



THE MONDRAGON COOPERATIVE MOVEMENT

History of the Mondragon Cooperatives

In 1941, a young Basque priest, Father Jose Maria Arizmendi, came to Mondragon, a small working-class town in the Basque province of Guipuzcoa in Northern Spain. He began his teaching work in the apprentice school of the Union Cerrajera, the industrial company which dominated the town of Mondragon. This school, however, was not large enough to provide adequate training to the local youth. Failing to enlarge the school, Father Arizmendi gathered the support of the townspeople and opened a technical training school in 1943 with twenty students.

The first class graduated in 1947, and Father Arizmendi arranged for eleven of them to continue their technical education at the Zaragoza School of Engineering. By 1948, the school had been successful enough to establish the League of Education and Culture (Liga de Educacion y Cultura). It was a cooperative association of the townspeople, teachers, parents, and students which gave official status to the school that eventually became the Escuela Profesional Politecnica, the Polytechnical School.

In 1952, the eleven had completed their engineering education in Zaragoza and had moved into jobs in conventional companies. There they tried to put into practice not only their technical skills, but the teachings of Father Arizmendi based on Catholic Social Doctrine. Their efforts to dignify the role of labor and to democratize the workplace met with little success. In 1954, five of the eleven decided to form a new company to implement "the primacy of labor among factors of production." To obtain the necessary manufacturing license, they purchased the license of a small bankrupt company in Vitoria. After a fund-raising drive amongst relatives and Mondragon townspeople, they constructed a factory and commenced operations producing a small stove in Mondragon in 1956 with 24 workers. The new company was called ULGOR, an acronym formed from the initial letters of their names.

ULGOR rapidly diversified and grew so it had 143 workers by the end of 1958. In the period between 1956 and 1959, the entrepreneurial

This case was prepared as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. It is an excerpt from "The Socialization of Entrepreneurship," by David P. Ellerman, staff economist at the Industrial Cooperative Association, Inc. and Assistant Professor of Management at Boston College.

drive of the founders of ULGOR led them to found or to assist in the formation of several other cooperatives. These included a machine-tool factory, Arrasate (which is the Basque name of Mondragon), an iron-smelting operation, Funcor, a consumer cooperative store in Mondragon which eventually expanded to become Eroski, and the segments of ULGOR, which were eventually spun off as a foundry, Ederlan, and a producer of domestic appliance components, Copreci.

The Founding of the Caja Laboral Popular

The rapid growth in the Mondragon cooperatives had, by 1959, outstripped the credit sources available to them. Father Arizmendi had a solution; start a bank as a credit cooperative. One of the founders of ULGOR records their initial reaction.

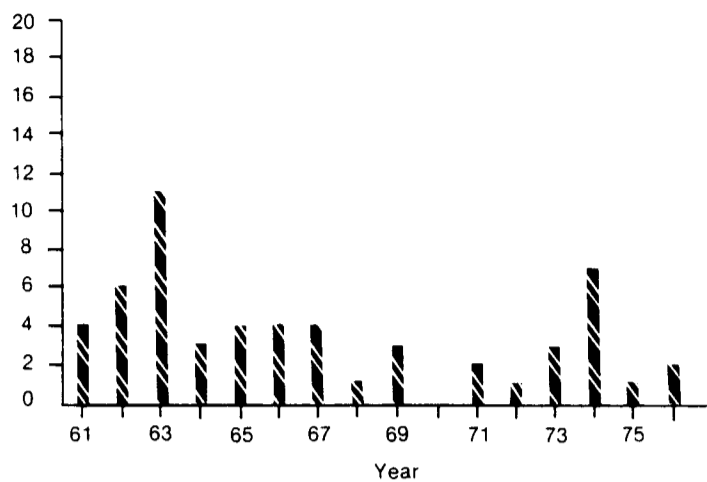
We told him, yesterday we were craftsmen, foremen, and engineers. Today we are trying to learn how to be managers and executives. Tomorrow you want us to become bankers. That is impossible.

But Father Arizmendi had done the necessary research and he was, in the end, persuasive. The bank, the Caja Laboral Popular Bank (Bank of the People's Labor) began operations in 1959 in Mondragon. Two of the ULGOR founders, Jose Maria Ormaechea and Alfonso Gorrongoita, emerged as the leaders of the Caja Laboral Popular (CLP), Ormaechea as the chief executive, the director, and Gorrongoita as the president. They had held those offices to the present day (1982).

One of the major innovations of the Mondragon Cooperative Movement is the Empresarial Division of the Caja Laboral Popular. In the period between the founding of ULGOR and the founding of the CLP, Ormaechea and his colleagues had exhibited extraordinary entrepreneurial ability in the formation of the cooperatives ULGOR, Arrasate, Funcor, and the operations which eventually became Ederlan, Copreci, and Eroski. When the bank was formed, Ormaechea generalized and institutionalized this entrepreneurial experience in the Empresarial Division of the CLP.

The lending power of the Banking Division of the CLP and the entrepreneurial drive of the Empresarial Division led to an unparalleled burst in cooperative economic development in the following years. In the first decade and a half of the CLP, the record of new industrial cooperatives started per year is indicated in the following graph.

Industrial Co-op Start-Ups Per Year



The lack of new co-ops in 1970 was due to ULGOR's addition of 900 new members in the previous year. The co-op development experts of the CLP were busy consolidating that growth.

The Mondragon Cooperatives Today

This growth has resulted in over 85 industrial cooperatives in the Mondragon Movement at the present time (1982) with around 20,000 worker-members. The present five-year plan of the CLP calls for the Empresarial Division to launch about five new industrial cooperatives per year, including cooperatives targeted for the Basque region of France. The industrial cooperatives are the heart of the Mondragon Movement, but other cooperatives have also been developed. In addition to over 85 industrial cooperatives, there are

- o 6 agricultural cooperatives,
- o 2 service cooperatives,
- o 43 cooperative schools using the Basque language,
- o 14 housing cooperatives; and,
- o 1 large consumer/worker cooperative, Eroski, with over forty stores.

In addition, there are the second-tier or superstructural cooperatives with both cooperative and individual-worker members. These include:

- o Caja Laboral Popular with 120 branch offices,
- o Ikerlan, a technological research institute,
- o League of Education and Culture (which now includes not only the polytechnical college, but a business school and a professional college); and,
- o Lagun-Aro, a social security and medical cooperative.

The Caja Laboral Popular is the center of the system which links all the cooperatives to the CLP and to each other by the Contract of Association.

Father Arizmendi and Catholic Social Doctrine

From the formation of the technical training school in 1943 to his death in 1976, Father Arizmendi was the inspiration and guide for the Mondragon cooperatives--even though he never held any official position with the cooperatives. He remained a parish priest all his life. The polytechnical school has now been named Instituto Politecnico Jose Maria Arizmendiarrieta. The center of the Mondragon complex, a hillside which overlooks the school and which contains the Caja Laboral Popular, Ikerlan, and Lagun-Arc, has also been named after him. His bust appears in the lobby of the CLP and on the grounds of the polytechnical college. His writings are being edited and published, and his quotations are sprinkled throughout the publications of the Mondragon group.

Father Arizmendi's work and writings are explicitly based on Catholic Social Doctrine. Indeed, they are a striking anticipation of Pope John Paul II's recent encyclical, Laborem Exercens. Catholic Social Doctrine is a broad canvas, but the specific themes picked out and emphasized in Laborem Exercens were also the themes which guided Father Arizmendi's work. There is the "priority of labor over capital," the emphasis on the dignity of work, and the need for worker solidarity. A quarter of a century after Father Arizmendi's vision was put into practice with the founding of ULGOR, John Paul II called for socializing the means of work so that,

. . . on the basis of his work, each person is fully entitled to consider himself a part-owner of the great work-bench at which he is working with every one else.

John Paul II goes on to describe a "way towards that goal" which could be taken as a general description of the Mondragon industrial cooperatives and the associated complex of economic, technical, social, and educational cooperative institutions.

A way towards that goal could be found by associating labor with the ownership of capital, as far as possible, and by producing a wide range of intermediate bodies with economic, social, and cultural purposes; they would be bodies enjoying real autonomy with regard to the public powers, pursuing their specific aims in honest collaboration with each other and in subordination to the demands of the common good, and they would be living communities both in form and in substance, in the sense that the members of each body would be looked upon and treated as persons and encouraged to take an active part in the life of the body.

The Industrial Cooperatives

The Growth of ULGOR, ULARCO, and Other Industrial Co-ops

Worker cooperatives have been traditionally stereotyped as small ("dwarfish"), labor-intensive, underfinanced, and poorly managed. The Mondragon industrial cooperatives do not conform to these negative stereotypes. The Mondragon co-ops are sizable, capital-intensive, well-financed, and well-managed. There are a number of factors which contribute to the capital intensity of the cooperatives. Mondragon has an old industrial and metalworking tradition. But a critical factor seems to have been the technical engineering emphasis in Father Arizmendi's teaching. His school had a technical orientation from the beginning, and after the cooperatives got started, he strongly pushed them to stay abreast of modern technology. The five founders of ULGOR were trained as engineers; e.g., Ormaechea, now the director of the CLP, was originally trained as an industrial chemist. The aggressive technological posture of the Mondragon cooperatives has been maintained down to the present day and is currently spearheaded by the Ikerlan research institute (e.g., the first industrial robots developed in Spain were developed at Mondragon).

After ULGOR began operations in 1956, its entrepreneurial founders moved quickly to diversify and vertically integrate the operations. A line of electrical products was licensed from Germany, a foundry was added, and an Italian license was obtained for the manufacture of butane cookers and heaters. A capitalist foundry was converted to a cooperative that later became Ederlan ("Good Work"). The tool manufacturing cooperative, Arrasate, was established in Mondragon. Another cooperative, Funcor, making foundry products, was established in Elorrio. A consumer cooperative store, San Jose, was set up in Mondragon (which was later to be integrated into Eroski).

The Caja Laboral Popular was founded in 1959 by the cooperatives ULGOR, Arrasate, Funcor, and San Jose. With sound financing, ULGOR continued to expand and added product lines in water heaters and institutional and domestic stoves and ovens. Arrasate moved into production of large, industrial presses, shears, and cutters. A new cooperative, Copreci, was hived off from ULGOR to produce electronic components for both ULGOR and the external market. The foundry and casting operations from within ULGOR were integrated into Ederlan.

In 1965, ULGOR, Arrasate, Ederlan, and Copreci took the new step of forming the first cooperative federation or group, ULARCO. A cooperative group, such as ULARCO, is an attempt to reap some of the advantages of both large-scale and small-scale operations. The federation allows small or medium-sized co-ops to have common sales and marketing arrangements, common planning of product development and market strategies, and risk-sharing by a degree of income pooling and job pooling between the cooperatives within the group. The best upper limit per cooperative is considered to be around 400 or 500 members.

ULGOR continued to grow in spite of hiving off two more cooperatives within the ULARCO group, Fagor Electrotecnica (1966) and Fagor Industrial (1973). Fagor Electrotecnica itself further illustrated this

principle of growth by cellular division by spinning off a cooperative, Aurki (1981), which produces numerical control systems for machine tools. ULGOR now has around 3,000 members, and ULARCO as a whole has over 6,000 members. ULGOR is the leading Spanish producer of consumer durables such as refrigerators, stoves, washing machines, and dishwashers, under the brand name of "Fagor." ULARCO has also excelled in technology transfer deals (19 so far), such as the construction of turnkey factories, in countries around the Mediterranean, in Eastern Europe, and in Latin America.

ULGOR and its group ULARCO have always been the flagships of the Mondragon Movement. However, cooperative development outside of the ULARCO group continued unabated after the formation of the Caja Laboral Popular. Ten groupings, mostly on an area basis, have now been formed with the group sizes (aside from ULARCO) ranging from around 400 to 1,000 members per group.

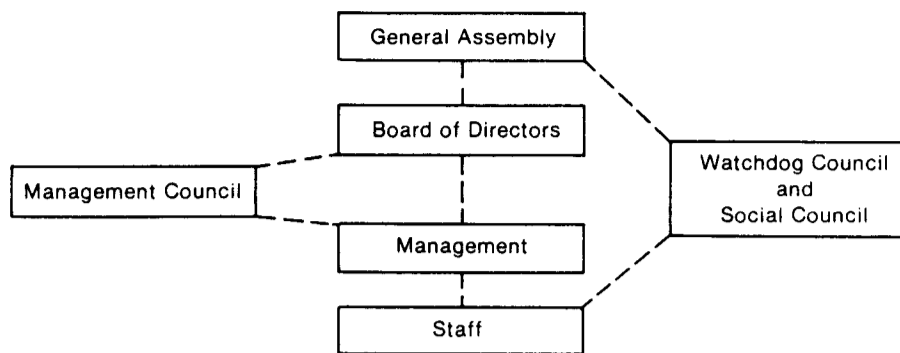
In Mondragon's growth from one to over 85 industrial cooperatives in a 25-year period, there have been no failures (although a failure amongst the agricultural/food cooperatives will be considered below). In the current recession, Spain has been hard hit and the Mondragon cooperatives have lost some sales, but there have been no large-scale layoffs. New admissions have been reduced or halted, some workers have been sent back to school to be upgraded in technical skills, work hours have been changed, and some workers have been shifted around within the groups. When layoffs have been necessary, the workers have continued to receive 80% of their pay.

The Governance System of the Industrial Cooperatives

In a worker cooperative, the membership rights (voting rights and rights to share in the proceeds) are attached to the functional role of working in the firm. Each worker qualifies for membership "on the basis of his work"; membership is not a property right which may be bought or sold. Hence, in a Mondragon worker cooperative, the principle is that all and only the workers in the firm are the members. The only exception is that, under unusual circumstances, up to 5% of the workforce may be individuals with special skills contracted from the outside. Rights come together with responsibilities, and one of the responsibilities of membership is the membership fee. At present, the fee is around \$5,000, with about 25% down and the remainder being paid by payroll deductions over a two-year period. On average, the entry fee covers about 10% of the costs of creating the job.

The ultimate authority in the cooperative is the General Assembly of members (Asamblea General). It meets at least once a year and periodically elects, on a one-member/one-vote basis, the board of directors (Junta Rectora). The terms are for four years; every two years, half of the directors are elected. The board of directors appoints the chief executive officer, the president, and the different department heads. Governing powers not delegated to the president or reserved for the General Assembly will devolve to the board.

Basic Organizational Chart for a Mondragon Cooperative



There are three other councils in the basic Mondragon governance structure, the Management Council (Consejo de Direccion), the Watchdog Council (Consejo de Vigilancia), and Social Council (Consejo Social). The Management Council is an advisory body which serves as an interface between the board and management. It consists of the president and the department heads, and it meets at least once a month to coordinate management plans.

The Watchdog Council consists of three members directly elected by the General Assembly with four-year terms. Their function is to obtain, monitor, and verify financial information and any other information requested by the General Assembly. In the Caja Laboral Popular, they have an internal auditing role, but in the other cooperatives, their role is more general. In large U.S. corporations with internal auditors, there is little independence of management, since the internal auditors are appointed by management and are answerable to management or the board. In the Mondragon cooperatives, the direct election of the members of the Watchdog Council by the General Assembly helps to provide a measure of independence.

The Social Council is directly elected, but not at the General Assembly meetings. Sections of 10 to 20 workers elect a representative for a three-year term. Workers meet once a week with their representative and all the Social Council representatives meet at least once every three months. The Social Council has advisory powers over a wide range of personnel affairs and its decisions are binding on safety, pay scale, and social welfare issues.

A sensitive issue in any workplace is the determination of the pay rates. The contours of the pay system are guided by principles of external solidarity and internal solidarity. In a worker cooperative, there are no wages per se, since the workers are the members, not the employees, of the cooperative. The net value accruing to the workers is the value of their product minus the nonlabor costs. Some of that value is paid out during the year (the closest analogy to "wages"), some is paid out at the year's end (bonuses), and some is retained in the cooperative. Since the net amount is not known until the end of the fiscal year, the amount paid out during the year is an advance or an anticipation (anticipos) of the workers' income.

The principle of external solidarity means that the anticipos (advances) for the lower pay rates will be geared only slightly above the wages of comparable work in the capitalist firms in the vicinity. According to the Spanish custom, the annual pay is given in 14 monthly installments, one extra month's pay in the summer (to finance an August vacation) with the other at Christmas time.

The principle of internal solidarity means that the top to bottom pay ratio in a cooperative will not exceed 3 to 1. Under certain circumstances, there can be special bonuses up to 50% of pay so such a bonus added onto an index 3 job would give an effective ratio of 4.5 to 1. In any case, the comparable chief executives in capitalist firms may receive two or more times as much as their cooperative counterparts. The noneconomic benefits of the cooperative movement have been appreciated mostly by the executives who have developed inside the movement. The pay ratios have made it difficult to recruit experienced executives from outside the movement. A 5 to 1 ratio is being presently discussed.

Individual pay rates are determined by the labor index attached to the various jobs, from the bottom to the top. Each job is evaluated on the basis of many characteristics such as necessary training and experience, decision-making responsibility, social relational skills, physical and mental demands, and special hardship factors (danger, noise, etc.). On the basis of these characteristics, each job is assigned a labor index on a 1 to 3 scale. The labor indices are published in a single manual that covers all blue- and white-collar workers from operatives to executives. The Social Council oversees the whole complex process of determining the labor indices.

The role of the Social Council has grown following a (nonsymbolic) strike at ULGOR. By 1974, ULGOR had grown quite rapidly to 3,250 members (e.g., 900 new members in 1969 alone). Channels of communication were not well-established and there was some worker disaffection. A particular dispute arose over a revaluation of job pay rates which downgraded certain tasks. It was made clear that the revaluation would not affect the labor indices of current members and would only be applied to new entrants. In any case, some dissidents went outside of the established channels for dissent and called a strike. The strike lasted for eight days and involved 414 of the 3,250 members. The board responded by dismissing the 17 strike leaders and by adopting disciplinary measures against the other 397 strikers. The strikers challenged this decision at an Extraordinary General Assembly meeting. After much heated discussion, the General Assembly ratified the board's decision by a 60 percent majority vote. The reason was not that the dissidents disagreed with management, but that they ignored the democratically agreed-upon procedures for expressing dissent such as through the Social Council.

The Social Council and the Watchdog Council form a legitimate oppositional structure, an independent organizational basis for the members to monitor, question, and dissent from managerial activities and policies. The functions of the Social Council closely resemble many of the functions of a trade union in a capitalist enterprise. Free trade unions were outlawed under Franco's fascist government. After Franco's death in 1975,

the subsequent liberalization fostered a burst in the development of trade unions and political parties.

There have been discussions between the cooperative group and trade unions to see if an appropriate form of affiliation could be worked out. Many unions have been formed, and as is often the case in Europe, most unions are affiliated with political parties. In addition to normal trade union functions, the unions try to recruit the workers for the associated political party. With so many unions and parties (about six in the Basque country alone), it is considered inappropriate and unwise for the Mondragon cooperatives to exclusively associate with one union and one political party. It is also considered inappropriate to have different unions and parties vying against one another within the Mondragon complex. Hence, under present circumstances, the cooperative-union relationship has not gotten beyond the discussion stage.

The Mondragon Legal Structure For the Industrial Cooperatives

At the beginning of the BBC documentary film The Mondragon Experiment, the narrator comments that the roads into Mondragon were bad. This could be taken as being symbolic of Mondragon's (voluntary or involuntary) isolation from the traditional cooperative movement. Traditional cooperatives in Europe and America contain a number of "standard flaws" which can be understood and corrected, but which, for various reasons, are usually reproduced. The autonomous development of the Mondragon cooperatives helped them to think through intelligent and creative answers to the problems of cooperative structure--instead of just copying the mistakes of the past.

The Mondragon Cooperative Movement as a whole is so unprecedented, that we cannot pretend to exhaustively list its unique contributions. Four major social inventions are of particular note:

1. the system of internal capital accounts, which gives the members a recoupable claim on their retained earnings, and which partitions that claim off from their membership rights,
2. the Caja Laboral Popular as a credit cooperative with the members being worker cooperatives and other cooperatives (not individual depositors),
3. the inclusion of the workers in a special category of membership in the nonworker cooperatives such as the agricultural, consumer, and second-tier cooperatives, and the resulting principle of staff self-management in those cooperatives; and,
4. the socialization of entrepreneurship embodied in the Empresarial Division of the Caja Laboral Popular.

In this section, we consider the first of these innovations, the internal capital accounts. The second and third innovations are discussed later in Part I, and the Empresarial Division is considered in Part II.

In a conventional corporation, the bundle of ownership rights consists essentially of the following three rights:

- o the voting rights,
- o the rights to the net income; and,
- o the rights to the net worth or equity of the corporation.

The first two rights, the voting and the net income rights, will be called the "membership rights" and the remaining rights to the net worth will be called the "capital rights."

A worker cooperative could be theoretically defined as a firm where the membership rights are personal rights attached to the functional role of working in the firm. Then the firm is an industrial democracy in analogy with a political democracy where the voting and other citizenship rights are personal rights attached to the functional role of residing in the community. The assignment of the membership rights to labor follows from the primacy of labor among the factors of production. The primacy of labor implies that labor shall not have the role of a hired factor; labor shall hire capital. Workers should always be the members of the firm, not the employees of the firm, and the net return (after a payment for the other factors) should be a return to labor.

The net labor income is the revenue minus the nonlabor costs, which, in conventional terms, equals the wages plus the profits. Part will be distributed during the fiscal year as anticipated labor income (anticipos), and the amount of labor income left at the year's end can either be distributed or retained in the firm to increase its capitalization. In either case, the labor income represents the value of the fruits of the workers' labor and it should belong to them regardless of whether it is distributed or retained in the firm.

It is the treatment of the retained labor income which has always caused problems in traditional worker cooperatives. There are two diametrically opposed flawed treatments: (a) the nonprofit treatment of forcing the workers to forfeit any recoupable claim on the retained income; i.e., to forfeit the capital rights, and (b) the capitalist treatment of combining the capital rights with the membership rights. Traditional worker cooperatives or self-managed firms tend to make one mistake or the other.

Many worker co-ops or self-managed firms, such as the Common Ownership firms in England and the self-managed enterprises in Yugoslavia, are structured like an American nonprofit corporation in the sense that there is no recoupable claim on the net worth of the firm. This eliminates any incentive to finance capital investment by retained earnings as opposed to borrowing, and it introduces numerous other distortions which have been analyzed in the economic literature. The principal flaw, however, is that there is no reason (misplaced idealism or Marxist ideology aside) to deny

workers the value of the fruits of their labor if that value is reinvested in the firm.

The opposite flaw is to attach the capital rights to the membership rights so that in order for an entering worker to qualify for the membership rights, the worker has to additionally purchase the capital rights due a retiring member. The noncooperative corporations which are employee-owned either directly or indirectly through an Employee Stock Ownership Plan (ESOP) have this type of capitalist structure. The traditional worker cooperatives in the United States such as the plywood cooperatives have a hybrid co-op/capitalist structure. To become a co-op member, a worker has to buy a share where the value of the share represents the capital value accumulated by a retiring member. In the better plywood co-ops, a share can be priced in the \$60,000 to \$80,000 range. In theoretical terms, this structure violates the principle that a worker is supposed to qualify for membership "on the basis of his work" and should not have to "buy" the membership rights. In practical terms, many workers cannot afford to purchase the shares, so they are hired as nonmember workers. Over a period of time, these firms become more and more conventional, with a small number of owners and a large number of hired workers. Eventually, the remaining owners may have to sell the whole company to a capitalist firm in order to recoup their accumulated capital.

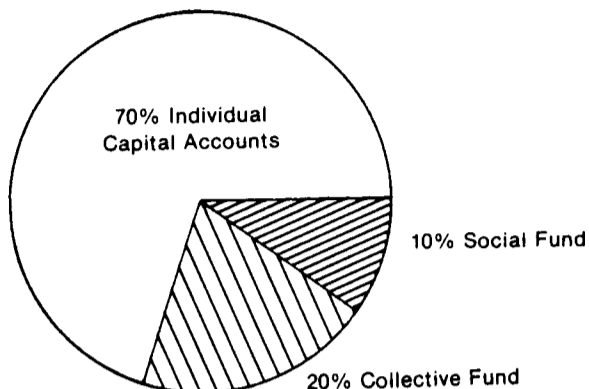
The Mondragon cooperatives solved this problem of having the membership rights attached to work without forcing the workers to forfeit their capital rights. To understand the solution, suppose that all net earnings were distributed to the members, deposited in a savings bank, and then loaned back to the cooperative. Then the members could recoup their claim on that capital value through their savings account, and yet the cooperative could self-finance its own capital investment (indirectly through the external savings bank). That arrangement is impractical, but recoupable, self-financed investment can be obtained by the alternative arrangement of moving the savings accounts directly into the firm itself. That is the solution worked out by the Mondragon cooperatives.

Each member has an internal capital account representing the capital value eventually due back to the member (usually upon retirement). The account is quite separate from the membership rights. Workers, depending on their seniority and pay rate, might have quite differing amounts in their accounts and yet they have the same membership rights; e.g., equal voting rights. An entering worker does not have to individually finance the payout to a retiring worker; the cooperative pays off the accounts of retiring members.

In addition to the individual capital accounts of the members, there is a collective account that is unindividuated. The sum of the balances in the individual accounts and the collective account is the net book value or net worth of the cooperative. There are several reasons for the collective account. One practical reason for the Mondragon cooperatives is that Spanish cooperative law requires that at least 10% of the net earnings be reserved for a social and educational fund. The Mondragon cooperatives expend these funds on such matters as Basque community schools, local community projects, and unemployment benefits. At

least an additional 20% of the net surplus is allocated to the collective account, and, unlike the 10% social dividend, this amount stays in the firm. The remainder, up to 70% of the net surplus, is allocated amongst the individual capital accounts.

Allocation of Retained Surplus



This collective account allocation can be rationalized on the basis of uncertainty. In the long run, there are unavoidable costs attached to uncertainty. In an uncertain world, a cooperative could not always try to pay back 100% of the retained earnings to the members. The collective account allocation can be seen as a form of self-insurance, a cost incurred to reduce the uncertainty of the payback. By only promising to pay back 70% or 50% of the retained earnings (rather than 100%), the cooperative can substantially increase the likelihood of keeping its promise.

When a new member pays in the membership fee, not more than 25% and typically 15% is committed to the collective account with the remainder being credited to the member's capital account. The individual capital accounts accrue interest at the rate of 6%, and that interest is usually paid out. Periodically, the effect of inflation is taken into account by revaluing the assets of the cooperative according to CLP-computed price indices. The capital accounts are then adjusted accordingly to maintain the balance of the balance sheet. Hence, the 6% interest rate is more like a real interest rate than a nominal interest rate (real rate + inflation rate = nominal rate).

The capital account interest is subtracted out of the net surplus computed at the end of each fiscal year. At least 30% of the net surplus is credited to the collective account (with 10% slated for social purposes). The remainder is credited to the individual capital accounts in proportion to the sum of each member's anticipated labor income and the interest payment on the member's account. There seems to be no theoretical

reason for the inclusion of the interest payment in the determination of that proportion. If the proportion was based solely on the member's anticipated labor income (anticipos), then each member's capital income (interest plus any inflation adjustment) would be fixed and independent of the firm's surplus for the year. That is what one would expect on the basis of the precept that labor is hiring capital so capital could get a fixed return with labor bearing the residual. By including the interest payment in the determination of each member's proportion, the members with the larger capital accounts are getting a larger proportion. Hence, the interest inclusion amounts to a form of "reverse profit-sharing," i.e., surplus sharing with capital.

The allocation of the retained surplus between the individual and collective accounts also holds when that surplus is negative, i.e., when there are net losses. Then not more than 30% can be debited to the collective account with the remainder being debited from the individual accounts. These formulas are further complicated when a cooperative is a member of a federation or group such as ULARCO. Then as a risk-sharing device, a percentage of the positive or negative surpluses is shared amongst the cooperatives in the federation.

When a worker leaves a cooperative, then the individual's membership rights are terminated since the membership was based on work. All or most of the person's individual capital account is paid out under financial arrangements which may vary from case to case. The percentage of the account paid out will depend on the circumstances of termination. If the person has reached normal retirement, or is leaving for circumstances beyond their control, then the full amount is paid out. If, however, the worker is leaving to work for a competitor or for similar reasons, then at the board's decision, up to 30% of the individual's account is forfeited and credited to the collective account.

There is no theoretical reason why the payout on the capital accounts must be postponed to termination or retirement. That allows for maximal capital accumulation during the first generation of co-op members. However, it also puts a premium on leaving the cooperative which the Mondragon co-ops have tried to counteract with the preretirement penalty. A more important problem is that it makes size and timing of the capital payout dependent on the demographic configuration of the work force. The Mondragon cooperatives have yet to retire a generation of members, and, indeed, they will be facing a large demographic bunching of retirees in two or three decades.

An alternative to the retirement payout plan is a fixed, multiyear rollover plan; pay out each surplus allocation to an individual's account after a fixed number of years (say, five or seven years) if the entry has not been debited by that time. This revolving of the internal accounts will tend to equalize the accounts (and risk-sharing) so there will not be large differentials in the account balances between the older and younger members. It also smooths the payout process by making it more independent of the demographic composition of the work force. All members would have to have less anticipated labor income paid out (to finance the account rollovers), but that is counteracted by the "second income" of

account payouts for the workers who have been members for longer than the five- or seven-year "waiting period." The main pinch is for the new members who have less anticipated labor income paid out, but no account payouts as yet. In any case, the choice between the termination payout plan and the fixed rollover plan is a pragmatic financial decision.

The Other Mondragon Cooperatives

The Consumer/Worker Cooperative

A consumer cooperative store in Mondragon, San Jose, was one of the four cooperatives founding the Caja Laboral Popular (the other three being the worker cooperatives ULGOR, Arrasate, and Funcor). In 1969, the San Jose store and eight other consumer cooperative stores in the province of Guipuzcoa (which contains Mondragon) were consolidated in the new cooperative, Eroski. Today, Eroski has grown to over 45 stores throughout the Basque country with over 70,000 consumer-members and over 800 worker-members.

The cooperative movements in England and Scandinavia are dominated by the consumer cooperatives. The members of the cooperatives are the consumer patrons. The net proceeds are partially allocated to the consumer members in proportion to the patronage, their purchases through the stores. The workers in the consumer cooperatives have a normal, employer-employee relationship with the company. The workers can, of course, be members of the cooperatives as consumers. The governing role of the consumer-members is typically minimal, and the cooperatives are usually run by hired professional managers.

The customary consumer co-op ideology takes an instrumental view of labor and the firm as a whole. Instead of being employed for private profit, the labor and other resources will be employed for the social good (i.e., consumers). When the sellers want a higher price, that is private greed; when the buyers want a lower price, that is the social good.

The Mondragon cooperators did not copy the traditional consumer cooperative structure used elsewhere. The Mondragon cooperatives, all of them, are founded on the principle of the primacy of labor. The primacy of labor implies that labor shall not be treated as a hired factor, i.e., the denial of the employer-employee relationship. In all the co-ops, the workers form a special category of membership endowed with substantial overall governing power in addition to the principle of staff self-management. There is no patronage dividend for the consumer-members; instead, the prices, selection, and facilities are quite competitive, and the worker-members share in the net proceeds as in the worker cooperatives. The "consumer cooperative" Eroski would be more aptly characterized as a hybrid consumer/worker cooperative.

The Agricultural/Food Cooperatives

The strongest segment of the U.S. cooperative movement consists of the agricultural or farmer cooperatives. The farmer cooperatives and

worker cooperatives are sometimes both classified as "producer cooperatives," but the two types of cooperatives are quite different in structure. The farmer cooperatives are usually marketing cooperatives. In a supply co-op, supplies such as fertilizer, seed, gasoline, and electrical power, are bulk purchased or produced by the farmer co-op and then sold at a discount to the farmers. In a selling co-op, farmers and agribusiness corporations as independent producers sell their output to the agricultural co-op, which may then process the food (e.g., milk into butter and cheese) and sell it on the market. Some farmer co-ops have grown to enormous size and are not too different from large capitalist agribusiness corporations (except for the federal tax break for co-ops). Any workers in the production, processing, and distribution parts of a U.S. agricultural co-op are normal employees.

At present, there are six agricultural cooperatives in the Mondragon complex. Here again, the Mondragon cooperators did not copy the agricultural co-op structure used elsewhere, but worked out a new structure consistent with the primacy of labor. The farmers as independent producers and the workers in the processing plants and distribution networks are both members in different categories of membership; the farmers as "socios productores" and the workers as "socios transformadores." Hence, the Mondragon agricultural cooperatives are not traditional farmer cooperatives; they are hybrid farmer/worker cooperatives.

In the whole Mondragon Cooperative Movement, there has been one failed cooperative, and it was in the agricultural/food category. It was a fishing cooperative, Copesca, started in 1965 and finally wound up in 1973. It was a second-degree support cooperative consisting of 24 small fishing co-ops each with a fishing boat. In all the job-creating cooperatives in Spain, the Ministry of Labor will cover 20% of the job costs in the form of a low-interest, long-term loan. However, in the mid-1960s, the Spanish government wanted to particularly promote the fishing industry, and made generous loans available to finance fishing boats. Hence, this fishing co-op was the one project in which the government played a lead role in the financing. The government advanced 71% of the funds, the CLP 24%, and the fishermen advanced only the remaining 5% from their own funds.

The fishermen did not adapt well to participating in a cooperative business venture. Instead of retaining most of their net proceeds so they could eventually pay off their long-term debt, the fishermen increased their personal income and neglected the long term. In 1973, the CLP made an attempt to reconsolidate the boats in the worse financial shape. That would require another financial contribution from the fishermen--which was not forthcoming. Hence, in order to protect their depositors' money, the CLP initiated proceedings to wind up the fishing cooperative.

The Housing Cooperative

Housing cooperatives were added to the Mondragon complex in the middle seventies. The financing of the construction or purchase of apartment buildings supplies a welcome outlet for the bulging funds of the CLP. After construction or purchase, the CLP can then make loans to

individual cooperators to finance their apartments. Today, there are 14 housing cooperatives associated with the Mondragon group, with over 1,200 apartments.

The Educational Cooperatives

There are, at present, 43 cooperative Basque schools with about 31,000 students and with over 1,000 staff members. They offer bilingual (Basque and Spanish) instruction at the preschool, primary, and lower secondary levels. These co-ops are separate from the educational programs under the auspices of the League for Education and Culture. The membership of these co-ops is drawn from the staff, parents, and students, and they are financially supported in part from the social funds of the CLP and other Mondragon cooperatives.

The Service Cooperatives

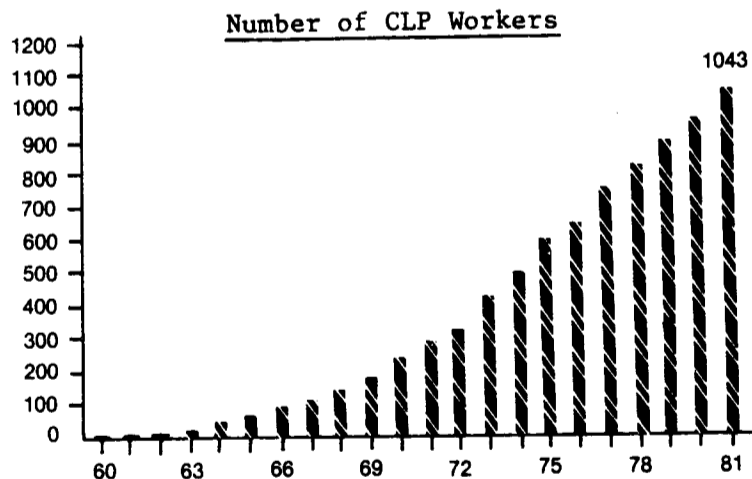
There are two cooperatives which are usually put into this category, Auzo-Lagun and Club Arkitze. Auzo-Lagun has around 450 members (mostly women). It is specifically designed to provide employment for people who, usually due to family commitments, want part-time and flexible time work arrangements. It specializes in the preparation of canteen meals, laundry, general cleaning, and subcontract work.

Club Arkitze is a cooperative sports and social club with a swimming pool and other recreational facilities. It has over 500 members, and is located in central Bilbao.

The Superstructural Cooperatives

The Caja Laboral Popular

From the initial two offices in 1959, the Caja Laboral Popular (CLP) has shown remarkable growth. In the 23 intervening years, it has grown to be the 26th largest bank in Spain with 120 branches throughout the Basque region, over 1,000 workers, and around one-half million customers.



As a credit cooperative of the associated cooperatives, its primary loan activity must be with those cooperatives. However, it has become such an efficient mechanism for accumulating the savings of the Basque country that its lending powers are beginning to outstrip the funding needs of the associated cooperatives. Hence, the CLP has applied to the central Spanish government for permission to change its by-laws so that up to 15% of its loans can be to noncooperative firms in the Basque country.

The Caja Laboral Popular (CLP) is the group headquarters of the Mondragon Cooperative Movement. The Mondragon group is defined as the cooperatives which have signed the Contract of Association with the CLP. There are other cooperatives in the Basque region which are not associated with the CLP and which are not taken as part of the Mondragon Movement. The Contract of Association specifies the relationship between the associated co-op and the CLP such as the co-op capital contributions to the CLP, deposit of surpluses in the CLP, provision of reports to the CLP, and auditing of the co-op by the CLP. The contract also specifies the contours of the "Mondragon legal structure" for the associated cooperative such as the democratic governance principle, the limited return on capital, the attachment of the membership rights to work in the firm (i.e., members = workers), the membership fee, the individual internal accounts, the collective account (reserve fund and social fund), and the allocation of the positive and negative retained surpluses to the internal accounts.

In the United States and elsewhere, there are second-degree cooperatives, cooperatives of cooperatives. The members are not individuals but other co-ops, usually represented in proportion to their sales as in a second-degree marketing cooperative. The CLP and other support cooperatives are not second-degree co-ops in that standard sense. The principle of the primacy of labor entails that the workers in the CLP or other support co-ops must also be members in addition to the institutional or collective members. Hence, these co-ops are hybrids between first-degree worker co-ops and second-degree co-ops of co-ops. They are called second-tier cooperatives, or superstructural cooperatives. The CLP is also unlike the credit unions and cooperative or mutual banks in the United States, since the members are not depositors, but the associated cooperatives and the workers in the bank.

In its internal governance structure, the CLP has a General Assembly, a board of directors, a Social Council, a Watchdog Council (of three internal auditors, a Management Council, and several other committees. The General Assembly includes the CLP workers plus proportional representation from the associated cooperatives. The balance between the representation of the associated co-ops and the CLP workers on the board of directors is 2 to 1. Of the 12 directors, 8 are elected by the co-op representatives in the CLP General Assembly, and 4 are elected directly by the CLP workers. Half are elected biennially, i.e., 4 co-op and 2 CLP representatives every two years. The distribution of the 8 co-op representatives is usually 5 or 6 from the industrial co-ops, 1 from the consumer co-op, and 1 or 2 from the other superstructural cooperatives. The CLP also holds annual regional assemblies for the depositors. The management and the board of directors outline the CLP's activities during the year, and open a dialogue with the customers about their concerns.