
How large a future for co-operatives?

Some Personal Reflections

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Whatever the future may hold, it is clear that there has in recent years been an increase in the numbers and coverage of co-operatives. Capitalism has been on the decline; state socialism has been more and more open to question; co-operatives have been in the ascendant. I am not referring so much to the elements in the third sector (as the co-operative sector is sometimes called, to distinguish it from the other two and to express a high aspiration if not an established fact) which have traditionally been of importance. Consumer co-operatives are highly important in retailing in many industrialised countries of the West and equally so in Eastern Europe, the Soviet Union and China. So are agricultural and fishing co-operatives, on both sides of the iron curtain; and so also are co-operative banks, credit unions and co-operatives in housing and other social services. All these forms of co-operation have more or less held their own and "social co-operatives" have more than done so. The striking expansion has been in producer co-operatives outside agriculture.

In Western Europe, France and Italy take pride of place for the part that producer co-operatives play in the economy at large. In both countries there has been expansion. In France between 1970 and 1974 20 new co-operatives were formed annually which were still in existence at the end of 1979; in 1975 31 new co-operatives which survived until that date; while in 1979 itself there were 119 new ones. The number of producer co-operatives taken altogether rose from 522 in 1970 to 698 in 1979. Italy is further ahead even than France. It has some 5,000 producer co-operatives, seven times more than in France¹. The rate of expansion has also been rapid.

It is the same kind of story in almost any country one likes to mention. In Holland in 1978 there were only 80 such co-operatives; by 1980 the number

had grown to 200². In Britain the number belonging to one of the support organisations, ICOM (the Industrial Common Ownership Movement), has risen from 29 in 1976 to over 300 in 1980³. In yet other OECD countries, even if there has not been growth on such a scale, producer co-operatives maintain themselves vigorously. In the Pacific North West of the US, for instance, plywood co-operatives go on flourishing with a labour productivity 25% ahead of the rest of the plywood industry.

The numerical increase has (as usual, one might say) been accompanied by a show of interest even in unexpected quarters. It could be anticipated from the left. But a Michel Rocard has been joined in a French chorus by Jacques Chirac who sees co-ops as a means to base progress "sur des principes de solidarité, de responsabilité, de liberté d'adhésion, de gestion démocratique"⁵. Jacques Chaban-Delmas joins in on, "le monde si divers, si fécond, si solidaire, si fraternel de la coopération recèle, on le voit, des capacités et des virtualités pleines de promesses pour la société nouvelle qui fera la France de demain"⁶. As for the European Parliament it has been claimed by one of its members that a majority would now in a general way be "for" co-operatives.

Definition of co-op

Before anyone begins to dream of any consensus, however bizarre, one preliminary word of caution should be uttered. The figures do not necessarily mean what they seem to mean. "Co-operative" is not defined in precisely the same way in different countries. In comparing countries one is therefore to some extent not comparing like with like but with unlike. Yet there are certain features which are common in many different places, just as there is to some extent a common historical tradition.

Thus, Chris Brooks has referred to the famous six principles laid down by the International Co-operative Alliance in 1966, themselves derived from the nearest the co-operative movement can get to holy writ, the Charter of the Rochdale Pioneers.

1. Open, voluntary membership
2. Democratic organisation on the basis of one man, one vote
3. Limited interest on capital invested in the organisation
4. Equitable distribution of earned surplus on savings, decided by members, amongst co-operative development and education, common amenities to members, donations to charity, dividends to members or in other ways to be determined by members
5. Education in co-operative principles and techniques
6. Co-operation among co-operatives.

The second principle is the one that holds sway. Control is for the most part exercised by those who work in them. But neither that, nor any of the other principles, settles a significant question about ownership. Co-operatives are *not* owned by outside shareholders. This disting-

uishes them clearly enough from capitalist concerns. But are they to be owned individually by members whose share has a value which can be wholly or partly recovered in defined circumstances, say when members leave? Or are they owned collectively by an entity which represents the members but only when taken all together rather than separately and which will never surrender anything to the individual? On this issue practice varies widely and with the practice go different methods of management.

The issue gave rise to debate at the OECD seminar quoted. Branco Horvat, citing the experience of Yugoslavia in particular, claimed that only where there was collective membership would permanent worker-management be possible. Individual membership within a co-operative creates too many tensions, for instance between members who want to take out their full stake when they leave or even from year to year while they remain in it, whether or not this is at the cost of the collective capital. The individual owners, if so they be, are also liable to restrict entry, and take on new people as employees rather than full members. In a capitalist setting classical co-ops are always tending to degenerate in this way. Horvat was pleased to hear that at some point in the future all Mondragon reserves might go to profits. It would mean that a transition would have been made from "collective" to "socialist" property. Against this, it was urged that failure could be even more temptingly courted and many would-be co-ops stifled at birth by regarding people as though they are not motivated at all by selfish, self-regarding motives. Robert Oakeshott thought Mondragon in Spain had struck the right balance between collective and individual interests, acknowledging the power and proper place of each.

Equality the essence

Before leaving the contentious question of what is and is not beyond the pale it is worth saying that there is a heart to the usual definition of a co-op. The rules about ownership and control which are followed in practice may be quite complicated and certainly they are variable. But at bottom co-operation is about equality. It represents a reaction against the power over the employees in a business exercised by outside shareholders and their representatives. The aspiration is that each man (or woman) who is a member should have an equal say in control, which means above all in the choice of people to direct. A co-op should be run more from the bottom up than it is from the top down. There is often also an aspiration about the spread of incomes, which is that it should be agreed by each member what the proper differential should be between the top and the bottom and who should be where in between. There has in the past been less emphasis in the literature on relativities in earned incomes than in the way profits should be shared; but there can be no doubt of its importance.

Is it only co-ops who can benefit from the full sense of shared

endeavour? Felix Fitzroy for one considered that the capitalist-owned firm in which workers have a double stake – they share in decisions and profits, the one being of much less value single than combined with the other – has already shown itself very effective. In Japan most large companies come somewhere near to this model. They give a substantial share of profits to their workers and decision-making is by consensus rather than by fiat, even within a highly paternalistic setting. His own researches in Germany had shown that in the 1000 or so firms with variable degrees of participation and profit-sharing productivity was higher than in similar firms without these two distinguishing characteristics. There was more likelihood of employers being willing to embark on such schemes, especially as their efficacy becomes better known, than of any coalition of forces bringing into existence comparable numbers of co-ops. The contrary view was that benevolent paternalism would never carry the day with workers in countries with more of a democratic tradition than Japan and, dare it be said, Germany. But the importance of other forms of participatory involvement than the co-op pure in all OECD countries, inclusive of but not exclusive to Japan, was also stressed.

Attention was not therefore confined to formal co-operatives, however defined. Nor did all those present rest their hopes upon a third sector full to the brim with a pure strain able to pass every test put up by the ICA. There *are* other alternatives to the standard private or state enterprise.

Reasons for expansion

Leaving aside the arguments about the nature of a proper cooperative and given that, however defined, there has been an expansion in their numbers and also in the interest shown in them, the question must be asked about the reasons for it.

In the broadest sense there is little doubt that it is unlikely to have happened at all without the disappointing performance during the last decade of capitalism or state socialism, or rather of the mix between them which in different combinations characterises all countries. In the words of A. Antoni, Secretary General of SCOP in France, "when business is good in the capitalist world, co-operatives enjoy relatively mediocre results but when business is bad for the rest it improves for worker co-operatives". In the 1950s and 60s there was general economic growth even if it was not equally shared.

In the 1970s on the other hand, one generalisation applies with more or less force to all OECD countries. At least since the oil crisis they have all been afflicted by the deepening crisis of capitalism which has been marked by the seesawing growth of inflation and unemployment simultaneously. This has been precipitated, not so much by the falling rate of profit prophesied by Marx as by the steadily rising rate of inflation. We are thus witnessing a strange repetition, a throw-back to

government policies pursued 50 years ago, before Keynes wrote *The General Theory*. Then, when a kind of monetarism was the orthodoxy of the day, the need to balance budgets was held to be paramount. When economic activity fell so should government revenue, and to accord with that government expenditure had to fall as well. Cuts in public spending would (it was believed) further reduce employment and so add to the pressure to get wages down. Without the "stickiness" of wages in times of recession incomes would fall to the point at which they were below costs so that everyone could again be employed. It was the hard duty of governments to induce the deflation that would bring about that desirable result.

The situation today is, of course, different and it may be worth giving a personal view of the nature of the difference, while fully acknowledging that there is no consensus in this matter of stagflation. The fact is (or seems to be) that the long boom in the quarter of a century after the war produced a shift in expectations. People anticipated that their real incomes would rise year by year, after a time took a continuation for granted and did so all the more surely because the working classes have more and more thrown off those restraints that were due to deferences for their superiors in the class system⁸. The sense of what was just and unjust has therefore changed; what are regarded as proper differentials between incomes in different occupations have changed – how much the train driver should get as compared with the coal miner, the skilled fitter as against the assembler in a production line and, even more important, all poorer people as compared with the "rich". Larger numbers of people are ready to get as large a rise as they can in their incomes more nearly irrespective than before of what other people get. If lore and custom no longer have such influence on wages, all the more reason to depend upon straight collective bargaining.

The result is that incomes have for more than a decade been rising faster than production, with inflation the inevitable result. The oil cartel prompted and has then added to the pressure, while the general insecurity created by inflation has made almost everyone eager to push his wages above the expected level of inflation.

In these circumstances government after government has, without acknowledging that the purpose of its economic policy is to create unemployment, taken the steps which would lead to that end. If governments have become powerless to do anything else, at least they seem still to have been able to create unemployment. The hope (however despairing) has been that rising unemployment would make the out-of-work willing to work for less wages and the in-work fearful that if they gain too much they might price themselves out of the market. If the annual rise in wages comes down more than production is depressed by such a policy, inflation should be to that extent moderated. But such a gain would be achieved (if achieved at all) at an enormous cost. There is the loss of respect induced by unemployment for millions of people, especially for the young who are so much more vulnerable than older people. There is the loss of earnings. There is the

loss of the production of goods and services which are so obviously needed.

The loss is so great that an economic system which rests on unemployment cannot last, any more now than fifty years ago. Greater stability in prices is certainly needed, but so is a much nearer approach to full employment. The system which cannot ensure not just one but both is in the longer run doomed, and the run may not be all that long either. As Crouch has put it, in modern economies we have eaten of the tree of knowledge, and from that position there is no return. We no longer believe that the level of unemployment is something beyond the reach of government policy – perhaps the biggest difference of all from 1929 – and the price level likewise. Discontent will not be indefinitely assuaged by myths of the sort which once helped to protect governments⁹.

It is necessary to refer to these large issues, however briefly, because they provide the essential background for any current discussion of co-operatives. The old economic system, for all its postwar triumphs, appears to be failing. Something new is needed in its place, and one of the candidates is an economy based on co-operatives. Peter Jay, as one advocate, believes that a co-operative commonwealth is almost the only alternative to totalitarianism that is left to the OECD countries. He has argued before and argues, in a new book¹⁰, that the catastrophe which otherwise he foresees might be avoided “if and only if labour were to replace capital as the entrepreneur of the pre-dominant productive unit”. Labour would cease to be a commodity; it would hire capital rather than the other way round. Labour would then be responsible in a way it is not normally responsible at present. Workers would not try to push their wages without relating them to production because if they did so they could (as long as their co-op did not have a monopoly) force into bankruptcy the enterprise they owned. They (or the managers they elected) would have to take the decisions which are today taken by the capitalists (or the managers *they* elect) in a system where ownership belongs to capital.

Peter Jay is an economist looking from his point of view at a kind of breakdown indicated by growing inflation and growing unemployment. Taking a monetarist position to one logical extreme, he considers that “the maximum politically tolerable unemployment level is likely to be well below the minimum level – in both quantity and duration – that would be needed to neutralise the impact on labour costs of monopolistic labour supply”¹¹. He gives much less weight to the growth of monopolistic practices amongst employers than amongst employees. Jay believes that full employment and price-stability, themselves pre-conditions for the maintenance of democracy, will only be attained in future if the law requires that all enterprises employing more than say 100 people are “business enterprises in which the freehold ownership of the assets of the business is vested in the members collectively, in which the sovereign body is the members each having one vote and in which all employees and only employees are members”.

Many other people, not economists, are attracted to co-ops for their own reasons; what they have in common, with each other and with Jay (even if they are not so extreme as him), is that they see their society as being in decline. They may perceive it, in a more general way than Jay, as a society which has stressed the pursuit of self-interest so much more than the need to co-operate that it will not without being transformed hold together all that much longer. Or they may feel that the economic system has become over-dominated by concern for the product at the expense of the satisfaction in their work of the people who make it; and that the balance will only be corrected if the workers decide what the trade-off should be between the quality of their jobs and the needs of the market. Chris Brooks said that if the quantity of jobs was to be restricted, all the more important to improve the quality of what jobs there are. Or they may consider that both government and business have spawned top-down organisations that are far too large to be on a human scale and that small-scale organisations run from the bottom-up must be fostered instead. Or their concern may be with lop-sided development which has bequeathed much higher rates of unemployment and lower standards of life to some regions than to others; and they may hope that co-ops will be able to take better advantage than other businesses of regional loyalties in order to rebuild on surer foundations. Or they may believe, as Sr. Carpanelli said at the seminar-quoted, that "co-ops require an end to the black economy", that only by a radical economic transformation will there be a "remoralisation" of society in general. Very deep-seated too is the desire for more autonomy, for people to have more control over their lives.

This sort of background was referred to in passing by many speakers at the Seminar. Alasdair Clayre said in his main address that the powerful forces in Europe that are being conjured up by unemployment are beginning to terrify politicians. Whether or not it terrified those at the seminar, it was at the back of everyone's mind. So was the relevance of co-ops either to unemployment or to inflation, or both.

Unemployment the spur

Unemployment has in a very direct sense given rise to many of the new producer co-ops where they have taken over, or become the successor to, capitalist companies which have failed. Workers faced with loss of their jobs have an obvious motive: to save them. If it means making a sacrifice, in wages, in the adoption of working practices which their unions excluded while all else was well, in the extension of working hours, then the crisis in the firm may produce the best opportunity there has ever been for a radical transformation on the part of the workers. They will, in most cases, be more willing to make such sacrifices if the rescue attempt is being mounted by themselves, or at any rate on behalf of themselves by their own people, fellow-members, perhaps even shop stewards, of their own trade union. If there is no

outside capitalist on the spot and able to bear the responsibility of finding the capital and taking the profit, if there is any, that can be advantage as well as disadvantage.

Against any disadvantages must, of course, be set a whole array tending the other way. A co-op does not remove (or only very rarely) the causes of the crisis – market failures, low productivity, poor management, intense competition – or whatever it may be in particular against the general background of an economy in depression. It is therefore not enough to continue just as before. The efficiency of the concern has to be increased to survive, and at a time when several, or perhaps even all, of the managers have departed. Moreover, some of the most specialised and competent employees, who can most easily get jobs elsewhere, may have decamped, particularly if the negotiations about the transfer of assets to the new co-operative are long-drawn-out. This is likely if the original company has to be allowed to go into liquidation so that the employees get their redundancy payments before putting some of it into the co-operative which acquires the assets from the liquidator¹². Any gap in production loses customers. Most successor co-ops also have a special problem in getting any credit from suppliers or borrowing from the bank – all the more so if they cannot at once buy the buildings and equipment which can be lodged with a bank as security. The value of an experienced support organisation for co-ops like the Lega in Italy can hardly be overstated in circumstances like these.

Co-ops have come into the public eye in several different countries precisely in this situation, when a capitalist firm has collapsed. This has in some ways been unfortunante because the dice are loaded against their success. The attention that has been attracted has all the same been if some value. In Britain (as Derek Jones pointed out in his paper on *Producer Co-operatives in Industrialised Western Economies*¹³) it was following the failure of capitalist businesses that public funds were used in 1975 to assist the establishment of new co-ops at Kirkby and Meriden, one of which at any rate still survives. One year later the Industrial Common Ownership Act was passed, making some capital (although a very small amount) available for loan. In the United States, following the emergence of many worker-owned firms, the Employee Ownership and Community Stabilization Bill was introduced in Congress in 1978, the purpose being to encourage worker and community groups to buy moribund capitalist ventures. The new federal Co-operative Bank in Washington is to supply money for new co-ops. In France many co-ops have been established or broached to take over ailing businesses. The names of Lip, Manuest, Teppaz, Triton, Griffet have become familiar at various times. In both France and Italy further laws about co-ops are under consideration in addition to those which have already been passed. Co-ops taking over failed businesses have generally enjoyed more success in these two countries than elsewhere. The supporting organisations have been more effective and particularly better able to assess the chances of survival, while the law is more favourable. If existing assets can be rescued and jobs saved that way it may be a more

economic type of job-creating expenditure than any other. Quite new businesses, even though they have a better chance of success taken one by one, are likely to cost more for buildings and equipment and perhaps take longer to build up a network of suppliers and, above all, customers.

It is necessary to get new co-ops of this type into perspective. In France the 726 producer co-ops in existence on 18 April 1980 divided themselves up as follows¹⁴:

72% set up from scratch

17% formed by taking over ailing businesses

11% formed by the conversion of conventional companies into co-operatives

Absorption of unemployed

There has also been some attempt to set up businesses expressly to absorb unemployed people, especially the young, in the hope that if they have even more of a stake in the business than they would if it was just providing a job they would throw more effort into it. The most significant move of this kind has been made in Italy, against the background of a well-developed co-operative system. It was described in this way in Fabio Carpanelli's paper for the seminar.

"The co-operative movement in Italy is not only a vector of social and human values but also an economic system of considerable weight with its Lire 12,000 billion turnover; its several million members (the three umbrella co-operative organisations recognised by the Italian Government have about 7 million members); its hundreds of billions of Lire of productive investment per year; the new values it has brought to whole industries, and its contribution to employment and to upgrading the value of productive labour."

The Italian Law 285 of 1977 was a notable measure designed to relieve youth unemployment which is even heavier than in most other OECD countries. It is relatively high almost everywhere, the tendency in a depression being to protect the jobs of those already in work rather than admitting new people who have never had work before. This bias against young people is itself one justification for governments trying in some degree to offset it by special aid of one sort or another.

In Italy Law 285 made special mention, though not exclusively, of youth co-operatives in agriculture – designed, for instance, to reclaim or claim uncultivated lands – and in services mostly related to the land¹⁵. It was to be on a very large scale. In the two years after the Act came into force there was certainly a growth in the number of young people's co-operatives to the number of about 1,000 with a total of 13,000 members. They were not so predominantly in agriculture as the text of the law suggested. 40% were in agriculture, 20% in manufacturing, 9% in tourism, 16% in services and 15% in the arts and entertainment. They cannot on the whole be counted a success, in part because the subventions made under the law have ordinarily been direct to the

individual youngster so that it seems like a relief payment, instead of being made to the co-op. When the law is amended it is hoped to improve the financial arrangements in several respects. To succeed, they may well need to have a goodly mixture of older people associated with them as well.

As to France, some twenty individual co-operatives have been successful in creating new jobs for young unemployed people who had been out of work for a long time, and also for other disadvantaged people. Some were started by educators, others by young co-operators themselves. Some have become quite important businesses – for example, the naval yard of l'Araignee at Marseille.

Attitude of trade unions

How far co-ops are able to introduce greater flexibility on wages, hours and working practices depends in good part upon the position adopted by trade unions. Their commitment to co-ops clearly cannot be taken for granted, even where the encouragement of co-ops is inscribed in their basic purposes, as happens with some British unions. The hard but inescapable fact is that trade unions represent people with jobs not those without. This alone may press co-ops to encourage employment for people who are not very fully unionised, like the young, like migrants, like women.

National tradition plays as important a part on this matter as it does more generally. German trade unions were said to be so cautious about co-operatives that they would not ordinarily allow any of the large funds in their trade union banks to be used to support them. According to Fabio Carpanelli co-ops undoubtedly posed a challenge to trade unions especially when, as in Italy, some co-ops accept that less than minimum trade union rates should be paid to tide over a co-operative business that otherwise might go under. Trade unions are, being in essence defensive organisations for the workers, not concerned about productivity although attitudes naturally change when unionists become directors of a co-op. Once the workers owned their own enterprise trade unions could not have the same role, or have the discomfiting task of adapting to a new one. Whether they would try obviously depends on circumstances. Few trade unionists would deny the value of co-ops as a last resort for a failing business.

At least there is some reason to give co-ops more of a trial than they have had so far purely as part of a policy designed to mop up unemployment, perhaps especially amongst groups who have a common bond anyway – youth, women, members of ethnic minorities. For such purposes trade unions are more likely to be helpful than not. Some young people who would not otherwise have thought of “going into business” may be willing to do so, and even be excited about it, if the business takes the form of a co-operative, and in doing so themselves may also give jobs to other like-minded people. Enthusiasm is needed

for all new businesses and some people – even if as yet in a minority – are more likely to generate it if the purpose is not just, or not mainly, profit for themselves. There is also always the chance of being able to make the most of the biggest advantage of all – the spirit of co-operation itself. If the members are willing to take moderate wages to begin with and to do each other's work across conventional demarcation lines whenever necessary to meet an order this could make a large difference. This can and does happen, as a means of giving a good start to a new business or saving an old one. On the other hand, there is the case of Behrings in Germany, which with its 500 members is perhaps the second most successful producer co-op in Europe after Mondragon. When the members had the choice put to them – sack a quarter of the labour force or take an all-round reduction in wages of 15% – they decided unhesitatingly against the wage option. "A very strange co-op", commented Branco Horvat.

How big a contribution co-ops can make will naturally depend upon the extent to which some of their ever-present problems can be solved or eased. Three of these in particular should be mentioned: shortage of capital, lack of effective management, and the need for support organisations. Let us go over each of these in turn.

1) *Shortage of capital*

Co-ops cannot raise capital as easily as capitalist businesses. Profit-seeking money will clearly not be attracted into a co-op for there can be no outside shareholders, at least in an orthodox one. Co-ops are therefore cut off from a prime source of venture capital. On top of that, banks are in many countries and many different situations more chary of lending money or even giving credit to co-ops than to ordinary companies. They are used to dealing with the latter. They can assess the man in charge of the ordinary commercial business according to ways of doing so which do not lend themselves so well to a judgement of the manager of a co-op. A co-op in some respects runs contrary to the principles on which bank managers consider that business *should* be run.

The consequent shortage of capital means that by and large co-ops have been established – have had to be established – in relatively labour-intensive industries. In France 40% of all co-ops are in the building industries, and the next largest category, at 17%, is in professional and cultural services. In Italy of the 1,000s of co-ops that have been established the great majority have been in sectors with a low intensity of capital.

The limitation placed upon the growth of co-ops by the shortage of capital, when coupled with the fact that for a given investment labour-intensive co-ops will produce more employment than other concerns, has been the prompter for special aid from the state; not that this has gone far. In Italy co-ops can get loans at 2% less than the ordinary

commercial rate. In the USA the new National Consumer Co-operative Bank can lend to a wide range of co-ops at less than the market rate. In the United Kingdom and in Ireland some grants are available. But everywhere such aid is on a small scale.

The aid is at the best only a small offset to the taxes which are in most OECD countries placed on employment. For capital investment there are usually tax reliefs. For human investment there is seldom anything of the sort; on the contrary, contributions to social security and the like are usually imposed upon the employer so that it costs him a great deal more than the wage to take on anybody at all. Unless they are considered outside the social security system, with members being classed as self-employed, co-ops belong with other labour-intensive firms in bearing a particularly heavy burden. Any general reform which brought about a reduction in taxes on employment would benefit co-ops along with the rest.

2) Need for effective management

Trade unions are bound to have different functions within co-operatives. So is management. It must have skill and authority, but (where power derives ultimately from the workers) that authority needs to be based, even more than in a capitalist concern, upon consent. Management has to a greater extent than normal to be from the bottom-up rather than the top-down. The level of skill required to be effective in this situation is not less but more than in an ordinary company; and the necessary level of skill will not be achieved without training. In the so-called "artisanal co-ops" an anti-management bias can sometimes be detected. Given the egalitarian roots of co-operation that is perhaps hardly surprising (cf. Robert Oakeshott in his "The Case for Workers Co-ops"; Routledge and Kegan Paul, 1978).

3) Supporting organisations

The importance of supporting organisations needs underlining. Workers who are ready to build a co-op out of the ruins of a capitalist business perhaps need more than anything else at the beginning of such a venture sound advice. Can the business be saved? Is there a market? How much working and other capital will be required and is it likely to be forthcoming? What management structure should be set up? People from a supporting organisation who have had previous experience in similar situations are far more likely to know the answers (or how to find them) than the workers whose jobs are at stake. An existing co-op which runs into difficulties may be just as much in need of much the same sort of advice, especially if new markets have to be found and the nature of the product changed in consequence. Then there are all manner of services which federated co-ops can provide for each other – buying

from each other, forming consortia for selling at home and in export markets, training of management, buying materials in bulk, arranging for finance from banks and other financial institutions. They can also create a sense of solidarity between co-ops which is all the more vital because in OECD countries, even though they may carry with them the seeds of a future society, they have to operate within an economy and a society where the tone is set by capitalism. Without co-operatives of co-operatives there will be little hope of reaching the critical mass which will have to be attained before co-ops are at all generally regarded as a credible alternative to the other two sectors of the mixed economy. Lega and Mondragon are two of the outstanding bodies of this kind in the world.

Mondragon

On this subject Perez de Calleja warned against wishful thinking about the body he represented. It is very far from being a model which can be universally followed. Many of its characteristics have been shaped by its location in the middle of the Basque country. The economic crisis has been as serious for Mondragon as it has been for capitalist businesses, even though the Caja Laboral Popular has been growing as fast as ever.

In the past year profits have been falling fast. This has made necessary a new relationship between the Caja and the co-ops. The co-ops cannot deal with the crisis on their own. Nor can the whole responsibility be placed on the Caja. The unwritten rule of Mondragon, that any failure by a co-op must be avoided, has worked against them. There must be a sharing of responsibility, with the co-ops taking more of it and the Caja less. It is now recognised on all sides that in the past the Caja may have been too paternalistic for the co-ops' own good. The feeling is that the Caja should by and large restrict itself to financial backing and not deal to anything like the same extent with the internal problems of individual co-ops. The workers should be able to deal with those themselves without relying on any central agency. The more they do, the more sense of responsibility they will have. Also, it has been accepted that if the Caja lends a certain amount so should the workers in a co-op contribute equally themselves. Those who make decisions must have something to lose as well as gain.

The 90 Mondragon co-ops have been divided up into 10 geographical and structural groups as a measure of decentralisation. A general manager will be appointed for each group, with technical and financial capacity to back him up and with a recognised personnel function. The hope is that members will as a result feel that they are coping with the situation themselves and the usual suspicion between bankers and managers will be reduced.

Where capitalist companies are transformed into co-ops, in Mondragon experience the process customarily takes between three and five

years, and the changes in attitude required to make a success of it take even longer than that. The alteration in legal structure can be almost instantaneous – all over in a week – but not the changes that really matter. There can be nothing against this mode of building a co-op provided that the transformation is a real one. One difficulty is that there can be overmanning in a co-op created out of an ailing firm. Workers should draw social security and only return to work in the new co-op if their employment can be economically justified. It is too much of a burden on a newly transformed co-op to expect it to be able to carry the same manpower.

The creation of entirely new co-ops is a very different matter. The Mondragon experience has been very positive. 21 new co-ops have been started in the last few years, partly in order to absorb as many as possible of the unemployed. They are now built near to each other rather than in underdeveloped areas where the social needs may be greater. But the chances of commercial viability are less in such places. Basque unemployment is nearly treble that in Europe as a whole. Spain suffers from negative economic growth. But in the course of this expansion certain changes have had to be made.

The “open-door” fee for new members of co-ops has had to be raised, although not yet by nearly as much as wages. The difference between top and bottom salaries has also been widened. Some 20–25 co-ops now pay 10% less than the standard minimum wage. The other way on, the old 1 to 3 ratio has been increased to 1 to 4.5, although only 2% of managers are above the 3 line. They have had difficulty finding managers. When things are going well managers on average last four or five years. Workers like to have a change of manager. During a recession they change much more frequently. Some will only come (or stay) if they can get higher salaries than would have been possible in the past.

The distribution of profits is also under discussion. At present at least 30% have by law to be put to reserve. The other 70% is distributed for the benefit of workers. The problem ahead is obvious to everyone – the profits go into capital which can be withdrawn when members retire. This does not matter at the moment. Workers’ average age is 32–35 years. What is to happen in 20 years’ time? It could be crippling if large numbers of people drew down the capital of co-ops at the same time. It may be necessary to put *all* profits into reserve funds or in other ways alter the forms of participation. The danger is that the incentives to efficiency would be weakened thereby. Altogether there is a need to be flexible and experimental.

The whole emphasis is now on how to survive the crisis. Mondragon is still creating 600 new jobs each year. But they have to help their own first. According to an inter-co-operative agreement, where new jobs are created these have to be offered to workers from other co-ops before going outside the movement. This is made all the more necessary because Mondragon workers are not entitled to State social security. Unemployment benefits come from their own funds.

Italian Lega

According Fabio Carpanelli, of the Associazione Nazionale Co-operative Di Productione E Lavoro, the Lega had been much concerned with the task of starting new co-ops from scratch. The pressures were very great: youth unemployment and intellectual unemployment are both grievously high. In response thousands of co-ops have been created. There have also been many failures where there was a shortage of capital and where an attempt was made to recover uncultivated land. To succeed, co-ops must have certain characteristics. The Lega has tried to set up co-ops with these necessary characteristics and to provide for them a statute, rules and an array of political support. Over the last three years the Lega has organised 150 co-ops employing 2000 workers. 80% of new manufacturing co-ops have come out of capitalist firms that have failed.

The origin of one of these co-ops is, typically, something like this. Whereas it used to be groups of workers who took the initiative, today it is a company owner or a trade unionist who ask that their firm should be converted. On the positive side this shows that co-ops have become credible far beyond the circles of those who used to be their advocates. On the negative side it shows that some regard a co-op purely as a way out of a financial difficulty and that trade unionists in particular are apt to regard a co-op as a last resort after everything else has been tried.

A standard scenario in Italy is for workers to take over a factory which is in crisis. The public authorities then requisition it from the owners. The workers form a co-op and the factory is handed over to them. Or the co-op makes a deal with liquidators and buys up the capitalist firm. The co-op brings political pressure to bear on the banks to provide credit.

The workers have no capital. But they own the factory which has gone bankrupt. They pledge the factory as security for the credit given to them by the bank and add to that their personal guarantees if they have to.

In the last ten years they have established thousands of new co-ops which are still operating and which have allowed thousands of unemployed workers to continue at work. Co-ops have arisen across a wide spectrum of industry from dog shampoo to bakeries.

One difficulty is that the most skilled workers are often the first to leave when a closure is threatened. They are the ones who can most easily get jobs elsewhere.

The Lega federation, through a series of consortia, buys in bulk for any member co-op which wishes to take advantage of the service. Prices of materials bought in this way are less than if they were bought by an individual co-op. A co-op has to pay 1 million lire to become a member of the consortium. After this it pays only half a lire for every 100 lire it purchases. These co-operative consortia are sufficiently large to influence the prices for certain raw materials, such as cement and iron. The advantages of dealing through a consortium are greatest for a small co-op, but they are considerable for any co-op. The strength of all is used for the benefit of each.

The consortia also supply services, for instance in advertising or in common selling arrangements both at home and abroad. Their buying power can also be used to get all sorts of side-benefits. They can, for example, make a contract with Fiat for the supply of cars to a taxi co-op, and make it a condition of the deal that another co-op, a garage doing car repairs, should be given work by Fiat. One of the basic purposes of Lega is to band together the strength of different co-ops for their mutual aid.

It is not only a question of buying and selling. The Lega exercises political influence on behalf of co-ops, regionally and nationally. Political influence is exerted on the banks as well as governments. They want to convince the government that it would be far better to give 100 million lire to co-ops than to squander ever more money in propping up nationalised industries. The government has actually given that sum to the National Bank of Work for the finance of co-ops. Its interest rate to co-ops is 2% less than other banks.

13 points

It may be appropriate to summarise by outlining 13 kinds of help which governments might properly be asked to give to co-ops.

1. *Legal framework.* Whatever the law on co-ops the way it works in practice should be set out in handbooks designed for the layman. In many countries it may be more necessary that the existing law should be understood than that it should be reformed. But there may be a case for legislative changes, for instance in order to give preference to workers employed when there is a liquidation and to allow workers to buy part of a company that has failed without being saddled with the debts of the whole.
2. *Finance.* Government aid available for small businesses is not always extended to co-operatives. It should be.
3. *Support organisation.* Every country should have a co-operative development bureau – modelled as nearly as possible on Mondragon – to perform the function its name suggests.
4. *More research* is needed on the conditions in which co-ops can flourish and, in the field of alternative technology, on products which would lend themselves to manufacture by co-ops.
5. *Regional policies* should give preference to co-ops. A “land-bank” might be set up for young people who want to move out of cities. In Sweden the City of Stockholm alone owns 45,000 hectares. Each area should be capable of surviving on its own if cut off by war from the rest of the country and the world.
6. *Ground-clearing.* Government help is needed to remove obstacles which stand in the way of co-op development.
7. *Wage-earners’ fund* could be one of the best ways of all to expand co-ops. The methods of capitalism would be used to bring about its expropriation. 10%–20% of profits would be assigned each year to an indivisible Trust owned by the workers. The profits would be

converted into shares. The law could provide that the profits which went into the fund should not be taxed. Within 10–20 years wage-earners could own half the capital. Swedish T. U. s are already pressing for this system. Part of wages could be assigned to the fund in addition to profits.

8. *Co-operative mentality* to be created by setting up school co-ops. An example would be a cafeteria taken over and run by pupils and teachers.
9. *Public services* could in small and sometimes large part be turned into co-ops e. g. day-care centres, transport, social services.
10. *Nationalised industries* could be converted into a series of co-ops with the support of the T. U. s.
11. *State contracts* should be given to co-ops, as is being considered in France and in Sweden.
12. *Redundancy money* should be used to set up worker co-ops, particularly for the handicapped and the young unemployed where they have once been in jobs.
13. A *guaranteed income* which people would receive in or out of work (to replace all or most social benefits) would allow more people to experiment with the kinds of relationship between work and leisure, including hybrid co-ops which took over housing, social services and workplace.

Notes

- 1 These figures and those for France are respectively from *Production Co-operatives in France* and *Worker Co-operatives in Italy* by TEN, being reports prepared for the EEC.
- 2 C. L. Provily, President of the ABC (the Dutch Federation of Workers' Productive Co-operative Societies), a member of an OECD seminar of September 1980. The above reflections were induced by this seminar in which the author took part.
- 3 Mr. Spreckley, from ICOM, also a member of the seminar.
- 4 Mr. Derek Jones in his paper for the seminar, *US Producer Co-operatives and Employee Owned Firms: An Evaluation*.
- 5 *Le Monde*, 22 March 1980.
- 6 In February 1980 at Viroflay.
- 7 TEN report, p. 9.
- 8 Hirsch, F., *Social Limits to Growth*, 1977 and Goldthorpe J. H., "The Current Inflation".
- 9 C. Crouch, "The Political Economy of Inflation", for *The Political Economy of Tolerable Survival*, Croom Helm, 1981.
- 10 "The Workers' Co-operative Economy", in *The Political Economy of Co-operation and Participation – A Third Sector*, ed. A. Clayre, OUP, 1980, p. 10.
- 11 *Employment, Inflation and Politics*, Institute of Economic Affairs, 1975.
- 12 Anything that can be done to reduce the time-interval between the closing of the one and the opening of the other could help to save more jobs. Legislation and practice on this point in different OECD countries would be worth reviewing.
- 13 Published in *British Journal of Industrial Relations*, July 1980.
- 14 TEN report, p. 18.
- 15 Dr. Francesco Tomasone, *Study of Schemes of Direct Job Creation in Italy*, EEC Study No. 79/60.