

## Making the Myth of Mondragón

On 15 November 1978, just before 6:00 P.M., six people were shot, three fatally, in Mondragón's Udala Plaza. A major car and pedestrian route, the plaza was filled with workers leaving the nearby cooperative factories of Fagor and with students heading home from the cooperative Polytechnical and Professional School. Workers, students, and other townspeople saw Civil Guardsmen approach a car and take aim at the three young men inside. Two were killed. In the shootout that followed, three passersby were hit, including one middle-aged woman who died instantaneously. The three youths had been followed by police after they fired shots at the Civil Guard station of a neighboring town. They were members of the autonomous faction of the Basque separatist organization Euskadi ta Askatasuna (ETA). Making their way to Mondragón, they were caught in rush-hour traffic in the plaza when the Civil Guardsmen opened fire on them. While the official police version of the incident reports that the three were likely responsible for the shootings of the townspeople, eyewitness accounts indicate that the bystanders, as well as the three young ETA militants, were shot by Civil Guardsmen.<sup>1</sup>

In November 1989, on the eleventh anniversary of the shootings, I was attending a birthday lunch with several Basque friends in a restaurant near the Polytechnical and Professional School. We celebrated over a long, elaborate meal, with plenty of wine and talk. My friends told me that one of the ETA members killed was the brother of a close friend of ours. I was struck, as I had often been during my time in Mondragón, by the proximity of politics to daily life.

Our conversation turned to the latest issue of the Spanish edition of *Geo* magazine. The magazine was being discussed around town because it featured a twelve-page article on the Mondragón cooperative system (Chrisleanschi 1989). I read the title aloud, "The Empire of Mondragón." Someone else picked up the magazine and read to the group. The article proclaimed that the co-ops are such egalitarian institutions that social classes no longer exist in the town of Mondragón. It also asserted that Basque nationalist politics do not intrude on business operations because the co-ops have the full support of even the most radical nationalists. The article sparked a passionate discussion about the

way in which the town of Mondragón was portrayed in the growing popular and scholarly literature on the cooperatives.

The Mondragón cooperative system is a network of industrial, agricultural, and retail firms that produces a range of goods from bicycles and copper tubing to computerized machine tools and industrial robots. The system has its own bank for internal financing, a social security co-op that provides pensions and health care, a research and development center, and schools from the primary to the masters level. Its growth rate, measured in terms of sales, capital sources, and job creation, and its low rate of business failure are impressive for any medium-sized enterprise. The system is all the more impressive because the individual businesses are fully worker-owned; no one who is not an employee holds stock in any of the firms. The businesses are also democratically managed. Every member, from the assembly line to top management, is entitled to one vote in the General Assembly and a representative voice in the Governing and Social Councils.

Because it successfully combines business acumen and market viability with worker ownership and democratic management, the Mondragón system is seen as a model by all types of economic reformers who believe that Mondragón-style businesses have the potential to spur economic development, transform labor relations, and provide alternative property structures for state-run factories in formerly socialist countries. These reformers—academics and business consultants by profession—have found in Mondragón a new kind of economic system, neither fully capitalist nor socialist (e.g., Bradley and Gelb 1983; Campbell et al. 1977; Ellerman 1984; Morrison 1991; Oakeshott 1978b; Whyte and Whyte 1988).

However, in the process of distilling a business model from the reality of Mondragón, these reformers have made the co-ops into mythical institutions, where labor and management collaborate easily for the good of the firm. And they have made the town of Mondragón into an imaginary place where social class has disappeared. My friends were already aware that the cooperatives were internationally renowned, and found it amusing that their home attracted journalists, scholars, and social tourists from all over the world. (The issue of *Geo* sold out from town newsstands.) Yet they did not fully realize the extent to which the cooperatives and the town are idealized. This portrayal contrasted with their experiences; to them, the history of cooperativism was also the history of reformist ideologies and politics that competed actively with radical positions in the arenas of Basque nationalism and the labor movement. The cooperatives had also transformed the town's working-class life. While the *Geo* story was not unlike hundreds of other articles, books, and theses that popularize the cooperatives by idealizing town life and by ignoring political questions, the day itself was different. It marked a painful anniversary for Mondragón, when many townspeople recalled the demonstrations and



general strikes in commemoration of those killed and the days of police reprisal and fear that followed. It was simply more difficult to accept the utopian imagery on that day.

I, too, came to Mondragón to study the cooperatives. My original goals were not different from those of other researchers. I largely believed what I had read about the cooperatives, and I expected to find that they were democratic institutions and that the town of Mondragón would reflect this egalitarian industrial structure. The first paper I wrote on the cooperatives in graduate school depicted them as working-class institutions within which internal conflict would generate more democracy. My early research proposals stated that the contribution of my research would be ethnographic. Mine was to be the first ethnographic study of the cooperatives, and in retrospect, I think it is this ethnographic vantage point that most distinguishes my work. The literature already included many studies of the institutional history of the system; Gorroño (1975) and Whyte and Whyte (1988) are the most complete. The economic success and profitability of the cooperatives were evaluated by Thomas and Logan (1982), who found that worker participation increased productivity. The democratic management structures developed in Mondragón were described and analyzed by Greenwood and González et al. (1989) and Whyte and Whyte (1988). Bradley and Gelb (1982) argued that the model is transferrable elsewhere, and Ellerman (1984) pinpointed the cooperative bank as the key ingredient for replicating success. For the most part, managers were the informants for these and many other studies of the cooperatives. Drawing on our discussions in the CUNY Working Class Anthropology Project, I undertook (like many ethnographers) to study the cooperatives from the “bottom up.” This undertaking yielded surprising results. I found that the cooperatives looked quite different from this perspective than the literature had led me to believe: There was considerable discontent among co-op workers; they perceived class inequalities in a system that was supposed to have eradicated class; and they felt they had little control over their work lives yet were largely uninterested in exercising the rights to which they were formally entitled.

I also found that the town itself was quite another place than I had imagined. Mondragón is rife with activism and is marked by the political culture of radical Basque nationalism, which calls for both independence and socialism for the Basque nation, called Euskadi in the Basque language of Euskera. I wondered if this political life was connected to the cooperative phenomenon, and I set out to examine the links between the two. What I found was a complicated set of political, social, and ideological relationships that touch the core of the Basque nationalist dilemma of class-based versus national identity. Therefore, a central task of my “demythification” of the Mondragón system is to situate it in its political and ideological contexts. I am also interested in why the Mondragón myth was created in the first place.

## Pragmatism over Ideology

The Mondragón cooperatives are portrayed as having overcome labor–management conflict and as free of the twin burdens of ideologies and political involvements. Whyte and Whyte explain:

For many years, the field of economic organization and management was locked into the intellectual prison of the two-valued orientation: the choice between private versus government ownership and control of the means of production. . . . Over the years, this dogmatism has been fading in the face of experience. . . . This shift away from absolutist ideologies has accompanied the sudden rapid growth of worker cooperatives and employee-owned firms. Abandoning formerly popular ideologies, increasing numbers of people around the world are experimenting with unorthodox ways of organizing and controlling economic activities. . . . *It is in support of this more pragmatic and pluralistic view that we turn to Mondragón to learn what it can teach us about social and economic development.* (1988, 7 [emphasis added])

The idea that the cooperatives represent an ideology-free pragmatism, both within the Basque region and as they are replicated in other countries, is an important aspect of the myth of the Mondragón. The argument is twofold: that the Mondragón system does not emanate from a political project and that the model derived from that experience is also apolitical. The implication of this argument is that economic justice is brought about by a form of business rather than by social classes engaged in political action.

Yet the argument itself is embedded in a political discourse. Distrust for politics has become a defining feature of the cultural climate of North America and Western Europe. Over the past decade, and especially since the fall of communism in Eastern Europe, we have become accustomed to hearing that labor movements and left/labor parties can no longer represent the interests of working classes. Some on the left have postulated alternatives to working-class politics, such as new social movements (e.g., Habermas 1986; Touraine 1985). They believe that movements based on specific issues and identities, such as environmentalism, feminism, and gay and lesbian rights, tap more deeply the concerns and allegiances of the working and middle classes and thus are more relevant than unions or political parties. Others have, in an effort to be pragmatic, eschewed ideologies in favor of concrete and winnable projects, such as workplace democracy and employee ownership. Pragmatists and new social movement theorists believe that unions and parties cannot achieve the goals of working classes, something they think that workplace democracy can do (see Boggs 1986, 129–69). They find workplace democ-

racy and worker ownership attractive because both seem to offer workers a degree of equity and control over their jobs without political activism and union struggles.

The task is to transform the workplace, and that task appears to be facilitated by the increasing willingness of corporations to sell stock to their employees and to institute forms of worker participation in management. The management initiatives of ESOPs, the team concept, quality circles, and total quality programs suggest that capitalism is evolving and that it may become a more democratic system (see Bradley and Gelb 1983; Whyte and Whyte 1988, 3–7). Governments have also supported worker ownership. The Chrysler Loan Act, passed by the U.S. Congress in 1975, granted Chrysler guaranteed loans on the condition that the firm establish an ESOP (Rosen 1981, 7). Several years later, under the conservative governments of Reagan and Thatcher, legislation was passed in both the United States and Britain to promote worker ownership. Cooperatives were encouraged by enabling legislation in Britain and the United States. So, too, were tax breaks granted to companies that sold stock to employees. Ronald Reagan himself spoke in favor of transferring ownership to workers:

Could any country be a land of free men and women, where the pride and independence of property ownership was reserved to [*sic*] the few, while the majority existed in dependency and servility? It should be clear to everyone that the nation's steadfast policy should afford every American of working age a realistic opportunity to acquire the ownership and control of some meaningful form of property in a growing national economy. (Quoted in Rosen 1981, 67)

Politicians seem anxious (for political and ideological reasons) to extend ownership to workers. It seems, then, that what is required of scholars, business consultants, and managers is to map out a strategy to seize the opportunity.

Those concerned with reforming the workplace have before them the best model for worker ownership under capitalism—the Mondragón cooperatives. The Mondragón system has overcome all of the standard obstacles to growth faced by cooperatives: lack of investment capital, inability to attract and retain expert managers and engineers, and a failure to focus on research and development. Moreover, the cooperatives are reported to have avoided the major pitfalls of worker ownership by preserving democracy in the face of economic success. (The most common failure of democracy is the transformation of members' shares into standard, dividend-paying stocks and the breakdown of democratic decision making.)<sup>2</sup> Furthermore, they have reportedly done so without (apparently) entering into the political domain. For these



reasons, Mondragón has the attention of a broad range of people—both critics and supporters of capitalism, from the political right and the political left. The cooperatives appear to be the best test case for how far workplace reforms can go toward achieving what unions and parties are thought to be unable to do. This is considered a particularly impressive accomplishment given the highly political environment in which they are found.

### Eschewing Politics

Euskadi is renowned for its movement for national independence, which has been described as “the most active popular movement in Western Europe today” (Chomsky and Aske 1991, 105). It also has a history of labor militancy dating to the early twentieth century, when heavy industry developed in the area. More recently, an active labor movement was revived in the mid-1960s, and struggled against the Franco dictatorship. Mondragón itself had a particularly strong syndical movement early in this century and is currently a politically active place with a visible and effective Basque nationalist left. This radical nationalist movement is comprised of the member organizations of *Movimiento de Liberación Nacional Vasco* (Basque National Liberation Movement). The town’s medieval gates and the walls of local buildings are plastered with an ever-changing array of posters and painted with graffiti from many radical groups. If one visits for several days, chances are one will witness a demonstration, perhaps in solidarity with political prisoners or in protest of a plant closing. These political facts have not, however, been a part of the analysis of the co-ops.

William Foote Whyte and Kathleen King Whyte, who have written the most important English-language book on the Mondragón cooperatives, devote only a few pages to a discussion of Basque politics. They tell the reader who might be interested in the armed nationalist organization ETA that ETA has had very little to do with the cooperatives (1988, 17). Morrison makes a similar claim (1991, 55). Indeed, much of the international interest in the cooperatives lies precisely in their reportedly autonomous, apolitical, and nonideological nature: “Mondragón is of interest for pragmatic, rather than purely ideological reasons” (Bradley and Gelb 1983, 3). Furthermore, none of the existing literature examines the relationship between local syndicates and the cooperatives, despite the fact that labor activism is obviously an important feature of the Basque landscape.

The fact that no serious consideration of Basque politics or syndicalism has been undertaken makes the literature on the Mondragón cooperatives utopian. Nineteenth-century advocates of cooperatives, such as Fourier and Owen, were called utopian by their critics not because cooperative business ventures were tenuous nor because cooperatives could not be made to turn a



FIGURE 1

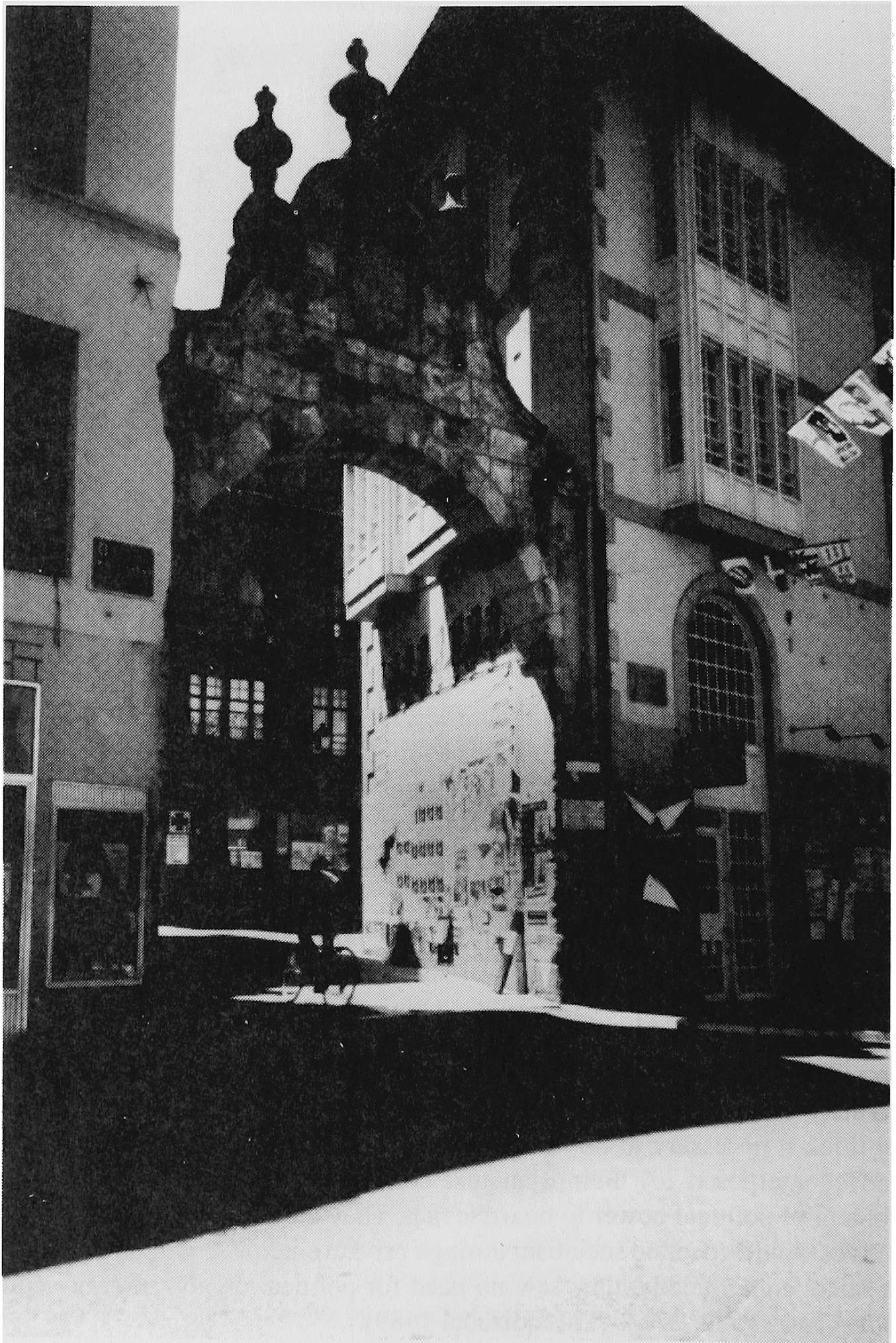
“Open the way to freedom. . . . Amnesty.” Demonstration in support of Mondragón’s political prisoners. Marchers are carrying enlarged photographs of ETA prisoners from Mondragón. Credit: Arrasate Press.



profit; rather, what made them utopian was their retreat from politics and, thus, the whole question of power (Hobsbawm 1962, 277–99). Early promoters of cooperatives were followers of the philosopher Saint-Simon, who, as Eric Hobsbawm argues (1962, 277–99), was both a rationalist and an idealist and was convinced that simply by conceiving of a more just and rational economic form he could usher in social change. Saint-Simon believed that by exposing the inability of liberal political economic theory to achieve the central goal of capitalism—maximizing individual happiness—he could make a case for socialism. The cooperative experiments undertaken in Europe and the United States in the 1800s would show capitalists, political economists, and governments that cooperative societies could do the work of capitalism better than privately owned factories could. Therefore, advocates of cooperativism did not think it necessary to link their projects to working-class activism; unlike (and counterposed to) their Blanquist contemporaries, they considered the problem of political power to be irrelevant. They believed, instead, that cooperatives would generate socialism through private enterprise without involving the state; consequently, they saw no need for political organization or action (Hobsbawm 1962, 277–99; Mendizabal 1989).

FIGURE 2

Mondragón's main gate (the portalón) with political posters.  
Credit: Sharryn Kasmir.





This analytical point is also rooted in shifts in the relationship between political movements and cooperatives. It has historically been the case that both consumer and producer cooperatives spring up in association with workers' organizations but break that affiliation over time. For example, in Oldham, England, consumer cooperatives first appeared in 1808, when they grew out of the working-class organizations of their day. However, in the 1850s, the radicalism of the local working class was compromised by a series of middle-class programs aimed at intervening in and restructuring workers' lives. Among those programs were a conservative adult-education program, the temperance movement, and new cooperatives that were autonomous business forms detached from older working-class organizations. As these new co-ops grew, they created a stratum of managers that had more in common with the town elite than with the working class (Foster 1974, 220–24).

Owen himself provides another example. In 1833, he attempted to unite the newly legalized British trade unions with his cooperatives. This new association was called the Grand Moral Union of Useful and Productive Classes and later became the Grand National Consolidated Trade Union. The organization was short-lived, in part because Owen and the trade unionists could not overcome their differences, the former favoring reformist strategies and the latter favoring class struggle (Cornforth et al. 1988, 12). After losing their link to mass movements, these cooperatives may have been able to offer economic opportunities to some workers, but they could no longer be considered working-class organizations.<sup>3</sup>

The Mondragón system is likewise estranged from local working-class movements. Other authors take this as an indication that the cooperatives stay out of politics. However, the evolution of cooperatives without a link to mass movements does not demonstrate their neutrality; rather, it represents their political character. How did cooperators become distant from political organizations? Has this distance been beneficial for cooperators, or has it hampered the exercise of their rights on the shop floor? How have the cooperatives reshaped working-class politics in Mondragón?

The presumed neutrality of the cooperatives (a stance that co-op managers also claim) has never been questioned by those studying Mondragón. For example, Morrison's commitment to postmodernist arguments about the futility of politics leads him to overlook the implications of his own data. He writes:

Mondragón and its development is part of, and a commentary on, the post-modern condition—it is essentially an experiment in social reconstruction through cooperative community. Although spawned amidst the historical context that produced both Carlistas and militant Basque separatists, the Mondragón cooperators have chosen a radically different

path, one that helps them begin to transcend the general conditions of industrial modernism and the more particular forces of Spanish history (they have, for example, *avoided entanglement with the politics of Basque separatism while successfully advocating Basque autonomy*). (1991, 55) [emphasis added]

In the context of the Basque Country, advocating autonomy while rejecting separatism is, to the contrary, to engage in partisan politics of a very traditional sort. In particular, it signals support for the conservative nationalist party Partido Nacionalista Vasco (PNV) over the radical Basque nationalism of Herri Batasuna (HB). Clearly, to understand the cooperatives it is necessary to enter into the arena of Basque nationalist and working-class politics as they are played out in Mondragón.

### The Town of Mondragón

Mondragón is located forty-five kilometers inland from the Bay of Biscay, in the southwestern corner of the Spanish Basque province of Gipuzkoa (Guipúzcoa). Like other Gipuzkoan towns, it sits in a narrow valley surrounded by the Cantabrian mountains. Yet it is not isolated. After traveling some twenty to thirty kilometers on heavily trafficked or mountainous roads, one reaches the cities of Bilbo (Bilbao) and Gasteiz (Vitoria) in about forty minutes. One can get to Donosti (San Sebastián), the capital and commercial center of Gipuzkoa, by highway in a little more than an hour.

Like many other Basque towns, Mondragón is neither wholly urban nor wholly rural; rather, it belongs to a category of settlement common to the Basque Country that is best described as a densely populated, industrial town. Approximately seventy small to medium-sized factories, both privately and cooperatively owned, and twenty-five workshops and construction firms exist within its boundaries, employing approximately seven thousand people (Arasateko Udala, n.d.). With a population of approximately twenty-six thousand, the largest part of the labor force works with its hands in an industrial setting. Mondragón is a working-class town.

The industrial and class character of Mondragón is reflected in its built environment. Architectural monuments of note are few relative to neighboring towns. Its landmark architecture includes a fourteenth-century Gothic-style church, the wooden facade of the house of Bañez dating from the sixteenth century, the eighteenth-century Palace of Monterrón, the nineteenth-century town hall, and the *portalón*, an eighteenth-century stone archway that is the main entrance to the town center. The dominant monuments are instead factories, which occupy much of the flat and easily urbanized land in the narrow valley. Apartment houses climb the sides of hills and mountains, revealing the fact



that the town is desperate for space that it will never find. Certainly, the rapid and unplanned growth associated with the industrial boom of the 1960s still marks Mondragón, like other industrial Basque towns, with a lack of housing, poorly designed roads, and inadequate parking. This phase of unregulated growth, a legacy of the Franco regime, also left the town with serious pollution problems. The air is often heavy with smoke from the factories, and not infrequently one sees the Deba (Deva) River run the most unnatural of colors, from purple to orange to iridescent green. The industrial and proletarian character of Mondragón is at the heart of its local identity.

Mondragón is also the scene of an active Basque nationalist movement and is considered to be a solidly *abertzale* (Basque patriotic) town (Heiberg 1989, 136). The visitor to Mondragón is immediately struck by the salience of nationalist politics in everyday life. The radical version of Basque nationalism, expressed by ETA, MLNV, and the electoral coalition Herri Batasuna (HB), pervades the town. HB has held the mayorship since 1987 and won over 24 percent of the vote in the 1991 municipal elections. HB regularly wins an average of 18 to 20 percent of the vote throughout the Basque Country. While it is autonomous from the illegal organization ETA (necessarily so or it, too, would be outlawed), HB evolved from the political wing of ETA and has a relationship to the organization similar to that of Northern Ireland's Sinn Fein to the Irish Republican Army. HB is the only major Basque party to refuse to publicly condemn the group; given the historic popularity of ETA, this fact accounted for some of its electoral success (see Chomsky and Aske 1991; Clark 1990).

In Mondragón, the presence of radical nationalism is visible on the facades of factories, stores, and banks, which are covered with murals as well as graffiti and posters. Not even churches are left clean in the search for public space in which to debate the issues of Basque independence, environmental destruction, women's equality, sexual politics, the draft, and deindustrialization. Political messages and art are informative, timely, and elaborate, making the street a major arena for political communication (see Chaffe 1988). Indeed, "the street" is an important concept not only in the political domain but in the social domain as well.<sup>4</sup> Geographically, "the street" refers to the center of Basque towns or neighborhoods where bars are clustered, away from rural areas and excluding homes. Socially and culturally, it refers to the ambience generated inside and spilling out from the bars. Working-class social life often centers around pubs and taverns where workers are "beyond the meddling control of 'bosses'" (Cumbler 1979, 155) and are free to elaborate their own style of conviviality and to discuss union activity and politics (Kornblum 1974; Halle 1984). Just as the pub functioned as a social institution linked with working-class identity and union politics in Lynn, Massachusetts, from 1880 to 1930 (Cumbler 1979, 155),<sup>5</sup> so it does in contemporary Mondragón, where bars are

FIGURE 3

Wall of building covered with posters announcing two political demonstrations.  
Credit Sharryn Kasmir.



simultaneously working-class and Basque cultural establishments, frequented by both men and women (Kasmir 1992a, 1992b).

It is estimated that the province of Gipuzkoa has more bars than any other place in Europe (Hacker and Elcorobairutia 1987, 358). A wide variety of townspeople spend hours each day making *vueltas* (the rounds of bars) with their *cuadrillas* (friendship groups), stopping for small glasses of wine or beer in a ritual called the *poteo* or *txikiteo*. Their choice of which bars to patronize is based largely on the political tenor of the establishments. One knows the political commitments of a bar immediately upon entering. Bars that sympathize with radical nationalist politics prominently display pictures of the town's political prisoners, close down during demonstrations, and sell t-shirts and lapel pins decorated with political slogans and logos. Those that cater to young people also play *radikal rok basko*, radical Basque punk music. Basque bars are a center for political discussion and mobilization; they are loci of *ekintza* (taking action [Kasmir 1992a, 1992b]). An American observer wrote:

In the bars—many with an atmosphere of a well-lit, old fashioned American kitchen—business is transacted and news messages exchanged. The main purpose is social and political, not sexual and alcoholic. For



FIGURE 4

Posters of ETA prisoners from Mondragón and gay pride banner, “You should make love as you like.”

Credit: Sharryn Kasmir.



FIGURE 5

Radical nationalist bar with Basque flag. Credit: Sharryn Kasmir.





example, I felt it would be impossible to organize a demonstration overnight. Who would do the calling, the organizing? And only about half the homes have telephones anyway. My comments were simply ignored. A faster form of communication existed in the bars. The demonstration was attended by thousands (Hacker and Elcorobairutia 1987, 362).

These demonstrations might also be different from those imagined by Americans: Children, young adults, and older men and women board buses together to go to Bilbo or Donosti for Euskadi-wide mobilizations, and gather in Mondragón's town center to participate in local marches. Activism pervades most arenas of the town, including factories, the local press, and the town hall, yet this has not been told as part of the story of Mondragón.

### The Development and Structure of the Cooperative System

At the close of the Spanish Civil War, a young Catholic Action-oriented priest named Don José María Arizmendiarieta was appointed to Mondragón. He organized a Young Catholic Workers study circle for teenage apprentices in a local factory. His passion about social action and work influenced them to reconceptualize factory work. In 1955, these young men completed their technical educations and opened a small factory called Ulgor in a nearby city, where they produced kerosene stoves. They moved the operation to their hometown in 1956 and, along with sixteen co-workers, reorganized the firm into a cooperative. In the next few years, they shifted production to gas stoves, which were in high demand. Following their successful lead, others opened cooperative ventures: an agricultural co-op; the consumer cooperative Eroski; the social security and health insurance cooperative Lagun Aro; and the cooperative bank the Caja Laboral Popular. All of the cooperatives were loosely integrated into one system called the Mondragón Cooperative Group.

In the last four decades, the Mondragón system has grown to employ approximately twenty-one thousand worker-owners in some one hundred fifty cooperatives. These co-ops are located throughout all of the provinces of the Basque region, but they are concentrated in Mondragón and the surrounding towns of the *comarca*<sup>6</sup> of the Alto Deba, where about 50 percent of the total work force is employed in the co-ops. The industrial cooperatives emphasize state-of-the-art, high-tech production and are strong in the sectors of machine tools and numerical-control systems as well as refrigerators, washing machines, and stoves for homes, restaurants, and hotels. Turn-key plants have been exported to Chile, Argentina, Libya, Egypt, and other countries (see Caja Laboral Popular 1990).

The cooperative group has become a key financial player in the region. It is the single largest employer in the Basque Country, and the cooperative

FIGURE 6

Caja Laboral Popular and Lagun Aro Central Offices. Credit: Arrasate Press.



bank is the largest savings bank in Euskadi and the seventeenth largest of seventy-one banking entities in all of Spain. In 1989, the co-ops completed their first buy-out of a major private corporation; with the purchase of Fabrelec, they claimed 30 percent of the Spanish market in consumer durables and became the dominant market force in that sector within the Spanish state. In 1990, they purchased majority stock in a second private firm, Luzuriaga, and created a stockholding company for the purpose of gaining controlling shares of firms in key market niches. In 1992, the cooperative group consolidated these developments by incorporating the holding company as a standard stock company—in Spanish a *sociedad anónima*, as opposed to a *sociedad cooperativa* (cooperative firm). For now, the only shareholders in the holding company are the cooperative bank and the social security co-op, but, as some people warn, the juridical structure allows for capitalist investment in the future, which would mark a definitive break with cooperative values.<sup>7</sup>

Obviously, the Mondragón group does not fit the image of cooperatives as small, economically tenuous, and capital poor. Greenwood's work (1992; Greenwood and González et al. 1989) correctly portrays them as sophisticated business entities with astute and flexible management strategies. The structure of the system is also ingeniously crafted. Each cooperative is linked to the bank



FIGURE 7

Worker in cooperative refrigerator factory. Credit: Sharryn Kasmir.

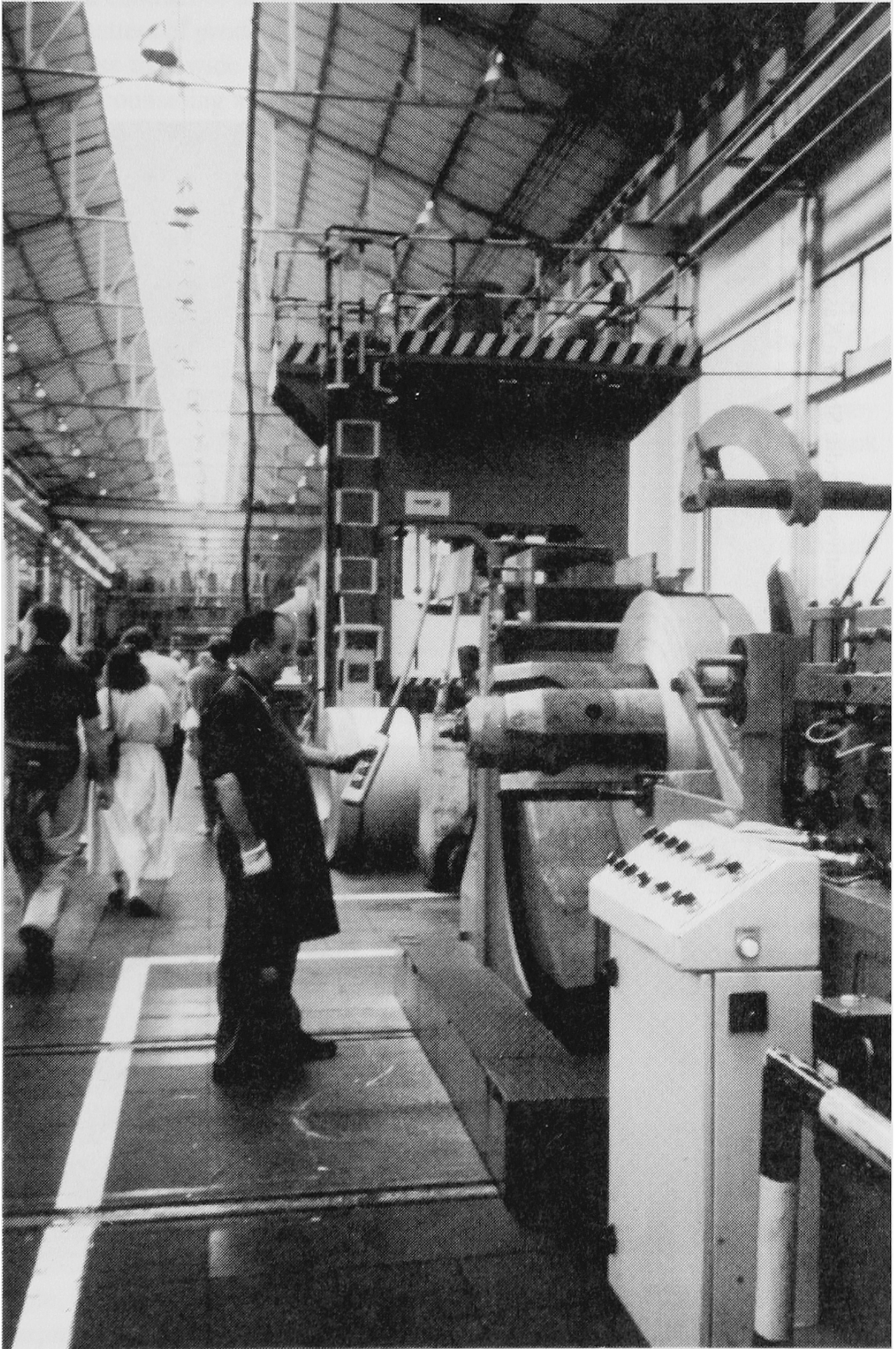




FIGURE 8

Home appliances produced in the Mondragón cooperatives. Credit: Sharryn Kasmir.





through a contract of association, which limits the autonomy of the individual firm in matters of product line and capital investments but also gives the small firm access to a wide range of business and financial services, including investment counseling and accounting assistance. Associated cooperatives borrow from the Caja at interest rates that are lower than those for commercial loans at regular banks. The close ties between the producer co-ops and the Caja has insured that the banking decisions remain responsive to industrial development. Whereas other banks are tempted by speculative strategies—for example, favoring real estate over industry—the integration of the bank with economic development is one of the signal features of the system, and is considered to be a crucial element in its success (Ellerman 1984; Mendizabal 1989, 539–40). In the 1980s, the bank grew at a faster rate than its member firms and so sought out other investments, such as vacation villas, but it also put money into business development. In 1991, the Entrepreneurial Division of the bank became an independent consulting cooperative, with the goal of business creation (Whyte and Whyte 1991, 199–200).

In the past decade, the cooperatives have responded to the twofold challenges of entry into the European market and worldwide recession by strengthening their internal links. Sectoral groups were created to pool capital, labor, and managerial expertise (Weiner and Oakeshott 1987). The most important of these is the Fagor Group, which unites thirteen industrial cooperatives in three divisions: consumer products, industrial components, and engineering and machine tools, most of which are located in the town of Mondragón (Whyte and Whyte 1988, 157–69).

The cooperatives survived most of the economic crisis without laying off workers, though they encouraged early retirement and transferred workers to other cooperatives. Even in the midst of crisis, the cooperatives have had lower levels of unemployment and significantly higher levels of job creation than other Spanish firms. In the 1980s, job losses were reported for only two years—562 in 1980 and 44 in 1983—but the losses were recovered by job creation in each of the following years (see Whyte and Whyte 1991, 206). This is an economically and politically important fact, given the disturbingly high unemployment rate in the Basque Country, which was between 20 and 25 percent for the first three years of the 1990s. In 1985, only 0.6 percent of cooperative workers were unemployed, while the unemployment rate in the Basque Country was 27 percent (Whyte and Whyte 1991, 234). Since Spain undertook a massive industrial restructuring in preparation for entry into the European Market, regions that hosted heavy industry declined while new industrial zones emerged, for example, in the area surrounding Madrid. Many sectors that were mainstays of the Basque economy have been severely cut back as a result of central government-led initiatives to renew Spain's economic base; Basque shipbuilding has nearly been wiped out, and steel production has dramatically declined. From 1976 to

1986, the cooperatives created 4,200 jobs, while there were more than 150,000 jobs lost in the Basque Country (Whyte and Whyte 1991, 204; see also Moyo 1993). In Mondragón, two medium-sized firms faced closure in 1990, and both cut back their work forces, resulting in the loss of hundreds of jobs. Meanwhile, no local cooperative has closed, and cooperators are transferred between firms to avoid layoffs.

Deindustrialization and the sale of local factories to multinationals (which promptly downsize) have plagued the Basque economy since the late 1970s, yet the cooperatives have stayed put, securing for themselves a central place in two important sectors of the restructured economy: machine tools and white-line appliances. This fact is singled out by researchers from other deindustrialized regions, such as the northeastern United States, who see Mondragón-style worker ownership as an alternative to capital flight. They reason that since workers are interested in maintaining their employment rather than maximizing profits, they will be committed to preserving capital investment in their region even if they are forced to accept pay cuts or to lose their health or pension benefits (see Bluestone and Harrison 1982, 257–62; Schweickart 1984). Worker ownership of the Mondragón cooperatives can be partially credited with preserving the economy of Euskadi (see Mendizabal 1989).

The individual firms that make up the Mondragón system are fully worker owned. By contributing the total of about one year's salary upon joining a cooperative (a sum that can be borrowed at a low rate of interest), a member opens an individual capital account with the Caja Laboral Popular. A share of the co-op's yearly profits or losses is credited or debited to this account, which accrues interest at the standard rate for savings banks. The distribution of net profits is decided by the General Assembly of each co-op in accordance with minimums established by Spanish law. At least 10 percent goes to the social fund, used for community projects such as education, housing, and publications. A minimum of 20 percent goes to the reserve fund, a capital fund belonging to the cooperative. The remaining profit, at a maximum of 70 percent, is deposited directly into members' individual capital accounts, which are held as savings accounts in the Caja. The precise division fluctuates with the business climate and the financial accounts and needs of individual firms.

In the 1980s, when cooperative business plans and crisis-induced profit losses required higher levels of investment, those co-ops that manufactured home appliances invested half of their profits into the reserve fund (Whyte and Whyte 1988, 43). Similarly, members of those co-ops made contributions to the Caja's development fund and extra payments to their social security fund (Lagun Aro) to cover the pensions of members who retired early or were laid off. The distribution of collective and private capital is considered by Gui (1982) to be an excellent balance between the two forms of property, because it both en-