Mondragon in five points: advantages and challenges of worker co-operatives

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Anyone serious about fostering freedom, equality and social justice should support co-operatives.

Thinkers and politicians from across the political spectrum have proposed to realise a 'Property-Owning Democracy'. Right-wing politicians like Margaret Thatcher (or more recently David Cameron) have a narrow conception of Property-Owning Democracy, simply involving less regulation of property and some access to minimal property (like a little house) for everyone. More left-wing thinkers, like the Nobel Prize winning economist James Meade (1964; see also O'Neill (2015)) or the philosopher John Rawls (2001), two of the most important supporters of such a system, have a more radical understanding of it. They argue for a society in which income, but also financial and human capital, would be more fairly distributed and inequalities greatly reduced. This would help to secure political equality, equality of opportunity, and provide everyone with the real means to pursue their goals. Realising such a society might require what Ed Miliband proposed in the UK 2015 general election under the catchword 'predistribution': actually helping people to buy houses, helping workers get stronger negotiating power, investing in early childhood education, and so on. But as Meade and more recently Martin O'Neill and Thad Williamson (2012b) or Thomas Piketty (2014) have underlined, this may also require exploring alternative property structures for firms, giving workers the opportunity to have a share in productive property.

The 'Mondragon Corporación Cooperativa' is a powerful example. It is a group of co-operatives in the Basque country in Spain which organises work in a more egalitarian and democratic way. It has been studied by many researchers, such as William and Kathleen Whyte (1991). More recently, Tom Malleson (2013, 2014) provided an up-to-date account of research on Mondragon and co-operatives more generally.

If co-operative groups like Mondragon were more widespread in the market, income and capital would be more fairly distributed. More people would have access to more stable jobs. Workers would develop management abilities as they would take collectively all the important decisions affecting their life. Maybe more importantly, they would have the satisfaction and the recognition of being in charge of their own business.

This sounds a utopian ideal, because not even Mondragon succeeds in realising it. Yet Mondragon is on the right track. Sceptics will tell you that a society organising work in a co-operative way would necessarily collapse or be dramatically inefficient, that capitalist investor-owned firms are the only viable organisations, that 'there is no alternative'. This is false. Although it is unknown to the general public, co-operatives are not only more egalitarian, they are also an efficient way to organise work if they are properly designed.

Studying Mondragon's successes and challenges can help us to understand how to progress towards a more egalitarian society. I don't pretend to provide a full normative justification for promoting co-ops and I don't really offer new data. But having spent a month at Mondragon in 2014, I thought it would be useful to spread knowledge about co-operatives. I offer a brief summary about co-operatives as egalitarian forms of organisations, showing how they can overcome the challenges they face and how states can support the co-operative model. Beyond superficial praise and criticism, what can Mondragon teach us about alternative ways to organise collective work?

Mondragon today

Mondragon is a group of co-operatives. The first co-operative of the group was founded in 1956. Today, it has become one of the largest co-operative groups in the world. It provides fairly paid, life-long jobs to more than 35 000 members. Members own their co-operative and take decisions democratically. It is the most important industrial group in the Basque country and the seventh most important in Spain. It has not been much affected by the financial crisis of 2008 (Mondragon, 2014).

Egalitarian and democratic constitution

The constitution and general rules put in place by the first co-operative, ULGOR, became the model for all new co-operatives of the Mondragon group. Even if the roles of various instances have changed over time, the structure stayed basically the same until today. Not only do all worker-members get a fair wage, they also share the ownership of their co-operative. Therefore, because ownership provides them the right to residual profit and the right to control the co-operative, decision-making power is organised democratically among workers (most information for this sub-section is taken from Whyte and Whyte, 1991).

Decision-making power ultimately lies in the hands of the *General Assembly*, meeting once a year. All worker-members (and only worker-members) have a right to vote and an obligation to attend. The assembly still respects the principle of 'one member, one vote'.

The *Government Council* is the highest political decision-making body in each co-operative. The General Assembly elects the Government Council, which can only be composed of worker-members (no external nominations). They are not paid for this job, but they continue to draw their regular salary. The Government Council decides the co-op's general orientations and policies (wages, working conditions and so on). It also appoints day-to-day managers and heads of departments.

Managers are often influential. However, although they can speak at the Government Council, they cannot vote. Managers have to implement the decisions of the Council and they have to collaborate with the heads of the various departments of their co-operative. *Management Councils* gather all managers and heads of departments to foster proximity between managers and workers.

The *Social Council* functions like an internal union. Because the General Assembly only meets once a year, this council meets once a month and allows workers to meet more regularly, voice their claims, and criticise management. Because managers are excluded and because it is composed of workers elected in each department (for two years), the proportion of low-paid workers is higher, giving them the occasion to acquire experience in business and bargaining. As members are at the same time owners and workers, one might say that the Government Council is more concerned with their interests as owners while the Social Council is more concerned about their interests as workers (Whyte and Whyte, 1991, 38, 291).

Activities in 2014

The 'Mondragon Corporación Cooperativa' is made of 103 cooperatives mostly in the Basque country. In 2014, its turnover was about €12 billion (including more than €4 billion of international sales). In the 1990s, mainly in response to increasing international competition, the group also created more than 125 investor-owned subsidiaries in countries like Spain, Brazil, Mexico, Germany and China (Mondragon, 2014).

Co-operatives are organised in four sectors. The 'industrial sector' is the most important, producing various products such as trains and car parts, house and office furniture, and until recently appliances such as washing machines (produced by the first co-op ULGOR which gave birth to the first group of co-ops, FAGOR). Mondragon co-operatives have also participated in building the majestic Guggenheim museum in Bilbao. The 'financial sector' is composed of the Caja Laboral Popular (a savings and credit co-operative bank) and insurance services. The distribution sector is manly composed of the EROSKY chain of hypermarkets, selling food and other products all around Spain. In the Basque country (but not in the rest of Spain), this distribution chain is composed of co-operatives with a mixed constituency of workers and consumers. Finally, the 'knowledge sector' is composed of the Mondragon University and 15 industrial research-and-development centres in charge of innovation. The university and research centres are second-degree co-operatives: they are owned by other co-operatives of the group (Mondragon, 2014).

Jobs, members and non-members

In the last few years, Mondragon employed around 35 000 worker-members with full rights, powers and responsibilities. Mainly in the last decade, Mondragon has also created and acquired conventional investor-owned firms that are not (or not yet) co-operatives. Therefore, the group now includes around 45 000 non-member workers. Most are temporary workers with lower salaries than members. Non-members also lack the right to participate in decision-making (Malleson, 2013, 153) (and personal interviews conducted in 2014).

The rise in the proportion of non-members in recent years is mainly due to Spain's entry into the European common market and increased international competition. This is often cited as a 'paradox' or a failure of co-operatives, degenerating into a club of capitalists (*The Economist*, 2012). This is a caricature. Not only is the proportion of workers with more rights higher than in any regular firm, but most people I spoke with in Mondragon are well aware that this situation is in conflict with their founding value of equality between workers. However, they are pragmatic. They need to secure the jobs and capital of their 35 000 members. They need to adapt to an increasingly competitive environment. However, Mondragon does have a plan to get the proportion of worker-members back to 70-75 per cent by 2016 (Malleson, 2013, 147). I will discuss this in more detail below.

Three advantages of the co-operative model

Low income gaps

The first advantage of the co-operative model is that the income gap between the highest and lowest paid workers in the group is very low. Obviously, this is because worker-members democratically decide on a maximum income gap. Today, this maximum ratio is 6:1 (Whyte and Whyte, 1991, 44-5). The lowest salary is around €1500 a month in 2014, which is higher than in the rest of Spain (personal interviews conducted in 2014).

Initially, founders of the first co-op ULGOR fixed the maximum ratio at 3:1. However, they were anticipating a single co-op of at most 200 employees. The rapid growth experienced in the first decades led to a bigger and more complicated group structure. With the increased complexity of management tasks, some managers judged that they were underpaid compared to what they could get in regular firms. Yet most managers accepted the ratio and only a few managers left for other firms until the 1970s. Today, the ratio is set at 6:1 with the intention of attracting good managers in a more competitive environment, and very few managers leave each year for other firms (Whyte and Whyte, 1991, 44-5). This may be partly because people value things other than income, such as good working conditions. However, it is also because managers come up through the co-operative and share its values.

Now Mondragon is not entirely consistent with its values. Co-ops hire non-members because they need highly specialised workers for short periods of time. Sometimes, these workers are paid more than managers. This can violate the 6:1 ratio, but these highly paid non-members have no share in ownership and no vote in decisions. The real tension with the Mondragon ideal lies not here but in the existence of non-members paid less than the lowest wage of worker-members. Inside a co-operative of the group, the portion of non-members is limited to 10 per cent of the workforce and is often under 3-5 per cent. But the creation of conventional firms owned by the group, in which all workers are non-members, has led to a rapid growth of the number of non-members in the last decade (nonetheless, Mondragon's subsidiaries often pay their employees more than their competitors do) (Malleson, 2014, 63).

Sharing capital ownership

As well as wages, worker-members also have a share in the ownership of the firm. This helps them to accumulate more capital than normal workers do, spreads capital ownership, and reduces inequalities in capital ownership in society. This is a second advantage of the co-operative model. Research points out that capital ownership is essential to provide individuals with purchasing power but also with financial security, access to loans, and other related opportunities (Meade, 1964; O'Neill and Williamson, 2012a, 79; O'Neill, 2015).

Furthermore, because Mondragon is a group of co-operatives, shared ownership helps its co-ops to avoid many problems as it allows for diversification and networking. In fact, since the 1970s, all co-operatives of the initial group ULARCO (later to become FAGOR) shared 100 per cent of their profits and losses with the other co-operatives of the group. Ultimately, other groups followed the model and joined the 'Mondragon Corporación Cooperativa'. These various groups and sub-groups have played an important role in fostering diversification, creating new co-operative start-ups, or buying bankrupted firms to turn them into co-operatives (Whyte and Whyte, 1991, 61, 78-87). Profit-sharing and diversification are very important to understand Mondragon's stability.

If one co-operative faces temporary difficulties due to market fluctuations, its worker-members can collectively decide to adapt by taking pay cuts and reducing working hours, rather than firing people. Moreover, because of Mondragon's group structure, worker-members in other co-operatives can also provide temporary funding. In the case of FAGOR electrodomesticos (which I will discuss further below), workers in other co-operatives accepted cuts in their own incomes to subsidise the struggling co-op for a while. If a co-operative loses productivity or profitability for a longer period, the group also has the option of closing this particular co-operative, and training and relocating its workers in other co-operatives in the group. In this way, the group provides secure long-life jobs to members. This is the reason why Mondragon has almost never laid-off worker-members in its 59 years (Malleson, 2013, 136). Such solidarity is an important advantage of the co-operative model because it secures job stability and reduces capital inequalities between members of different co-operatives.

Sharing decision-making power

Third, worker-members share formal decision-making power. They participate in decisions about income ratios, internal policies, and general strategy. One of the main advantages of this situation is that co-operatives react to market fluctuations in ways that are to their members' advantage. Of course, if workers decide how to adapt to market fluctuations, they will collectively adjust their wages or their working hours instead of firing people. Although work can always be difficult, this leads to better working conditions and better relations with local communities. Workers are subjected to less severe power inequalities (Malleson, 2014, 76-83).

In such a complex group, organising democratic decisions can of course be difficult. When things go well and workers are confident in the management, participation is not so important. Moreover, many workers acknowledge that whenever some important problem arises, a democratic framework gives them some chance to mobilise and to push for solutions that are in their best interest. Yet, this remains difficult in a huge group. Mondragon has responded with appropriate institutional frameworks such as Social Councils, which facilitate communication between managers and workers' representatives and stimulate democratic participation. To keep decisions closer to workers' reality, Mondragon also used to limit the size of each co-operative in the group by splitting a co-operative as soon as some production chains could be self-sufficient (Whyte and Whyte, 1991, 38, 58-59, 103). Managers retain a huge influence on decisions, and worker participation is often low. Yet around 30-35 per cent of workers say that they are directly or indirectly involved in decision making, and only 30 per cent say they feel uninvolved (Malleson, 2013, 138). Mondragon certainly does better than any conventional firms, even if there is room for improvement.

Three challenges met by Mondragon

Access to capital

The first challenge co-operatives face is access to capital. Investor-owned firms can raise capital by selling shares. Investors in such firms buy rights to residual profits and the control of the firm. This is why it is attractive for them to put their money in such firms. On the contrary, worker co-operatives give these rights to workers. This blocks for them the possibility of relying on equity to raise capital (Hansmann, 1996; Dow, 2003).

Mondragon has solved this problem by implementing a radical and innovative property system. Along with the fact that the 'Caja Laboral' (a co-operative bank) provides Mondragon with loans, this property system is the main factor explaining the rapid capitalisation experienced by the group in its early years. Co-operatives in Mondragon are initially financed by members' 'social share'. In 2014, the social share (the price) necessary to buy one's membership was about €15 000. Depending on the co-operative, new workers often have 18 to 36 months to accumulate it. This is a first source of capital. But nobody owns something like regular shares (as portions of the value of the firm). Instead, all members have a *capital account*.

The residual profit (what remains after paying for material, machinery, wages, and so on) is transferred directly to members' capital accounts. The constitution requires investing 10 per cent of profits in community projects (culture or education for instance). An important share of profits (about 50 per cent) is also kept in a reserve fund to make sure the co-operative can face eventual difficulties. The rest is transferred to worker-members' capital accounts according to their pay level and working hours. But there are particular restrictions limiting how workers can use their capital: worker-members cannot sell their social shares to outsiders and they cannot take the money in their account until they leave the co-operative or retire. Basically, it is as if they have given a long-term loan to their co-operative.

A property model with such restrictions has many advantages. First, the separation of regular 'wages' and 'profits' secures a steady income for workers. Second, fixing the cost of membership has the advantage that social shares do not rise with the value of the firm, otherwise that would make it very difficult for new members to join. Third, because nobody can sell his or her social share to outsiders, workers remain the only ones to take decisions in the firm. Fourth, separating capital shares and governance rights allows Mondragon to respect the principle of one-member one-vote, while allowing workers to accumulate different amounts of capital depending on their preferences (Whyte and Whyte, 1991, 42-3, Malleson, 2013, 130-4).

This property model is also very useful because all the profits in capital accounts are there only 'on paper'. Because members can't withdraw their capital very easily, the firm has a stable stock of capital which it can rely on for everyday activities and long-term investments. This model allowed Mondragon to experience a rapid capitalisation, especially during the first decades of rapid growth in the 1960s and 1970s.

Now one problem is that, with co-operatives which do not benefit from the solidarity of a group like Mondragon, workers lose a part of their capital if the co-operative loses money. This has raised a famous critique of the co-operative model: aren't workers 'putting all their eggs in the same basket'? But, first, this critique is mistaken. Like any worker in any other firm, worker-members in co-operatives have their own wage (often higher than the minimal wage in the country). Therefore, like any other worker, they can consume their wage or save a part of it in regular banks, and they can invest *all* of these savings as they see fit. Therefore, they can diversify their portfolio just as much as ordinary workers. The extra money in their capital account comes on top of all this. Workers in conventional investor-owned firms simply don't have access to this extra money at all. And, second, Mondragon's group structure mitigates the risk of losing extra capital, with investment schemes allowing firms in productive sectors to subsidise other sectors facing temporary difficulties (Malleson, 2013, 135).

Transaction costs due to democratic decision-making

The second major challenge Mondragon and its co-ops face is to preserve democratic decision-making processes in the face of rapid expansion. Their problem is that democratic decision-making processes have higher transaction costs. Decisions take more time because more people are involved and, most importantly, workers tend to have more heterogeneous interests. Shareholders on the other hand share the same homogeneous interest in making profit. According to Hansmann, this (alongside access to capital) is what makes co-operatives less efficient and explains why co-operatives are less common than capitalist investor-owned firms in the market (Hansmann, 1996, 11-88, 119).

Mondragon and other co-operatives can overcome this problem in three ways. First, a representative system like Mondragon's can reduce transaction costs (Hansmann, 1996, 98). The General Assembly only meets once a year. The various elected Councils are composed of small numbers of people with specific tasks. Managers can focus on applying the Government Council decisions and hearing the claims of the Social Council. And because they are appointed by the elected Government Council, managers have an incentive to act in the interests of all worker-members.

Second, workers have a stronger motivation to work well in co-operatives. On the one hand, because worker-members own their co-operative, their income and capital directly depends on the success of the firm. They have a strong financial incentive to organise work efficiently and to be more productive. On the other hand, because workers manage their own business democratically and working structures are less hierarchical, workers develop more intrinsic motivation to be productive and to make the best product (Malleson, 2014, 73).

Third, the co-operative structure can lead to the reduction of some other costs. First, because decision-making is more democratic, workers have more confidence in one another and understand the reasons behind rules. This reduces supervision costs, because hierarchical supervision structures are costly compared to peer-supervision. Second, managers are not the only ones with management abilities. Democratic decision-making is not only useful to unleash workers' creativity, but it also helps to transmit information from the production floor to management much more efficiently (Malleson, 2014, 73).

These three factors compensate for higher transaction costs due to democratic decision-making. In fact, many studies show that co-operatives are as efficient and productive as conventional capitalist firms (Malleson, 2014, 72-6).

Stimulating innovation

A third challenge faced by many co-operatives, like any small firm, is innovation. Because many co-operatives are small and have difficulties attracting capital, they have a hard time investing in research and development. In the long run, they fail to adapt to stronger competition. Mondragon has found two solutions to this challenge.

First, the group founded the Mondragon University in 1997, a second-degree co-operative which currently has more than 4000 students. Public or private universities can help firms to innovate in at least two ways. They provide firms with young skilled workers with up-to-date knowledge of techniques and technologies that can help firms stay ahead of competitors. Moreover, they conduct research that firms can then commercialise (Mondragon, 2014; Matthews, 2013).

Second, Mondragon took advantage of its network to create another second-degree co-operative, IKERLAN. IKERLAN now includes fifteen industrial research centres, employing more than 400 researchers, and leading projects in some of the most advanced fields of industrial research like aeronautics, health technologies, construction, sustainable development and management. The Garaia Park also provides a meeting space for the University, the researchers, and representatives of all co-operatives in the group.

Initially, IKERLAN was mainly financed by the co-operatives of the Mondragon group. But IKERLAN also receives public funding from the Basque government to fund competitive graduate scholarships. Some of its research contracts come from firm-members which benefit from a discount price. They receive a monthly report of all technologies and methods developed by the research centres and can immediately use them. Today, the co-operative also includes firm-members that are not co-operatives, from outside the Mondragon group. Moreover, any firm can ask for a research contract with IKERLAN even if they are not members. Yet, if they want exclusivity for research results they have to pay prohibitive fees (Whyte and Whyte, 1991, 63; Mondragon, 2014; personal interviews conducted in 2014).

Mondragon still faces two main challenges

International competition

Co-operatives can overcome some of the most important challenges they face. One of their main disadvantages is access to capital, especially in very unequal societies in which few investors own a lot of financial capital. Nonetheless, Mondragon has met this challenge and we will see that states can help co-operatives to do so. As for operational efficiency, there are indeed higher transaction costs in co-operatives but representative structures can reduce them and the advantages of intrinsic motivation and peer-supervision can compensate for the remaining costs. Moreover, even if a co-operative cannot fire members, it can adapt to market fluctuations by adjusting wages or working hours. In the case of a federation of co-operatives like Mondragon, they can even adapt by transferring financial and human resources from one co-operative to another in the group and reassign workers from co-operatives which fail. Finally, there are ways for co-ops to stimulate innovation. Given an appropriate design, co-operatives can be a viable and efficient way to organise work.

However, co-operatives still have to compete against other international firms. For Mondragon, this has been an increasingly pressing issue since Spain entered the European common market in 1987. First, conventional capitalist firms don't have to abide by the same standards of wages and working conditions that co-operatives do. Moreover, in some situations, being able to fire workers can be a competitive advantage. Finally, capitalist firms can save money by moving to countries where taxes, labour laws and other regulations are less demanding. Lower labour standards and higher flexibility can sometimes give conventional investor-owned firms a competitive advantage over co-operatives. But taking into account the disastrous consequences such practices often have, one could consider this unfair competition (Malleson, 2013, 146-51).

Degeneration and the rise of non-members

The particular property system implemented in Mondragon helps avoid two main reasons why co-operatives tend to degenerate into conventional investor-owned enterprises. Because there are no conventional shares, worker-members can't sell their shares to external private investors to benefit from the capital gains they accrued while working in the co-operative. This often leads to rapid degeneration. Moreover, because the price of an entry share is not tied to the value of the firm, membership does not become so costly that new workers are unable to become members. This could lead to a slow degeneration. Instead, Mondragon fixes the membership price and provides to worker-members a capital account from with they can withdraw their part of the profits when they leave the co-operative (Whyte and Whyte, 1991, 42-3; Malleson, 2013, 130-4).

However, international competition is an important accelerator of degeneration (Malleson, 2013, 141-51). Co-operatives like Mondragon are left with fewer options to adapt to market fluctuations: firing members or off-shoring is impossible. In order to reduce labour costs and gain some flexibility, Mondragon decided to create or buy a number of conventional investor-owned firms. From around 25 000 workers in 1990, mostly worker-members, the group reached 80 000 workers in 2010. Only 35 000 are worker-members and at least 45 000 of them are non-members, mostly in conventional subsidiaries.

Among the 35 000 worker-members, most work in co-operatives in the Basque country. The hypermarkets chain EROSKI developed many subsidiaries in Spain. It employs 30 000 non-members, although Mondragon encourages them to accumulate enough capital to buy membership. Finally, Mondragon also owns conventional firms and production plants employing around 15 000 non-members in countries like Brazil, Mexico, Germany and China (Mondragon, 2014; Malleson 2013, 141-2). Two main reasons are given to explain the rise in the number of non-members. First, creating a co-operative is a slow process. It's quicker to create new conventional firms and then convince new employees to transform into co-operatives. Second, regulations in various countries make it difficult to start co-operatives (personal interviews conducted in 2014).

The people I met in Mondragon in 2014 were well aware of the contradiction between egalitarian principles and reality in Mondragon. It seemed to be a real concern for them, but pragmatism won out. As one of them told me, they are no angels. They try to organise the work and manage the capital of 35 000 worker-members in the face of unstable international competition and sometimes they have to put their principles in the balance with long-term stability. Yet, as I said, Mondragon pushes new employees to accumulate the capital needed to buy their membership, especially in EROSKI subsidiaries in Spain and in firms in Brazil that will soon become co-operatives (personal interviews conducted in 2014). Mondragon thus has a real plan to redress the situation and bring the proportion of members among workers back to 70-75 per cent at least by 2016 (Malleson, 2013, 174).

How can states support co-operatives?

The point of this article is not to justify *why* states should support co-operatives. That is a philosophical task requiring a careful normative argument. I assume here that Property-Owning Democracy, understood as a society in which income, financial capital and human capital are more fairly distributed, is an appealing normative goal. I also assume that fostering the development of co-operatives so that workers have more opportunities to choose jobs in co-operatives instead of inegalitarian firms is a way to reach this goal (both assumptions are highly controversial). If we accept that, we still need to investigate *how* public institutions can support co-operatives. It turns out that Mondragon's experience is very helpful in that inquiry.

Provide information and foster confidence in co-operatives

One of the main problems faced by co-operatives is that many people don't know and don't trust the model. Try asking people around you if they can explain how a worker co-op operates. In many countries, many people have not heard of worker co-ops, and when they have, they often think worker co-ops are necessarily little and inefficient or involved in some social-housing land-decontaminating project. This not only pushes people away from starting co-operatives. It also makes people suspicious about co-operatives and financial institutions more reluctant to lend money to co-operatives, for example. On the other hand, in regions where co-operatives are more common like the Basque country in Spain, or Quebec in Canada, where one of the main financial institutions is a co-operative, workers, consumers and financial institutions trust the model and more co-operatives flourish.

States should be the first to trust the co-operative model and should alleviate some of the legal barriers people often face when they want to start a co-operative. States could also help to provide information and foster public confidence in co-operatives.

Business schools could teach the co-operative model, its strengths and weaknesses. States could provide grants for research about co-operatives. They could also include collective ownership or working conditions as criteria to allocate public contracts, indirectly favouring co-operatives and thus showing confidence in the model.

Make access to capital easier

Even if Mondragon has managed to overcome the problem of capitalisation (thanks to the Caja Laboral and their particular property system), access to capital is still an important challenge for many co-operatives, especially in a very unequal society like ours.

In order to help co-operatives to have access to capital, states could go further than fostering trust in the model. They could expand tax benefits and develop subsidies to help workers buy firms threatened with closure and transform them into co-ops. Subsidies have been proposed in many countries after the 2008 crisis (in France, for instance, minister Benoît Hamon proposed this idea in 2012). States could also push financial institutions to develop financial products targeted at co-operatives or even create a publicly-controlled bank making loans to co-ops (Williamson in O'Neill and Williamson, 2012a, 239). For example, researchers in Quebec are working on specific kinds of long-term loans to provide financial products to people who want to invest in co-operatives (Chantier de l'économie sociale, 2014). States could develop certifications to provide appropriate information to people who want to invest in more egalitarian firms as a form of responsible investment.

Preserve democratic decision-making

Democratic decision-making can produce many desirable outcomes, like better wages and working conditions and reduced power inequalities (some even argue that workplace democracy fosters democratic values and citizens' abilities to participate in public debates (see e.g. O'Neill, 2008)). But when a co-operative is growing, democratic participation can fall off because managers gain more influence on complex issues. Ordinary workers can feel their voice does not have much weight. This could be a problem for the legitimacy of decisions.

However, some institutional safeguards can help to maintain democratic participation. First, Mondragon reduces the size of each co-operative by separating a co-operative as soon as a production chain becomes too big and can be made sustainable by itself. This allows it to reduce the size of assemblies and to give more weight to individual voices. Second, the Social Council makes sure that more workers are directly and regularly involved in decisions. However, in order to secure democratic participation (especially if co-operatives benefit from any state support), states could regulate them to make these kinds of institutional structures mandatory, and limit the numbers of non-members (Malleson, 2014, 86).

Stimulating innovation

Innovation is an important challenge for co-operatives, as for any small firm. The first thing states can do to foster innovation in general in society is to adequately fund universities and facilitate the commercialisation of research findings by little and medium-sized firms. Moderate competition between researchers is a powerful incentive to innovation, and the education of new generations of managers and workers is crucial. Second, states could also finance public industrial research centres which small firms could contract with for specific research projects (this is the case for example in Quebec: the provincial government funds the CRIQ, a public industrial research centre fostering innovation in small and medium-sized firms). Such public research centres allow firms to take advantage of economies of scale in research infrastructures.

As we have seen with Mondragon, there is also a private way. Co-operatives can gain from networking because they can fund collective industrial research centres following the example of IKERLAN (Whyte and Whyte, 1991, 63). States have a coordinating capacity that could help co-operatives in this networking effort. States could also provide specific subsidies to help launch such collective research centres, useful for small and medium-sized firms.

Protect co-operatives from unfair competition

If co-operatives didn't have any positive impact for society or workers and if the behaviour of international capitalist firms were not creating any problems for local or foreign populations, there would be no reason to promote co-ops. Capitalist firms could even be desirable. If they are more competitive, they create more wealth, and more of it can be redistributed to the least well-off. As I said, a convincing argument in favour of worker co-operatives would require a more detailed normative and empirical analysis.

Let me simply suggest two reasons why co-ops are preferable to capitalist firms. First, co-operatives have positive outcomes for workers' freedom and well-being, especially for the least well-off. They create good, well-paid, rewarding and stable jobs, and they create fewer wealth and power inequalities (Malleson, 2014, 77-80). On the contrary, capitalist firms tend to create more inequalities and redistribution often fails to correct these inequalities adequately. Second, promoting co-ops is good not only for workers themselves but for the rest of society as well. If more people have access to good stable jobs and are less precarious, children and other dependent people are also better off. And because disadvantages tend to cluster, fewer inequalities and less poverty have many positive outcomes on public health and communities' safety (Wilkinson and Pickett, 2010). Finally, a more equal society may have positive effects on peoples' democratic spirit and the stability of just institutions. Again, simple redistribution often fails to deliver these advantages. This is why states should help co-ops to promote the positive outcomes they create for workers and for the rest of society.

Yet co-operatives have a hard time competing with investor-owned firms today, partly because such firms externalise many costs, making the entire society pay for them. For example, conventional firms often underpay their workers, putting them in need of state support. They can off-shore to poor countries where they benefit from harmful tax competition between states, and lax social regulations. They can also fire workers to make more profits, leaving states to pay for unemployment benefits and all the problems created by inequalities and poverty in terms of health and safety for instance (Wilkinson and Pickett, 2010). And because redistribution often fails to tax adequately corporate profits and capital income, everyone else ends up having to pay the costs of an economy run by capitalist firms.

Do we want a market that creates a competitive disadvantage for co-operatives and lets capitalist firms out-compete them because they benefit from weak worker protection and the possibility of exploiting poor foreign people? This might be considered to be some kind of 'unfair' competition (Malleson, 2013, 146-51).

In order to level the playing field and tackle potentially 'unfair' competition, states could adopt various strategies. Beyond direct subsidies and technical support, states might want to implement labour regulations at home and seek international co-operation in order to avoid social and fiscal dumping abroad. States could impose on all firms more egalitarian standards and reward good practice. States could also tax more heavily firms that exhibit bad practice as a way to internalise negative externalities. Finally, states can influence consumers' choices by developing campaigns promoting responsible consumption.

This is a complex question. I don't pretend to offer a complete argument in favour of co-operatives here, and nor do I pretend to demonstrate that co-operatives are always good and efficient, and capitalist firms always bad. I simply want to highlight reasons to doubt the expected good outcomes of capitalist firms.

Conclusion

Anyone serious about fostering freedom, equality and social justice and looking for alternative ways to organise social co-operation should consider co-operatives as an important candidate. Of course, there might be other ways to realise equality and social justice and we should weigh the pros and cons of each alternative (promoting co-operatives might be more demanding than simply redistributing money by taxation).

Nonetheless, everyone should know more about the co-operative model. It does not solve all problems. But it is certainly a step in the right direction and with proper safeguards it could achieve a great deal for social justice. Let's share John Stuart Mill's optimism and hope that:

> The form of association, however, which if mankind continue to improve, must be expected in the end to predominate, is not that which can exist between a capitalist as chief, and work people without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves. (Mill, 2008 [1848], 147)

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Special thanks to Michael Bennett (University of York, UK) for his precious comments.

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