

Workers Co-operative — Some Further Prospects

DEVELOPMENTS IN THE USA

by

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In the last decade, there has been renewed interest in worker Co-operatives in the United States as well as elsewhere. It has grown not out of the traditional consumer or farmer-oriented Co-operative Movement, but out of the movement for workplace democracy. The present movement for workplace democracy in the United States might be roughly divided into two approaches: the participation approach and the ownership approach. The first deals with worker participation plans, quality of working life programmes, quality circles, and the like within the legal framework of a conventionally owned corporation. The worker ownership approach pushes worker involvement to the basic level of ownership. Within the worker ownership camp, there are two different wings: the Employee Stock Ownership Plan (ESOP) wing and the Co-op wing.

My purpose is to describe the development of the worker Co-operative approach to workplace democracy in the United States during the last decade or so. The descriptions and interpretations will be those of a participant, not a historian; they will inevitably reflect some of my own experiences and concerns.

ORIGINS OF THE CURRENT MOVEMENT

In the early 70's, much interest was focused on worker Co-operatives from three sources: (1) the movement for institutional alternatives which grew out of the 60's, (2) the need for workers to try to save their jobs in the wake of plant closings, and (3) increasing intellectual interest in an economic 'third way', a democratic economic alternative to capitalism and socialism.

(1) Search of the 60's

The Civil Rights Movement and the Anti-war Movement of the 60's created a generation of young people who did not accept the world as "given". Genuine social change was perceived as a live possibility. As this generation moved out of the schools and colleges into the workforce, it was inevitable that many of the ideals of the 60's would be applied to the workplace. Alternative enterprises, collectives and Co-operatives, sprang up in cities and towns across the country.

As businesses, collectives were usually labour-intensive businesses which served local markets with specialised goods and services. Since "collective"

is not a category of legal organisation, the collectives took a variety of legal forms: non-profit corporations, de facto partnerships without any clear partnership agreement, stock corporations sometimes with rather hazy ownership arrangements, and statutory Co-operative corporations. Management roles tended to be ill-defined; hierarchy and pay differentials were minimised. Low pay and high enthusiasm (rather than business acumen) often became the principal means of economic survival.

The Common Ground Restaurant of Brattleboro Vermont is an example of a worker Co-operative born out of the movements of the 60's. In the early 70's it was set up as a consumer Co-operative to serve as a meeting place, a common ground, between the 'ordinary' and counter-cultural people in Brattleboro. It was (and is) successful as a restaurant. But as a consumer Co-op, it was in fact run by the workers since the customers usually joined only for the meal discount. After six years as a consumer Co-op, it was formally converted to a worker Co-op in the mid-70's and it has remained that way ever since (even though the membership has turned over 100 per cent since it became a worker Co-op). Such longevity is unusual for a small restaurant or for any small business. The Co-op's political consciousness is still evidenced by such actions as a two cent "tax" on each cup of coffee which goes towards medical aid in El Salvador. But it is also a business. When the Common Ground recently joined the Brattleboro Chamber of Commerce, the **Boston Globe** ran a story entitled "Rebels of the 60's Join Brattleboro Establishment."

(2) Plant Closings —

Co-ops also arose out of plant closings. The wave of plant closings in the 70's was, in part, the aftermath of the wave of conglomerates in the 60's. When the much-ballyhooed managerial 'synergy' of the conglomerate failed to materialise, managers from conglomerate headquarters belatedly learned the importance of specific knowledge of the product being produced and marketed. Plants which thus did not meet the conglomerate's hurdle rate-of-return (often in the 18-24 per cent range) did not receive sufficient reinvestment to become or remain competitive. Assets physically deteriorated while they were financially depreciated. If conventional buyers could not be found for these run-down plants, closing often seemed the only option. It was in these circumstances that many worker buyout attempts were born.

The threatened plant closings were, however, an unlikely source of viable Co-operatives. Workers as well as financiers considered worker ownership as such an unusual option that it was only viewed as the very last alternative. This created a double bind situation: any plant worth buying wouldn't be left for the workers to buy, and anything the workers could buy probably wouldn't be worth it. The last choice of worker ownership was often just the last rites.

Colonial Co-operative Press of Clinton Massachusetts was an example of a worker Co-operative founded in the wake of conglomerate mismanage-

ment and a plant closing. The predecessor company, Colonial Press, was one of the largest book manufacturers (up to 1800 workers) on the East coast. From a family-owned firm, it was purchased by a small conglomerate — which in turn was swallowed by a large Fortune 500 conglomerate. The large conglomerate specialised in auto parts, mail trucks, ambulances, and the like. Managers with little knowledge of book manufacturing were assigned to Colonial Press. They applied 'universal' methods of management such as performing a cost analysis on each run of books. They found the large runs much more profitable so they informed the book publishers not to send them any more small runs. Many publishers informed Colonial that it was not their practice to "shop around" for every particular run so they would take all their book runs, large and small, elsewhere.

As business dwindled, Colonial Press could not maintain the conglomerate's hurdle rate of return. The conglomerate announced it would be sold or closed. The workers made an attempt to arrange financing and buy it, but they were blocked by an inside management attempt to buy, (financed by a large dealer in second-hand printing machinery). When the management attempt finally failed, the big plant closed down and the machinery was auctioned off.

After a year, Colonial Co-operative Press was reborn in a reconditioned warehouse with good-will capital raised from private and public sources. Senator Ted Kennedy cut the ribbon in the official opening. In spite of its ambitious intentions to recreate the jobs lost at Colonial Press, the Co-op was essentially a start-up of a small typesetting shop which was probably overstaffed with its twenty or so workers. After a couple of years of dedicated work (and a refinancing), it succumbed to the pressures of its debt burden and poor choice of market, management, and equipment.

— And the New Mobility of Capital

The new mobility of capital (Bluestone and Harrison 1982) is another source of potential plant closings. The internationalisation of production has dramatically changed the bargaining relationship between unions and multinational companies. The threat of moving production to a 'union-free environment' in the USA or to a cheap labour haven elsewhere has created a situation reminiscent of labour-management relations prior to the National Labour Relations Act.

In the 'old days', before unions were legally recognised as the workers' bargaining agents, management could respond to a strike with a lockout followed by hiring a new workforce. With their jobs gone, the workers in the last few decades of the nineteenth century sometimes responded by setting up worker Co-operatives in competition with their former employers. The pre-AFL unions, such as the National Labour Union and the Knights of Labour, actively promoted worker Co-operatives as an alternative to the system of wage labour. This wave of worker Co-operatives is now only a memory. The Co-ops were founded in desperation, and were

undercapitalised, poorly managed, and vulnerable to the predatory practices of their conventional competitors.

Today, many unions face a similar threat. The ultimate weapon of the strike is powerless if the employer can move production to a union-free environment. This mobility of capital is the modern lockout. Unions today are being driven by the same logic to the alternative of worker ownership. When workers need the union the most, the unions need to offer some concrete alternative. Hence unions are turning more and more to worker ownership as a weapon in their arsenal. The Wales TUC resource centre for worker Co-operatives reflects a similar development in Great Britain.

In Denver, the taxi drivers' union purchased the Yellow Cab company and formed the Denver Yellow Cab Co-operative. At Rath Packing in Waterloo Iowa, Lyle Taylor and Chuck Mueller, the President and Chief Steward of the United Food and Commercial Workers local, negotiated a contract which exchanged certain concessions for new shares being issued to the workers. The shares amounted to 60 per cent of the ownership. In spite of the union leaders' express desire to have a Co-operative structure, the remaining 40 per cent of outside ownership prevented a full Co-operative conversion. Hence the workers' shares were put into an ESOP which was structured to have certain Co-operative attributes such as one-person/one-vote. Lyle Taylor has since switched roles to become the President of Rath Packing itself. An innovative worker Co-operative programme has been initiated by another United Food and Commercial Workers local in Philadelphia (see below).

(3) Interest in a "Third Way"; (a) Shift from Nationalisation

Yet another source of the current worker Co-operative movement (but not a source of Co-operatives themselves) has been the academic development of the 'third way' variously called self-management, workers' management, economic democracy, or industrial democracy.

Nationalisation has lost much of its appeal on the thinking Left. While some socialists have only scaled down their socialism to the level of municipal ownership or "community ownership" (whatever that means), many more have abandoned the whole idea of government ownership in favour of workers' self-management. But to avoid any embarrassment over the shift, those who approach self-management "from the left" usually want to redefine "socialism" to mean self-management. Government ownership was "state socialism" while workers' management is "true socialism." But this is a linguistic (and historical) fantasy. For 99 and 44/100 per cent of the population (in both the East and West), "socialism" means "governmental ownership and administration of the means of production and distribution." The expression "state socialism" is as redundant as the expression "red tomato-juice"; it only comes in one colour. The fantasy of the reborn "socialists" that the rest of the popu-

lation is going to redefine "socialism" is only further corroboration of the old thesis that left-wing intellectuals are usually their own worst enemies.

(b) Democratic Theory

Another intellectual route to self-management is from democratic theory. The liberal capitalist democracies are structured according to the schizophrenic concept that the right to self-determination is inalienable in the political sphere but very alienable in the economic sphere. We may not sell our voting or other citizenship rights in the political organisation to which we belong, but we most certainly may sell the voting or other rights to govern ourselves in the economic organisation where we work. The contract to sell the rights to govern one's economic activity, one's work, is the employment contract, the contract to hire or rent oneself out as an "employee" to an "employer". It is presently considered to be a "valid" contract while the corresponding contract to sell one's political rights is recognised as being invalid. But the rentable human beings of the labour market are the same individuals as the citizens endowed "with certain inalienable rights" of the political sphere.

The road to self-management from democratic theory is based on the extension of the inalienable right of democratic self-determination to the economic sphere. Then the managers or governors of each economic or political organisation would be elected by those who are managed or governed. The people who are managed by the management of a firm are the people who work in the firm. Hence the democratic ideal applied to the firm yields the notion of the worker Co-operative, the self-managed democratic firm (see Ellerman and Pitegoff 1983).

(c) Labour Theory of Property

Another intellectual road to self-management is the labour theory of property (Nota Bene — the labour theory of property, not "value"). If people have a right to the fruits of their labour, then the people who jointly work in a firm should jointly own the outputs as the positive fruits of their labour and they should equally be jointly liable for the used-up inputs as the negative fruits of their labour. From the legal viewpoint, the firm itself owns the outputs and is legally liable for the used-up inputs, so the labour theory of property argues that the people who work in a firm should be the firm. That is precisely the worker Co-operative or self-managed firm (see Ellerman 1980).

The argument for self-management from the labour theory of property was raised by a small band of classical labourists (aka "Ricardian Socialists") in the early and middle nineteenth century (see Menger 1899). The classical labourists included Thomas Hodgskin and William Thompson (a theorist for the Owenite Co-operative Movement) in England and Pierre-Joseph Proudhon in France. The work of the classical labourists has

been eclipsed for over a century and a quarter by the errant genius of Marx who developed "the labour theory" as the labour theory of value instead of the labour theory of property. It was an ill-fated detour which led to over a century of rather fruitless debate over the "labour theory of value" (see Ellerman 1983b) — a detour from which most Marxist economists will never return. For many Marxist economists, the labour theory of value has only served as a halfway house between economics and sociology, and has not led them back to the old arguments for workers' self-management based on "Labour's Right to the Whole Product" (Menger 1899).

And the Old-Wave Co-ops of the North West

This account of the historical and intellectual influences on the current worker Co-operative movement should also mention the old-wave plywood worker Co-ops of the Pacific Northwest (Berman 1967 and Bellas 1972). Their business success has been a source of admiration, and their tax court victories extended the tax-break afforded farmer and consumer Co-operatives to all worker Co-ops (both old and new-wave). But their legal structure has served primarily as a negative example. It confused capital rights and Co-op membership rights so that a new worker, in order to be a member, had to pay off the capital due a retiring member by buying his share at prices which ranged up to \$40,000-\$60,000 or more. Hence many new workers, who could not mortgage such a share, would be hired as non-members. Over the years, many of the plywood Co-ops have evolved sizable non-member workforces and thus have internally recreated the employer-employee relationship.

Newer worker Co-operatives tend to avoid these problems by using either a non-profit Co-operative structure (like the Common Ownership firms in England) or a Co-operative structure with internal capital accounts. In the non-profit structure, the workers have no equity capital rights so no equity capital is paid out to existing workers. In the internal capital account structure, pioneered in the Mondragon Co-operatives (see Ellerman 1982, Oakeshott 1978, or Thomas and Logan 1982), the capital rights are separated from the membership rights. The capital rights of each member are separately kept track of in the member's internal capital account. That capital value is not attached to each member's membership share. Each membership share has some standard modest price (say \$1,000 or \$3,000) which is the membership fee. When a worker terminates, the Co-op pays off the member's account, and the entering worker only has to pay in the standard membership fee, the fixed price of the membership share.

ORGANISATIONAL DEVELOPMENTS

In the early 70's, there were two centres of worker-ownership activity —

at least on the East Coast. Jaroslav Vanek, author of several books on the economics of workers' management (1970 and 1977), had initiated a PhD program in participation and labour-managed economic systems in the Economics Department of Cornell University. In Boston, there was a worker control study group at the Cambridge Institute, a non-profit left-wing think-tank. This study group eventually produced the first American reader on workers' control and worker ownership (Hunnius, Garson, and Case 1973).

In the Spring of 1972, a contingent from Boston travelled to Ithaca to meet with the Cornell group. At this meeting the organisation *People for Self-Management* (PSM) was founded. In January 1973, the first national conference on self-management was held in Boston at MIT. A newsletter called "Self-Management" was initiated. Since that time the organisation has grown and undergone several name changes. It is now the *Association for Workplace Democracy* (AWD). Annual Conferences are still held, and the newsletter has grown into a magazine or journal, *Workplace Democracy*. In the last few years, PSM/AWD was joined by the *National Centre for Employee Ownership* (NCEO) as the primary organisations which "spread the word" and serve as a focal point for a nationwide network of people interested in and working in the field of workplace democracy and employee ownership.

These organisations, however, are not implementation organisations; they do not offer direct technical assistance to worker-owned firms or to worker groups hoping to set-up co-operatives. In 1975, an implementation organisation, variously called the *Federation for Economic Democracy* and the *Funding for Educational Development Organisation* (FEDO) was started. There were five chapters in FEDO: Ithaca, Boston, Philadelphia, Washington DC, and Connecticut. Each chapter worked as a group to start worker-owned firms in its area. But there was little common lore or experience to bind the chapters together. The five chapters evolved in five different directions until the organisation dissolved from centrifugal force.

After 1978, implementation organisations developed in smaller groups so that each group could develop a common experience on a face-to-face basis. The Boston chapter of FEDO was reconstituted as the *Industrial Co-operative Association* (ICA) and the Philadelphia chapter became the *Philadelphia Association for Co-operative Enterprise* (PACE). Several similar organisations were started elsewhere: the *New School for Democratic Management* in San Francisco, *Blackberry Services* in Eugene Oregon, and the *Center for Community Self-Help* (CCSH) in Durham North Carolina.

Present Position

Today, the ICA, PACE, and CCSH have grown in size and experience while the New School for Democratic Management and Blackberry Services are no longer functional as Co-operative technical assistance organisations. CCSH has been pivotal in turning North Carolina into one of the centres

of worker Co-operative development. PACE was instrumental in one of the most promising experiments currently underway. When Atlantic and Pacific threatened to close some 20-odd stores in Philadelphia, the United Food and Commercial Workers' local negotiated a creative contract with A & P. In return for some concessions, the union got A & P to re-open most of the stores under another name, Superfresh, and to sell two stores to the workers which were reopened as worker Co-operatives, the Owned & Operated (O & O) supermarkets.

In the five years of its existence, the Industrial Co-operative Association (ICA) (not to be confused with the other ICA, the International Co-operative Alliance) has grown to a staff of thirteen (twelve in Boston and one in New York). It functions as a national technical assistance organisation for worker Co-operatives which has assisted such far-flung Co-operatives as Workers' Owned Sewing Company in North Carolina and Los Flores Metalarte in Puerto Rico. The ICA has initiated the \$1,000,000 ICA Revolving Loan Fund to loan money to workers for their equity injections in worker Co-operatives. The ICA Model By-laws (for the latest version, see ICA 1983) are widely used around the country to provide worker Co-operatives with an appropriate legal structure reflecting the successful structure developed in the Mondragon Co-operatives. The ICA has drafted a legal statute for worker Co-operatives embodying this Mondragon-type legal structure which was enacted into law in Massachusetts in 1982 (see Ellerman and Pitegoff 1983). Recently the statute was also enacted in Maine, and similar bills are being prepared in several other states.

CONCLUSION — ESOP/CO-OP DEBATE

At the present time, the worker ownership movement in the United States has two paradigms: the employee-owned corporation exemplified by the Employee Stock Ownership Plan (ESOP) and the worker Co-operative exemplified by the industrial Co-operatives of Mondragon Spain. Some insight into the current movement can be gained by understanding these two models. Indeed, much of the self-understanding of the worker Co-op movement has come from the contrast with ESOPs (e.g., Ellerman 1983c for comments on the Co-op/ESOP debate).

In a Mondragon-type worker Co-operative, the traditional bundle of corporate ownership right is cut apart and rebundled in a wholly new fashion (see Ellerman 1983a). It is not simply a new set of owners; the whole meaning and nature of "ownership" is changed. The traditional ownership rights consisted essentially of the membership rights (voting rights to elect the board and the rights to the profits) plus the capital rights to the past accumulated (equity) capital in the corporation. The Mondragon-type structure separates the capital rights away from the shares and assigns those capital values to the internal capital accounts of the members. The membership rights are completely transformed from property rights into personal rights or human rights. Instead of being able to buy and sell

"ownership" or "membership," the membership rights become personal rights assigned to the role of working in the firm. By working in the firm (on a non-temporary basis), a person qualifies for membership just as a person qualifies for voting in a township or municipality by residing in it for a certain length of time. And as in a political democracy, the voting in a worker Co-operative is on a one-person/one-vote basis.

In a typical ESOP firm (a corporation majority employee-owned through an ESOP), the membership rights remain as property rights and are not restructured as personal rights. In the usual arrangement, shares are in a trust with the employees as the beneficiaries. Rarely do the workers vote a majority of the shares in the trust. The trust is usually controlled by the managers and the financiers. The workers do not get direct ownership of their shares until they terminate or retire. When the workers do vote the shares, it is one-share/one-vote, not one-person/one-vote.

Since Co-ops and ESOPs respectively represent the left-wing and right-wing approaches to worker ownership, there has been little overlap between the movements (the national Center for Employee Ownership being something of an exception). In the near future, the ESOP movement will be influenced by the publicity surrounding the Wierton Steel Company, while the worker Co-op movement will continue to be influenced by the experience of the Mondragon Co-operatives (e.g., as portrayed in the BBC documentary "The Mondragon Experiment").

The Wierton ESOP represents a somewhat disturbing model for the re-industrialisation of America's core smokestack industries. Conventional equity capital is apparently unwilling to finance the necessary investment to revitalize core industry. ESOP worker ownership may be emerging as the tool to weaken or break the hold of the industrial unions and to obtain unprecedented concessions in wages and work rules. The remarkable feature about this reindustrialisation strategy is that it establishes the control of outside capital in these 'worker owned' firms. The ESOP trust effectively severs the control function from the workers' equity shares. This control function is taken over by the outside debt capital for the duration of the loans. Hence the Wierton-ESOP model shows how to save core firms, weaken unions, wring sizable concessions from the workers, and to maintain the managerial control over these firms by absentee capital.

In the near future, the publicity surrounding the Wierton ESOP will broaden the interest in worker ownership in America, and the example of the Mondragon Co-operatives will further the interest in worker Co-operatives. The ESOP/Co-op debate will go on. The ESOP and the Co-op models are different — both in theory and in their practical import. It is an old debate with much broader relevance: capital versus labor, property rights versus human rights, and authoritarianism versus democracy.

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