WHAT IS A WORKERS' COOPERATIVE?

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A workers' cooperative or industrial cooperative is a company where the "owners" or members are all and only the people who work in the company. The workers hold the basic "ownership" or membership rights which consist of: (1) the voting rights to elect the board of directors which, in turn, appoints the management or staff, and (2) the rights to the "profits" or net income of the company. Each member has an equal vote in accordance with the democratic principle of one-person/one-vote. The net income, which could be positive or negative, is shared among the members according to some agreed upon formula such as equally per dollar pay or equally per hour worked.

How does a workers' coop differ from a conventional corporation?

In a workers' coop the membership rights are assigned to the people who work in the company, whereas in a conventional corporation the membership rights are put up for sale to whoever has enough money to buy them. That is, the membership rights are legally attached to the shares of stock which can be bought or sold by anyone who is not otherwise connected with the company. Since the votes and profits are distributed on a per share basis, a shareholder in an ordinary corporation will have the number of votes and shares of the profits equal to the number of shares owned.

Is a workers' coop just a company where the employees own the shares?

No. Although workers' coops and employee-owned corporations are often confused with one another, they are based on quite different principles. When the employees in a conventional corporation buy the shares, then their ownership or membership rights are based on their capital. In a workers' coop, the workers membership rights are based on their labor. This fundamental difference leads to many other differences in the way the companies operate and the way they evolve over the long term.

What operating problems arise in employee-owned corporations as opposed to workers' cooperatives?

Since the employee's ownership rights are based on their purchase of shares, the one-person/one-vote principle is violated. The wealthier employees and managers would buy more shares and get that many more votes. When a company makes a profit, part of the profit might be distributed as dividends with the remainder retained in the company. Since the dividends are distributed on a per share basis, the larger shareholders would get a proportionately larger share of the distributed profits. The profits retained in the company would increase the value of each share so, here again, the bulk of those capital gains would go to the larger shareholders in accordance with the old rule "the rich get richer . . . .". The inequality in voting power and the lopsided profit distribution would create disaffection and dissension among the less well-off employees as they see the power and wealth gravitating towards a small group within the company (usually the management personnel).

What long term problems arise in employee-owned corporations?

In a nutshell, they don't remain employee-owned for very long. In time, the shares will usually increase in value considerably. The older employees and managers will eventually want to realize these capital gains by selling their sizable holdings. If the company is to remain employee-owned, then the younger workers just entering the firm would have to buy the shares of departing employees. But it is virtually impossible for the new employees to buy the large holdings of the retiring employees. Hence those shares would usually be sold to outsiders. As time passes, the company would become less and less employee-owned. Eventually some group of financiers or another corporation would attempt a takeover bid by making a "tender offer" to the remaining employee-shareholders. The disaffected employees, having witnessed the gradual erosion of "their company", would probably jump at the chance to at least get some cash out of the matter. Hence the conventional structure of employee-owned corporations embodies "suicidal" tendencies which, like a time bomb, will eventually lead to the demise of the employee-ownership of the company.

One of the best known employee-owned corporations, Vermont Asbestos Group (VAG), has followed this script almost to the letter. Just three years after the employees purchased the assets from the GAF conglomerate, a local businessman managed to acquire a controlling interest in the shares. He then handpicked a new board of directors and installed himself as president and chairman of the board. When some of the employees belatedly found out about the structure of a cooperative, they said that if they could do it over again they would set up the company as a cooperative. But now it's too late.

How do workers' coops deal with the operating problems that crop up in conventional employee-owned corporations?

Firstly, workers' cooperatives rigorously follow the democratic principle of one-person/one-vote. Secondly, the net income is distributed in an equitable manner such as in proportion to the pay scale, which would usually reflect the member's different levels of skill, experience, and responsibility. If the pay scale is perceived as being inequitable, then the members have the power to work out a more equitable arrangement. Moreover, cooperatives usually have on-going internal education programs so that the worker-members will know their rights and responsibilities, and

understand the ground rules of the cooperative. As the members grow in their knowledge and confidence, they can develop new approaches to operational problems by restructuring jobs, opening new channels of communication, creating better mechanisms for handling grievances and resolving disputes, and so forth. The cooperative structure, of course, is no guaranteed panacea for workplace difficulties. It only gives people the knowledge and power to cooperatively solve their own problems – and that's about all that one can ask for.

How do workers' coops avoid the long term problems associated with employee-owned corporations'

The key lies in the internal restructuring of the company. In an ordinary corporation (employee-owned or absentee-owned), the shares of stock perform two functions: (1) the shares carry the membership rights (voting and profit rights), and (2) the shares carry the net worth of the company's assets which is due to the original capital contributions of the shareholders plus the accumulated retained profits. In a workers' cooperative, this conventional structure or "package of rights" is restructured or "repackaged" by completely separating the two functions. In a workers' coop, the shares have only the first function of being legal certificates carrying the membership rights. That is, the shares function *only* as membership cards. After a new worker has been accepted as a member (usually after a trial period) and satisfied the membership requirements (such as paying a membership fee in cash or through payroll deductions), the new member is issued a membership share entitling the person to an equal vote and an equitable portion of the net income or "profit." Like any membership card, the membership share is held by the worker for as long as he or she qualifies for membership by working in the coop. And like any other membership card, the worker does not "own" the share as a piece of property that can be sold.

The second function of carrying the net worth of the company's assets is separated off from the shares and that function is taken over by a system of internal "savings accounts," one account for each member. These accounts are called *internal capital acounts* or, simply, *internal acounts.* The initial balance in each member's account is the membership fee. At the end of each fiscal year, the member's portion of the net income is added to the account balance. If the net income was negative, the member's share of those operating losses is subtracted from the balance. The membership fee, by providing an initial balance in each account, functions as a "security deposit" from which losses or "damages" can be subtracted if that should prove necessary. When a person terminates his or her work and thus membership in the cooperative, the membership certificate is automatically forfeited back to the coop and the balance in the member's account is paid out to the ex-member over a period of years.

This internal structure of the coop allows each member to eventually receive back the net amount of capital supplied to the coop (membership fee plus accumulated retained earnings) without any "leakage" of membership rights to outsiders and without requiring the newcomers to individually come up with the accumulated "savings" of the retiring members. Hence the company can maintain its integrity as a workers' cooperative over the course of time and avoid the "suicidal" tendencies of employee-owned corporations.

How does an internal capital account differ from an ordinary savings account?

Like a savings account, an internal account should bear interest. However, the principal difference is that the money cannot be withdrawn whenever the member desires. The balance in the capital account, of course, does not represent cash sitting somewhere in a safe. The money is invested in the machines, buildings, and other assets of the cooperative. Hence, even when a member leaves, the balance ordinarily cannot be paid out in a lump sum. It usually must be paid off in yearly installments (over, say, a five year period) that can be provided for in the company's financial plans. If the coop is doing well, it is also possible to pay out a portion of the internal accounts before the members leave – so long as enough is left in each account to form a "cushion" to absorb potential yearly operating losses.

How does the internal account system function over the years?

The system works as a revolving loan fund between generations of members. When earnings are retained in the coop, those earnings could be used to buy assets, to pay off ordinary external debts to creditors, or to pay off some of the internal account entries (which could be viewed as "internal debt"). No matter how the retained earnings are used, their retention in the coop will increase every member's capital account balance. If the retained earnings are used to pay off some account entries (usually in order of seniority of the entries), then those particular accounts are debited for those amounts.

Consider a highly simplified example where oldtimer A has a balance of $2000 and newcomer B has a balance of $1000. If $1000 of net earnings are retained, then it would be split between their accounts in proportion, say, to their pay which we assume to be a 60%-40% split. Hence $600 is credited to A's account and $400 to B's account. Now suppose that the $1000 is used to pay off $1000 of the internal debt to the oldtimer A. Hence the final balances would be $2000 + $600 – $1000 = $1600 in A's account and $1000 + $400 = $1400 in B's account.

The use of retained earnings to pay off senior account entries is the turning over or revolution of the internal debt. As the internal accounts are thus turned over, the total of the balances does not change, e.g., $2000 + $1000 = $1600 + $1400 in the example. Since all the accounts are credited in various proportions for the retained earnings before the senior accounts are debited for the payback, the internal debt is gradually shifted from the senior to the junior members of the cooperative. Thus the internal account system functions as a revolving loan fund between generations of members. Moreover, as the internal loan fund revolves, it tends to equalize the account balances (e.g., $2000/$1000 was transformed into $1600/$1400 in the example) and thus to equalize the risk borne by the members

The internal account system is somewhat analogous to the social security system. In both systems, some money, that would otherwise be part of the worker's take-home pay, is put in the system to build up credits in the worker's name. That money is used to pay off the credits built up by the prior contributions of the older and retiring workers.

What problems could arise with the internal account system?

In an employee-owned corporation, if an entering worker tried to buy, through payroll deductions, the sizable holdings of a retiring worker, then the new worker would have very little left as take-home pay. In a workers' coop, all the members jointly pay back, through the internal accounts system, the sizable internal "savings" of retiring members. Since they are all involved in the payback together, it will mean a much smaller reduction in each member's take-home pay. The money used to pay off the retired member will be credited to the current members' accounts, but it won't be part of the current members' present take-home pay. The "rub" is that, depending on the company and the situation, this could conceivably reduce a member's take-home pay to a level that was, say, below union scale in an ordinary company.

But this "rub" is really a misconception based on the attempt to directly compare the take-home pay of a coop member with the pay of an ordinary employee. The coop member receives take-home pay and fringes *plus* the internal account credits (which represent future cash income) whereas the ordinary employee receives only the pay and fringes. An analogous misconception would be involved in taking the take-home pay of an employee, who is paying off a mortgage through payroll deductions, as if it were his or her only pay. Suppose that the employee is making $7.00 an hour, that union scale is $5.50 an hour, and that only $5.00 is left to take home after the mortgage payment is deducted. It would clearly be a mistake to ignore the mortgage payment and to claim that the employee was being paid only $5.00 an hour which is below union scale. The extra $2.00 an hour of mortgage payment is building up the equity in the employee's house even though it isn't cash in hand. That equity could eventually be transformed back into cash by selling the house or transferring the mortgage.

The situation is somewhat the same in a workers' cooperative. The older or retired members play the role of the "bank" that holds the "mortgage" on the machines, buildings, and other assets supplied to the current members of the coop. The reductions in the take-home pay of the current members, that are necessary to pay off the retired members, are analogous to the mortgage payments. As the "mortgage" is paid off, the internal acounts (or "equity") of the current members are built up. As the current members themselves grow older and retire, the internal account balances are eventually transformed back into cash as they receive the "mortgage payments" from the next generation of coop members.

How has this internal account structure worked in practice?

The internal account structure is an adaptation of the system used in the workers' cooperatives of the Mondragon complex in Spain. The Mondragon complex is the most successful set of workers' cooperatives in the Western World today. The first industrial cooperative of the complex was established in 1956 in Mondragon, a city in the Basque region of northern Spain. Today, it is a complex of 65 coops with over 14,000 members. The range of industrial products includes electronic equipment, machine tools, refrigerators, and stoves. The complex has its own technical school which offers college level courses for the technical education of the workers. At the center of the system is an institution, called the "Labor Bank," which has a credit union with over 200,000 members and an entrepreneurial department, with about 70 staff members, that provides technical assistance in the development of new workers' coops. No Mondragon cooperative has ever failed. The Guipuzcoa province, which contains Mondragon, has one of the highest population densities of any comparable area in Europe, and yet it now has essentially full employment. In fact, any new firms in the province would only attract migrants to compound the population problem, so the Labor Bank now focuses its cooperative development efforts in the neighboring provinces. Such stable full employment is apparently unparalleled throughout the Western World.

In a Mondragon cooperative, each member has an internal account. Seventy percent (70%) of the net income or "profit" is reinvested in the company and credited to the members' accounts on the basis of the number of hours worked and the rate of pay received. Of the remaining 30%, part is retained as a reserve fund and part is distributed for the development of new coops and for the benefit of the surrounding community. By paying out part of their earnings to support new coops, the cooperatives help insure the stability and dynamic growth of the whole complex.

What does the balance sheet of a workers' coop look like?

For any company, the balance sheet lists the values of the assets and liabilities of the company at a point in time such as the end of the fiscal year. The value on the books of the assets minus the value of the liabilities is the net value of the company's assets. That value is called the net book value, the net worth, or the equity of the company. The "balance" of the balance sheet is the equation: "Assets" = "Liabilities" + "Net Worth." In a conventional corporation, the sources of the equity are the original capital subscriptions paid in by shareholders buying newly issued shares plus the accumulated retained profits.

CONVENTIONAL BALANCE SHEET

	Assets	Liabilities		
Uses of Capital	Accts Receivable	Short-term Debt	Debt Capital	Sources of Capital
	Cash	Long-term Debt		
	Inventory			
	Equipment	**Net Worth**		
	Buildings	Capital Subs.	Equity Capital	
	Land, etc.	Retained Profits		

The principal difference in a cooperative balance sheet is the treatment of the net worth. In a workers' cooperative, the sum total of the internal account balances equals the net book value or net worth. The individual internal accounts are built up by the membership fees plus the accumulation of the retained earnings allocated to the members. There might be special internal accounts which are not attributed to individuals and which thus never need to be paid off. For example, a coop might receive a grant or gift with the stipulation that the capital value of the grant should be maintained in the coop over the years. Thus the grant would be used but not appropriated by each generation of members. Such a grant could be called "endowment" and considered as a special founder's or benefactor's internal account that never need be paid off. Also, as at Mondragon, the coop might keep part of the retained earnings as an unindividuated reserve fund or collective reserve account. By debiting any annual operating losses from the collective reserve account – to be faithfully replaced in subsequent years – it may never be necessary to debit the individual accounts.

COOPERATIVE BALANCE SHEET

	Assets	Liabilities		
Uses of Capital	Accts Receivable	Short-term Debt	External Debt Capital	Sources of Capital
	Cash	Long-term Debt		
	Inventory	Revolving Loan Fund		
	Equipment	**Internal Accts**		
	Buildings	Individual Accts	Internal Debt Capital	
	Land, etc.	Collective Account		

The individual internal accounts will accrue interest at some agreed upon rate. At Mondragon, the "social dividend" paid out to a cooperative development institution such as the Labor Bank is computed as a percentage of the annual net earnings. However, it would also be possible to take the source of that social dividend to be the interest that might otherwise accrue to the collective accounts (collective reserves and the endowment).

What specific legal framework should a workers' coop use?

There is not, as yet, any legal framework in American Law that is specifically designed to provide the proper "Mondragon-type" legal structure with the internal capital accounts and share membership certificates. However, the Law is flexible enough so that the proper internal structure can be created by correctly drafting the by-laws or "constitution" of each workers' cooperative. The outer legal shell could be that of a stock corporation or a statutory cooperative. Unfortunately, the cooperative statutes in the various states are poorly drafted and archaic so that the outer legal shell of a statutory coop requires the internal restructuring just like the shell of a stock corporation. The coop statutes do allow only one vote per member (no matter how many shares are owned) but there are no internal accounts and the members are usually allowed to hold differing numbers of shares. Hence, in an unrestructured statutory workers' coop, there is no mechanism for an equitable allocation of the capital gains resulting from retained earnings and no mechanism to collectively pay off those capital gains to retiring members. The burden of buying the highly appreciated shares of the retiring members is left to the individual newcomers – who can scarcely afford it. Hence an unrestructured statutory workers' coop is something of a hybrid between a genuine workers' coop and an employee-owned corporation, and it shows some of the suicidal tendencies of the latter.

The choice between the outer shell of a statutory coop or a stock corporation is largely a matter of convenience. If the coop wants to use the word "cooperative" or some variant thereof in its legal title, then the legal shell of a statutory coop must be used. But otherwise, most corporate lawyers are unfamiliar with the coop statutes and would prefer to work with the shell of a stock corporation that has been internally restructured to function as a genuine workers' cooperative.

In any case, the by-laws should provide that a share membership certificate is issued to each new worker who has been accepted into membership and who has satisfied the membership obligations. Also, each new member must sign a form stipulating that the membership share shall be automatically forfeited back to the coop for some fixed legal consideration upon termination of work in the coop. The by-laws must set up the internal accounts. A formula must be established to divide the total amount of retained earnings allocated to individual accounts between those accounts (for example, in proportion to the individual's pay). It should be specified that when a person terminates work and membership in the coop and has turned in his or her share, then their internal account balance shall become a subordinate external debt of the coop to the ex-member to be paid off within a fixed period of time (say, within five years). The by-laws might also specify a desired legal for the collective reserves and whether a percentage of the earnings or the collective accounts will be paid out as a social dividend to help other coops. And finally since the shares are to function only as "membership cards," the by-laws should state that a member may not sell or otherwise transfer his or her share for as long as he or she works in the coop, and a legend containing that transfer restriction should appear on each share certificate.

Once this basic structure has been established, the other articles dealing with membership meetings, directors, officers, committees and the like can be drafted, or standard "boiler-plate" articles can be used. After the basic framework has been set up in the by-laws or constitution of the coop, a separate set of operating rules or internal statutes should be drafted and approved by the membership. The operating rules will deal with questions of internal governance such as the organizational structure, grievance procedures, recruitment policies, work rules, fringe benefits, and so forth. The operating rules will be more flexible than the by-laws so that they can be readily modified and improved as experience warrants.

What tax breaks are available for cooperatives?

An ordinary corporation pays a corporate income tax on its profits and then the individual shareholder pays a personal income tax on the dividends as well as the capital gains obtained by selling the shares at a higher price than the original purchase price. However, according to the Internal Revenue Code of 1954 section 1381, "any corporation operating on a cooperative basis and allocating amounts to patrons on the basis of the business done with or for such patrons" may declare a portion of the net income as "patronage dividends" and deduct that amount from the taxable corporate income. This coop tax break includes statutory cooperatives as well as companies incorporated under the legal shell of a stock corporation that have been internally restructured to function "on a cooperative basis." However, it may turn out to be easier to clear the patronage dividend deductions with the IRS if the legal shell of a statutory coop is used. There seems to be little actual precedent with internally restructured stock corporations even though the language of the Internal Revenue Code apparently permits that case. If the IRS should prove reluctant to allow the tax break to cooperatively restructured stock corporations, then that would, of course, provide a strong incentive to use internally restructured statutory coops.

The coop tax break was originally applied to agricultural marketing coops and then gradually extended by a series of court cases to workers' cooperatives. In a workers' coop, the workers are the "patrons" and their patronage is their labor. The net earnings that are declared as patronage dividends must be allocated to the worker-members in proportion to their "patronage," which could mean equally per dollar pay or equally per hour worked. The allocation is partly a cash distribution and partly in the form of IOU notes. The only "catch" is that the member must pay the personal income tax on the entire patronage dividend (cash plus notes). Hence the cash portion should be made large enough to cover that tax payment. If a coop

chooses to use this tax break then a provision must be included in the by-laws so that each member will be deemed to have consented to include the IOU notes in his or her taxable personal income. The coop should then have a tax specialist or a lawyer who will learn about or is already familiar with the cooperative tax statutes.

A simpler tax break can be arranged for small workers' coops where the members' pay is relatively low. Then any annual net earnings, that the coop is likely to see, could probably be declared as wage bonuses and deducted from taxable income on that basis. This probably would not raise any IRS eyebrows if it didn't raise the workers' income very far above the normal wages in that industry. Moreover, any company with ten or fewer shareholders can equalify for the Subchapter S tax break. As always, the personal income tax must be paid on the total distribution of cash and IOU notes. When the IOU notes are issued, in either the patronage dividend or wage bonus tax breaks, then those notes would constitute a revolving loan fund that could be revolved on a seniority basis. This Revolving Loan Fund of IOU notes to members is, in effect, a part of the internal accounts, but it would be added to the cooperative balance sheet as the most subordinate form of external debt capital.

How does a workers' coop compare with an ESOP company?

An "ESOP" is a special type of Employee Stock Ownership Plan with a built-in corporate tax break. While employee stock plans have been around for a long time, the special kind called "ESOP's" were created by the Employee Retirement Income Security Act (ERISA) of 1974. The original idea came from Louis Kelso, a corporate lawyer, who got the ear of Senator Russell Long, who in turn pushed the legislation through Congress.

The novelty lies in the "levered" ESOP or ESOT (Employee Stock Ownership Trust) arrangement wherein the ESOT gets a loan from a bank that is underwritten by the corporation. The ESOT uses the money to buy stock from the corporation and the stock serves as collateral for the loan. The company's periodic pension contributions to the ESOT are funneled through to the bank to pay off the loan. The tax break is that since the pension contributions count as deferred labor compensation, the company is paying back both the principal and the interest on the loan with earnings that are deductible from taxable corporate income. Usually, only the interest is deductible. This is a tax break only on the earnings used to pay back the principal of the loan whereas coops have the on-going tax break on all earnings that are declared as patronage dividends.

The ESOP's are usually created by corporate managers who are interested in the tax benefits and who are not particularly interested in transferring any power to the employees. The stock might not be voting stock. The votes of any voting stock, instead of being passed through to the employees, might be exercised by a trust committee selected by the bank. The stock only gradually becomes vested in the workers' names as the loan is paid off. And the stock in the ESOT might be only a small portion of the shares outstanding. The failure to provide for significant employee control is hardly surprising in view of the right-wing sponsorship of the ESOP concept. One thinly disguised purpose of the ESOP's, aside from the corporate tax gimmick, is to give the workers a little "piece of the action" to encourage loyalty to the employer and to discourage unionization. And even if all the barriers to employee control could be overcome in an ESOT with fully 100% of the shares, then one would only have a variant of the employee-owned corporation with its inherent flaws.

What about workers' cooperatives and unions?

The first American labor unions on a national scale, the National Labor Union (1866-1872) and the Order of the Knights of Labor (1869-1896), were the strongest supporters of workers' cooperatives. The early labor union leaders did not restrict their efforts to improving the wages and conditions of employees in conventional companies. They also attempted to go beyond the employer-employee system – which they called the "wage system" – by establishing workers' cooperatives so that the workers would be working cooperatively for themselves. William Sylvis, president of the NLU, said: "The cause of all these evils is the WAGES SYSTEM. So long as we continue to work for wages . . . so long will we be subjected to small pay, poverty, and all the evils of which we complain." Terence V. Powderly, the best known leader of the K. of L. held that: "The aim of the Knights of Labor – properly understood –is to make each man his own employer." A. W. Wright, another leader in the K. of L., said that: "We do not believe that the emancipation of labor will come with increased wages and a reduction in the hours of labor: we must go deeper than that, and this matter will not be settled until the wage system is abolished."

Hence the original American labor unions looked beyond the employer-employee system to the day when it would be replaced by the "Cooperative Commonwealth." According to Powderly, "It is intended by the Knights of Labor to supersede the wage system by a system of industrial cooperation . . ." Internal debates in the K. of L. often centered on the question of how much of their funds should go towards collective bargaining, strikes, and the immediate battle against the employers and how much should go towards superseding the employer-employee relation by sponsoring industrial cooperatives. At one point, the General Assembly of the K. of L. agreed that 60% of the money would be reserved for coops, 30% for a strike fund, and 10% for education. However, the local members proved more adept at setting up cooperatives than the national leadership. By the mid 1880's, over a hundred known cooperatives had been established by K. of L. members. These included at least one bank, fifty-one grocery stores, eleven retail stores, eleven newspapers, and fifty-five factories and workshops. These early coops did not live up to their promise. They were so seriously undercapitalized and naively structured that they eventually either failed or degenerated back into ordinary corporations (like the employee-owned corporations of today). [The above information on the early unions is drawn from: Gerald Grob, *Workers and Utopia,* Northwestern University Press, 1961.]

The early reform unions, such as the NLU and the K. of L., were eventually displaced by the business unions – the principal one being the American Federation of Labor (1866-). The A.F. of L. and later business unions effectively abandoned the industrial reform program of the K. of L. and thus they did not challenge the employer-employee system. They focused their efforts – with some success –on obtaining "more, more, and more" within the employer-employee system. To make a long story short, the business union perspective has been predominant in the labor movement from the rise of the A.F. of L. down to the present day.

The pragmatic orientation of the early A.F. of L. had its virtues. The young American labor movement did not have enough political clout or capital to effectively work towards changing the empoyer system, so it concentrated on the bread-and-butter objectives that were obtainable. But, today, much has changed. Labor has considerable political power and the union pension funds own 20 to 25 percent of the

corporate shares of stock and 40 percent of the corporate bonds. Indeed, the union pension funds are one of the largest sources of investment capital in America today. The power and the capital are there.

What is needed today is a rebirth, in the labor movement, of the vision that the employer-employee relation (which lawyers used to call the "master-servant relation") is not the highest form of industrial organization. By regaining and modernizing the industrial cooperative ideal, the labor movement can eventually go beyond the structural limitations of collective bargaining within the employer-employee system. No matter how much "bread and butter" the employees can buy with the wages bargained from the employer, the workers as coop members can buy more by getting both the "wages" and the "profits" of a workers' cooperative. No matter how much control of the workplace the employees can wrench from the employer's hands, the workers as coop members can gain more control and job security by making it their own workplace organized as an industrial cooperative. And what price can be put on the dignity of being masterless men and women working cooperatively for themselves?

A practical first step would be for unions to sponsor the formation of workers' cooperatives when conglomerates or other absentee owners shut down economically viable plants. Profitable plants have been closed because of an insufficient rate of profit (below conglomerate expectations of 18-22%), burdensome corporate overhead assessments, conglomerate management inexperienced in the specific industry, financial strains elsewhere in the conglomerate empire, or simply because the company seeks cheap labor havens or "union-free environments" elsewhere in the country or abroad. Through no fault of their own, the union members lose their primary source of a livelihood. When a plant is being closed, the unions' ultimate weapon of a strike is useless so – presently – the unions can only assist their members by trying to find jobs elsewhere.

When an apparently viable plant is being closed, it would be within the capacity of an international union to conduct a feasibility study and, if the study was positive, to provide legal, technical, and financial assistance to the union Local so that it could form an industrial cooperative. While remaining within the International, the Local would transform itself from a unit to collectively bargain with the employer into an industrial cooperative of union members collectively working for themselves. The International could have two types of Locals: the usual Locals where labor is organized to bargain with the company and the new coop Locals where labor is organized to be the company. A workers' coop, isolated from other organized labor, would face many difficulties in a hostile or indifferent environment. However, by being a coop Local in an International, the members can reaffirm the old lesson that "The Union makes us strong." In addition to providing pension plans and health insurance, the International could function as a general support organization (like the Labor bank at Mondragon) for its cooperatives by providing financial assistance, consulting services, educational programs in technical and business skills as well as general labor and cooperative education. By being able to sponsor and support industrial cooperatives when viable plants would otherwise be shut down – that is, by adding the "coop weapon" to its arsenal – the Union would be able to really help its members when they need its help the most.

What are the moral principles behind workers' cooperatives?

A workers' cooperative is a company where the membership rights (i.e., the net income rights and the voting rights) are attached to the people who work in the firm. The assignment of the net income and voting rights to the workers is based on two principles. The *fruits-of-their-labor principle,* which is the moral foundation for the private property system, implies that the workers should have the net income rights, and the *democratic principle,* which is the moral basis for democracy or self-government, implies that the workers should have the voting rights.

The fruits-of-their-labor principle states simply that people should have the rights to the (positive and negative) fruits of their labor. The products or outputs of a firm are the positive fruits of the labor jointly performed by all the people (blue and white collar) who work in the firm. The used-up inputs, such as the raw materials and the services of the machines, buildings, and land, represent the negative fruits of the labor of the firm's workers. The market value of the produced outputs and the used-up inputs is, respectively, the revenues and the costs. Thus the net value of the positive and negative fruits of the workers' labor is the revenues minus the costs, i.e., the net income. The fruits-of-their-labor principle implies that the workers of the firm should jointly appropriate the outputs they produced and be jointly liable for the inputs they used up. Hence the labor principle implies that the net income rights should be assigned to the people working in the company. From the legal viewpoint, it is the company itself that legally appropriates the outputs and is legally liable for the inputs. Thus when the people who work in a company are the legal members of it, then and only then do they receive the positive and negative fruits of their labor.

The principle of democracy or self-government states that the people who are to be governed by a government should have the vote to elect that government. Since it is precisely the people who work in a company who are managed or governed by the workplace government or management, the democratic principle implies that it is the workers (not the absentee shareholders or consumers) who should have the voting rights. Thus workers' self-management in a workers' coop is the industrial version of citizen's self-government in a town, city, or state. A workers' cooperative is a democratic work-community which assigns the voting rights to those who work in the enterprise just as a democratic living-community, like a town or municipality, assigns the voting rights to those who live or reside in the town or city. In either case, the voting rights may not be bought or sold, and the democratic institution is not a "piece of property" that can be bought or sold. Since an industrial system of workers' cooperatives would thus be the workplace version of political democracy, a system of industrial cooperatives is also called *industrial democracy, economic democracy,* or *self-management.*

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