1987

Cooperation Democracy, and Worker Ownership: The Iron Molders' Union and the Mondragon Experiment

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COOPERATION, DEMOCRACY, AND WORKER OWNERSHIP: THE IRON MOLDERS' UNION AND THE MONDRAGON EXPERIMENT

by

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A Thesis Submitted to the Faculty of the Graduate School of Loyola University of Chicago in Partial Fulfillment of the Requirements for the Degree of Master of Arts

May

1987

ACKNOWLEDGMENTS

I would like to thank Dr. R. Peter Whalley, my director, and Dr. Philip Nyden for their help, guidance, and patience in the writing of this thesis. Needless to say, any shortcomings are entirely the responsibility of the author.

I would also like to thank Kenn, Doug, Cindy, and Suite 307 for their faith and encouragement. Most of all I thank Lori, without whose support in many different areas this thesis would not have been started, much less completed.

VITA

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CHAPTER I

INTRODUCTION

Interest in workplace democracy and producer's cooperatives is on the rise in America, and has been for the past decade. Worker ownership and control is seen as possible not just by theoreticians, but by workers themselves. This is not unique in American history, as it occurred before collective bargaining became the primary approach of unions. This era of "reform unionism" ended when the cooperative firms they formed failed. These attempts at "cooperation," like all such attempts, demonstrated the susceptibility of cooperatives to trends of degeneration, under-capitalization, lack of institutional support, and, therefore, failure. Why, then, the rise in interest? It is due, I think, to two things. The first is need, as the deindustrialization process has put firms, which may even be profitable, out of business. To save jobs workers look for an alternative. The second reason is the remarkable success of the system of cooperatives centered in Mondragon in the Basque region of Spain.

In spite of the increased attention, however, there has been a lack of clarity in the way the issues have been discussed. This is due in part to theoretical confusion. But, further, while there have been general analyses, there has been little work in comparing actual attempts to better understand the dynamics of these organizations. In order to redress this situation it is necessary to draw out from the literature on worker ownership and control some general concepts and

organizational principles. This framework can then be used to analyze the Iron Molders' cooperative attempts in the 1860's and the Mondragon cooperatives of post-World War Two.

CHAPTER II

THEORETICAL OVERVIEW

In "cooperative" or "workplace democracy" attempts, measures of success go beyond simply the technical capacity to produce at a profit. A strong emphasis is placed on equality and democratic ideals. This does not mean that the interests of capital are not important; rather, the interests of labor are assumed to be prior. The result, theoretically, is that considerations of success are based in the "democratization" of both control and ownership. This means that the social organization of the firm needs to be democratic, and that the control and distribution of the surplus needs to be equitable. (Raymond Russell, 1985: 21). For workplace democracy, the ideal is for workers to collectively *own* the workplace, as well as to collectively *control* the work process. It is this combination, in fact, that Russell identifies as "democracy in the workplace." In this section I will review the theoretical literature on worker cooperatives and try and identify those factors which appear most important for success.

Social Organization

The most significant feature of social organization is that the production process should be organized for the good of everyone in the firm, both individually and collectively. In other words such firms need to seen as communities, since the main purpose of each firm, according to Rothschild-Whitt and Lindenfeld, is the "maximization of

community well-being. This includes fair income for those who work in the enterprise and workers' control of their own work, within jobs as personally rewarding as possible" (1982: 7). In attempting to achieve this ideal, perhaps no other principle is so necessary for success as the one worker/one vote rule, which gives workers citizenship rights in the firm. This method of decision-making is preferred is preferred to systems which give votes to workers as *share-holders* which seems inevitably to lead to degeneration of the democratic ideals as the interests of capital take precedence over labor. The attempt, then, is to set up an organizational social structure which prevents such degeneration from occurring.

In traditional work systems the integrity of work for the majority of workers has been broken down through various forms of "scientific management," resulting in a controlling elite minority and an alienated majority who never take part in, or even see, the work process as a whole. The goal of the worker democracy movement is to equalize this relationship, so that all workers can know and take part in the whole production process. This requires a reconceptualization of property rights and control rights in the organization. Instead of an owner, or in the case of the corporation a group of owners, having full rights of use, rights over the fruits, and rights of abuse (Russell, 1985: 2), such rights need to be held by workers as members or citizens, not as owners. David Ellerman, for example, argues for the necessity of changing the corporate structure by separating the book value of the firm (e.g. stock ownership) from membership rights (Ellerman, 1982: 312). The point is to transform membership rights into personal, as opposed to property rights.

This reconceptualization of workers as members with citizenship rights is recognized by Rothschild-Whitt and Lindenfeld who state this explicitly: "The main purpose of each firm is not the maximization of profit, but the maximization of community well-being. This includes fair income for those who work in the enterprise and workers' control of their own work, with jobs as personally rewarding as possible" (1982: 7). Rothschild-Whitt stresses this again in stating that "Collective organizations . . . strive toward the ideal of community. Relationships are to be holistic, affective, and of value in themselves" (Rothschild-Whitt, 1982: 30). However, these notions of industrial democracy, worker citizenship, and social ownership, that is, of workplace community, are not simply ideals with no basis in organization. Theorists have developed forms and means to try to realize these ideals.

One way to increase the possibility of this kind of organizations success is to develop a democratic consciousness through education. As Whyte and Blasi point out, "Organizational leaders must develop and articulate an ideology that both justifies the form of organization and guides its development. They must develop the organizational mission beyond simply producing goods and services and providing jobs for its members" (Whyte and Blasi, 1984: 402). This involves developing a different way of thinking about ones role in the organization and about the purpose of the organization itself. As Bernstein states, there are "particular attitudes and values supportive of, and necessary for, effective participation by workers and managers in the joint running of the enterprise" (Bernstein, 1982: 69). These attitudes include flexibility, compromise, receptivity to others, and acknowledgement of limits; the kind of things one would expect when a group is attempting to

cooperate, as relative equals, to get the job done.

It may be impractical to take democratic control to an extreme, and say that everyone must have a say in all decisions, and must have equality of roles within the firm. However, even if one allows for flexibility in how democratic decision-making takes place, when the whole community is involved in decision-making--when electing managers for example--voting should be on a one worker/one vote basis, rather than on the basis of numbers of shares owned (see Ellerman, 1982: 301; Lindenfeld, 1982: 348). It is equally important that voting and decision-making should take place on a face-to-face basis (Rothschild-Whitt, 1982: 28). While this can be a cause of strain, and inhibit the success of the firm due to conflicts and personality clash, as well as reduce involvement due to shyness or lack of interest, its value according to the firms ideals makes it necessary (Mansbridge, 1982).

One useful mechanism for encouraging the development of such consciousness is to limit hierarchical differences within the organization. This may involve limiting pay differentials, or it may mean the total elimination of a worker/management distinction or at least role rotation (see Schlesinger and Bart, 1982: 142, and Johnson and Whyte, 1982: 180). For the idealistic forms of workplace democracy, the choice would be both collective organization and collective control. While the extreme is not necessary for the operation of relatively democratic structures, it does seem necessary to limit the distance betweem top and bottom in order to accomplish the desired sense of democracy. The goal, here, is to allow workers *as a group* to increase their influence in the direction of the firm, and thus decrease the alienation inherent in the "scientifically managed" firm.

If one accepts the continuation of a distinction between worker and manager, which may occur given the allowance for relative equality, workers must be allowed access to management level information. This is necessary so that they can make informed decisions in their role at the top of the hierarchy as members in the firm. In this capacity workers direct the firm as a group, and initiate policy directions, which would not be possible without such information. (see Bernstein, 1982: 62; Whyte and Blasi, 1984: 403). Without such access, the the distinction may work to dichotomize members and thus violate the social ideals of the firm.

Other means for facilitating workplace democracy include the minimization of rule use (Rothschild-Whitt, 1982:27-28), an independent judiciary to mediate disputes between parties within the firm, allowing workers to feel free to disagree with management without getting fired (Bernstein, 1982: 67), and having the leadership which is willing to encourage and works to build a democratic institution (Lindenfeld, 1982: 345).

Economic Organization

As important as the ideal of social organization is the ideal of an equitible distribution of the surplus or profit that the firm produces. Here it is generally thought that the members should share in the surplus the firm produces after meeting set costs of production. How this is distributed varies from firm to firm, from equal division among all members, to distribution based on hours worked, to a wage-scale basis, and finally--and this is the least desirable option in terms of workplace democracy *ideals* --according to the proportion of

stocks owned (see Rothschild-Whitt and Lindenfeld, 1982: 184; Johnson and Whyte, 1982: 184; and Bernstein, 1982: 73-76).

While the actual form that social ownership takes may vary, the idea behind it is the same. Instead of ownership by an individual or a small group of individuals, who may or may not be working within the firm, ownership should be in the hands of the members of the firm, or to a limited extent, those with a particular interest in the firm such as members of the local community. This may mean simply that the means of production should be socially owned and kept in a trust (Rothschild-Whitt and Lindenfeld, 1982: 7). One of the reasons for doing so is to increase workers' interest in the success of the firm. However, the actual benefits from making this change alone may be limited. As Hammer, et. al. state, "Changing ownership alone has had some effect on organizational committment and felt ownership in the firm. It may also reduce alienation from work, but it is not associated with higher levels of job satisfaction, feelings of control, or benefit from ownership itself" (1982: 106). This means that the actual form ownership takes *may* not significantly alter attitudes, but it is clear that certain forms of ownership are more consistent with the ideals than others.

This has led some to question the importance of individual ownership itself in providing a significant answer to workplace problems. Bernstein, for example, states that ownership is not absolutely necessary for democratization, since the rights of membership are more important than those of ownership (Bernstein, 1982: 76; Whyte and Blasi, 1984: 401). Raymond Russell uses the case of Yugoslavia to demonstrate this fact. There the industry is socially owned, but the exact meaning and organization of this ownership is not precisely defined. This case

demonstrates that the important point is the social organization and control of the firm, not individual ownership (Russell, 1985: 43). The result is collective ownership in which workers are owners by virtue of their being citizens or members in the firm. The primary issue in social ownership then, seems to be transform the capitalistic notions of property rights into a social or collective ownership.This reduces the possibility of degeneration given employee stock ownership plans, which tend to revert into joint-stock capitalist-looking firms. This collective ownership form is preferred according to the firms ideals, and is consistent with the citizenship ideals of social organization. Workkers become citizens of the firm, and as such could be said to "own" a share in the firm as members, not as individualistic owners.

The consequence of this collective ownership is the relatively equal distribution of the surplus that is produced by the firm. It is in this way that the social organization of the firm pays off economically for the members. This benefit should be seperated from wages, which should be calculated at a fair rate, as this share is interest on labor, not capital. This seperation of wages and shares is consistent with the ideals of the firm in which membership is valued apart from ownership or production. This distinguishes these firms from the typical corporation which pays out the surplus on the basis of ownership.

In addition to interest on labor and wages (which should be considered as an operating cost as is raw materials costs not as an aspect of surplus distribution), these firms must also provide for the capital needs of the firm. Under-capitalization is a serious problem for these firms, and if the surplus is paid out without regard to the necessity of working capital and development capital, the firm will fail. The problem

of insufficient capital seems to be the primary cause of failure for producer cooperatives. If the workers reward themselves too much as owners, they will go bankrupt. As such it is essential that a proportion of the surplus be paid to a working capital or capital reserve fund.

Auxiliary Support Institutions

This leads to the third area which must be addressed: the need for auxiliary support institutions. These become particularly important if the cooperative attempts to operate in a "hostile" environment. In such a case, the firms do not get the same institutional support as an ordinary firm, and thus need to develop their own institutions. These may include social security, education, legal and political organizations, research and development firms, etc. But, none is as important as the financial institution. Cooperatives are prone to under-capitalization due in part to unwillingness of capitalist lending institutions to provide support, hence they need to develop their own support system. One solution is to develop an internal banking system in which the worker is credited with his portion of the surplus but which is kept by the firm to provide capital, and which the worker can obtain only by leaving the firm.

In addition to this more pragmatic consideration, the ideals of these firms also suggest that labor should hire capital rather than vice versa (Rothschild-Whitt and Lindenfeld, 1982: 7). But, for this to be possible, there must be places from which labor can obtain capital. Given the reluctance of private banks to lend this capital, the development of worker created banking institutions may be the best solution.

Along with the bank, it may be necessry for these firms to develop other auxiliary institutions. These may include: education, legal support, political support, research and development, etc. Sirianni, for example, suggests the importance of labor market boards and nationally administered sabbatical programs (Sirianni, 1984: 498), and Whyte and Blasi state, "We see the necessity for building a regional and national organizational infrastructure to provide information, action research, and technical assistance to worker owned firms" (1984: 404). The support of such an infrastructure with its auxiliary institutions seems necessary for the firms survival, as these firms do not receive support from the existing structures which perceive them as bad risks, as undercutting the system, as threats to the American way, etc.

Problems

These firms, then, have a certain democratic ideal toward which they aim. They need to develop a social organization in keeping with this ideal, as well as set up a means of distributing the material surplus of the firm. However, just because they set up an organization which approximates their ideals does not mean they will automatically succeed. As Frank Lindenfeld states, "A caution: workers' cooperatives are not a panacea. Like other businesses, they need capital management, adequate capital, and good marketing" (Lindenfeld, 1982: 351). What this means is that ideology and good organization alone will not ensure success. These firms must be able to produce at least enough profit to refinance themselves, even if there is no surplus beyond wages for the workers to share (A note here regarding fixing prices, it may be possible for these firms to undercut prices of other firms, and sacrifice

their sharing of profit for a larger share of the market, but this may, as the Iron Molders will demonstrate, be a short-lived benefit, as capitalists have more resources, and are likely to win the war).

In addition to the problem of capital financing, there are other real barriers which must be addressed. Given that some measure of democracy is desired, the issues of time and efficiency become important. There is only so much time in the day, and workers have interests outside the workplace, so they don't have time to sit in all meetings and participate in all the firms decisions (Rothschild-Whitt, 1982: 38-39). It may also be difficult for such meetings to be meaningful if the firm is too large, and representative democracy may be necessary (Rothschild-Whitt and Lindenfeld, 1982: 9). There are also the Weberian problems of institutionalization or bureaucratization, and oligarchization. Quite often the tendency of these firms is to degenerate into the kind of firms they reject (Rothschild-Whitt and Lindenfeld, 1982: 11-13; Johnson and Whyte, 1982: 195; and Sirianni, 1984: 500).

Possibilities

While these are real problems which must be addressed, it does not mean that there is no hope for producer cooperation. It is possible to learn from the attempts of the past, and make the necessary adjustments. This may mean compromise is necessary. Sirianni, in particular, stresses the necessity of flexibility and of a pluralistic approach rather than strictly abiding to the holistic or productive integrity model which takes equality to its full extent (Sirianni, 1984: 486). While recognizing the reality of these limits, he does not make the mistake of going to the pessimistic extreme. He feels that these real

problems can be faced with relative success. He states, "Oligarchy, persistent as it may be, is not wrought of iron" (Sirianni, 1984: 500). The goal of *relatively* equal organizations, both in terms of ownership and control, may be achieved. While there is no one best way for these to organize, there are general areas of workplace organization which can guide firms in clarifying what it is they want to achieve. To better understand what specifics may work in particular situations, it is useful to look at actual attempts and, even if they were failures, draw from these the principles of organizational success for the future.

CHAPTER III

THE IRON MOLDERS

This theoretical framework can guide the study of an actual attempt to institute such ideals. This is an attempt, by the Iron Molder's Union, to develop a system of "Cooperation" in the iron industry in the late 1860's. But, before looking at this directly it will be helpful to set the historical stage to better understand what resources the Molders had available to make such an attempt. This also helps to understand why their attempt took the form of cooperation.

Historical Setting

The era in which the molders attempted cooperation was perhaps the most rapidly changing era in American history. In the last half of the nineteenth century, "A society of small, owner-operated workshops and factories dependent upon the skilled artisan evolved into a system of mass-production, utilizing large numbers of unskilled laborers and dominated by huge trusts under the control of finance capitalism" (Derber, 1970:29). Contrary to what may be presented in some of the sociological literature, this change was not simply a smooth transition in which the monopoly capitalist readily assumed a place of prominence, either with the full support of workers, or due to the workers' lack of resources to prevent such a transition. Instead it was an era of conflict and resistance, particularly on the part of skilled artisans who relied on the traditionalistic ethic and skilled knowledge for resources of resis-

tance.

This reaction has been studied by Herbert Gutman who emphasizes the importance of looking at actual workers' response within communities, rather than relying on broad historical reactions. Of the period from 1843-1893 Gutman writes that there existed "a profound tension between the older American pre-industrial social-structure and the modernizing institutions that accompanied the development of industrial capitalism" (Gutman, 1977a: 13). During this time there was a radical industrial transformation throughout the country, and the skilled craftsmen seem most susceptible to the negative affects of this on their trade. The reactions against this process were rooted in the community ties and the ties within the trades themselves. As Gutman says, "Gilded Age artisans did not easily shed stubborn and time honored work-habits" (Gutman, 1977a: 36). These workers were able to draw support from their artisan work-habits, and their working class community subculture to resist threats to their trade. This was possible since the capitalists they were resisting tended to come from outside the community and had not yet established social status commensurate with their economic position. As Gutman states, "Economic power was not easily translated into social and political power, and the changes resulting from rapid industrialization stimulated sufficient opposition to the industrialist to deprive him of the status and the authority he sought and needed" (Gutman, 1977d: 258).

At least at the beginning of this era of transition, then, workers had important resources available for resistance. They were able to draw on community support in their struggles against real and perceived threats from the capitalists. They could utilize the fact of their

skill-knowledge necessary to production in these pre-automation days, and could actually, in certain cases, start their own firms (Gutman, 1977c). This ability to utilize their resources to begin their own firms may not always have been in response to the threat of capitalists, but it did serve as a ray of hope in times of strikes, lockouts, etc. From Gutman's perspective, then, it is clear that this time in history was not simply a time for despair for the skilled tradesman, it was a time of action, response, and perhaps of hope that workers could fight back against the system using skills and traditionalistic, community ideals. It is this structure, in which workers were able to mobilize their power, that the workers were trying to defend. Based on a value-system with a rich American heritage, they fought against its direct opposite leading to the "Europeanisation" of America, and the "serfdom" of all workers (Gutman, 1977a: 52-54).

David Montgomery also addresses skilled workers response to the threats to their trades in the late nineteenth and early twentieth century. He finds that it was possible for workers to resist because of their knowledge over the production process, their moral code which governed behavior on the job, and which emphasized mutuality and the collective good (Montgomery, 1983: 391). This combination proved very important for these skilled workers, as "technical knowledge acquired on the job was embedded in a mutualistic ethical code, also required on the job, and together these provided skilled workers with considerable powers of resistance to the wishes of their employers" (Montgomery, 1979: 14). One of the ways these resources were maintained was through the use of the "stint," which was an output quota fixed by the workers and not to be exceeded by any individual worker. The argument for this was

that "unlimited output led to slashed price rates, irregular employment, drink and debauchery. . . . Rationally restricted output, however, reflected 'unselfish brotherhood,' personal dignity, and 'cultivation of the mind.'" This led to the development of what Montgomery calls a "manly" bearing toward one's boss (which meant the worker held his ground and did not flinch before the boss's authority), as well as the development of manliness toward ones fellow workers (which primarily meant not undermining or undercutting each others right to work by doing more than one job's worth of work) (Montgomery, 1979: 13). So, Montgomery, too, argues that skilled workers in this period, particularly in smaller towns, were not without resources to resist the threats to their jobs. They were able to draw on the traditions within their craft and their community, as well as on their skills, to put up a fight; fights ranged from negotiations, to strikes, to total breaks with the "capitalist" firm and starting their own firms.

This traditionalistic ethic proved particularly important in determining the direction the labor movement would take. The two primary options were *reform unionism* which was built on the ideals of the traditonalistic consciousness, and *trade unionism* based on collective bargaining, which was still in its infancy. As Gerald Grob states, reform unionism was based

> on a vision of past society where the independent artisan combined in his own person both employer and employee functions. . . . The only legitimate division that they recognized was between the producing and the non-producing class, the former being given the stamp of legitimacy and the latter marked for obliteration. The end objective of reform unionism was the creation of a society where all would belong to the producing class, and the individual would combine in his own person both worker and employer functions (Grob, 1961: 7).

The most obvious means of achieving the elimination of the non-producing

class and the need for capital, given their traditionalistic ideals, was "cooperation." As Selig Perlman states, "To the American worker, who hankered to be rid of the capitalist 'boss,' a cooperative self-bossing seemed almost as desirable as self-employment as an independent individual" (Perlman, 1949:190). Cooperation, then, came to be seen as the means by which the workers could force the capitalists' hand by beating them at their own game, while maintaining the traditionalistic ideology intact, building on the American ideals of individualism and free-enterprise (Derber, 1970:190). It was seen as a means of eliminating the wage-system, with its inherent tension between worker wages and capitalist profits (Grob, 1961: 15). The primary advocate of such a system of cooperation was the leader of the Iron Molders, William H. Sylvis, "the first great figure in the American labor movement" (Andrews, 1966: 7).

The Union and Cooperation

The Iron Molders Union was one of the earliest unions to make significant and lasting attempts at forming a national union. The earliest attempts were typically local, and were directed primarily toward wage-cuts and abuses of the apprenticeship/helper system on the part of the capitalists. These arose only during lean years, and tended to disappear when the economy improved. The economic depression of 1857 brought particularly bad conditions to the Molders, leading to wage reductions, strict work rules concerning contracts, helpers, tools, etc., on a nationwide scale. Local unions had little success in fighting back, particularly given the rise of employer combinations, so it became increasingly clear that a wider base of operation was needed. With William Sylvis leading the way, the Molders held their first national con-

vention in Philadelphia on July 5, 1859. This union increased steadily in size, with forty-four locals represented at the 1861 national convention, but then the Civil War, which sent many of the leaders to the front, including Sylvis, almost resulted in the end of the union. At the 1863 convention, only fourteen locals were represented. After being elected president, Sylvis was sent on a famous organizational trip to revive the union. The trip was a great success, as was Sylvis' presidency, and the union grew quite strong (for a full history see Stockton, 1922).

The union that Sylvis was instrumental in organizing was built on the tradional values and skills of the workers. Daniel Walkowitz points this out for the iron workers in Troy and Cohoes, NY: "Industrial workers settled into Troy and Cohoes, and established kinship groups in ethnic working-class neighborhoods. The church and other institutions facilitated the development of a supportive associational network. These institutions helped the workers adapt in the city and were important preconditions for protest" (Walkowitz, 1978: 137). In addition to this community support, there was also support within the trade itself.

As Montgomery found for other trades, the Molders made use of stints and the workman's ethic. The stint as a means of controlling output levels had a long tradition among the Iron Molders (Stockton, 1968: 156). Molders battled fiercely over maintaining lower levels for this quota, so as to resist over-production which threatened fellow molders' jobs, as well as their own in the long run. The workman's ethic judged those who worked beyond the quotas as selfish and inhuman. In fact, Stockton indicates that "one of the earliest rules of the Molders Union provided that no member should endanger the job of another

member by working at a lower rate of pay or even offering to do so" (Stockton, 1968: 137). Sylvis himself states, "We hold it to be ingenerous, if not inhuman, for half a dozen men to transcend their physical abilities by working late and early, to monopolize all the work in the shop"; and again, "to retain the power of self-protection, we must be a unit in heart and purpose, tolerating no innovation which secures a benefit to one at the expense of another" (Stockton, 1968: 434, 435). This support of each other went beyond the organization and rules of the workplace, and included support in sympathetic strikes as well. For example, in Troy, NY, when 745 Molders were locked out, 750 iron workers walked out in support (Walkowitz, 1978: 96; see also Ozanne, 1963: 160).

In addition to this strength drawn from traditional ideals and community support, the Molders clearly benefited from the fact that their skills were essential to the production of iron, and as long as they maintained solidarity they could resist the threats to their craft with a high degree of success. The importance of their skills to production may have led the Molders on to their next stage of union development, the push for cooperation.

Drawing on the past for a vision of the good society, and resting secure in the irreplaceability of their skills, the Molders attacked. Through cooperation they hoped to set up the beginning of the end for the non-producing class, and to eliminate the wage/capital division by investing both in one person, the worker/owner. Milton Derber outlines the ideals of the producer cooperatives as they existed in theory. The cooperative

was intended to eliminate the profit-maker and to be run on the

> principles of direct democracy by the owner producers. Each worker would have a single vote; the management would be selected by the workers; and major policies would be determined by group discussion and decision. All workers would be co-owners so that the employer employee relationship and the wages system operating within that relationship would be eliminated. Outsiders would have no voice in the government of the enterprise (Derber, 1970: 38-39).

While these goals may ultimately have been beyond reach, at this stage they were seen as a realisable. Trade unionism was seen ultimately as contrary to achieving this ideal, serving instead as a necessary first step that needed to be surpassed. After addressing trade unionism as important for organizing the movement, Sylvis stated, "'Cooperation' is the next great step; this taken, and we will have crossed the boundry which has so long seperated man from his destiny. . . . By cooperation, we will become a nation of employers--the employers of our own labor" (Sylvis, 1968: 168). At the labor congress of the National Labor Union, of which Sylvis was also president, cooperation was presented as a "sure and lasting remedy for the abuses of the present industrial system, and that until the laws of the nation can be remodeled so as to recognise the rights of men instead of classes. The system of cooperation carefully guarded will do much to lessen the evils of our present system" (Andrews, 1966: 118-119). The hopes for cooperation, then, were quite high. It was the means of ushering in the new society based on old ideals, or put another way, ushering out the new, "corrupt" modern system.

What the workers wanted most was to secure the full fruits of their labor, which meant for them the elimination of the wage system. With their traditionalistic community ideals, these molders perceived owners as denying workers their full share of the surplus. As Andrews states, the cooperatives "were the efforts of workingmen to carry on

their own as a form of productive cooperation which would give them the whole product of their labor" (Andrews, 1966: 111). Sylvis himself contended that "Labor is the real source of all wealth" (Sylvis, 1968: 98). This desire of labor to retain the full value of their labor was a rooted in the earlier days of the semi-autonomous, non-factory craft production. Sylvis was most adament on this need to eliminate wages:

> For years I have been teaching the doctrine, that under the system of paying *wages* to labor and *profits* to capital, there never was nor never could be any identity of interest between employers and employed. Both were activated by the same principle--to buy in the cheapest and sell in the dearest market. The result could be nothing but antagonism (Sylvis, 1968: 390).

The solution to the inherent tension was to be cooperation which joined worker and owner. Cooperation was the "only way by which we can hope to control the two elements of capital, labor and money, and take from the few who arrogate to themselves the right to own the one and control the other, the power they have ever employed to subjugate and degrade labor" (Stockton, 1931: 262). The system of wages, then, was very significant in the selection of cooperation as the option to be pursued. Rather than accomodate, the workers sought to assert their authority which they thought was sufficient given their ideology and their skills.

This abhorence of the wages system actually led molders to reject trade unionism as an option, as Norman Ware indicates: "The reluctance of the labor movement to accept collective bargaining as its major function was due largely to the fact that this involved an acceptance of the wage system." Given this, the best option was the producers' cooperative (Ware, 1959: 320). Others would later declare that this pursuit actually hindered the progress of the labor movement by denying its only true resource (Perlman, 1949; Commons, 1966). However, at the time

reform unionism seemed the best option, and, for perhaps the only time on a significant scale, it dominated trade unionism. However, it would not last, and by the end of the century trade unionism would reign supreme (Grob, 1961: 10). To better understand why cooperation was attempted, what it looked like , and why it failed, it will be helpful to look at attempts at Troy, NY and Pittsburgh, PA, the two most significant cooperative ventures by the Molders.

The Troy Cooperative

After calling for cooperation for years, the Iron Molders saw it first attempted by the local iron molders of Troy, NY. In Troy the molders and the community as a whole had a shared value system which drew upon communitarian, traditionalistic values. Troy, and the iron workers in particular, was dominated by immigrants, particularly the Irish. In 1860, for instance, fifty-nine percent of Troy's citizens were foreign-born or the son or daughter of an immigrant, and among the molders, fifty-five per cent were Irish (Walkowitz, 1974: 442, 437). This proved to be important in the establishment of community ties and values, as workers could build on ethnic ties as well as shared work experiences and skills. Walkowitz, who has done several studies of the iron workers in Troy, states, "A closer look at certain skilled and unskilled Troy workers during this period discloses cohesive family and cultural patterns that helped to knit the iron worker community together. These patterns may provide clues to the attitudes, values, and life-stule that influenced the social behavior of these workers" (Walkowitz, 1974: 444; see also p. 459). These ties were significant in providing the resources needed to make efforts at resistance and con-

trol. The molders had the support of the Irish dominated police department, as well as the Irish political machine, and as such were provided with assurances that their efforts at resistance would not be opposed by the local political and legal authorities. Resistance, then, provided evidence for solidarity, rather than disintegration as some have suggested. As Walkowitz indicates, "Violence and conflict, however, can reflect a certain integrity and organization within a strong community. Household and family structure provide one index of the social basis of organization and protest" (1974: 454). Extended efforts of resistance--the 1866 molders strike lasted a period of months--would not have been possible without this supportive network. It was a result of this 1866 strike that the molders established the first cooperative foundry which would serve as a ray of hope for molders nation-wide, and it is clear that the community solidarity was significant in its establishment.

While the strike turned out to be a triumph for the molders who won and returned to work, it was hoped that its most significant product would be the formation of the cooperative foundry. Financed by local molders, they hoped it would serve as the model for the future of the molding industry. The idea was to set up a foundry which was based on the principles of democracy, worker ownership, and worker control. While the specifics of the program are not as clear as the later Pittsburgh attempt, it is clear that they looked to the Rochdale pioneers for guidance. E. W. Bemis does give some idea of the organization at the Troy cooperative in terms of ownership and profit distribution: "Out of any profits there was to be paid first an interest of 10% on capital, and all the rest of the profits were to be divided equally between each

stockholder working for the company, without regard to the stock he held, though only one vote was given to a member. All the stockholders did not work in the foundry" (Stockton, 1931: 272). From these principles it can be seen that the molders sought, in Russell's terms, to have collective ownership and collective control of the foundry. In April 1866 the Cooperative Stone Works was founded, and by December it was already a success. At this time "32 men were reported at work and were said to be earning an average of $30 a week, a sum greatly in excess of prevailing wages. While the capitalization amounted only to $30,000, real estate and 'stock' were held to the value of $50,000. From May, 1866, to January, 1867, the business done aggregated $100,000" (Stockton, 1931: 264). It later came to employ over fifty people who received, in addition to wages, two dollars per day in cooperative profits. They also had more contracts than they could handle. This success excited many other cooperative attempts, the most significant of which was in Pittsburgh.

The Pittsburgh Cooperative

In 1867 about 150 Pittsburgh molders were involved in a long and bitter strike. The word from Troy provided hope of an alternative form of resistance. Sylvis in particular jumped on this opportunity and argued that the Molders Union as a whole should get involved in ownership through cooperation. The details of the organization at Pittsburgh are clearer than at Troy, due in part to more documentation because of its national ownership, but there is reason to believe that it drew heavily on the principles used at Troy. The plan was described by Sylvis in his presidential report to the Toronto session of the Iron Mold-

ers International Union on July 8, 1868. $100,000 was to be raised in capital stock by way of 20,000 shares sold at five dollars each. No individual or union was to own more than 400 shares ($2,000). The foundry association at Pittsburgh was not bound to redeem any share of its capital stock within two years of the date of subscription, and in no case without three months notice. No shareholder was to have more than one vote on any question, regardless of the number of shares he held. Five percent of the profits was to go into a sinking fund not to exceed $10,000, fifteen percent of profits to shareholders in proportion to the amount held by each as interest on capital, and the balance to shareholders in proportion to the amount of wages received from work in the association, as interest on labor. The Pittsburgh union, or individual molder, was required to buy at least 500 shares, and no stock could be sold or transferred to any person who was not a member of a molders' union without consent of the Board of Directors. The plan initially seemed a good one. It addressed the issue of insufficient capital by broadening the base of available capital and minimizing the amount necessary to invest. And, it addressed the issue of degeneration by limiting the benefits of investment on capital and increasing the benefits of labor. These seemed to be the two biggest problems faced by cooperatives, and if successful, it was expected that cooperatives would sweep across the iron industry and all of industrial America as well. As it was, new cooperatives continued to spring up in the wake of the success at Troy and Pittsburgh. However, the enthusiasm was short-lived as both eventually failed as cooperative ventures.

Failure

The direction in which both failed was similar: both quickly became capitalist firms degenerating into joint-stock companies. In Troy the lack of a substantial return on capital led to changes in the organization of the foundry. Wage earners there realized that they could benefit best by keeping their profits below 10% as not all stockholders worked in the plant. This led those with larger numbers of shares and those who did not work in the plant to amend the constitution so that each stockholder could vote according to the number of his shares. The result was that wages were reduced and profits were divided as in a joint-stock company (Stockton, 1931: 272). The notion of paying interest on labor disappeared. As capitalists themselves, the wage system did not seem so bad after all. As Andrews states, "The cooperators quickly adopted the capitalist view. . . . That these capitalistic cooperators were less eager for leisure to improve body and mind than they had been as trade unionists, is apparent" (Andrews, 1966: 54). When faced with the prospects of increasing their share in the profits individually, even at the expense of other molders, the ideals seemed to become less important. The main problem, then, seems to have been the demand on the part of the stockholders, even as members, for increased return on capital (Walkowitz, 1978: 185), leading to the degeneration of the firm from a cooperative venture into a joint-stock company.

Pittsburgh followed a similar path. The failure here, as in Troy, was directly related to the problem of capital: getting it was difficult, and those who supplied it wanted to profit significantly as a result. The International Union gave in to these demands, seemingly without much resistance, and drastically changed the way that the sur-

plus was distributed. Rather than 5% reserve, 15% interest on capital and 80% interest on labor, the distribution was set up that foundries owned by the Molders Union would pay 12% on capital reserves, 12% on labor and 76% to be determined by the stockholders (Grossman, 1973: 215; Derber, 1970: 38). In commenting on this change Grossman states, "The financial structure of these pseudo-coops was such that, regardless of the number of owners, self-interest would pervert to private gain any benefits that might accrue to labor in a genuine cooperative" (Grossman, 1973: 216). However, as Grossman indicates, the failures of this foundry in its attempt at as a cooperative went beyond just the problem of capital and into all areas of organization: "The sins of these cooperatives were legion. . . . The ideals of every cooperative champion were here violated" (1973: 217). It is possible now to look at the sins of the molders in their cooperatives and thus to better understand the issues that such ventures must face if they are to be successful.

The problems that cooperation faced were not specific only to Troy and Pittsburgh. All attempted cooperatives faced similar problems, and seemingly all failed to meet the challenge. As Stockton says, "The history of the Molders' experiments can be summed up by stating that all cooperative or quasi-cooperative foundries which were established ultimately ended as business failures or else became partnerships or joint-stock companies" (Stockton, 1931: 269). It is possible to analyze this failure in general terms and from this learn about the possibility of future cooperative attempts. This analysis of problems can be guided by the three theoretical areas identified above.

In the area of social organization it is clear that the Molders were unsuccessful in maintaining the democratic ideals of relative

equality. This problem of social equality is associted with degeneration, as may be clear, is closely related to the problem of capital. Troy and Pittsburg demonstrate that those who dared to invest capital sought greater returns. Even though the one member/one vote policy would seem to dictate against it, they were able to change the rules to the benefits of capital rather than labor. Why this happened, and why even Sylvis did not seem to object, is not entirely clear. It may be that the majority of workers thought they could benefit from this system by way of stock-ownership. Given the abhorance of the wage system one would not expect such a change. Nonetheless, such a change was made and the result was the abandonment of the ideals on which the cooperative was built. Foner summarizes this process:

> The molders soon discovered that in order to exist in a competitive world, co-op foundries had to abondon co-operative principles. Stockholders demanded more and more profits, and to meet these demands the co-operatives were forced to reduce wages, lengthen working hours, and abolish union standards (Foner, 1947: 419).

While this assessment seems harsh, the evidence from this period does not allow for a positive assessment. Again and again the stockholders seem seemed to lead to the abandonment of cooperative principles by their call for increased profits (Walkowitz, 1978: 185; Grob, 1961: 20; Perlman, 1949: 191; and Grossman, 1973: 216). The conclusion of this cooperative attempt is always the same: "No shop or factory has been able to maintain efficiency where the workers themselves own and operate the plant. If the business succeeds, the original workers become managers and stockholders, employing men in a purely wage capacity, or some sort of paternalism is set up such as profit sharing and copartnership" (Ware, 1959: 322).

The second cause of failure also falls under the area of social

organization. This involved the cooperators inability to retain managers or their lack of recognizing the importance of manager's skills in the production process. Not surprisingly, there was an inherent tension between workers and managers. There was "constant criticism directed against the managers of cooperative plants by their associates. Indeed, it was perhaps the 'commonest mistake' of the molders not to recognize and reward managerial ability" (Stockton, 1931: 274). This resulted in the managers abandoning the cooperative firms for greener pastures. "Those who possessed the talent {of managerial skill} did not long remain in the movement, but . . . left and used their abilities in directing their own plants" (Grossman, 1973: 211). It is ironic, but not surprising that those who sought to establish an ideal based on their skills failed to realize the importance of the skill of the managers.

The third cause of failure of these cooperatives, also in the area of social organization, which seems surprisingly common to most producer cooperatives, was the hiring of non-member workers. This directly contradicts the principle of workers having rights as members in the firm, as well as the one member/one vote rule. While this problem does not attract much attention in the literature on the molders, there is evidence that it may have been more widespread than suspected. In certain foundries it was found that up to one-third of the work-force were non-stockholders (Stockton, 1931: 271). This clearly grew out of the transformation of the laborers into capitalists who sought to maximize their profits. Perlman indicates that, as successful cooperatives grew, they tended to hire labor rather than extend membership, which undercut the ideals and quickened the transition to a joint-stock model.

The fourth, and perhaps the most serious, cause of failure was under-capitalization. Even though the capital needed to finance these ventures was relatively modest compared to other industries, ranging from $15,000 to $20,000, this obstacle was nonetheless formidable. Grossman states that "the immediate cause of death was acute financial malnutrition" (Grossman, 1973: 211). Pittsburgh provides a classic example of this as the molders were short of working capital and a crediter called in a debt, forcing the foundry to sell out to pay the bill (Grossman, 1973: 206). Part of the reason for this lack of capital was the actual size of these firms. The typical firm attempting a cooperative consisted of thirty to forty workers who simply did not have the money necessary to fully support the foundry (Stockton, 1931: 273), and banks were unwilling to risk such loans. This issue of raising capital, then, is a real problem that must be addressed by producer cooperatives (Andrews, 1966: 112).

It would be a mistake, however, to think that these cooperators failed to recognize this problem. In fact, it was one of the major problems that they battled against, arguing that the non-producing class should not be able to maintain such power and control over the actual producers of that surplus. To battle this problem they supported "Greenbackism" as a means by which capital would be easier to obtain, they looked for state support of cooperative movements and, as seen with Pittsburgh, tried to broaden the base from which capital could be obtained. Sylvis even suggested the importance of a national cooperative bank and other auxiliary institutions to provide support for cooperative efforts including education, home and land associations, and building societies (Sylvis, 1968: 200-204). However, these institutions

failed to materialize, the political action failed to effect significant change, and the distribution of stock to employees outside the firm often led to the next cause of failure, degeneration of the firm into a joint-stock company.

The fifth cause of failure, also in the area of economic organization, and which may ultimately have turned molders away from cooperation, was the practice of undercutting the prices of other shops. While it seemed to these cooperators that such price-cutting was necessary to gain access into the market, the effect on other molders was negative in terms of wages (Stockton, 1931: 270). The cooperators could accept lower wages since they received a proportion of the capital as well, but the non-cooperative factories lowered wages to compete. Given this practice it is not surprising that cooperative foundries were successful initially, but ultimately fell into disfavor with the majority of the workers (Commons, 1966: 54, and Perlman, 1949: 191). This was because their undercutting was seen as a violation of one of the basic principles of the workingman's ethic. As such, the cooperative movement which was based on this traditional code may actually have worked against what it stood for.

The sixth cause was the failure of the molders to establish auxiliary support institutions. While they were aware of the importance of such institutions, for various reasons these were never established. Given the short period of time in which these firms existed as cooperatives it may have been impossible to develop such institutions from within, but the lack of their development may have made certain the failure.

The final cause of failure is the conditions under which all of

these cooperatives were established. The fact that cooperatives were established during times of labor unrest, strikes, lockouts, etc., may have contributed to the difficulty they found in achieving success. This was due primarily to the inability of unemployed workers to provide the necessary capital, and the need of the union to provide striking workers with support. Sylvis indicates that at the time the Pittsburgh foundry began at least one-half of the molders membership was out of work, some of their severest strikes had to be supported, and nearly all of the membership was poor. This made the possibilities for capital accumulation extremely slim. Related to this, once the decision was made to build, was the sense of urgency drove the projects faster than intelligent management would have suggested. The result often was poor planning.

In addition to these causes of failure the molders' example demonstrates at least two important things about what may or may not be needed for a successful producer cooperative. The molders example demonstrates that sharing skill knowledge with relative equality is no guarantee of success. Those molders who ventured into these cooperative attempts were skilled workers, but they failed nonetheless. As such, equality of knowledge in the workplace may be a nice ideal, but it is obviously not sufficient for the success of a cooperative firm. Hand-in-hand with this is the fact that the failure of coops is not due to increased technology which strips the workers of control over the work process, limiting the possibilities for cooperation. In the case of the molders, automation was not a factor until at least the 1880's, well after the cooperative attempt had failed (Stockton, 1922: 37). In fact it may have been the iron industry's resistance to mechanization, among

other things, which later resulted in its downfall and the rise of steel (Brody, 1960: 8-9).

A Reassessment

The Iron Molders' attempt at cooperation, then, may be said to be a complete failure. It failed in its ideals of worker ownership and in its ideals of workplace control. Some would later contend that it set the labor movement back from achieving control in the only way it could: trade unionism. In fact, history's treatment of cooperation has not been kind. The movement has been seen as an idealistic attempt to retain an increasingly out-moded way of life and word, and it was a mistake on the part of workers to resist modernization (Commons, 1966: 3-4; Perlman, 1949). However, recent attempts at workplace democratization have brought about a review of producer cooperatives and a reassessment of their ability to succeed. This has included a reanalysis of the historical record to better understand under what conditions and which organizational structures of producer cooperatives both succeed and fail (see Jones and Svejnar, 1982; Conte, 1982; and Jones, 1984). In a similar way the case of the molders can be used to better understand the workplace democracy movement's agenda for success and expansion of the literature.

It is clear that while the basic principles of cooperation may have been sound, the methods for encouraging capital and resisting degeneration were not sufficient. It seems that one must institute some means by which the degeneration process can be prevented. This may involve a system of ownership other than stock-ownership, even when split off from membership. It is also apparent that ideology alone will

not serve this purpose. The ethic of the workers which gave rise to the cooperative impulse was in turn undercut by its own creation through the undercutting of prices and violation of production quotas. While this is not a particularly new conclusion regarding producer cooperatives, it is significant in terms of the suggestion of eliminating stock-ownership. There are many who still want to maintain stock-ownership, splitting it off from voting rights, but the molders demonstrated that this may not be enough. It seems that our conception of the rights over private property are too strong, and the methods for prevention of degeneration too weak to allow for this. Continuing stock-ownership sounds good in theory, but it seems to not work well in practice.

The case of the Iron Molders, then, may have been a complete failure in terms of cooperation at the time, but it can be instructive in helping to establish the principles for the success of cooperatives. The ideals are in keeping with the ideals of the present-day push for workplace democracy, and the basic plan seems to be sound. The fact that we can learn from this failure is evident in the success of another producer cooperative attempt, Mondragon. The basic principles of organization are similar in both, but Mondragon has been more successful in eliminating the possibility of degeneration. While the case at Mondragon may not be the ideal either, it is a step in the right direction from the failure of the Iron Molders; from it we may continue to increase the possibility of workplace democracy as a real option for American workers. If the Iron Molders' attempt could be revised, it would be possible to argue from strong American ideals, as did the Molders, and avoid accusations of communism, which mark movements for doom in the United States, and thus increase the possibility of receptance

and success.

CHAPTER IV

MONDRAGON

The failure of the Iron Molders can be compared to the success of the group of cooperatives centered around Mondragon, Spain. Here, too, the three theoretical areas--social organization, ownership and distribution of surplus, and auxiliary support institutions--provide the framework for analyzing the cooperative enterprises. This comparative analysis of Mondragon in comparison can help highlight the essential organizational features for cooperation.

History

"Mondragon", as the system of cooperatives is often called, has its roots in a two-year technical school that was founded in Mondragon, Spain in 1943 by Jose Maria Arizmendi. Arizmendi was a Catholic priest with a social concience whose primary role in the formation of the cooperatives was as idea man and as inspiration. In terms of hands on effects, he carried out much of the legal research to find an appropriate organizational form within Spanish law. He also provided the essential aspect of self-criticism on the part of the firm, analyzing problems for solutions rather revelling in success (Campbell, et. al., 1977: 23). The Technical Training School opened with the help of community support, and in partial opposition to the town hall and the city's primary industrial company, with an enrollment of twenty. In 1948 its success led to the founding of the League of Education and Culture which

gave legal status to the school and which still is the organization behind the educational system. Of the initial graduates of the technical school, eleven went on to obtain credentials from an established engineering school. Five of these returned to Mondragon and with the help of Arizmendi decided to set up their own cooperative firm to put the ideas learned from Arizmendi into practice.

In 1956 Ulgor was founded as a limited liability corporation under Spanish law. It took two years of legal research to finally reach a better legal position, under cooperative law, which was consistent with their ideals. To start Ulgor, the five raised eleven million pesatas (1980 100 pesata = $1.43 U.S.) from friends, relatives, and the community. Their first products were paraffin-fueled space heating stoves. They later added a line in electrical parts, and in 1958 started a casting shop and foundry. In this year they also added butane-fueled cookers and heaters which brought the first assembly-lines, which were seen as necessary to compete. In 1959, along with two other cooperatives, they recognized the need of a support institution to achieve the goals of financial stability and expansion. The result was the Caja Laboral Popular (CLP), or Peoples Savings Bank, which began to operate in 1960. In addition to providing investment funding, the bank was also to provide professional expertise for the cooperatives, as well as social security benefits. The Contract of Association was developed by the CLP, which set the terms which cooperatives must follow to be a part of this cooperative network. This included organizational implementation of the ideals of social control and equitable surplus distribution.

In 1966 Alecoop, a cooperative educational foundry, was established to provide training and retraining, and was financed by student

workers who worked in the foundry five hours and then were in school five hours per day. In 1968 Eroski, a consumers cooperative, was formed by an amalgamation of already exixting consumer cooperatives. In 1970 Lagun-Aro was established as a seperate cooperative from the CLP to provide for social security and health care benefits. In 1974 there was a strike in Ulgor, the largest cooperative with over 4,000 workers, and the result was a reanalysis of actual worker input. This in turn resulted in the institutionalization of creative worker input, gradual phasing-out of Tayloristic principles of scientific management, and attempts toe limit numbers of workers in cooperatives to about 400. From 1978-1980 plans were made, also in response to pressures from inside and outside, to group cooperatives into federations so as to take advantage of economies of scale while staying true to cooperative ideals (Historical information from Thomas and Logan, 1982: 14-38; Eaton, 1978: 478; Gutierrez-Johnson, 1978: 267; Bradley and Gelb, 1981: 213).

The cooperative system has grown from the initial 24 workers of Ulgor in 1956 to include, in 1984, 165 cooperative organizations, 7 agro-industrial concerns, 14 building companies, 3 service organizations, and a system of consumer cooperatives serving 75,000. The CLP has 132 branches in the Basque region and $1 billion (U.S.) in assets. There were over 18,000 workers in the various cooperatives, and the cooperators made up about 10% of the Guiporcoa region (Gutierrez-Johnson, 1984: 35). From these figures it is clear that, in terms of growth alone, the Mondragon system of cooperatives is an established success (Bradley and Gelb, 1981: 213). Even the critics must admit as much. The question becomes whether or not it has stuck to its ideals while becoming an economic success.

Social Organization

Looking first at the social organization of the cooperatives, the goal was to develop a democratically organized and relatively equal work-force. In order to enhance this possibility participation in the social organization is based on membership, and therefore labor, rather than on capital investment (Campbell, 1977: 26). This enables the establishment of the one member/one vote principle which is essential for avoiding the degeneration of the democratic ideals (Saive, 1980: 226). This does not mean, however, that all members are strictly equal. There is, in fact, a relatively clear hierarchy, but ultimately, at the top of the "pyramid" is the general assembly which includes all members, drawing attention back to the democratic base (Campbell, 1977: 30).

Organizational Structure

The organization of the individual cooperative firm does have a clear structure. Bradley and Gelb point out that the actual organization of the firm "does not differ too greatly from that of a capitalist corporation" (1981: 213). However, the apparent similarities do not necessitate similarity of result. The main difference stems from the fact that it is the members rather than the share holders who hold ultimate power (Saive, 1980: 226-230).

The general meeting is the forum for the expression of the collective will of the cooperators in directing the firm. It is normally held annually by the management committee, but in extraordinary circumstances can be called at any time by the management committee or one-third of the staff of workers. Below the general assembly is the management committee or *Junta Rectora*. The members of this committee are elected by

all workers at a special general meeting. The committee usually includes a president, a vice-president, and six other members of the firm. They are elected for four years, and every two years at least half the seats must be subject to election. This committee has the managerial powers over the firm, much as in a capitalist firm, and is given a certain degree of authority which almost appears to include autonomy. The general assembly also elects three members to a supervisory board whose task it is to monitor, clarify, and verify the financial situation of the cooperative and report back to the general assembly. Also elected is the president, for not less than four years, whose task it is to implement the general management plan which is drawn up by the management board and submitted to the management committee for approval. The management board links the management committee and the president, and meets once per month. It also serves as an inter-departmental coordinator, linking the policy-making body and the executive management. This, then, is the hierarchical organization of the firm, which does in fact look somewhat like the capitalist firm, but the difference is in how policy is set, how decisions are made, and where ultimate authority rests.

The Social Council

In addition to their ultimate authority as members, their determination of policy, and their selection of management, cooperators also have recourse to another form of authority *as workers*. This is the social council. The social council is elected by groups of ten to twenty employees who choose one of their members as a representative. It meets once a week to facilitate information flow (Saive, 1980: 230).

This council is meant as a means for workers to have an additional influence on matters of policy and social benefits (Whyte and Blasi, 1984: 395). The attempt is to provide workers an opportunity for input as workers, not as the more general classification of members. As Ana Gutierrez-Johnson states, "The social council was conceived as a means for the expression of the collective preferences of the members, *as workers*, regarding all terms and conditions of work" (1984: 38). However, the one strike that has occurred at Mondragon arose, in part, because of the lack of real authority to influence management in this way. As a result, there have been attempts to increase the institutionalized power of the social board. For example, the social board now "has direct access to both the general manager and the control board to whom it can represent the human, as opposed to commercial, requirements of the workers" (Campbell, 1977: 25-26). Also, management now consults with the social council on all major question, and when a social council recommendation is rejected by management, the council has the power to call a meeting of the general assembly to overrule management if it so chooses (Whyte and Blasi, 1984: 395). In some respects, then, the social council acts like a labor union to represent the workers of the firm to management. Therefore, the "workers" have control over management from both "top" and "bottom."

Looking at the social organization as a whole, then, it appears that in spite of a capitalist-firm-like hierarchy there is clearly a principle of democratic input in the organiation. This occurs from tip down via the general meeting, and from bottom up via the social council. Saive comments on this structure stating,

making these arrangements the movement demonstrated its ability to

> establish a number of differentiated levels of decision-making at which the individual member can exercise a real influence and thus plays an active rather than a passive role. In fact, since decision-making is conducted in a democratic manner, the system is an alternative to that of centraliation (1980: 243).

The social organization of the firm makes possible the practical achievement of ideals of democratic organization without inhibiting the capital-growth success of the firm.

Managers

At Mondragon there is a continuation of the split betweeen worker and manager, with the manager having a certain degree of autonomy in the daily affairs of the firm. The main reason for allowing this is respect for the managers' expertise and of their necessity in a modern, technical firm. As Campbell indicates, the social structure works "to ensure that the reality of democratic control does not interfere with effective management. The control board has the power to hire and fire top management, but unless prepared to use this final sanction must leave managers to manage" (Campbell, 1977: 31). Gutierrez-Johnson echoes this in stating, "The Workers elect the ruling and executive bodies, but once elected these have all the authority they need to perform their offices. Management is appointed and given jurisdiction over areas of decision which cannot be challenged by subordinates; however, it is accountable to the collective of members at the end of the term" (1978: 281). So, while the managers have a certain degree of autonomy, it is not ultimate, and the strengthening of the social council may further limit any possibilities for real autonomy.

Size and Technique

Another factor associated with the social organization of the firm, and which may play a role in the success of the firm, is its size. To some extnent this fact was made clear after the 1974 strike. It became apparent that in order to stay true to democratic ideals they simply had to limit firm size. Eaton supports this in stating, "Improving the quality of working life is closely associated with the question of enterprise size" (1978: 482). There seems to be a general consensus that firms of about 200 are very workable, while the upper practical limit may be about 500 (Gutierrez-Johnson and Whyte, 1982: 196). Associated with concern the about size--and also growing out of the strike--is concern with limiting Tayloristic production techniques, which are seen as running counter to the ideals of the cooperatives. A research team was sent to Volvo in Sweden to study their production techniques so as to adapt them to the Mondragon situation. There is also an effort on the part of the research and development cooperative to develop appropriate production techniques. But, the changeover is costly and may not have progressed in already existing firms as swiftly as the ideals may dictate. In new firms, however, both size and techniques are carefully considered.

Discipline

In order to establish a sense of community and shared interests, which includes a certain degree of collective control over members, Mondradon has established a system of discipline. Bradley and Gelb indicate that, "Work discipline is closely regulated by rules internal to each cooperative. . . . Penalties range from written warnings through

suspension to losses of income for up to sixty days. Striking against the management is punishable by expulsion" (1981: 215). The main reason for these relatively harsh penalties is to ensure a relatively "cooperative" work atmosphere. This is indicated in the cooperative statutes, which Gutierrez-Johnson reproduces in part: "In order to ensure an adequate organizational climate, both social- and work-related, some infractions of the cooperative regulations will be subjected to sanctions" (1980: 286). Infractions range from mild (such as excessive lateness or absenteeism, lack of regard for politeness, cleanliness) to very serious (including fraud, theft, damage to materials, strikes, etc.). These sanctions, then, are a means of maintaining the "cooperative spirit." It is of course possible that these could be taken too far, in which case they would contradict ideals, but the intention is to form a degree of solidarity and stability.

Self-Criticism

The final issue I want to address in the area of social control is the relative flexibility and openness to change rooted in the self-criticism provided by the cooperators in the firm. While this was made clear after the strike, there is a clear history of such analysis in the cooperatives going back to Arizmendi himself. This ablity must be considered an asset to the cooperative form at Mondragon. As Jose Maria Oramchea, the general manager of the bank, indicates, "'If one has to change, well then one changes. change is necessary.' The Mondragon cooperators have clearly opted to make history" (Clamp, 1983: 11). Campbell indicates that this process of reanalysis does not stop: "The process of self-criticism and adaptation is continuous with the single

overriding aim of matching their structures to the needs of individual human beings and the community" (1977: 25). As long as decisions are made for changing the organization based ultimately on the needs of labor rather than capital, it seems likely that the democratic ideals will continue to be represented in the social organization of the structure.

Economic Organization

The second area which must be analyzed is the the economic structure of the organization. Perhaps it is best here to start with becoming a member of a cooperative. There are two wys. To get into an existing cooperative, a worker has to contribute about 250,000 pesatas in 1980. This can be obtained by having the money taken out of the worker's share of the surplus for the first year if he or she cannot otherwise come up with the money. Of this money, 25% is paid into the cooperative's reserves and is not reimbursable, while the remainder is credited to the worker's capital account. The other way to get in to a cooperative is to start a new one. This involves developing a detailed plan between the group desiring to start the cooperative and the Caja Laboral Popular (CLP), "the people's bank." The workers must contribute 20% of initial capital, while the government of Spain contributes 20% as a part of industrial expansion policy. The remaining 60% comes from the CLP which, as a cooperative, has a large stake in the firm's success.

Capital Accounts

The economic structure varies little from firm to firm due to the Contract of Association. All firms must agree to this contract to become part of the cooperative system and share in the CLP. As such, a number of common features cam be identified. First, all workers are given a share of the profit based primarily on two factors: the number of hours worked, and their rating on the "labor index." Saive explains, "This rating depends on the qualifications and experiences of the worker conserned, the level of responsiblity assigned to him, and his attitude toward his work. Other factors, such as seniority in the enterprise, overtime worked, arduous or unpleasant elememts in his job, are also taken into account" (1980: 231-232). Once the surplus is calculated for the worker, it is credited to the workers' individual capital account in the CLP. An annual interest rate is paid on this capital (6%--incash when possible), so the cooperative views the capital, which it retains in the bank, as a debt owed to the worker (Gutierrez-Johnson, 1978: 277).

However, not all the surplus goes to the credit of workers' capital accounts. In fact, of the surplus, approximately 70% goes to the members in the proportions described above. The remaining 30% is split into two parts varying in proportion based on earnings of the firm. Thus, approximately 15% of the total surplus goes into a capital reserve maintained in the part of the firm as working capital, and the remaining 15% goes into a social works fund which is used to support education, recreational facilities, and health facilities in the cooperative's community (Eaton, 1979: 34). This means that the firm is able to retain in bank accounts approximately 85% of the surplus for reinvestment pur-

poses, as limitations are placed on the workers' ability to withdraw his capital from the bank. Reasons for leaving determine the percentage of capital the exiting worker can withdraw. If the reason is retirement, he or she is entitled to 100%. However, if the reason is to join a capitalist firm for better pay, for example, he or she may only receive 80% (Saive, 1980:233).

Wages

As a subset of the capital account accumulation there is also the issue of wages. In Mondragon there formally is no such thing. Monthly pay checks are referred to as "*anticipos*." This is to be thought of as an advance on future shares of profits rather than strictly as wages (Campbell, 1977: 26). Neither the surplus capital share nor the anticipo rate, which are calculated by the same "alpha coefficient," are allowed to exceed a top-to-bottom ratio of three-to-one. This means pay and benefit of top management of top management are not to exceed three times that of the lowest worker. This is in keeping with the ideals of relative equality. Further, the lowest rate is established to be the average wage of the capitalist firms in the vicinity of the cooperative (Campbell, 1977: 26). This is an attempt to keep the cooperatives competive for the workers. While maintaining this ratio has been difficult, particularly for doctors, it does provide a certain commitment to the ideals of the firm, even if this may mean some sacrifice on the part of managers In spite of this, however, there has recently been some pressure to raise the differential to five to one (Clamp, 1983: 11). This proposal is thought necessary due to the hiring of top management, who already have been able to obtain benefits to make the actual ratio

4.5 to 1. It is difficult to foresee exactly what effect this will have on maintaining the ideals of the firms.

Unemployment

Another issue in the economic organization of the firm which must be addressed is unemployment. If a worker is laid off, he or she is entitled to 80% of his or her anticipos; this is financed by the social works funds (25%), the reserve fund (25%), and by the working members (50%). Because of this high cost of unemployment for the firm, two solutions are sought. The first is careful planning so as not to hire too many workers. As Gutierrez-Johnson states, the need to support laid off workers "translates into a policy of not accepting any more workers than necessary, since unwanted unemployment or underemployment of the members is very costly to the firm" ((1978: 281). The other solution is retraining the worker who has become "redundant": "When demand for company products slackens, workers, instead of being laid off, may retain their pay while studying, thus encouraging worker self-improvement and also worker commitment to the firm" (Whyte and Blasi, 1984: 394). A further policy to limit the expense of unemployment is the hiring of persons from other cooperatives who have been laid off. This is in keeping with the increasing associative or federalist character of the cooperative system in the 1980's. Unemployment, then, is an economic problem which is not ignored, and again the attempt to maintain a sense of fairness and equality is put forth. This problem could have been particularly damaging in the recession of the late 1970's, but due to these principles the cooperatives were able not only to maintain membership, but to grow.

Capital Intensity

A final issue in the economic sphere which needs to be addressed is the level of capital-intensity of these firms. For the most part, the cooperatives are, at best, medium capital intensive firms (Thomas and Logan, 1982: 125). This may be the highest level of intensity that these firms may be able to reach given their organizational limitations. Campbell supports this, indicating that the form of funding " may rule out the most capital-intensive methods of manufacturing (1977: 44). The issue here is the ability to maintain sufficient capital reserves per worker versus the amount of money needed to enter into and maintain operation in capital intensive industry. This may limit the kinds of industry that cooperatives may operatie in, as concern is with maximization of labor rather than capital.

Conclusion

The issues of economic organization, like social organization, attempt in a real setting to implement the ideals of relative equality. This is operated through the distribution of the surplus to cooperative members as workers (i.e. labor), rather than as capital. The three-to-one ratio is used to limit the degree of difference from top to bottom. This ratio is utilized in both wage rates and capital accumulation accounts. The money that is paid to these accounts is retained in the bank, by the firms, in the worker's name so as to be available for working capital and reinvestment. The bank, then, becomes a significant institution because its structure helps maintain the capital needs of the firm. I turn now to this and other supporting institutions.

Auxiliary Support Institutions

The need for supporting institutions became clear early on in the Mondragon cooperative venture. The framework for both the educational and banking firms were established almost at the very beginning. These types of supporting cooperatives are known as secondary cooperatives because they include members beyond just their own workers. As Campbell states, "The term second degree cooperatives is used to indicate that the operation is not solely governed by the workforce. The bank, for instance, has two classes of members, the institutional members (the associated cooperative enterprises) and individual members (those who work for it)" (1977: 34). This situation gives these organizations a slightly different structure and dynamic.

Caja Laboral Popular

As indicated earlier, the *Caja Laboral Popular* (CLP) was officially opened in 1960 to meet the capital and managerial needs of the cooperative firms. The source of the banks assets is the capital accounts of the workers, as well as the reserve funds of the firms. This idea of distributing "each member's shares in profits or surplus to the accounts members held in the firm, rather than paying out these shares in cash" is traceable back to Arizmendi, and has proven significant in avoiding the "inevitable problem of under-capitalization" (Gutierrez-Johnson and Whyte, 1982: 180). However, the bank does more than just provide and save capital; it also provides new cooperatives (in particular) with expert management advice.

In terms of organization, it is set up as are the other organizations with the main difference being the inclusion in the general assem-

bly of representatives from all the cooperatives in the system. As in other cooperatives, the main every-day-type dceisions are made by the management council. It differs from other cooperatives in its role as the center of association of all cooperatives. The primary tie in this association is the Contract of Association, to which the bank requires all cooperative to agree. This contract not only mandates the organization and implementation of principles according to its ideals, but also stipulates that the bank will have a certain degree of power over the cooperative (Saive, 1980: 235-236). This power is manifested in the management part of the bank (the "empresarial" division), which dictates the steps that must be followed in establishing a new cooperative, and which carefully monitors income data once production begins so as to meet projected goals. The bank, then, maintains a relatively high degree of financial power over the firm, especially for the first two years. This system is used in part because the bank contributes 60% to the creation of the firm, and in part because they cannot afford the overhead which failure would consume; thus, planning is very carefully undertaken (Eaton, 1979: 33). The bank is central to the success of the cooperative system as a whole due its positioning in capital provision and planning, and it is difficult to see the cooperatives succeeding without it.

Other Second Degree Cooperatives

In addition to the bank, there are also other secondary cooperative support institutions. In education, there is a cooperative, Alecoop, which provides education at various levels. It is associated with a foundry so that students can work to pay fees and expenses for five

hours per day and then "go to school" for another five hours. However, it is not fully self-supporting as finances also come through member enterprises and entry fees. It is here that workers come to be trained and retrained in times of production change or when unemployment occurs. and they are laid off. The research and development cooperative works to provide or find appropriate appropriate production techniques for the cooperatives. As Campbell indicates, it seeks "to develop its own technologies and methods of production suited to their preferred organizational structure in small, interdependent cooperatives" (1977: 35). The social security cooperative, Lagun-Aro, "provides family allowances, medical insurance, sickness benefits, Matrimonial endowments, invalid benefits, and pensions for widows, orphans, or natural retirement" (Campbell, 1977: 36). The percentage of total anticipos that this takes from each worker is quite high, ranging from 20% to 30% (Gutierrez-Johnson, 1978: 273). Provision of this service is essential to the workers, as they are not eligible for national social security benefits because they are classified as self-employed. When a worker retires, then, he gets both his capital reserve account and his social seurity pension. In combination these form quite a significant amount.

These are the primary second degree cooperaitves. They provide an absolutely essential support network for the cooperatives, as the cooperative structure cuts itself off from traditional support systems. As Gutierrez-Johnson and Whyte state, "The integration of mutual support organizations . . . has clearly been important to the success of the Mondragon firsm" (1982: 195). While the bank is singularly the most important of these, clearly the importance of the others should not be over-looked.

Critique

The system of cooperatives at Mondragon seems to have answered the needs in the three areas essential for workplace democracy, and it has stayed true to its ideals. The organization established to respond to the two main problems faced by cooperatives, under-capitalization and degeneration, has been sufficient to meet undreamed of success. However, Mondragon is not without its problems. Jack Eaton (1979) provides a harsh criticism regarding the division between management and worker. He argues that the management council wields too much power, and that the social council is impotent to counter its power. He further argues that the workers may need to establish a union to assert any amount of control in the cooperative. This conclusion is somewhat surprising given the common assessment of Mondragon as relatively successful in meeting its ideals. Perhaps the most significant response to such criticism is to look at worker satisfaction in the cooperative versus the capitalist firm. Bradley and Gelb (1981) have done this and not surprisingly have found a much higher level of satisfaction with, as well as trust in, management on the part of cooperative workers. Eaton's response is "self-exploitation" (1979: 35). While Eaton's criticisms deserve attention, and clearly there is a possibility of a severe split between management and labor, it would be a mistake to throw the baby out with the bathwater. The cooperatives have shown an ability to change organizational structure to improve progress toward their ideals rather than away from them. Such response has been demonstrated in the response to the problems of Taylorism and size. These are issues which threatened not only the ideals of the firms, but their very existence as well, and the response, while by no means comlete or finshed have been

in the interest of labor rather than capital. Another, problem that the cooperatives have and will face is bureaucratization. Again, significant steps have been made to limit the effect of this problem by limiting size, increasing associative relations, and finally the system of monitoring (Thomas and Logan, 1982: 181). This does not mean that Mondragon is an "ultimate good"; it still has the problems listed above, even though it is dealing with them. Its apparent willingness to face such practical problems from the perspective of an ideal is perhaps the most attractive feature of the Mondragon system. Of course, its system of organization makes it work, but without acknowledging problems, it would have failed long ago.

CHAPTER V

CONCLUSION

These two examples of worker ownership and control serve as examples of what may or may not be necessary for success. Various aspects of each attempt can be compared to see how it is that one is a failure and the other a success. In keeping with the theoretical framework, such a comparison will best be understood in terms of social, economic, and auxiliary institution organization.

In the area of social organization, it is clear that the Mondragon cooperators were able to maintain the ideals of equality far better than the Molders. The cooperators at Mondragon seem to have seen the necessity of institutionalizing their ideals into the organizational structure, whereas the Molders seem to have relied on the honesty and integrity of the workman's ethic. The result was that the Mondragon cooperators were able to make changes in their structure as necessary so as to maintain a relative equality, while the Molders simply fragmented. Why this happened deserves attention. One of the reasons of the adherence, or its lack, to the one member/one vote rule. It is clear that the Molders hired outside, non-member workers in direct contradiction to the citizenship ideals. This is contrasted to Mondragon where all employees are members, with the possible exception of a small number of hired executives. This means that not all the Molders shared the same rights, and, therefore, not the same access to power within the organization. This may have been instrumental in the Molders' cooperatives

degenerating into joint-stock corporations, as those with power already had a strong sense of being capitalists.

Another reason for the success of Mondragon and the failure of the Molders in terms of social organization is, ironically, the acceptance at Mondragon of hierarchical organization, as well as the acceptance of the skill-knowledge of managers. Among the Molders, skill-knowledge was general and a molder had knowledge of and control over the whole production process. The "integrity" of their labor had not yet been broken down by mechanization or scientific management. In spite of this, however, they were unable to maintain cohesion among themselves, and rejected the role of the manager altogether as unnecessary. This is contrasted with Mondragon, where the hierarchy was accepted as a kind of necessary evil so as to compete in the capitalist marketplace, and managers were seen as a part of this process. Perhaps this shows that a holistic skill-knowledge is no guarantee of success, just as hierarchy is no guarantee of failure. To the Mondragon cooperator's credit, they realized that relative equality and the limiting of differentials is a more realistic approach than the imposition of total equality throughout the workplace. While these differentials have been a source of strain for Mondragon, as one would expect given their ideals, these cooperators were able to change the organization to bring it more in line with these ideals.

The levels at which the workers have power in the organization. is another important aspect of social organization. Again, where the Molders failed in institutionalizing their ideals, the Mondragon cooperators were successful. At Mondragon the workers have authority at the top of the organization by virtue of their membership in the General

Assembly. They also have authority from the bottom as workers through the Social Council. In this way there is a double accounting to the interests of labor within the organization. This is contrasted to the Molders who seem again to have relied simply upon their workman's ethic. Thus, the institutionalization of the interests of labor seems essential to the success of worker ownership and control.

Another feature of the social organization in which the Molders failed an Mondragon was successful is the establishment of specific rules and principles of conduct within the organization. These cooperators have a clear set of guidelines which the members must follow or be subject to clearly specified disciplinary procedures. This provides a certain degree of unity and coherence within the organization. The Molders, on the other hand, again seem to have relied less on specified principles than on their workman's ethic. This lack of specificity may have allowed for a variety of interpretations, as well as outright violations. It is clear, for instance, that the Molder's cooperatives violated this ethic by producing above what the ethic dictated and by undercutting the prices of the molders working in capitalist firms. The clarity of social organization principles may, then, be essential to worker ownership and control as it provides a certain degree of stability and cohesion within the organization.

Based on the examples of the Molders and the Mondragon cooperators in the area of social organization, what seems most important is the institutionalization of the ideals of equality. This includes the one member/one vote rule for all who work in the firm, the establishment of the authority of labor from both top and bottom, and the development of clear and concise principles of organization and action, including dis-

ciplinary measures. Without such organization, it appears that degeneration will occur. The Molders relied upon the workman's ethic, and seemingly the goodness of mankind/labor, which was not sufficient.

This notion of the institutionalization of principles applies also to economic organization. One of the biggest problems that worker owned and controlled firms face is under-capitalization. As such, the firm must be organized in such a way as to increase the availibility of working capital. Here the analysis of how the surlpus is distributed is important. Both the Molders and the Mondragon cooperators saw the need for a reserve working-capital fund, and both split the surplus in similar ways. In the beginning, at least, the Molders paid out 80% of the surplus to labor, as interest on labor, compared to 70% at Mondragon. The Molders paid out approximately 5% of the surplus to a reserve fund for working capital, while at Mondragon 15% was paid out for this purpose. The remaining percentages were paid out differently. Where the Mondragon cooperators paid about 15% to a social works fund for the betterment of the community, the Molders paid out its remaining 15% out as interest on capital based on the number of shares held in the firm. This was done to increase the likelihood of buying shares in the firms, making its establishment possible by increasing capital.

In looking at this distribution of the surplus, attention must be paid to how labor's share is paid-out Mondragon established a system of individual capital accounts to which labors share is paid, but which is retained in th bank for each individual worker on the part of the firm. This can then be used as working capital by the firm, bringing to about 85% of the surplus that the firm has access to in case of need. In contrast, the Molders paid out labors share directly to the workers in

cash, and thus lost the ability to utilize this portion of the surplus. Given the basic under-capitalization of these firms, it seems essential to use the capital account approach developed by the Mondragon cooperators.

Another aspect of economic organization that this distribution of the surplus hints at is the problem of basic ownership. The fact that 15% of the Molders' surplus is paid out as interest on capital based on stocks owned points to an important difference between this system of organization and that at Mondragon. This basic stock ownership on the part of the Molders does not exist at Mondragon. At Mondragon there are no owners per se, rather, there are members who collectively "own" the firm. Benefits are paid only according to membership and skill level, never according to ownership. This difference may have been critical in allowing for the economic degeneration of the molders' cooperatives into a joint-stock corporation. If ownership is based on stocks and not on general membership the interests and rights of individual ownership may over ride the egalitarian ideals of such firms.

The differences in the setting of wages must also be noted. The Molders utilized their position to undercut prices of capitalist firms, and thus accept lower wages, so as to gain a greater share of the market and therefore a greater surplus and profit. In contrast, the Mondragon cooperators based wages on the average wage of other capitalist firms in the area. The result for the Molders was short-term success but eventual failure as the capitalist firms had the resources available to match the prices and thus bleed the capital-poor cooperatives dry, hurting both molders inside and outside the cooperatives. The Mondragon cooperators were able to remain competitive in the market-place on rela-

tively equal terms, and did not base success on their ability to limit wages and undercut prices. Worker owned and controlled firms must pay comparable wages so as to maintain the interests of labor in the long run, and not rely on the surplus share to attract labor. While it is not clear that Mondragon does so, it may be important to seperate entirely wages and surplus shares, so that workers have wages as workers and shares as members. This would correspond to the authority they have from both top and bottom in the area of social organization.

A final issue in the area of economic organization is that of capital intensity. Here it seems that both the Molders and the Mondragon cooperators were on the right track. Both occurred in industries of low to moderate capital intensity. In fact, the Molders capital failure in even a limited capital intensity firm should demonstrate the severity of this problem. Without a sufficient amount of capital per worker, based on the kind of product, these firms cannot succeed. While they can take steps to address the problem of limited capital, such as individual capital accounts, it may be that these kind of firms simply cannot be established, at least in the forms demonstrated, in certain kinds of industries.

Closely associated with this problem of economic and social organization is the support provided by auxiliary institutions, especially the bank. The Molders failed to establish any such institutions in spite of recognizing their possible necessity. This may simply be due to the relatively short lifespan of the Molders' cooperatives. At Mondragon, however, a variety of support institutions were developed. Most importantly, the bank serves as the holder of the individual capital accounts and capital reserve accounts, and thus is an essential feature

of the economic success of these firms. The bank also serves as the hub of the cooperative network by virtue of its planning division and Contract of Association, which are essential in developing the social organization of these firms. Together these second degree cooperatives provide an environment which is suppportive of the cooperative structure both socially and economically. Without this support structure, it seems unlikely that such firms ould succedd given the hostility of the environment on the part of capitalist or socialist institutions.

The three theoretical areas provide a framework for understanding worker ownership and control. They demonstrate the importance of setting up and institutionalizing an organization that will implement the ideals of these firms. The Molders were unsuccessful in establishing such an organization in all three areas, while the Mondragon cooperators were successful in each. Part of the reason for this difference, apart from lack of clarity throughout on the part of the Molders, is the situation in which each was established. The Molders' cooperatives were established in a time of great crisis, and as such were forced to push forward as quickly as possible, resulting in poor managerial decisions. At Mondragon, however, the pace was different. The cooperative school was established in 1943, the first foundry, Ulgor, in 1956, and the bank in 1963. So, it took twenty years for the essential features to be put in place. This is compared to the period of months that the Molders faced. It may be, then, that attempts at worker ownership and control should not bite off more than they can chew. While the Mondragon cooperative system has expanded rapidly over the last twenty years, it may not have been able to do so without the slow, deliberate progress of the first twenty. This situation may limit the possibility of using this

kind of organization as a way for workers to maintain firms closed down by deindiustrialization. Without the organization and support structure, these firms simply cannot succeed. This option is not a quick fix. Concrete organizational problems must be addressed, and steps must be made to institutionalize against both social and economic degeneration. To accomplish this, auxiliary institutions are essential. Further, these firms cannot stand pat once the organization is established. They must be sensitive to change and have the ability to self-criticize. Reflection must be a basic aspect of these firms, as success is measured not simply by profit, but by adherence to social and economic ideals.

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APPROVAL SHEET

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The thesis is therefore accepted in partial fulfillment of the requirements for the degree of Master of Arts.

4/3/87
Date

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