

THE THIRD WAY

*"Under capitalism, man exploits man.
Under communism, it's the other way
around."*

Introduction

At the beginning of the 21st Century of the Common Era, following the collapse of the Soviet Union and with it the political credibility of state socialism, we are daily confronted by those who claim that these events are a vindication of 19th century laissez-faire capitalism.

Whilst undoubtedly a new golden age for corporations whose transnational commercial opportunities and economic might are increasingly beyond the regulatory power of even medium sized national governments, we find the dawn of the age of globalism accompanied by the concentration of more and more wealth in the hands of a few whilst the wages and living standards of the many are moving rapidly backwards.

In these circumstances, it is perhaps opportune to look again at alternatives and consider whether the failure of communism has vindicated laissez-faire capitalism or whether, perhaps, a genuine Third Way is possible.

In recent years, many have sought to lay claim to the concept of a Third Way, but for most, like British PM Tony Blair, use of the term is simply self-serving rhetoric and spin for business-as-usual.

There is however one claimant to the mantle of a Third Way that does not simply collapse on closer examination into welfarist capitalism or state socialism in drag, and that is the political movement known as distributism.

Origins

Distributism's philosophical origins can be traced to the same nineteenth century roots as socialism, as a reaction against the perceived inequalities and misery of late Victorian high capitalism in England.

The inspiration for the Distributist Movement was the 1891 Papal social encyclical, *De Rerum Novarum* – On the Condition of Labour – calling for a new compassionate interpretation of capitalism, although a majority of distributism's later supporters were not Catholics and many were in fact former radical socialists who had become disillusioned with socialism.

Local attempts to form grower co-operatives to redress the impoverishment of agricultural producers who were paid little for their crops by middlemen who then on-sold them to consumers at a great profit had achieved considerable success in rural Ireland in the mid-19th century. Equally, the credit union and building society movements, that sought to lend money on a not-for-profit or minimal cost basis for housing and small business development enjoyed great success, particularly in Scandinavia. In England, the success of the Rochdale co-operative retail outlet proved that not-for-profit retailers could operate successfully, and continues to form the basis of all retail co-ops to the present day.

It was however left to Hillaire Belloc and GK Chesterton at the turn of the century to draw together the disparate experiences of the various co-operatives and friendly societies in Northern England, Ireland and Northern Europe into a coherent political ideology which specifically advocated widespread private ownership of housing and control of industry through owner-

operated small businesses and worker-controlled co-operatives.

This became the basis of a concrete set of political goals which formed the objectives of the distributist movement and which, ironically, achieved their greatest successes outside England in Italy, Canada, Northern Europe and most spectacularly in Spain.

Distributism Defined

Distributism is a political philosophy based on the contention that a just and sustainable social order can only exist in which the ownership of property and the means of production, distribution and exchange are widespread.

The Distributist Movement thus seeks to achieve this end both by means of the democratic political process and by non-state mutual organizations of individuals that facilitate widespread private ownership through not-for-profit lending for private purchase and co-operative enterprise.

In Britain of the 1920s and 30s, the distributists sought the restoration of family and individual liberty by a revival of smallholder agriculture and small business and an end to grasping landlords, by attacking monopolies and trusts and denouncing what they saw as anonymous and usurious control of finance.

Opposed to laissez-faire capitalism, which distributists argued leads to a concentration of ownership in the hands of a few and to state-socialism in which private ownership is denied altogether, distributism was conceived as a genuine Third Way, opposing both the tyranny of the marketplace and the tyranny of the state, by means of a society of owners.

Like socialism, distributism is concerned with improving the material lot of the poorest and most disadvantaged. Unlike socialism, which advocated state ownership of property

and the means of production, distributism seeks to devolve or widely distribute that control to individuals within society, rejecting what it saw as the twin evils of plutocracy and bureaucracy.

Early 20th century distributism saw the concentration of ownership in a few hands as the primary source of social ills but saw the removal of control from all private hands as even worse.

Subsequent history certainly seems to have supported their contention.

Distributism versus socialism

In *Das Kapital*, Karl Marx's analysis of capitalism led to his Labour Theory of Value – that the value of a good or service lay exclusively in the labour required to produce it. From this premise Marx concluded that those who made a profit from employing others had unjustly appropriated the surplus value of this labour – the difference between what workers were paid and what the product of their labour was sold for. Marx's solution was the collectivization of the means of production, distribution and exchange – including property and the elimination of the supposedly parasitic class of employers and property-owners – so that workers would all receive the benefit of this surplus value rather than have it taken from them.

While superficially sounding reasonable, we can now look back on a century of untold misery and tyranny as various efforts to implement Marx's ideas led not only to the destruction of whole societies, but ironically to the impoverishment and death of countless millions of the very workers that Marxism purported to champion!

The oft-repeated truism is that communism is fine in theory but fails in practice, as it does not account for human nature. In fact, I would argue that

this is not only arrant nonsense but almost an oxymoron!

State socialism was a failure because Marx's analysis was flawed – because his theory was just wrong.

Valid theories work in practice. Its invalid theories that don't work!

Understanding where Marx went wrong is central to understanding the ideological underpinnings of distributism because the founders of the movement – Belloc, Chesterton and others – were themselves mostly socialists who developed distributism in response to the theoretical problems which they had come to see Marx's analysis.

The most fundamental issue is the Labour Theory of Value.

That doing work is a path to improving value cannot be disputed. To take wood and brick and concrete and tiles and build a house creates a product that has greater value than that of the materials that comprise it. That making a pair of shoes from leather and stitching creates a product, which obviously has more value than the leather and stitches themselves. That creating steel out of iron ore produces a product of much greater value than the simple cost of its constituents is equally self-evident. In each case, the added ingredient is labour. So far, so good for Marx.

But let's take this analysis a little further. How is this increased value realized? Only at the point of sale.

Up to the point when someone else is prepared to hand over the cash, that house, that steel bar, that pair of shoes has an expected value, but the value is only actually set at the point of sale. Between building a house and selling it, interest rates could rise and demand for housing drop, lowering its expected value. Between mining iron ore and smelting, new producers could flood the

market with product, decreasing price by increasing supply relative to demand. In the time it takes to make several hundred pairs of shoes, fashions could change or an early start of summer shift demand to open sandals, decreasing the value of the cobbler's shoes.

The common factor in all cases is demand. Labour contributes to value but it is demand that sets it.

And what if a deranged cobbler made two hundred left shoes rather than a hundred pairs of shoes? Labour and material contributions are the same but try to sell them and he'll quickly discover that two hundred left shoes have a fraction of the value of one hundred pairs.

Once again all that differs is demand. Since most people have two feet, most demand is for pairs of shoes!

If demand rather than labour content is the basis of value, then Marx's whole edifice falls apart. Employers, salesmen and property owners aren't necessarily exploiting workers, because if demand and not labour is the basis of value, their activities are contributing to demand just as much as workers.

If the bourgeoisie aren't by definition parasitic exploiters, then the whole concept of class warfare becomes a nonsense.

If class warfare is a nonsense then what can revolution achieve except cruelty, injustice and a changing of ruling elites?

Yet, if Marx's analysis is wrong, the very real issues that he sought to address remain unanswered.

In an age in which State socialism has been discredited, the tendency is to see this as a vindication of what went before, to simply throw the baby out with the bathwater.

That it is untrue to say that employers, landlords and middlemen necessarily exploit workers is not to say that their involvement is exclusively beneficial. That the value of a good or service is not solely based on its labour content is not to say that, all other factors being equal, it does not substantially derive from it.

And most importantly, while I argue it is false to claim that surplus value is unjustly appropriated by those employers, landlords and middlemen who are contributing to the value of a good or service, it is undoubtedly true that those who work for them, rent from them or sell to them would be financially better off if they could keep the financial benefit of this transaction – the surplus value – for themselves.

This in a nutshell is what distributism is all about.

Distributism is not trying to make the poor rich by making the rich poor, but empowering the poor and the not-so-rich to accumulate more of the demand-based value of their labour, more of the demand-based value of their produce, more of the demand-based value of their accommodation.

Achieving this by giving as many people as possible the means to employ themselves or own dividend-paying equity in their employer, to have the opportunity to sell their produce directly to consumers and to be able to buy their own home is distributism's aim.

How distributism works

The key work to understanding early 20th century distributism is Belloc's seminal work, the Servile State.

A savage denunciation of laissez-faire capitalism, which Belloc argued was re-establishing feudal servility on economic lines, the Servile State is no less savage towards state socialism, which (ironically presaging the later words of free market economist

Friedrich Heyek) Belloc called no less a road to serfdom.

Belloc argued that what a divided Britain with a vast impoverished underclass needed was not ever more unrestrained capitalism nor the false dawn of socialism, but a new liberalism, which for Belloc was first last and foremost about liberty.

Freedom, however, as Belloc well knew, isn't free. What use is the mere absence of the physical control of others if your poverty renders you subject to their financial control? It's simply a subtler form of tyranny.

The beginning of freedom is the end of poverty and the end of poverty argues the distributists comes not with state ownership or welfare handouts but with owning the full value of what you work to create and being able to afford to buy your home, not living by another's leave.

Belloc was elected to parliament shortly before the First World War and served in the government of Lloyd George, but his uncompromising personality denied distributism the opportunity it could otherwise have gained.

For all its colourful leadership by Belloc and Chesterton, and the considerable publicity it enjoyed in the 20s and 30s, distributism was never implemented in Britain and after its dalliance with Oswald Mosley's New Party, it never recovered public credibility when Moseley turned to fascism.

The laurel for outstanding success in implementing distributist aims must rest with the Spanish, where following the Spanish Civil war, Don Jose Maria Arizmendiarieta founded the Mondragon Co-operative in the Basque region. From a handful of unemployed oil lamp makers, Mondragon has grown to become the ninth largest corporation in Spain.

Unlike the isolated and fragmentary co-operative experiments in Australia and Britain, Mondragon is an expression of the broad distributist agenda that seeks not simply to sell to its members at a discount but to transform their lives. To consistently improve living standards through sustainable development and to rebuild community and culture as opposed to promoting dog-eat-dog adversarial individualism.

Mondragon co-operative runs supermarkets, banks, agricultural and manufacturing concerns, housing projects, schools, technical colleges and even a university!

The lot of the poor is improved not through welfare but through economic empowerment.

Capital is seen not as the enemy but as an instrument for social progress.

The co-operative, in the Mondragon experiment is viewed as a means by which instead of capital hiring labour, labour can hire capital.

Some see the kind of distributism which Mondragon represents as an evolutionary development of socialism, in which the role of the state is abandoned in favour of locally controlled and owned production. Others, see the Mondragon experience as a new kind of democratic capitalism, in which the wealth-generating power of capitalism has been harnessed to achieve social ends.

In the end though, if capitalism is simply about maximizing profits and standing back even if that leads to monopoly ownership, then Mondragon isn't capitalism. And if socialism is about collective ownership rather than private profit, Mondragon isn't socialism either, because Mondragon is all about making individuals and their families wealthier.

Relevance in Australia

Australia is however not a nation of starving match-girls and poverty-stricken tubercular factory workers crowded six to a room. This is a rich country whose poor are still fabulously wealthy by Third World standards.

Australia is however, at the beginning of the 21st century, a country whose living standards have not been rising consistently.

Thirty years ago a single working-class income was enough to support a family. A bus driver or council labourer could reasonably expect to be able to buy a modest house and drive a late model car. Today all that has changed. While a proliferation of electrical consumer gadgets get ever cheaper and more numerous, the fundamental costs of living – accommodation, food, transport, health care and education are far less affordable now than then.

In response, both partners in most relationships have quietly gone to work full time, but even this doubling of family incomes has still not kept pace with the erosion in average income standards.

Yet this is not universally true. The living standards of professionals, managers and others on higher wages have kept pace with the increasing cost of living.

Part of the reason for this is that those on higher incomes now rarely marry outside their socio-economic class. Where once doctors and lawyers and company executives married their secretaries or people on lower incomes that they met at social gatherings today they marry each other, maintaining their combined earning power but helping to lock those on lower incomes out of one means of economic advancement.

Fundamentally however, this is a reaction rather than a cause. The fundamental problem is that over the last 35 years the purchasing power of take home pay for those on lower

incomes has declined, particularly in terms of accommodation cost.

Concomitantly, waves of takeovers and mergers has seen ownership of every aspect of production, distribution and exchange concentrated more and more in fewer and fewer hands.

As “globalisation” continues to place a downward pressure on wages and conditions, this situation is likely to be exacerbated.

In Australia as in the United States, since the demise of Keynesianism in the early 70’s, the gap between rich and poor has continued to widen. In the US in 2000 the salaries of the CEOs of the 365 largest companies was 500 times the average wage and the 13,000 richest families have around the same collective income as the 20 million poorest.

Small family farms, once the cornerstone of Australian life outside the big cities, have become an endangered species as vast agribusinesses have grown up driven by the voracious fast-food industry.

For more and more young people today, the prospect that they will never be anything but poorly paid wage slaves living in rental accommodation is a real possibility.

Increasingly all sense of community is being lost, as the dog-eat-dog struggle to grab a few chestnuts out of the economic fire turns us into an anonymous collection of disconnected individuals – more a bus stop than a nation – in which no one cares for anyone but themselves.

Driven by the ceaseless demand for ever greater profits in ever fewer hands rather than nutritional benefit, the very foods that we eat are being genetically transformed and chemically altered, the long-term consequences of which we can only guess.

Yet what really does this profit anyone?

In the end, the purpose of material advancement cannot be simply material advancement for its own sake but must be an increase in human happiness.

As the struggle for living standards intensifies, can we really say that our society as it is today is achieving this?

Can even those few who do gain from vast profits really say their lives are better than they might be if everyone had a better life, when more and more their material enjoyment is curtailed by the need to hide behind walls and security guards and legalized violence?

Some will say that 1930s social theorists and the localized success of the co-operative system in the Basque region of Spain have little relevance to us in Australia today, but in Switzerland, Norway, Denmark and Iceland, four of the richest countries in the world, communitarian distributism in small farms and businesses and housing is alive and well.

In addition to having higher per-capita incomes than Australia, all have a tiny fraction of the levels of poverty, drug abuse, homelessness and crime of this country. They have less pollution, less traffic congestion and much less urban sprawl than Australia and a far stronger sense of community than we have here.

It is in this context that Belloc’s prescient warning of the dangers of the servile state and distributism’s alternative vision of an affluent, cohesive society of home owners and self-employed deserves to be re-examined.

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