Mondragón and the System Problem

by Gar Alperovitz and Thomas M. Hanna

As America moves more deeply into its growing systemic crisis, it is becoming increasingly important for activists and theorists to distinguish clearly between important projects and "institutional elements" on the one hand, and systemic change and systemic design on the other. The recent economic failure of one of the most important units of the Mondragón cooperatives offers an opportunity to clarify the issue and begin to think more clearly about our own strategy in the United States.

Mondragón Corporation is an extraordinary 80,000-person grouping of worker-owned cooperatives based in Spain's Basque region that is teaching the world how to move the ideas of worker-ownership and cooperation into high gear and large scale. The first Mondragón cooperatives date from the mid-1950s, and the overall effort has evolved over the years into a federation of 110 cooperatives, 147 subsidiary companies, 8 foundations and a benefit society with total assets of 35.8 billion euros and total revenues of 14 billion euros.

Each year, it also teaches some 10,000 students in its education centers and has roughly 2,000 researchers working at 15 research centers, the University of Mondragón, and within its industrial cooperatives. It also actively educates its workers about cooperatives' principles, with around 3,000 people a year participating in its Cooperative Training program and 400 in its Leadership and Team Work program.

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Mondragón has been justly cited as a leading example of what can be done through cooperative organization. It has evolved a highly participatory decision-making structure, and a top-to-bottom compensation structure in a highly advanced economic institution that challenges economic practices throughout the corporate capitalist world. In the vast majority of its cooperatives, the ratio of compensation between top executives and the lowest-paid members is between 3 to 1 and 6 to 1; in a few of the larger cooperatives it can be as high as around 9 to 1. Comparable private corporations often operate with top-to-median compensation ratios of 250 to 1 or 300 to 1 or higher.

Although it has been criticized for violating its cooperative principles through somewhat "imperial" control of some of its foreign operations, for its use of non-cooperative labor, and for a less-than-active concern with environmental problems, in recent years Mondragón has begun to address deficiencies in these areas.

Bankruptcy for Fagor Electrodomésticos

Mondragón Corporation's historically most important unit is Fagor Electrodomésticos Group, which makes consumer appliances—"white goods" such as dishwashers, cookers and other related household items. It is the fifth-largest manufacturer of such products in Europe. It employs roughly 2,000 people in 5 factories in the Basque region and has an additional 3,500 in eight factories in France, China, Poland and Morocco. Its direct predecessor (ULGOR) was the first-ever Mondragón cooperative—established in 1956 by five young students of José María Arizmendiarrieta, the spiritual founder of Mondragón cooperative network.

Mondragón recently announced that Fagor was failing and that the company would be filing for bankruptcy protection. Ultimately, Fagor was unable to find financing to pay off debts of around $1.5 billion related to a 37% slump in sales since 2007 that resulted from Spain's economic crisis and housing market collapse. Under Spanish law, the company now has four months to negotiate with its creditors—which include the Basque government, banks and others—and formulate a restructuring plan.

As part of any restructuring or liquidation, Mondragón will provide jobs and income security for a certain period for some its workers in Spain. This is one of the cooperative network's great advantages. It has announced that its internal insurance company Lagun Aro will pay 80% of the cooperative members' salaries for two years and the corporation will strive to relocate as many employees as possible to other cooperatives in the network.

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The fate of the roughly 3,500 non-Spanish wage laborers (i.e. not cooperative members) in other countries, however, is unclear.

Some specific problems

Given its importance, we are certain to see any number of economic reports on the specific problems that created the failure of Fagor. The larger questions posed by the failure, however, are the relationship of large-scale economic institutions to the market in any system, and the lessons for long-term systemic design for people concerned with moving beyond the failings of corporate capitalism and traditional socialism.

Mondragón itself, and proposals for systemic change based on larger-scale cooperatives in general, have only occasionally directly confronted some of the larger challenges that the market poses to cooperative institutional forms. Mondragón's primary emphasis has been on effective and efficient competition. But what do you do when you are up against a global economic recession on the one hand, or radical cost challenges from Chinese and other low-cost producers on the other?

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The same challenges face anyone who hopes to project a new system based on cooperative ownership in any country. There is nothing inherently wrong with such a system; far from it, the principle is one to be advanced and supported. The question of interest, however—and especially to the degree we begin to face the question of what to do about larger industry—is whether trusting in open market competition is a sufficient answer to the problem of longer-term systemic design.

The Fagor failure is a strong reminder that ignoring the question can have consequences. The specific problems are obvious. The first has to do with whether any system allows the global market to set the terms of reference for the economy in general and specific (larger scale) firms structured along cooperative lines in particular. A serious "next stage" systemic design almost certainly will have to adopt one or another form of "planned trade" rather than "free market trade"—else the fate of specific firms and specific groups of workers, and also the communities in which both exist, become subject to the ever-intensifying challenges as corporations play one low-wage country off against another, with the destruction of wage standards and firms (cooperative or otherwise) the inevitable result.

The second challenge takes us beyond the question of planning in connection with trade to planning in connection with the domestic market: It was never the goal of the Mondragón Corporation to seek a planning solution to the problems of the Spanish economy. Nor was "changing the system" part and parcel of its primary mission. It always sought to compete successfully in the existing system, at the same time demonstrating a superior form of internal organization. Americans concerned about fundamental, longer-term change need to ponder this particular point carefully. The challenge any system-changing vision presents is at least twofold: First, how to include new models of cooperative organization in a larger strategy that includes managing (and restructuring) the wider economy in its goals; second, how to begin to think through much more carefully issues of sectoral planning within larger democratic or participatory planning goals.

Almost certainly many smaller-scale cooperatives can succeed, if carefully managed, in small markets. But moving to scale—as Fagor did in entering the global market for appliances—means that the fate of the institution also rests on the fate of the larger market, and on competition within that market, whether global, as in the case of Fagor, or domestic, as in the case of many other industries.

Space does not permit a full discussion of how participatory planning might be achieved to deal with large-scale unemployment, and economic management in general—two of the severe challenges that have crippled economic development in Spain and contributed to Fagor's problems. However, some of the key questions and possibilities for beginning to think through sectoral planning as part of a larger approach are suggested by considering how one significant-scale industrial sector might be dealt with.

A good reference point is the auto industry in the United States. Assume for the moment that the auto industry were to adopt new forms of worker or worker-community ownership structures. (One somewhat limited form of this, by the way, actually occurred during the recent Great Recession in 2009, when the government and autoworkers' employee health care benefit fund assumed ownership shares in Chrysler and General Motors.) The question in the future is how might we utilize worker and community ownership more effectively and move beyond seeing the companies narrowly (like Fagor) operating in a capitalist sea and market system?

One important point: A viable alternative systemic/planning solution likely would extend the reach of these companies far beyond selling cars. Such a solution might, for instance, involve developing a long-term national investment plan to invest in worker and community-owned transportation companies in order to shift spending from cars to more efficient high-speed rail and mass transit.

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Work published by the Democracy Collaborative in 2010 helps clarify how this might be done: Three alternative scenarios for how population growth to 2050 might be distributed between cities and suburbs were analyzed. The data showed that even the smallest shift in population patterns requires dramatic changes in intra-city and inter-city transportation, both to absorb the anticipated increase in population and to achieve necessary reductions in carbon emissions. All three options would require major expansion of local public transportation, at an annual cost of at least \$240 billion—\$140 billion for increased operating costs and \$100 billion for capital spending.

Additionally, the number of long-distance trips by airplanes (the worst form of transportation from a carbon emissions standpoint) and cars would have to be reduced and replaced with high-speed rail. A good benchmark for costs on this—$2 trillion over 15 years for 25,000 kilometers of high-speed track —was put forward by Canadian analysts Richard Gilbert and Anthony Perl.

In turn, expenditures under this “plan” would be targeted to place-based economic development strategies around economic institutions structured either as worker cooperatives or, following new models emerging in Cleveland and other cities, around joint community-worker cooperative structures.

Time to get serious

The details of any serious democratic “planning system” inevitably would change as greater sophistication and knowledge are developed—and in the above example we looked only at one sector, rather than the larger system as a whole. Also, any larger-scale, system-changing planning effort likely would utilize direct planning as well as carefully managed markets in defined areas. The critical point from the perspective of our immediate concern is that it is time for activists and analysts who hope to build upon principles of cooperative worker ownership or joint cooperative-community ownership for larger scale firms to get serious about the larger systemic planning issues involved.

The fate of Fagor—and the future of many other cooperatives now attempting to compete at higher levels—suggests that if “the system question” is not addressed in theory and in practice, and in sophisticated longer-term design, many of the hopes generated by even so brilliant an experiment as Mondragón may be thwarted by forces more powerful than any one element in a system can handle alone.

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