The Experience of Worker Productive Cooperatives

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First of all, thank you for inviting me to Malta and giving me the chance to come back where I worked some years ago in the drafting of cooperative legislation. It is always a good feeling after having been instrumental for drafting some legal instrument, that you are still allowed into the country after a certain period and so I very much appreciate this invitation.

Key Issues of Cooperation

I shall address the theme of workers productive cooperative societies under present day conditions in a developing economy.

I will start by stressing immediately that we are talking here about economically viable cooperative societies. They are not half government or full government enterprises subsidised and spoon fed by state transfers; but they are supposed to work as private although collective enterprises having as their object to put the combined labour and assets of their members to the best possible use for the members' individual and mutual benefit. I think this has to be kept in mind very strongly. What is best possible use? Best possible use does not necessarily mean the highest possible profit that they are after even though they still have to make a living. I think this is one scenario that has to be kept in mind very clearly. Those persons who consider the acquisition of individual gain as the main incentive for human endeavour and individual freedom as the highest priority in their life, will probably not become members of a worker productive society in which the economic results will be shared equitably among all members according to the principle that everybody receives enough to meet
his or her needs and that nobody shall enrich oneself at the expense of others. So this is not the philosophy that attracts everybody. I think that also has to be very clear from the start.

In worker cooperative societies, organised solidarity among members based on self determined rules plays a focal role. That means the readiness of each member to make contributions and to make this on his/her own volition and not under pressure. Secondly the readiness to share what has been acquired jointly is another key obligation with which not everybody would agree. Then there is the readiness to follow the rules set jointly by the members and to keep up discipline and to do this without constant control, another thing which is not normally found among typical workers. This means that members' obligations prevail and the rights can only be achieved if the readiness on the part of each member to meet his or her obligations is very strong. The feeling of belonging and security within the cooperative group, the search for equal rights, the absence of hierarchical labour relations and self determination at the work place may be quoted as another set of motivators for persons opting for membership in worker cooperative societies and for organised solidarity in collective enterprises in which membership obligations prevail. So the point I am driving at is that one has to find a reason why a person is opting for a model where more obligations are in store than individual reward.

Some Basic Requirements

Before opting for this model of cooperation, the mechanisms and rules according to which it works should be well understood. A fairly high level of education is required to have a clear understanding of the various problems characterising the operation of workers' productive cooperative societies, to find practical solutions for them and to assess the balance of the complicated
inter-dependence of rewards and contributions in this form of organisation. So this intellectual input has to be there preferably before starting the venture and not so much after having fallen into a trap, as somebody would think, and then finding out that these rules are very complicated and maybe not quite to the liking of those who have been encouraged to join.

In a socialist setting, workers' collectives had to be accepted in many cases because of lack of alternatives. However, under the conditions obtaining in a market economy, the situation of workers' productive cooperative societies is complicated further by the fact that highly qualified workers are offered attractive alternatives. Furthermore, modern labour law together with the public system of social security offer the individual worker a certain degree of protection against risks so that he or she does not necessarily have to seek this protection by joining or forming a workers' productive cooperative society. In a market economy workers' productive cooperatives can only survive competition if they are an association of persons being ready and able to work efficiently together. If workers' productive societies do not want to become an organisation exclusively for the weak and the poor, they have to offer working conditions to their members which at least are comparable to those offered by their competitors. This however is difficult if, on the one hand, members are required to be highly qualified and to work with high productivity while, on the other hand, they have to renounce to personal gain for the sake of the common cause; for example, to renounce to their steak in the evening for the sake of buying a new machine in the enterprise. This again is not easy to explain (especially to the wives of such workers) and so I think the whole setting of workers' productive cooperatives, in short, is a difficult model to practise, especially in a market economy. This is just to set the scene and to calm a few over-optimistic expectations on this form of organisation.
Worker versus Service Cooperatives

For my second point - I think one has to distinguish, for reasons of a clear vision, between workers' productive cooperatives on the one hand and service cooperatives (or auxiliary cooperatives, as we would say) on the other. Most of these cooperative types have a lot of similarities but also some very important differences I would like to briefly dwell on these similarities and differences in order to explore another facet of this picture.

When I talk about service cooperatives I mean cooperatives in which independent entrepreneurs or heads of households come together to use their cooperative for fulfilling some task which can be better organised jointly than individually. I heard that in Malta the bakers and others in professions are thinking of organising themselves into cooperatives. I might say that in Germany about 75% of the bakers are organised in bakers' cooperatives. They can purchase their baking equipment at a very low price and they can exert significant pressure on the producers of such equipment because if the bakers' cooperative refuses to buy the equipment will remain unsold.

The similarities are that both the productive cooperatives and the service cooperatives have as their objective the promotion of the interests of their members and not so much the interests of the community at large or of the government for that matter or maybe of any political party. They want to promote the interest of their members because their members are footing the bill for the operations. If of course government foots the bill for the operations then the situation is different. The second thing is that most types of cooperatives recognise the internationally established cooperative principles. They follow voluntary membership, they follow democratic management and control rules and they follow
the idea of de-emphasised capital. They do not want to give capital a dominating role and that may make even the bakers' cooperative different from a capitalist outfit because in the bakers' cooperative the money is put to serve and not to govern. It will not give those who put the most money the most say. The smallest baker in the team would have the same voting capacity as his big neighbour who has maybe given much more money into that organisation. Capital is de-emphasised and that is a rule for both types.

Now let us briefly come to the differences. I think there is a big difference between the position of the members in service cooperatives and those in workers' cooperatives. The links between the member and the cooperative in workers' productive cooperatives are much closer than in the service cooperative variety. The total economic existence of workers in a productive cooperative depends fully and only on the results of their cooperative enterprise; whereas, in a service cooperative, if your cooperative does not deliver properly you buy your supplies elsewhere and still carry on your living. If a workers' productive cooperative does not make profit then it cannot pay any salary (or rather anticipio to be more correct because it is not a simple salary but also a share in the joint profit that is shared at the end of the year in proportions to be fixed by the members). So, if there is no money to distribute, there is nothing to eat. That is a clear difference between a service and a worker cooperative. The second one is the position of the cooperative in the market. A worker cooperative has a dual link to the market. In supply and in marketing they have to react as any ordinary enterprise and the cooperative nature is mainly taking place inside the cooperative enterprise where some special rules are governing the performance. But, if they cannot manage to buy in good conditions and if they cannot market their produce at very good conditions, they cannot live. Opposed to this, in the service cooperative, there is only one
link to the market. The farmers' cooperative uses the produce from the farmers and sells it to the market but between the farmers and the cooperative there can be negotiations, there can be soft arrangements depending on the need of the members and of the cooperative whereas a worker cooperative cannot go to the supplier and say: "Gentlemen we are now in a very bad position, we need these products cheaply." Because then the supplier will say: "Cheaply, OK, but not with us." And if they do not find it cheaply they get out of the market and that's it. Whereas the service cooperative could say: "Deliver your goods, we will market it and once we market it at a good price we will pay you in due course." And the members would say: "OK, rather than folding up we accept this". This is a crucial difference between the market position of a member in a service cooperative and in a worker cooperative. Then I would add that the intensity of the problems in a workers' productive cooperative is much higher than in a service cooperative. So the closer links between the cooperatives and the members make the usual cooperative problems more intensive and less easy to solve. This situation creates a greater need to find effective mechanisms for settling internal conflict in worker cooperatives than in service cooperatives. In a service cooperative you could lean back and say: "Well, this year is not working well, no matter, maybe next year will be better." But if this is the case in a workers' productive cooperative it means potatoes for lunch, potatoes for dinner, grumbling wife, nagging children and then you go back to work and then say: "What the hell is it, where is my money?" and they will say: "Sorry we did not earn any". These kind of situations are not the general rule in a service cooperative.

Transitional Forms

Nevertheless, I will try to pull down the border lines I have just erected by arguing that there are a number of transitional and hybrid forms where the elements of these two different models of
cooperative organisation are coming quite close together. So what appear to be clear cut boundaries in real life are very often not existing. Some cooperatives are at the same time both worker and service cooperatives, depending on the different sections of the members. As an example, I will mention the cooperative of which I am the chairman which is a cooperative of consultants, research workers, professors and practitioners. For some of these the cooperative is a work place and they earn their money there whilst for others the cooperative is serving by having computers available, by publishing their books, by organising seminars, employing them as lecturers and so on. So some of them depend for their livelihood on the organisation and others do not. In the Hungarian collective farms during the socialist government, the collective pig raising and pork producing plant was operated on the principles of collectivism. But the sapling pigs were raised within the family enterprises of the members, then the members (who were collective members for all the rest of their work) would sell these pigs to their collective farm. Hence, they were at the same time users of an auxiliary enterprise and workers in that enterprise as co-owners and co-decision makers. This is just to show that this is not really a fully clear cut distinction.

I am also aware of the experience of one of the first so called cooperatives in Greece, the Ampelakia organisation which was a workers' productive cooperative producing red cloth used by the French army for their uniforms. They were using a special type of animal, some kind of lice which has a red colour and which has to be bred on some kind of plants and so they enjoyed a monopoly. The workers who produced the cloth were one part of this enterprise and those who were trading the cloth and were moving around Europe to sell the fabric were also members. So you had a kind of cooperative community in which part of the members were working within the enterprise and living from that whereas others
were using the services of the cooperative for their livelihood at their own risk to a certain extent. So I just want to say that it is not an ‘either or’ situation. There are possibilities of hybrid forms and transitional forms. If one looks from the other end there is a very interesting example developing in Western European agriculture where the individual farmers do not form a collective enterprise. They would never do that, they would never even contemplate doing it, but the market structure laws force the individual farmers to produce a product of similar quality in large quantities in a planned dimension so that in a cooperative of that nature the individual farmer has to accept the advice coming from the cooperative enterprise regarding the product, time of production, means of production, way of grading, way of packing. Thus the cooperative is becoming like a collective only that the means of production are very much individual and only the organisational pattern is taking a shape of a joint enterprise. We call that an integrated cooperative, meaning that the individual members' enterprise is integrated into the joint cooperative organisation and you could also call it simply contract farming. The members signed a contract saying: "We will only use the seed provided by our cooperative, we will only start to seed when the cooperative tells us and we will only harvest when the cooperative tells us that the market is ready." So such a response to market requirements makes the individual farmer lose some independence because there is no alternative. Otherwise, the farmer may sit on apples and carrots without being able to sell them. So I think you can see from both sides the development of splitting from one group, or moving from one type into another. Hence these distinctions are only clear cut in theory; in real life they are difficult to come across.

**Success Criteria**

Now briefly let me go into success criteria and operating rules. In the eyes of many theorists worker cooperatives are seen as a non-
workable model. Other people would say that this is a non-starter, you can do with it what you want, it is doomed to fail. I know a number of such people. They say the reason is that there is an ambiguous organisational pattern full of contradictions and humans are not made to solve these problems and survive. Now on the other side you have a lot of people especially in the Mediterranean region who would say: "No, it is a feasible model provided that certain conditions are met". I think these are the two extreme views and maybe I could comment briefly on the internal and external success criteria to check whether the views are correct or not.

The first one is the human qualities of members, an issue I have referred to earlier. For a well working workers' productive cooperative society, you need voluntary submission to group discipline because a hierarchy that forces you to do so in a normal enterprise is not there. Acceptance of the rules of cooperation is an inevitable feature of working in a cooperative. For instance in Mondragon you accept the rule that if there is no job in one firm you can be put to work in another firm for a certain time even if by trade union standards you would never tolerate such a thing. So the right of the management to transfer a worker from one position to another in certain circumstances is accepted. Another issue is the awareness of one's legal status. Such issues as voluntary submission to discipline and the acceptance of rules of cooperation have a pre-condition in knowledge of such rules so people must know about this. You cannot expect them to accept rules of which they are not aware. The motivation to work for the common cause and the readiness to continue improving qualification by continuous education are important. It is not by coincidence that both in Mondragon and in the Kibbutz movement the educational side has a predominant role. The highest cost of investment in the Kibbutz normally is the education budget and in Mondragon it all
started from schools, it did not start from business. It all started from training and from giving people the intellectual capability to organise and not putting them into a pre-fabricated model to work with. Also important is the readiness to make contributions and sacrifices as necessary so that the long term objectives have to be given priority over short term personal advantages. One cannot expect such from an ordinary person unless one makes the person aware that this is a necessity. That is a first point, the quality of members.

The second point is selection of members. I think that in worker cooperatives the selection of members is a very important issue. Again, if I may take the Kibbutz movement as an example, to become a member of the Kibbutz you have to be a candidate for a year. They look at you from all corners and they give you a chance to look at them and then after a year you need 80% approval in a general meeting, otherwise you will not be admitted. So, in terms of organisational rules, it means the homogeneity and quality of the group is more important than its growth. It would rather refuse even a talented person if that person is not sociable. It will rather kick that person out and say: "It would have been wonderful had the person only been different." This is one aspect. The other aspect in Mondragon and which might be very interesting for Malta is that you do not start a new cooperative enterprise because people come and say: "We would like to start one." The Mondragon Caja Laboral Popular response would be "OK: You bring 20% of the start-up capital and we will look after the rest." You could say that without an input there could be no output, without something at stake and personal sacrifice, there would be no chance that this will take root. If one is not committed with one's own resources, then one cannot be expected to be a committed co-owner. If you have nothing to lose and a little to win in an organisation, why should you care for it? I think the selection of members is an important point, in the sense of judiciously
assessing their willingness to contribute, to commit resources and to gauge their general qualities as human beings.

The third point is the question of contributions and rewards; that is the motivation aspect. Worker cooperatives do not work in a vacuum. They have to meet market standards, so again if I may refer to Mondragon, they have fixed a minimum income - they do not call it a wage. It lies a little above the minimum wage, not below but above, and then there is the possibility of each worker within the system to increase his/her personal income by the educational background, the responsibility taken, the pleasant or unpleasant type of work performed. The result is a very elaborate system of appreciating the work that is done and turning it into a kind of financial reward. But no one can earn more than 3 times the minimum wage - the special minimum reward, let me say - except those who take posts of responsibility. For them a special arrangement is made but which also has a very clear ceiling. If I am rightly informed, Mondragon tried to build a hospital but they could not do so because they did not find medical doctors who were prepared to work for such conditions. So I think this contribution and reward is a very important point. For instance Scott Bader in Britain has made its ceiling 8 times the minimum wage. In a normal commercial company, the big boss could receive even 1000 times the minimum wage so I think 8 times is already quite good by those standards. But Scott Bader was also promising not to dismiss anyone and to share work if there would be a need, though finally they had to dismiss people because otherwise the whole enterprise would have gone bust. So rules are good but you cannot always stick to them. Another interesting thing that I saw from Mondragon was that the *anticipo* is shared in 14 instalments; that is you do not get 12 salaries but as a rule in Spain you get more than that. But you have not got the promise that this will be paid in cash because in a time of scarcity it will simply be
put on your account. So you do not see the money but you can only feel that you have something, maybe at some risk because you may also lose it. So I think this flexibility of promising within realistic boundaries and an agreement that where there is no money there will not be pay, this is part of this kind of motivation for sacrifice which is not a very common human feature I would argue needs a special motivation behind it. One has to add here that the day of truth is fast approaching for the individual capital account in the Mondragon system where workers accumulate money over the years and then after 30 years of work, you can claim up to 60,000 German marks - provided there is money. The system will thus probably have to stand a test whether it is possible to earn the invested capital in every generation again or whether you have to stick to the old cooperative rule: The money is put into indivisible reserves, where you can say good-bye to it because you will never see it in your pocket. That will be the other option.

There is another point which is a very hot issue now in Germany and that is sick leave. If I understand rightly in Mondragon, if you are sick for up to three days you do not get paid. In Germany the diseases strike the enterprises especially on Fridays and Mondays and so there is some idea that this might be a special kind of disease and so the idea was that the first day you do not get any pay. There was an uproar in the trade union movement saying that we consider our workers as cheaters even though the statistics speak a very clear language. Now the Mondragon example shows that voluntarily they have agreed to meet such requirements simply to keep up discipline in a certain way.

**Success Criteria: External**

The external success criteria are also very important. There is a need for them as well. Just imagine the Kibbutz movement without Arabs sitting around them with their sub-machine guns in hand;
probably there would be no Kibbutz work in such strength and in such continuity as it is now. The Mondragon movement would probably not have been what it is if the trade unions were not prohibited under the Franco regime and if the Basques were not the Basques or the Catalans were not the Catalans and if the Church did not also help in trying to avoid certain very difficult consequences of non cooperation. So there was not much of an alternative than doing such a thing as they have done. Now the high unemployment in the European Union and in the Eastern European countries is also creating such conditions. So we could say that there must be a peak season now for setting up new workers' productive cooperatives. However, the economic and legal framework conditions I would say are not very favourable at least in the EU countries except for maybe some of the southern countries for workers' productive cooperatives. For instance in Germany we have only 13 workers' cooperatives under a register. They are truly very special. They produce musical instruments, medical instruments, gloves, and fake, semi precious stones. So they do not really amount to anything significant. They are marginal in the true sense of the word.

Problems: Internal

Now just briefly a few of the problems. The internal problems which make these worker cooperatives so difficult to put into practice are the role of members. One, the dilemma between liberty and group discipline that is true for all cooperatives is much stronger in worker cooperatives where they have also to change their role from that of a worker to one of an owner; this change, from our research, is very difficult. To give a clear example, 5.00p.m. the whistle blows and the work is over and then the workers go home, and we say: "Hey you have to go to the committee meeting because we have to decide what to earn as our
next salary." And then the worker would say: "To hell with it, I go for my tennis or whatever." To change the workers' role into a co-owner, a co-entrepreneur, this is a truly difficult job. It is not easy to bring about this transformation of roles.

The second one is the structural problem which is well known: Democracy versus efficiency in all cooperatives. But in worker cooperatives it is egalitarian structure versus hierarchical structure. You cannot work without a hierarchy in an enterprise. An enterprise without a hierarchy is bound to be in trouble and Calvert, one of the old cooperative philosophers from the British colonial times, said: "Have you ever seen an army run by a committee?". You need a general otherwise no victory. So I think that even if a worker cooperative is very democratic it needs someone to be the boss and someone to do the work. If everybody disputes whatever work is to be done and you may get a long meeting and say: "Should we do it or should we not do it?", then the market has already gone over you.

Next, there is the financial problem. The dilemma of all cooperatives is that you de-emphasise the role of capital and still you need it. It is like kicking someone while saying: "Come on and love me." So if you do not give capital a good reception, you should not be surprised that there is no capital. You take the voting power, you take the earning power from the capital and still you say: "Bring your capital, we like it." This dilemma is true in all cooperatives but in worker cooperatives it is even worse because the members typically do not have enough money to finance their operation and the banks do not consider them credit worthy as a rule. So unless they can establish their own system it will be very difficult for them to find the necessary finances and that dilemma is, in my opinion, stronger than in the service cooperatives. Also I think that the secret of success in Mondragon has been due to Caja Laboral Popular which to some extent has become the bank of the
cooperatives whereas other banks would not be so enthusiastic to finance such operations.

The last internal problem is the issue of distribution and the dilemma between equal versus equitable distribution. One has to find a way of rewarding the contributions made by each member so that everybody is happy. The Kibbutznin have found the fantastic formula: Everybody gets the same and that is nothing, no money. We feed you, we get you drinks, we get you a house, we look after your children, we wash your laundry but no money except for a small amount (about 30 German marks) so that you can buy cigarettes, if you do not like the cigarettes provided in the club. So that would be one solution, everybody gets nothing and everything is retained in the common fund to look after everyone in a good way. Then you could also say that we must assess by means of a points system like the Mondragon or the former Yugoslav self-managed enterprises. Then you start having problems because some people would say that education is not important, others would say that whether it is hot or cold in the workplace is not so important or whether it is messy or not messy does not make a difference. Others would say things like: "Why has he/she got so many children?" or "Why should we pay for all the children that he/she is having?". All these issues would come up and so the distribution system is very difficult both among the members and between the members individually and the cooperative. I must admit that I do not know what solution to propose here.

Problems: External

As regards the external problems I will simply mention names. First, marketing things that you can produce, that may be very special things, and I give you one example. In Austria there is Matrei, a very interesting large workers' cooperative which
produces steel fabrics of a very interesting variety. There is a big opera house in Sydney and they have a staircase where they needed a kind of a hand railing and that railing was so complicated that nobody else could do it other than Matrei. That is their speciality, to make things that nobody else can do. But again, this is not a typical enterprise on which you can build an economy but only exceptional cases. Then there is the legal system and the social security system, which disincentivize workers from self-help initiatives.

Assessing Progress

After having talked about all these problems very briefly I will talk about what are their chances for success. If worker cooperatives are organised then there must be a good reason, they must be better suited than commercial enterprises to survive difficulties and I think that there are instances where workers' productive cooperatives can survive a crisis more easily than a commercial enterprise. The members pursue their common objective irrespective of chances to make profit in excess of what they need to survive. That may be one of their strongest points but it is not a very attractive thing. The second point is flexibility. Self governed enterprises with self-employed persons can work according to self determined rules. They are not bound by labour law and collective agreements. They can use this flexibility to arrange labour costs and working hours as need be, like a family enterprise. They could decide to work weekends, they could decide to work 10 or 12 hours a day, they could decide what the trade unionists would say is self exploitation, if they feel fit. I think that this flexibility gives these organisations an edge over the normal commercial enterprise.

The next point is about innovative ideas. I think that in worker cooperatives the advantages of flexibility and of qualified personnel would allow them to discover market segments or niches
where they could produce special things nobody else produces. Again I provide you with one example. The Kibbutz in which I worked back in 1962 produced sheep and in the Middle East if you produced sheep it was either for wool or for meat. In this Kibbutz they produced sheep for milk because they were selling sheep cheese, expensive sheep cheese. But this forced them to invent a special milking facility. Have you ever tried to milk a sheep? It is almost as difficult as milking a mouse because the bucket does not fit under and so you have to make a construction where the sheep are standing with their back to the person who services them and then they are rotating in front of the milker and then you can milk them and you feed them while they are being milked. So I think this kind of carousel - they call it - has been one of the sources of wealth for that Kibbutz because they were the only ones making sheep cheese. These are the innovative things that may be thought of in Malta. Solar energy could be such a niche and I have seen solar energy cooperatives in the South Pacific Island States where the small islands did not have the capacity to produce electricity other than through solar energy.

To conclude, I think that an area which is most interesting is external promotion. Now programmes like those of the European Union to assist underdeveloped regions, create employment and to save jobs, can certainly increase the chances of worker cooperatives. But at the same time they are dangerous because they may create artificial conditions which are good for only as long as this condition lasts. And the question is: Do you want cooperatives that fold up when such a time is over? I think the Italian case of worker cooperatives for the unemployed has been an experience in this vein. As long as EU funds were coming they worked, but when the funds were over, well that was not so good. Then the direct promotion, the margin between over promotion and under promotion I think is very narrow: give too much and you kill the
initiative; give too little and it is wasted. Here one cannot draw a line, you can only test on your insight and experience.

It is challenging here to consider also not only direct promotion for worker cooperatives but worker cooperatives of direct promotion. Direct promotion as is discussed here, including management consultants, entrepreneurial skills and marketing management could be opportunities. I have seen it work so I think it is possible but it needs the right type of consultants or else you end up having the blind leading the blind and that will not lead you very far.

I would say that if you want to promote workers' productive cooperatives under present day conditions, one has to work without ideological limitations and without dogmatic restrictions. One must be ready to make concessions to circumstances and abandon pure doctrine. Consider for instance the principle of job rotation. It is wonderful in theory but almost impossible in practice. Then the principle of equal pay will not really work. Also the principle of consensus where every decision is taken by everybody. I think that without delegation you cannot really run an effective organisation. The readiness to accept hybrid forms and transition models is also an important aspect. I do not think workers' productive cooperatives are there as an end in themselves. If they have better alternatives in the market I would not blame the workers for turning away but I would be happy and say: "We have brought you to a level where you can find your own way" so maybe there is another group waiting down below to move into the social lift to that level. Hence, a good worker cooperative that transforms into a company is not necessarily an aberration but can be considered as a normal development.