

# **INTERMEDIARY GROUPS: RECONCILING THE MARKET ECONOMY AND THE COMMAND ECONOMY**

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**“The individual today is often suffocated between two poles represented by the State and the marketplace.” [John Paul 1991, §49].**

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**Driven by economic gain and reinforced by the philosophy of individualism, a market economy seeks to achieve the good of the individual through a process in which decision-making is the prerogative of *Many* individuals. In contrast, driven by unmet human material need and bolstered by the philosophy of collectivism, a command economy pursues the good of all by means of a process in which decisions are made by *One* public group. These two polar opposites in the form of an unfettered market economy and an oppressive command economy beg the question as to whether there is any hope of reconciling the two.**

**We are convinced that any reconciliation of those two systems rests with private group decision-making which offers great promise for dealing effectively with the problems the individual faces in a market economy, notably ill-gotten gain, and a command economy with its oppressive power in the hands of a few. In addition and most importantly these private groups, which are intermediary between the individual and the State, are positioned to reconcile the individual good and the common good. John Paul II spoke approvingly of intermediary groups in *Laborem Exercens* [John Paul II 1981, § 14].**

**The following is organized around three central themes. In the first section, we address the three systems by which decisions are made in economic affairs: market economy, command economy, and personalist economy. The theme taken up in the second section is the relationship between the principle of subsidiarity and economic freedom. The theme in the third main section is the three types of private intermediary groups in the real-world: cooperative, inter-firm partnership, and supra-firm alliance. Concluding comments follow.**

## **SYSTEMS FOR ECONOMIC DECISION-MAKING**

**There are two universally-recognized systems for economic decision-making: market economy and command economy.<sup>1</sup> A market economy assigns economic decision-making to the *Many* private individuals. A command economy assigns decision-making to the *One* public group.**

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<sup>1</sup> A market economy usually is called capitalism. However, for reasons advanced by Dempsey [1958, pp.148-163] in which he argues that there is no such thing as capitalism, we prefer to use “market economy.”

Differences between supporters of the One and the Many have led historically to deep-seated divisions between the two and at times violent and chaotic overthrow. Cuba is just one of several upheavals in the 20<sup>th</sup> century re-directing economic decision-making from the Many to the One. Poland is an example of a transitioning from the One to the Many in which decision-making in economic affairs, not to mention decision-making in political affairs as well, is being reformed.

There is, however, a “third way” that we identify as a personalist economy in which decisions are assigned to the One *private* group<sup>1</sup> that attempts to reconcile the individual good of the *Many* private individuals and the common good of the *One* public group through private intermediary bodies. Support for a “third way” can be gleaned from Pius XI’s encyclical *Quadragesimo Anno* in which he argued that the principle of “subsidiary function” supports the establishment of self-governing, private associations that would abolish class hostility and would simultaneously promote both the individual good and the common good. [Pius XI, §§ 25, 80, 81, 83, 84]. Support for a “third way” has waxed and waned over the years and one is hard-pressed to find additional support for it today. Even so, we cite four advocates beginning with Schumpeter.

In 1950 Schumpeter expressed support for a reconstruction of the economic order called for in *Quadragesimo Anno* along the lines of a “third way” or to use Schumpeter’s own words an “alternative system to socialism that would avoid the ‘omnipotent state’.” Speaking privately Schumpeter encouraged Goetz Briefs and by implication his colleagues in the Catholic Economic Association in the United States to develop such an alternative. [Waters 1961, pp. 136-137].

Bernard Dempsey’s *The Functional Economy*, which was published in 1958, owes much to the influence of Schumpeter who directed Dempsey’s dissertation at Harvard University. *The Functional Economy* provides a sketch of such an alternative system that Jesuit economist Dempsey says requires market institutions.

The economic philosophy we have sought to outline is not a rigid one. It is functional not mechanical ... Though this philosophy looks to and demands market institutions imbued with contributive justice practiced by responsible men under the principle of subsidiarity, it is suspicious of social diagrams drawn with too straight and rigid lines. [Dempsey 1958, p. 483].

... it is natural that man should associate with all, owners or workers, who function in the same industry where each makes his contribution, from

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<sup>1</sup> In the past, a personalist economy was called solidarism. Without discarding the idea of human solidarity in economic affairs, we prefer “personalist economy” mainly because with solidarism’s origins in the German language more than a century ago it is an awkward and out-of-date term.

which each receives his sustenance. Such associations are the economic organs of the body politic; they are the vertical girders furnishing structural balance in the social edifice ... [Dempsey 1958, pp. 430-431].

Support is found as well in Joseph Becker's *Shared Government* which was published in 1959. Based on extended visits to state employment security agencies Jesuit economist Becker searched for the characteristics that made the advisory councils attached to those agencies effective. In Chapter 1 Becker views those councils as "voluntary groups intermediate between the state and the individual" that moderate the danger of "too much centralization and too much decentralization, between tyranny and anarchy ..." [Becker 1959, pp. xiii, 36].

William Waters is the fourth advocate for a "third way" that he and others called solidarism which more recently has become known as a personalist economy. His argument is that Catholic social principles rule out the automaticity of market liberalism and the centralization of planned socialism. Only the private group decision-making of a personalist economy is compatible with those principles. [Waters 1993, p. 34]. Though it constrains economic freedom, private group decision-making limits the need for the state to intervene in economic affairs thereby protecting the individual from an even greater loss of economic freedom.

Though he was a student and great admirer of Dempsey, Peter Danner's support for a third-way at best is muted. For sure, he decries the state's increasing absorption of the duties of private organizations that could function more effectively and humanely with state assistance, calls attention to the diminished role of private charity in resisting the "totalitarian tendencies of the welfare state," and openly embraces the principle of subsidiarity. [Danner 1980, pp. 335, 339; Danner 2002, pp. 134, 145]. At the same time he warns that there is "no ultimate resolution" to the struggle between the individual, the state, and the economy. [Danner 1980, p. 343].

A market economy is an economic system constructed around a market structure that is based on the premise that private individuals know their own needs and wants and therefore should be free to control the decision-making process that allows them to best meet those needs and satisfy those wants. A market economy is reinforced by the philosophy of individualism that originated in the 17th-18th century Enlightenment wherein the freedom of the individual is of utmost importance. Contemporary libertarians assert that no limits should be imposed on the freedom of individuals who by serving their own individual good *ipso facto* serve the common good. Private groups are seen as collusive and therefore destructive of individual freedom and the common good. Public groups are seen as a direct threat to the freedom of individuals.

Twelve characteristics are essential to a market economy: private creation of credit; private property; competition; freedom; decision-making through markets; consumer

sovereignty; producer sovereignty; meritocracy; prices allocate resources; risk of unmet need; dilemma; creative destruction. Our concern in the following is primarily with the decision-making process.

Decision-making is decentralized through a system of markets in which buyers and sellers, creditors and borrowers, resource holders and producers, along with employers and workers, interact and through that interaction determine what goods and services are produced, how much of the goods and services will be produced, the prices of those goods and services, the value of financial and physical assets, wages and salaries, rent, interest rates, and profits. Consumers at times enjoy sovereignty by virtue of their decisions to buy or not buy certain goods and services. At other times producers are sovereign in the sense that they can control demand by the unique goods and services they offer.

Everyone in a market economy is subject to the *risk of unmet need* relating to an interruption in their income due to job loss or business closing. There is no lifetime security in such an economy. Furthermore, a market economy deliberately instills anxiety in everyone to get workers to the workplace on time and to make them more conscientious about their work. The dilemma of a market economy is that it uses unmet human need to allocate resources but too much unmet need is destabilizing. Unmet need can prompt the government to intervene.

A command economy is a system in which decision-making is located in a public authority and is based on the premise that private individuals do not always know their own needs and wants and that the common good is not well-served by individual freedom. This system insists on public control of decision-making in order to properly address human needs and wants and to protect and preserve the common good. Socialism is reinforced by a collectivist philosophy such as Marxism, fascism, or democratic socialism that have one thing in common: economic resources are best allocated by a system that severely constrains individual freedom and replaces markets with centralized decision-making as to how economic resources are allocated. Private groups are seen as a threat to public control.

In *Capitalism, Socialism, and Democracy*, Schumpeter called attention to “the migration of people’s economic affairs from the private into the public sphere. [Schumpeter 1950, p. 415].

In 1961, Waters called attention to the connection between economic freedom and Schumpeter’s warning about the migration from the Many private individuals to the One public group.

Since the kind of socialism expected is characterized by centralized, autonomous, public control, we must anticipate the loss of one kind of economic freedom, viz., the freedom of private individuals and groups to make economic decisions ... [Waters 1961, p. 136].

A personalist economy is a system that is constructed around a market structure in which decision-making is shared by private individuals, private groups, and public authorities but is located preferentially in persons who notwithstanding their human imperfections have the necessary competency to know their own needs and wants and therefore should be largely free to participate actively in the decisions that help them meet those needs and satisfy those wants. However, whenever private individuals are unable to address their own needs and wants as for example when they find themselves at cross purposes as with disputes between employers and workers, a different decision-making system is required.

Under those circumstances, a personalist economy proposes the establishment of private groups such as cooperatives and supra-firm alliances to intervene and help these persons sort through the issues that are keeping them from serving their own best interests. These private intermediary groups are grounded in solidarity in that they arise from agreement to pursue a specific objective not as individuals but through private group action. This action is not collusive in nature as long as the parties involved are not motivated by the opportunities to exploit others not included in the group. In a personalist economy, public authorities intervene only when the private individual and private-group decision-making collapse. The *most important* characteristic of a personalist economy is economic freedom that is addressed in the following section. Its *distinguishing* characteristic is the unique role played by cooperating intermediary groups.

A brief summary is helpful in further distinguishing the three systems. A market economy is self-regulating through the invisible hand with the purpose of achieving the good of the individual. The decision-making agent is *homo economicus*. A command economy regulates decision-making through a central authority that serves the common good. Here the decision-making agent is *homo secundus*<sup>1</sup> to drive home the system's subordination of the individual to the collective. Decision-making in a personalist economy is regulated by private institutions and groups in which the public authority is limited by the principle of subsidiarity for the purpose of reconciling the individual good and the common good. The decision-making agent in a personalist economy is the *person of action*.

Figure 1 presents in shortened form the central characteristics of all three economic decision-making systems: philosophy, driving force, central premise, purpose, freedom, economic agent, preference, abuse, and remedy.

## SUBSIDIARITY AND ECONOMIC FREEDOM

In addressing economic freedom, the principle of subsidiarity must be taken into account. This principle, which Pius XI [1931, § 80] referred to as the principle of the subsidiary

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<sup>1</sup> Until the fall of the Soviet Union, “homo sovieticus” was the commonly used term for the economic agent in an oppressive command economy.

function, asserts that (1) larger, stronger elements of society should not take over the functions of smaller, weaker elements, but instead (2) should help the smaller, weaker elements function more effectively. Subsidiarity protects the individual from an overreaching government and helps assure that he/she will be able to act freely in economic affairs. With its strong preference for control in the hands of the fifty states of the United States or the people, the Tenth Amendment to the Bill of Rights of the U.S. Constitution is an expression of this principle.

A powerful preference in the principle of subsidiarity for private versus public enterprise has the effect of decentralizing ownership and control of economic activities that in turn (1) lead to a greater diversity of goods and services because the entrepreneur's hands are freed; (2) a smaller risk that big mistakes will be made because private enterprises are smaller in their reach than public enterprises; and (3) private enterprises will be more responsive to their customers because they are driven by the need to earn a profit for the owners.

In *Centesimus Annus* John Paul II's comments on the centrality of freedom and calls for reconciling the individual good and the common good.

... man, who was created for freedom, bears within himself the wound of original sin, which constantly draws him towards evil and puts him in need of redemption. Not only is *this doctrine an integral part of Christian revelation*; it also has great hermeneutical value insofar as it helps one to understand human reality. Man tends toward good, but he is also capable of evil. He can transcend his immediate interest and still remain bound to it. The social order will be all the more stable, the more it takes this fact into account and does not place in opposition personal interest and the interests of society as a whole, but rather seeks ways to bring them into fruitful harmony. [John Paul 1991, §25; emphasis in original].

In the same encyclical, John Paul II finds fault with the market economy when it is "understood as a method of upholding the absolute predominance of capital" and the command economy because it "maintains that the good of the individual can be realized without reference to his free choice." [John Paul 1991, §§ 35, 13]. Taking into account the flaws in a market economy and a command economy, John Paul II implies support for a market-based "third way."

... what is being proposed as an alternative is not the socialist system, which in fact turns out to be State capitalism, but rather *a society of free work, of enterprise and of participation*. Such a society is not directed against the market, but demands that the market be appropriately controlled by the forces of society and by the State, so as to guarantee that the basic needs of

the whole of society are satisfied. [John Paul 1991, §35; emphasis in original].

## INTERMEDIARY GROUPS

The principle of subsidiarity encourages a sense of community through the establishment of private organizations midway between the state and the individual. There are three kinds of private intermediary groups in the economic order of special interest herein: the cooperative, inter-firm partnership, and supra-firm alliance. In all three cases, competition is set aside in designated areas of their operations or subordinated to cooperation.

A cooperative is an enterprise that is owned and operated primarily for the benefit of its members. An inter-firm partnership is cooperation between two or more firms in which there are no new formal organizational arrangements. A supra-firm alliance is cooperation between two or more firms by means of a distinct, formal organization that has a staff and its own decision-making role. Because all three are human organizations, all three run the risk of becoming collusive arrangements.

### Cooperative.

There are four types of cooperatives: consumer, producer, purchasing/shared services, and worker.<sup>1</sup> A consumer cooperative is owned by the persons who buy consumer goods and services through the cooperative. A producer cooperative is owned by the persons who produce and sell a line of products or services. The purchasing/shared service cooperative is owned by business owners who come together in order to enhance their purchasing power, lower the cost of production, improve their competitiveness and their ability to provide quality services. The worker cooperative is owned and controlled by the employees of the firm in which each employee has one vote in the decision-making process.

Strongly implied in the cooperative model is an emphasis on the organizing principle of cooperation as a response to those market system practices in which, as John Paul II has asserted, unfettered competition is suffocating the individual.

The International Cooperative Alliance has expressed the spirit of the cooperative in terms of the following seven principles: voluntary and open membership; democratic member control; members' economic participation; autonomy and independence; education, training, and information; cooperation among cooperatives; and concern for community. [International Cooperative Alliance n.d.].

Private group control of decision-making is affirmed in the second and third principles where democracy and member participation are underscored: the members act not as the

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<sup>1</sup> The National Cooperative Business Association provides more information on cooperatives in the United States at <https://www.ncba.coop/our-members>.



*Many* but as the *One*. The self-help and autonomous identity of the cooperative organization is set forth in the fourth principle thereby affirming the importance of the individual good and the private-group structure of the cooperative. By calling attention to the cooperative as a means by which the needs of the individual and sustainable development of the community are addressed, the seventh principle recognizes the importance of serving and reconciling the individual good and the common good.

Without an on-site visit, it is not possible to determine if any given cooperative actually implements these seven principles. Some may be truly committed, including those that live the principles without knowing how to express them in writing. For others, the principles may have no real meaning beyond a listing posted on a wall. They are ignored in day-to-day decision-making. Others may call themselves cooperatives but in fact have little or no regard for the organizing principle of cooperation: they act not as the *One* but as the *Many*.

Even so, the seven principles have meaning for those cooperatives that are guided by them explicitly or otherwise. Furthermore, those cooperatives are real-world examples of private decision-making groups that form the intermediary bodies between the market economy and the command economy and help reconcile the individual good of the *Many* private individuals and the common good of the *One* public group.

Recreational Equipment Inc (REI) is the largest consumer cooperative in the United States with more than 5.5 million active members who join by paying a one-time fee of \$20. REI sells outdoor gear and apparel plus top branded merchandise for camping, climbing, cycling, fitness, hiking, and other outdoor activities. REI started in 1938 and today operates 138 retail outlets across the United States. Sales also are made on line and by mail order. Net sales in 2014 were \$2.2 billion. Dividends in excess of \$100 million were paid to qualifying members based on purchases in 2014. Non-members are allowed to shop at REI but are not eligible for dividend distribution. Its website is listed in the references section along with the websites of the other cooperatives cited below and the six supra-firm alliances.

Founded in 1930 and headquartered in Lake County Illinois, Consumers Credit Union operates as a consumer cooperative offering a wide range of retail financial services including checking, savings, debit and credit cards, CDs, and mortgage products at six service centers in Illinois. CCU membership totals more than 62,000 and is open to anyone regardless of place of residence or place of work for a one-time fee of \$5. The board of directors is elected by the members. CCU has roughly \$628 million in assets with \$433 million in loans and plows any profits back into the institution. Members receive any surplus funds in the form of dividends, reduced interest on loans, and improved services. Dividend distribution in 2014 amounted to \$3.4 million.

Ocean Spray is a producer cooperative. Founded in 1930, Ocean Spray is owned by 700 cranberry and grapefruit growers in the United States, Canada, and Chile. It has more

than 2,000 employees and delivers approximately seven million barrels of cranberries to nearly 20 receiving and processing facilities. The global industry delivers roughly 12 million barrels annually. Ocean Spray in 2015 will deliver its products in more than 100 countries around the world.

Land O'Lakes is a member-owned and directed producer cooperative that dates from 1921 when a group of Minnesota creameries decided to put cooperation ahead of competition. The cooperative today has 300,000 direct or indirect owners who handle 12 billion pounds of milk annually producing a wide range of dairy products. Land O'Lakes in 2013 had sales of \$14.2 billion. It provides farmers and ranchers with a line of agricultural supplies including feed, seed, and crop protection products. Additionally, it provides agricultural assistance and technical training in more than 25 developing countries.

Producers Cooperative Association is a purchasing/shared services cooperative that began in Texas as Brazos County Cooperative Association in 1943 with the objective of pooling resources of farmers and ranchers to purchase rail cars of grain for their livestock. Today the Association provides more than 10,000 farmers and ranchers in southeast and south central Texas with livestock feeds, seed, fertilizer, fuel and lubricants, equipment, and supplies. An active member – a one-time fee of \$10 is all that is required to become a member -- shares in the profits of the Association based on its net earnings and the amount of business that member does with the Association.

E&I Cooperative Services is a not-for-profit purchasing/shared services cooperative that was launched in 1934 by the purchasing agents at Cornell University, Colgate University, and Syracuse University to enable those institutions to lower their purchasing costs by “pool buying.” E&I is unique in that even today it is the only member-owned cooperative focused on the educational community and related institutions. Today it has more than 3,700 institutional members who annually elect the board of directors. One of the key services that E&I provides is the connection to “best-in-class competitively awarded contracts.” It claims annual savings for its members of more than \$200 million.

A worker cooperative is a business enterprise that is owned and controlled by the persons who work at that enterprise. Formed in 1981, Port Townsend Shipwrights Co-op located in the State of Washington is a 13-member worker cooperative specializing in servicing the Alaska fishing fleet, motor vessels, and sailing vessels of the Pacific Northwest.

In the United States worker cooperatives at times evolve from companies in failure that are bought out by the employees in order to secure their jobs but often fail later for a variety of reasons. Such was the case with Weirton Steel in West Virginia that was established originally in 1905. Faced with stiff competition from Japan and Europe and unable to find a buyer, the company was bought in the early 1980s by the employees through an employee stock ownership plan. During the remainder of the 1980s Weirton Steel was profitable but was not successful in remaining competitive and profitable in the following decade. It

declared bankruptcy in 2003.

Cooperatives are not exclusive to the United States. We call attention to two significant examples of cooperatives operating in Europe, one a producer cooperative, the other a worker cooperative.

Producer cooperatives account for one in every four bottles of wine produced in Europe. In Italy the national federation of cooperatives with 425 wineries and 141,000 members account for 30 percent of the country's wine production. The cooperative is best suited to areas where labor costs are high and farming parcels are fragmented. In Trentino in northern Italy 80 percent of the region's total wine production comes from cooperatives where the typical family-owned vineyard is less than one hectare. [Wine Enthusiast, 2011].

The Mondragon system of worker cooperatives operating in the Basque region of Spain was established in 1956 with the formation of a firm that produced household appliances. For many years all of the companies launched in the system were worker owned, and most were successful. Those cooperatives operated mainly as manufacturing establishments. Others, however, were set up as a retail grocery outlet, insurance provider, and to offer banking services and technical training. Today the Mondragon system operates 260 cooperatives and other business establishments employing 74,117. Revenue in 2014 amounted to €11.9 billion.

The Mondragon system is not without its problems. The cooperative formed in 1956 was forced into bankruptcy as a result of the collapse of the housing bubble some 50 years later. Some of the coops operate in other countries are not worker owned. Some in the Basque region are only partially worker-owned. As with many other companies throughout the world, globalization is threatening the viability of the Mondragon cooperatives. [Navarro, 2014].

### *Inter-firm Partnership.*<sup>1</sup>

An inter-firm partnership involves a nonformalized understanding between, for example, a producer and supplier, an employer and employment agency, an entrepreneur and a banker in which their day-to-day relationship is governed by more than profit-maximization. Such an understanding may arise initially from the firms' sharing common space such as a parking lot or garage, a hallway or elevator, a loading dock or delivery agent. An understanding may arise even among competing firms that form a critical mass in one location in order to better serve each one's individual interests without exploiting the others involved. Examples in the United States include Chicago (railroads), Detroit (autos),

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<sup>1</sup> This section on the inter-firm partnership and the following section on the supra-firm alliance are taken for the most part from the author's article published in the *Journal of Markets and Morality*. See O'Boyle 2014.

Silicon Valley (computing), Pittsburgh (steel), Milwaukee (beer), St. Louis (shoes), New York (finances), Boston (medical education). Such partnerships known locally as “antique alley,” “farmers market,” “restaurant row,” or “flea market” develop even in small cities.

**Supra-firm Alliance.**

The supra-firm alliance is a formalized agreement that is largely independent of the more powerful public authority and is outside the direct control of the State. The supra-firm alliance must be voluntary and representative of the various private-individual organizations that form the alliance. The supra-firm alliance should be supportive but nonintrusive in the sense that if a member encounters organization-specific dysfunction and asks for assistance, the group should be ready and willing to provide whatever help it can in order to deal with that dysfunction.

At the supra-firm level, control of the workplace proceeds not through owning property or other assets but through sharing problems. Thus, the workplace at the supra-firm level may be defined as any work site(s) where dysfunction or inefficiency are occurring that cannot be managed satisfactorily at the intra-firm level and where the immediately affected persons voluntarily request assistance from a private group of persons all of whom are familiar with the work site(s), understand the dysfunction and inefficiencies occurring there, and have some direct interest in the good or service produced there.

The supra-firm alliance is to the economic order what the vital organ is to the human body. Just as vital organs in the human body are specialized cells with a specific function that is essential to physical health and well-being, so too the supra-firm alliance is a specialized group of private parties to provide for the well-being of the economic order. Dysfunction and inefficiency are as inevitable in the economic order without such alliances as illness is in the human body with a failing or missing vital organ.

Supra-firm cooperation falls into two general classes: industry-specific and area-specific. As to the industry-specific type, the cooperating firms likely are competitors in the product market. With respect to the area-specific variety, the allies may compete in the product market and probably compete in the resource market, particularly the labor market. The following six examples reflect the great diversity of such alliances, and drive home the lesson in subsidiarity that when private enterprise acting alone cannot manage certain problems it is not necessary to turn immediately to the State for assistance.

United Way is a highly-regarded organization operating in many U.S. cities that brings together local business enterprises and other organizations to raise funds to help those in the area who are needy. It is a prime example of a supra-firm alliance that allows the member organizations to be more effective in addressing unmet need collectively than they would be acting individually. United Way brings the source of assistance closer to the needy, enabling it to assess those needs more accurately, thereby reducing the need for government intervention.

**Advanced Book Exchange (AbeBooks) is the world's largest online marketplace for used, rare, and out-of-print books. The exchange brings together thousands of independent booksellers worldwide. Each seller decides which books to list, their general condition, price, and other information. Buyers can browse the books through a convenient search function. The on-line exchange allows buyers to comparison shop and sellers to reach a much wider market.**

**Louisiana Offshore Oil Port (LOOP) is a limited liability company that offloads and stores foreign crude oil from tankers for eventual transport by pipeline to refineries throughout the Gulf Coast and Midwest. LOOP was organized in 1972 and has four owners: Ashland Oil, Marathon Ashland Pipe Line, Marathon Oil, and Shell Oil. To assure the safe handling of oil from deep draft supertankers the offloading is done at a terminal located 18 miles off the Louisiana coast in 110 feet of water. A pipeline transports the oil to onshore storage facilities and from there to the refineries of the participating owners. LOOP was built and continues to operate only because the four owners understand that they can reduce the risks in offloading and transporting crude oil more effectively by working together than by operating independently. To reinforce cooperation, LOOP's board of directors is organized on the democratic principle that, irrespective of company size or ownership share, every participating company has just one vote.**

**PRIDE of St. Louis, which also was established in 1972, is a voluntary labor-management organization in the construction industry that meets monthly to identify and deal with stress points that interfere with the completion of building projects on time and within budget. PRIDE members include representatives from the various building trades, construction firms, architectural and engineering firms, and material suppliers. It is an excellent example of private group decision-making that seeks to find ways to deal with problems in the construction industry that cannot be addressed by private individual decision-making and eliminates the need for public group intervention.**

**Marine Response Alliance was founded in 1994 to provide salvage and marine firefighting services to the marine community. Today it is owned and operated by five companies: McAlister Towing, Marine Pollution Control, Titan Maritime, Marine Hazard Response, and Crowley Marine Services. The Alliance relies on the member companies' equipment and personnel to respond to a marine emergency. Together the Alliance provides its clients with the services of 11,000 full-time employees and a fleet with more than 370 vessels. It has access to high horsepower tugs, lightering barges, portable pumping equipment, salvage gear and expertise, along with firefighting equipment and trained firefighters. In 2014 it launched an exclusive mobile app that allows ship owners/operators, certain qualified individuals, and the U.S. Coast Guard to report an incident and have access to immediate response capabilities anywhere, anytime. The database is password-protected. [Crowley2014].**

Geismar Area Mutual Aid (GAMA) is an organization of petro-chemical companies located adjacent to one another along the Mississippi River in Geismar, Louisiana. These companies are committed to assist a member company with trained fire-fighting and hazardous materials teams in the event of an emergency such as a fire, explosion, or accidental discharge. Its website ([www.gamaid.org](http://www.gamaid.org)) is accessible only to a member company.

United Way is an area-specific alliance. AbeBooks and Marine Response Alliance are industry-specific. PRIDE, LOOP, and GAMA are both area-specific and industry-specific. All six have one thing in common: they are able to achieve their objectives more effectively by working together than by working alone.

**Cooperation Is Not Collusion.**

Ever since Smith's *Wealth of Nations* economists have stressed that competition is the force that organizes and energizes a market economy.<sup>1</sup> Any effort to dampen competition, they argue is harmful and for that reason is looked on as collusive.

It follows that in mainstream economics, private intermediary groups are largely regarded as deliberate efforts on the part of producers to extract from consumers by devious means what they are not able to earn by honest means through competition. All such practices are characterized as zero-sum arrangements that are to be exposed and rooted out.

Without question collusion and zero-sum practices have plagued the United States for a long time and have been used to victimize less powerful persons such as consumers, small businesses, and taxpayers. It is fully appropriate to break up such practices and to prosecute and punish the perpetrators.

Even so, not all private decision-making groups are collusive. Authentic cooperation also organizes and drives a market economy, although more so in an economic order where the social value of community is prized along with the social value of individual freedom that undergirds competition.

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<sup>1</sup> “When the quantity of any commodity which is brought to market falls short of the effectual demand, all those who are willing to pay the whole value of the rent, wages, and profit, which must be paid in order to bring it thither, cannot be supplied with the quantity which they want. Rather than want it altogether, some of them will be willing to give more. *A competition will immediately begin among them*, and the market price will rise more or less above the natural price, according as either the greatness of the deficiency, or the wealth and wanton luxury of the competitors, happen to animate more or less the eagerness of the competition. Among competitors of equal wealth and luxury the same deficiency will generally occasion a more or less eager competition, according as the acquisition of the commodity to be of more or less the importance to them.” [Smith 1937, p. 56; emphasis added].

The intermediary groups we have in mind are expressions of the organizing and energizing force of cooperation. What distinguishes them from collusive arrangements is that they yield positive-sum outcomes. Rather than being condemned out of hand, judgment regarding an intermediary group should be reserved until it can be evaluated on site.

Positive-sum cooperation is entrepreneurial because it represents a change in the way economic affairs are organized and conducted. In the United States, private intermediary groups evoke the usual resistance that all entrepreneurs encounter. The successful entrepreneur understands at least intuitively that cooperation is not a substitute for competition and that cooperation is not possible without striking a new balance between individual good and the common good.

### CONCLUDING COMMENTS

We have found support for private group decision-making that reconciles the good of the individual and the common good through private intermediary groups expressed by Pius XI, Schumpeter, Dempsey, Becker, and Waters. Additionally, intermediary groups have the blessing of John Paul II.

... the social nature of man is not completely fulfilled in the State, but is realized in various *intermediary* groups, beginning with the family and including economic, social, political and cultural groups which stem from human nature itself and have their own autonomy, always with a view to the common good. [John Paul 1991, §13; emphasis added].

Apart from the family, other *intermediate* communities exercise *primary* functions and give life to specific networks of solidarity. These develop as real communities of persons and strengthen the social fabric, preventing society from becoming an anonymous and impersonal mass, as unfortunately often happens today. It is in interrelationships on many levels that a person lives, and that society becomes more “personalized.” [John Paul 1991, §49; emphasis added].

Intermediary groups represent the implementation of the principle of subsidiarity that underscores the importance of organizations intermediary between the human person on the one hand and the much more powerful public authority on the other hand. They have the effect of protecting the human person from a heavy-handed public authority and by establishing themselves closer to that person are able to provide greater opportunities for that person to participate actively and freely in the economic decision-making process. In a personalist economy, public authorities intervene only when the *Many private individuals* and the *One private-group* are unable to function effectively. While economic freedom is the most important characteristic of a personalist economy, intermediary groups are its distinguishing characteristic.

**We found anecdotal evidence of intermediary groups operating in the United States in the form of cooperatives and supra-firm alliances. In our judgment they represent a viable alternative to the absolutist individualism of a market economy and the oppressive collectivism of a command economy. However, more work must be done to accumulate evidence indicating that the private intermediary groups of a personalist market economy are truly cooperative.**

**Intermediary groups are a natural expression of the social dimension of human beings who are confronted by problems that they cannot resolve by acting alone. Establishing these private decision-making groups in economic affairs is instinctive in the sense that they call for the very same problem-solving skills that are necessary for any individual economic enterprise to operate successfully. Because they are organized by the principle of cooperation mainstream economics dismisses them because cooperation always is collusive. As Adam Smith long ago asserted “people of the same trade seldom meet together ... but the conversation ends in a conspiracy against the public, or in some contrivance to raise taxes.” [Smith 1937, p.128]. Rather than sifting through the economic realities of the current economic order to find the best fit for the mainstream paradigm, it’s time to re-align economics more closely with those realities, notably the human disposition to organize economic affairs through the principle of cooperation.**



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**Figure 1**

