



The Basque socioeconomic model (BSEM): a Lonergan perspective

Paul Hoyt-O'Connor¹ · Massimo Cermelli²  · Inigo Calvo-Sotomayor³

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Abstract

Bernard Lonergan maintained that economies are goods of order which, when properly disposed, make possible the regular provision of the material conditions for the fuller flourishing human. Lonergan's economic thought tried to understand the economy related to a society's civic institutions, political orders, and cultural traditions. In addition, he wished to explain the normative rhythms of economic development and the conditions of its dynamic equilibrium. In this sense, Lonergan's analysis presents an alternative to conventional accounts of the kind of economic progress the Basque Country has enjoyed in recent decades, in ways that still resonate with the Basque Country's emphasis on the centrality of the productive process and the values of its people.

Keywords Bernard Lonergan · Basque Country · Social wellbeing · Pure cycle

JEL Classification B2 · B59

1 Introduction

Bernard Lonergan (1904–1984), a Canadian Jesuit well known for his theological work, advanced an economic analysis which seeks to explain the process of macroeconomic development. In his view, the long-term objective of the economy is to increase the standard of living of the entire population, with a special care for the more vulnerable economic actors (Lonergan 1998). While understanding economic activities of individuals as embedded within the social, cultural and institutional

✉ Massimo Cermelli
massimo.cermelli@deusto.es

¹ Center for Undergraduate Fellowships and Research, George Washington University, Washington DC, USA

² Department of Economics, University of Deusto – Deusto Business School, Bilbao, Spain

³ Department of Management, University of Deusto – Deusto Business School, Bilbao, Spain

conditions of a given community, Lonergan shares with other economists the conviction that innovations play a key role in explaining economic growth and social wellbeing. Through innovations, according to Lonergan, entirely new economic sectors that did not previously exist come into being (Schumpeter 1939). However, for Lonergan, an economic behavior at the microeconomic level of the firm based on the continuous maximization of short-term profits may yield a vicious cycle and convert economic expansions into recessions and depressions. Lonergan's analysis converges with the concerns of current scholars worried about social wellbeing and the place of people within economic processes (Lonergan 1988, 1998; Pirson 2014; Dierksmeier 2015; Porter and Kramer 2011; DeNeeve 2009; Couret Branco 2016).

Since Lonergan's ideas and theories have not been applied yet to any regional economy as far as we know, this paper is the first attempt to apply Lonergan's understanding of economic activity to a specific case.

The objective of this paper is to apply Lonergan's account of social and economic development to analyze the transformations that took place in the Basque Country during the period 1980–1993, an interval through which this territory underwent a profound transformation. During these years, democracy was consolidated in Spain, the Basque Country recovered its political, economic, and fiscal autonomy within Spain, the Basque economy underwent an intense industrial restructuring, the Basque educational system experienced a profound transformation, and the standard of living rose considerably.

The authors of this article believe that speed of these profound changes, as well as the size and scope of the region's economy and population, make the Basque Country an excellent case study for applying Bernard Lonergan's analysis.

The paper structure is as follows; after this first introductory section, the second section presents the main features of Lonergan's analysis of economic and social development; the third section describes the Basque socioeconomic performance between 1980 and 1993; the fourth section identifies features of the Basque case which a Lonergan-inspired account would especially highlight. Finally, main ideas and further questions are discussed in the concluding section.

2 Lonergan's analysis of the economy and its normative development

While the Great Recession has more recently prompted a reassessment of economic thought and financial regulation, the Great Depression called into question the very principles which had guided economic theory and practice. Many theorists, Lonergan included, responded to that challenge by striving to understand modern exchange economies in fresh ways. Through the course of his study of economics, which culminated in the manuscripts, *for a New Political Economy* (1942) and *An Essay in Circulation Analysis* (1944),¹ Lonergan was convinced that evolving economic

¹ Bernard Lonergan, *For a New Political Economy*, Vol. 21, *Collected Works of Bernard Lonergan*, ed. Philip J. McShane (Toronto: University of Toronto Press, 1998). The manuscript, *For a New Political Economy* seems to have been completed around 1942. Also, Bernard Lonergan, *Macroeconomic Dynamics: An Essay in Circulation Analysis*, Vol. 15, *Collected Works of Bernard Lonergan*, ed. Frederick G.

reality needed to be understood in its own right, and in his analysis, he had two goals in mind. First, Lonergan sought to understand the economy as relatively autonomous from but nonetheless related to a society's civic institutions, political orders, and cultural traditions. Secondly, he wished to explain the normative rhythms of economic development and the conditions of its dynamic equilibrium.

2.1 The economy as a social good of order

Lonergan began by defining the productive process as the one that “aggregate of activities proceeding from the potentialities of nature and terminating in a standard of living” (Lonergan 1999: 20), and in doing so, he distinguished the productive process from the human and non-human potentialities from which it proceeds as well as from the durable goods of past production which are no longer “in process” but have since entered a society's standard of living or serve to replenish if not augment that society's capital formation. Accordingly, a standard of living consists neither in baskets of consumer goods nor in the magnitudes of expenditures to purchase them but in aggregate rates at which goods and services pass from the productive process and thus underpin a community's way of life (Lonergan 1999: 28).

Human needs are recurrent and so is the desire for their satisfaction. For instance, it is good to be able to purchase groceries in order to prepare a meal; it is even better to be able to purchase groceries not once but again and again in order to prepare not one but a series of meals. Lonergan defined a “good of order” as a well-functioning set of social schemes and routines that make possible the regular recurrence of such satisfactions (Lonergan 1992: 487). For that, very regularity and recurrence of goods and ordering of human activity are themselves distinctly valuable, as disruptions and breakdowns of those social orders quickly make evident.

However, these goods can rarely be obtained solely through individual efforts. When they act, individuals participate in already expected and agreed upon ways of doing things, and their participation is structured in large measure by mutual sets of expectations to which they hold each other accountable. Because human operations are almost always co-operations, human action is most often an instance of social interaction. On Lonergan's account, institutions are commonly accepted modes of cooperation, and they consist in patterned sets of human operations which make possible the recurrent flow of particular goods.

The economic good of order makes a social good possible in a still stronger sense. As institutionalized patterns of cooperation that function within particular communities, economic goods of order concretely mediate social relationships. By occupying certain roles, individuals come to meet and address one another, and any revision in their institutions and social practices affects whom they may happen to

Footnote 1 (continued)

Lawrence, Patrick H. Byrne, and Charles C. Hefling, Jr. (Toronto: University of Toronto, 1999); hereafter, *MD* followed by pages. This text presents Lonergan's 1944 manuscript along with the numerous changes he made during the late 1970s and early 1980s.

meet and the quality of their interaction. For this reason, Lonergan referred to goods of order as “orders between persons” (Lonergan 1988).

The polity, on Lonergan’s account, plays the crucial role of mediating cultural values and social arrangements. At its best, a democratic political order is one which enables people to deliberate and decide how they shall live together. Through the laws and regulations they enact, people can formally order their social life not, as Alexander Hamilton put in the Federalist No. 1 by “accident and force” but by “reflection and choice” (Hamilton et al. 2003: 27).

2.2 Features of Lonergan’s analysis of production and exchange

2.2.1 The functional distinction between basic and surplus

In order to explain the contours of an evolving economy, Lonergan sought to define an explanatory set of terms and relations, which in his words, “form a closed circle” in which terms are defined by their relations, relations are fixed by those terms, and “the whole is justified by the degree in which it and its implications are verified” (Lonergan 1999: 9). Because production, trade, and investment are not static entities but coordinated sets of activities that are performed over a series of intervals, the significant basic variables of his analysis of production, commerce, and finance consist in rates or flows, or “so much every so often” and accelerations, or “so much more or less every so often.”

Lonergan termed “basic” the production of goods and services that flow directly into a society’s standard of living and comprise the material conditions for its way of life. The flows of basic goods and services, in turn, depend largely upon the flows of producer or “surplus” goods and services, which repair and replace, if not enhance, a society’s productive capacities. Furthermore, “surplus production” consists not of one but of several stages of production, in which the means of production of one stage are produced by the next highest stage and the flows of productive goods and services employed in basic production are produced by the lowest surplus stage.

For that reason, the distinction between basic and surplus on Lonergan’s score is a *functional* and *explanatory* one. Thus, each stage consists of aggregate “rates” or “flows” or “so much every so often,” and Lonergan endeavored to grasp the relations of these aggregate rates to one another. Understanding the rates of how those goods and services are used concretely—whether they are employed in producing other goods or enter into a society’s standard of living—is pivotal in explaining the productive process.

Since production is almost always for sale in an exchange economy, Lonergan went on to distinguish basic and surplus flows of payments, which are congruent upon the functional division of basic and surplus production and which comprise two distinct monetary circuits. (See Fig. 1.)

The “basic circuit” is one in which the flows of expenditures for basic products (E') become the flows of receipts of basic producers. Those receipts in turn make possible flows of outlays (O'), which will be spent for the purchase of basic goods and services ($c'O'$). Those flows of outlays in turn contribute toward rates of basic

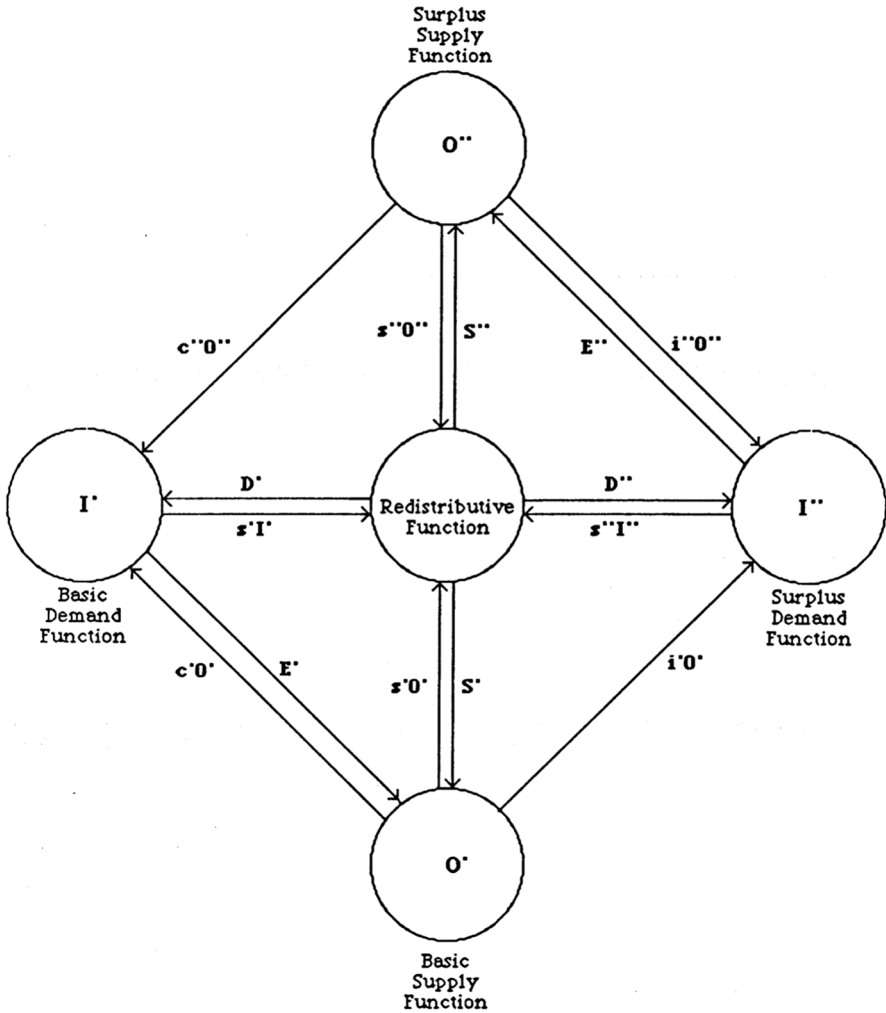


Fig. 1 Lonergan’s depiction of monetary rates of flows (this diagram may be found in *MD*, 55. In it, the sum of each respective set of fractions equal unity or, $c' + i' + o' = 1$ and $c'' + i'' + o'' = 1$)

income (I'), which will make possible future flows of basic expenditures, receipts, and outlays.

The “surplus circuit” is one in which the flows of expenditures for surplus products (E'') become flows of receipts to surplus producers, and those flows make possible flows of surplus outlays (O''); a notable portion of those outlays will be spent for surplus goods and services ($i''O''$). These flows of outlays contribute toward surplus income (I''), which in turn makes possible future flows of surplus expenditures, receipts, and outlays.

Furthermore, a pair of cross-over flows of payments connects these two circuits. That is, a sizable portion of basic outlays will likely be spent on new or replacement

equipment or services from surplus production ($i'O'$); conversely, a large fraction of surplus outlays will flow to the contributors of that process and will become income used to purchase a standard of living ($c'O'$). Throughout, these “rates” or “flows” do not denote discrete bundles of funds which are changing hands. Rather, Lonergan’s analysis seeks to specify how some flows of payments are dependent upon others, and in doing so, it aims to grasp the circulatory interdependence of flows of basic and surplus payments.

This analysis becomes considerably more complex once we include the vast ranges of rates of payments between the circuits and what Lonergan termed the redistributive function (RD), consisting of rates of payments associated with savings and investment. Through doing so, Lonergan distinguished not only markets for basic and surplus products but also capital markets in which an array of financial instruments are bought and sold. Given these differentiated pair of circuits, dynamic macro-equilibrium for Lonergan pertains to the relations not between the receipts of firms and the income of households but between these monetary circuits. So long as the cross-overs between the two circuits balance over time (so that $c'O' - i'O' = 0$), the economy as a whole develops in sustained fashion.

2.2.2 Innovation and the acceleration of the flows of production and payment

Balancing the cross-over rates of payments is especially crucial during economic expansions. The accelerating rates of production characterizing such far-reaching economic developments are made possible by the implementation of innovations or “new ways of doing things,” whether they take the form of new machines, new techniques, or new modes of organization. Lonergan’s views on innovation’s crucial role were informed by Joseph Schumpeter; in his *Theory of Economic Development* (1934) and *Business Cycles* (1939), Schumpeter described the disruptions and advances innovations made possible. Lonergan was especially interested in understanding economic expansions as consisting in series of wave-like accelerations, first of the most remote stages of surplus production and finally ramifying throughout the basic stage of production and a community’s standard of living. The more remote such innovations are from the production of basic goods and services, the more transformative they can be for the productive process as a whole, and so too, the greater the time-lag between the initial implementation of such innovations, the more profound their effects. When these wave-like expansions are completed without mishap, production neither slows down nor returns to its previous state, but it is instead carried on at higher, constant rates. For that reason, Lonergan called this productive cycle “pure” in order to distinguish it from the common trade cycle of periodic booms and slumps. Seeking to specify the relationships more precisely, Lonergan maintained that each stage of production operates as an accelerator of rates of production comprising the next lowest, and thus, even small changes of the rates of production in the upper reaches of surplus production can have compounding

accelerative effects upon the flows of goods and services into a community's standard of living.²

Lonergan argued that, for all practical purposes, the long-term accelerations of production and commerce need increases in the supply of available money per interval. If flows of goods and services are also to increase, enterprises need additional money to augment their outlays to their employees and their suppliers, as well as to purchase new surplus equipment and services. For this reason, he understood that increments in the supply of money normally make their entry into the circuits through flows of payments from the redistributive function to surplus or basic supply and that the techniques of central bankers as well as a dizzying array of financial services have arisen to meet that need, thus bridging the gaps between current rates of receipts and outlays when rates of production are accelerating.

Taken together, innovations and increases in the supply of available money per interval which underwrite them give rise to wave-like accelerations of the rates of production and payments.³ Lonergan identified three principal phases of such long-term developments. In the initial phase, surplus production undergoes an internal development and undergoes a "major expansion," whereby rates of surplus production accelerate in order to supply new capital goods and services that are increasingly in demand. As surplus production is thus expanding, money flows in favor of the surplus circuit and that economy consequently enjoys increasing rates of "pure surplus income."⁴ Lonergan used different terms to highlight the different functional meanings of these monies. Since pure surplus income consists in flows of money over and above what is needed to purchase a proportionate standard of living and to maintain current rates of production, he also called these flows "net aggregate savings." Because the function of this money is to upgrade if not transform a society's productive capacities, he also referred to these monetary flows as the "social dividend."

In the transitional phase, the time-lag between the long-term accelerations of surplus and basic production comes to an end. As it does, surplus production becomes increasingly devoted to meeting the maintenance and replacement needs within the surplus sector itself while also providing the new equipment which supports a long-term acceleration of basic production. So, rates of pure surplus income quickly reach their maximum and begin to taper, as surplus production is increasingly devoted to maintenance and replacement.

In the closing phase, the long-term acceleration of surplus production levels off, while basic production now takes full advantage of the progress made and undergoes a major expansion of its own. This "major basic expansion" is the natural end of major surplus expansion. Since a community's total income is now increasingly

² See MD, 36–38. Lonergan found Adolph Lowe's description of circular flows particularly suggestive in his *The Path of Economic Growth*, (1976). Among earlier antecedents is Schumpeter account of the circular flow in *The Theory of Economic Development* (1934) and the "round-about" effect described by his teacher, Eugen von Böhm-Bawerk in *The Positive Theory of Capital* (1889).

³ See MD, 68–73.

⁴ See MD, 107–18.

devoted to elevating its standard of living, the closing phase of this “pure cycle” requires a more egalitarian shift of monetary income in favor of basic income and with it, declining rates of savings and pure surplus income. Otherwise, basic demand will not be as effective as it needs to be if all members of a community are to benefit.

Specifically, responding appropriately to increasing and then decreasing rates of savings is critical to maintaining the dynamic equilibrium of the circuits so that the cross-over rates of payments must balance from one interval to the next. If not, one circuit will inevitably drain the other, in time forcing a contraction of the corresponding sector of production and all too often doing harm to a society’s less fortunate members. Thus, Lonergan held that rates pure surplus income lay “at the nerve center of free economies” (Lonergan 1999: 110).

2.2.3 Oversights, maladaptations, and the emergence of the trade cycle

Two sets of oversights especially make it likely that the demands of the pure cycle will go unmet. The first may convert that cycle’s initial phase into a “boom.” During a major surplus expansion, surplus production accelerates and the quantities of available money and the flows of surplus payments increase over time. So, too, should the rates of savings increase over those intervals. Accelerating rates of savings during the initial phase of the pure cycle are anything but guaranteed, however.

As the flows of surplus outlays increase, so do the incomes of those who contribute to surplus production. Rather than deciding to invest in surplus process, individuals may decide instead to spend their additional income on basic products. Since the flows of basic goods and services have not as yet increased, the prices for basic products as a whole rise with this influx of money.

Since prices in the basic final markets are rising over a series of intervals, enterprises engaged in basic production enjoy a kind of windfall profit.⁵ For the rates of basic outlays in previous intervals were made with an eye toward earlier basic price levels, and now current rates of basic receipts exceed previous rates of basic outlays. For Lonergan, this windfall of basic enterprises corresponds roughly to that portion of pure surplus income that had been diverted to basic expenditure, and therefore, those individuals who receive greater incomes due to this windfall should invest in surplus process since it is the “going concern” during the initial phase of the pure cycle.⁶ Thus, rising basic prices constitutes a corrective scheme by which the flows from the surplus to the basic circuit are balanced by flows of payments from the basic to the surplus circuit in order to sustain dynamic equilibrium.

However, the significance of rising basic prices may be misinterpreted. Whereas the rise or fall of the price of one product relative to others is an indication that more or less of that product is desired and the production of it should change accordingly,

⁵ Often interpreted as “profit,” the excess of basic receipts over basic costs is the meaning of what Lonergan called the “basic price spread” on the microeconomic level (See *MD*, 80 and 158).

⁶ See a supplement Lonergan wrote in 1979 to “The Cycle of Pure Surplus Income” included in *MD* 144–46 n. 201.

it by no means follows that when prices as a whole rise that “more and more of everything is wanted,”⁷ and conversely, when prices as a whole fall, it does not follow that less and less of everything is desired. In the former case, windfall profits could justify increased wages across the board, thus augmenting rates of basic income and spurring basic prices to rise still further. Movements in general price levels result, Lonergan believed, from failures to adjust the rate of saving to the various phases of the productive cycle (Lonergan 1999: 140). Failing to “distinguish between the significance of a relative and an absolute rise or fall of monetary prices”⁸ paves the way for converting a major surplus expansion into a “boom.”

A second set of oversights may convert a major basic expansion into a “slump”, and it involves the failure to identify and grasp the functional meaning of “pure surplus income.”⁹ While “constant normal profits” may be conceived as the excess of receipts over expenses which might be enjoyed even during a relatively stationary economic state, such “profits” are quite distinct from the “profits in the strong sense”, those rates of pure surplus income that emerge in the initial phase, revert to zero in the closing phase of the pure cycle, and correspond to rates of new fixed investments spurring economic transformations. (Lonergan 1999: 146).

When that distinction is not made, individuals and groups may seek to protect themselves from falling “profits” by obtaining “relatively invulnerable” sources of surplus income,¹⁰ and these relatively invulnerable sources of surplus income in turn put the “squeeze” on others who are poorly positioned as the productive cycle enters its transitional and closing phases.¹¹ Due to the artificially high rates of interest and dividends accruing to the “more sheltered firms,” the “less sheltered” shoulder a disproportionate decline in their surplus income so that they become unable to maintain and replace their capital equipment and services. If such losses are sustained, the least sheltered enterprises are driven to bankruptcy and, thus, a major basic expansion is converted into a “slump.”

“In this fashion,” Lonergan wrote, “the required reduction of the rate of savings is effected by creating losses to supply the invulnerable rate” of pure surplus income (Lonergan 1999: 154). Until the rate of losses compensates for artificially high rates of pure surplus income, prices will continue to fall and profits diminish. Further contractions of production and liquidations of the weakest firms will take place, squeezing yet other groups of enterprises. Given the artificial pure surplus income enjoyed by some, the rate of losses comes to an end only when the required rate of saving is attained.

Thus, “at the root of the depression lies,” Lonergan argued, “a misinterpretation of the significance of pure surplus income” (Lonergan 1999: 152). If they have failed to grasp these monetary flows and their significance, Lonergan maintained,

⁷ *MD*, 139 n. 196.

⁸ *MD*, 139–40. See also a supplement Lonergan wrote in 1979, *MD*, 139–40 n. 196.

⁹ Now on this point, Lonergan wrote, “our culture cannot be accused of mistaken ideas on pure surplus income as it has been defined in this essay; for on that precise topic it has no ideas whatsoever.” (*MD*, 114).

¹⁰ See *MD*, 154–56.

¹¹ See *MD*, 80–81, and 154–56.

one could hardly expect individuals to act intelligently when the time comes for making a transition to the major basic expansion. Indeed, he wrote, “When intelligence is a blank, the first law of nature takes over: self-preservation.” While there is certainly enough greed to go around, it is ignorance that especially propels the “frantic efforts at self-preservation that turn [a] recession into [a] depression, and [a] depression into a crash.” (Loneragan 1999: 139).

The failure to grasp the functional significance of fluctuating rates of pure surplus income prepares the way for concerted attempts to find other sources of it once economies experience diminishing rates. Favorable balances of foreign trade and deficit spending are two such strategies Loneragan discussed, and he termed them “palliatives” since they are poor comforts for moribund economies. During a major surplus expansion, economies suffering unfavorable balances of foreign payments and mounting deficits witness an increasing diversion of their social dividend to pay interest on their swelling debts, and thus, the self-development of the productive process is less vigorous than it would otherwise be. When these economies eventually undergo a major basic expansion, debt-servicing exacts a greater toll, undercutting the effectiveness of basic demand all that much more. In order to postpone the eventual day of reckoning, debts are restructured and new credit lines extended. Meanwhile, both debtors and creditors become increasingly mutually imperiled, and the fundamental issues are left unaddressed.

3 The Basque socioeconomic transformation

This section explores the Basque socioeconomic current situation and the massive transformation that the Basque society and economy experienced between 1980 and 1993 with an eye toward a Loneragan-inspired analysis of the Basque case.

3.1 The Basque Country: a socioeconomic overview

Located in Northern Spain, the Autonomous Community of the Basque Country is one of the most advanced regions of Spain and economically competitive in Europe. Its per capita income is 30% above the EU average. Though only a tiny region with a surface area of 7235 km² and a population of 2.1 million, its small- and medium-sized enterprises (SMEs) are competing globally, while the region’s citizens enjoy high-quality public health care and one of the longest life expectancies in the European Union (Calvo-Sotomayor 2012). For that reason, the Basque Country ranked third worldwide on the UN’s Human Development Index in 2007 (Eustat 2007).

According to the Fortune,¹² the Basque companies Iberdrola, a world leader in renewable energies, and BBVA, one of the most solvent banks in Europe are among the world’s top 250 companies. The Mondragon Cooperative Corporation (MCC),

¹² See <http://fortune.com/global500/>.

Table 1 Chronology of events and political measures implemented in the Basque Country 1980–1993

Year	Event
1978	Spanish Constitution
1979	Statute of Autonomy of the Basque Country
1980–1985	Industrial restructuring
1981	Creation of the Basque regional development agency (SPRI)
1983	Creation of the Basque public health system (Osakidetza)
1990–1995	Creation of the first Clusters (ACEDE, ACICAE, ACLIMA)

the largest industrial collective in the Basque Country, is also one of the largest of its kind in the world.

Orkestra—Basque Institute of Competitiveness (2015) has identified approximately thirty hidden champions (international niche market leaders or INMLs) within the Basque economy, belonging to a wide range of industries, a figure that reveals that the region is a fertile territory for medium-sized, innovative companies. R&D spending in the Basque Country stands at around 2% of GDP, and the region benefits from the contributions of Tecnalía, the largest private technology corporation in southern Europe and the fifth largest on the continent.

The Basque economy successfully overcame the industrial crisis of the 1980s reinventing itself in order to build an economy based on advanced services and state-of-the-art industrial products. In addition, as stated in the introduction section, during the period 1980–1993 democracy was consolidated in Spain, the Basque Country recovered its political, economic and fiscal autonomy within Spain, the Basque educational system experienced a profound transformation and the standard of living rose considerably.

In the next subsection, it will be discussed the socioeconomic performance of the Basque region during this period.

3.2 The Basque socioeconomic performance (1980–1993)

Between the eighteenth and the twentieth centuries, the Basque region experienced an acceleration of economic activity and population growth due to maritime trade, the discovery of ore deposits, and the development of heavy industry. This long wave of socioeconomic expansion was suddenly halted by a combination of the oil crises of the 1970s and the European industrial regional crisis of the 1980s. The recovery of democracy and the first steps of the Basque autonomous government were accompanied by high unemployment, social conflict, terrorist violence, and political turmoil.

3.2.1 Institutional transformation and political framework

The Spanish Constitution of 1978 and the Statute of Autonomy of the Basque Country of 1979 gives the Basque Country a high degree of self-government. Under

this statute, the region was granted a broad range of powers in all social, industrial, economic, educational, and cultural areas, including its own Treasury Department, which exists alongside that of the central government. Thus, the region has the authority to enact legislation covering virtually the entire taxation system, including tax assessment and collection (Table 1).

According to Castillo (2010), the first step taken by the Basque Government was to deploy an industrial policy focused in implementing a painful industrial restructuring. The aim was to close obsolete industries in an orderly fashion and to try to save productive activities of non-mature industries which had promising futures. Between 1980 and 1985, the Basque Government and the Spanish Central Government—which provided funds and financial assistance—undertook a joint effort to push forward the necessary restructuring.

Once the Basque economy passed through the initial round of plant closings and layoffs, the regional government focused economic policy upon reindustrialization in order to modernize enterprises and enhance productivity and efficiency. Lasting from 1985 to 1990, this strategic movement connected industrial with technology policy, resulting in increasing R&D spending by the Basque Government, universities and private firms from a minuscule 0.097% of GDP in 1981 to 1.2% in 1995 (Moso and Olazarán 2001). The implementation of Basque technology and innovation policy and the development of the region's science and research parks took place during these years, when great strides were made to diversify the Basque economy through promoting high-tech industries (Aguado 2006; Azua 2006).

During the 1980s, the Basque Government not only supported the productive system but also enlarged the capacities for self-government. In June 1983, the Basque public health system (Osakidetza) was created, a political priority given the decentralization of authority from the central to the regional governments. The public health expenditure, as a percentage of GDP, grew from 4.1% (436.1 million €) in 1982 to 4.6% (1.175.3 million €) in 1989 (Betolaza 2010).

Between 1980 and 1993 the Basque Government also enhanced the public education system. Nowadays, Basque society enjoys a high degree of science and technology graduates, with 43% of young adults attaining a university degree, larger numbers of women seeking higher education (De La Rica and López 2010), and one in four people in the region overall having now received a university degree (Eustat 2007).

3.2.2 Economic performance: the big challenges of employment and economic growth

The Basque institutional and political framework developed during the 1980s had a main objective: through economic diversification, it sought to repair the Basque economy and to reduce the enormous unemployment rates that its deep industrial crisis had provoked.

During the 1980s, the unemployment rate of that Basque Country was that of Spain and oscillated between 15 and 22%. This period was characterized by strikes, social turmoil, terrorist violence, escalating poverty and decline of industrial urban areas.

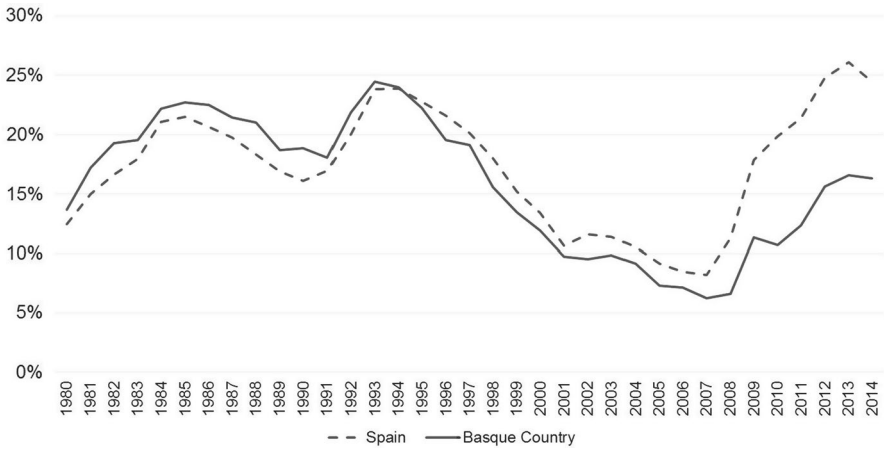


Fig. 2 Unemployment rate in the Basque Country and Spain (1980–2014). *Source* INE – Spanish Institute of Statistics. Community Labor Force Survey

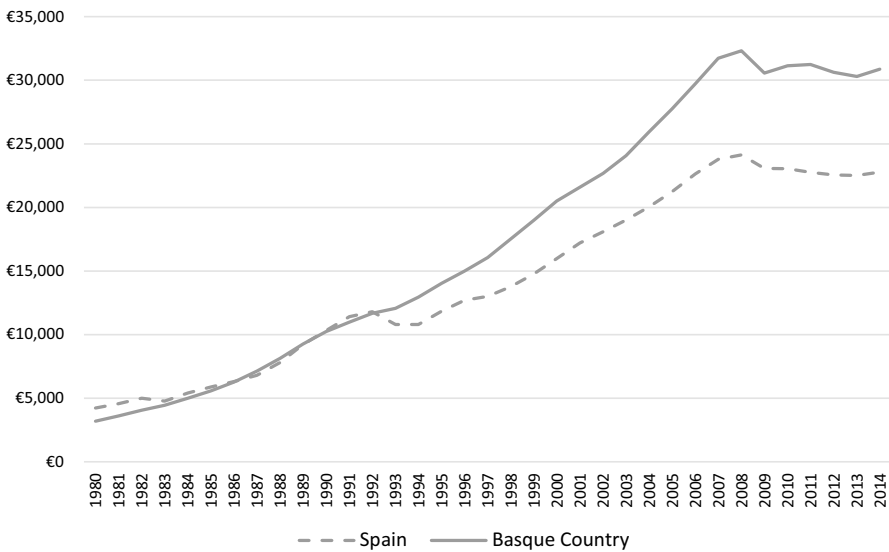


Fig. 3 GDP per capita in the Basque Country and Spain (Current prices, Euros, 1980–2014). *Source* EUSTAT – Basque Statistics Institute and INE—Spanish Institute of Statistics. Economic accounts

As it is shown in Fig. 2, unemployment started to drop consistently in the mid-1990s, as earlier restructuring and reindustrializing efforts began to bear fruit (Aguado and Calvo-Sotomayor 2013).

Basque population has remained remarkably stable since the 1980s. Currently, its population is only 2% higher than in 1980, while Spanish population has increased more than 20% during the same period. Graphing per capita GDP

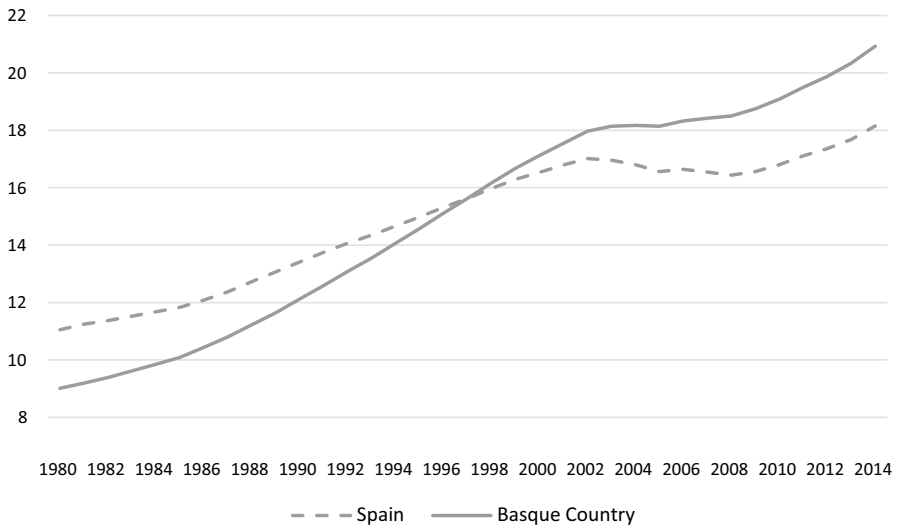


Fig. 4 Population aged 65 years and above in the Basque Country and Spain (% of total population). Source INE—Spanish Institute of Statistics

growth as shown in Fig. 3 indicates once again the strong economic performance of the Basque Economy over this period.

The Basque region's successful performance was fostered by a change in the economic structure of the Basque economy. During the 1980s, the service sector of the economy assumed greater prominence within the economic structure. Between 1980 and 1985, there was a real growth in value added (2.7%), productivity and employment linked to services (Alberdi 2010) (Fig. 4).

Regarding aging and life expectancy, Spain and the Basque Country has experienced an upward trend during the last decades. However, it seems that the Basque Country is aging faster than the Spanish average, which also indicates a faster rising of life expectancy (Calvo-Sotomayor et al. 2019, 2020).

After analyzing the evolution of Spain and the Basque Country in terms of socio-economic data, there are external factors common to both territories that may raise concerns that, despite the fact that the Basque Country has taken important sociopolitical and economic measures, the specific relevance that Lonergan's has for the Basque territory may not be clear. That concern may not withstand closer scrutiny, however, given that the indices of the Basque Country's economy clearly diverge from historic averages of Spain as a whole, for example, the Basque Country's relative contribution to industrial production or its higher rates of investment in R&D.

4 A Lonergan perspective on economic and social development within the Basque Country

Once the new institutional scenario was established in the beginning of the 1980s, the Basque Country engaged in a period of creative social renovation to revitalize its civic, economic, and social life.

4.1 The establishment of relevant development and educational institutions, with a focus on innovation

The Basque Government rather quickly established a relevant set of formal institutions. In 1981, it created SPRI, the agency charged which manages regional development within the country's three provinces. Initially, the SPRI funded the initiatives of individual enterprises; later would it fund networks of collaborating firms and enact measures to assess the effectiveness of its funding.

Since innovations may consist not only in new machines and in new techniques but also in new modes of social organization, Lonergan was careful not to equate innovation with technical invention. Nor did he conceive of the implementation of innovation in linear fashion, which proceeds straightaway from laboratory breakthroughs to product development and marketing. Even the adaptation of innovations imported from elsewhere cannot be done wholesale. To be "absorbed," they must be properly appropriated. Indeed, an economy's "absorptive capacities" on Lonergan's account refer to the ways in which previously acquired understandings provide the context for additional and complementary insights. In order to increase the absorptive capacity of Basque firms, the Basque government funded the creation and development of technology centers from 1990 onwards. These technology centers still play an important role, mediating basic research undertaken within the country's research universities, Deusto University and the publicly funded, University of the Basque Country—also established during this period—with industry demands for more immediately applicable transfers of technical know-how. As Cooke and Morgan put it, the technology centers, which some measure of success, aimed to "stay in touch with the needs of the regional economy, without losing touch with the state of the art." (Cooke and Morgan 1998: 185).

4.2 Cooperative networks and tacit knowledge

Cooperation and the learning it makes possible is evident in intra-firm relations between labor and management; inter-firm networks, especially those among firms and their suppliers and customers; and more encompassing socio-business associations which consist also of the education and research institutions, public agencies and trade unions which together foster the synergies among their affiliated members. Tacit understandings and "spillover knowledge" (Iammarino and McCann 2006), which arise from such informal yet dense social networks,

comprise an indispensable element of the country's "social capital" and of such vibrant industrial regions like Mondragon.

For Loneragan, the firm is itself a cooperative enterprise, integrating the contributions of workers, managers, and owners in the concrete and regular provision of goods and services. The SMEs comprising the MCC provide an especially apt example of the kind of cooperative endeavors found elsewhere in the country. Likewise, Loneragan would be interested in the extent to which managers do not simply do the bidding of current owners. Inasmuch as they are trustees of the human, financial and technical endowments of a firm, managers should act for the sake of the firm's good seeking to promote the interests of not only current but also future shareholders. Instead of squelching the fuller development of the human person, the cooperative settings in which work is done can provide an especially apt context for a fuller exercise of responsible human liberty.

Secondly, there are the networks of cooperating firms. Among the stakeholders of an enterprise, there are its suppliers and customers. For the manufacturing of high-value, sophisticated products, suppliers provide the crucial feedback making possible the customization of goods and services made to exacting specifications and tailored to the local conditions of production. Indeed, the information suppliers and customers convey to each other makes the production chain more capable of generating those high-value goods and services.

Especially relevant here is the work of Nobel laureate, North (1993), on the reduction of "transaction costs" characteristic of cooperative networks and the high level of trust they engender and upon which all but the most rudimentary of exchanges depend. Due to growing familiarity and the presumed honesty among trading partners that comes via frequent interaction, less time and money is spent defending themselves from possible dishonest machinations of self-interested actors. That trust also empowers firms to take greater risks.

As mutually conditioning, productive cooperation and high-trust relationships are also evident in broader associational networks and private-public partnerships evident within the Basque economy.

Thus, when implementing the cluster policy in the early 1990s, the Basque Government did not graft a policy utterly foreign to what was already burgeoning within the region. The economic renewal sought through it was endogenous development first and foremost. The cluster policy was developed by the Basque Country's Ministry of Industry, in consultation with Michael Porter of the Harvard Business School. For Porter, "clusters" refer to geographically concentrated and interconnected sets of SMEs, often also affiliated with other institutions such as universities and research institutes (Porter 1990, 2003). When established, clusters of firms took advantage of resources provided through the regional development agency, SPRI and the region's research universities and technology centers.

The Basque Country's cluster policy then systematized the cooperative networks that were proving to be quite successful in sectors like the machine-tool industry and extending these associational networks so that other sets of productive endeavors could make the most of the advantages greater strategic cooperation makes possible. Among the first clusters were, in addition to the machine tools association, those in household appliances (ACEDE) and automotive supplies (ACICAE) and

soon followed by those in environmental engineering (ACLIMA) and knowledge management.

Lonergan would stress the crucial importance of well-functioning social institutions and the social relationships that regular and frequent interaction makes possible. Together they ground sustained cooperation and enlarge and augment the social capital upon which socioeconomic achievements rest.

5 Conclusion

For Lonergan, sustained economic development requires successful adaptation to the demands of evolving economies so that the basic and surplus monetary circuits remain in dynamic equilibrium throughout the phases of the productive cycle. Since changing rates of pure surplus income lie at the “nerve center of free economies,” sustained development entails responding well to first increasing rates during the initial phase of the pure cycle and then to their decreasing rates during the cycle’s transitional and closing phases. Meeting that challenge is especially difficult if those changing rates of surplus income are not attended to and their function within expanding economies is not grasped. The Basque example may indeed prove most instructive as to the social conditions which aid in meeting the dynamic demands of expanding economies.

Individuals’ insights, judgments and decisions occur on Lonergan’s account not in social vacuums but formal and informal institutionalized settings which mediate human exchange and interaction. For that reason, the region’s dense social networks and nested sets of cooperative associations are especially relevant in a Lonergan-inspired analysis of the Basque case. Those associations are the concrete social contexts in which individuals attend to their situations, grasp what is moving forward within them, and on the basis of the judgments they make, decide to respond to their circumstances accordingly, thus giving rise in turn to new situations which call forth still further acts of attention, insight, judgment and decision.

We have seen that the Basque Country took deliberate strides to nurture civic and socio-business organizations. The cluster policy as formulated in the early 1990s sought in particular to promote deliberations among its members regarding matters of common strategy and purpose and thus served the end of fostering a series of social bodies characterized by robust cooperation. Through this and related policies, Basque people decided to order their social life, as it has been said before, not by “accident and force” but by “reflection and choice.”

The limitations of this research are based on the fact that it is the first time that Lonergan’s ideas have been applied to a regional economy, so more research on this field is welcome to further understand the relevant features of Lonergan’s ideas at a regional level. In this sense, the concern could be that, despite the fact that the Basque Country has taken important measures in the sociopolitical and economic spheres, there are common factors with the Spanish sociopolitical and economic context that do not allow for a clear interpretation of the specific effect that Lonergan’s analysis has had on the Basque economy and social context.

Furthermore, another future line of research is to properly understand if under Lonerger's lenses the Basque Country represents a unique experience, or the set of policies exposed in this article may also be applicable to other social and economic contexts.

In any case, the Basque model is a useful and living example of what developing economies are for: economies are goods of order which, when properly disposed, make possible flows of goods and services and thus regularly provide the material conditions for the fuller flourishing human beings and their communities.

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