Introduction to Political Economy
Eighth Edition

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The middle road taken in Sweden and in other parts of Northern Europe exemplifies one way that people have used the ideas of political economists to civilize the roughest edges of modern capitalism. In these cases, nationwide efforts were possible because of the long-term support of the majority of the population. Yet the need to modify the most egregious consequences of capitalism has not always produced national responses. In fact, one of the best known and most successful of such efforts emerged in the 1940s in a province in the Basque Country in northern Spain. As it grew and began to gain attention, it became known as the “Mondragón Cooperative,” and in 1991, reflecting changes in its structure and operations, its worker members gave it the name “Mondragón Corporación Cooperativa” (“Mondragón Cooperative Corporation,” which has now been shortened to the “Mondragón Corporation”). As an integrated system of about 103 worker owned co-ops, 125 subsidiary companies, and 8 foundations, Mondragón is the tenth largest firm in Spain. In 2015, Mondragón cooperative firms employed more than 74,000 workers, more than triple the number it employed three decades ago. This remarkable growth reflects most directly the expansion of Mondragón's international operations, a matter we describe in greater detail below.

In the United States, outside of the agricultural sector and small urban food co-ops, cooperatives have never gained widespread popularity. However, they have played a larger role in many European societies since the early 1800s. Robert Owen, one of the early “utopian socialists” who influenced Marx and many others, launched the cooperative movement in 1811 in New Lanark, Scotland, with his first “Village of Cooperation.” That experiment, aimed at relieving the burden of the growing legion of
wage slaves in Britain, had some successes but failed after two decades. The great majority of communes and cooperatives established in the United States and in Europe by “Owenites” and others sympathetic to such ideas suffered similar fates.

Nevertheless, the cooperative movement in Europe never completely died, and today many different kinds of co-ops are thriving and becoming increasingly important to the modern European economy. Although co-ops tend to operate with little fanfare and are often unrecognized by the financial press, they presently account for substantial proportions of production in Italian and Dutch agriculture, banking services in France, and Spanish health care, and there are large retailer co-ops in Switzerland, Denmark, Germany, and France.

There are many different kinds of co-ops, the most common of them being mutual life insurance societies, building societies, credit unions, and consumer co-ops. In consumer co-ops, such as the popular food co-ops in the United States, people create an organization and use their numbers to procure better prices for better products than they could afford as individuals. Producer co-ops, such as the agricultural ones in the Netherlands and Italy, and Mondragón, are altogether different animals. Their goal is to use the power of a large number of producers, rather than consumers, to buy inputs more cheaply than they could on their own, to coordinate their production and distribution, to get the best price for their output, and to gain autonomy and operate democratically. They are typically larger integrated operations, sometimes a loose affiliation of firms over a large region, sometimes more tightly coordinated firms in a particular location, or sometimes a mix of the two. José María Arizmendiarríta, Mondragón’s principal founder, described Mondragón as the “only example of credit unions, producer co-ops and research centers that operate as one integrated functional unit.” (Arizmendiarríta 2002, 78) This characteristic of Mondragón remains the case and is a principal reason for the widespread attention it has received: no other cooperative has so successfully integrated banking, education and manufacturing operations, and no other cooperative has grown so large as Mondragón.

In this chapter, we will take a close look at Mondragón because of its unique history and because of its ability—as a democratic workers’ co-op—to expand dramatically in a capitalist world order while providing competitive wages, good working conditions, and regular contributions to the local community. We will also discuss why in recent years in its foreign operations Mondragón has gradually relaxed some of the cooperative ideals and prin-
ciples declared by its founders over half a century ago. It has done this in the face of the frenzied pressures of globalization, and we will want to assess the likelihood of its maintaining its historical commitment to worker democracy in the face of a capitalist free-for-all where firms are concerned fundamentally with the interests of their owners and managers.

THE HISTORICAL ROOTS OF THE MONDRAGÓN COOPERATIVE

Mondragón is a small city of about 23,000 in the Basque Country of northern Spain—the region is called País Vasco in Spanish, or Euskadi in the Basque language. The Basque Country is known for its fierce independence and cultural unity. As an example, a radical group in the region, ETA (Basque Homeland and Freedom), has tried since 1959 to separate the Basque Homeland from Spain in order to preserve the region's unique culture and language.

Another reminder of the area's turbulent history is the city of Guernica, made famous by Pablo Picasso's mural depicting its bombing by Nazi pilots during the Spanish Civil War (1936-39). The Nazis had joined an alliance with the fascist military rebel, Francisco Franco, whose armies overthrew the elected "Republican" government of Spain in 1939. One of the members of the Republican forces defending the elected government was the future founder of the Mondragón cooperatives, José María Arizmendiarrrieta. During the war, José María, as he is typically referred to in the literature, was imprisoned, and he joined the Catholic clergy upon his release. He was influenced to a degree by Marx, but mostly by the encyclicals of Pope Leo XIII, which stressed the importance of better working conditions, a living wage, a fairer distribution of wealth, and the amelioration of the excesses of capitalism (Schultze 2002, 13).

In 1943, José María, assigned as a missionary to Mondragón and responding to these new ideas, opened a technical training school with the support of the townspeople. He taught his students the importance of changing the capitalist system, and that successful economic transformation would most likely emerge from the teachings of the Catholic Church. This mix of experience and influences led José María to the idea of cooperativism and to the conclusion that cooperatives could foster democracy more effectively than dictatorial regimes in such self-proclaimed Marxist states as the Soviet Union. José María was aware that central to Marx's writing was a powerful advocacy of the sort of worker democracy that developed in Mondragón, and that Marx would have had as much contempt for bureaucratic tyrants as he had for capitalist ones.
José María also concluded that a blue-collar middle class acculturated in cooperative production would be able to bring communities together better than traditional capitalist companies. This belief is amply demonstrated in his writings, for example:

Nobody shall be slave or master of anyone, everyone shall simply work for the benefit of everyone else, and we shall have to behave differently in the way we work. (Arizmendiarieta 2002, 10)

Cooperators should converge together on this final aim with all those who hunger and thirst for justice in the labor world. The only thing capitalist companies can offer you is more money.... An honorable person should be ashamed of being, and living like, a rich person in a world with 2,000 million undernourished people. (Arizmendiarieta 2002, 11)

Let us consider that the enterprise ought to be a human community of activities and interests, based in private property and initiative (except in the cases where the state intervenes for the common good) instituted to provide to the society a necessary service or useful production, for which it will receive an economic payment according to the services rendered, which is distributed to its members in a just manner. (quoted in MacLeod 1997, 82-83)

In 1956, five of the students from the first graduating class of José María’s technical school formed Mondragón’s first cooperative. The shop, named ULGOR (an acronym of the first letters of the students’ last names), specialized in the production of oil stoves. (Whyte 1999, 1) The direct connection between the technical school and the Mondragón cooperatives was one of the first innovations in the Mondragón story. The school provided training in current industrial technologies, managerial skills, and an ideological grounding in principles that would foster a cooperative ethos in the workplace.

ULGOR attempted to make real José María’s vision and based its structure on principles that would endure in the Mondragón cooperatives: democratic decision-making, profit-sharing, wage solidarity, and community responsibility. All workers were expected to invest their own money into the cooperative enterprise in order to encourage a personal interest in the firm as well as provide crucial capital for expansion. Workers were allowed to borrow the initial investment amount so that they could join the co-op without having to wait to save for it. Some profits would be invested in the local community and some would be set aside for contingencies, but most profits would be used to expand cooperative capital. Cooperative members could only withdraw their own funds, plus accumulated profits, when they
retired. This practice assured the cooperative access to a pool of capital for a long period of time while it encouraged a high level of motivation among the workers. Wage differences between highest- and lowest-paid employees were limited to emphasize solidarity and equality.

The co-op was an immediate success and was soon ready to expand. But expansion demanded additional financing, and existing banks were reluctant to lend to a cooperative enterprise. This need prompted another of José María's major innovations, the creation of a bank (Caja Laboral Popular, or "People's Worker Bank"), that would channel local savings directly into local economic development efforts and into new co-operatives. Over time, Caja Laboral was highly successful in these functions and thus became a key resource, both financial and managerial, for the expansion of the Mondragón cooperatives into a broad array of industries. A growing host of cooperative enterprises grew up centered around José María's technical school and Caja Laboral.

In addition to José María's ideas and innovations, and the support of Mondragón's townspeople, the cooperative had several other advantages that pushed it forward. During the years of the Franco government (1939 to 1975), the existing tariff barriers protected the cooperative from foreign competition. In its early years, the cooperative also benefited from the steady growth the Spanish economy was enjoying as a whole. Further, according to Manfred Davidmann (1996, 2), "The Spanish government provided a good deal of support, providing from 12.5 to 20 percent of the capital required by a new cooperative, at a fixed low rate of interest. ... Cooperatives paid no corporation tax for the first ten years, and half the standard rate after that."

As P.L. Taylor points out, another contributing factor was that "Franco's Falangists appreciated [cooperatives'] commitment to classless production and their decision to exclude unions." (Taylor 1997, 433) Despite this crucial support in getting co-ops off the ground, the government decided not to pay pension and health benefits to co-op members, a move that members deeply resented at the time. In a fortunate turn of events, this ruling ultimately served Mondragón well because it forced the cooperatives to develop pension and health-care plans that its members would come to see as attractive features of membership. It is worth noting that, despite the government's refusal to pay pension and health benefits, the early success of Mondragón provides a clear example of the usefulness of protectionism and government support in nurturing an infant industry in the early stages of economic development.

With these factors working to their advantage, José María's students and others created a growing number of cooperatives throughout the Basque
Country. In 1965, they formed ULARCO (which became Fagor in 1980), the first time a group of cooperatives in the region began to coordinate at least some parts of their operations among themselves. In 1969, they established the Eroski supermarket chain to assist with marketing and sales. Then, in the early 1970s, the cooperatives founded centers for research and for management that tapped the expertise of the technical school and the bank to foster the development of advanced technology. Over the years, these two centers have supplied skilled management staff who also valued community responsibility and cooperative principles.

Thus, by the mid-1970s, the Mondragón cooperatives had evolved into a collection of several firms with a unique organizational structure, all of them run democratically. Workers invested in a cooperative when they joined it (described below), and their stake was managed by their own co-op and swelled over time with profit-sharing. The cooperative bank provided funds for investment projects and used emergency funding to help insulate the firms against downturns. The technical institute provided skilled labor and the research center worked to keep abreast of the latest technologies. The Mondragón co-ops invested in local education and infrastructure with some of their profits, but most of the funds were used to expand existing firms or construct new ones. Profit-pooling also allowed specific enterprises to survive temporary downturns. However, if a cooperative proved to be untenable in the longer term, overall employment levels were maintained by reallocating its workers to other more successful cooperatives. In short, Mondragón had created a microcosm of an entire economy, yet one run entirely on cooperative principles and grounded in the local community.

Jesús Cantinia Cobo, until recently the Mondragón board chairman, provides a compressed history of Mondragón by saying that:

It is the fruit of the sound vision of a young priest, Don José María Arizmendiarieta, as well as the solidarity and efforts of all our worker-members. Together we have been able to transform a humble factory, which in 1956 manufactured oil stoves and paraffin heaters, into the leading industrial group in the Basque Country and 7th in the ranking in Spain. Mondragón's mission combines the basic objectives of a business organization competing in international markets with the use of democratic methods in its organization and with special emphasis on job creation, the promotion of its workers in human and professional terms and a commitment to the development of its social environment. (Mondragón, 2008, "Who we are.")
THE MONDRAGÓN CO-OP TODAY

First, we will go back over some of the many numbers we have tossed at our readers with a brief overview of Mondragón's operations. It is a producers' co-op with over 74,000 workers, 40% of whom are owner-members (more details below about their role). The company operates more than 100 cooperative companies, the great majority in Spain, and is part owner of more than 150 subsidiaries in 17 countries, most of them located in Europe, China, and Latin America. In 2015 Mondragón had total revenues of about $14 billion and its assets were over $37 billion. We should note that these numbers declined somewhat during Spain's economic crisis of 2008-2015, but that Mondragon has fared better than most of the rest of the Spanish economy due to their unique approach, which we will describe in more detail below.

Now we want to answer this question: What are the most essential differences between these worker owned co-ops and capitalist firms? Most fundamentally, the co-ops are called "民主 firms" simply because workers, rather than stockholders, own the company. That is, workers and their representatives ultimately have the power to determine all key decisions about the firm's operations. As an example, consider the behavior of managers of a capitalist firm experiencing increasing productivity. They will, if they can get away with it (as they have in the United States for the past two decades), distribute the consequent gains to themselves, to shareholders, or to investment projects rather than paying higher wages. In democratic firms, on the other hand, a management elected by the workers themselves would decide how to distribute such productivity gains with the single overall goal of enhancing the short- and long-term welfare of the worker-owners. In capitalist firms, workers are seen as labor power, merely one more factor of production, and will benefit from productivity gains, if at all, only as a by-product of a corporate strategy concerned ultimately with the welfare of shareholders and management. Wage-earners in almost all capitalist firms have a very limited role in shaping the firm's operating practices, whether with respect to wages, working conditions, or any other aspect of corporate decision-making, and even this role has eroded steadily for the past three decades as a result of declining union membership and strength.

The power of workers in cooperatives emerges both from open elections to choose management officers and from the right to vote about how to construct and modify the essential processes and operations of their co-op. Because workers are involved in making the rules, the democratic election of officials—along with producing safer working conditions—results in less
cronyism and nepotism and tends to lead to the election of more competent officials than in traditional firms. This does not mean, of course, that workers always elect managers who are efficient leaders. However, cooperative members always have the power to engage in "democratic firing" of officials as well, assuring that the majority of leadership positions are filled by competent people. This interdependence of workers and managers tends to create a high degree of trust between the two groups. This trust in turn reduces the need for managers to monitor employees and fosters information exchange that boosts productivity.

Cooperatives typically have a greatly compressed wage scale compared to capitalist firms, because the worker-members in cooperatives get to vote on the distribution of wages. For example, in the Mondragón cooperatives, the lowest-paid workers tend to make more than comparable local workers, while managers and more highly skilled workers make considerably less than they could earn elsewhere. The average ratio in Mondragón firms between the highest and lowest wages is 4.5/1, and cooperative rules dictate that the best-paid member of a cooperative cannot earn more than 8 times the lowest-paid. This number is always compared proudly by Mondragón supporters with the roughly 300/1 ratio in the United States.

This wage compression also encourages greater productivity because workers receive a higher share of profits than their counterparts in capitalist firms. It also encourages high morale by reducing the kind of resentment and the envy that contaminates all firms to some degree. Tax authorities in the Basque region of Alto Deba, where co-op activity is the most intense, describe the region as having "an outstanding model of fairer economic development" (Mondragón, "Cooperativas").

THE "FORMATION" PROCESS

Not surprisingly, as Mondragón grew in complexity and size, so did its management and decision-making structure, which evolved into a complicated system of checks-and-balances, operating at two levels. One of these is the governance of the individual firms, the other the control center of the whole system. Yet, before we present the key details of that system, we need to emphasize that underlying Mondragón's commitment to building industrial democracy is a complex and universal socialization process—"formation"—that is perhaps the principal reason for Mondragón's longevity. Jacquelyn Yates (2001, 3) gave this analysis:
One of the most fascinating aspects of Mondragón’s story is its flexibility. The organization has almost always managed to avoid rigidity, splinter groups and intra-organizational warfare. Much depends on the process of formation, which socializes managers and members into the Mondragón style. Formation is a term that encompasses both formal cognitive education and moral and affective development. In addition to traditional business education, Mondragón formation helps its people to be open to change and criticism, to engage in mutual support and to balance values. The methods of instruction include traditional lectures, seminars and laboratories, but extend to experiential learning, mentoring and supportive monitoring beyond formal schooling. All associates and managers can receive formation according to their interests and talents.

And Yates writes that formation leads to a management style that is:

[F]undamentally and philosophically unique to Mondragón, and certainly has no corresponding model in East or West. Decisions take place after intense discussion at all levels and fine-tuning of management ideas. The necessity to make profits in a free and competitive market is never far from the center of any decision, but concern with profit must be balanced by respect for the basic principles. The goal of discussion is the development of sound business decisions that are understood and supported by all members.

HOW DOES THE DEMOCRACY ACTUALLY WORK?

GOVERNANCE OF INDIVIDUAL FIRMS

A worker’s day-to-day existence depends most on the atmosphere of the firm, and that atmosphere is shaped fundamentally by the firm’s governance structure. In a Mondragón cooperative, authority resides in the General Assembly, whose annual meetings are open to all members of the cooperative. At these meetings, members participate in a collective examination and assessment of the management of the firm during the previous year. Most importantly, members will assess the managers’ decisions regarding financial matters, especially the allocation of profits, losses, and share capital, as well as how well the managers are directing the remainder of the firm’s operations. The counterpart to these meetings in capitalist firms is, of course, the annual stockholders meeting, where all but a few major stockholders are effectively disenfranchised and those left have the single goal of maximizing profits for themselves and the other owners.

In between the annual meetings of the General Assembly, the single co-ops’ operations are directed by a Governing Council and a Social Council.
The Governing Council is a group of up to twelve members elected at the General Assembly. Its principal functions are to select the firm's managers and oversee their activities, to carry out the admission and withdrawal of members into the cooperative, and to discipline or sanction workers if it deems doing so is important to the firm's profitable operations. The principal obligation of the Social Council, which has members from each kind of activity in the cooperative and answers to the Governing Council, is the overall welfare of the workers. The Social Council draws up proposals and makes reports on such matters as the pay scale and working conditions, often responding to members' initiatives. It thereby serves the functions of a labor union, soliciting input directly from workers of every type and striving to make the work environment as favorable as possible. Of course, workers do not vote on every decision their managers make, as this would be too unwieldy. But because they elect the council members that hire and fire managers, workers' voices as a whole determine the direction of the firm.

GOVERNANCE OF THE ENTIRE MONDRAGÓN SYSTEM
The Mondragón Congress is the equivalent of the General Assembly at the individual firms, with the important difference that Congress decisions affect Mondragón as a whole. Since there are too many Mondragón members for all to attend, the 120 individual co-ops elect a total of about 6,000 representatives. The Congress holds a plenary meeting every four years and an annual Delegates Assembly with only advisory powers. At the plenary meetings, the Congress elects a twenty-person Standing Committee that roughly parallels the Governing Council of individual cooperatives. This committee's central function is to promote and monitor the implementation of Mondragón policies and agreements adopted by the Congress, and to monitor and oversee ongoing operations. Most of the members of the Standing Committee are elected by the Governing Councils of the individual co-ops, but the committee can elect up to 25% of its own members. It can also include people from outside the Mondragón system if they have particularly useful expertise.

The General Council is the executive branch of Mondragón, and it parallels the board of directors in a large, integrated capitalist firm—with the critical difference that its members are also members of individual cooperatives and are elected by the workers. The General Council selects the top management, and it plans and coordinates long-term strategies to maintain Mondragón as a single integrated and internationally competitive unit.

As Mondragón has increased its foreign operations, the General Council has found it necessary to choose a group of managers with functions, and
expectations for compensation, increasingly like those at the huge capitalist firms with which it competes. This particular transition at Mondragón has not been without conflict, as some members, and outside critics, see a higher-paid and more distant management as contradictory to cooperative principles. Nevertheless, managerial behavior in Mondragón remains decisively different from that in capitalist firms in several ways. Mondragón managers are running a business rather than wielding a stick for its board, and therefore expend less energy monitoring and disciplining workers. In other words, the managers and the workers are genuinely on the same side, have participated in the same formation process, and will share in the firm’s success. The managers also serve at the will of the majority of the workers, in contrast to the managers of capitalist firms who, by law, must serve the bests interests of stockholders. Further, because Mondragón builds education and training of all employees into its structure, its line workers are more likely than their counterparts in capitalist firms to find their way into management positions.

We recognize that it is a matter of degree that defines the differences between control mechanisms in cooperatives and capitalist firms, and that managers in all firms are human beings who make mistakes, who often hunger for authority, status, and riches, and whose principal commitments might be to loved ones, a sports team, the church, or a political party, rather than to their firm or fellow workers. Yet, the environment in a Mondragón cooperative stems from the collective imagination of people who believe in the possibility of an alternative to the dictatorial functioning of capitalist firms. That means those Mondragón workers, managers, hired experts, and all the members of the governing committees and councils are in a thoroughly different environment, shaped powerfully by the “formation” process, than are the people who run capitalist firms, or the people that work under them.

**PRODUCTION AND DISTRIBUTION AT MONDRAGÓN**

The most compelling aspect of Mondragón’s current production and distribution is the explosive growth in its operations as it has adapted to globalized capitalism. The tripling of Mondragón’s employment between 1991 and 2015 reflects the enormous growth in every part of the system. This dramatic growth in Mondragón employment has outstripped its ability to have all new employees go through the formation process on the way to becoming full worker-members. In fact, the proportion of its workforce who are members has declined in the past two decades, and now about 60% are non-members, concentrated in Spanish firms outside the Basque country
and co-owned firms abroad. (Below are more details about this issue.) In the mid-1980s, the growing influence of the global economy generated discussion at all levels of Mondragón about how to respond. One result was the thorough restructuring in 1991 of all enterprises into four groups: Industry, Retail, Knowledge (Research and Training), and Finance. The chart below presents the 2015 employment level of co-op members in each group, and we follow with key details about each of them.

The Industrial Group. In 2014, the group's 31,736 workers operated in eleven subdivisions and 75 cooperatives, producing household goods, automotive parts, transportation equipment, and capital goods. Mondragón cooperatives often function as suppliers of components and tools for large, non-cooperative corporations, such as car and appliance manufacturers. As a major example, Batz, a Mondragón cooperative in the Basque region, recently set up subsidiaries in Mexico and the Czech Republic that will help it make parts to be distributed to most automobile manufacturers around the world. Batz also plans within five years to open a plant in China to supply

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Figure 1. Distribution of Employment According to Activity, 2014

- Finance, 3.5%
- Industry, 44.3%
- Retail, 50.8%
- Knowledge, 1.4%
pedal sets and parking-brake levers for General Motors automobiles.
Mondragón's finished products range from bicycles, fitness equipment,
washing machines, and industrial dryers to office furniture and milling ma-
chines. The industrial group also carries out numerous large-scale construc-
tion projects, most notably the Sant Jordi Sports Arena, built for the 1992
Olympic Games in Barcelona, Spain. There has been a decline in the indus-
trial group’s share of total employment since about 2005, especially because
of the international crises that started in 2008 and the very rapid growth in
the distribution sector, discussed below.

Financial Companies within Mondragón. Describing the operations of
the two most important financial firms, Caja Laboral (Kuxta) and Lagun
Aro, as well as firms in other sectors, underscores the core differences be-
tween their functions and those of capitalist financial firms. Caja Laboral is
the largest cooperative credit union in Spain, with €24.7 billion in total as-
sets in 2014. It provides loans to Mondragón as well as loans at favorable
rates to cooperatives outside of Mondragón. Of course, this bank must
make a profit like any other firm, but those profits remain inside Mondragón.
As Davidmann (1996, 5) put it, “The bank backs the co-ops and the co-ops
back the bank. Each needs the other for success and growth.”

Mondragón, like many cooperatives, requires its employees to create in-
dividual capital accounts—a joining fee—when they become worker-
members. In 2016, this fee was approximately €15,000, or $17,100, a sig-
ificant amount of money, especially for those entering low-skill jobs.
However, Mondragón will loan the fee to new members at a favorable inter-
est rate with the member’s agreement to repay it within two years. A mem-
ber’s capital account is essentially his or her private fund, kept in the Caja
Laboral, and used by Mondragón as a source of capital for new projects,
inter-cooperative loans and other lending. This joining fee helps to weed out
potential employees unlikely to take their jobs seriously, and assures that the
great majority of worker-members stay with their co-ops throughout their
careers. Moreover, before paying the joining fee, potential members work
for a period of time in a cooperative in order to see whether they, and exist-
ing members in the firm, agree that it is a good fit. Mondragón allots 75%
of the joining fee to open a member’s capital account and puts the rest into
the co-op’s reserves. The members can redeem their capital accounts upon
retirement or when they leave the cooperative.

An individual’s capital account, aside from earning interest, also gains from
the general profits of Mondragón. The Mondragón leadership allocates profits
each year as follows: 10% goes outside the firms to social projects, decided upon by the members; 45% stays in the firm to fund capital expenditures and for other expenditures that help to keep all the workers employed all the time; and 45% goes into the individual share accounts of the member working at the firm. Also, each worker is paid a rate of return on his/her capital account, which in 2014 was 7%. It is common for workers to accumulate more than $100,000 in their capital accounts during their working careers; they receive these funds in addition to their regular pensions once they retire.

Lagun Aro, the second most important Mondragón financial firm, provides social security for co-op members, including medical insurance, sickness and disability benefits, and pensions. These pensions are set at 75% of the worker-member's final salary, which is quite high when compared to the retirement benefits paid in the United States by the Social Security Administration. Mondragón contributes to the fund and it deducts the bulk of such costs from the workers' paychecks. These deductions are another source of capital for Mondragón. In 2014, Lagun Aro had about €5.6 billion in its reserve fund, almost triple the amount available in 2000.

The financial group has been a most crucial contributor to Mondragón's growth over the years. Ready access to capital and financial expertise gives the cooperatives a key advantage over many capitalist firms. Mondragón cooperatives are less likely to fail from a short-term downturn, and a cooperative that spots a new business opportunity has access to funds for investment and expansion. Cooperatives that do prove to be unprofitable over the long term can be closed with less harm to workers and their families than would occur at capitalist firms, given that Mondragón will retain the workers with pay, retrain them, and eventually place them in a growing co-op. This gives Mondragón a nimble character, allowing it to adjust to external shocks while protecting workers and their communities. Its approach compares favorably to the typical alternative: a dying industry gets propped up for decades with government subsidies because there is no mechanism to save the workers or their communities from the inevitable decline in income and jobs. The recent decline in demand for such items as washing machines has meant overemployment in the co-op firms producing them. In such cases, Mondragón sends the workers to its training schools to prepare them to work in other cooperative firms that are growing and do need employees. During that training period, the workers retain their wages, are assured of a job in the future, and pick up new skills that are in demand. Further, if the new job is outside of the Mondragón area, the worker will be reimbursed for commuter costs to travel to the new job site.
The members of Mondragón firms can, and often do, vote to reduce their own wages when faced with competition that is taking away their customers. When they vote to take such cuts, the more highly paid workers receive the greatest percentage cut in their wages. The fact that Mondragón firms emphasize retraining and progressive wage cuts powerfully underscores the sanctity of “the job,” that thing they are most committed to protecting. That makes it all quite a revealing comparison to almost all capitalist firms, where workers are usually nameless inputs who will be driven out into the stormy night the very instant it becomes more profitable for the firm.

**Knowledge (Research and Training) Groups.** The “no unemployment’ policy is possible at Mondragón primarily because training of the work force is a central undertaking, both for improving work skills and for cultivation of cooperative attitudes. Mondragón carries out its education and training with multiple research and development centers, technical training schools, and with Mondragón University, or MU, founded in 1997. Basing its curriculum on the experience of its training schools, MU has three key centers, a widely acclaimed technical institute, a center for business studies, and one for instruction in the humanities and education. The university is a co-operative organization open to the public. Its educational model combines real-world experience with classroom training, and it utilizes a trilingual teaching system in Spanish, Basque, and English. Training facilities outside the university focus on professional and vocational training and work together to ensure that Mondragón employs qualified and well-trained employees sympathetic to the cooperative’s ideals of social change.

**The Distribution Group.** This group includes retail outlets, cash-and-carry establishments, specialized shops, and is guided by Eroski, a huge consumer cooperative firm. These shops and outlets have become the buying public’s most typical contact with Mondragón, and with the growing scope of its direct sales to consumers, more and more people around the world are being introduced to the cooperative alternative. The major and fastest growing firm in Eroski is CONSUM, now Spain’s leading supermarket chain. The distribution group’s income from sales has almost tripled in the past decade, and currently about half of Mondragón workers are employed in that sector.
HOW MONDRAGÓN DEALS WITH AN ECONOMIC CRISIS

Nothing says more about the values of an organization than how it deals with a major crisis. When the financial crisis enveloped Spain in 2008, GDP plummeted and unemployment skyrocketed to 26%. Mondragón fared much better due to their structure and approach. First, to keep employment as high as possible, workers decided to take wage cuts of 5%, work longer hours, and forsake dividends, pumping additional cash into cooperative businesses that might otherwise have failed. When some cooperatives had to lay off workers, the workers were given jobs in other cooperative firms. The cooperatives lent each other money to keep the cooperative businesses facing the toughest conditions afloat.

Despite these efforts, the Fagot cooperative, Mondragon's largest cooperative and Spain's leading electrical appliances manufacturer (making fridges and washing machines), was forced to close in 2014 after its sales collapsed by 50% and losses mounted. But almost all the workers from Fagor were given jobs at other cooperatives or else opted for early retirement. The small number of workers who were not able to find jobs quickly were paid 80% of their salary out of the MCC provident fund. Furthermore, due to their strategic investments which created jobs in other ventures, Mondragon was on track to have all cooperative workers back in jobs by the end of 2016.

THE INTERNATIONALIZATION OF MONDRAGÓN

The tripling of Mondragón's labor force since 1991 is, in large part, due to Mondragón's expansion into operations outside the Basque region, including outside of Spain. When Spain entered the European Economic Union in 1986, competition with the rest of Europe became an established fact. Mondragón could have decided to seek out niche markets typically associated with cooperative production and distribution operations. Instead, its leaders decided that, in order to protect extensive investments in its products that were now part of an international market, it would itself need to become a competitor in the global economy. The result was a dramatic expansion of Mondragón employment, depicted in the chart below. You can also observe the effects of the global financial crisis devastating the Spanish economy from 2008 through 2015, resulting in the decline in employment at Mondragón over that period. Nevertheless, the decline in employment at Mondragón has been much less significant than for the rest of the Spanish economy.

Several long-standing elements of Mondragón operations facilitated its move to expand foreign operations. Its university and training centers provided it with the latest in production and marketing technologies. Its manage-
ment, though elected by the members, exercised its power to restrict wages to enable the reinvestment of a relatively high percentage of the company’s profits. Some of the worker-members objected to these restrictions, but this unrest largely evaporated as the rapid growth expanded everyone’s income and options. Mondragon also holds an advantage over capitalist firms in that its shares are not available on the open market. This means Mondragon’s operations cannot be destabilized by what Marx would have called “werewolf capitalists” that buy a profitable Mondragon firm, sack a few thousand people, and then sell it off to the highest capitalist bidder. Mondragon has expanded mostly by acquiring companies and entering joint ventures both in Spain and, increasingly, abroad. All of its foreign firms are typical corporations rather than co-ops, and are either joint ventures or wholly owned Mondragon subsidiaries. Most such firms are in Europe, but others are in developing countries such as Morocco, India, China, Brazil, and Thailand. In some of these factories, such as a household goods firm in Morocco, Mondragon sells the product exclusively in the country that produces it in order to avoid duties and shipping costs. However, in most cases, especially outside of continental Europe, Mondragon exports the products for sale in Spain.

This globalization of Mondragon has taken it into territory where it has been increasingly difficult to transform newly purchased firms into co-ops, and especially troublesome has been the practice of generating work forces that have employee hierarchies similar to those in capitalist firms. There are
some “Traditional Worker-Owners” in these firms, who are members and have the same ownership and voting rights as do workers in Mondragón co-ops. However, some such workers share the same rights as Mondragón members but are only hired for fixed, limited times. “Subcontracted” employees, such as electrical workers and others, are hired by Mondragón when the firm has a shortage of such employees and does not typically keep them in its workforce (Errasti et al. 2003, 561). Those most outside the usual Mondragón framework are “contract workers,” usually short-term employees who cannot vote or have ownership in Mondragón, but may share in Mondragón’s profits. They are mostly employed at firms outside Spain and receive payment at the going wage for the area, subject only to the legal framework of that particular country. The presence of contract workers allows Mondragón to lower labor costs in the same way that capitalist firms do when they outsource operations.

The General Council sets the wage scale for these different categories and, as Mondragón’s rules dictate, “in accordance with each person’s individual contribution, based on equality, internal solidarity, and external competitiveness.” Some observers see this external competitiveness category as a loophole in its rules that allows Mondragón to justify to its members and to the rest of the world its return to a more capitalist distribution of wages and salaries. However, as has been the case throughout its history, Mondragón continues to offer more and better opportunities to workers than do typical capitalist firms. Yet, given the enormous increase in the number of contract workers, and because they are increasingly low-skilled workers in developing countries, the 1:6 ratio wage ratio dictated for the rest of Mondragón is frequently violated.

Even at some Mondragón firms staffed entirely by members, shift work, the assembly line, repetitive work, and a sped-up pace are used by managers. Of course, teamwork and brainstorming still play a major role in the Mondragón system, and have received greater emphasis recently. Most members apparently have accepted that midnight shifts and some degree of assembly-line work are necessary to compete in the global economy and thus are crucial to their, and the co-ops’, long-term well-being. In any case, there seems to be no question that globalization has forced an increasing emphasis on this kind of flexible managerial decision and has produced a challenge to the democratic character of the Mondragón cooperatives.

Yet, the greatest challenge at Mondragón is still that of pushing toward its long-term goal of having workers in all Mondragón firms, in Spain and abroad, as full members of their co-op. And, as one would expect, at every
level, Mondragón is pursuing that goal with energy and imagination. Eroski, the huge grocery store chain, which employs most of the non-member workers in Spain, began to increase the proportion of members in one of its chains, Sociedad Gespa. In its typical experimental fashion, Mondragón gradually assimilated workers into the formation process, allowing them by stages to evolve into the responsibilities and benefits of membership. The success of the process at Gespa provided a formula now being used throughout the Eroski Group as it adds new employees from expansion of existing firms and new acquisitions. A majority of non-members who have been offered an opportunity to go through this process has opted to do so. This sort of regrouping will be part of the long term planning to get more Mondragón workers into membership in its foreign firms. There, the barriers are much more formidable, and as we pointed out, the process has generated the different categories of workers on the same old ladders as in capitalist firms.

Mondragón has also responded to the pressures of global competition with several projects, the most prominent of which is the Mundukide Foundation, established by Mondragón in 1999 at the urging of a group of retired managers. Mondragón created the foundation after an extended discussion among its members, representatives from other cooperatives, and NGOs in the southern hemisphere, about how the cooperative movement might be useful to poor, developing countries in the age of globalization. The discussions led to a commitment to work towards cooperation for development in poor countries through the creation of an organization and specific system designed for this purpose. The resulting foundation declared itself in solidarity with all the workers in the entire developing world, and laid out two programs to put that solidarity into action. The first of these plans is known as “Inter-Cooperation,” described by Mondragón as “collaborating with communities seeking to achieve comprehensive self-management.” Inter-Cooperation encompasses such projects as regular meetings with Mondragón representatives and members of “popular economy cooperatives,” as Mondragón describes those in developing countries; a rapidly expanding central information system between Mondragón and these cooperatives; and other efforts that utilize the knowledge and experience of students and retired workers from Mondragón schools and co-ops in order to increase the management capacity of the newer cooperatives.

The second element of the practical work of the Mundukide Foundation is comprised of several “Comprehensive Regional Development” efforts,
broad-based programs designed for low-income developing countries. One of the most extensive programs, in Mozambique, involves Mondragón support for comprehensive community development that includes supporting educational, health, and transportation initiatives, as well as basic manufacturing and services operations. Other such projects, include working with agricultural firms in Colombia to form integrated cooperatives, and helping Ecuadorians in Alto Napo province establish a cooperative to build an animal feed production plant, and then diversify its activities into breeding and slaughtering chickens.

Such efforts as those at the Mundukide Foundation are part of the new structural foundation that Mondragón is building in order better to cope with the speed and chaos of changes in a global economy. In 2012, Mikel Lezamiz, director of Cooperative Dissemination at Mondragón was interviewed and asked about this issue by Amy Goodman on Democracy Now!. In discussing firms owned by Mondragón that are not yet cooperatives, Lezamiz confirmed that the contract workers,

are not Mondragón members; they are employees. We have a plan, and we started before, two years before the economic crisis. We started with the pilot projects—one of these in Poland, another one in Mexico, and another one in Brazil—speaking with the trade unions, speaking with the workers, white-collar workers, blue-collar workers, and also with the administration, in order to give them the possibility to participate in property, in ownership, in management and in results. But because of the economic crisis, [and] because this is a process, and a long process, it takes at least five years. We have already started becoming cooperatives in the Basque Country and in other parts of Spain, but not yet in the other parts of the world.

In other words, efforts to make workers’ co-ops of more and more of its foreign firms will be a long process, but reading the Mondragón website and other materials one cannot help but conclude that this is Mondragón’s long-term plan. The main reason for such a conclusion is that its wealth and power is primarily tied to how many co-ops are part of it, rather than the total number of all its firms. Yet, it cannot be denied that in many of its foreign operations Mondragón, too, is profiting from low-wage labor caught tightly in the grips of the global surplus work force we discussed in Chapter 3. As it stands now, as one observer put it, “There are no signs yet that the corporation’s 14,000 foreign workers are set to swell the ranks [of members]” (Hemlett, The Guardian, March, 2013).
MONDRAGÓN EXPANDS TO THE UNITED STATES

Mondragón's expansion around the globe found its way to the United States most publicly in October 2009 in Cleveland, when Evergreen Cooperative Laundry (ECL) began operations. With some guidance from Mondragón and using what some people are referring to as the “Cleveland Model,” ECL has become part of a network called “Evergreen Cooperatives.”

THE CLEVELAND MODEL AND THE EVERGREEN COOPERATIVES

The success of the Mondragón Cooperatives in Spain has inspired people around the globe to undertake similar endeavors. One recent effort, started in 2009 in Cleveland, is the Evergreen Cooperatives. Their approach builds on a number of interesting principles.

A non-profit organization, the Cleveland Foundation, brought together big, private- and public-sector employers and government officials with community members in impoverished, inner-city Cleveland. The business anchors were in two stable sectors, health care (the Cleveland Clinic and University Hospitals) and education (Case Western Reserve University), employed more than 60,000 people, and spent more than $3 billion on goods and services annually. The idea was to use spending from these business anchors and the public sector to create green businesses, provide living-wage jobs for community members, and help alleviate the poverty and unemployment problems plaguing Cleveland (as they do most other U.S. cities). This innovative approach, bringing together nonprofits, government agencies, businesses, and communities to generate employment and revitalize poor urban neighborhoods by leveraging existing economic anchors, has been dubbed the “Cleveland Model.” These groups helped to fund the first Evergreen Cooperatives.

The Evergreen Cooperative Corporation was founded on similar principles to the Mondragón Corporation. Workers were hired on a six-month probationary basis. After that, they became full-fledged worker-owners who were required to buy a $3,000 stake in the company. For most workers, this meant investing $0.50 per hour of their wages for three years into the business. The first group of worker-owners has amassed an estimated $50,000 in equity in just six years.

In 2009, the Evergreen Cooperative Corporation started two businesses to provide services required by the business anchors and the public sector: Evergreen Cooperative Laundry to provide clean sheets and towels to hospitals, nursing homes, and hotels, and Evergreen Energy Solutions to provide solar power, energy efficient lighting, insulation, and other green-energy options for buildings. They also established an Evergreen Business Services unit to assist the various cooperatives with their operations and to start new cooperatives. And, in 2013, they started Green City Growers, the country's largest urban hydroponic greenhouse, to produce healthy greens (lettuce and herbs, with no pesticides or genetically modified organisms) year round. Although these cooperatives are just getting started, they already employ more than 100 people and are growing steadily. Considering that Mondragón started with four engineers and a priest, who knows what a united community and 100 worker-owners might achieve in the future.
the Cleveland Model and the Evergreen Cooperatives explores this unique and exciting approach.

The Cleveland cooperative activity arose alongside the development, starting in 2009, of a working relationship between the United Steelworkers union and Mondragón whose goal is to move in the direction of building manufacturing co-ops in the United States and in Canada. Nancy Folbre, an economist with the Center for Popular Economics at the University of Massachusetts at Amherst, wrote this about the announcement on the *New York Times*’ Economix blog:

It certainly represents a new direction for the American labor movement. The United Steelworkers is the largest industrial union in the United States, with 1.2 million workers. Its ranks have been devastated by the decline in domestic steel production, and it now represents workers in a variety of industries, including health and education....The proposed Mondragón collaboration grew out of a United Steelworkers partnership with a Spanish wind turbine firm, Gamesa, to refit steel plants in Pennsylvania for wind-turbine manufacture. Mondragón could provide the organizational expertise and help raise the venture capital necessary to expand such initiatives. Expansion of worker-owned enterprises could potentially increase the demand for skilled manufacturing workers in so-called “green jobs.”

Before too long, the working relationship was producing promising results. In March, 2012, the United Steelworkers, Mondragón, and the Ohio Employee Ownership Center entered into an agreement to spread the word about worker owned co-ops and how to build them. At the public announcement of the new alliance, Leo Gerard, the President of the Steelworkers, described its centerpiece, *The Union Co-op Model*, and prefaced his comments with the internet link that would provide all the necessary information:

This new public domain template (available at www.usw.coop and www.union.coop) offers a road-map primer for competitive and equitable employment creation based on fifty-five years of Mondragón principles put into marketplace practice. Aimed at creating an economy that can work for everyone who works, the union co-op model shows how “doing well by doing good” reflects core American values of self-reliance, community solidarity, and ownership as an ineluctable component of the American dream based on competitive business practices.
CONCLUSION

Mondragón was able to weather the strong winds of the crisis that began in 2007 without the kind of human costs that have affected other parts of Spain (and the world). Its focus on innovation and its collaborative and pragmatic responses to the crisis have insured its survival even while other businesses collapse. Everything points to Mondragón remaining a powerful multinational company able to compete and flourish and exceedingly well-prepared to deal with whatever threat appears on the horizon.

Without question, Mondragón in recent years has become in some ways different from how Fr. José María Arizmendiarrrieta imagined it at the beginning. Had Mondragón remained an essentially insular company producing and marketing its goods mostly in Spain, it might eventually have lost even its local customers to global firms producing goods in low-wage countries with little or no environmental regulation. As Marx and others have long noted, unregulated capitalism will necessarily force the capitalists to emulate the behavior of those who achieve the lowest costs. That is, in cowboy capitalism, the wage level, working conditions, and thus the moral imperatives of the whole system, will ultimately descend to the lowest common denominator... such as in clothing factories in Bangladesh and Apple's iPhone factories in China and Taiwan.

These developments have led some critics to conclude that Mondragón is selling out its ideals. We understand the critics' arguments and their remorse at what they see as the weakening of one of the most successful alternatives to the capitalist firm. Our prediction, however, is that Mondragón, to protect its cooperative roots, will follow the same kind of determined, imaginative path that has led it to be among the most influential and widely respected corporations in the world. Further, whatever the outcome, Mondragón will have provided the modern world with an example of a highly successful firm competing in the hard-knocks world of global capitalism while maintaining an essentially democratic form of control. This is the crucial characteristic to keep in mind because it represents the great divide between Mondragón and traditional capitalist firms; that is, were you to visit Mondragón and then, for example, the executive offices of General Motors, you would get utterly different responses if you were to ask: "Who's in control, here?"

What a vision for the modern world! A giant firm prospering in an increasingly barbaric, global free-for-all, where the workers—the real producers—are freed from the overhanging sword of capitalist managers and absentee owners who necessarily see employees as cash cows from whom to milk surplus value. In short, in its long and resourceful struggle to try to hu-
manize work and its consequences in the modern capitalist world, the Mondragón Cooperative marches forward to tell the world about the pre-eminent tool for escaping the death trap of alienated labor in a capitalist firm run by people who, to protect their fiefdoms, so often will treat their workers as disposable things.
SUGGESTIONS FOR MORE INFORMATION ABOUT MCC

The Internet
It remains the case that the most useful source of information about how Mondragón works and what are its plans is the corporation’s web site, www.Mondragón-Corporation.com. The site contains MCC, The History of an Experience to set the scene, then provides a detailed and structured explanation of how the whole thing fits together. It also includes a valuable section called “Frequently Asked Questions.” There are useful discussions of Mondragón on YouTube, and a good place to start would be with Richard Wolff’s three part lecture based on a visit there in 2013. Other web sites we recommend are www.usw.coop and www.union.coop, which include the templates for organizing co-ops produced by the alliance of the United Steel Workers, Mondragón, and the Ohio Employee Ownership Center.

Books and other reading materials
As Mondragón’s size and its reputation have grown so has the writing about it in books and magazines. What follows is a sample of them that was particularly useful to us in writing this chapter.


Lezamiz, Michael, Interview with Amy Goodman, on Democracy Now! 2012 Interviews.


Tremlett, Giles, “Mondragón: Spain’s giant co-operative where times are hard but few go bust.” The Guardian, March 7, 2013

