

ENABLING ETHICAL ECONOMIES: COOPERATIVISM AND CLASS

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In memory of Don Shakow

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Introduction

The economic imaginary has traditionally played a powerful role in left politics, certainly among those interested in constructing alternative futures. Fuelled by the emancipatory commitments of enlightenment thinking, various ideals of another state of economic being have motivated political movements and policy interventions throughout the twentieth century. It is in the economic imaginary that economies devoid of exploitation, economies of self-sufficiency and sustainability, economies of smallholders and owner-operators, economies of cyborgs and so on have been constructed in opposition to the apparent economic realities of capitalist industrialization. Within this imagined terrain certain already existing alternative economies have figured as guides to the possibilities and constraints of ‘real world’ experimentation. Once it was the vision of socialism or communism and the experiments of the soviets in the Eastern Bloc and the communes in East Asia that configured the foreground of the Left’s economic imaginary. Today, at least for some, it is the original ‘third way’—communitarianism or a revitalized social democracy—that occupies this otherwise vacated space.

For many, the story of the Mondragon cooperatives in the Basque region of Spain has occupied a special niche in this space of speculation, envisioning and possibility. From a social base in the late 1940s that was divided by ideological differences, with physical infrastructure destroyed or depleted by civil war, the Mondragon community under the guiding philosophy of Catholic priest Father Arizmendiarieta built perhaps the most successful complex of employee-owned industrial, retail, service and support cooperatives in the world. The Mondragon Cooperative Corporation (MCC) is famed for its more than 30,000 worker owners, its flexibility and longevity, cutting-edge technology and innovations in worker participation. The publication of a chapter by Robert Oakeshott in 1975 and the documentary film made by the BBC about Mondragon in the late 1970s enabled the message of this cooperativist movement to spread throughout the English-speaking world at a time when the increasing internationalization of capitalist production appeared to be heralding the latest ‘stage’ of capitalist economic dominance.¹

¹ Early studies in English provided histories of the establishment of the cooperatives and descriptions of the changing organizational structure and activities of the group (Oakeshott, 1978; Gutiérrez-Johnson and Whyte, 1977). More recent research has explicitly compared the performance and practices of the Mondragon cooperatives with similar sized enterprises in the capitalist sector (Thomas and Logan, 1982; Bradley and Gelb, 1983; Hacker, 1989; Kasmir, 1996). Others have focused upon the way in which the cooperatives negotiated the difficult period of recession and rationalization during the late 1970s and 1980s when the Spanish economy was

One of the difficulties of discussing any alternative economic project, as with any new or emancipated identity, is how to name and describe it without recourse to what is already known. Though one might want to posit a radical discontinuity between the emancipatory alternative and the oppressive and exploitative norm, since the alternative is defined in terms of the norm (albeit as its opposite or reversal), the existing malign system is fully implicated in the alternative liberatory one (Laclau, 1996). This is clear in much of the discussion and evaluation of Mondragon. Representations of Mondragon are driven by the desire to highlight the uniqueness and utopian otherness of the alternative, but they are also haunted by the fear of uncovering failures that undermine these differences, rendering the alternative no more than the ‘same.’ Much of the Mondragon story has thus been told within a *capitalocentric* framing (Gibson-Graham, 1996:40-41); the figures of the capitalist enterprise and the capitalist economy shadow the representations of its cooperative businesses and work practices and they are positioned with respect to capitalism as either different from, the same as, beholden to or dominated by its forces and relations.

Not all commentators have succumbed to the comparisons implicitly enforced by a capitalocentric discourse. Recently a number of authors have taken up discussion of Mondragon as an inspiration for community and regional economic development in their respective contexts (Morrison, 1991; MacLeod, 1997; Mathews, 1999). They suggest a way of reading Mondragon as a guide to local practices of economic experimentation, not as an ‘alternative’ to capitalism which cannot help but disappoint. Building upon the work of Morrison, MacLeod and Mathews, my interest is in contributing to a practical politics of strengthening the sustainability of community economies.² A crucial first step is to revitalize the economic imaginary by freeing it from the leaden grip of capitalocentrism.

Rethinking economy and economic politics

becoming more open to international market forces, via admission to the European Economic Community, and the effects of globalization in the 1990s (Weiner and Oakeshott, 1987; Whyte and Whyte, 1988; Morrison, 1991; Cheney, 1999; Clamp, 2000).

² Sustainability is referred to here in terms of the inter-generational durability of local cultures, practices of sociality and emplaced livelihood strategies that support community economies. I have coined the term community economies to refer to those economic practices that are inflected with ethical principles to do with family, community, culture and environment (often loosely defined but strongly adhered to) that acknowledge the relational interdependence of all activities that constitute a society (Gibson, 2002; Community Economies Collective, 2001).

As part of an ongoing project committed to exploring the potentialities and possibilities of building sustainable community economies I have been concerned to challenge the way 'economy' is thought and to identify what we are up against when attempting to think differently (especially ethically) about the economic realm. One problem is that, in contrast to previous periods, the economy is no longer seen as a sphere of decision (Lemke, 2001; Gibson-Graham, 2003). With the resurgence of neo-liberalism in the second half of the 20th century we have seen renewed faith in the hidden (almost mystical) hand of the free market, and the active aspect of management associated with the term 'economy' has been subordinated to a notion of systemic self-regulation. Naturalization of the view that we have no (longer a) role in making and managing the economy by which we live has had limiting effects on economic imaginaries. A reluctance to engage in economic experimentation because of its perceived futility, or for fear of repression by the all powerful economy, has become a form of unfreedom, a discursive enslavement, a refusal to explore economic power as unstable and fluid, as potentially reversible "strategic games between liberties" that are always available (Foucault, 1988:19; Hindess, 1997:97-8). It is this depoliticization of the economic terrain that must be challenged if any space for enabling ethical economic practices is to be opened up.

Another problem is the representation of the economy as 'capitalist'. Deconstructing the hegemony of capitalocentrism involves representing the diversity of the 'complex unity' we know as 'economy', that is, highlighting the multiple registers of value and modes of transaction that make up our heterogeneous economic world, sustaining livelihoods in communities around the world.³ The diverse modes of remunerating labor, appropriating and distributing surplus and establishing commensurability in exchange, for example, all allow for specific enactments of economic freedom, some more circumscribed than others (Community Economies Collective, 2001). As is increasingly apparent competitive individualism is not the only ethical principle involved. In a growing number of intentional and unintentional economies variously enacted ethics of social, cultural and environmental sustainability are actively shaping transactions and performances. I have been particularly interested in *community economies* in which the material well-being of people and the

³ It also involves exposing the limited view of what constitutes 'the economy' that currently prevails in popular and academic discourse, that is, the narrow focus upon commodity markets, wage labor, capitalist enterprise and the singular ethic of competitive individualism.

sustainability of the community are priority objectives. Indeed it is through articulating these ethical and political stances that ‘community’ is called into being.

I would like to argue that this project of deconstructing the hegemony of capitalism and elaborating multiple axes of economic diversity is an **emancipatory** project of **repoliticizing** the economy. It refuses to pose economic power as already distributed to capitalist interests and opens up the possibility for non-capitalist practices to be the focus for an invigorated economic politics. It reinstates the importance of making and managing economy—aspects of the meaning of the word that have been increasingly washed away—by placing the politico-ethical decisions that *make* our economies at the center of analysis. Ernesto Laclau notes that

The role of deconstruction is ..to reactivate the moment of decision that underlies any sedimented set of social relations. The political and ethical significance of this first moment is that by enlarging the area of structural indeterminacy [eg of the economy] it enlarges also the area of responsibility—that is, of the decision. (Laclau, 1995:93 bracketed comment added)

A vision of the economy as diverse, multiply identified and complexly overdetermined and economic power as diffuse, segmented, and in motion, opens up the possibility for local non-capitalist practices to be the focus for an invigorated economic politics.

The project of mapping diverse economies as a way of imagining and enacting non-capitalist futures has taken encouragement from Father Jose Maria Arizmendiarieta’s vision of a pluralistic society and economy⁴:

In the mind of the co-operators is the idea that future society probably must be pluralistic in all its organisations including the economic. There will be action and interaction of publicly owned firms and private firms, the market and planning, entities of paternalistic style, capitalist or social. Every juncture, the nature of every activity, the level of evolution and the development of every community, will require a special treatment but not limited to one form of organisation, if we believe in and love man, his liberty, and justice, and

⁴ Usually referred to as Father Arizmendi (or Don Jose Maria), this Basque priest was posted to Mondragon in 1941 straight after his ordination, having had his request to study sociology in Belgium turned down by his Monsignor (Whyte and Whyte, 1988:28). He was interested in seeking “democratic economic and social arrangements that might benefit all in the community and give a strong footing for postwar society” (Cheney, 1999:39) and was well read in the social and political economic theorists of the 19th and early 20th centuries. He admired the experiments of Robert Owen and the Rochdale Pioneers, and was familiar with the agricultural co-ops and anarchist producer co-ops that flourished in Spain prior to and during the Civil War. His readings and observations led him to value “institutional autonomy and identity as two of the most important characteristics of alternative organizations” (39).

democracy. (Arizmendiarieta, cited in Mathews, 1999:186 quoting from Whyte and Whyte, 1991:255)

This vision of plurality can be likened to Laclau's vision of structural indeterminacy which has the effect of opening up the field of responsibility and decision. It is the issue of *decision* that provides a focus for the discussion of this paper. Writing and living as he did with daily involvement in the Mondragon cooperatives, economic diversity was, for Arizmendi, a visible presence, not a utopian dream or smashed hope, but also something that had to be built and given 'special treatment'.

The title of Roy Morrison's book *We Build the Road as We Travel* (1991) reminds us that when building sustainable, socially equitable and culturally distinctive community economies there are no pre-given pathways to follow, no economic models that can be pulled down from the shelf and set in place to ensure success.⁵ The process of enabling such economies to develop involves continual debate over economic and ethical considerations at every step of the way, and the making of difficult decisions that will direct future pathways and crystallize community values. It is through this process that economic imaginaries are made into concrete, actually existing practices and institutions.⁶

The history of leftist politics can be seen as a series of debates about strategic interventions by which a 'better' society is to come into being. Politico-ethical discussion has focused on questions of economic control, ownership and organization of industry and the benefits of cooperativism or state socialism as well as on mechanisms of income and wealth distribution. In the first half of the paper I revisit the historical debate about the limits of the cooperativist 'way' in an attempt to understand the basis of the longstanding antagonism between working class politics and worker cooperativism. In the second half of the paper I focus on the *politico-ethical decisions* around markets, wages, technology, surplus appropriation, and distribution that have been inscribed in the Mondragon economic experiment.⁷ This

⁵ In his insightful book Cheney reports one of the founders of the original Mondragon cooperative demonstrating the experimental nature of the road traveled and saying to him "Although there was much talk about the 'third way', we weren't entirely sure of what exactly we were embarking on. From the perspective of the 1990s, of course, everything that came to pass in the past forty-some years all looks much clearer" (1999:40).

⁶ A similar point is made by Mutersbaugh (2002) in his fine-grained analysis of production cooperatives in highland Mexico.

⁷ This paper draws upon the rich literature on Mondragon and our own interactions with Mondragon personnel during a brief field trip in April 1997. This visit was made possible thanks to the invaluable assistance of Fred

discussion is structured around the criticisms that have largely been accepted as undermining the potential for longevity and success of worker cooperativism. My aim here is to promote debate about economic ethics and the realms of freedom that are open to us in theory and in practice.

Left labor politics versus cooperativism

In light of the vacuities and possibilities opened up by ‘post-socialism’, ‘post-marxism’ and ‘post-social democracy’ current interest in an economic politics of the ‘third way’, albeit it a neutered version of its late 19th early 20th century original, invites critical reflection on the demise of this original in the left economic imaginary and the legacy of this demise.⁸ I would like to argue that the early denunciation of worker cooperativism by both the trade union and the revolutionary socialist movements has had a dampening effect on ethical debates concerning the economics of experimentation within leftist communities most engaged in a critique of capitalism. For this reason it is salutary to take a look back at the some of the historical debates that have raged among those interested in cooperative economic experiments, either as an antidote or replacement to capitalism.

Against the clearly defined politics of the ‘first way’, that is, capitalist consolidation and development during the 19th century, there arose multiple resistances and critical currents. The prominent economic theorists and activists, Karl Marx and Robert Owen, stand out among others as inspirations for two divergent streams of thought and practice—revolutionary socialism as a route to communism (the ‘second way’), and worker cooperativism and community distributism (the original ‘third way’).⁹ Both Marx and Owen

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⁸ Giddens claims that the phrase ‘third way’ “seems to have originated as early as the turn of the century, and was popular among right-wing groups by the 1920s. Mostly, however, it has been used by social democrats and socialists” (1998:25). As a major inspiration for Tony Blair’s embrace of a contemporary ‘third way’ politics that navigates a middle path between a rapidly dismantling ‘welfare state economy’ and a rapidly consolidating ‘free market economy’, Giddens offers a sleek rendition of “third way values”. The third way for him looks “for a new relationship between the individual and the community, a redefinition of rights and responsibilities” that has well and truly “abandoned collectivism” (65). In the war of words that makes up political debate, reference to what we might consider the original ‘third way’ has been lost or blurred. Deploying terms like ‘trust’, ‘mutual obligation’ and ‘reciprocity’ that hail from the cooperative support systems of the early 19th century contemporary third way politics offers a language that softens the impact of a neo-liberal economic agenda obscuring, even rendering desirable, the withdrawal of state benefits.

⁹ The basis of distributism was “the belief that a just social order can only be achieved through a much more widespread distribution of property. Distributism favors a ‘society of owners’ where property belongs to the many rather than the few, and correspondingly opposes the concentration of property in the hands of either the

believed that the rights of the productive and useful persons in a society should be recognized over the inherited and assumed rights of the unproductive and useless aristocracy. And both were exercised by the injustices of ‘social theft’ whereby the surplus labor generated by the ‘industrious’ or working class was appropriated by the non-working or ‘idle’ class (De Martino, 2001:7; Geras, 1985).¹⁰

In the emerging working class movement the two political aims of challenging the distribution of ‘rights’ and redressing ‘social theft’ were interwoven in the struggles of working people. As Sidney and Beatrice Webb, the influential Fabian socialists and historians of trade unionism in the UK point out, the origins of the British trade union movement in the early 19th century were closely tied up with demands not only for political democracy and the rights of working men to vote, but also industrial democracy and the rights of working people to cooperative ownership and control of industry and its product.

The chief political organisation of the working classes during the Reform Bill agitation began as a trade club. In 1831 a few carpenters met at their house of call in Argyle Street, Oxford Street, to form a “Metropolitan Trades Union,” which was to include all trades and to undertake, besides its Trade Union functions, a vague scheme of co-operative production and a political agitation for the franchise. But under the influence of William Lovett the last object soon thrust aside all the rest. The purely Trade Union aims were dropped; the Owenite aspirations sank into the background; and under the title of the “National Union of Working Classes” the humble carpenters’ society expanded into a national organization for obtaining Manhood Suffrage. (Webb and Webb, 1907:140)

The Reform Bill was defeated and the failure to deliver manhood suffrage fuelled support for trade union formation in the mid 19th century. The organization of the first Grand National Consolidated Trades Union between 1833-34 was inspired by Robert Owen’s vision of national manufacturing companies owned by their workers, all of whom would voluntarily belong to a nationally associated federation of lodges. Each lodge was to

rich, as under capitalism, or of the state, as advocated by some socialists. In particular, ownership of the means of production, distribution and exchange must be widespread” (Mathews, 1999:2)

¹⁰ The terminology of ‘class’ took on multiple meanings in this context. ‘Class’ denoted a place in a social ranking or hierarchy of upper, middle and lower classes—and as a set of cultural markers that designated membership of one ‘group’ and distinguished it from others. But it also came to refer to an economic relation of exploitation between producers and non-producers, the industrious and idle, or working and non-working classes (Gibson-Graham, Resnick and Wolff, 2000:3; Williams, 1983:65). This latter meaning emerged from the political movements of the 18th and 19th centuries that defended the rights of working people and was picked up and developed into a forceful rhetoric by Marx and Engels in the Communist Manifesto.

...provide sick, funeral and super-annuation benefits for its own workers; and proposals were adopted to lease land on which to employ “turnouts,” and to set up cooperative workshops. (Webb and Webb, 1907: 119)

As the labor movement grew, antagonism increased between pragmatic “Trade Union aims” (defense of workers’ standards of living by wage setting and factory legislation to limit working hours) and utopian socialist “Owenite aspirations” (cooperative ownership of industry) (1907:140). While admiring of the ability of Robert Owen to inspire a surge of solidarity for the Grand National Consolidated Trades Union (even among “regiments of agricultural laborers and women”) the Webbs were extremely scornful of the “Utopian side” of his labor policy. Marx expressed similar scorn for the ‘utopia’ of the cooperativist social democratic aspirations influencing the European working class movement (1972).

Their criticisms were of four kinds. **First** there was the lack of a plan for how to **replace** the system of competitive capitalist industry with a system of socialized ownership, cooperation and voluntary associations of producers. The Webbs asked:

How was the transfer of the industries from the capitalists to the Unions to be effected in the teeth of a hostile and well-armed Government? ...It is certain that during the Owenite intoxication the impracticable expectations of national domination on the part of the wage-earners were met with an equally unreasonable determination by the governing classes to keep the working men in a state not merely of subjection, but of abject submission. (Webb and Webb, 1907:147-8)

Even the philanthropic mill owners, they note, were utterly resistant to giving up their despotic control over workers and factories (1907:147).

The Webbs’ critique of Robert Owen’s economic politics ultimately rested upon their acceptance that the economy was already (and perhaps always to be) capitalist:

In short, the Socialism of Owen led him to propose a practical scheme which was not even socialistic, and which, if it could have been carried out, would have simply arbitrarily redistributed the capital of the country without altering or superseding *the capitalist system* in the least.

All this will be so obvious to those who comprehend *our capitalist system* that they will have some difficulty in believing that it could have escaped so clever a man and so experienced and successful a capitalist as Owen. (emphasis added) (Webb and Webb, 1907:146)

In a somewhat similar vein Marx takes the German social democratic movement to task in 1875 for their terminology, writing that what they call “present-day society”

is *capitalist* society, which exists in all civilized countries, more or less free from medieval admixture, more or less modified by the special historical development of each country, more or less developed. (Marx, 1972:394 emphasis added)

Marx’s ‘scientific’ analysis of capitalism’s tendencies toward expansion led him to see what was coming as what was already ‘there’—the identity of the economy was unquestionably capitalist. But he was also acutely aware that capitalism was not yet securely consolidated in a social and demographic sense.¹¹ In response to the Lassallian-inspired social democratic call for “establishment of producer cooperative societies *with state aid under the democratic control of the toiling people*” (emphasis in original, 1972:394), Marx rather scornfully notes: “In the first place, the majority of “toiling people” in Germany consists of peasants, and not of proletarians”(393). Rejecting the proposal that all classes other than the working class are “*only one reactionary mass*” (emphasis in original, 1972:389), he points to the potential for support from the “artisans, small manufacturers, etc., and peasants” (1972:389). There is an interesting disjuncture between Marx’s empirical understanding of the diversity and magnitude of non-capitalist economic relations coexisting alongside capitalist relations and his belief in systemic capitalist dominance.

Restricted...to dwarfish forms into which individual wage slaves can elaborate it by their private efforts, the co-operative system will never transform capitalist societies. (Marx, 1985:2 quoted in Mellor, Hannah and Stirling, 1988:22)

For both Fabian socialists and revolutionary socialists alike the system was unambiguously capitalist (even if yet to fully come into being) and the power of industrial capitalists was already entrenched. To be toppled it would require the superhuman efforts of a centralized state or a revolutionary movement.¹² Only then might there be a conducive environment for

¹¹ It is interesting to note that Marx saw “cooperative factories run by workers themselves” both as evidence of the emergence of a new mode of production “within the old form” that was made possible by the historic innovations (the factory system and credit system) associated with capitalist production, *and* as bound up in the reproduction of “all the defects of the existing system”, i.e., capitalism (Marx, 1981:571). His theoretical and political project led him to foreground capitalist dominance in almost every instance.

¹² Or, given the inherent progressivism of much socialist thinking, the full-blown development of capitalism to the point where transition would be inevitable. Potter writes in 1891

Robert Owen’s Co-operative ideal...was an ideal which required for its realization a science which **had not arisen**, a character which **had not been formed** economic and legal conditions **existing nowhere** in the purely aristocratic societies of Europe. Above all, unless it

new economic relations. Certainly, in the face of the ‘realities’ of capitalist power Owen’s belief in the transformative effects of pedagogy seemed weak and myopic.¹³

Second there was faulty **economic analysis** in the view that workers could “raise wages and shorten the hours of labour” to the point where they would get back the “whole proceeds of their labour” (Webb and Webb, 1907:1 44). This stemmed, according to the Webbs, from the “erroneous theory that labour is by itself the creator of value”, that prices could be fixed by labor input alone, and the mistake of overlooking “the more difficult law of economic rent which is the corner-stone of collectivist economy” (147). Here they are referring to the necessary payments to land, transportation, non-labor inputs, managerial labor and so on that influence the price/value of the industrial product. Despite their dismissal of Karl Marx and his labor theory of value at this point in the text (147), they inadvertently repeat the exact criticism that Marx made of the German social democrats when he questions their assertion that workers have rights to the “undiminished proceeds of labour” (1972:384). Marx is keen to outline the necessary deductions from total social product that will always diminish the portion of surplus product that could be returned to labor—the proportion set aside for expansion of production, the reserve fund for insurance against accidents, etc, the general costs of administration of production, the social fund to support schools and health services, the funds to support those unable to work. In the view of both the Fabian and revolutionary socialists, cooperative ownership of the means and output of production did not resolve many of the thorny issues associated with the operations of the economy, specifically distribution of the proceeds of labor.

were to be subjected to an iron-bound tyranny, such a community would necessitate the development of an administrative system, of the nature of which even Owen himself had formed no conception, and which could only originate in a pure and enlightened [capitalist?] democracy. (1891:29 emphasis and insertion added)

Thanks to Dipesh Chakrabarty (2001) for helping me see the historicist ‘not yet’ argument in this formulation of defeat.

¹³ Engels’ wonderful description of Owen as “..a man of almost sublime, childlike simplicity of character, and at the same time one of the few born leaders of men” (1972: 613) was matched with genuine admiration for his achievements, but did not diminish a harsh dismissal of the “mish-mash” of his and other Utopians’ mode of thought (616). Write the Webbs, ‘He [Owen] had a boundless belief in the power of education to form character; and if any scheme promised just sufficient respite from poverty and degradation to enable him and his disciples to educate one generation of the country’s children, he was ready to leave all economic consequences to be dealt with by the “New Moral World” which that generation’s Owenite schooling would have created’ (1907:146).

Third ownership of the instruments of production by the workers who use them (democracies of producers) brought with it the dangers and temptations of group **individualism**. The Webbs saw a conflict of interest between the workers in a producer cooperative who could act as a “peculiarly ‘interested’ oligarchy” at odds with the community at large whom they serve (Webb and Webb, 1921: 462-8). If the agricultural union took possession of the land and the miners union the mines there was danger of sectarian interests becoming transcendent. Without adequate governance of the interdependencies of the economy, each trade, which was “but a fragment of the community”(1907: 465), would deteriorate into a Joint Stock Union, no different from a Joint Stock Company, in competition with each other to raise prices and increase profits. They mistrusted producers as such and advocated handing the direction of the economy over to the state (as representing the community) and to democracies of consumers and citizens (organized into consumer cooperatives) who would keep prices down, advocate ever more efficient production technologies and be much more successful in ensuring the “distribution of the inevitable surpluses that we know of as rent and profit equitably among all consumers” (1907:462).¹⁴

This set of criticisms has been less developed within the revolutionary socialist movement in which a privileged productionism allows the working class to take precedence over community in directing the economy. As Mellor, Hannah and Stirling note, Marx “clearly saw cooperatives as shining examples of the organization of life under socialism” and had a “preference for producer rather than consumer cooperatives” (1988:22). He was keen to assert the value of the “cooperative factories raised by the unassisted efforts of a few bold ‘hands’” as “great social experiments” that concretely demonstrated that *slave*, *serf* and *hired* labor were but “transitory and inferior form[s], destined to disappear before *associated* labor, plying its toil with a willing hand, a ready mind and a joyous heart” (Marx, 1985, quoted in Mellor et al 1988:23 emphasis added). Issues of individualism and collectivism were

¹⁴ In favoring the “community of consumers and citizens” as ‘directors’ of the economy (Webb and Webb, 1921: 482) rather than the working class, the role of consumption was differently configured and valued by the Webbs in a way that distinguishes them from the mainstream socialist tradition. In their view:

We are, in fact, habitually misled by our too narrow view of the social function of consumption. It is necessarily the consumer who, according to his tastes and desires, determines the demand and “sets the fashion,” and thereby decides the kinds and qualities of the commodities and services, high or low, material or spiritual, that shall be produced. “Consuming goods . . . is the creation of a type of life.” In the social organization of the world, the act of consumption “is directive: it is constructive.” (1921:482-3)

traditionally seen through the lens of class struggle and the collectivism of the workers, while privileged over the individualism of the capitalists, is only ever ambiguously related to that of ‘the community’.¹⁵ The reluctance to deal with the complex politics of class versus community has led to many problems for the labor movement in its relations with other issues-based and community-based social movements. It is in this realm of economic politics that the Mondragon case is particularly instructive as is demonstrated in the second part of this paper.

Fourth there were the **empirical facts** about worker cooperatives—most notably that, in comparison to consumer cooperatives, they seemed not to last. Between the heady days of the 1830s when trade unionists “aimed at nothing less than the supersession of the capitalist employer” (Webb and Webb, 1907:322) and the institutionalization of trade unions in the latter half of the 19th century, a number of cooperative workshops were set up by trade unions “as a means of affording, to a certain number of its members, a chance of escape from the conditions of wage-labour” (320). These ventures largely ended in failure and the Webbs’ analysis of their lack of success contributed to what became generally known as the ‘degeneration thesis’—the claim that “over time a democratic, worker-owned firm will tend to fall into decay, chiefly because of declining economic efficiency but also because of a loss of social dynamism” (Cheney, 1999:17). The diagnosis implied an inherent systemic weakness of the cooperative and human weakness of the cooperator in the face of the “logic of the market and the motivations of capital” (Mellor et al., 1988:67). Marx’s comments to the effect that cooperative factories reproduced the defects of the capitalist system (1981:571) imply that he similarly shared the view that, while indicative of a new mode of production, they could not stand alone and independently ‘reproduce’ themselves (see footnote 11).

The taint of utopianism damned worker cooperativism on all sides—both from the Fabian socialist gradualists who were happy to advocate consumer cooperatives (but not producer

¹⁵ This ambiguity can be seen in Marx’s exchanges with anarchists such as Bakunin and Proudhon who were concerned that in a post-revolutionary state ‘government by the working people’ would reproduce structures of domination, with “human nature” leading the representatives of the workers to look down on “ordinary workers from the heights of the state” (1978: 546). Marx’s somewhat weak response (which contradicts other pronouncements) is that once the economic foundations of the existence of classes have been destroyed, wage workers will have abolished the specificity of their class character and the functions of administration would be different. With a reference to actually existing cooperatives, Marx asks for it to be taken on trust that the threat of individualism overriding collectivism will be avoided, asserting that “If Herr Bakunin knew one thing about

cooperatives) and heavy state involvement in the distribution of social goods and also from the communist revolutionaries who advocated state socialism and the transition to communism ‘after the revolution’. The historical antagonism between left labor politics and worker cooperatives continues to have resonance in the present as do the still prominent views that the cooperative sector is insignificant and unthreatening to the dominant economic order,¹⁶ that cooperatives are unable to build sustainable interdependencies, that they are economically flawed and not really distinguishable from capitalism, that cooperators are prone to the individualistic self-interest of the cooperative, that cooperatives are short lived as well as politically conservative and disinterested in solidarity with the more political struggles of the left.¹⁷ This antagonistic stance has contributed to a hyper-critical, because over-invested, attitude to the evaluation of existing economic experiments with cooperatives.¹⁸

Given my interest in recouping an economic politics of cooperativism in a post-socialist and post-social democratic era, it is worth reexamining these objections in more analytical detail. In *The Consumer Co-operative Movement* Beatrice and Sidney Webb set out specific reasons for “Why democracies of producers fail in organizing production” (1921:462-468).¹⁹ Their criticisms stem from a view that the cooperative ideal, as propounded by Owen for example, called for a “character which had not been formed” (Potter, 1891:29). They had a firm belief that “no man can be trusted to be judge in his own case” (Webb and Webb, 1921:465) and thus

the situation of the manager of a workers’ cooperative factory, all his hallucinations about domination would go to the devil” (1978:546).

¹⁶ Cooperatives, for example, have been represented as limited “to the role of isolated, undercapitalized, and marginal ‘dwarf fish’ in the capitalist sea of major corporations” (Ellerman 1984:5 quoted in Morrison 1991:48), that is, as having no power with respect to the dominant structure of capitalism.

¹⁷ Of course there is a counter-story to be told of the waxing and waning of support the labor movement has given to cooperative development. This has changed over time from the building of trade union consumer cooperatives in the early part of the 20th century, to experiments with worker-owned production in the 1970s, to worker buyouts and ESOPS in the 1980s. This point only highlights the rhetorical violence of referring to something called the ‘labor movement’ when its internal differences have historically and geographically been so great.

¹⁸ For example, despite the desire of many to represent Mondragon as a living, breathing alternative to capitalism, Mondragon discourse is haunted by the fear of (and in some cases almost perverse pleasure in) defeat. From an avowedly left perspective Kasmir (1996; 1999), for example, uncovers the ‘myth’ of Mondragon, arguing that the Mondragon model is part of a “global capitalist discourse” (1999: 395) aimed at legitimating post-Fordist management practices. She insists that it “reinscribes capitalism by eviscerating class as a social and political category” and that it appears to be an alternative to capitalism but really only contributes to the assertion “that no other system is possible” (396). Kasmir admits that she is “putting contemporary capitalism at the center of [her] inquiry” (382); for her, the body of capitalism is more real than the ghostly presence of cooperativism—capitalism is present in the market, in the process of producing commodities, in the technology employed, in the pressures to develop one way and not another.

predicted that an inevitable conflict of interest would arise between the workers in a cooperative and the community they serve.²⁰ Their arguments, as laid out in Table 1, still stand as classic oppositions to worker cooperatives. In the second part of this paper I take these weaknesses as a way of organizing discussion of the distinctive elements of the Mondragon ethical economy.

Table 1 here

Ethical stances and the Mondragon way

The Mondragon Cooperative Corporation (MCC) stands in direct contradiction to many of the claims of limitation set out above and as such highlights the possibility of ‘making’ viable and sustainable economies that are built around cooperativism. I am particularly interested in how a new economy might be built by marshalling the potentiating force of surplus labor. In the realm of economic practice important decisions must be made about questions of individual and collective right to the fruits and rewards of labor, power over the performance of one’s labor, exchange principles and distributive policies (to name but some). Eradication of distinctions around ownership of property in a cooperative does not resolve the divisions between producers of surplus and non-producers of surplus. How these divisions are negotiated, how surplus is distributed and allocated between workers and the community, all occupy the space of a form of class politics.²¹ Each new way of producing, appropriating and distributing or allocating social surplus allows for new becomings, new ways of being.

¹⁹ These criticisms were first propounded by Beatrice Potter in her 1891 book on *The Cooperative Movement in Great Britain* and then incorporated into her 1921 book with Sidney Webb.

²⁰ Potter asked the question in her 1891 book on the cooperative movement: “For where, in the wide world, could Robert Owen discover a body of associates . . . who had inherited or acquired characters fit for the difficulties of associated life and self-government?” (1891:29). She displays a certain elitism in the observation that those who were attracted to cooperativism were the unemployed, “workers already degraded by starvation or idleness, or restless or discontented spirits” who were, in her estimation, “incapable of the most elementary duties of citizenship” (29). With such a low opinion of the masses, it is not surprising to see Potter/Webb and her husband enshrine a form of mistrust of the worker’s capacity for ideals other than greed at the center of their evaluation of producer cooperatives.

²¹ Resnick and Wolff’s (1987) symptomatic reading of Marx’s economic and class analysis reinstates surplus labor distribution (the distribution of extracted surplus to various ends by the appropriator) as just as important a moment of the class process as those of surplus labor production and surplus labor appropriation. All three moments can be seen as focii of class struggle. What is more they argue that diverse class processes can be seen to be present in all societies in which surplus is used to build and support a social system, including those that

Crucial to the longevity and success of the Mondragon cooperatives has been a commitment to constant debate and reevaluation of how a particular set of ethical principles will guide their economic choices and resultant paths of action. At base, the most powerful constituent of the Mondragon intentional economy has been its Basque ethnic and community identity. During the 1950s Father Arizmendi set himself the goal of promoting unity in a society fractured by civil war and political division. In his view, the economic strategy of setting up cooperatives was a step towards building a cohesive community and enabling Basque cultural survival and regeneration.²² Under the repressive Franco regime, Basque language had been outlawed and ownership of production facilities denied Basque communities. Working within and against these constraints the Mondragon cooperatives began to grow and foster an economic basis for renewed expression of Basque cultural identity. Community coherence and preservation has remained an underlying commitment guiding many of the strategic economic decisions taken by cooperators.

The ten cooperative principles that have guided the Mondragon experiment are as follows:²³

1. Open admission

Membership of the Mondragon cooperatives is open to all who agree with the basic cooperative principles.

2. Democratic organization

All owner-workers (*socio-trabajadores*) are equal members of the cooperative. Each has one vote in the democratically controlled general assembly of the enterprise and in the election of members to other governing structures.

3. Sovereignty of labor

Control of the cooperatives is in the hands of the owner-workers, and they have a primary role in the distribution of surpluses. There is no distinction made between so-called 'productive' workers (direct producers of surplus) and 'unproductive' workers (office and

claim to have 'abolished the class system'. See for example their analysis of the Soviet Union (Resnick and Wolff, 2002).

²² Interview with Jose Ramon Elorza, Human Resources Director, IKERLAN April 22, 1997. The initial cooperative was established in 1956, but prior to this Father Arizmendi had spent the years since his arrival in the community in 1941 setting up youth groups, a medical clinic, athletics and soccer clubs, teaching in the apprenticeship program of the largest company in town, Union Cerrajera, setting up an independent technical school, Escuela Politecnica Profesional, and conducting more than 2000 study circles on social, humanist and religious topics! (Whyte and Whyte, 1988: 29-32). The school was to provide the technical and organization base from which the producer cooperatives grew (30).

sales personnel who do not produce surplus but enable its realization and are paid out of distributed surplus). All are ensured the right to determine how surplus will be distributed within and without the cooperative enterprise.²⁴

4. Instrumental and subordinate character of capital (people over capital)

In all instances people are valued over capital which is seen as “basically accumulated labor and a necessary factor in business development and savings” (Morrison, 1991:11). For example, while the cooperatives require a substantial personal investment by new members, this need for capital does not stand in the way of open admission.²⁵ This principle ensures that capital does not have an independent existence, imperative or logic. For example, returns paid out on capital saved or reinvested in the cooperative system are “just but limited”, “not directly tied to the losses or surpluses of the co-ops” (11).

5. Self-management

The collective enterprise is managed through democratic participation of all members, based on free flow of information, access to training, internal promotion for management, consultation and negotiation about all decisions that affect owner-workers.

6. Pay solidarity

Wages are set according to principles of solidarity between workers within each cooperative, between cooperatives and with workers in conventional capitalist enterprises in the region. Collective decisions about what proportion of the worker’s labor is to be considered ‘necessary labor’ (to be used for meeting subsistence costs and remunerated to the cooperator as a wage) are particularly informed by the ethic of *equilibrio*, that is, a commitment to seeking balance between conflicting interests and forces.

7. Group cooperation

Cooperation is fostered among individual cooperatives within the same group, among cooperative groups within the MCC and between the Mondragon cooperatives and other cooperative movements throughout the world.

8. Social transformation

²³ The principles as they currently stand were based on those set out originally by the Rochdale cooperators in 1844 but have been influenced by the contemporary International Cooperative Alliance and their own experiences (Morrison, 1991:11-12; Ormaechea, 1993:139-86).

²⁴ In the terms proposed by De Martino this constitutes an example of “weak appropriative justice” in that those who “directly produce the surplus (Marx’s productive workers) *are not excluded* from fair and meaningful participation in its appropriation” but are joined by other members of the cooperative and in a less direct way by other members of the wider community (2001:13).

The ever greater economic and social reconstruction of a Basque society “which is more free, just and solidary” (Ormaechea, 1993:175) through, for example, expansion of employment in the cooperative system.

9. Universality

Promoting solidarity with “all those working for economic democracy in the sphere of the ‘Social Economy’, championing the objectives of Peace, Justice and Development, which are the essential features of International Cooperativism” (Ormaechea, 1993:180).

10. Education

Commitment to education about cooperative principles and their dissemination to members, especially among those elected to office in the social and management bodies of the organization, and crucially to young people, the cooperators of the future (Ormaechea, 1993:183).

The process by which these principles have been deliberately debated and frequently reinterpreted over the past 40 years provides a model of a fluid and iterative process of defining and redefining ethical positions with specific political and economic outcomes. In all instances a commitment to seeking balance between conflicting interests and forces, to the principle of *equilibrio*, has come into play in adjudicating differences and determining how to proceed. In the discussion to follow we see how these principled ethical stances have been acted out in the specific circumstances identified by the Webbs as moments of producer cooperative weakness/limitation/temptation.

Product

*the self-governing workshop is inevitably “led to regard its own **product** or its particular function as of more than average importance to the community”*
(Webb and Webb, 1921:465)

When the first enterprises were established, the cooperators sought to set up the production of commodities not being manufactured in the region (or in Spain). Commitment to an ethic of regional business solidarity influenced the decision not to replicate (and therefore create heightened competition for) businesses already established in the region. They began with one cooperative business manufacturing paraffin stoves and progressively established new

²⁵ Mathews notes that the entry fee “currently stands at about \$A 12,500” which represents “roughly 10% of the estimated average capital requirement for the creation of a new job” and that “(p)ayment can be made on the

enterprises producing space heaters and electrical appliances, targeting local and national markets. This strategy worked very well in the consumer-deprived days following the war when the Spanish economy was both depressed and politically isolated. Prices were protected by the high tariffs on industrial imports that stayed in place until Spain's entry into the European Economic Community beginning in 1986 (Whyte and Whyte, 1988:132).

The commitment to social transformation of Basque society through increased employment has led to the proliferation of cooperatives. During the establishment phase the Mondragon cooperatives developed their own internal markets building backward and forward linkages between their own cooperatives. As some enterprises became larger, sections of production were spun off as independent entities. The components produced by a new cooperative had an assured market with the old parent firm and the cooperative had the opportunity for expansion by developing new markets, selling to buyers outside the cooperative system.

Strength in the manufacture of domestic white goods thus translated into strength in other product markets such as machine tools. Most recently movement into retailing and services is fulfilling the goal of increasing employment. Committed to the principles of open membership, universality and education, the hyper and supermarkets, Eroski and Consum, are run as both worker and consumer cooperatives. Consumer members are represented on the governing councils of the cooperative but are not paid a consumer cooperative dividend. Eroski concentrates instead on "low prices, healthy and environmentally-friendly products and consumer education and advocacy" (Mathews 1997:12). These enterprises have managed to carve out a significant market niche by offering cooperative membership to all consumers who shop with them, utilizing their internal market links to agricultural and commodity producers. Eroski now employs over 12,000 workers and the chain extends beyond Spain.

The Mondragon cooperators have not sought to establish any one product or function as more than of *average importance to the community*. The extent of product diversification is remarkable from agricultural products, to capital goods, domestic appliances and retail services and has led to the strengthening of the regional economy as a complexly differentiated and networked whole.

basis of a 25% initial contribution, followed by monthly installments" (1997:11).

Pay

*“the conflict of interest between each self-governing industry or vocation and the community as a whole may appear in the exaction of **pay** above the average, or hours and conditions of work less onerous than those of others”*
(Webb and Webb, 1921:465)

The setting of wages (called *anticipos* or an advance) is one of the spaces of freedom open to Mondragon that has been seriously debated and modified in line with changes in the economic environment.²⁶ While all members of any one cooperative are democratically involved in the decisions regarding the operations of the cooperative enterprise, decisions about wages are made by the cooperative community as a whole at the Cooperative Congress, the democratically elected governing body of all the cooperatives. This signifies the import placed by the cooperative system upon the setting of the necessary labor payments that influence rates of appropriation²⁷ and thus production of cooperative surplus.

A number of principles come to bear here. The identification first and foremost of the cooperatives as a *Basque* survival strategy meant that they were very conscious of not recreating or instigating divisions within the Basque region.²⁸ This imperative became institutionalized in the ethic of regional pay solidarity. Wages are pegged to a base wage which is “roughly comparable to that of suitable workers in neighboring Basque industry” (Morrison 1991:50). This decision reflects a community commitment to *equilibrio* and *solidarity* ensuring that the Mondragon cooperators do not become a new wealthy ‘social class’ within the region. A similarly informed decision to minimize wage differentials within any cooperative to a ratio of 1:3 between the bottom worker and the top manager was instituted by all the cooperatives (Whyte and Whyte, 1988:44). This ratio has been modified a number of times throughout the history of Mondragon and is currently 1:6.²⁹

²⁶ The issue of hours and working conditions will be taken up under ‘management’.

²⁷ In that this act of appropriation is sanctioned by the workers themselves, it seems more realistic to use this terminology, rather than the more well known “rate of exploitation”.

²⁸ During the Civil War the Basque community had been split by Republican, socialist and anarchist loyalties as well as having been decimated by outmigration and the targeted bombing of Guernica, the spiritual and governmental center of Basquedom.

²⁹ It must be noted that in many of the technologically advanced enterprises there are no workers receiving the base grade pay. The move to the greater ratio was instigated by the need to permit salaries of the top managers to rise to 70% of established market equivalents (Cheney, 1999:49). The wages issue has been complicated in recent times with the employment of non worker-owner labor (*eventuales*) who will be included as full cooperative members when new full time jobs are generated, and non worker-owners (*socios temporales*) with fixed-term contracts. Cheney notes that these non-*socios* make around 80% of the wages of the *socios* and

The decision to debate wage levels at the level of the community and not the individual cooperative ensures *equilibrio* by establishing safeguards against any one group increasing the production of surplus labor in their cooperative by driving the wage level down below the community wide level, or jeopardizing the production of surplus by raising wages above this level. The decision to limit the necessary labor payment (thereby maximizing the surplus labor produced) enhances the economic ability to proliferate cooperatives. It also indicates a commitment to valuing community sustainability over and above immediate personal consumption, a commitment evident in many of the aspects of the Mondragon economic experiment.

Profit

*it is “perpetually tempted to exact, like the capitalist employer, a **profit** on cost; that is to say, to secure for its own members whatever surplus value is embodied in the price for which it can dispose of its product or service; or to put it in another way, to retain for its own members the equivalent of the advantage of all differential factors in production (such as superiority of soil or site, of machinery or administrative skill) that it controls” (Webb and Webb, 1921:465)*

True to the sovereignty of labor principle, the cooperative members are owners and first distributors of their profits, or disposable surplus, that is, what is left of their appropriated surplus labor after meeting all the enterprise expenses (cost of inputs including raw materials, machinery and the wages, *anticipos*, as well as deductions from surplus for insurance, taxes etc). The members of the general assembly of the individual cooperative are not, however, at liberty to retain the remainder for themselves, but are in charge of major decisions about how to distribute their profits. Certain distributions are determined by the cooperative system as a whole, and one distribution is enforced by Spanish law—the allocation of 10 per cent of annual profits to social or charitable institutions. These funds are spent on educational programs conducted in Basque language, community and public health projects, providing important support for cultural maintenance (Cheney, 1999:87).

In principle the cooperativists have the strategic power to determine how 90 per cent of the profit is allocated and it is in this arena of decision making that the strong commitment to

receive no dividends in the enterprise (86). At present some 10,000 of the total MCC workforce of around

people over capital and community over individual has increasingly come to the fore. Early on the cooperatives distributed 20 per cent of their disposable surplus to a permanent reserve fund of retained earnings to be used for machinery replacement and upgrade. The remaining 70 per cent of the profit was distributed on a yearly basis directly as dividends to the cooperators “who could spend or save it as they chose” (Morrison 1991:159). It soon became evident that this arrangement would not allow for long-term expansion of the individual enterprise or the wider cooperative system. The decision was thus made to establish internal capital accounts whereby 70 per cent (or less) “is distributed to the owner-workers’ personal internal capital accounts, apportioned according to number of hours worked and salary grade” (Morrison, 1991:50).³⁰ The individual worker’s capital account earns interest at an agreed upon rate and “(m)embers may draw on the interest accumulated in their accounts, or use the accounts as collateral for personal loans, but the principal cannot normally be touched until they resign or retire” (Mathews, 1997:11). This means that effectively 90 per cent of the profit or disposable surplus generated is saved to be reinvested in enterprise development.

In effect, this allocation of funds to ‘forced savings’ has been a crucial enactment of strategic power on the part of the cooperators that has subordinated personal economic gain to the goal of strengthening and diversifying the cooperative system. The individual producers cede their right to directly determine many of the distributions out of appropriated surplus by depositing their individual capital accounts with the *Caja Laboral Popular* (the Working People’s Bank). This institution is a second degree cooperative (a cooperative of cooperatives) that is controlled by its owner-workers and its members (other cooperative enterprises). The foundation of the *Caja Laboral*³¹ was a key intervention that enabled the economic power of cooperatively produced surplus to be marshalled within the cooperative system as a whole and dispersed in a manner that proliferated the intentional economy of Mondragon:

40,000 are non worker-owners.

³⁰ Cheney notes that in recent times it has been reported that some *socios* have voted to reduce the reinvestment of their dividends into the collective capital fund to 30%, that is, to what is required by statute. His informant attributes this shift to a demise of the ‘culture of sacrifice’ (or giving) that characterized the first 40 years of cooperative development and the rise of consumerism in Basque society (1999:80). It is also possible that with the growth and consolidation of the MCC there is less pressure within the organization to rely on this fund for business expansion.

³¹ In setting up this bank the cooperatives took advantage of a clause in Spanish law that allowed a cooperative credit union to offer 1% higher interest than other financial institutions (Mathews 1999:206). It was able to quickly attract the savings of local people and channel them into financing further development of the cooperative system.

The slogan used by the *Caja* in the early stages of its development was “savings or suitcases”, indicating that local savings were necessary in order for there to be local jobs. The *Caja* also provided a means for the cooperatives to manage the capital held in their permanent reserves and individual capital accounts, so enabling them to retain within the group all of their surpluses other than the 10% allocated by law to community projects. (Mathews 1997:13)

The *Caja* operates as both a bank and a business development agency. Its *Empresarial Division* engages in a second order redistribution of the worker-owner’s surplus deciding where and how to allocate its investments so as to protect and advance the cooperativist vision. It still offers low interest loans to cooperatives and provides business and financial support to new startup cooperatives (Cheney, 1999: 56). The surpluses deposited with the *Caja Laboral* have also been used to establish a network of other second degree cooperatives and groups that have provided ongoing support to the ‘primary’ producer cooperatives; *Lagun-Aro*, the social insurance cooperative that provides health care, life insurance and social security to cooperative members and their families³²; *Hezibide Elkarte*, the education and training cooperative providing education from day-care to university level education; and *Ilkerlan* and *Ideko*, the research and development cooperatives that undertake scientific and technical research both for the cooperative businesses and on contract for the private sector.³³

The generation of cooperative profit and its deployment into job growth in additional first degree and second degree cooperatives and the provision of social services has, in Mondragon, become a way of sharing the dividends, connecting cooperative members to the wider community, and expanding and strengthening the cooperative community economy.

Innovations

³² Under Spanish law the cooperatives were excluded from normal social security taxes and benefits and so the cooperators formed their own system to provide social benefits to themselves and their families (Whyte and Whyte, 1988:19).

³³ Mathews summarizes the implications of this economy of surplus distribution for the diverse forms of property ownership that coexist:

...members of the co-operative have property of four kinds: firstly, ownership of their jobs; secondly, direct personal ownership of the balances held for them in their capital accounts, which earn additional income for them through interest to which they have regular access; thirdly, a shared ownership of the assets of their co-operatives, such as buildings, equipment and reserves, the governance and management of which they are directly responsible for; and, finally, a further shared ownership—albeit less direct—of the secondary support co-operatives in which the primary co-operative are major stakeholders. (1999:232)

*“every democracy of producers ...[is]...perpetually tempted to seek to maintain existing processes unchanged, to discourage **innovations** that would introduce new kinds of labour, and to develop vested interests against sections of workers” (Webb and Webb, 1921:466)*

The Mondragon cooperatives began with modest production processes that were appropriate to the local demand for domestic appliances. But technical education and innovation has always been a keystone of the Mondragon cooperatives since the early days when the first graduates of the Escuela Politecnica Profesional formed the first cooperative enterprise. MacLeod notes that “the theory as well as the practice [of the Mondragon model] is infused with an almost fierce attachment to the necessity of being on the cutting edge of the most advanced technology available”(1997:92 insertion added). He speculates that this commitment to the latest technology might have been influenced by Don Jose Maria’s impressions of the Spanish Civil War in which the idealism of those who came together to support the Republican cause “was no match for the precision and efficiency of Hitler’s technology” when the German Air Force came in to help Franco by bombing the Basques’ most ancient and sacred city of Guernica (1997:94).

Significant investment has been allocated to keeping at the developing edge of production technology and methods and this has allowed the Mondragon Cooperative Corporation to become

Spain’s largest exporter of machine tools and the largest manufacturer of white goods such as refrigerators, stoves, washing-machines and dishwashers. It is also the third largest supplier of automotive components in Europe—designated by General Motors in 1992 as “European Corporation of the Year”—and a European leader in the supply of components for household appliances. (Mathews 1997:2)

Mainstream technology and production processes have for many years served the primary agenda of building community sustainability, but there is now a commitment to developing environmentally responsible production techniques.

Adherence to the principle of the instrumental and subordinate character of capital has meant that technical change is not posed as a threat to the individual owner-workers’ job or existing skill base. While there is no question that innovation must take place to remain competitive, the cooperatives were designed primarily to gainfully employ people and not only to make

profitable returns. With the introduction of new ‘labor saving’ machinery, workers are deployed to other existing cooperatives or retrained to work in new production processes and paid a maintenance wage. The cost of upholding this principle is met by reallocations of distributed surplus at the level of the individual cooperative and supported by allocations of second degree surplus distributions by the *Caja Laboral*. During the recession of the 1980s, for example, certain cooperatives increased to 45 per cent the distribution to retained earnings to allow for the cost of retooling and upgrading machinery and paying unemployment benefits to laid-off workers, thereby reducing the allocation to individual cooperator accounts. The commitment to keeping enterprises going or changing their purpose so that they can continue to generate a disposable surplus that can build and extend community has led to an emphasis upon efficiency, high productivity, market expansion and new business growth and product development.

Management

*the “invidious” problems with “discipline” and the hierarchy of **managers** and producers; “No self-governing workshop, no Trade Union, no Professional Association, no Co-operative Society, and no Local Authority—and no office or industrial enterprise belonging to any of these—has yet made its administration successful on the lines of letting the subordinate employees elect or dismiss the executive officers whose directions these particular groups of employees have, in their work, to obey” (Webb and Webb, 1921:467)*

Given that the Mondragon operations adhere to the principle of self-management, many issues to do with the direction of work and compliance with shop floor discipline are side-stepped. Indeed this is one of their competitive advantages over conventional capitalist corporations. As Morrison notes, the cooperatives are “not burdened by layers of supervisors and managers who act as enforcers [and who must be paid out of appropriated surplus]; instead, [they have] a talented, committed force of owner-workers who can successfully use the new flexible technologies” (bracketed comments added 1991:214). Workplace behaviour must abide by an agreed upon disciplinary code that addresses issues of punctuality, absences and violation of co-op rules, specifying ‘light, serious and grave’ offences and appropriate punishments (from fines to suspension or expulsion). In a largely self-managed work environment enforcement of these codes is mainly up to the individual and the immediate work group.³⁴

³⁴ One cooperator explained to me how her job was to plan out the flow of work in the factory for the week. As long as this plan was ready to be operationalized on the shop floor on Monday morning, it did not matter when

There is still the question of how owner-workers relate to a general manager of the whole enterprise. In Mondragon each cooperative is set up with a number of elected councils that see to day to day governance and carry out the decisions made by the annual General Assembly of all worker-owners.³⁵ The governing or directing council is made up of general members elected to a four year term and is considered to be the most powerful body in the cooperative. It appoints, supervises and removes the co-op manager, oversees membership, job classification, accounts, distribution of profits or losses, financial commitments and business plans (Whyte and Whyte, 1988:76). The cooperative manager is appointed for a four year period and may attend governing council meetings as an advisor but has no vote. The governing council normally meets every day before the working day begins and at the conclusion of the meeting the councilors resume their specific jobs within the enterprise (Mathews, 1999:199). In the larger cooperatives a separate management council made up by the hired top executives and directors of the cooperative meets to formulate policies and plans to be approved by the governing council (Cheney, 1999:59). In these larger enterprises an audit committee keeps watch over the cooperative's financial operations.

Managers earn much less than they would outside the cooperative system, so they are often drawn from within the cooperatives or are young graduates brought in from outside who are keen to participate in the cooperative vision. Some are even hired from traditional capitalist firms. They are "aware that they must succeed in order to maintain their jobs" (Morrison, 1991:74) and that they have to justify their decisions to worker-shareholders who are much more involved in the business than the conventional shareholder (Bradley and Gelb, 1983: 62). "Co-op managers, however, do not live in terror of losing their jobs. It is not a tragedy for a manager to fail; those who are replaced are reintegrated into the co-ops with another assignment" (Morrison, 1991:74).

she did her work. Sometimes she came in on the weekend to complete it if she had spent her time on other things (she was a local councilor) during the preceding week. She was appreciative of the considerable freedom to organize her work time, at the same time she expressed a strong sense of responsibility to the cooperative enterprise and had a well developed work/service ethic. This account points to the reduced need for managers to police behavior or give out orders. As an employee of the owner-workers the manager is free in turn to look to the smooth running of the production and commercial side of the business.

³⁵ At the General Assembly position papers and business plans are presented, debated and approved. The meeting is preceded by smaller "preparatory chats" for groups of 30-40 *socios* to review and modify the plans and strategies to be presented (Cheney, 1999:58).

In addition to the hired general manager, each cooperative has an elected president who is an ex-officio member of the governing council and social council (see section on disputes) and is invited to attend the meetings of the management council when there is one. Cheney notes that this dual governance-management structure imbues vitality in the organization and a strong democratic awareness. In his research he found that the two leaders often act as partners in management with the elected president “typically more conscious of his or her constituencies than is the selected general manager” (1999:61).

The clear specification of the terms and conditions of management and the individual rights and collective responsibilities of the owner-workers has contributed to one of the most successful systems of worker management in the world. The MCC is host to many study groups from all over the world interested in efficient business and industrial management with a strong emphasis on worker participation.

Disputes

“disputes among different vocations and sections of vocations (whether brain workers or manual workers) as to which of them were “entitled” to particular jobs, have been specially characteristic of every form of association of producers” (Webb and Webb, 1921:466)

The process of determining working conditions, wage levels and job classifications in the Mondragon cooperatives has always been pursued outside of the ‘normal’ operations of the labor market or conventional collective bargaining. This is partly because when the cooperatives were first begun the Franco dictatorship banned membership of trade unions and political parties, though clandestine organizations existed. The commitment to *equilibrio* and *solidarity* could also be seen as contributing to an interest in ways of resolving conflicts that do not draw upon the us/them ideology of mistrust and suspicion that has traditionally characterized trade union struggles over industrial relations. Efforts to build a sense of economic community are aimed at transforming the usual class divisions and antagonistic affective politics that often pertain between management and workers.

Within the cooperatives social councils were organized to allow the voice of owner-workers *as workers* to be heard. The social council stands alongside the governing council and focuses on monitoring personnel matters, salary grades and advances, health and safety

issues, and administering the coop social funds. It aims to evaluate and possibly counter decisions made by the governing council that might be more influenced by business considerations and as such operates like a union.

Disputes over job classification and reevaluation have indeed occurred in the Mondragon cooperative, the most famous being the dispute that erupted as the 1974 Ulgor strike. At this time the Mondragon complex of cooperatives was under attack from elements within ETA, the Basque political organization, who saw this “entrepreneurial adventure” as “a disguised form of capitalism, and therefore an obstacle in the way of the proletarian revolution” (Whyte and Whyte, 1988:92-3). Criticism was particularly strong of the social councils which were seen by the militant left as none other than a “bourgeois parliament”, a “faithful servant and legitimate child of the system which gives rise to it” (Whyte and Whyte, 1988: 93 quoting Azurmendi). ETA agitation within the cooperatives saw attempts to mount strikes in the early 1970s and the response by the governing council at the Ulgor plant was to distinguish between “sympathy strikes” in support of labor causes in the wider Basque region from “internal strikes” focused on issues that could be raised and resolved with the social council. The latter were defined as attacks on the cooperative and subject to penalties and discharge (92).³⁶ The Ulgor cooperative had grown into a large and bureaucratic organization with 3,500 employees and, in the heightened climate of attack, the attempt by management to implement job reclassifications and individual merit ratings for blue-collar workers was met with misunderstanding, resistance and ultimately a strike. This experience caused major rethinking within the cooperative complex and prompted many changes. One was the decision to limit the size of future enterprises where possible to around 500 so that high levels of communication could be maintained through the workforce.

Job classification and individual performance goals are important as not only do they translate into a particular wage level but this in turn affects the share of cooperative dividends paid to the owner-worker. It is not surprising, therefore, that exercising the ethics of *solidarity* and *equilibrio* is not always easy.³⁷ The strength of Mondragon has been its willingness to openly and democratically discuss these issues, to reflect on past mistakes and

³⁶ A move which Father Arizmendi was said not to have supported (Morrison, 1991:154).

³⁷ With reorganization of work into teams there are current moves to reward group output with team-based pay which is producing more controversy within the group (Cheney, 1999:130).

to constantly change in order to sustain the original vision. Openness to change is a freedom to be exercised in itself.

Membership

*“the tendency to exclusiveness is inherent in any association based on vocation in production.....[and]...just because they are necessarily producing almost entirely not for their own use but for exchange, [they] can normally increase their own incomes, apart from any increase in efficiency in production, by restricting their **membership** and limiting their output in relation to demand in such a way as to enable them to raise the aggregate exchange-value of their product”* (Webb and Webb, 1921:466)

As the history of Mondragon shows the cooperatives have not displayed exclusiveness on the basis of production or vocation. On the contrary they have expanded into multiple production lines and industries, building connections between workers of all trades and skills across a diversified economy within the Basque region of Spain. Output has been expanded rather than limited in relation to demand and prices of Mondragon produced commodities have been kept competitive with those of commodities produced within capitalist firms. Until recently, membership has been available to all who worked in a cooperative enterprise and wage levels have been regulated in line with the principles of open membership, solidarity and equilibrio. Many of the dangers of exclusivism or group individualism have been mediated by the principles and ethical practices elaborated above.

Today, one of the pressing challenges facing the MCC is related to this question of membership and market competitiveness. The increasing openness of global markets could be seen as restricting the spaces of freedom within which the cooperatives can forge their own path. Mondragon watchers have drawn attention to the phenomenal growth of the cooperative corporation in the late 1980s, when it was initially adapting to the international market, and during the 1990s, when it reorganized the corporation along sectoral lines and commenced aggressive strategies to defend and increase its market position by establishing production sites outside the Basque region and in international locations (Cheney, 1999; Clamp, 2000).³⁸

³⁸ Cheney argues that the interest in international expansion is somewhat unexamined (1999:78) and cautions that “In an effort to engage the market completely on its own terms, they may be unduly sacrificing the long-valued ‘buffer zone’ between them and the turbulence of the international market” (79). Clamp records that “foreign subsidiaries generated 9 percent of the international sales in 1997” (2000:564). Currently production subsidiaries are located in Argentina, China, Czech Republic, France, Germany, Holland, Mexico, Morocco, Thailand as well as other regions of Spain (Clamp, 2000).

The expansionist strategy *within* Spain has been accompanied by a conscious program of education and conversion to cooperative membership. But in the growing number of joint ventures, acquired firms and start-ups outside of Spain the workforces are wholly or partly comprised by contract-based or non-owning employees. Foreign plants have been acquired or established both to access and cater to overseas markets (e.g. in Morocco and Argentina to produce and supply domestic appliances) and to access cheaper labor and keep competitive in international markets (e.g. in the components sector by locating a plant in Thailand) (Clamp, 2000: 566, 568). The expansion strategy is pursued primarily to protect cooperative employment and operations in the Basque country by maintaining markets and competitiveness. Indeed, where possible the research and development arm of the corporation aims to “develop substitute technologies that enable the MCC to return manufacturing operations from overseas to the Basque region” thereby sustaining employment locally (Clamp, 2000:562).³⁹

What we see in recent times is an attempt to stay true to the guiding vision of people over capital in the Basque region (i.e. maintaining sustainable employment) while engaging in operations elsewhere along mainstream business lines (where capital rules over people). As one MCC household goods division vice-president is quoted as saying “We don’t go as missionaries, we go as a business that has to make money, be profitable and support our principal business” (Clamp, 2000:566). Or as another co-op manager puts it “We do not see our mission to create new jobs in Argentina. We want our project to increase more and more and more...The ‘head’ is here [in Mondragon] and the ‘feet’ are utilized to sustain the ‘body’” (quoted in Clamp, 2000:562 insertion added).

The MCC has always operated within an international community of cooperativist solidarity *and* a very locally emplaced community of cultural specificity. It maintains a strong role in international education about cooperatives and solidarity with international cooperatives as evident in substantial financial contributions to the International Cooperative Alliance and its outreach programs. But the MCC is not yet involved in education and conversion in its foreign plants. The task of extending cooperative education and membership to workers in

³⁹ The components plant acquired in Thailand employed 100 Thai workers. Clamp notes that by 1998 “MCC’s engineers were able to redesign the component. They can now manufacture the same component with 15 workers once again in Mondragon. The plant in Thailand will be maintained since they anticipate that there will be other components, which will encounter similar labour cost challenges.” (568).

the myriad international sites that the MCC now operates would be a daunting one indeed, and would potentially carry with it all the worst aspects of missionizing that go counter to the grass roots participatory involvement that is so much a part of the cooperative vision.⁴⁰ Its commitment to sustainability has ultimately been local and has led to a privileging of the Basque community economy and its interests. Having a clear sense of which community is being sustained by what economic practices inevitably involves facing up to exclusions and violences and debating their acceptability at any one moment.

Clearly Mondragon has reached a juncture where, as Cheney observes, “the cooperatives have now far exceeded their founders’ expectations of financial success, resources, geographic reach, and power” (1999:72). It is important to highlight that the success of Mondragon has not been bought by their ‘democracy of producers’ at the expense of the community from which they are drawn, nor from the citizens and consumers, both local and international that they serve. But it cannot be denied that today the cooperators are facing new ethical dilemmas to do with the scale and reach of the economic justice they are keen to promulgate.⁴¹ While cooperative membership is restricted at present by the capacity of the production system to generate continuing positions (not for the purpose of limiting output and sending prices up, as the Webbs predicted) employment as wage workers in the MCC is rising. The questions currently being debated within the MCC with respect to internationalization, growth, membership and its cooperativist identity are of utmost importance.

The specific dangers of cooperativism, as outlined by the Webbs in the early part of the twentieth century, continue to resonate on the Left when discussions of economic experimentation and support for cooperatives arise. From the perspective of these historic criticisms of worker owned cooperatives the Mondragon experiment represents an impressive achievement. It offers an important empirical counter to the degeneration thesis that has plagued cooperativist experimentation suggesting that there is no logical imperative toward cooperative degeneration and failure. It demonstrates various ways to avoid the “perpetual temptations” of individualism that the Webbs pinned on the ‘self-governing workshop’

⁴⁰ This was one of the points that came out in the discussion I had with a member of the Otorola Institute in 1997.

⁴¹ Supportive critics like George Cheney (1999) are worried that their success will undermine the values that have provided organizational strength in the past. We see this as a realistic and sympathetic concern.

suggesting that any such inevitability is likely to be a function of the absence of debate about what it means to act as communal or cooperative subjects. The Mondragon case shows that the pitfalls of group individualism can be addressed by an active discussion of ethics, values and connection to others. It seems that long-term success (even an excess of success) of a system of worker-owned cooperatives is, indeed, possible if economic practices are constantly scrutinized and modified in the light of evolving commitments to community survival over and above individual interest.

In Mondragon decisions to do with product, pay, profit, innovation, management, disputes and membership have been guided by a set of values established early on in the study circles that Father Arizmendi conducted prior to the commencement of the first cooperative and that he continued to run throughout his life. And the economic practice of *equilibrio* and *solidarity* has fostered new conceptions of the cooperativist or associative self. The overarching desire to preserve Basque culture has provided the inspiration and motivation to develop a cooperative or communal subjectivity. This raises the question of what we might take from this analysis of the Mondragon cooperatives, clearly a unique and very particular case of 'success'. How might the Mondragon experience inform models of community economic sustainability?

Conclusion

This paper has situated contemporary evaluations of Mondragon's 'success' within a tradition of debate about the politics of economic transformation. It has explored the long-standing suspicion of worker cooperatives among political and social analysts on the left, taking issue with both the revolutionary and gradualist socialist camps over the capitalocentric contours of their arguments and the implicit pessimism, particularly of the latter, with respect to emergence of a communal subjectivity among worker-owners. I have argued that economic experimentation whether in the 19th or 21st centuries has been stifled by a poverty of theories of economic difference that can be drawn upon when building alternative, non-capitalist community economies. As an antidote to disheartening assessments and theoretical underdevelopment, I have offered an extended discussion of the ethical decisions taken by the Mondragon cooperators in their efforts to consolidate what arguably stands as the most successful cooperativist regional economy in the world.

The Mondragon case has indeed provided an inspirational model of a community that is not averse to ethical discussion and to the difficult collective decisions that must be made if a new kind of society incorporating different economic principles is to emerge. Stepping back from the cultural and geopolitical specificities of the Mondragon case I would like to focus in conclusion on what it might teach us about perhaps the most important issues raised by gradualist and revolutionary socialists in opposition to the cooperative movement—namely, the lack of an appropriate economic analysis for building new cooperative economies and the absence of a strategy for overthrowing and replacing the capitalist system. First, while claims about the faulty economic analysis of the advocates of cooperatives are perhaps not unfounded, I would tend to see this as a problem of omission rather than commission. From my perspective, it seems that the underdevelopment of an economics of surplus labor distribution has hindered *all* forms of alternative economic experimentation, whether of a cooperativist, labor unionist or state socialist form. Left analysis (especially among economists) has almost exclusively focused on the ownership and control of capital, or on the dynamics of exploitation and surplus appropriation (as measured by the size of compensation packages) while ignoring the dynamics of surplus distribution (most importantly the distribution of profits). In many societies the dominant ethos around wage setting has been oriented toward pushing wage levels as high as will be permitted (a direction that many trade unions have fostered).⁴² Social democratic movements have, of course, focused upon questions of distributive justice, but the distribution at stake is largely that of personal income, only some of which, at the top end of the salary spectrum, could be seen as distributed surplus labor. Governments have attempted to tax corporate profits, but in the classic cases of social democracy significant state assistance to industry redistributes funds *towards* corporations. Focus on state taxation of citizens and the generalized distribution of social consumption goods completely obscures an economics of surplus labor or a politics of rights to that surplus. Thus the potentiating force of surplus is allowed to drain away untheorized and untapped and citizens are left squabbling over who is supporting whom in society.⁴³

⁴² TeamX is a new worker-owned and unionized garment factory in Los Angeles that signals a new direction for union-based economic politics. Supported by the US Union of Needletrades, Industrial and Textile Employees, TeamX produces “SweatX clothes with a conscience” (Lawrence, 2002:1) and aims to tap into a “niche moral market” for clothing not made by sweated labor. Inspired by the Mondragon Cooperative’s ethic of wages solidarity, the ratio between the highest and lowest paid employee is 8:1. As this is an intervention to “set the highest standard for sweat-free manufacturing” the lowest wage is much higher than the industry standard (3).

⁴³ It is easy to see how in this situation social altruism may give way to individual greed, and what were once seen as legitimate rights become illegitimate forms of dependency. The pie is indeed limited.

The Mondragon case illustrates the importance of a well thought out economics of surplus management and distribution that is linked to the setting of wage levels and attendant surplus generation.⁴⁴ The decisions to peg wages at a socially acceptable but modest level and to keep wage differentials to a minimum represent exercises of restraint that constitute the freedom to construct a very different kind of economy. The decision to allow, via the operation of the *Caja Laboral*, the community of cooperators to oversee the distribution of individual cooperative's surpluses represents an exercise of communality that enables the sharing and proliferation of this different economy and society. All these decisions have brought into being distinctive spaces of collectivity in which we can see a communal class process being enacted.⁴⁵ They privilege relations of social connection and interdependence between workers and workers and citizens, bringing the sociality of the economy to the fore. Supporting these particular decisions are those to do with the social relations of cooperative work—the decision to develop sophisticated methods of self-management and techniques of non-conflictual dispute resolution.

Secondly and finally, with respect to the lack of a strategy for replacement of capitalism by cooperativism, this is a criticism that only seems valid if one is blinded by a vision of the economy as singular and capitalist. If we see the economy as always and already diverse, then the project of replacement is transformed into a project of strengthening already existing non-capitalist economic processes and building new non-capitalist enterprises. Central to these projects is a strategy that Mondragon has developed so innovatively—the construction of communal subjects via methods that operate on a range of material, social, cultural and

⁴⁴ In thinking about the lessons that might be learnt for development of community economies two important politics built around ethical economic decisions come to mind—that of the living wage movement, an intervention to pressure city governments via the voting system to pay minimum wages to their workers in areas of the labor market that have traditionally remained unorganized by trade unions (Pollin and Luce, 1998) and the simplicity movement, a self-conscious interest by communities in voluntarily minimizing consumption levels, particularly in regions where an ethos of environmental stewardship has taken root (Pierce, 2000). One focuses on ethical principles affecting the lower level, the other those affecting the upper level of wage payments. Unlike in Mondragon these movements are separated from a politics that might address the implications of decisions and choices regarding wage levels for surplus generation and distribution. This disjuncture might well have the effect of undermining the strategic developmental power of these forms of economic politics, while not in any way diminishing their moral force.

⁴⁵ In other economic sites the decisions taken might be viewed as more conventional or undifferentiated from those taken by capitalist enterprises. For example, with respect to the choice of products produced, market development and the introduction of new technologies, the cooperatives have opted for intense product diversification, expanding national and international markets and cutting edge computerized technology. Their decisions to participate in commodity markets at the top end have ensured market success but more importantly have supported the continued growth of cooperatives.

spiritual levels. The very process of marshalling surplus and directing it towards expansion of a cooperative economy is intricately connected with the becoming of ethical communal subjects.

The reading of Mondragon presented in this paper suggests two lines for research and theorizing that will further enhance development of alternative communities and economies. The first is a more technically sophisticated analysis of the economics of surplus distribution; the second is more understanding of the process by which communal subjectivities are created and fostered. Clearly examples of innovative economic experiments abound and while making them more visible is an important task that cannot be underestimated, that is not all there is to do. As theorists and practitioners we can take a constructive role in community conversations about the ethical economic decisions and personal political becomings involved in building our own roads as we travel.

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Table 1
Extracts from Sidney and Beatrice Webb's "Why Democracies of Producers Fail in Organising Production"

(Webb and Webb, 1921: 462-68 emphasis added)

- the self-governing workshop is inevitably “led to regard its own **product** or its particular function as of more than average importance to the community” (465)
- “the conflict of interest between each self-governing industry or vocation and between the community as a whole may appear in the exaction of **pay** above the average, or hours and conditions of work less onerous than those of others” (465)
- it is “perpetually tempted to exact, like the capitalist employer, a **profit** on cost; that is to say, to secure for its own members whatever surplus value is embodied in the price for which it can dispose of its product or service; or to put it in another way, to retain for its own members the equivalent of the advantage of all differential factors in production (such as superiority of soil or site, of machinery or administrative skill) that it controls” (465)
- “every democracy of producers ...[is]...perpetually tempted to seek to maintain existing processes unchanged, to discourage **innovations** that would introduce new kinds of labour, and to develop vested interests against sections of workers” (466)
- the “invidious” problems with “discipline” and the hierarchy of **managers** and producers; “No self-governing workshop, no Trade Union, no Professional Association, no Co-operative Society, and no Local Authority—and no office or industrial enterprise belonging to any of these—has yet made its administration successful on the lines of letting the subordinate employees elect or dismiss the executive officers whose directions these particular groups of employees have, in their work, to obey” (467); “it is a matter of psychology” (468)
- “**disputes** among different vocations and sections of vocations (whether brain workers or manual workers) as to which of them were “entitled” to particular jobs, have been specially characteristic of every form of association of producers” (466)
- “the tendency to exclusiveness is inherent in any association based on vocation in production.....[and]...just because they are necessarily producing almost entirely not for their own use but for exchange, [they] can normally increase their own incomes, apart from any increase in efficiency in production, by restricting their **membership** and limiting their output in relation to demand in such a way as to enable them to raise the aggregate exchange-value of their product” (466)