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Evaluating Workplace Democracy in Mondragon

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Department of Political Science Honor's Thesis

University of Vermont

May 2014

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Abstract

Following the global financial crisis in 2008, the Mondragon Cooperative Corporation was used as an example of an alternative to capitalist development. At the same time, much of the recent literature on Mondragon has questioned whether Mondragon's democracy has degenerated, without drawing definitive conclusions. I review how democracy has been defined in the past and conclude that while Mondragon's conception of democracy is applicable in small homogenous cooperatives, it needs to be reformulated in order to apply to large, diverse groups. In its current state, Mondragon cannot be considered a democracy. This is reflected in the way Mondragon confronted the 2008 economic crisis. Contrary to common belief, Mondragon has not shown abnormal resilience or provided a model of a more humane way of confronting economic crisis. In 2013, Fagor Electrodomésticos declared bankruptcy, the first and largest cooperative in the group. The bankruptcy highlights the urgent need to expand and consolidate democracy. This paper offers tentative solutions to revitalize the democratic institutions that made Mondragon the model for worker cooperative groups across the world.

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Chapter 1 - Introduction

Mondragon is often cited as the most successful example of democratic enterprise in the world for its size and global presence. The cooperative group from the Basque region of Spain is a competitive multinational corporation with production plants in every continent. In Mondragon cooperatives, capital is owned by its employees who elect representatives to the governing council (similar to board of directors) and vote on issues of governance. Worker participation in Mondragon has led to many different outcomes than in non-democratic firms. For example, the ratio of the highest to lowest salary of Mondragon members is less than 20 to 1. In contrast, in 2013 the average executive in the United States made 204 times that of rank and file workers, with the most extreme case reaching 1,795:1 (Smith and Kuntz 2013). In Mondragon, no member of a cooperative has been permanently laid off. Instead, unproductive members are relocated to other cooperatives where they can be more useful. Its mission statement declares that: “[Mondragon] encourages participation and the involvement of people in the management, profits and ownership of their companies, developing a shared project which brings together social, business and personal progress.” In recent years, however, doubts have been cast on how democratic Mondragon really is.

Since Mondragon’s founding in 1956, it has grown from five workers to over 80,000. The values of these workers no longer resemble those of the homogenous and tightly-knit membership of the past. Workers tend to be hired for their skills rather than being self-selected adherents of cooperativism. Democratic institutions have not caught up with these changes. The original conception of democracy was equated with values of solidarity and equality. Only minimal institutional guarantees of being able to influence governance were needed if there were few inequalities and members all sacrificed for the common good. Today, equality and solidarity have

eroded under competitive pressures of the global marketplace. This development requires a new conception of democracy that ensures equal representation of interests and accountability for those in power. If democracy is to exist in Mondragon, it will look very different than the original vision of democracy espoused by its founders.

Today, participation in the governance of Mondragon is limited. Rank and file workers in many cooperatives are underrepresented and members are unable to perform effective oversight of governing bodies or provide accountability. In the Mondragon Cooperative Corporation (MCC) structure that governs all of the constituent cooperatives, decisions are made by indirectly elected representatives and are seen by many workers as illegitimate. Many workers are excluded from the democratic process entirely and this exclusion is reflected in the policies of the company.

The economic crisis of 2008 brought to light how undemocratic Mondragon had become, exhibiting extremely different treatment of members and contract workers. Scholarship on the economics of Mondragon has consistently stressed the economic benefits of workplace democracy, most recently highlighting its expanding global presence with data extending until 2008 (Arando et al. 2010, Arando et al. 2011). I compile the most recent data and show how most of the cooperatives' growth was due, not to workplace democracy, but to growth of non-cooperative employment. Contrary to many assumptions that cooperatives are more resilient, the MCC's growth was actually pro-cyclical. After 2008, a greater percentage of workers were laid off in Mondragon than in Spain or the Basque region. While every member of Mondragon retained their job, thousands of non-members who had no voice in the company's policy lost theirs.

In November 2013, Mondragon's founding cooperative, Fagor Electrodomésticos, declared bankruptcy. This cooperative illuminates the dynamics of the cooperative group post-2008. It has grown in size and hierarchy and workers do not participate effectively in decision-

making. Its democratic institutions were unable to adequately deal with the conflicting interests that were found within the membership and many workers were excluded.

This work draws on over 10 hours of interviews with ten cooperative members and three non-member workers and contractors as well as informal conversations with Basques who were familiar with the cooperatives. Although I discuss retail cooperatives and Mondragon's international branches, all my interactions were in the Basque region and with members of the industrial division or the MCC.

In my paper I define a worker cooperative as a company where workers share in ownership and decisions of governance are made by one-person, one-vote or by elected officials. Other types of cooperatives exist such as Mondragon's consumer cooperative Eroski where consumers buy a membership and vote on governance. This arrangement has different benefits and drawbacks that remain outside the scope of this study. This paper focuses on *worker* ownership and governance, a principle of Mondragon that is now inspiring an effort to transform Eroski into a hybrid worker-consumer cooperative.

Chapter 2 - Background

The cooperators of Mondragon do not aim to lead the world back to a rural Arcadia of cows, market gardens and cottage industries; nor do they reject modern technology with talk of ecodoom. They are engaged in an exciting attempt to reconcile modern industry with social justice and democracy. And most of them seem to be having a rather good time in the process.

– Oakeshott 1973

The Mondragon Cooperative Corporation (MCC) is a holding company for 110 cooperatives and 147 subsidiary companies. It has over €35 billion in assets, €14 billion in revenues and has over 80,000 employees. The cooperatives are split into four main divisions of Industry, Retail, Finance, and Knowledge. The Industry division includes cooperatives in construction, machine tools, car parts, escalators and elevators. The Retail division mainly consists of the consumer retail cooperative Eroski but also includes agricultural cooperatives. The Retail division has the most employees (half of the total) but has fewer cooperative members than the Industry division. The Finance division includes the Kuxta Laboral (previously Caja Laboral Popular) and Lagun-Aro, the social security cooperative. The Knowledge division includes the first industrial research cooperative Ikerlan, and research divisions of other cooperatives and cooperative groups. Mondragon has a long history of innovations that are indispensable to understanding its success today.¹

¹ Whyte and Whyte (1991) provide the most comprehensive institutional history of the Mondragon cooperatives. Kasmir (1996) provides a history of the politics of the cooperatives and of the Basque region. Thomas and Logan (1982) provide an early economic history and analysis of the cooperatives. BBC (1980) created a documentary that details the history and institutional evolution of the cooperatives and was aired in the White House offices under President Reagan. Cheney (2002) provides a more recent history that also describes later developments in the cooperatives and their values.

To explain the unique character of the Mondragon cooperatives, one must first describe the Basque culture. The Basques have great pride in their equality and solidarity, attributes that are supported by a long history, part real and part mythological. An example of this is provided by Kasmir (1996) who describes a myth held by the townspeople of Arrasate (the Basque name for the town Mondragon where the cooperatives are located) about a dragon that ruled over them. The industrial workers united to defeat the dragon which the townspeople interpret to mean the overthrow of the landed elites by the industrial working class. The Basques are also very proud of their nationality, speak their own unique language and have a culture that is distinct from the rest of Spain. This common culture creates solidarity that was embraced in the founding principles of the cooperatives.

The vast cooperative complex began with the ideas of a Catholic priest, Don José María Arizmendiarieta (Arizmendi). After siding with the Republicans in the Spanish war, Arizmendi was nearly executed by the victorious fascist forces under Francisco Franco. After being released he finished studying for the priesthood and was sent to the little town of Arrasate. In 1943 Arizmendi rallied the community to start a cooperative technical school which made education much more accessible to lower classes.

Arizmendi's philosophy diverged sharply from the church in Spain at the time and he was influenced by unorthodox strands of Catholicism. He had extensively underlined Paolo Freire's *Pedagogy of the Oppressed* (Arizmendi 1984), a book influenced by liberation theology on the importance of education for empowering the oppressed. Arizmendi drew some ideas from Marx and possessed a copy of Chairman Mao's quotations, but his views on cooperatives were mostly inspired by Robert Owen and the Rochdale pioneers in the U.K., who founded the most well-known principles of cooperatives (Whyte and Whyte 1991). He had also learned from the

experience of cooperatives in Catalonia leading up to and during the Spanish Civil war (Cheney 2002).

With the help of Arizmendi, five of his pupils began the first worker cooperative, Ulgor (now Fagor Electrodomésticos), in 1956. The cooperative was jointly owned and decisions were made by one-person, one-vote. The democratic model that arose as the cooperative grew was a mix of direct and indirect democracy. The worker-members would gather to decide the distribution of profits and other important matters. They would also elect the governing council, a body resembling a board of directors. The governing council is responsible for choosing management and helping management with decisions. Shortly after Ulgor's founding, a social council was also elected that would communicate workers needs to management and also explain management's proposals to workers.² After Ulgor, many other cooperatives were created and eventually formed into various cooperative groups.

The prevailing consensus among scholars is that cooperatives tend to be small and on the periphery, Mondragon being one of few exceptions (Dickstein 1991). This scarcity can be explained by a wide variety of barriers to entry faced by cooperatives. These include difficulties raising capital, achieving economies of scale, and recruiting skilled managers and entrepreneurs. Mondragon has managed to overcome these obstacles through a variety of supporting organizations that give the cooperatives economies of scale.

Inspired by the Yugoslavian model of worker management established under Josep Tito, Jaroslav Vanek (1970) used econometrics to create a model for an a economy made up entirely of cooperatives. He reasoned that income per worker will be maximized by restricting employment.

² Kasmir (1996) insists that the social council is the parallel to the *jurada de empresa*, the elected advisory body in fascist Spain that was the initial inspiration for the social councils. Whyte and Whyte (1991) emphasize the similarities to unions that the social councils have developed over time.

Unlike in a classic private firm where the owner's goal is to maximize profits, a democratic firm will opt instead to maximize profits per member. Even if hiring another member will add to the profit of a company, self-interested members will not hire the member unless he/she can add to worker productivity (*profit per worker*). Each new worker must add more to profit than he/she takes away by diluting current members' claims on profits.³ Mondragon has achieved high levels of growth and employment through the policies of its cooperative bank that promoted long-term investment and an explicit goal of expanding employment.

One of the biggest barriers to entry for cooperatives is the difficulty in raising capital. Unlike conventional firms, cooperatives cannot appeal to outside investors and banks have historically been more reluctant to make loans to cooperatives. After the founding of Ulgor, Arizmendi recognized this dilemma and set up a cooperative bank, the Caja Laboral Popular (CLP). The bank is often seen as the key to Mondragon's success. In the early years of the cooperative, banking law in Spain allowed it to have slightly higher interest rates but could only invest in low interest bonds or the cooperatives (Thomas and Logan 1982). The resulting investment explains the stunning initial growth of the cooperative complex (Dow 2003). The CLP was also the main entity that bound together the Mondragon group of cooperatives until the creation of a new superstructure in the late 80's.

Another difficulty cooperatives face when raising capital is the tendency of members to consume profits rather than reinvest them in the company (Vanek 1970). Mondragon overcame this obstacle by deciding that any profit distributed to members would have to be invested in members' capital accounts. Only the interest on these accounts could be distributed immediately. Instead of pursuing greater consumption, workers decided on wages that were comparable to the

³ Vanek also sees this as a potential benefit since there will be greater demand for technological innovation, greater productivity and a more decentralized economy.

private sector and invested their surplus in the firm's capital, reserves, and education fund. Mondragon's high level of reinvestment spurred the growth that has made it a model of success.

The Mondragon University provides training and expertise to build the human capital that many cooperatives have difficulty recruiting. In most cooperative firms, managers are paid much less than in conventional firms. Managers in Mondragon make up to 70% of the market rate. This makes it difficult to recruit managers with the required expertise. Mondragon's management training center, Otalora, has a program for training managers that gives it a comparative advantage (Basterretxea and Albizu 2011). Cooperatives have also had difficulties creating incentives for entrepreneurship since an entrepreneur could start a non-cooperative business with greater ownership and control. The Entrepreneurial Division of the LCP, now the Intercooperative Fund and LKS Consulting, have taken an active role in training entrepreneurs, helping cooperatives get started, and making sure they survive.

The complex support structures that create economies of scale for Mondragon cooperatives have allowed it to grow to the size of a large multinational corporation. By requiring all profits to be capitalized, the CLP had more money than it could invest and soon turned to creating and expanding cooperatives to achieve greater returns. Combined with the explicit goal of expanding employment, Mondragon quickly grew to a scale unmatched by other worker cooperatives. Training, education, and research, have given Mondragon the talent and innovation to compete in a global market.

In 1985, representatives of the various cooperatives met to increase coordination in preparation for the elimination of tariff barriers with the integration of Spain into the European common market. The result was the creation of the Mondragon Group Council which would become the Mondragon Cooperative Corporation in 1991. Previously, cooperatives had been tied

together mainly through their respective cooperative groups and the CLP. The 1991 reorganization centralized greater decision-making powers in the MCC and created new divisional groupings based on industry rather than geographical region.

With the creation of the MCC holding company, cooperatives now had a legal way to buy private enterprises. This drastically changed the way that the cooperatives did business. Today there are 147 subsidiary companies that span the entire globe. The 1990's and 2000's saw impressive growth from about 20,000 to 80,000 employees. This reorganization and expansion greatly changed the character of democracy in Mondragon.

Chapter 3 - Defining Workplace Democracy

Political democracy is produced by stalemate and dissensus rather than by prior unity and consensus. It emerges from the interdependence of conflictual interests and the diversity of discordant ideals. – O'Donnell & Schmitter 1986

I. Definition

Democracy comes from the Greek word “demokratia,” meaning rule (kratos) by the people (demos) (“democracy” OED). This ambiguous meaning has led to many different interpretations of what “the people” means and the extent to which they can rule. In ancient Athens, citizens with were able to participate in face to face governance and vote on important issues.⁴ Mondragon uses this type of direct democracy where all members can deliberate and vote in an annual general assembly. In what Dahl (1989) calls the “second democratic transformation,” more modern theories of representative democracy developed to apply democracy to larger, more diverse populations, leading to democratic nation-states instead of city-states. In Mondragon, many decisions are made outside of the general assemblies by governing councils and the managers they elect. These bodies are roughly analogous to the legislative and executive branches in a polity. Today the general assembly of the MCC, which governs the individual cooperatives, is made up of representatives from constituent cooperatives who are indirectly elected by governing councils.

Do these procedures of electing officials and voting annually on important decisions constitute “rule by the people” in Mondragon? To answer this question I will rely on Robert Dahl’s (1986, pg. 59) five criteria for democracy. They are *first*, equal votes, *second*, effective

⁴ Citizenship was only given to adult males and excluded slaves. Only about 20% of the population were included in governing.

participation, *third*, enlightened understanding, *fourth*, final control of the agenda by the people, and *fifth*, inclusiveness. Democracy requires that each condition must be met to a reasonable degree. Although this criteria has usually been applied to conceptualize nation states, Dahl makes it clear that they are the conditions for any democratic process and he also uses this definition in relation to workplace democracy.

At a minimum, I believe that for Dahl's criteria to be met a cooperative must have one-person, one-vote. It must have a process for members to participate in decision-making and deciding what power will be delegated and to whom. Workers must be educated enough to understand their interests and evaluate whether decisions will meet those interests. They must also be the ultimate authority on what issues will be brought up and how votes will be framed. Finally, every worker must be allowed to become a member and non-members must be a minority of workers.

II. What kind of democracy?

Using Dahl's criteria of what *constitutes* democracy does not solve the question of how to *achieve* democracy. Clearly one-person-one-vote requires that decisions be made by individuals casting votes that are weighted equally. The rest of the criteria are more elusive. What constitutes enlightened understanding and how is it achieved? What procedures allow "the people" to control the agenda? Who needs to be included in the process? How can there be effective participation? The answer to these questions can vary greatly.

The key ingredients for democracy are the people (demos) and the institutions through which they rule. Several kinds of democratic citizens have been conceived of over time. The first is the classical democratic citizen that cares only about the public good. In this conception there is one common good that can be discovered by deliberation on what it consists of. The more

contemporary conception of a democratic citizen is that of the rational egoist. People act rationally to protect their own interests and those they identify with. In this view there is no single common good and institutions must be created to aggregate conflicting interests. This new conception of democracy has been given various names. Dahl (1989) calls it polyarchy because it would never achieve the ideal of democracy. Others have called it “adversary democracy” (Mansbridge 1983) or “agonistic pluralism” (Mouffe 1999). I will simply refer to this type of democracy as modern democracy.

Jean-Jacques Rousseau (1987) sums up the classical conception of democracy that is based on a universal common good:

So long as several men together consider themselves to be a single body, they have a single will, which is concerned with their common preservation and the general well-being. Then all the energies of the state are vigorous and simple; its maxims are clear and luminous; there are no entangled, contradictory interests; the common good is clearly apparent everywhere, demanding only the good sense in order to be perceived (pg. 203).

In this view, most of Dahl’s criteria can be met through equality of conditions and deliberation. Through public discussion, enlightened understanding is achieved when individuals’ private interest is replaced with the view of the common good. Citizens participate by communicating with each other. Control of the agenda is not a problem as long as the people trust that those with the responsibility of leadership will share their interests.

The most extreme example of classical democracy in the workplace is provided by the Kibbutz communes in Israel. All members of the original Kibbutz were considered equal and property was owned communally. As a result, membership was restricted to those sharing an ideology. Differences between members were reduced, promoting agreement on the common

good.⁵ Mansbridge (1983) provides another example in her study of Helpline Inc. where salaries are equal and decisions made by consensus. She defines this as unitary democracy where friendship based on face-to-face interaction, common interest, and equal status results in unanimous decision-making.

The greatest challenge to classical democracy is the problem of Dahl's last criteria: inclusivity. The problem of inclusivity arises when a member of a group opposes the majority's view of the common good. What happens when even after endless deliberation, there are still two (or more) sides with fundamentally different views about what constitutes the common good? Although some policies are win-win and benefit everyone, most legislation provides benefits to one group while taking away benefits from another group. To complicate matters further, both groups usually believe that protecting their own interests is in the "common good" and have different views on what the ideal society consists of. Both groups may believe that the other only holds their view out of ignorance while, in fact, views on society may be a matter of preference. For the classical conception of democracy to function, all members must agree on the ultimate goals for society and only disagree on the methods to achieve those goals. Even disagreement about methods must be small enough that those who dissent are willing to trust the judgment of the majority. This severely limits the ability of democracy to include those outside of a small homogenous group.

In Mondragon, the first workers were compensated equally and there was no serious dissent about the values of the cooperative. Arizmendi's views were also Rousseauian in their emphasis on solidarity and the common good. Christian ideals of equality, ultimate values, and brotherhood

⁵ For an analysis of the similarities between Rousseau's vision of democracy and the Kibbutz see Evens (1995) pg. 171.

pushed the cooperatives towards the classical conception of democracy.⁶ Kasmir (1996, pg. 68) writes that Arizmendi “undertook a social and political project to overcome class struggle...the cooperatives were an attempt to generate middle class values.” Kasmir also draws comparisons between Arizmendi’s views and fascist corporatism which favored non-conflictual labor relations and the absence of class identification. Under Franco’s rule, the Mondragon cooperatives were treated favorably by the state and Arizmendi was presented a medal by Franco’s minister of labor for his work. Kasmir concludes that a crucial problem with Mondragon is that it is apolitical. Given its beginnings, the conception of democracy in Mondragon has depended on a homogenous group pursuing an agreed upon common good.

As Mondragon grew in size, it also grew in diversity. Members were no longer self-selecting adherents of cooperativism and production required a greater division of labor. Today, with a membership of over 80,000, a conception of democracy based on the common good cannot accommodate the diversity of interests that are found in Mondragon. There are many conflicting views between members of different cooperatives, between workers and management and within each respective group. As Dahl (1989, pg. 217) predicted, “the larger and more inclusive a political unit, the more its inhabitants tend to exhibit greater diversity in ways relevant to political life... The relatively homogenous population of citizens united by common attachments...now became for all practical purposes impossible.” Given conflicting interests, it seems necessary to depart from an ideal based on harmony and cooperation and instead focus on a type of democracy that encourages the representation of opposing viewpoints in decision-making. If democracy is to

⁶ When trying to account for why the classical conception of democracy survived despite being “contrary to fact,” Schumpeter (1962) blamed Christianity for its insistence on equality and a common good (pg. 265).

survive it will require a transformation comparable to Dahl's "second great transformation" that applied the ideas of democratic city-states to democratic nation-states.⁷

In *The Federalist Papers* No. 10, James Madison (1961), the great advocate of modern democracy, rejects the belief that narrow interest can be overcome:

There are again two methods of removing the causes of faction: the one, by destroying the liberty which is essential to its existence; the other, by giving to every citizen the same opinions, the same passions, and the same interests. It could never be more truly said than of the first remedy, that it was worse than the disease....The second expedient is as impracticable as the first would be unwise.

Although, the Kibbutz communes succeeded for a time in all of its members adhering to an ideology, this was only possible through the self-selection of people who agreed with the ultimate goals of the commune. This selectivity is a luxury that a competitive firm such as Mondragon might not be able to afford. In response to a more diverse workforce, Mondragon has attempted to restrict membership and has historically limited opposition within firms. These two factors suggest that Madison's warning is especially relevant. Dahl (1989, pg. 225) imagines a dialogue where a contemporary James Madison says to Jean-Jacques Rousseau, "I sometimes think that in democratic countries the breakdown of democracy is less likely to be brought about by its opponents than by its utopian advocates. With friends like you..."

The distinguishing characteristic of modern democracy is that instead of focusing on limiting differences within an association, it aims to represent each group of interests in an institutionalized process of compromise and bargaining. Factions, instead of being suppressed are

⁷ The greatest difference between the first and second transformation of democracy is the introduction of representative democracy. However, it is not the only one. Dahl (1989) recognizes not only the limits to size of a deliberative body and the distance its members must travel, but also the limits to diversity. I would argue that the acceptance of conflict is a much more fundamental revision to the conception of democracy, than is representation.

made to act as a check on each other. Instead of being equal, individuals are given equal opportunities to participate in governance. Democracy becomes a process detached from particular ideals or ends. Modern democracy means that people shape the institutions that create collectively-binding decisions, rather than institutions creating a homogenous set of preferences based on a common good.

FIGURE 3.1

	Classical Democracy	Modern Democracy
Fundamental Belief	One Common Good	Diverse Interests
Aggregating Views	Deliberation, reducing conflict	Equal Representation
Decision-Making	Sacrificing for Common Good	Bargaining and Compromise
Interactions	Cooperation	Competition
Ends	Solidarity and Equality Social Harmony	No ends or ideals Process for mediating conflict
Result	Institutions shape people	People shape institutions

III. Goals of Classical Democracy

The most common criticism of modern democracy is that it is impossible for individuals to be equally represented if they are unequal in status and wealth. Classical democracy aims to reduce these differences between individuals. For Madison, it was not so much equality that helped democracy, but rather great inequality that hindered it. Democracy could be preserved simply by preventing “an immoderate, and especially an unmerited, accumulation of riches” (Madison 1961, no. 14). It appears that at best, this is what democracy within the firm can accomplish.

It has been seen at the national level that democracy does not necessarily result in greater economic equality. Countries with the political equality of one-person, one-vote, have not seen a parallel effort to achieve economic equality. Likewise, in a perfectly competitive market, a cooperative would have to pay a competitive price to managers just to stay in business and salaries would not differ significantly from private firms. Any sustainable attempt to create equality would be limited to the distribution of profits. Dow (2003) argues that traditional methods of state legislation, such as progressive taxation or the minimum wage, are likely to have a greater effect on redistribution than measures taken by individual companies that must offer competitive salaries.

Even if cooperatives tend to be more equal, this is partly due to the personalities of the people who start cooperatives. Those that create cooperatives in a world of private enterprise seem to place a higher value on equality than most. The best examples of this are the Kibbutz communes in Israel that began with a strict commitment to equality. As the ideals of the commune members shifted over time, the strategy of equality became increasingly untenable and private property and differential wages are now common. In U.S. plywood cooperatives, workers received equal wages, but managers were hired from outside and paid the higher wage that they commanded in the market. Over time the principle of equality was eroded as many non-members were also hired for labor. Eventually stocks were sold to outsiders until the cooperatives became traditional enterprises. Although equality is possible when a cooperative begins, it has proven in many cases to be unsustainable.

Mondragon cooperatives have a defined ratio of the highest to lowest salary that is much lower than what prevails in private firms. The original pay ratio was 3:1. It should be noted however, that even in the earliest years some managers simply had to be paid more and were contracted as temporary workers for a maximum of four years (Whyte and Whyte 1991).

Individual cooperatives today tend to have a ratio of highest to lowest pay of about 6:1 although some have been reported to have rates as high as 20:1 (Greenwood and Levin 1998). The Mondragon Cooperative Corporation allows managers to be paid up to 70% of the comparable rate in a private firm but they are often paid less. Although wages in Mondragon are more egalitarian than in private firms, there is a clear trend towards higher wages for management. The only way that Mondragon has been able to retain talent is by having its own training program for management and other needed skills.

In Mondragon, critics argue that the decision to allow for greater inequality goes against the principles of the cooperative while others argue that it is a necessary adaptation to a changing economic environment (see Cheney, 2002). Either way, equality need not be included in a definition of democracy, or “rule by the people,” and can even come at a cost to democracy. In Mondragon, the principle of equality has made it difficult to assimilate workers who would require all the benefits of the current members. This means that the only way to hire cheap labor is by excluding them from membership since to do so would require them to be treated and compensated as equals. The level of equality between members masks the inequality between employees. For example, one of Mondragon’s subsidiaries in Poland pays wages that are less than a quarter the rate for a comparable job in the Basque country. If Mondragon is to grant membership to its foreign workforce and continue to pay managers more, it will need democratic institutions that are capable of mediating between conflicting viewpoints that arise from differences within the workforce.

Mansbridge (1977) argues that political inequalities are not problematic, even for a classical democracy, as long as workers trust those who are granted greater responsibilities to share their interests. What preserves democracy is face-to-face interaction and most importantly, friendship. Mondragon, like most cooperatives, has shared this view since its conception. The

concept of solidarity is extremely important and the word was repeated by almost everyone I interviewed. They considered comradery to be the yardstick for how successfully Mondragon lives up to its values.

Scholars who have evaluated Mondragon based on this criteria have found it lacking (Cheney 2002, Kasmir 1996). Members that I interviewed also complained that workers did not cooperate or feel real solidarity. A small survey conducted by Kasmir (1996) compared a cooperative to a comparable private firm and found that competition between workers was actually greater in the cooperative. One worker is quoted as saying, “here no one supports anyone, everyone does their own thing” (pg. 164). Given that many workers do not feel that they share common attachments it becomes necessary to ask whether a conception of democracy that is based on solidarity is appropriate.

In 2013, the MCC’s Cooperative Congress voted to reduce wages in all cooperatives in order to loan €70 million to the failing Fagor Electrodomésticos cooperative, clearly showing solidarity. Later in the year, the general council elected by the Congress decided not to grant the cooperative any further loans and it entered into bankruptcy proceedings. Workers that I interviewed expressed differing responses ranging from support to frustration and anger about whether or not this policy of “solidarity” was appropriate and whether it should have been continued or never adopted in the first place. Neither view is more or less democratic than another. Rather, democracy is the means for giving weight to each of these opinions. Despite the value given to solidarity, it is not a necessary or sufficient condition for democracy and may even reduce the quality of democracy if it hinders the creation of opposing viewpoints, as will be discussed in Section IV.

IV. Goals of Modern Democracy

If democracy cannot be counted on to create an egalitarian association based on friendship, why is democracy worth pursuing? Many political theorists advocate workplace democracy because workers have an inalienable right to self-determination and to the ownership of the fruits of their labor (Pateman 1970; Dahl 1986). The argument for self-determination hinges on whether labor is freely exchanged for compensation, or whether employees are subject to coercion and control similar to that of governments. If wage labor is a transaction freely agreed upon by both parties, then self-determination is not restricted. If, on the other hand, companies coerce their workers who have a natural right to liberty, there ought to be some measure for workers to protect themselves from despotic decisions. Dahl (1986) argues that coercion may in fact be greater in the workplace than in municipalities or even countries. For example, the threat of being fired from a job is a powerful form of control and finding a new job can at times be a greater burden than finding a new place of residence in response to unjust laws.

Despite coercion that may take place from the threat of sanction and high costs of leaving a company, the analogy between companies and governments is clearly not perfect. A company does not have the power to take away fundamental liberties by, for example, imprisonment. Whether or not one agrees with the argument that the possibility of coercion results in an inalienable right to workplace democracy, it does seem clear that democratic association might be desirable and increase fairness, especially in industries with great inequalities. When decision-making in a company is restricted to a small group with narrow interests, workers will in many situations view those decisions as illegitimate.

Another argument for workers' right to democracy stems from theories of property. While the argument that enterprise belongs to the workers is used more often to justify worker ownership

than workplace democracy, ownership is usually defined as control of a resource.⁸ Deciding how to apply capital and distribute returns by democratic decision-making is a way to give control of an enterprise, and thus a degree of ownership, to workers.

Robert Dahl (1986) invokes John Locke, the great defender of property rights, to claim that the current ownership of private enterprise is illegitimate. John Locke emphasized that by mixing one's labor with a resource, that resource becomes his property. He has a right to this property that cannot be taken away by kings. Applying Locke's theory to modern enterprises, managers would not have exclusive property rights if this excluded ownership from workers who also applied their labor to production. Nonetheless, managers play an important role in the production process clearly have a right to a certain amount of ownership. Stockholders, on the other hand, more closely resemble the king who gains property by power instead of by labor.

The analogy between the state and the firm is again incomplete. While an authoritarian ruler may claim property arbitrarily, money invested in stocks could be earned legitimately through labor (a condition that Dahl believes is rarely met) and invested in a firm that needs capital. Investors may also be entitled to a return that covers risk and opportunity cost. It does not follow, however, that this investment can legitimately be tied to decision-making and control of the firm (Ellerman 1992). Whether or not workers have an inalienable right to ownership of their firm is contingent on whether one accepts a theory of property rights that emphasizes the primacy of labor over capital. If legitimacy depends on every stakeholder being able to influence decisions, workers who contribute their labor to a firm should be at least as entitled to control rights as shareholders who contribute capital.

⁸ For example, for all intents and purposes, a house belongs to its inhabitant even if it is mortgaged, while this is less clear for rented apartments where inhabitants have less control over the property.

Whether or not workers have an inalienable right to manage their firms, there seems to be a consensus among scholars of workplace democracy that democratic processes can provide greater moral legitimacy to a firm. Clearly, democracy is desirable to workers who feel that they do not receive the fruits of their labor or that they are coerced and controlled in non-democratic workplaces. Democracy can ensure that the goals of the firm are shaped by all those involved; not just those who contribute capital, but also those who contribute labor.

V. Democracy in Mondragon

Considering the arguments for workplace democracy, it still remains unclear whether Mondragon should deepen its democracy. So far, there are no real large-scale democratic firms that compare to Mondragon. It is unclear whether increased participation and democracy would actually benefit the Mondragon Cooperative Corporation which must compete in a ruthless multinational environment that few other democratic firms must contend with. It is possible that part of Mondragon's success comes from workers' predisposition to follow management's lead and the "technocracy" that has been allowed to develop to a certain degree. In the early days of democracy Aristotle highlighted the dangers that arose in Athenian democracy. For him, democracy would degenerate into demagoguery and the rule of law would be undermined (Aristotle 2009). Millennia later Joseph Schumpeter (1962, pg. 283) echoed these concerns and advocated for an elite political class accountable to the public only through competitive elections. He claimed that "the electoral mass is incapable of action other than a stampede." Robert Michel (1915) called this need for hierarchy the "iron law of oligarchy."

Despite these concerns, it is clear that the Arizmendi believed in the rights of workers to govern Mondragon democratically and "Democratic Organization" has been formally accepted as

one of Mondragon's ten principles.⁹ The arguments for both worker self-determination and legitimate property rights are also accepted in Mondragon's principles of "Sovereignty of Labor" and the "Instrumental and Subordinate Nature of Capital." Not only is Mondragon committed to the principles of democracy, it has not provided any clear cases where workers made decisions that hurt their firm which they have a stake in protecting.

One reason why there has not been a clear case of workers mismanaging their firm is that they do not need to *micromanage* their firm to be democratic. For Robert Dahl (1986), the strongest argument for equality of members in decision-making, is that members do not need the expertise to run an enterprise. All that is required is that members recognize what decisions must be made collectively and which decisions ought to be delegated. While technocrats may believe that they should be the decision-makers in all areas of governance, so far worker-members have not failed in their task of creating general rules and deferring to expertise when necessary.

It is important for all stakeholders to have a say in decisions because managers might not share the same goals as the workers. The most extreme case is that of a manager in the Mondragon Zubiola cooperative who was found conspiring with his management team to leave the cooperative to open a competing company (Whyte and Whyte 1991, 191). Most managers at Mondragon, however, care about workers and do their best to make their company successful. Nonetheless, their expertise is unlikely to serve the majority of cooperative members without the guidance of strong democratic institutions. Managers tend to represent members as owners of the firm and pursue efficiency instead of representing members as workers and improving work conditions.

⁹ These principles are: 1) Open Admission and Neutrality, 2) Democratic Organization, 3) Sovereignty of Labor, 4) Instrumental and Subordinate Nature of Capital, 5) Participatory Management, 6) Wage Solidarity, 7) Intercooperation, 8) Social Transformation, 9) Universality, and 10) Education.

Democratic institutions are a way of bringing together the interests of different parties to create a compromise.

Chapter 4 - Mondragon Case Study

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. - Kasmir 1996, pg. 17

I. Mondragon's Worker Cooperatives

The center of democracy in Mondragon resides in its industrial worker cooperatives. In recent years scholars have described Mondragon's democracy as going through a process of "degeneration." This term is used in cooperative literature to describe the tendency of many cooperatives to either fail because of their democratic structure, or become conventional firms (Webb and Webb 1920, Ward 1958, Ben-Ner 1984). As a cooperative grows and faces greater competition, external and internal pressures push it to be less democratic. Mondragon is clearly *more* democratic than private enterprises or corporations whose closest analogy to a state would be a dictatorship or oligarchy. Nonetheless, democracy in Mondragon has degenerated over the last two decades.

Thomas Malleson (2013) writes that such a statement may be "harsh to the efforts of the generations of members who have achieved major cooperative victories in the face of extremely difficult circumstances. Especially since it may well be that the majority of Mondragon remains deeply committed to the ideals of workplace democracy." Despite the genuine desire of members to see the extension of workplace democracy, participation remains minimal, workers do not control the agenda, and many are excluded from the democratic process altogether. Instead of

trying to provide a harsh critique of Mondragon, I hope to illuminate how the efforts of past generations may be in danger and how despite the best intentions of members, Mondragon has work to do if it is to be considered democratic.

The main conclusion that can be drawn from Mondragon's experience is that its model of democracy is not easily scalable. The methods developed in small cooperatives with face-to-face interactions has not been satisfactory in cooperatives with greater size and hierarchy. In larger cooperatives, workers feel alienated and in the MCC superstructure, democracy is virtually non-existent. In the book *Real Democracy*, Frank Bryan (2010) shows that democratic participation deteriorates with the size of a political body. When a member's vote is one out of one hundred rather than one out of ten, the benefits of participation are reduced. Structures for dealing with conflicts become more distant and less able to address the concerns of rank and file members. This reality has been apparent in Mondragon for decades and yet the cooperatives' democratic structures have not kept up with this change.

Size also means a greater diversity of viewpoints as different social circles arise and members are no longer from a small self-selected population. Changes in society exacerbate this trend. A study of Basque attitudes towards work found that instead of the homogeneity that characterized Basques of the past, "at present, change and heterogeneity constitute the essence of society" (Allende 2011). Different genders, generations, and jobs all had distinct preferences about work.

In national politics, different views are represented by multitudes of interest groups and aggregated into parties that represent these views in government. No comparable form of organizing takes place in cooperatives. The closest analogy is the social council which advises the governing council on labor issues. For decades the social council has not provided a serious

counterbalance to management and suffers from a lack of resources. Despite Mondragon's philosophy of unity, conflicts exist and are especially visible to workers. Kasmir (1996) found that while 77% of managers in the cooperative Fagor Clima felt that they were part of the firm, only 46% of workers felt the same, less than in a comparable private firm.¹⁰ A vision of solidarity serves to mask felt divisions about cooperative values.

Mondragon's problems in encouraging participation are caused at least in part by its non-adversarial conception of democracy. Instead of institutionalizing conflict through representation, competitive elections, and checks and balances, conflict is minimized. As a result, workers complained that they were not listened to and did not feel represented in decision-making. Competition can often highlight existing problems with the status quo and energize members to become involved. More importantly it can organize groups around platforms and can encourage representation of diverse interests.

The following section describes the challenges that Mondragon faces in consolidating its democracy today according to Dahl's criteria for democracy. Cooperatives in Mondragon vary greatly in size and organization. This section can only show areas in which *some* cooperatives can improve. For example, many cooperatives have quite active social councils, whereas others play a minimal role. In my interviews, skilled workers of small cooperatives had very few complaints about their firm, although they agreed that participation was lacking.

Dahl's first criteria is straightforward and, by almost any definition, a basic institutional requirement for an organization to be considered "cooperative." An example of a quasi-democratic organization without voting equality is provided by partnerships. In firms where ownership is

¹⁰ A decade earlier Bradley and Gelb (1983) found that only 21% of cooperative workers perceived a large division between workers and management compared to 62% in conventional firms. Only 20% perceived no division in the cooperatives and 13% in conventional firms.

unequal, votes are often weighted by capital contributions. This type of organization would be more closely categorized as an oligarchy rather than a democracy. Mondragon weighs the votes of its members equally and meets this criteria.

Effective participation and control of the agenda have proven difficult to achieve. Workers in Mondragon expressed frustration with their opportunities to participate and also criticized others for their lack of participation. I heard several complaints that members would work eight hours and feel that they had done enough. There is certainly not a widespread culture of worker engagement in decision-making.

Every year, workers are required to attend the general assembly, providing them an opportunity to vote on important issues and elect the governing council. Although such an assembly carries great promise, there are a variety of obstacles to participation. Those who were interviewed complained that the general assembly almost always rubber-stamps proposals of the governing council and said that almost all decisions by referenda did not have any opposition and. When asked why not, one member replied that their managers are there watching. Another member complained about stalling tactics by management such as delaying the presentation of important issues until the end of the assembly when workers had already left. Cheney (2002) found that general assemblies were more predictable than church service and that even statements of opposition had to be prepared and submitted before-hand. Nonetheless, it appears that workers can at the very least play a reactive role to prevent legislation from passing that harms their interests.

Whyte and Whyte (1991) describe situations in the Fagor cooperative group, then called ULARCO, where proposals were rejected for linking compensation to firm performance and on increasing capital contributions. The general assembly later accepted compromise proposals. From

my own interviews, in 2013 a governing council proposed wage cuts to support Fagor Electrodomésticos of 7% and another of 2%. The 2% reduction was rejected.

In these examples it is clear that the governing council had control of the agenda. When deciding on capital contributions, for example, management bargained with social councils until they found a resolution that could pass with the bare minimum number of votes (it passed by 3%). Although management requested amendment proposals, they removed parts of one of the four amendments they received. Ultimately, management and the governing council decide what amendments will be put to a vote. Workers are allowed to petition for an item to be addressed in the general assembly, however this right is virtually never made use of (Kasmir 1996). Mondragon would be more democratic if it gave greater control of the agenda to its membership and allowed amendments to be offered by members on the floor of the general assembly.

Another way for workers to participate outside of the general assembly is by running for office. Elections in Mondragon are not competitive. No one that I interviewed could think of an example of a competitive election where the merits of different platforms were debated. This seems to be a negative side effect of a conception of democracy based on avoiding conflict rather than encouraging the representation of opposition viewpoints. Without competition, elections can become a hollow institution that gives only the appearance of democracy.

Although workers have the right to run for office, there is little incentive to do so. It would go against the cooperative values of solidarity and equality if elected officials were granted perks and commanded higher salaries than the people they were supposed to represent. Nonetheless, it seems that some form of incentive for workers to become engaged in the democratic process is indispensable. Establishing compensation for governing council members at least at the median

salary could improve representation of members with lower salaries, promote competition between distinct platforms, and encourage dialogue about the direction of the cooperatives.

Overall, participation could be higher in Mondragon and does not meet the standards of the workers that I interviewed. Whyte and Whyte (1991) argue that while workers in Mondragon have more opportunities for reactive participation, proactive participation where workers bring forward and implement their ideas is actually more prevalent in some private U.S. firms (pg. 230). Although workers in most cooperatives do not appear to be active participants in decision-making, the general assembly provides an opportunity to vote down important decisions that could have a negative impact on workers' lives. A survey by Bradley and Gelb (1983) found that 71% of cooperative workers would not switch jobs for a higher salary compared with 42% in conventional firms, although this figure is somewhat lower for Spanish, non-Basque workers. This confirms what I observed in interviews that even workers who were outspoken critics of Mondragon would not be willing to work in a non-democratic firm and value their vote in the general assembly.

In Mondragon I was extremely impressed with members' general knowledge of their company. They knew a great deal about the MCC, the different types of cooperatives, and the bankruptcy of Fagor Electrodomésticos. There is a monthly publication with cooperative news and individual cooperatives provide meetings on their finances. While information is widely available, there does not seem to be a way for members to effectively interpret the information and offer alternative policies.

In order for people to rule themselves, they must also be able to discern their individual interests. A large obstacle to workers being able to formulate opinions on how to vote on issues (what Dahl calls "enlightened understanding") is the lack of opposing viewpoints. Social councils that are supposed to represent members as workers, not as owners, often lack the resources to

research the management's proposals and are only formally granted an advisory role (Kasimir 1996, Whyte and Whyte 1991). The governing council, which tends to represent members as owners, has much more paid time to pursue their responsibilities and greater resources for outside research. The governing council also elects the chair of the social council, greatly reducing its independence.

Workers that I interviewed expressed frustration that management would present them with too much information without the tools to analyze it. The governing council would also dress up proposals to be appealing to workers. Some interviewees even accused the governing council of lying. It is inevitable that some members will have more expertise than others. Nonetheless, there must be accountability for democracy to function. From my interviews I got the impression that opposition viewpoints were weak and certainly weaker than members would like them to be.

Perhaps the simplest criteria conceptually, and yet the most difficult to achieve, is the inclusion of all the workers in the cooperative as members. Nothing about democratic institutions encourages universal suffrage. In fact, the opposite is true. Majority rule means that each additional member to a democratic body dilutes the voting power (and in Mondragon's case economic power) of the current membership. Hiring wage labor is much cheaper for the current membership than admitting new members (Ben-Ner 1984). Unless cooperatives are in dire need of capital, only the democratic ideal of political equality supports the inclusion of as many individuals as possible. If democracy presumes that all individuals have equal rights to self-determination it must grant that right in order to be ideologically coherent.

One way that exclusion has been justified goes back to the classical definition of democracy as a group with shared values. Cooperative scholars tend to believe that, "when an admissions policy is overly open, common cultural values tend to be lacking and thus problems

arise for the organization” (Rothschild and Witt 1986, pg. 95). This view that membership must be restricted to those who share the same beliefs has led to very undemocratic outcomes. For example, the Jewish Kibbutz communes hire Arab wage workers and San Francisco scavenger cooperatives of Italian immigrants hired non-member Hispanic and African American workers who later sued for racial discrimination (Russell 1984). In the first democratic experiments in Athens too, citizenship (the equivalent of cooperative membership) excluded foreign residents, slaves and women. Eventually, citizenship required both parents to be citizens making it essentially a hereditary privilege (Dahl 1989). Today, Mondragon faces a similar problem of exclusivity. Solidarity becomes a double-edged sword when the membership of a group is defined narrowly.

Becoming a member in Mondragon is not an easy process. Employees must first work for several years to prove their worth before they can become a member and the option is closed to many workers who are considered temporary or who work in a private company owned by the MCC. The price of joining is an investment of about €15,000 which amounts to a year’s salary for the lowest paid members. The money can be borrowed and repaid out of one’s salary over time. One member of the firm described becoming a member as “a marriage to the firm.” Another worker I met was ecstatic having just received the invitation to become a member and was throwing a party to celebrate. Becoming a member comes with many benefits, such as voting rights, a greater share of profits, and most importantly, the guarantee of a job.

A common critique of Mondragon cooperatives is that they hire workers without making them full members. Mondragon’s mission statement claims that it is “firmly committed to...[generating] wealth in society through business development and the creation of, *preferably* [emphasis added] co-operative, employment” (Mondragon 2014a). The use of the term “preferably cooperative” is used again in other parts of the Web site that emphasize employment creation. This

ambiguity reflects the divide between the ideal of full worker ownership/participation and the practice of contracting workers for wages. This practice does not seem compatible with the Mondragon cooperatives' founding principles or with democratic theory in general.

Even if it is impossible to offer contract workers the benefits currently given to members, current benefits could be reduced to achieve near universal employee suffrage. Whyte and Whyte (1991) recognized that the earlier Mondragon policy of no more than 10% non-member employees was a key mechanism to guard against the failures that befell other cooperatives like the U.S. plywood firms where worker-members sold their shares to outside investors. This policy was also an example of Mondragon's commitment to democratic principles. If taken to its extreme, a firm can certainly not be considered democratic if a minority of employees vote and have a stake in the firm. Such an arrangement more closely resembles a partnership. For a firm to be considered democratic, at a bare minimum, the majority of workers must be members and every worker must be guaranteed access to membership after meeting certain conditions, such as a probationary period.

Although not meeting the original mandate of 90%, 84.1% of Mondragon's domestic industrial cooperatives are members. Larger cooperatives with private subsidiaries, such as the Fagor Electrodomésticos, do not meet this standard. The Mondragon Cooperative Corporation as a whole would also not be democracy by this standard. Almost all workers outside of Spain are not members and as of 2008 only 18% of employees are members in Eroski, the biggest employer in the MCC. On the whole, only 29,531 members are part of the Lagun Aro cooperative insurance system, the closest available measure of cooperative membership. This means that less than 40%

of Mondragon employees have the right to vote.¹¹ This number was much lower in 2007 before many of the non-members had been fired and was estimated at only 29.5% (Altuna 2008).

Robert Putnam (1993) studied norms of trust and cooperation, what he calls social capital, and their effect on democracy in Italian municipalities. The most democratic region, Emilia Romagna region is home to many cooperatives that Putnam uses as an example of social capital. He draws the conclusion that norms of cooperation lead to democratic outcomes but with certain reservations. He warns that certain forms of cooperation have been challenged for limiting individual opportunity, such as in medieval guilds. He writes that, “recognizing the importance of social capital in sustaining community life does not exempt us from the need to worry about how that community is defined – who is inside and thus benefits from social capital, and who is outside and does not.” The Mondragon cooperatives that have strong democratic norms and solidarity within their membership but contract low wage labor in other countries must also be wary of the dangers of becoming too exclusionary.

To conclude, Workers do not normally participate actively in decision-making, partly because there is no institution that informs members about alternative courses of action and partly because participation does not usually pay off. Members, while formally allowed to petition for a general assembly, have little de facto control over the agenda. In addition, many workers are excluded entirely from the decision-making process and are compensated unequally. In order for Mondragon cooperatives to be considered democratic they would have to offer membership to all their workers in subsidiary companies and a way for opposition views to be represented in decision-making.

¹¹ It should be noted that unlike degeneration in other cooperatives, Mondragon’s worker owners still own over 90% of the equity.

II. The Mondragon Cooperative Corporation

Despite the limitations listed above, Mondragon's cooperatives are much more democratic than the Mondragon Cooperative Corporation as a whole, which has little semblance of democracy. Most workers that I talked to said that the MCC is no different than a private corporation. One even compared it to Bernard Madoff's illegal Ponzi scheme in the United States, saying that, "the ones with power deceive everyone else." A debate is currently going on within Mondragon about whether to centralize authority in the MCC, posing a dilemma to cooperatives that must give up autonomy to a less democratic organization to achieve the benefits of coordination.

When the Mondragon Cooperative Corporation superstructure was created in 1991, it drastically changed democracy in Mondragon. Greater coordination was needed to compete in the European common market and yet coordination also meant greater hierarchy and distance between members and the decision-making body. In an organization with tens of thousands of members, differences in interests naturally varied between members in different cooperatives and in different positions within the hierarchy. Face-to-face interactions and deliberation were inconceivable as solutions to resolving these differences. In democratic nation-states these differences are ideally resolved through competitive direct elections where parties present platforms that are subjected to approval by all citizens. No similar institution exists in the MCC.

In Mondragon, workers elect the governing council of their cooperative, which elects a representative to the MCC Cooperative Congress, which elects the MCC's 12 member standing committee, which elects the President of Mondragon. In other words, three levels of elections separate members and the MCC's general council and four levels of election for MCC management. This system is extremely indirect, does not involve any participation for rank-and-file members, does not promote the creation of distinct platforms, and would not be considered

democratic by most definitions. A comparison could be made to China where local Peoples Congresses are directly elected with no party competition and in turn, elect representatives all the way up to the National People's Congress.

Small individual cooperatives can practice democracy to a degree by voting in the general assembly. At the level of the MCC, however, there is no direct democracy and competitive elections should be seen as a necessary condition for democracy. In my interviews I asked a member of the MCC whether members of the Congress worried that they might lose their position if they made an unpopular decision. He replied that, "No. We don't have that problem." Instead representatives follow their hearts when making decisions. Because members of the MCC Congress tend to be representatives of managers, in this situation, lay members' preferences are unlikely to be given equal weight (Jones and Kalmi 2012).

An even bigger obstacle for democracy in the MCC is its exclusivity. In order for the cooperatives to compete in a more competitive market, Mondragon has also expanded its operations into other parts of Spain and other parts of the world. The MCC holding company allowed cooperatives to own private firms which soon became the primary source of growth in Mondragon. A class of cooperative members became investors in non-cooperative enterprises where workers were not given the same rights and benefits. Workers in these enterprises do not share in their firms' profits, cannot elect a governing council or vote on issues of governance, and are not extended the same guarantees of employment as members of Mondragon. The disparities between members and non-members were especially apparent in the wake of the 2008 crisis.

Cooperatives have been touted as a way to avoid the negative effects of the business cycle (Birchall and Ketilson 2009). In the 1980's, Mondragon confirmed this assumption when it faced a slump in the Basque region and did not lay off any members (then members were more than

90% of the workforce). Instead, wages were cut and workers relocated to different firms. Normally private enterprises prefer laying off workers over wage cuts because wage cuts can lower productivity. In Mondragon, the owners of the company are the workers and thus place greater value on maintaining their jobs and are more willing to accept wage cuts.

In the 2008 crisis, Mondragon has actually fared worse than the average firm in the Basque region and laid off more workers. It appears that part of the reason why Mondragon did not do as well during the most recent crisis as it did in the 80's is the substantial growth of contract workers. For every cooperative member there were about two contract workers. Mondragon's growth in the last decades cannot be considered a success for workplace democracy and its reaction to economic crisis cannot be considered a success at all.

The 2008 global economic crisis that began with the collapse of the U.S. subprime mortgage market had an especially severe effect on Spain. The real estate industry collapsed, drastically reducing Mondragon's revenues from home appliances, furniture, and construction. Mondragon's bank, Caja Laboral also lost money on U.S. subprime mortgages having invested €162 million in Lehman Brothers (Pérez 2011). Distribution companies in Spain also faced decreasing consumer demand which cut sales in Mondragon's consumer retail cooperative, Eroski. Despite the negative impact of the crisis, many cooperatives did quite well, for example in business services or machine tools.

Following the crisis, a myth arose that Mondragon was a success story. An article published in 2010 entitled, "Assessing Mondragon: Stability & Managed Change in the Face of Globalization," used data from Mondragon's Annual Reports and the Basque National Statistics Office (EUSTAT) to conclude that Mondragon had sustained rapid growth until their data stops in 2007 (Arando et al. 2010). The article states that, "while [employment in the industrial division]

is substantial, it is still less rosy than the overall [Mondragon group]. This group picture includes job growth overseas as well as in other sectors, notably retail, with employment in the Eroski chain growing from 29,192 employees in 2003 to 52,711 in 2009, a gain of more than 80% in six years.” This assessment highlights that almost all of the growth was in non-cooperative employment in overseas branches and in Eroski. The paper says little about this important shift in the composition of employment, noting only that in the early decades nearly all workers were members and that today membership is “more complicated.”

Four years after the crisis, the BBC published an article entitled “Basque Mondragon Cooperative Defies Slump” (Burrige 2012). This article is one of many sources that call Mondragon an economic success story by comparing unemployment in the Basque region to Spain and explaining Mondragon’s member relocation program and its efforts to expand internationally. The article does not mention that contract workers lost their jobs or that international branches were not cooperatives. It also made no mention of the overall economic conditions in the Mondragon group. Other authors have also reflexively assumed that Mondragon showed “greater strength in the face of economic downturn” (Pérez 2011) or provided a “better response to crises” (Markaida 2011). Only a few authors have analyzed the unequal treatment of members and non-member workers after the crisis (Åsheim 2011, Amozarrain 2013).

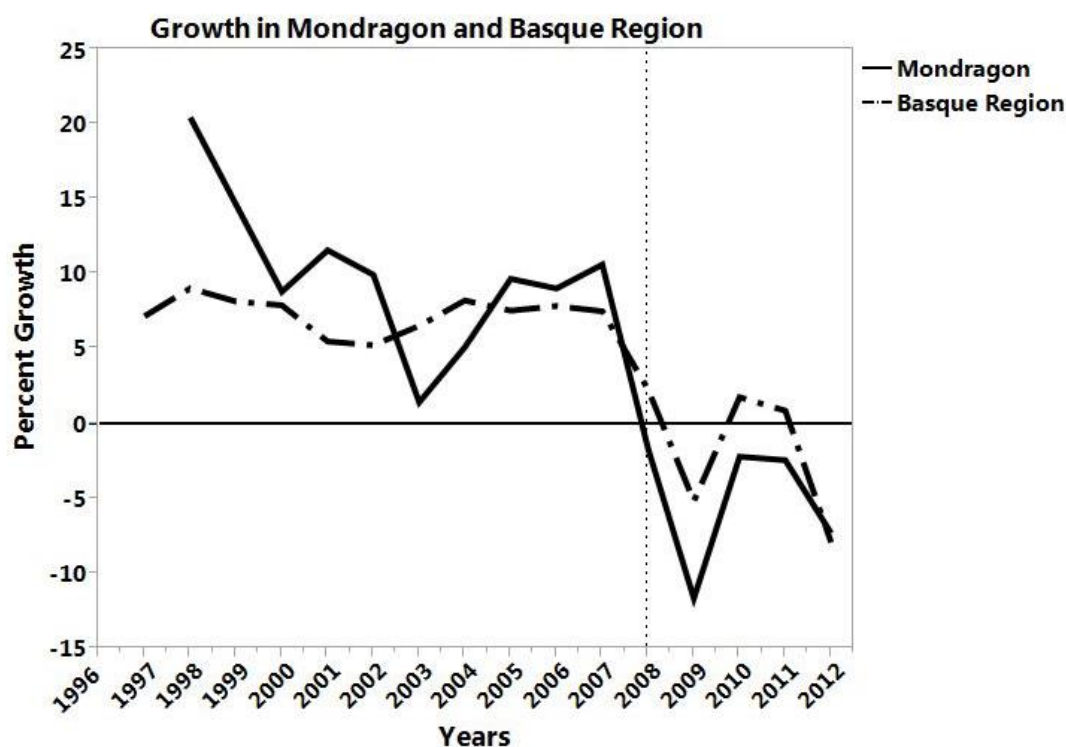
I compiled data from Mondragon annual reports combined with data from the Basque National Statistics Office (EUSTAT), controlling for inflation (Eustat 2013a, b, INE 2013c, a, b, Mondragon 2013). Figure 1 shows that while the economy is growing, Mondragon grows faster than the region but when 2008 hits, sales drop much more precipitously.¹² Sales continue to fall

¹² Data from 1997-2007 shows sales growth because revenue was not included in the annual reports. Data from 2007-2012 switches to revenue growth. These measurements are very close and from 2009-2012, the years when both sales and revenue data was available, sales dropped by 13.3% while revenue dropped by 11.6%.

faster than the Basque region and in 2010 and 2011 when the Basque region saw a small recovery, Mondragon's sales continued to drop. Figure 2 shows employment growth in Mondragon outpacing the Basque region until 2008 when it sheds over 11% of its workforce and continues to lose more jobs than the regional average. Only in 2011 did Mondragon lose slightly fewer jobs than the Basque region as a whole.

Between 2008 and 2012, employment dropped 22.6% in Mondragon, 8.4% in the Basque region and 14.6% in Spain.¹³ Mondragon's revenue dropped 15% while the Basque region's GDP dropped only 2.7% and Spain's 3.9%. In 2008 alone, Mondragon laid off 1,642 workers in international branches and 3,356 workers in the retail division.

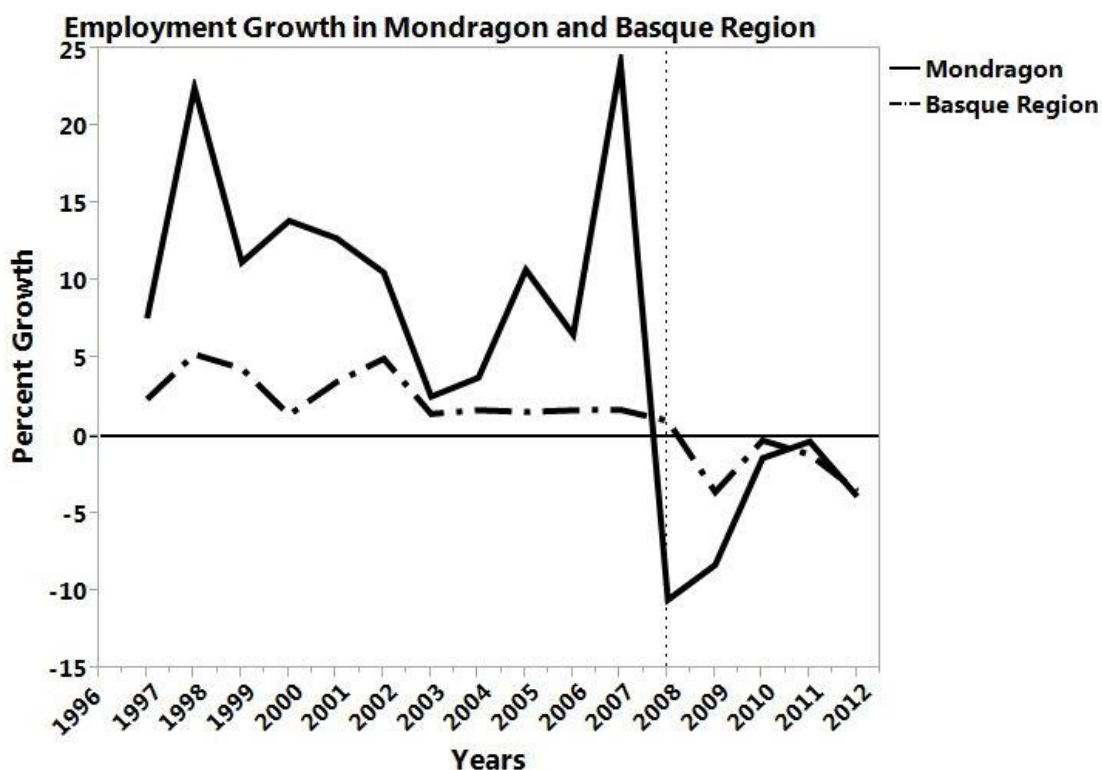
FIGURE 4.1



Sources: Mondragon Annual Reports and Eustat

¹³ In 2008 the retailer cooperative Eroski purchased another retail chain, Capabro, increasing its employment by 50%. In the next year's annual report, after many workers were laid off, the employment figure for 2008 was reduced, presumably excluding the workers from Capabro who were laid off. If the employment data from the 2009 Annual Report is used, employment still dropped by 14.4% since 2008.

FIGURE 4.2



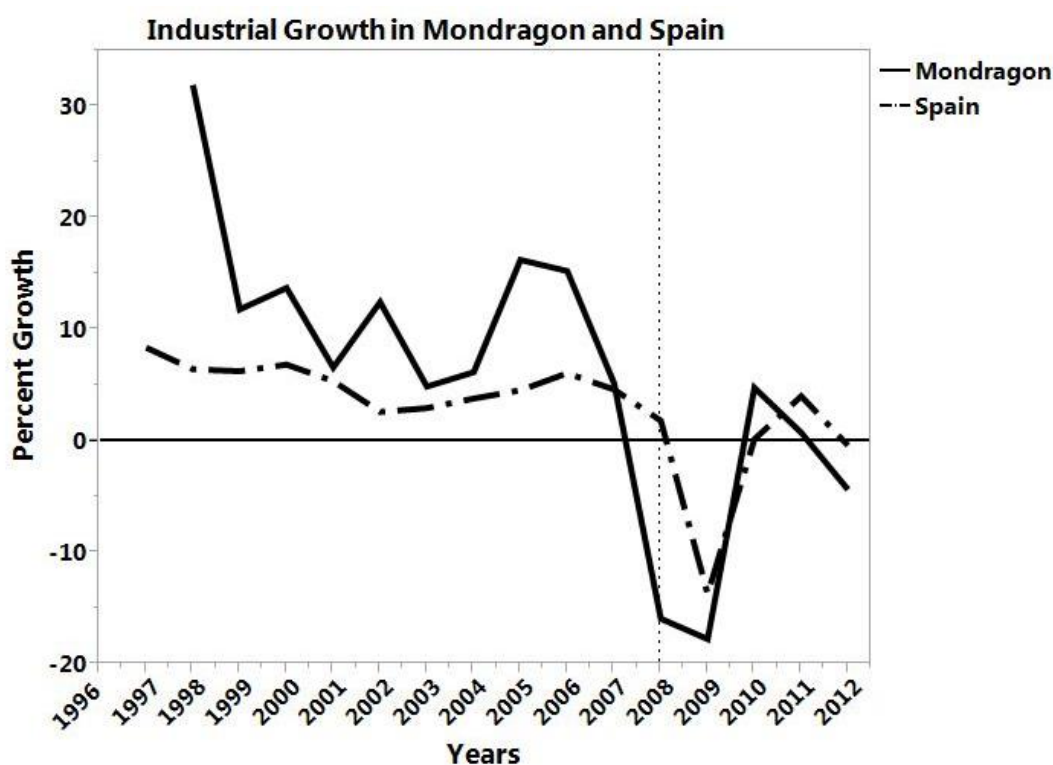
Sources: Mondragon Annual Reports and Eustat

Data comparing the GDP of the Basque region to Mondragon provides an excellent indicator of how Mondragon fares next to the average firm and this measure has been used in other studies (Arando et al., 2010). Nonetheless, comparing these datasets is problematic and must assume that Mondragon is a microcosm of the Basque economy as a whole. Mondragon's industrial sector makes up a large proportion of its revenue and industry in Spain was hit especially hard by the crisis. Differences in the composition of production could account for differences in performance between Mondragon and the Basque economy in general.

To be more precise, Figures 3 and 4 compare the same data but only for *industrial* employment and sales. Because Mondragon makes up such a large percentage of Basque industrial employment, I compare the Mondragon cooperatives to Spain as a whole. Mondragon's industrial

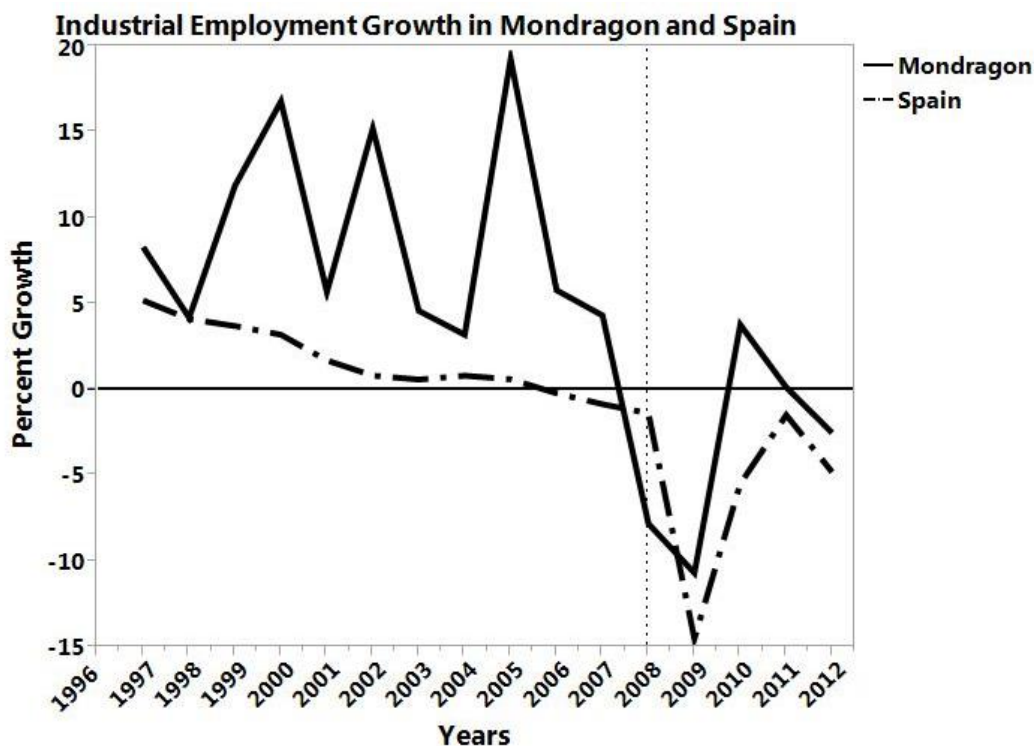
division sales dropped much more sharply than Spain's industrial output but its industrial employment actually dropped less. In Mondragon, industrial sales dropped 30% while Spain's industrial output fell by 10%. Industrial employment in Mondragon, however, only dropped 8.4% compared to 25% in Spain. This again highlights the counter-cyclical nature of cooperative membership on employment. Nonetheless, unlike previous crises, the MCC on the whole fared much worse than the Basque region or the Spain region. I assume that this is because of rapid growth in subsidiary companies leading up to the crisis.

FIGURE 4.3



Sources: Mondragon Annual Reports and Instituto Nacional de Estadística (INE)

FIGURE 4.4

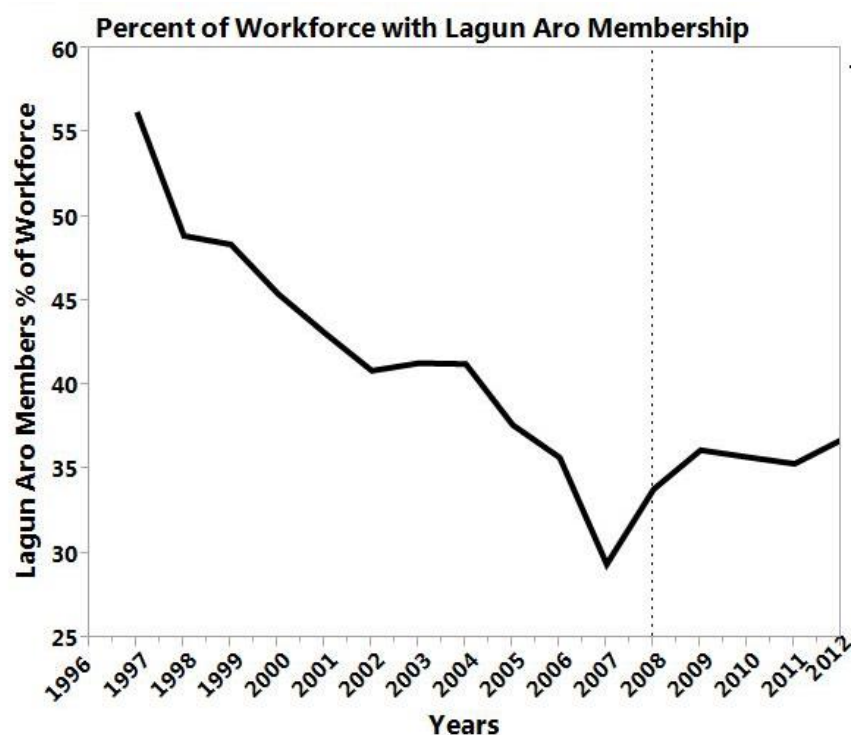


Sources: Mondragon Annual Reports and Instituto Nacional de Estadística (INE)

Figure 5 helps explain the rapid growth in Mondragon prior to the crisis. Members in the Lagun Aro cooperative as a percent of the workforce is the closest measure of the percent of the workforce that is a cooperative member. Lagun Aro membership leaves out a small group of cooperatives that are not a part of the social security and unemployment insurance but also includes retired members.¹⁴ Membership as a percent of the workforce steadily decreased between 1997 and 2007, dropping from 56% in 1997 and hitting bottom at 29% of the workforce. After many non-members lost their jobs, the ratio of members to non-members began to recover but remains at less than 40%.

¹⁴ Either this is a very accurate measure or other authors use the same one. Tom Malleson (2013) quotes a past president of the General Council as saying only 38% of workers were members in 2006. Altuna (2008) found 29.5% of workers were members in 2007. Both estimates match perfectly with my data.

FIGURE 4.5



Sources: Mondragon Annual Reports

This finding does not mean that Mondragon would have done better had it hired fewer contract workers. In fact, it is not implausible that all of the cooperative members were able to keep their jobs *because* there were so many contract workers who could be eliminated first. Luzarraga and Irizar (2012) write that Mondragon cooperatives have a strategy of “multi-localization” where jobs are created in foreign subsidiaries to protect domestic employment of cooperative members. This same strategy presumably holds for domestic non-cooperative employment as well. What the findings do show is that all the growth that has been attributed to the success of the cooperative model is somewhat misplaced. Mondragon did not do better than other firms during the crisis and it did not protect its workers, although it did protect its members. This does not bode well for democracy if a class of workers are permanently excluded from the

democratic process, granted unequal benefits, and fired from their jobs to protect the employment of members.

III. Bankruptcy of Fagor Electrodomésticos

The first cooperative that began the Mondragon cooperative complex was named Ulgor after the initials of its founders. Later the company used the brand name “Fagor” which was adopted by its cooperative group. Today this company is called Fagor Electrodomésticos. It is not only the oldest, but also the biggest industrial cooperative in Mondragon and is symbolic for the whole group. Fagor is an interesting case because it exhibits all of the democratic deficits identified in the previous sections. Partly due to its large size, members have a reputation for not performing their democratic duties. Size has led to greater divisions and Fagor, then Ulgor, is known for initiating the first and only strike in Mondragon. Fagor also relies on thousands of non-member workers in foreign subsidiaries. Today it has sixteen production plants, seven in the Basque country and nine in France, Poland, China, Morocco and Italy.

Almost every analysis of conflict within Mondragon mentions the 1974 strike in Fagor when over 400 members walked out over changes in how wages would be calculated. More than two-thirds were women, the group most affected by the changes (Kasmir 1996). Even in the relatively small and homogenous cooperative, there were differences between members that affected how they interpreted policy. In the end, seventeen of the strike leaders were expelled from the cooperative (in 1977 they were readmitted) and the rest who went on strike were fined. The workers went on strike because they did not feel that other methods of resolving conflict were adequate. One of the main problems was that the cooperative had grown so much workers felt like they could not participate meaningfully (Whyte and Whyte 1991). Larger size created varying opinions on what the cooperatives stood for and both sides accused the other of lacking solidarity.

Reflecting the classical conception of democracy, a study by the cooperative group on the causes of the strike denied that real conflict existed and instead emphasized the lack of deliberation and understanding:

The accusation of social class conflict lacks any real foundation but the climate of division created in that situation, which translated itself into ‘those on top’ and ‘those on bottom,’ led to this interpretation. Concerning the minority position, it is possible that the institution could have adopted postures more open to dialogue (Whyte and Whyte 1991, pg. 101).

Ulgor’s social council, which could have played a role in representing the “minority position,” also issued a report stating that, “there is no question that the [social council] has fallen short of fulfilling its role – even of knowing its real function in the firm.” It went on to state that it was a “rubber stamp body for decisions already made” (pg. 103). Despite a plea for greater time and resources, management made no concrete response. A proposal to allow the social council to elect its own chair was also rejected.

When investigating Fagor, Greenwood and Santos (1992, pg. 154) found that heterogeneity and different viewpoints within the cooperative were actually a source of participatory energy: “the problems and conflicts found in [Fagor] now provide opportunities and energy for continuing change in the direction of greater future participation.” If the conflicts have generated member engagement, I did not see it in my interviews. When I visited Mondragon, workers from Fagor firmly believed that the company was less democratic today than it was before. The conflicts that generate energy for change must be institutionalized in the democratic process to have their effect.

By 2007, over thirty years after the strike, Fagor reached 11,000 employees as demand for appliances boomed in Spain. In 2008, the global economy and Spain in particular entered into crisis and sales in Fagor plummeted. Workers in Fagor voted to give up their extra months of pay

in May and December (a double salary twice a year is a common practice in Spain; Artea & Vadillo, 2008). This, however, was not enough. In 2013, after losing money every year for six years, sales had dropped by 35% and employment had been cut in half. In early 2013, the Cooperative Congress approved a loan of €70 million to help Fagor get on track. In October, Fagor had not made the changes it had committed to and proposed another plan asking for €50 million more. The general council rejected this plan, leading to Fagor and its subsidiaries to declare bankruptcy in November.

While the clearest cause of Fagor's downfall was the intense competition from other companies with cheaper labor and greater resources for research and development, my interviews revealed an internal failure in Mondragon as well. There was a consensus that management did not respond to its losses soon enough and that members had failed to put enough effort into reviewing management's plans and investments. As a result of this lack of accountability, members are likely to lose their capital accounts, each worth tens of thousands of euros. Both management and the workers felt invincible and did not act quickly enough to stem the crisis.

The failure of Fagor also shows that its strategy of "multi-localization" may not be as successful as its proponents hoped. Monasterio, Telleria, and Etxebarria (2007) thought that instead of exporting jobs to other countries, cooperatives could expand internationally while at the same time maintaining and even increasing domestic employment:

Industrial capitalist firms, to remain competitive, may assume parent companies downsizing or closing as strategic alternatives. Mondragon, as a worker cooperative committed to their coop member's community, cannot. International multi-localization *Foreign Direct Investment* (FDI) seems to be the solution to avoid *de-localization*, thus

defending their local community from the trigger of globalization threats, “unemployment”.

While hiring cheap labor abroad may postpone the downsizing of uncompetitive domestic plants, it is not sustainable in the long run. Not only is it unsustainable, but it would be less likely to be pursued if democracy were extended to all workers. This is because workers in foreign subsidiaries must bear the cost of sustaining domestic employment and would be more likely to see this strategy as problematic and promote greater offshoring.

Fagor’s strategy of international expansion revealed contradictions between the ideal form of democracy and its implementation. Mondragon has bought private firms in the Basque region and transformed them into cooperatives. So far, none of Mondragon’s international plants have been made into cooperatives. The argument against cooperativising these plants is that economic, legal, and cultural differences have been insurmountable. Other countries have different laws regarding transferring ownership to employees and many of the employees lack the economic resources to buy into the firm or the culture to engage in democracy. All these setbacks are only problematic if international cooperatives were to adopt the same model of democracy as domestic cooperatives.

Fagor Brandt is a French subsidiary of Fagor. This requires Mondragon to invest in the expertise to follow French laws regarding businesses. Cooperative law would just be one of many regulations to comply with. Thousands of cooperatives operate successfully under French cooperative law. The workers have the economic means to buy the firm and the culture of participation in management through a union. Clearly Brandt has the economic, legal, and cultural ingredients for a democratic firm. One reason why Brandt has not become a cooperative is that the union is opposed to giving up striking and collective bargaining, conditions that Mondragon

demands in the case of a buyout. Ironically, if workers shared in profits there would likely be fewer strikes because they would cause the worker-members to lose money as well as management. Mondragon's opposition to unionized cooperatives seems incongruous with cooperatives commitment to the sovereignty of labor. It would appear undemocratic to remove an institution that workers feel provides greater representation than Mondragon's democratic structure.

Another subsidiary of Fagor in Poland, Fagor Mastercook, has not cooperativised, partly because wages are four times less than comparable jobs in Spain. It would be a great hardship for each member to pay the €15,000 entry investment and the company would not meet the salary requirements of Mondragon cooperatives. Nonetheless, it is possible for Mondragon to offer limited democratic control of the plant to workers who invest what they can and are represented in the cooperative group. Restrictive covenants could ensure that debts would be paid off. Although salary and investment requirements would have to be different than in Spain, democracy is attainable.

It is clear that legal, economic, and cultural differences are not compelling explanations for why no solution has been found for turning even a single foreign subsidiary into a cooperative. A more convincing explanation is that extending democracy would introduce disagreements within the firm about its fundamental goals and strategy. Amozarrain (2013) points out that international contract workers would actually make up a majority in Fagor if they became members and could close plants in the Basque region. While it may make sense from an economic perspective to relocate production out of Spain, this is clearly unacceptable for the current members of Fagor. Amozorrain concludes that:

Fagor and the rest of the multinationals in Mondragon federate only so much as does not lessen the capacity of the cooperatives and their members to maintain control over the

multinational group and its subsidiaries. This aspect would be the principal obstacle for whatever attempt to transform the foreign subsidiaries of Mondragon into cooperatives (my translation).

Even with this powerful disincentive for current members to extend democracy, Amozorrain points out that, “other intermediate formulas could be found that do not put at risk the hegemony of the members of Fagor in Mondragon.” Whether such a solution will be found depends on Mondragon’s level of commitment to democracy and whether its conception of democracy can accommodate viewpoints that conflict with those of the current membership.

Turning Fagor Mastercook or Fagor Brandt into a democratic firm with different salaries, capital investments, and cultural attitudes would likely lead to deep divisions between the cooperatives over their correct course of action. While this might be problematic for a classical conception of democracy that values unity, conflict is the very rationale for why modern democracy is important: to settle conflicts legitimately. The current arrangement where the member-owners of capital make decisions for international workers violates Mondragon’s principle of the sovereignty of labor and the instrumental nature of capital.

When I was in Mondragon, I was able to see firsthand the frustration felt by employees about the state of democracy in Mondragon. Employees from a domestic subsidiary company, Grumal, were staging a protest of their treatment by the MCC. When Fagor bought the company in 2005 it had been assumed that the company would be converted into a cooperative. Eight years later when Fagor was declaring bankruptcy, Grumal was still a subsidiary company. Grumal workers were not being relocated to new jobs like the cooperative members of Fagor and they felt betrayed. One protester that I interviewed said that, “Management has lied to us, headed by the MCC. Everything was damned money.” Because the MCC’s Congress is made up of

representatives from other cooperatives I asked whether he blamed other cooperatives and he said, “No, just the MCC. The other cooperatives are workers just like us.” For the protestors, the MCC is an illegitimate institution and instead of being viewed as democratic it was described as “like any other corporation.”

Fagor provides a clear example of the undemocratic trends identified in this paper and also an indication of where such trends lead. Fagor’s conception of democracy based on solidarity worked when it was just a handful of members and it eventually gave birth to what would grow into the Mondragon Cooperative Corporation. The original conception of democracy, however, is no longer applicable to Fagor or to the rest of Mondragon. In Fagor, management was not held accountable to members and members excluded the majority of workers in order to reduce conflict and hold on to power.

IV. Solutions

I have identified a number of obstacles that Mondragon faces in achieving democracy. A more difficult question is how these problems can be solved. Members of Mondragon will ultimately be responsible for providing and implementing any reforms. While the details of a solution will vary by cooperative and the actors involved, I will review current proposals and suggest tentative principles that could guide democratization.

Critics of internal changes in Mondragon have focused on the changing values of cooperative members. Kasmir (1996) shows how the values and behaviors of members do not reflect the values of the working class. Cheney (2002) believes that the identity of the cooperatives is being lost and implicates both workers and management for departing from the cooperatives’ founding principles. Both critiques discuss worker participation and democracy as if they were dependent on a host of other cooperative values.

In 2005 Mondragon initiated a project called “Reflection on the Meaning and Future Direction of the Cooperative Experience” that involved 1,373 participants in 134 meetings. The first meetings with cooperative representatives found that:

There has been a loss of explicitly cooperative identity...it is necessary to update or renew cooperativism (as a broad set of commitments, including equality, solidarity and participation) and the cooperative identity (as a value-based brand) to make it more attractive, especially to younger generations (Etxagibel, Cheney, and Udaondo 2012, pg. 83).

The report emphasized the importance of “social transformation” and advocated education and training to develop “a sense of belonging” and “cooperative identity.”

This strategy to improve democracy by changing the values of the members is unlikely to be successful. The causes of the diverging backgrounds, values, opinions, and identities found in the cooperatives are not easily changed and perhaps *should* not be changed. As cooperatives grow in size and generations pass since its founding, it is inevitable that values will shift and diverge and new divisions will arise. Democracy should be flexible and accommodate these changes.

While it is highly unlikely that the values of the cooperatives can be resuscitated in their original form and spread throughout the cooperative membership, the debate on the cooperative experience ended up drawing relevant suggestions for improving participation and democracy. It found that social councils and governing councils should be strengthened and that democracy should be extended to enterprises abroad (although it highlighted the difficulties of assimilating other cultures). It also suggested education about socio-economic challenges, opening channels of communication within the cooperative, and encouraging participation. Greater training for elected bodies was suggested as a way to counterbalance the weight and power of the general manager. If

the findings of the project are implemented it could improve participation, inclusion, and “enlightened understanding” in Mondragon.

Beyond education, the best way to encourage workers to participate is by giving them greater power to influence decisions. If workers feel like their efforts will not be adequately compensated with influence, they will not see participation as worthwhile. One way to empower workers is by promoting greater representation, whether by increasing the independence and resources available to the social council or by giving unions a greater role. Introducing incentives for holding office could encourage workers to join in governing the firm and create greater competition of ideas. The idea of paying representatives may be unpopular because it might attract self-interested candidates rather than altruistic ones. Nonetheless, competitive elections could generate the involvement of a greater number of workers, encourage wider representation, and subject elected bodies to greater scrutiny.

The greatest threat to democracy is Mondragon’s dependence on non-cooperative employment. The cooperative Eroski has recently increased its number of worker members to 13,000, roughly 30% of the workforce. These members share equal representation with consumers in the governing council. Mondragon has also looked into strategies for creating worker ownership and involvement in decision-making but these were put on hold following the economic crisis and have so far not met with success (Jones and Kalmi 2012). The problem of excluding workers from democracy is a serious problem and in order to overcome the differences between countries, it may be necessary to place the values of self-governance and inclusion above other values of equality and solidarity. In order to ensure that Mondragon is an inclusive democracy, a minimum percent of members should be established for the MCC. The right to become a member should also be extended to all workers in subsidiary companies. This would require creative solutions to bring

democracy to companies with different regulations, economic conditions, and structures of organization.

The MCC also faces problems of legitimacy and is not seen as representative of its members. Allowing for direct elections of representatives would involve rank and file members in the issues that affect the entire cooperative group. Competitive elections are even more important in the MCC than in individual cooperatives. They create accountability for representatives, giving workers a way to influence matters that will not be voted on directly in a general assembly. These two reforms could create greater responsiveness and legitimacy in the MCC.

Creating a more democratic superstructure may be the difference between life and death for the cooperatives. Following the collapse of Fagor, the President of Mondragon resigned and the company entered a period of “collective reflection, analysis, and debate” (Mondragon 2014b). The Spanish newspaper *El País* published an article entitled “Mondragon splits into two” to describe the debate that erupted about whether or not to consolidate greater decision-making power in the MCC (Ormazabal 2013). Many cooperatives reacted negatively because they see their general assemblies as the main source of legitimacy and the MCC as a threat to their autonomy.

Robert Dahl (1994) analyzed a similar situation when Denmark rejected the first Maastrich Treaty that delegated authority to the relatively undemocratic European Union. He concluded that greater size is an opportunity to provide efficiency but also detracts from the democracy that is established in smaller units. Consolidation must be approached cautiously and only with proper democratic safeguards. For Mondragon to benefit from the economies of scale that the MCC can provide, democratic structures must be improved to reduce the trade-off between efficiency and worker control.

In the following years, Mondragon will have to redefine itself as it rebuilds from economic crisis and the collapse of its trademark cooperative. The difficulties that Mondragon currently faces should be seen as opportunities to reinvigorate democracy. Members have the power to create a new system that embraces the conflicts that have arisen within and between enterprises and implement democratic reforms.

Chapter 5 - Conclusions

Worker control has been posited as the ultimate manifestation of both capitalism (Kelso and Adler 1975) and socialism (Schweickart 1992). Others argue that worker control is a third alternative between oligarchical capitalism and bureaucratic socialism (Dahl 1986). In fact worker-control has been implemented with values ranging from communistic, such as the Kibbutz communes, to capitalistic, such as the U.S. plywood cooperatives. Perhaps it is time to abandon the attempt to place worker control on the spectrum of economic ideology and instead look at what it means in terms of political theory.

Mondragon has achieved more in implementing workplace democracy than any other large multinational firm and yet it has failed to extend and deepen its democracy. This is in part because Mondragon's conception of democracy is tied to an ideology based on personal relationships, equality, and solidarity. The diversity and conflict that arises within firms that extend beyond a few hundred workers requires a new conception of democracy that strives to accommodate all of the different values of workers.

The first great experiment in democracy took place in the sixth century BC. It was limited to a small scale and would take two millennia to become more than a limited and passing phenomena. The number of employees and members in Mondragon fits within the estimates for residents and citizens in Athens (Hansen 1991). Both political units share not only the same size, but a similar conception of democracy based on equality and solidarity. Hopefully, workplace democracy will not have to wait two millennia to become more than a passing phenomenon, but can learn from the changes in democratic theory that occurred in the last several centuries.

Instead of accepting innovations in national politics, many authors have emphasized how workplace democracy can fix the problems of modern democracy. They promote workplace

democracy for doing things that democracy at the national level cannot do, such as providing greater equality, morality, or engagement in politics (Pateman 1970, Dahl 1986). The belief that workplace democracy has value only inasmuch as it can offer an alternative type of democracy has inhibited cooperative members from adopting competitive elections or checks and balances and has even contributed to the exclusion of certain workers. In order for democracy to be feasible in large-scale enterprises, it will have to make the same sacrifices as national democracy.

In the first small homogenous cooperatives in Mondragon, such as Ulgor, workers could find a consensus on the fundamental values of the cooperatives. Tradeoffs between economic success and social values were minimal and when these trade-offs arose, there was an agreed upon framework for deciding a proper balance. Today, not only have the cooperatives grown and attracted a much more diverse membership, Basque society has also changed to include more diverse social groups. Today, Mondragon is host to numerous intractable conflicts. Democracy, rather than suppressing these conflicts, is valuable for its role in managing these conflicts in a way that accommodates all actors.

Instead of measuring democracy by adherence to cooperative values, equality of wages, or job security, I use Robert Dahl's five criteria for democracy and find many areas where Mondragon can improve. Most importantly, Mondragon's narrow conception of democracy has prevented it from adopting procedures that give greater control to workers, provide representation for different groups, and encourage competition of ideas. It has also prevented countless workers from being assimilated as members of the cooperatives because to do so would decrease the equality and shared culture of the current membership which would almost certainly invite conflict.

The bankruptcy of Fagor Electrodomésticos is a turning point in Mondragon's history. Its failure revealed tensions between the different classes of members and also the lack of participation

within the cooperatives. I heard many opinions on what Mondragon needs to change but they tended to be framed as a choice between two views. The first view encourages more economic coordination by consolidating decision-making in the MCC. The second emphasizes a return to the values of the cooperative movement by retaining autonomy of individual cooperatives and promoting education on the values of equality and solidarity. This paper offers a third path where democratic institutions ensure a fair balance between economic success and workers' interests.

Even if democracy will not lead to equality or solidarity, it can give greater dignity to workers. Instead of being just another factor of production, workers can resist arbitrary decisions by management, and are ideally given the power to influence the way that their company is run. One poll of American workers found that 66% would prefer to work in a worker owned and controlled company rather than a private company or for the government (Rifkin 1977). If there is to ever be democratic employment for such a large proportion of the population, a model for large-scale workplace democracy will first have to be developed. This model will need to provide representation for a diversity of interests and be based on competition and bargaining rather than on trust and cooperation.

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