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MONDRAGON: A THIRD WAY*

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Something is happening. We are all aware of it. Capitalism doesn't work, socialism doesn't work, and something new is emerging. Each of us senses we are contributing to it from our own particular place. Still, we are wondering what form a Third Way will take, and what name it will go by.

A synergy of the capitalist-socialist duality seems to be present in an unusual social experiment in Spain which began in a small, rather isolated village called "Mondragon." The word "synergy" needs to be used instead of "synthesis" because Mondragon is so different from capitalism, socialism, communism, and other forms of cooperativism that it seems to transcend the combination of its parts into something wholly different and unique.

In this article we would like to suggest we try on Mondragon to see if it fits as at least a prototype of a Third Way.

Mondragon is a village, or we should say was a village, in the Pyrenees Mountains of northern Spain. Today it is the center of a stunningly successful new social order which stretches into every neighborhood in the Basque region of northern Spain. Nearly 400,000 families deposit their money in the Caja Laboral Popular (The Bank of the People's Labor) which is a cooperative bank.

The main task of the bank is to create worker-owned jobs for the community. Since the bank was founded in a church basement in 1958 nearly 20,000 guaranteed for life, worker-owned jobs have been created by the Mondragon community.

They have formed a hundred and eighty-nine cooperatives of which eighty-nine are industrial. Collectively they are the top producers of appliances (from refrigerators to toasters) and tools (from dye presses to plastic rulers) in Spain. The productivity per worker is the highest in Spain. The profitability of the cooperatives is nearly double that of their competitors.

In a study by the Anglo-German Foundation for the Study of Industrial Society, the management was found to be one of the most aggressive and innovative ever seen by the study's staff. The other worker-owners were found to be highly motivated and fulfilled by their jobs. Yet the salary scale is restricted to 4 1/2 to 1, that is, no one can receive a

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salary plus overtime in excess of 4½ times that of the lowest paid person. In the USA the salary ratio exceeds 100 to 1.

To keep the focus on serving the entire community through real worker-owned job creation, the lowest salary is kept not far above minimum wage. Thus, the highest salaries are significantly below their counterparts in the conventional sector. This is offset to some degree by the worker-owners' share of profits, if any, each year.

There is very little turnover of worker-owners. Also, there has always been a queue of groups wanting the bank to assist them in forming a cooperative enterprise.

During the late fifties and early sixties the small pre-order and storefront food cooperatives joined with the bank to create a sophisticated, growth oriented consumer cooperative. Today Eroski has 120,000 members and 42 stores throughout the Basque region, some the size of storefronts, others more like K-Marts.

There are six agricultural cooperatives, fourteen housing cooperatives, 43 cooperative schools, and four secondary cooperatives which provide services to the primary cooperatives. The four are the bank which has 120 branch offices, a technical research institute (Ikerlan), the League of Education and Culture (including a Polytechnical College, a business school and a professional college), and a social security and medical cooperative (Lagun-Aro).

Mondragon has a 100 percent success rate in forming and making loans to industrial cooperatives. Compare this to the statistics on new small businesses in America: only 10 to 20 percent are in business after five years. Venture capital firms assume a majority of their investments will fail while the big profits are made on the few companies which do well.

Mondragon not only assumes every new business will succeed, they also commit themselves to the business until it does. It backs this pledge with a highly skilled staff in the Entrepreneurial Division of the bank and a policy of making the interest rate lower the riskier the loan. The people at Mondragon believe we are all in it together: worker-owners, consumers, bank depositors, and community. If we arrange it so we are always eventually successful in the worker-owner business, then the worker-owners will have jobs they can control for life, the business doesn't sink into wasteful crisis management, the bank depositors never have to worry about defaulted loans, and the community will never have to worry about disruptive plant closings or absentee owners.

How do they make a loan to a business so it never fails? They simply
reverse the priorities of the capitalist system. In a capitalist society the four main ingredients of a business are ranked as follows: 1) capital, 2) product, 3) management, and 4) workers. Things are given the highest importance and people the lowest.

Most important to the capitalist is the increase in capital. The second concern is the product or service which will be the vehicle to accomplish it. Managers and workers are commodities which are rented as needed. The workers are the least important of the four major factors. The capitalist will abandon workers, but capital will never be abandoned.

Mondragon reverses these priorities as follows: 1) workers, 2) managers, 3) product, and 4) capital. People are given the highest priority and things are given the lowest. Secondly, capital is mainly stored labor, and since the entire community is behind the creation of any business nothing has to be abandoned, not even capital. As long as the community is willing to put labor into the formation of the business there will be capital available.

So when the people of Mondragon form a business they do it as follows. First, the staff of the Entrepreneurial Division of the bank interviews the groups requesting the bank's assistance. The bank chooses a group and joins in a partnership with them to create a new worker-owned cooperative business. The bank only interviews groups, never individuals. Since the business is to be a cooperative, one of the preconditions must be friendship bonds between the people in the starter group. The business is founded on the loving relationships among the first worker-owners. Secondly, the agreement is a partnership since both are committed to never abandoning the other until the business is running profitably and smoothly.

To assure this, each member of the starter group has to loan the new business a substantial amount of capital so both the bank and the group members are at risk. Serving the community in this way is considered an honor in Mondragon.

The group then meets alone and chooses one of its members to be the person who will spend at least two years at the bank under the guidance of an expert (affectionately known as the "Godfather"). Together, they will develop a business plan and a community development plan.

The latter was added as a requirement in the early 1970s. No business can go before the bank's Board of Directors for approval until the Community Development Division of the bank is confident that all the housing, park, commercial, and other community services will be provided for, given the maximum number of worker-owners that could
work in the planned facility.

Notice that nothing has been said about the product. The starter group doesn't care what product they produce. They are a group of friends who want to work together and serve the community by producing the products it needs and by creating worker-owned jobs. Of course, the group will usually have skills in a general area such as electronics or plastics, but as to what particular product they produce in their area there is little concern. There are two bank worker-owners in the Entrepreneurial Division whose sole job is to identify new products for Mondragon to produce.

Once a product is chosen, the two years of planning accomplished, and the go ahead given by the bank’s Board of Directors, the business begins. If at any point along the road to success the manager ceases to be effectual, he or she is demoted (no one is fired save for treasonous acts at Mondragon) and a new manager is chosen. If the product ceases to be viable, a new product is found even if it is necessary to acquire entirely new machinery. The more trouble there is the more capital is loaned from the bank at increasingly lower interest rates. Once there is a successful business the loans are repaid.

As this loan policy reveals, Mondragon is different. One of the most basic ways it is different is that the Basque people who founded it have a very strong, collective self-identity as opposed to an individualistic self-identity. When an American reflects on who he or she is, he or she dwells on his or her particular body and personality. When a Basque person reflects on who he or she is, he or she dwells on the Basque people. The “I” is very much inside the “us” rather than outside it. This can be seen as a result of the history of the Basque people.

The Basque history book describe the Basques as the direct descendants of Cro-Magnon man, with a language unlike any other in the world. They have been dominated by other people for as long as they can remember, so there exists a deep solidarity among the people.

In the 1920s many Basque villages were active in the Spanish anarchist movement. Some even eliminated money from their villages and replaced it with a simple barter system. The Spanish civil war in the 1930s ended these experiments. The Spanish government promised the Basque people independence if Franco was defeated. When Franco won he reinforced their deep solidarity by outlawing the Basque language; all media, schooling, commerce, etc., had to be in Spanish.

A priest named Jose Maria Arizmendi fought in the civil war, was captured, and was released at the end of the war. He returned to his
studies in the seminary, and upon graduation in 1941 was sent by his bishop to Mondragon to assist the young and the poor while he waited for World War II to end so he could study philosophy in Holland. This he would never do.

By 1943 he had organized the youth to start a cooperative technical school. During the 40s and 50s he taught a sophisticated understanding of Catholic Social Doctrine emphasizing cooperation and “the primacy of labor among the factors of production.” The Catholic church has never supported capitalism or socialism as social theories.

Father Arizmendi not only taught in the classrooms, at church group meetings, and from the pulpit, but also in the bars and drinking clubs. He was not charismatic, but he was sure of his views, consistent, and persistent.

By 1954, five of his original eleven boys who had continued on to college had worked their way up to management levels at the large industrial company in town, the Union Cerrajera. However, continually frustrated in trying to apply Father Arizmendi’s ideas, they left and formed a new company (ULGOR) where they could implement his teachings. Just as when they had started the technical school they raised funds from local townspeople and opened a small parafin stove factory with 24 people in 1956. With the arrival of butane gas in Spain they converted to butane gas stoves and this helped them catch the industrial wave entering Spain. Within one year they had 117 worker-owners and had bought two nearby foundries.

Father Arizmendi did all the legal research to find an appropriate structure. He discovered that only agricultural groups could be structured as cooperatives so he incorporated ULGOR and the future industrial enterprises as agricultural cooperatives to secure the cooperative structure. Since this was technically illegal, the Mondragon cooperatives kept quiet about their legal structure which is one of the reasons you have probably not heard of Mondragon until now.

This collective secret deepened their solidarity as a group. It may not have been needed. After the civil war a vengeful Franco had not only outlawed their language but his Spanish police treated the Basque region like an occupied territory. The Mondragon cooperatives provided the means to express the strength of the Basque people in a way that was not only not seen as politically threatening but was also a contribution to the gross national product and industrialization of Spain. The Spanish could join in this win-win deal. When they discovered the illegal cooperative structures they looked the other way as long
as Mondragon kept it quiet which lasted until Franco's death, home rule, and the changing of the laws in the 1970s.

Curiously, there is another group of enterprises much like Mondragon in Poland. The group in Poland began their businesses in the 1940s and the Mondragon and Polish groups grew to substantial sizes before they knew of each other's existence. They are structured almost identically, except the Poles use an investment fund instead of a bank for their capital company. There are 175,000 people in the Polish worker cooperatives, and since the Polish government owns the capital intensive firms, the Polish cooperatives are predominantly labor intensive.

The curious thing is that both the Basques and the Poles were oppressed by occupying foreign forces (the Russians in the case of the Poles) at the time of the formation of their first cooperative enterprises, and they both, without knowledge of each other, created the exact same structure. This suggests that people in modern industrial societies who feel a deep solidarity as a community will be prone to express it by forming Mondragons. Given that nuclear weapons are forcing the entire planet to look at itself as a community with solidarity against an outside force (nuclear war), or perhaps it is an "inside" force, further study on the above hypothesis would be worthwhile.

Next let us answer the questions: "What was the philosophy of Father Arizmendi which gave rise to Mondragon and do its resulting structures suggest a Third Way?"

Many would have difficulty implementing Mondragon-style structures in America not because they can't find friends with solidarity among themselves like the Basques, but because they try to place Mondragon on the left-right political axis. Many see it as a better form of socialism, one easily utilized inside a capitalist society. Even the popular BBC film "Mondragon: An Experiment" suggests it is a descendent of the English cooperative movement begun by the Rochdale cooperatives.

My research while visiting Mondragon and my study of its structures and procedures suggests to me something different. In both capitalism and socialism things come before people. They are both based in materialism. The "apple" is where the value lies and the only question is who gets how much of it. The process of material distribution is more important than the "relationship" among the people receiving parts of the apple.

Mondragon runs on an axis that is perpendicular to the above. People come before things. It is based on the nonmaterial (call it "mind" or "spirit" or "relationship"). The apple is not seen as where the value lies.
"The relationship" among the people interested in the apple is where the values lies. How much each person receives is assumed to be known without conflict from right relationship. What is the right relationship among people? We all know from our personal experience the one word answer to that question — "love." But how does love play itself out in the structuring of a business enterprise?

Philosopher Arizmendi observed that lovers behaved differently around "things" than enemies do. If we are lovers at the movies and we have a Granny Smith apple which we would both like, we would probably split the apple as evenly as possible and share it. If one of us hadn’t eaten all day and the other just had a full meal, the latter would take a little piece and give the rest to the other. Lovers behave as if they have only one mind. With little effort they arrange "things" as easily together as they each arrange their own "things" alone.

Enemies behave as if they are of two minds. If we are enemies at the movies and we have a Granny Smith apple, one of us might try to gobble it down while the other is at the restroom. Or, the other being too smart for that, we might just agree to share it by cutting it in half. Then we would both look to see which half was bigger and try to take it. Enemies behave as if they have two different minds. This is because they think "things" are most important. There being only so many things around at any one time, they try to acquire as many of them as they can. Life for them is a process of competing and taking.

The difference lies in whether or not you understand that a relationship, unlike matter, is timeless and spaceless. For instance, if we make a mistake with a loved one, say we are sorry, and he or she forgives us, it can be as if it never happened. Yet materially it did happen. Relationship is timeless and spaceless, matter is in time and space. If the relationship is truly loving there will be no conflict around matter. This was Father Arizmendi's main discovery.

This understood, he asked his young students and the men and women in the bars and drinking clubs: "If the above is so, what kind of an organization does it suggest?" First, they realized that if you want to have a loving organization you cannot separate opposite roles into the responsibility of different people as if they could be separated in time and space. To have one mindedness the "owner" and the "worker" in a business must be the same person.

If I am the person who decides what movie to go to and you are the person who goes to the movie, that will seem ludicrous to us. In this example we can easily see that to separate the "choosing" and the
"doing" from one another in time and space (into different bodies) brings fear into the relationship. We will each fear that the other will not be sensitive enough to our needs and wants. The potential for conflict is great.

However, if I am the "chooser" and the "doer" I have no fear at all. I know I will be sensitive to myself. In fact, knowing I will be sensitive to my needs and wants every moment, the relationship between the chooser and doer (being both in me) is inner peace. It is the result of freedom. The capitalist in us is happy.

If we are going to attend a movie together and we "both" are the chooser and the doer, then "our relationship" is timeless and spaceless. If we are lovers and you want to go to movie A and I want to go to movie B, we will talk about it. If you want to go to movie A more than I want to go to movie B we will go to movie A. We will both be happy, yet in the material world I didn't get anything I initially wanted and you got everything you initially wanted. We are happy because we acted with one mind. The limitations of the material world are fully accepted — we could only go to one movie together. There is a relationship of peace. It is the result of solidarity. The socialist in us is happy.

So, the first rule of a Mondragon cooperative is that the chooser and the doer, the owner and the worker, must be the same person and every member must be both. This must not be in name only. This must be the actual inner and outer (operational) experience of the member.

In terms of the inner experience, every worker is working in the business all day so there is no need to do more to be sure he or she is invested as a worker. However, especially after years of being only a worker and not an owner, the worker needs to be equally invested as an owner for the business to succeed.

Mondragon believes there is only one thing that will assure that every worker is fully invested as an owner — capital. Everyone knows what ownership is. It's being at risk if something which is yours gets damaged or lost. People can be fully invested in something without being financially at risk. However, Mondragon wants everyone in the community to be invited to be members, so they need to make sure everyone becomes invested 100 percent as an owner. To insure this in every case, every member is required to loan the cooperative a substantial sum, the equivalent of a third of an average year's salary; it is the equivalent of

The new member doesn't have to have this capital on day one. He or she simply signs a note and it will come out of his or her salary over time with no interest attached. Thus, membership is open to all, rich or poor.
However, if the business goes bankrupt the next day the worker-owners will still need to pay off the loan to the bankruptcy courts. In other words, even though the capital wasn’t loaned on day one, the worker-owner is fully invested as an owner as well as a worker from day one.

The rest of the structure of a Mondragon cooperative also gives insight into human nature in that only members of the cooperative can be on the board of directors. This assures an adult-adult psychology pattern. Many worker cooperatives in the past have invited non-members to be on their boards which resulted in parent-child (chooser-doer) psychological patterns.

There are two main committees of the board — the Management and Social Councils. The manager is a worker-owner who is hired as manager for a four year term. During that time the manager cannot be told what to do; he or she can only be fired. This is another unique aspect of the Mondragon design.

Management is recognized as a specialty skill, so Mondragon hires people to manage who have that skill and then lets them do their jobs. This has solved perhaps one of the greatest problems of all other worker cooperative efforts. In past efforts, managers were suspect because the workers had come from capitalist enterprises where the hierarchy was used as a power tool. So managers were not given sophisticated training and the other worker-owners used their influence to demand changes in management’s business plans without sensitivity to the sophistication of its design. For these reasons it has been widely believed that worker-ownership could never compete in a capitalist society.

Mondragon has solved this problem by looking into the essence of hierarchy. They discovered that its essence is “efficiency” and not “power.” A hierarchical division of labor is the most efficient way for a group of people to do a complex task. If the relationship among the people is of the timeless and spaceless variety described earlier, then hierarchy is “only” an efficiency system.

Thus, Article 4 of the Social Statutes of ULGOR (the first cooperative) written by Father Arizmendi reads: “Work is the means adopted for attaining a higher level of satisfaction for human aspirations and demonstrating collaboration with the other members of the community to promote the common good. To ensure that it is contributed freely, productively, and in a manner that makes everyone’s collaboration viable, the members shall respect its discipline, namely a hierarchy. . . .”
At the same time, the Social Council is the equivalent of a union within the cooperative and also ensures full worker participation in management. Every division of 20 to 50 worker-owners in an industry meets once a week to discuss any issues which may arise. It has a representative who will later meet with all the other representatives on the Social Council. The board delegates to the Social Council all the issues with which unions are normally concerned — job descriptions, salary scales, fringe benefits, safety, etc. It is also responsible for donating 10 percent of any annual net profits to charity.

When the division of 20-50 worker-owners have their weekly meeting they can discuss anything they choose. Management and their Social Council representative will be part of the group, and a member of the board may be a member also. Through this system every worker-owner participates in managing every aspect of the enterprise.

Whether a worker-owner becomes enthusiastic about management issues or traditional union issues, his or her substantial capital investment keeps the commitment both as an owner and a worker present in his or her mind. All worker-owners have one share of voting stock. This keeps them all equal in power. Thus, their relationship within themselves and among each other is a one-minded one.

The structure of the cooperative reflects this one-mindedness in time and space. The management and union equivalents in a capitalist system are each present and distinct. In the cooperative, they are both inside and are subservient to the board which assures their total integration and coordination. If it ever fails in its task, the General Assembly of all the worker-owners, the ultimate power within the cooperative, can overrule the board.

Each cooperative elects a representative to the Association of Cooperatives. They in turn elect the members of the board of directors of the secondary cooperatives such as the bank, the research institute, and the insurance and social security institutions.

The main focus of the Association of Mondragon Cooperatives is the creation of worker-owner jobs. There probably is no better service to themselves. Job creation gives the current worker-owners greater job security and allows them to be enthusiastic about automation. They are very aggressive in robot development. They recognize that it eliminates repetitive and dirty jobs and increases productivity.

At the same time, they view worker-owner job creation as the best service to the community at large. Once a person has a worker-owner job in a Mondragon cooperative it is guaranteed for life. Thus, the
person's family will never be dependent upon public assistance but will continually contribute to the needs and development of society.

Therefore, every act of every worker-owner every day results in providing for one's self and serving society, simultaneously and completely. The for-profit-non-profit personality split we are so familiar with is absent in the attitude of the Mondragon member. When walking through a factory you feel like you are visiting with someone in their kitchen. Also the entire association of cooperatives is private. There is no government involvement.

As a final demonstration of the uniqueness of Mondragon, let us describe the way profits are distributed by a cooperative. Seventy percent are distributed among the worker-owners based on salary scale and the number of years with the cooperative. However, the capital is allocated to the worker-owners internal account as a loan from the worker to the cooperative. Each year, just before Christmas, the worker receives in cash the 6 percent interest paid annually on his or her internal account. Thus, the worker-owner's investment in the cooperative increases and the cooperative is able to reinvest the worker's profit to create more worker-owned jobs. It also is receiving uncollateralized capital at a low interest rate — normally the most difficult and expensive capital to borrow.

Ten percent of the remaining 30 percent is donated to charity and the remaining 20 percent is retained surplus which is also reinvested to create more worker-owned jobs. If the cooperative ever ceases to exist, it would be donated to charity. It is the portion of profits collectively owned and managed for the general welfare.

So even the profits seem to escape the time and space material axis by going in two directions at the same time. The worker-owner has the use of his or her portion of the 70 percent because it can be used as collateral at the bank for a loan which will be at an interest rate only a point or two over the 6 percent it is earning. Yet the cooperative has the use of the capital at the same time.

Today, this "third way" social order is occurring all over the world, including in the Soviet Union where the government tends to look the other way.

In the U.S., a unique cooperative structure, exemplified by PEOPLEExpress Airlines, has emerged. At PEOPLEExpress, the workers own more than one-third of the stock, and they manage the company through a "team system" without supervisors. They believe that the philosophy "PEOPLE's
people before customers" will lead to better service.

Salaries are relatively low, but there is a profit-sharing plan and stock dividends. High productivity and profitability have allowed the company to offer low airfares, and thus to enjoy phenomenal growth. While it is not a member of any cooperative association and does not control a bank (Hopefully, other groups will develop Caja Laboral Popular-type financial vehicles.), worker ownership, control, and management have led to a competitive edge and personal fulfillment for the workers of PEOPLEPress.

Capitalism and socialism are adversaries because capitalism favors freedom of the individual over the responsibility of the individual to society. Socialism favors the latter over the former. They both view it as a compromise situation because they are both projecting the rules of matter onto human relationships. They both make the dividing up of the apple more important than the relationships among the interested parties.

Mondragon has demonstrated that loving relationships can be given priority and institutionalized into a social order that can not only out-compete both capitalism and socialism on their own terms, but can bring inner and social peace at the same time.

We need to remember that Karl Marx died before Sigmund Freud became well known. Marx's strength was not psychology. He made the fatal errors of thinking that the end could be different from the process, that class struggle would bring social tranquility.

It wasn't until Mohatma Gandhi that we heard a dominant figure argue that capitalism and socialism were both lacking because they placed things before people, goals before process. Gandhi became the "Father of Humanistic Economics" as a result of his theory of "trusteeship" which defined the relationship among the participants as more important than anything else in much the same way as Father Arizmendi.

Father Jose Maria Arizmendi clearly demonstrated how to institutionalize Gandhi's theories as a social order. It just may be the fulfillment of Gandhi's and our dream of a Third Way.