

COOPERATIVIZATION ON THE MONDRAGÓN MODEL: ALTERNATIVE TO GLOBALIZING CAPITALISM

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Our goal is more than simple options for individual improvement. It is more. If the co-operative enterprise does not serve for more, the world of work has the right to spit in our faces.

-José María Arizmendiarieta (Quoted by MacLeod 1997)

REFLEXIVE STATEMENT

This paper originated in our visit to the Mondragón worker co-ops in July, 1989. Soviet Communism had just collapsed. While that "solution" was worse than the problem, we still felt capitalist exploitation was intolerable for a free people. Mondragón (and similar networks) offered hope for a workable alternative both to capitalism and to authoritarian socialism. So in 1990 we wrote "Worker Ownership on the Mondragón Model: Prospects for Global Workplace Democracy." In 1992 we joined Frank Lindenfeld and others on the Grassroots Economic Organizing (GEO) collective. Since then we have been editor/activists in the U.S. worker co-op movement. We put that initial 1990 version of this article on GEO's website. The alter-globalization movement has since arisen, declaring "another world is possible." So this new, fully re-thought piece for *Humanity & Society* argues that cooperativization can take us far toward a much better world than the one we have now. But it calls for a new kind of movement and a new kind of organizer.

INTRODUCTION

Globalization has failed humanity. In the sixty years since the launching of its main instruments, the World Bank and International Monetary Fund, global trade has expanded twelve-fold and economic growth fivefold, yet the gap between rich and poor also widened and the number of poor is greater than ever. To question globalization is to question capitalism, the former being a deepening of the latter. As a contribution to the ongoing debate we propose transforming globalizing capitalism into something much better by directly altering production relations, primarily by democratizing workplaces. Many critics of globalization who disagree on other matters endorse some form of workplace democracy as

part of any viable alternative. Among available models of alternatives to capitalism, we have borrowed much from David Schweickart's "economic democracy" and Michael Albert and Robin Hahnel's "participatory planning." We put a Schweickart-like democratization *before* processes like participatory planning. What may also set us apart is our claim that cooperativization can eliminate globalizing capitalism's worst features.

We shall not defend all aspects of Mondragón. By "the Mondragón model" we mean the network of co-ops associated with the town of Mondragón in the Basque country of Northern Spain. "Model" for us primarily refers to its framers' principles, which have made the network worth emulating. As it happens, deviations from some of these principles have also long been underway.

Mondragón can be sustainably generalized only if *restored* to its principles, we'll hold. Invoking this rectified model as vanguard, we'll argue that such a democratizing movement can transform for the better the production relations underpinning globalization. To liberate co-operative labor from capitalism itself, some options opened by cooperativization must be engaged in a second stage of "de-marketization." After sketching it we'll consider some objections.

MONDRAGÓN AND THE DEGENERATION PROBLEM

Since the beginnings of capitalism worker co-ops have haunted it as its own built-in opposite, bearing hopes for a non-capitalist future. Relative to such hopes, they have inevitably "degenerated" by failing or by becoming capitalist. Mondragón is itself on the latter trajectory. The paradigm degeneration occurred in the Rochdale co-operative founded in England in 1844 when, to finance purchase of a new mill in 1859, it took on investor members. They outvoted worker members and in three years converted the co-op to a conventional firm. Carefully avoiding *that* form of degeneration, a more recent co-op fell into yet another.

In 1921, 125 dedicated Scandinavian cooperativists put up \$1,000 for equal numbers of stock shares and started Olympia Veneer Company, the first of many plywood co-ops in the Pacific northwest. (Berman; Lutz & Lux, Ch. 8; Pencavel) Thanks to the efficiency of co-operative labor, share values skyrocketed. Instead of taking in new owner-members, however, they hired wage workers to work their individual shares. In 1954 the 23 remaining members voted to sell out, at around \$625,000 gain each, to the U.S. Plywood Corporation, a conventional firm. A capitalist success, Olympia failed as a co-op, because of wage labor (violating the one-worker-one-vote rule) and because ownership was of individually sellable stock shares. So, despite its egalitarian impulse, Olympia's self-destruction was present at the start.

The Mondragón co-ops avoid this degeneration by *separating* ownership, which varies in value, from voting, which is strictly equal. Instead of buying stock, new applicants advance labor to pay the membership fee. Roughly a year's salary, this loan by members starts an "individual capital account" (ICA) to which monthly and year-end profits and losses are credited or debited. (Thomas & Logan 1982, p. 136) Unlike stock shares, ICAs are neither accumulable nor sellable and carry only one vote. Being both individually recoupable upon leaving yet available meanwhile for collective investment, they constitute a sort of bank inside each co-op. Rights attach solely to membership and terminate when members retire or leave. There being no non-worker owners, co-ops remain whole *solely* in the hands of their active workforces, avoiding the Rochdale error. A co-op could be sold, but only by a hard-to-muster two-thirds of a general assembly vote, and this has never happened.

The "salary" spread from lowest to highest, currently 1 to 6, is based on an agreed job rating index. "Salary" is in scare quotes since members, not being *employees*, receive no wages or salaries. Rather, they have the following rights of owners and managers: 1) monthly and annual profit distributions; 2) 6% annual interest on their loans to the co-op; 3) a vote on undistributed funds; 4) access to all records; and 5) a vote on policy and managers.

Mondragón has outlasted Olympia as a co-op by 20 years, due partly to separating voting rights from ownership rights. The network started in 1956 with a small stove factory built by five former students of a vocational teacher, a priest named José María Arizmendiarieta. Unions were banned but agricultural co-op laws allowed workers to own their workplaces. Basque solidarity facilitated fund-raising. The movement faced a crisis in 1958 when Madrid declared members to be self-employed, hence ineligible for state health and unemployment benefits. Turning adversity around, they created their own *cheaper* system. (Huet) In 1959, with this system's reserves, founders started the Caja Laboral Popular to give banking, entrepreneurial and health services to the four then-existing co-ops. (Since post-Franco Spain offered state health coverage, the network no longer provides its own health services.) Focusing on domestic appliances and machine tools for the protected Spanish market, the network steadily expanded. The network has repeatedly proved its value. In the 1980-83 recession, the Basque country lost 20% of its jobs. Nearby firms laid off massively or closed. Many co-ops took pay cuts up to 11%, and five co-ops closed. Yet, thanks to job transfers in the network, virtually *no* layoffs were made in the co-ops, stabilizing the region's economy. (Clamp) The costly network-underwritten re-tooling was quite beyond the individual co-ops.

Then a one-two punch hit with opening of Spain's market to Europe in 1986 and to the world in 1989. We visited in 1989. It was a decisive moment. Network appliances were suddenly up against major German and French brands.

This presented a fateful choice: directly compete with multinationals or follow the Italian co-ops into niche markets? Re-tooling this time was judged too costly so in 1991 over 100 co-ops, organized up to then by regions and linked through the Caja, re-organized in three sectors as Mondragón Co-operative Corporation. This allowed speedy, centralized decisions typical of the multinational competition.

As of 2003, MCC had over 66,000 employees operating over 160 co-ops in three sectors: 135 industrial, 6 financial, and 14 distribution. In both sales and workforce, MCC is the Basque country's largest business corporation and Spain's seventh largest. The three sectors are backed by the Caja, housing, service, research, education and training co-ops. Mondragón University, founded in 1997, integrates technology with cooperativism in a multi-lingual environment for over 4,000 students. As a "second degree" co-op like the Caja, its board is partly nominated by its own members (students and faculty), partly by the co-ops it serves. Other second degree co-ops include technology and management schools, and research institutes. Core industrial co-ops make an array of high-tech and durable goods for world markets including robots, machine-tools, appliances, auto parts, buses, and elevators. The network's supermarket, Eroski, partnering with a French chain, has become Spain's third largest grocery retailer and largest domestically owned one. Eroski's hybrid equity structure joins employees with customers as co-investors. (MCC 2002) Typical of worker co-ops, and unlike most capitalist firms, all Mondragón co-ops devote 10% of all profits to community needs. With a few exceptions—the Fagor group with some 5,000 members—most successful co-ops "hive off" related progeny after reaching 500 or so members. Beyond that number economies of scale do not make up for weakening of face-to-face production. Progeny take their own collective risk. Infra-network competition is foreclosed by contracts with MCC committing all new co-ops to uniform principles of job creation, shared capital, and democratic structure.

Usually "profit" is income after all costs, *including* labor costs. But in a worker co-op, profit is income after all *non-labor* costs. For labor is not a "cost" but a mutual sharing of each member's capital. Since labor time is neither bought nor sold, a co-op's workers together share all profits and losses. Not more than 30% of losses may be debited to a co-op's undivided account. Democracy is central and turns on membership. Ultimate control of production, income spread, and board seats lies in the yearly general assembly. It elects the board of directors (*consejo rectoral*) which appoints management. The assembly elects a watchdog council (*consejo de vigilancia*) to monitor management and a social council (*consejo social*). Subject to board and management approval, the social council indexes jobs within the 1 to 6 spread based on demands for experience,

training, responsibility, and hardship. In individual grievances over pay scale and social welfare its decisions are binding.

A Mondragón-like co-op re-unites in *one* person the functions of worker, manager and owner. Capitalism consigns these functions to *three* separate persons. To personify these functions is to impose on the three groups thus constituted an imperative that pits them against the other two. Re-uniting these functions *in each member* abolishes the conflict among the three groups. In this re-combination, however, one typical "function" does *not* re-appear when a firm becomes a co-operative: that of capitalist itself. Their only function is to "furnish capital." But this is not a distinct contribution to production. Workers can exercise entrepreneurship and either hire capital or capitalize a Mondragón-like co-op with their own labor. Capitalists *as such* make *no* irreplaceable contribution, Schweickart notes (2002, p. 33), and since profits should go only to those who do, he concludes they deserve none. Thus while workers assume manager and owner functions, the capitalist side of the owner function—vestigial under capitalism—drops out altogether with cooperativization.

Finally Mondragón works *better* at the capitalists' own game than do capitalist firms! Concluding his two-factor comparative study, Henk Thomas writes: "Productivity and profitability are higher for co-operatives than for capitalist firms. It makes little difference whether the Mondragón group is compared with the largest 500 companies, or with small-and medium-scale industries; in both comparisons the Mondragón group is more productive and more profitable." (Thomas 1982, p. 149) Studies of job creation, worker compensation, and job security yield similar results. (Thomas & Logan; Bradley & Gelb)

Central to our argument for cooperativization, is the persistent indication in available research that *the closer* workplaces get to Mondragón-like co-operative labor, *the more* productive and profitable they are. Summarizing forty-three economic studies of self-management, Levine and Tyson conclude worker participation in management usually boosts productivity, but especially *when combined with other elements of self-managed cooperative labor*, such as: 1) profit-sharing; 2) guaranteed long-term job security; 3) small wage spread; and 4) guaranteed worker rights. (pp. 205-214) To these Mondragón adds the potent element of worker ownership. So, instead of tapping the power of liberated co-operative labor with one or two such elements, Mondragón unites all of them at once. Such co-ops outstrip all types of capitalist firms in productivity not in spite of being democratic but *to the extent that they are*.

But Mondragón has not been true to its impetus. *Is it a model?* Three sets of degenerative practices make it less worth emulating and endanger its economic superiority. The practices, and remedies, are:

(1) When demand increases, the co-ops often hire non-member wage labor. MCC recently persuaded local legislators to raise the ceiling on "contract" labor to 30%. (Köhler) And if a co-op applies, MCC may allow it up to 40% non-member workers. (Huet) Illegal "eventuales" or temporaries—mostly female—are not counted in the 30% quota for "contract" labor, and make up a substantial percent of workforces. In some co-ops over 40% of work may be done by non-members. The overall percentage is unknown since MCC no longer gives out membership figures. Collective exploitation of wage labor encourages *more* of it, membership limits, and sell-outs. Ruling out the false benefits of wage labor will in the long run be a benefit.

(2) MCC is using women as a reserve army of labor. True, on the gender division of labor women do slightly better at MCC than in capitalist firms (Hacker & Elcorobairutia) and have a major presence in management. But blue collar work remains largely male. Another significant percent of illegal hired labor, one informant told us, is home assembly work, mostly by female relatives. This second-class labor pool is incompatible with cooperativism. Solutions include: observing the one-worker-one-vote rule, gender integration of all co-ops and jobs; and child-care in workplaces. (Ferguson, pp. 94-99) Fully engaging women's talents would boost productivity.

(3) There are unnecessary sacrifices of cooperativism. In 1999 external non-voting capital stakes were 13% of MCC equity. (Köhler) This is due to joint ventures and acquisition (or start-up) of many capitalist enterprises abroad, mostly in Latin America. Vague assurances that cooperativization is "on the agenda" are extended to such workers. (Logue) Mixing co-op and external investor capital contravenes co-op principles and introduces instability. (Ognedal)

Worker alienation is rampant. (Kasmir) Social councils are underutilized. (Clamp) Unionization is under discussion. (Huet) Work-floor democracy is a complex issue. In the mid-1960s the network studied Scandinavian work groups to replace Taylor's "scientific management"—up to then dominant on the work-floor. Ironically Ulgor workers voted down the innovation in favor of the assembly line! (Thomas & Logan) In 1989 Total Quality Management was introduced with other disempowering practices: just-in-time inventorying, work-movement monitors, and swing shifts. Studying effects, George Cheney concluded that the changes threaten Mondragón's "organizational integrity" as a "value-based" rather than "market-based" firm. This "neo-cooperativism" trend "privileges an externally driven form of

participation, in marked contrast with [one]...in which workplace democracy is justified primarily or significantly in terms of the benefits for the employees and the organization as a whole."

Yet while members may not often *exercise* their powers over their work-lives and managers, they *have* them. In 2001, although the social council at Fagor—the largest and oldest co-op—issued a blistering critique of MCC's evolution, it continued unabated. Centralized decision-making has made meaningful consideration of alternatives harder. An observer sadly concluded that the Fagor dissidents were "not confident [they] can provide an alternative—they worry MCC is correct that survival in the global market requires compromises of critical co-operative principles." (Huet)

True, islands of cooperativism *will* be gradually re-absorbed into capitalism. (Köhler) But global competitiveness does *not* demand wage workers or marginalizing women or preempting opposition. On the contrary, the more elements of liberated (self-managed) cooperative labor, the more productivity and profitability. MCC managers' faith in the *economic* value of cooperativism may have waned, yet the evidence still suggests that the network *could* both compete globally *and*: stop all wage labor; introduce gender democracy; cease joint ventures with external capital; resume start-ups (e.g. by co-operativizing foreign subsidiaries); encourage unions with their external solidarity; and give social councils equal say with management in setting work-floor regimes. Long-term *advantage* would likely result. And the network would re-emerge as a *model*.

This model is *for now* salvageable. Worker co-ops survive *as such* "longer than comparable capitalist firms," and Mondragón's innovations have vastly lengthened their life-expectancy. Even if it faces degeneration or outright economic attacks, cooperativization will have enough time to construct "a better world," but only if it is a part of building an alternative *economy*. For worker cooperatives usually become capitalist not because they are co-operative, but because, in isolation, they are not co-operative *enough*.

UNRAVELING CAPITALISM BY LIBERATING COOPERATIVE LABOR

Mondragón leads three sets of movements that are already building the democratic production part of that economy—despite being under siege and lacking in coordination.

In the vanguard with Mondragón are three other *networks* of co-operatives that engage *all* elements of co-operative production. In Italy's Emilia-Romagna region three networks represent some 2,700 co-ops of all kinds employing 150,000 worker-owners. (Rosen & Young 1991, p. 172; Melman p. 370) Europe generally is having a worker co-op boom: 83,000 such

enterprises in 42 countries now employ 1.3 million people, well over double those so employed in 1982. (CECOP) Growing in Canada's maritime provinces since fishing co-operatives were started in 1927, the Co-op Atlantic federation of 166 purchasing, retailing, producer, housing and fishing co-ops employs about 5,850 workers. (*GEO* #16 & #17) Japan's Seikatsu network of consumer and producer cooperatives now includes 225,000 households. (*GEO* #12) National federations—including the new U.S. federation—are linking in a single body to facilitate global inter-co-operation. (CICOPA; *GEO* #60, 62)

A much larger set of movements engages *some* but not all elements of liberated co-operative labor. A growing number of trade unions demand worker participation in decision-making; Germany's *mitbestimmung* laws require board representation of workforces. (Melman, Ch. 9 & 11) The vigorous ESOP movement, though U.S.-based, is now international. Since 1974, tax breaks go to U.S. firms that loan workers money to buy company stock, re-paying with earnings. Participants in ESOPs or other employer stock plans number 20.3 million or 15.8% of private-sector employees. (Kruse) There are related movements to open books and share profits, equity, and decision-making with workers.

Much larger still, a third tier embraces much of humanity's rural half. Village-based agricultural and light-industrial production use social property. (Bayat) In a sample of Indian villages, which share much with other third world villages, 14 to 23 percent of all income came from use of common property resources, rising to 84 to 100 percent of the income of the poor. (Jodha) Also in this tier are: consumer, marketing, agricultural, electrical and housing, co-ops; community economic development initiatives; the community banking movement; the non-governmental organization sector; and the "social and solidarity economy" movement.

This last-named movement—called "the people's economy" in Asia—*unites* the others. It aims to democratize not only production, but distribution, and investment. Some advocates envision "living in networks of solidarity economy," in effect, *leaving capitalism* by: earning a living in a worker co-op, buying food in a fair-trade food co-op, saving and investing through a credit union, etc. At the 2004 World Social Forum at Mumbai, the movement declared the solidarity economy "is not a sector of the economy...but should be instead the subject and main agent of a social, economic, political and cultural transformation." (www.alliance21.org)

Direct economic attacks against this movement are underway, especially in the campaign to dissolve *socially*-owned non-governmental property into exclusive private property. Indivisible joint property is the main resource for a range of associations from poor villages to wealthy first-world worker co-ops. But such resources directly threaten multi-nationals simply by

offering autonomous alternatives to them. Thus in 1992 Mexico's president Salinas de Gortari abolished protection of *ejidos*, a communal land tenure form. In 1994 NAFTA's opening of Mexico's vast corn market to cheap, subsidized corn added the second pincer that has since been squeezing farmers off the land and into urban poverty. Typical of many post-colonial countries, Mexico is in continuous struggle to restore the patrimony of communal lands stolen in the conquest. Other weapons against social property include: biopiracy of genetic material, theft-by-patenting of indigenous medicine, and commodifying culture. Such "accumulation by dispossession" (Harvey pp. 145-149) is being resisted in Mexico, Ecuador, Bolivia, Colombia, Nepal—among many places around the world.

By "cooperativization" we mean not only intercooperation within and among the three tiers of the cooperative labor movement, nor only restoration of social property, but everywhere replacing the hierarchical and coercive relations typical of capitalist production and consumption by voluntary cooperative associations.

Cooperativization also advances from the consumer side. Conscientious consumers are drawn to "buy co-op." The "fair trade" movement's demand for democratically produced goods will in time elicit profitable production of them. Naomi Klein cautions, however, that unless the fair trade movement demands improved labor conditions, it merely sanitizes the existing system. Masses of conscientious consumers "buying co-op," banking in credit unions and investing through a much-strengthened "socially conscious" investment movement, could help democratic firms *displace* capitalist ones. As workers come to see that their labor, not capital, creates profit, subjection to capital will no longer seem a necessary condition for making a living. By directly meeting needs, the new production relations will undo capitalism's worst aspects.

The productivity advantage of democratic production is likely due to harmonizing of conflicting imperatives. Absent rewards, workers in capitalist firms withhold their skills. By contrast workers in democratic firms, no longer pitted against each other, have strong incentives to *share* skills. And since effectively exercising collective creativity is *pleasurable* (Graeber p. 260), management supervision is less necessary, a big savings. (Fitzroy & Kraft) Also lifted is the even greater burden of supporting absentee shareholders. Co-ops thus have a flexibility, financial buoyancy and re-investment potential lacking capitalist firms. (Jones & Svejnar, pp. 449-465) Members are not resentfully slow, care for equipment, avoid waste, and minimize downtime and absenteeism. Large-scale production still needs skilled managers, but direct market feedback, freed of "noise" from managers with inimical interests, allows faster remedy of management errors. (Estrin, Jones, Svejnar, pp. 40-61; Levin, p. 28)

If productivity increases *along with* greater workplace democracy, an important corollary follows: firms tapping more of the power of liberated co-operative labor will have advantage over those tapping less. The more elements of the rectified Mondragón model in workers' hands, relative to non-co-ops, the greater their advantage, other factors equal. Less democratic firms will be compelled to democratize. Thus just by pursuing profit, capitalist relations of production will tend to unravel. And capitalists may be powerless to end such threats to their hegemony.

This self-undermining is afoot. Managements are doling out ESOPs, TQM, profit-sharing and other tokens of self-management. More U.S. workers participate in ESOPs than do in trade unions. Yet ESOPs in which *most* stock is held by their workforces are a small minority and those allowing *votes* on boards much smaller. ESOPs make cheap benefit plans (Rosen & Young, pp. 5-14) and wed a worker-elite to new "flexible" technologies, replacing union with corporate loyalties. (Gorz, pp. 65-68) ESOPs, in short, are bait to raise profits and pacify militancy while yielding zero control. (Melman, Ch. 8) But eliciting co-operative labor's power with phony self-management is inciting workers to demand votes for their shares. (Melman, Ch. 9) A Southwest Airlines female flight attendant told an interviewer: "Southwest is profitable because employees have given up wage and benefit increases to keep the airline competitive. I'm even willing to make further sacrifices. But I won't do it without some equity and a say in how the airline is run in exchange." This worker questions exclusive appropriation of profits by non-workers. This signals a paradigm shift in capitalism.

Co-operative labor was born with capitalism. It combined under private capital the labor of strangers who had been pushed off the land. The great productive power of such labor at first *appeared* as that of capital itself. But when high-skill, capital-intensive production took over, capital lost its magic. It now *restrains* co-operative labor's power to meet needs. Self-management has been shown to make best use of the new digital technologies. (Melman p. 245) Yet since the mid-1990s U.S. managements have undone worker participation regimes, accepting productivity losses just to re-take control of workfloors (Melman, p. 245; Edwards, Ch. 7) even ceding, in autos, a quality edge to Japanese brands. (Hardt & Negri, p. 290; Estey) The secret is out. Accumulation of capital by non-workers *used to* foster optimal productivity growth but as new technologies spread, workplaces liberated from absentee owners and their managers are demonstrating that *this is no longer the case*.

A perennial problem for cooperatives is finding enough capital. External financing of start-up capital runs afoul of the Rochdale problem. And workers with limited equity either to directly invest or to offer as collateral will avoid risking it, especially by putting their eggs in one basket. If they borrow

they may face a higher interest than those with more liquid assets to loose, due to lenders' moral hazard, which rises in proportion as debt rises relative to equity. Rosa Luxemburg thus concluded that co-ops cannot take over the capital-intensive centers of modern economies. (Ch. 7)

The case of MCC only partly refutes Luxemburg. Where, she might ask, are workforces at GE or Microsoft to find the liquid capital needed for a credible buy-out? Until they prove their productivity, banks will shy away from funding firms whose mere workers can vote out boards and managements. We offer three possible solutions.

First, movement self-financing. MCCs Caja could itself back a major buy-out offer. And Mondragón's 10% self-tax ought as a *community* priority to first fund *co-op* start-ups and buy-outs. Other models are Canada's union-sponsored venture capital funds such as Québec's Solidarity Fund. (Krimerman)

Second, local government financing. Bologna and other towns in northern Italy offer local worker co-ops revolving loans, market research and other services. Krimerman—in his contribution to this volume—cites newer precedents of "participatory budgeting" in Brazil and Argentina in which the *social* economy is recognized as having a claim on tax support.

But such sources, combined, could not now underwrite buy-out of a multi-national. Hence our third solution: workers' pension funds. One third of U.S. stocks is owned by these funds. Yet law forbids workers collective management of them. (Guinan) Instead, fund managers *harm* their owners by financing export of jobs, buy-outs that entail layoffs, and short-run profits over job-creating options. Democratic oversight could ensure these funds benefit the people and not just financiers. (Blackburn, p. 458) They could offer workforces of multi-nationals the leverage to buy out their shareholders and cooperativize.

Such reform needs support by a major co-operative sector to counter public relations blasts from multi-nationals. More modest political reforms, like those in Europe, would help build such a sector. Uniform tax credits could go to Mondragón-type co-ops. (Ellerman 1984, p. 258) ESOP shares could carry full voting rights and ESOP tax benefits could be scaled to the extent of such worker control. Workforces could be given first refusal if their firm is up for sale. Democratic firms could be allowed preferential bidding on government and municipal contracts. Grants of \$4 to every \$1 could help the unemployed join or start co-ops.

Until a strong co-op sector can finance the political presence needed to hold a cooperativist majority, such measures may be reversed. This is why building *economic* strength takes a slight precedence. Workers in regular firms, observing co-op members with similar lifestyles but enjoying much more control of their work and usually more leisure, may demand similar control, endangering capital accumulation. When economic hegemony threatens to pass to the co-op

sector there will surely be illegal *economic* attacks: denial of credit, boycotts, supplier "problems", sabotage, etc. Since such methods will undermine the attackers' legitimacy, cooperativizers should let the system collapse without responding in kind, meanwhile taking care to build their own banking system.

As co-ops "short-circuit" multinationals with local markets and currencies, skill banks, and land trusts, cooperativization will accelerate (Douthewaite). Consider: with the two-income family the "first world" norm, all working parents need *quality* child care. But such care involves too great an intensity of labor to be both universal *and* profitable. (Holmstrom 1981, p.171) A firm whose workforce's own needs have first claims on profits or time could more easily respond, e.g. with on-site day care co-ops. As workers become parents, they will thus have strong incentives to switch to worker co-ops, broadly advancing the unraveling.

PARADIGM SHIFT

Worker co-ops are *in* capitalism but they are not *of* it. To form a co-op neither "investing" nor selling one's labor is called for. It is rather to "throw in one's lot" with chosen others, a "pooling" of living labors rather than of cash or "interests"—though these may also be pooled. Such intermixing makes identifying one's own piece impossible. Co-op formation thus defies market "rationality." One *cannot calculate* advantages of joining, even if one wanted to. There is a gap between quantifiable items pooled—present or future labor time, liquid assets, in-kind goods, etc.—and expectable return. Thus a strong element of *mutual gift* permeates such pooling. Gifting imparts a duty to reciprocate, but not with a market equivalent. For the pooling is governed not by quantitative estimates but by qualities of human relations like trust. The co-op being held "indivisibly," its revenues are received indivisibly, to be divided by agreement. A partnership of mechanics who keep their earnings and books separately but jointly own a garage is therefore not a worker co-op.

Cooperativization shifts the basic priority of society's productive infrastructure from profits to needs. Making profits is a quantitative and infinite goal, meeting needs a qualitative and inherently finite one. The gigantic fortunes of the world's elite far exceed any conceivable needs on which they might spend such sums. Initially the needs a co-op serves are those of its own worker-members. But this already sets it radically apart. In capitalist firms worker needs figure marginally if at all and only if backed by tacit or explicit threats of strike. In shifting to need, the heart of an enterprise shifts from a non-moral to a moral bond. For in creating a co-op, each member gives their labor power to the others with a view to meeting the needs of all members, including oneself. Each member's very economic life is given to the others in the expectation that the

community thus constituted will in turn guarantee it. One aims to serve the co-op *and thereby oneself in it*. This *reverses* capitalist dogma by which pursuit of one's anti-social interest magically yields the common good—aided by the market's "unseen hand." Co-op formation, instead of aiming first at one's own good and secondarily at that of the collectivity, aims first at the good of the collectivity and secondarily at one's own. Magical *faith* that selfishness will somehow benefit the collectivity, is replaced by the grounded *experience* of personally benefiting as a result of benefits to one's church, block association, trade group, or service organization.

While the first aim of a co-op is meeting its own members' needs, once those finite needs are met, any surplus, having been given to the co-op by each member severally, is already destined partly for *other's* needs, and hence is in principle available for needs *beyond* the co-op. Giving to others beyond the co-op is *a simple extension of members' gift to each other that founded the co-op*. Co-ops evince the economic rationality of what anthropologists call "the gift economy." This names, we contend, not only a practice of the Trobriand and Papuan clans studied by Boaz and Malinowski in the late 1800s, but a dimension of contemporary life. We will outline this hypothesis in what might be called existential or lived economics.

We move daily between a gift economy and a money economy, though the latter claims to be the only one. We are born into the former. Mothers give their children milk solely because they need it and without expecting recompense. Dying, we seek to re-enter the gift economy so we can release our hold on life in the arms of loved ones. And beyond families we give without recompense to friends, churches, and institutions of civil society. Profit is often secondary. An example is Diane Elson's case of a left journal's newsstand price: aimed only incidentally at making money much less profit, the price is an agreement among persons seeking social change. (p. 77) Artists give their works to humanity, given their usually paltry income. Schools and hospitals aim only secondarily at making a surplus and could not survive in the money economy if teachers and nurses did not give "without counting." Even hard-nosed corporations would be unprofitable, Gibson-Graham notes, if value-based relations in them of trust, care, and reciprocity, did not *let* "the bottom line" come first. This sufferance could be withdrawn. Demands to rescind charters of corporations that fail to serve the public good testify to this. (POCLAD) Yet, parading its false dominance, the money economy holds the gift economy in subjection and parasitizes it, often masking its exploitation in gender and racial divisions. Worker co-ops are resistant assertions of the gift economy within and against the money economy. That the solidarity of the former exists beside the suspicion of the latter testifies to our conflicting memberships and to the *struggle* of expanding the gift economy beyond the filial and affectional relations in

which the dominant economy confines it.

Sociology and economics have yet to fully investigate this hypothesis, but it meanwhile helps explain several phenomena, such as why conscientious consumers prefer worker co-ops, why inter-cooperation among co-ops comes so easily, and why, among for-profits, they are so exceptional in community service. (Logue) It may also explain the anguish of workers in capitalist firms who, deeply *intending* to serve humanity, must watch as the system diverts that aim into merely enriching capitalists. And the two-economy story helps us understand why, since co-ops aim *first* at their own members' needs, they are *at risk of* turning inward, placing co-op above community, and behaving like "collective capitalists." (Ollman, 1998, pp. 102, 113-117) Never fully absent so long as markets endure, this risk may rise with market pressures, which can provoke doubts about the economic power of co-operative labor. But such behavior is a money-economy *deviation* of the cooperative impulse. Self-interest as motive of production is built into the very structure of a capitalist enterprise, but it is *imposed* on a cooperative.

For, despite claims by liberals and neo-liberals that self-interest is "human nature," explanations of its origins within history make such extra-historical speculations unnecessary. At its beginnings, capitalism enclosed common lands, forcibly separating workers from the means by which they had autonomously met their needs, usually cooperatively. (Perelman) Meanwhile the means of production had become exclusive private property. To meet needs made urgent by dispossession, workers could have access to those means only if they contracted individually with their owners. But such contracts *require* they pursue their own good exclusively, and since unemployment was understood to tacitly threaten death, one was compelled to contract to sell one's labor. Thus by separating workers from cooperative production and replacing it by one-on-one market extortion, the self-interest motive was *constructed* and imposed.

Made to seek this new self-interest and hence pitted against other workers, the human needs that drove her into the labor contract are falsely re-inscribed in the overall system as quantifiable "interests." This allows those needs to be balanced against capitalists' "interests" in a market of "free" and "equal" exchangers. (Gorz) But capitalist and worker are not equals exchanging equal things they own; "interests" cannot be balanced against needs; and a person's whole capacity to work, to make a living, is *not* commensurate with the wage received. Even social security laws recognize the principle that when bosses extort all fruits of a worker's labor power—her life-force and all its product—the community at large also benefits and hence owes recompense; a mere wage is not only insufficient, it misses the point. As David Graeber remarks: "If one gives one's life, one's life should be at least guaranteed." (p. 162)

Those who form a cooperative, by holding at bay this compulsion to individually sell labor power, hold at bay self-interest. *Members' own* free association gives rise to cooperative labor which, no longer benefiting capitalists alone, benefits whomever *they* choose. No longer separated from the means of production, they enjoy an autonomy made possible only by their own *collective* action.

BEYOND CORPORATE GLOBALIZATION

Cooperativization undoes globalizing capitalism and *at the same time* replaces and improves on its processes.

First, capital, in the form of the labor power of a co-op's workforce and the plant it owns, is *tied down* to a place in commuting distance of workers' homes. Since the co-op is for them a reliable source of livelihood, the "runaway" shop where capital seeks distant, cheaper labor is virtually ruled out. To tie down capital, cooperativization will aid and be aided by measures such as canceling third world debt, closing off-shore tax havens, and converting free trade into fair trade with long-term contracts.

Secondly, even more important, as it proceeds cooperativization ends the very *accumulation* of capital as social power. The upward metamorphosis of labor time into value and thence into profit and capital is blocked, like a crimp in a water-hose. Profit goes *no further up the scale of social power than the workforce whose labor time created it*. This control allows members to "take" earnings either as money or as free time. For want both of capital inflows and investment opportunities, Wall Street withers away.

Thirdly, cooperativization restricts globalization's spread of exploitation to new arenas just by expanding exploitation-free social space with each new democratic work-site. Since the single group of worker-owners thus created cannot exploit *itself*, capitalist exploitation, the system's main pillar and main evil, is abolished.

Yet *the drive* to exploit, make war, and externalize costs remains. It lies in the system's *grow-or-die imperative*. Unable to rest content with a market share, capitalists must expand or loose to competitors. As cooperativization advances, an axiom of co-operative accounting quiets this imperative. Consider: a capitalist employing 20 persons at a hamburger stand that earns \$20,000 in annual profit, may, assuming double the demand, double that profit with a second stand, even if it means driving the competition out of business and taking over their assets. No such incentive exists for a co-op because *per worker* profit of two stands with 40 workers would be exactly the same as one with 20. Cancerous growth thus gives way to *moderated competition*. Co-operative workers, fearing loss of market share, will still be constrained to please

customers, introduce new technologies, and produce efficiently. But a cooperativized economy will necessarily be less competitive. (Schweickart 2002, p. 129, 157) As for militarism, Schweickart says of his similar model: *investment funds don't flow abroad in search of greater profits "so there is no need to make the world safe for foreign investment."* (Schweickart 2002, p. 155) Yet while "first" world co-ops have no imperialist motive for starting co-ops abroad—third-world co-ops retain profits locally—they will have a defensive motive, for capitalist competitors will use cheap labor to undersell them.

In these respects, then, cooperativization goes *over half way* in transforming the worst of capitalism. Yet while it is morally and practically primary, it still fails of its tacit goal of an inclusive human collectivity that freely reproduces itself. Having abolished the market in labor by asserting their power of collective autonomy, co-operative workforces *will not tolerate loss of this autonomy in remaining forms of market exchange*. Market prices are indirect, coded, false unities of the guesses that exchangers make regarding countless transactions taking place elsewhere. Prices mediate discussions between producers and users regarding resources, production capacities, and needs. What, then, would direct, true communication and agreement on these matters be like? Albert and Hahnel bring the internet into the center of their post-market society. It affords virtual input by the multitudes of economic agents whose needs are only indirectly and symbolically guessed at in pricing. An iterated participatory planning, using the internet, would be an easy second step after cooperativization. Indeed the logic that led to building the solidarity economy will lead on to replacing market distribution with communication and ever-wider intercooperation.

Cooperativization is a powerful job-creating engine. But it cannot alone keep up with record and climbing global rates of *structural* unemployment and marginal employment. (ILO) And the very computerization of industry that demands workplace democracy for optimal use also brings layoffs. (Rifkin, Ch. 1)

As finance capital withers, cooperativization will make possible democratic control of investment. Schweickart's tax on capital assets could divert revenues to areas of unemployment. Similarly, but at globalization's own global level, a Tobin tax on capital flows and a tax on multinational profits could foster local job creation. Forging a global body with taxing and enforcement power—impossible for the current United Nations—could be a natural extension of a global economy already under workers' control.

A basic guaranteed income, coupled to work-sharing due to reducing the workday, would complement cooperativization and largely resolve unemployment. An income floor would erase any coercion to form co-ops; it would let workers move between co-ops without catastrophic income loss; it

would give co-ops more flexibility in work-sharing and job-creation; and it would facilitate socially useful work in political parties, neighborhood associations, child and eldercare co-ops, and the like. (Howard) But also: to assure all of the working population full membership in society's material reproduction—in short, a job—shorter hours are needed as part of spreading useful work. Since under capitalism capital flight or strike could end such initiatives in a given country or region, global cooperativization will have to be nearing completion.

Struggle should *start* at the site of labor's original alienation and cooperativization can empower workers now. Waiting for capitalism's final collapse in order to abolish all markets at once has failed and—absent grassroots democracy—may well invite chaos or fascism. (Schweickart 2002, p. 177) While federations of co-op networks cannot guarantee a global democracy, *without* them there is little hope of replacing markets with inter-communication among workers and farmers—who together constitute the world's vast majority. Cooperativization, then, is first on the agenda.

OBJECTIONS AND REPLIES

We have treated some objections. We'll now look at seven more: first, objections on principle, then, objections on strategy.

1. Won't the best rise to the top, upsetting co-op egalitarianism? A new version of this complaint holds that, since managerial talent is unequally distributed among workers, co-operatives, instead of competitively forcing capitalist firms to co-operativize, will themselves be forced to re-introduce hierarchy, rewarding scarce talent with political and ownership rights—enough to render co-ops indistinguishable from capitalist firms. (Arnold, pp. 23-48)

This competitive pressure is real. It has been met at Mondragón by collectively widening income spread to 1 to 6 from 1 to 3, with incentive bonuses raising one CEO to 10 to 1. However, even after major accomplishments, such as surviving the 1980-83 recession whole, managers have neither asked for nor received greater political rights. Since, as co-ops dominate whole sectors, an economy will necessarily be *less competitive*, the risk inherent in competition will decline. "With risk lessened," Schweickart remarks, "managers would be less able to demand increased authority and income, even if...their talents are seriously in short supply." (Schweickart 1987, pp. 311-312) The pressure to increase wage spreads will become pressure to *narrow* them, since need, not profit, will become the dominant aim of production.

2. Turning this issue around: won't the egalitarian commitment of worker co-ops dull effort incentives? A majority of workers in democratic firms will benefit by making pay differentials smaller than differentials in productivity,

Kremer holds, even if this transfers some returns from the most to the least productive members. Ability and effort are hard to distinguish, so the resulting tax will dull efforts in high-ability members—who will move to shareholder-owned firms that reward their marginal product. Hence co-ops are "rare."

Were Kremer right, most co-ops would be plagued by weaker work incentives and lower productivity than shareholder-owned firms. But matching studies show co-ops to be *more* productive. (Pencavel) Totally flat pay may have raised problems in Israeli kibbutzim, but some compression of earnings can *boost* morale. (Dow & Putterman) Retaining capable managers is a problem at Mondragón, addressed by widening the pay scale. But high-producing workers do not leave for such rewards elsewhere, perhaps because of non-monetary recognition. What seems more important at Mondragón than exact monetary recognition is effective *collective control* of pay scales.

3. If *overproduction* is a problem of globalizing capitalism, how can an even *more* productive form help? Worker co-ops' increased production will hasten the unemployment of their workers.

This misses dynamics both of overproduction and of worker co-ops. Capitalism enters a crisis of "overproduction" not just by adding capacity, but by simultaneously depressing incomes of workers who otherwise could buy what they produce. But cooperativization *narrows* income gaps. The full range of products is thus in reach of a new, single class of worker-owners. And overall pressure to *add* capacity will decline. A cooperativized global economy will thus tend to clear markets of its own products, *solving* the problem of overproduction.

4. But *can* a cooperativized market economy expand to displace capitalist forms? Frank Thompson argues that co-ops, slow both to hire and to fire, will loose out because less responsive to changes in demand. Given *increased* demand, the desire to individually capture super-profits will create pressure either *against* adding members who might boost output, but who will dilute per-worker profit, or *for* hiring wage labor, or both. Increased demand, unmatched by output, will thus lead either to a wealthy co-op sector amidst unemployment, or, if wage labor is used, one that is hardly egalitarian. Co-ops either risk being undersold by capitalist firms who profitably hire the cheap labor they had excluded, or they revert to capitalist firms. Either way the co-op sector, less nimble in responding to changes in demand, won't displace capitalist firms over time.

If higher prices, reflecting greater demand, are not met by higher output, resulting super-profits will indeed be captured by those presently employed. But in fact, the risk of loosing market share deflates temptations at Mondragón to respond by freezing production or membership. Wage labor *has* been overused, and Thompson may have identified why, but MCC as often increases production

by borrowing members from other co-ops and by adding new members as real needs demand.

As for the *slowness* with which, given reduced demand, co-op networks actually lay members off, this "fault" stabilizes both employment and demand itself. If layoffs and the reduced demand *they* create cannot be so freely used for a firm's survival, the broader downward spiral of reduced demand at the macro level will be slow to *start* its first down-turn. The speed of a capitalist labor market response to changes in demand *exaggerates* such cycles, actually a sign of *inefficient* overall resource allocation. As this market withers so does the cause of this problem—the boom and bust cycle itself—thanks to stabilized demand. This is obviously a better solution.

5. Will workers in co-operatives, any more than those in conventional capitalist firms, have enough sense of solidarity to make the sacrifices needed to provide the public goods that any healthy society requires, such as universal health care?

Milton Fisk holds that co-ops, like capitalist corporations, have powerful tendencies toward market dominance and oligopoly pricing and away from regulation. He contends, "There is nothing inherent in workplace reform that leads to expanding the net of solidarity.... As a reform, co-operatizing is incomplete since it doesn't address the class-wide, the society-wide, and the global issues that public goods address." Co-ops want health care for themselves, and wealthy ones can provide it, "but how will that provide health care for all?" In short, "nothing in the structure of producer co-operatives calls for such an insurance scheme."

This call *is* inherent in that structure. To fund public goods, MCC co-ops have always tithed 10% from revenues, recognized by post-Franco Spain's 10% reduction of taxes on co-ops. Incapable of capital flight, co-ops are much more responsive to community needs than normal firms. Being *constituted by* sacrifice for the collectivity, solidarity is not, as Fisk implies, incidental to worker co-ops; they are *founded on* it.

We have shown worker co-ops have *moderated* tendencies to dominate markets. And if MCC co-ops inherently resist regulation they would not *both* accept heavy network regulation of pay differentials, wage labor, tithing, etc. *and* bear individual economic risk. They would instead be constantly defecting to compete with their parent. More to the point, when Spain recognized MCC as a public good and offered state health coverage, the network would have avoided that sacrifice in order to keep its own *cheaper* system. That these did not occur is due to the fact, discounted by Fisk, that those who sacrifice to create a co-op are ready for "inter-cooperation"—mutual giving and regulation—*among co-ops*, a tendency reflected in cooperative principles. The sacrifices that Fisk rightly says are needed to constitute a nation-wide or global public good are in

fact simple *extensions* of this tendency. Indeed, we need rather to ask *Fisk* where the solidarity behind public goods might come from *outside* of the mutual giving typical of co-ops and similar groupings?

Fisk seems to assume that if property is not public it must be a private, exclusive resource for making profit. Nancy Holmstrom (2004), another defender of the public goods perspective, inadvertently makes this error when she writes that "goods like education or health care are public—if they are—only because people have struggled to take them out of the private for-profit sector and make them available for all." Beyond public goods and private property for profit there is a *third* possibility: non-exclusive social property used for the public good. Since Rochdale, cooperatives, unlike private clubs, offer open membership and aim primarily at public goods (meeting needs) and only secondarily at profit. Socialists and economic liberals both elide social property to the extent they both offer an either/or choice between socialism (as public goods) and capitalism.

In fact cooperativist and public goods perspectives *complement* each other. The public goods perspective *is itself society-wide cooperativism*. In turn, cooperativism is a necessary *concretization* of the public goods perspective in the large and small enterprises of an economy. Uprooted from their common origins in the gift economy, the sacrifices needed to constitute *either* co-ops or public goods appear as anomalous and irrational supererogations. The public goods perspective tends to regard workplace democracy as optional and, uncorrected by cooperativism, often denies it in practice. For its part, cooperativism, especially under market pressure, can lose its self-confidence and overlook nation-wide and humanity-wide needs—which actually call for a *broader* cooperativism, not inwardness. Neither perspective can afford to lose sight of the other in their convergent struggles.

6. Socialists might contend that the incrementalism of cooperativization, joined to its overt social change agenda, make it vulnerable to political and economic attacks. There is no substitute for working for a socialist government that can expropriate capital all at once, give the means of production to workers, and start democratic planning.

Cooperativization is above all a struggle to rejoin economics to morality, from which it has too long been divorced, as Ruskin remarked. (pp. 203-228) There is a conjoint political struggle at every stage. But if focus is on socialist political victory alone and victims of racism, sexism and the new imperialism have not been supported in daily *economic* struggles, the resulting inevitably bureaucratic socialism that will be bestowed on them will be taken (or given) back—as in Russia in 1917, China in 1949, Algeria in 1962. And *which* strategy is slower? Waiting for top-down socialism without asserting the collective autonomy of cooperativization is more dispiriting than risking failure

by asserting it now. And *absent* preparation by grassroots economic struggle, new failures of top-down socialism are likely. We are not "market socialists"—a contradiction. Rather, we advocate socializing daily economic life a less reversible attainment than gaining "the commanding heights" of government. Socialists might thus consider reinventing themselves as cooperativists. If socialism is humanity directly producing itself by democratizing economic life globally, then cooperativization, though not the easiest, is the surest way.

7. This scheme has no clear origins in indigenous or oppressed communities, the examples are as often first world as they are third (or fourth world), and it may overall be another presumptuous emanation from the same privileged Western source as that of capitalism, or for that matter, authoritarian socialism.

This is the test we give ourselves. Just to envision alternatives to oppression demands *some* relief from it; the issue is whether such relief is enjoyed as an entitlement—which is real presumption—or is used to build a humanity without oppression. We focus on a form of production that works *both* in first-world factories *and* in third-world villages: cooperatives. This trusted way to meet needs has been concretized in a wide array of situations in humanity's struggle to liberate itself from serving all sorts of systems, so as to use *them* to produce itself. Our advocacy of cooperativization is an act of faith in order to advance debate; we solicit any correction that gets us closer to the truth. So we ask: where has our relative relief from oppression clouded our vision? What have we overlooked in indigenous or oppressed communities that shows the alternative we propose to be mistaken or useless? As it stands the objection is incomplete. Shown our mistakes we will alter our faith, but not before.

CONCLUSION

It would take only a two-thirds majority of any Mondragón workforce to sell out, usually with a prospect of a life of some comfort. Why haven't any done so? Some of our informants saw their co-op as patrimony to pass on. Others felt themselves a movement's vanguard. Nobody said there had been no good offers. We came to believe our question missed the point. It assumed such decisions issue only from self-interest, thereby overlooking Mondragón's moral basis. In fact, while many workers transfer between co-ops, virtually none go back to capitalist firms. Complaints were many but never to the advantage of capitalist firms left behind. They cited *what the co-ops could themselves be* were they true to their principles. Thus Mondragón workers seem to cross some inner rubicon. Finding true autonomy in their work for the first time, they want to go forward, not back.

This moral basis is at risk. To compete with multinationals Mondragón has come to resemble one. It is salvageable, but only if its isolation is ended by solidarity economics and related movements. Another world *is* possible. Globalizing capitalism can be made to give way peacefully to global control of production "from below" by workers and farmers. But new grassroots economic organizers are needed, leading a new movement with a rigorous moral basis.

Cooperativization breaks our present impasse yet avoids the old errors. No utopia is before us and no reversal of gains is ruled out. But it seems to us there is a clear first step.

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