proper relation between labor and capital. Ordinary American workers can rediscover the virtues of full employment, self-reliance, self-governance, and of earnings and pensions being paid to the rightful producers of them.

What would a Whitman or Tubman do? How about Adam Smith's "impartial spectator" – what would she or he say about the lack of economic democracy?

On the co-op question they would agree with Lincoln and Marx, not Hayek. If America fails to cope with the fact that capital is the fruit of previous labor, economic despotism and the road to serfdom will be knocking at the front door of the whole society; already we sense their presence.

Well more than 230 years ago, Mr Adam Smith himself would heed the moral side of the call out, in *The Theory of Moral Sentiments*. In a chapter of the great tome he titled "On the Corruption of our Moral Sentiments," the eminent economist Mr Smith (1790 [2009], p. 73) observed:

"This disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition, ... is, ... the great and most universal cause of the corruption of our moral sentiments."

You can't change a light bulb without the assistance of a new light bulb, not to mention a socket, some electricity, possibly a ladder and other capital inputs, that's true. Capital has partial rights. Economic units have to grow to efficient scale (holding justice constant) and people need to save and invest for their uncertain wealth of the future.

But capital efficiency is not the definition of economic justice. Capital is a subtraction from labor, not the reverse. We mustn't ever forget again what Lincoln told Congress not long after the start of the Civil War, when the capital relation was on many people's minds: "The error," Lincoln warned, the corruption, "is in assuming that the whole labor of community exists within that relation."

Thus begins the art of the just deal.

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