The design of a nonformal education process to establish a community development program based upon Mahatma Gandhi's theory of trusteeship.

Terry Mollner

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THE DESIGN OF A NONFORMAL EDUCATION PROCESS TO
ESTABLISH A COMMUNITY DEVELOPMENT PROGRAM
BASED UPON MAHATMA GANDHI'S THEORY
OF TRUSTEESHIP

A Dissertation Presented
By
TERRY MOLLNER

Submitted to the Graduate School of the
University of Massachusetts in partial fulfillment
of the requirements for the degree of
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ABSTRACT

The Design of a Nonformal Education Process to Establish a Community Development Program
Based Upon Mahatma Gandhi's Theory of Trusteeship
(February, 1982)
Terry Mollner, B.A., Creighton University,
Ed.D., University of Massachusetts
Directed by: Professor Horace Reed

Education (in its myriad forms) causes social change and growth. Humankind's prepossession with education for millenia presupposes that human society is not static, but is ever evolving, and that social change is a primary function and intent of education. Education, in most forms, is avowedly non-violent, in that it encourages/promotes change by peaceful means.

A prevalent view of education, represented by the American educator John Dewey, focuses on education as a means to change the knowledge, behavior and beliefs of individuals. Dewey believed that this was the only way society could be changed. However, this approach attacks only half of the problem. Education must focus not only on changing individuals, but also on changing the organizational structures through which people move and which, like Skinnerian boxes, condition them.
An approach which is concerned with both is necessary. In this dissertation, an agenda for education will be presented that helps people understand the importance of structural change as well as personal change; and goes beyond that to suggest how this might proceed. For this purpose the focus will be on changing economic structures, which affect the fundamental quality of life.

More specifically, the purpose of this dissertation is threefold:

(1) to present an alternative Weltanschauung (world view) which may serve as an appropriate model to guide communities and nations non-violently through the present world crisis to a society based on more equitable values.

The world view is developed from that of Mahatma Gandhi. The word used to identify it is "Trusteeship"--a theory that all social, political and economic activities be democratically controlled by those who are most affected by them; and managed not only for the good of the individuals involved, but for the welfare of society as a whole.

The philosophy of trusteeship synthesizes the separate goals of both capitalism and socialism, and spells out a process for a non-violent resolution of conflict.

(2) To present a successful community model based on this view--the Mondragon Cooperatives in the Basque region of Spain. This is a group of 20,000 worker-owners aligned in 100 different cooperatives, who are the principal producers of appliances for that country. The focus of the cooperatives is both the welfare and human development of
the members, and service to society mainly through the creation of worker-owned jobs. While developing independently of Gandhi, Mondragon exemplifies trusteeship in many ways. As an operational example of the philosophy, it has developed structural forms and processes to institutionalize the theory and values, adapting it to the special conditions and needs of the people of the Basque region. (3) To explain how this unique model fits the trusteeship theory; to identify the particular social, economic and political criteria that would favor or discourage its application elsewhere; and to present a design which educators and community leaders could use to teach and develop such a model, specifically in a community in the United States.
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CHAPTER I
INTRODUCTION

One legacy of the Cold war that still persists—for all the new stirrings of the past few years—is the continuance of a dominant pattern of intellectual work that is in no serious way troubling to those who have power in the society. Despite past student attempts to restructure the universities, the bulk of the new investigations, research, and reportage has come not from leading academicians, but from muckraking journalists, and disparate bands of poorly paid, left-wing collective researchers and "underground" snoopers. The framework of the social sciences remains compartmentalized and irrelevantly detailed; there is little capacity or willingness to develop "grand theories" or "ideologies" which might make sense out of the welter of scandalous data unearthed by the muckrakers. But without such an ordering of data into some meaningful pattern, we become overwhelmed and demoralized by the shotgun effect of innumerable horror tales. It all seems to point nowhere except that some bad people are once again in power, and we must wearily try once again to eject them from office and vote in some "cleaner" or more decent types.¹

Our present moment in history seems particularly wracked by crisis, urgency and stress. There is nothing new about this feeling, but for perhaps the first time, the whole world is involved and at stake. The implications are truly global, and would seem to augur the decline and possibly the disastrous fall of the world order that we know. So, at least, goes one school of thought; others are slightly more sanguine, but few today will deny that titanic problems exist.

Many problems, or their symptoms, are economic. Almost all pulses of the international economic situation are in tumultuous and unpredictable flux. The prevalence of labor struggles, political unrest, pollution, terrorism, hunger, nuclear proliferation—are signs that our dominant political and economic structures, capitalism and
socialism, are increasingly unable to cope.

These symptoms reflect pressing human needs, injustice, anger and fear, which affect the economic climate which affects them.

While the media is preoccupied with chronicling these shakings of our foundations, there are also diverse and urgent explorations for the rudiments of a sane and stable economic base. At a time of corporate merger mania, we find a resurgence of small entrepreneurship and home business; many experiments in economic democracy; a thriving underground and barter economy; back-to-the-land, voluntary simplicity and appropriate technology movements; efforts to establish local and regional agriculture and energy sources; and a growing struggle for economic independence among poor people and nations.

Many of these attempts seek to incorporate humanistic and subjective values which are conspicuously absent in a mainstream economy obsessed with commodities and figures. They rarely make the front pages or the network evening news, and those involved in them may be few in number, compared to the majority still committed to or held captive by the dominant systems. Yet they clearly indicate a popular groundswell in search of a new economic paradigm that is human in scale and concern, and protective of the earth's increasingly limited natural resources.

One of the oldest and most significant efforts to create new economic structures is the cooperative movement, which has taken many forms in the past century to improve the system of producing and distributing goods and services. A primary concern of most cooperati-
ves has been to remove ownership and control from private or state hierarchies and place it in the hands of workers or consumers. The more progressive experiments have been concerned not only with amending injustices and improving the welfare of their members, but addressing the health of society at large.

The history of cooperatives is a spotty one; much more is known about why they fail than why they succeed. To date, few if any have offered a model viable and convincing enough to interest a critical mass—which is locked into the symbiotic yet adversary relationship of capital and labor in the West, or the state-controlled socialistic systems in the East.

One of the largest experiments in economic democracy and with little question the most successful is the Mondragon Cooperatives in the Basque provinces of Spain. In 1980, over 20,000 worker-owners were employed here in 100 different cooperatives, which share common banking, management and support services, ideological perspectives and goals.

Seventy-six of these are industrial producers which manufacture foundry products, electronics, components, coach bodies and auto parts, hardware, building materials, graphic arts products, furniture, plastics and recreational equipment. Together they are the number one producer of appliances and machine tools in Spain.

The remaining 24 cooperatives provide a variety of support services to the producers, their families, other businesses and members of the greater communities in the region. These include:
A central bank which raises capital, starts new cooperatives, and provides management assistance to all;

A large technical college which prepares trained skilled labor, professionals and managers for the workforce;

A research and development center which provides technical and marketing services;

Personnel, medical and hospital services;

Social security and insurance;
A network of 36 cooperative schools;
14 housing cooperatives;
Three agricultural cooperatives;
A chain of consumer stores;
A laundry and food services;
And a social club.  

Mondragon, for which this cooperative group is named, is a town in the rugged Cantabrian mountains 40 miles inland from the north coast of Spain, in the approximate center of the four provinces that comprise the Basque region—renown for its militant national pride, hard work, thrift and strong religious faith of its inhabitants; and celebrated since medieval times for the exceptional quality of its iron and steel works.

In 1941, when a young Catholic priest named Fr. Jose Marie Arizmendi began the work which would become the cooperative structure years later, Mondragon was an economically depressed town of 8,000. Residents of Mondragon and much of Basque were demoralized and bitterly divided as a consequence of the Spanish Civil War. They had fought as a united front against Generalissimo Franco and lost; his troops had occupied the region ruthlessly as a police state since
1937.

Under direction of the local bishop, Arizmendi began the task of organizing technical training for young men in a political environment that was unreceptive and hazardous. But with considerable support from families in the area, who risked their savings to start an independent training school, the priest established a small organization, and from this, the coalition of cooperatives was to develop in the 1950s and 60s.\(^3\)

By 1980 Mondragon was more than five times larger—the most prosperous town of four prosperous provinces in Basque; and confronting the more welcome problems caused by too much industrial prosperity. The primary cause of this economic transformation were the Mondragon Cooperatives, which had spread from their nerve center here into the surrounding regions.

Subjected to hard analysis, this complex venture emerges as an unqualified success by any economic criteria—wages, profits, growth, diversification, market position, benefits. Between 1960 and 1976, an average of five new enterprises and 800 new jobs were created each year. No industrial coop has ever failed. Today, the cooperatives enjoy a virtually unlimited access to capital, which will enable expansion into yet more sophisticated and capital-intensive products, and larger sales in foreign markets in the future.

As a social and political experiment, the Mondragon Cooperatives are more remarkable—for their distinctly humanistic vision, their ambition, and their organizational achievements. The entire
workforce, from lowest apprentice to senior executive, have guaranteed jobs for life; a share in annual profits; exceptional benefits; and a guaranteed pension of 100 percent of retiring salary. To date, no one has lost either job or investment as a result of business failure. What Mondragon has done with its considerable profits, and why, is unique among cooperatives. Profits have been systemically reinvested to create a stronger manufacturing base; a steady stream of new jobs; and the additional support and human services such an extensive operation requires. The intent has been to establish service to the community at large as a goal fully equal to service to members of the cooperatives. This has provided an unusual security and wealth for the entire area, a favor which the residents reciprocate—as they have from Mondragon's beginning—by investing their personal savings in the cooperatives, through its central bank.

Arizmendi and others who have engineered Mondragon have unified the often conflicting goals of labor, management, owners and investors. They have established an enduring balance and solidarity between labor and management, individual and organization, industry and community. This has all but eliminated the major rivalries and struggles which are endemic to both the capitalist and socialist systems as they exist almost everywhere today.

They have achieved this by codifying a new organizational structure and process in their by-laws—establishing a system without apparent precedent or peer in Spain or elsewhere, under the noses of Franco and a local business establishment which was skeptical and
sometimes antagonistic. In this new organizational structure, these worker-owners have acknowledged that economic imperatives and the diverse human needs of all involved in such a complex equation are of equal concern. All must be adequately addressed in a truly equitable and functioning economic order. So far their new institutional forms, which will be described in detail in Chapter V, have done just that.

The principal key to Mondragon's success is unquestionably the Caja Laboral Popular, or bank--technically the Spanish law equivalent of a workers' cooperative credit union which began as a mechanism for investments in the enterprise. This bank has two main divisions. One operates a savings bank with 93 branches and 300,000 members. According to Robert Oakeshott, an English journalist and leading authority on the worldwide cooperative movement, this is the only bank in the world which raises capital explicitly to develop local business and local jobs. This bank is able to pay a slightly higher interest rate than its conventional competitors, and routinely outperforms them. Between 1965 and 1975, for example, its volume increased twentyfold.

Because of its cooperative structure, the bank is able to lend new enterprises unsecured capital at two to five percent less than prevailing rates, and still return 30 to 40 percent of its profits to its large membership.4

This capital is managed by the second major bank division, the Empresarial or entrepreneurial branch. Most remarkable about this group is that it has upheld an astonishing record of 100 percent suc-
cess in launching new industrial coops since its inception in 1958.
(The average rate of success of venture capital enterprises is between
20 to 30 percent.) They have achieved this by a remarkable new
approach to business formation and setting rigorous standards for new
coops. To receive Empressrial's considerable support and expertise,
new groups must take the initiative to come forth with an organized
core group of workers with ideological goals compatible with the
Mondragon group. They are not recruited. Rather the Empresarial
Division wants them to take the first initiative so they will be
clearly demonstrating their belief in the cooperative values of the
Mondragon Cooperatives. Empresarial forms a partnership with this
group founded on these shared values. They then establish the new
cooperative corporation which is ultimately controlled by the bank
usually until the new business has at least one profitable year. In
the meantime, one of the group's members is trained to be the manager
and an appropriate product is chosen. The remarkable part is that the
worker's cooperative is never abandoned by the bank. If the manager
or product fails, a new manager is hired or trained or a new product
chosen. The bank continues to loan the necessary capital and exper-
tise until a successful business emerges. This way, assuming they
eventually succeed which has been the case with industrial cooperati-
ves thus far, the bank never has a bad debt, the depositors savings
are safe, and the workers get a successful business. All this is
possible because the emphasis in starting a business has been shifted
from primarily focussing on the needs of the product to primarily
focussing on the needs of the workers.\textsuperscript{6}

The Empresarial Division also serves as control center for all cooperatives. It assists them to collaborate in small groups to produce components and to assemble products that much larger companies normally manufacture--thereby limiting the size of each enterprise, and insuring that each maintains a human scale in the workplace. This protects the close family and small group rapport which is characteristic to the social life in the Basque communities.

Empresarial also supervises the research and development group, which identifies new products and markets and evolves appropriate technologies that meet the unique needs of cooperative manufacturing. It assures that no coop assumes unnecessary risks or attempts tasks that could be more efficiently accomplished by central service coop groups. In this role, it also oversees all the other "second degree" service cooperatives.\textsuperscript{7}

The Mondragon cooperatives are inevitably faced with needs to expand and diversify to endure in a competitive marketplace. By coordinating this process, the division protects each cooperative from market pressures which often adversely change or eliminate smaller manufacturers in the open marketplace.

Consequently, the individual enterprises are freed to concentrate on their commitment to the group which funds them--the primary task of profitable production. Collectively, they enjoy the advantages of scale, management, capital and support usually afforded only by large conglomerates. Yet each retains individual ownership,
substantial autonomy in internal decisions, and ultimate responsibility for its own success. If one suffers, others are not penalized as a consequence, and the bank is there to help. And each has a proportional vote in the affairs of the bank and other service cooperatives.

The environment of the workplace is markedly improved because everyone is an owner. All must make an investment of their own savings to join, which guarantees their personal interest in success of the enterprise; and all share the profits. The workers' share is 70 percent, distributed on the basis of the work they do rather than the amount of capital they hold. These profits are automatically loaned back to the bank as working capital, and held in trust for each worker, who can borrow against his account for personal reasons. This also provides the earning power for the pension each gets on retirement.

Twenty percent of the profits remain collectively owned by the enterprise, providing a security cushion for both worker and community. And ten percent goes directly to fund community social or educational projects, as a tithe.8

The pay ratio between shop floor and top management is held to 1:4.5 compared to the 1:8 or 10 ratio in comparable industries in Spain.9 This helps to promote solidarity. While managers sacrifice high salaries, they are compensated by a warm and informal workplace; dynamic, innovative work; positive social objectives, and unusual employment mobility, which extends to all ambitious workers. Mondragon has made a myth of the class barriers which inhibit oppor-
tunities for working class people in Spain: two senior executives of the bank began their careers as laborers in a local factory 40 years before.

Good management is universally recognized as the key to success. Daily decisions are made through a hierarchical structure atypical of many cooperatives. This is controlled by a democratic policy decision-making process, where everyone has an equal vote in a general assembly. This elects a control board, on which any worker, and only workers, may sit. It in turn appoints top management.10

The conditions at Mondragon encourage unusual innovation in the workplace. Automation, often opposed by labor as a threat to job security, has been widely embraced for its proven cost-saving ability and reduction of undesirable, demeaning tasks. Conversely, humanizing changes which management typically resists—such as the replacement of assembly lines with production teams—have been enthusiastically adopted and have quickly proven their worth in increased output.

The fundamental concept of "work" itself—commonly experienced as an unpleasant necessity by industrial labor—has been transformed at Mondragon, largely because of the clear intent of the founders who incorporated this definition in the social statutes:

"Work is the means adopted for attaining satisfaction for human aspirations and demonstrating collaboration with other members of the community to promote the common good."11

Ultimately everyone works not for a boss, but for himself and for the entire community.
Their companies do much more than support other businesses, pay taxes, and donate charitable morsels to the community as good fortune allows. Because labor costs are not an issue and profits do not monopolize the bottom line, these industries will never relocate to the south of Spain or elsewhere. As pollution, housing shortages, congestion and other by-products of industrial growth become community problems, Mondragon Cooperatives are initiating urban and regional planning and other actions to address them.

Emerging in Basque is a new understanding of the meanings of work, capital, profits, and the right relationship between individuals and organizations within community. This has changed the fundamental structure in which many earn their livelihood; and that is changing the larger structure of Basque society. The unusually nourishing relationships Basque people have enjoyed in family, social, political and religious life are becoming integrated and institutionalized in their economic life as well. In humanizing their economy, these people are making their entire lives much more whole--a radical and encouraging development at a time when so many economic systems appear to be falling apart.

Of course, the Mondragon Cooperatives are not without many conflicts and difficulties, but they may be unique in creating a structure which to date has proven so effective in resolving them. Viewed in the broader and gloomier spectrum of world economics, Mondragon appears to have synthesized into a new order many of the best attributes of capitalism and socialism, while eliminating many of
their liabilities.

Is this in fact so? Are the Mondragon Cooperatives a freak, a mutant seed which serendipitously sprung from a crack in the ruptured foundation of Basque after the war--and is Basque itself a unique political and social ecology? Or is Mondragon a pioneer species, a new model for industrial society which might be imitated and adapted to fertile niches elsewhere? Are the practical ideals Mondragon embodies unique, or are they to be found emerging in other places? If so, what are the requisite ingredients of the political and social soil? What conditions must be necessary for community organizers and nonformal educators to initiate similar experiments?

The Case for a New Economic Paradigm

These questions rub the core of this writer's concerns. In pursuing the answers, this thesis scrutinizes the Mondragon achievement in its broader historical and social context, and examines the dominant economic systems that Mondragon has sought to amend. This has led to deeper questions about the philosophical and spiritual beliefs which underlie these systems--and appear, in fact, to have created them.

This inquiry reveals a prevailing view of economic man as fundamentally evil or at best neutral in nature, who is doomed to a life of constant struggle and conflict--an irresistibly covetous, self-centered creature who must be incessantly satisfied, in the capitalist view; or kept in control and harnessed to serve the state, which
knows best, in the socialist and communist vision.

Both world views presume man's indefatigible drive for more material goods and pleasures. While the Western view has held the opinion that there is an unlimited supply of natural resources, its acquisitiveness betrays an underlying fear of scarcity, which is also apparent in the Eastern view. In the West there is plenty for those who can get it, but not enough for all. In the East, there is not quite enough which the state will, in theory, distribute equitably. The dominant economic systems seem designed either to placate our baser urgers and material desires, or to keep them at bay.

Nonetheless, our Best and Brightest doggedly cling to these systems, patching the dinosaurs with an assortment of cosmetic bandages: budget balancing, supply side economics, tax cuts with increased defense spending, regulations, repressive policies. They seem unwilling to consider that deep systemic changes to (or maturing of) our basic economic and political structures may be necessary. Yet there is persuasive evidence that this troubled society is searching deeply for a new order.

We see this reflected in economic experiments at Mondragon and elsewhere, and in countless other arenas. These attempts are frequently halting, unsure, or extreme, and their scale may be relatively small. Yet they are pervasive. We see a common tendency to reassess the material and technological goals that have directed/dominated the world's growth since the "Age of Reason" began; an effort to infuse social justice, moral and spiritual concerns, into our organizations
and institutions; a desire to reduce the size and complexity of our megasystems to human scale. There seems an urgent longing to establish peace and security not dependent on tenuous balances of power and dangerous weaponry; and to integrate into the cold, aggressive worlds of politics and economics the concerns of philosophers, theologians, environmentalists and artists.

Some social historians have gone so far as to suggest that the signs of the times, both troublesome and hopeful, are evidence that another rapid turn in the evolutionary spiral of mankind--such as occurred at the time of Christ, and again as the Rennaissance emerged from the Middle Ages--may be trying to emerge. If these signs are real, and not just the passing fantasies of a conspicuous minority, it is important to understand them and redesign some of our non-formal educational systems to help give these new structures birth.

**Gandhi's Trusteeship**

Perhaps no person has better embodied this emerging world view, or better understood how to use non-formal education for positive social change, than the late Mahatma Gandhi--the London-educated Indian lawyer who led his nation to independence from the British Empire in the 1940s.

Gandhi believed that the good of the individual was ultimately inseparable from the good of society, and that if one truly served one's highest self, he would be serving society as well. Politics, economics, education and religion were part of the same indivisible
continuum, to be pursued and practiced not just in ivory towers and state or corporate think-tanks, but in the workplace, marketplace and home.

He believed that real change could not be achieved by unjust means or violent revolutions, because these did not lead to true peace. He knew that change resulted from a process of loving struggle to agreement—not a struggle of one side against the other, but of both sides struggling together for positive goals. He assumed there were elements of good on all sides of a conflict; to succeed, all have to realize that opponents have good intentions and a piece of the truth.

Gandhi believed that each person is responsible for earning his own livelihood with his own hands and mind, as much as he is capable. There would be those not able to produce enough, and those who would produce more than they need. If one produced more wealth than he needed, he or she had to decide how much to keep for the fulfillment of his or her own needs and how much was surplus.

That wealth which was seen as surplus, according to Gandhi, "was not the individual's wealth." That wealth was society's wealth; and the individual was but the "trustee" of that wealth: the individual was responsible for managing the surplus wealth for the good of society. His two most important tasks are (1) to help those not capable of providing for themselves and (2) to empower others to share in the management of the surplus wealth in the future.12

While Gandhi acknowledged that it was possible for the state
to take and spend an individual's surplus wealth in an equitable manner, he distrusted the state. He preferred a more decentralized process, where people with wealth could join with others to foster cooperative economic institutions, which would meet the needs of their members and of society simultaneously.¹³

He articulated this in the philosophy he called Trusteeship. Simply stated, trusteeship advocated that all social, political and economic activities be democratically controlled by those who are most affected by them; and managed for the health and welfare of society as a whole as well as for the individuals directly involved in those activities. In Gandhi's vision, we are all "trustees" of our product, wealth; and also of our process, which he saw as an evolutionary path toward fulfillment of all human lower and higher needs. Ultimately we find happiness, health, love and full self-expression as trustees of society, past, present and future.

Gandhi began a number of national cooperatives in India which survive to this day. Unfortunately, he gave priority to the liberation of India from England, and was assassinated in 1947, before he was able to substantially implement his economic concept of Trusteeship.

But shortly before his death, thousands of miles to the West, an economic experiment began which came to realize much of the essence of Trusteeship, and put it to work in the marketplace with remarkable success. That experiment, of course, was Mondragon.
Reference Notes


4 Ibid., p. 184.

5 Ibid., p. 207.


13 Ibid., pp. 13-14.
CHAPTER II
THE DOMINANT ECONOMIC PARADIGM

Trusteeship was Gandhi's proposed solution to the multitude of problems he perceived to be endemic to the major economic systems which so strongly influence humanity's fate and fortune. To understand Trusteeship, we must first explore those problems, how they arose, and the ideas and beliefs which underpin them.

A Brief Definition

The word economics comes from the Greek word oekonomia, which means the rule of the household, or management of the estate, as economic historian Mark A. Lutz and psychologist Kenneth Lux tell us in The Challenge of Humanistic Economics. The Greeks referred to management in broad terms, including proper care of the full scale of human needs, not just management of the supplies and budget. "The Greeks also wrote about political economy, referring to the proper management of the city (state). The goal of the science was not to accumulate wealth or to possess the strongest army, but simply to make possible the good life and a happy citizenry."1

The Webster's dictionary tells us that economics is a social science concerned chiefly with the production, and distribution of things, goods and services. It is (or ought to be) concerned not only with what happens to these objective, quantifiable commodities--but also about people, those peculiar and subjective creatures who produce
and distribute and consume, and the welfare and happiness which is the
supposed goal of their production and consumption.\(^2\)

As we shall see, this is a self-evident truth which seems to have been largely lost on the architects of the mainstream of modern economic theory, who have developed the prevailing paradigm.

As the world has become increasingly more complex, so have the theories and studies of economics. One generalization that can be made about this difficult and controversial science, is that it concerns (if it does not always recognize) human conflicts—socialism vs. capitalism, have vs. have nots, labor vs. capitalism, workers vs. owners, poor nations vs. rich nations, etc—and the incessant efforts to resolve them.

While the arguments rage on about which theory or system is better, we seem to accept the fundamental struggles and conflicts as givens. The contention of this thesis is that there are crucial factors missing in all prevailing economic equations; and without including them, we are doomed to continue on this dialectical treadmill. It is these factors which the philosophy of Trusteeship, especially as demonstrated at Mondragon, may restore and integrate.

While we usually think of economics on megascales—billions of dollars, national budgets, international currencies—it ultimately comes down to the individuals who are affected by greater scenarios. It is individuals, after all, who make economic policies and decisions. For any system to work well as a whole, it must work for the individual—not just those who make or influence policies, but for all individuals.
Workers and Owners

Money is the backbone of modern economies, and there are two primary ways people come by money in capitalist societies--by working for wages or a salary; or by owning a business or investing in a business (or a bank, mutual fund, etc., which invests in business or loans money) and getting profits. Basically, there are only two groups of people, in terms of monetary income: workers and owners; and two kinds of income--wages and profits.

Of course there are many other ways of obtaining income--from the government in social security, unemployment, welfare, etc.; from inheritances, gifts, barter, etc.--but these are secondary or limited. Most human material needs and wants are ultimately met through productive activity--work that produces goods and services. Income from the sale of goods and services, after expenses, are distributed to workers--whose efforts produced what was sold; and owners--who own the raw materials, equipment, facilities, etc., that were used by the workers to produce the goods and services.

For the worker to get income, he or she must put in time, and is compensated for the work done. That money is used, and the relationship is over. To get more money, he or she must work some more.

The owner or investor, on the other hand, hopes to invest his money in such a way that he need not work much, if at all, and to receive a chunk of money (profits) on a regular basis forever--which can be passed on to his children and grandchildren, who will continue to enjoy the benefits of income without work. The advantages of the
owner are patently obvious.

This explanation is simplistic, and assumes that one's interest is to make the most possible money with the least possible effort. Of course there are many other factors which influence people's choices about how they earn their livings and spend their time, not the least of which are finding personal fulfillment and being of service to others. Yet the fact remains that unless one is wealthy, obtaining adequate income is a primary concern. A minority are able to work purely for pleasure; and work, for the vast majority, is usually less than pleasant or personally fulfilling.

Taking this analysis further, let's imagine that you are given a million dollars, tax-free. If you are happy and fulfilled in your occupation, you would probably keep it. If not, your first thought may be to quit. Then you would probably think of all the other things you would like to do--travel, buy a bigger or better house, study something, do some kind of social service, etc. But eventually you would probably decide to put a sizable portion of the million dollars in very safe interest bearing bonds--like government Treasury Bonds--so as to be assured of a very sizable yearly income for the rest of your life.

One thing would then be very probable: you would not easily be pushed around, mistreated, or intimidated at work, or you would quit, or fight hard to make constructive changes. You wouldn't need the job for income anymore, only for other fulfillments. You would insist on having the workplace be an enjoyable, fulfilling place to be
for yourself and everyone else, and if it didn't change fast enough or far enough, you would quit or fight even harder. You might succeed or eventually get fired.

However, if you left your job and became instead an owner of businesses, either by buying a company or buying stocks in them, you would quickly realize that the more you had to pay workers, the less profits you would make.

And if your good employees found that they could get a better job elsewhere, it would be costly for you. You would understand that your best interests and theirs were often different. If someone were to show them that it was in their interest to become owners instead of workers, as you had done, they might seek a share in your profits or even control of your company. This would further threaten your interests. And if, like yourself, each of them were given a million dollars, they would have the security to demand expensive changes in your company or simply quit, as you had.

Now, let's extend this improbably million dollar dividend to everyone who works, and consider a nation of people who are independently wealthy. No one would have to work--but if no one did, there would be no goods or services, and resulting chaos. People then would have to agree to share in getting essential work done, but each would now be in a position to insist that he or she do no more than the next person, or at least no more of the dirty work. Each would also insist on the best of workplace conditions, since they would be both owners and workers at the same time. Wealthy people always make things as
nice for themselves as they can, so work would become much more tolerable. They would make major efforts to automate unpleasant jobs, and to eliminate frivolous or unnecessary goods and services, so as to reduce mandatory work hours on these jobs.

What we learn from this fantasy is that a world where people are "both workers and owners" would make life more just for all. We would have a truly democratic economy. Obviously the present owners would not like such a society as much (unless, of course--at least in the views of this paper--they have reached a high degree of personal maturity) because they would have to work for their profits, whereas now they don't. However, the present workers would like it very, very much because the society would be structured to serve them as much as the owners. We shall see, shortly, that the present business structure legally requires corporations to pursue profits at the expense of workers and others in the social equation, in spite of the truth that many owners have deep concerns for their employees and society.

So the workers will have, as they have long had, an uphill battle--a struggle which has gone on for millenia. The worker has certain tasks to do in return for a salary. The owner or a hired manager decides the tasks, organizes everything, sells the products, and accumulates profits. If the workers demand more salary and other benefits for their work and the owners say no, they must either accept it, get another job, or organize together into a union to get more. The union could then go on strike--refuse to work until an agreement is reached. There is either a settlement or, in some cases, the busi-
ness fires everyone and hires other, or relocates, or closes down. But usually there is a settlement and the workers return to work.

The Business Cycle

Most people know what a labor strike is. Most people, however, do not seem to know how the owners go on strike against the workers. It's called a "recession." That's correct. A recession is often a strike by the owners against the workers. (There are other factors which can cause recessions, high interest rates for example, and the balancing and juggling act nature of our present economic models assures us that some things will always be out of hand, which highlights the need for the discussion in this paper. Whereas the business cycle is never in isolation of these other factors, it does play a major role in labor relations.)

A recession (or "money strike") is when those who have money stop investing it in the economy. They stop expanding factories and businesses. They pull back their money for safety and put it in safe investments like gold and government securities. They do this because the costs of doing business—especially salaries to workers—have gotten so high that they are not sure they can make the kind of large profits they have been making. So they "go on strike" with their money.

Many people are put out of work and new young workers have difficulty finding jobs. This causes the unions to let up on their demands, to accept lower pay hikes and benefits because they see that
production is down. Many of their friends are losing their jobs, and they don't want to have the same happen to them.

Now, if you are a smart business person on Wall Street and you see this happening, you would wait until the recession was deep and then watch for signs of "a recovery"... the point at which owners begin finding it safe to expand, experiment, and speculate again because the workers have rediscovered how tough it is to keep a job. Then you would tell all your clients to buy stocks again. There are now opportunities for big profits because the workers will be getting less. Thus, we have a "boom" in the stock market, a sudden swing toward favorable conditions.

This pattern of quick profit boom-recession, quick profit boom-recession is today called "the business cycle." But taken as a whole, one can see that it has largely been created and controlled by those with economic power to control the workers' share of profits—with the obvious goal of periodically convincing the workers to think there's trouble ahead, causing them to reduce demands. Then owners can quickly capitalize, increasing their profits until workers regain their security and again threaten rising profits with demands.

You can see that this business cycle does not force owners to lose their jobs or significantly alter their comfortable lifestyles. It means only that they will have fewer or no profits for a while, while they bide their time for the situation to change again to their advantage.3
The Problem of Investment

Which leads us to another problem. All financial advisors, whether to individuals with wealth or billion dollar insurance companies, banks, corporations, and even worker's pension funds, tell their clients to "diversify their portfolios." That is, to have their investments (portfolios) in many different things in case some one or two go bad, and importantly, to have most of their capital in very safe investments. They are advised to never speculate the small percentage that they invest in risky, new ventures on any investment that will not provide a very large return. There is no room in such investment strategies for loans to family or friends who need help and can make a modest profit; or to local enterprises which will provide crucially needed jobs for the entire community, which is more concerned with employment than high profits.

So only a small percentage of the nation's wealth is ever used to create jobs except in boom times, when investors can be assured a high return at workers' expense. And almost no money is used to create jobs that would fill many important needs but not make significant profits, unless it is government money appropriated by a relatively enlightened legislature; or private money raised by concerned organizations; or corporate money used for tax write-offs and good public relations.

One reason for this is that smaller enterprises with little capital would, with such funding, be able to compete successfully with larger corporations. A good example is in the energy field. Only
huge amounts of wealth and sophisticated technology can make a nuclear
power plant or coal gasification plant. Despite their short operating
lives and their impacts on the environment, these generate immense
profits from the public, which is dependent upon them for electricity
and fuel. The key to the success of this strategy is central control.

In contrast, a multitude of alternative energy sources,
derived from sun, wind, water, wood and waste materials, can be easily
developed by individuals, communities or small businesses, and do not
depend on corporate giants. These are being developed rapidly and are
proving to be beneficial, safer, cheaper and more reliable. Yet they
get precious little money from the government and virtually nothing
from conventional investors because "the profits can't be controlled."

So such productive enterprises--where "profits" are more often
measured by non-monetary advantages--are severely hampered by the
dominant system, which insures that the status quo be maintained, even
as the dwindling supply of fossil fuels becomes an undisputed global
problem. This strategy buys time for the energy firms to centralize
and control alternative energy.

And because of this, even many who would like to break this
business cycle and create a better system are seduced by what
prevails, especially in harder economic times. Constructive invest-
ment is a dilemma for many positive people, and most end up putting
their money where it is safe--in the conventional system, because safe
alternatives are few and far between, and even harder to predict. In
making these choices, however reluctantly, they continue to support
the conventional system in which monetary profit monopolizes the bottom line.

To understand how profit came to enjoy this exclusive and increasingly destructive position, it is necessary to understand the legal evolution and nature of corporate structure.

**Corporate Business Structure**

Before the creation of the corporation, a person was in business in his or her own name or in partnership with others. Profits, when made, were distributed according to the values of the individuals or partners.

Next evolved the "Limited Partnership" which was comprised of "General Partners," those who owned and ran the business, and "Limited Partners," those who invested capital but had little to no say in running the business. They shared in the profits on the basis of a percentage of investment. If a Limited Partner invested 10% of the working capital of the organization, he usually received 10% of the net profits minus a small portion which went to the General Partner as an incentive fee. This allowed a business person to get capital for his business from others without giving up control.

Eventually "the corporation" was created. It went a step further. Not only did it allow for outside capital investment on a much larger scale, but it also allowed for limited liability. A corporation was legally defined as an "unnatural person." That is, human beings are, of course, natural persons; but a corporation would have
all the rights of a natural person but be separate from the natural
persons who owned and ran it. This was a way of protecting the owners
from liability for losses accrued by the corporation and was called
"limited liability."

For example, imagine that you and three friends established a
corporation with the three of you as the Board members and yourself as
the President and Chief Executive Officer. Then you issued and sold
$10 million in stock to drill for oil in the Connecticut Valley.
After a year of drilling you failed to find oil and had to close down.
When your equipment and other assets were sold and the accountants had
completed an audit, the company was found to owe $100,000 which it
didn't have. You, your two friends, and the other stockholders
wouldn't receive any capital back on your investment. However, you
would not have to pay the $100,000 to your debtors. If you had been
in business in your own name (as a natural person), you would be
liable for $100,000 and the bankruptcy judge would order you to pay it
back to the debtors over time. However, since you established a cor-
poration you were operating through an "unnatural person" and do not
have to repay the corporation's debts--the liability for the debts is
"limited" to the unnatural person and do not flow through to you.

This allowed people to take risks to discover oil, create and
market new inventions, etc., without risking all the wealth they had
accumulated over the years. This was beneficial to society because it
allowed for greater productivity and progress. One could share in the
risk to a fixed and limited extent through the purchase of the number
of "shares of stock in the company" one thought appropriate for oneself.

This, most would agree, was a good idea. However, something else happened in its wake which has been very disruptive for Western society. Before corporations, those involved in solely owned businesses or partnerships were able to decide how to distribute net profits according to their collective values, which often included many concerns—including the interests of the greater community in which they operated, and depended upon for support. Any "natural" person, for instance, must rank his or her values in order to make decisions as to how to spend each minute of the day. Financial security or income (profitability) is a primary concern, but there is also a concern for health, emotional well-being, enjoyable family and community life, creativity, pleasure, altruism, etc. These values exist on their own merits, not as means to a single goal such as higher profits. Concerns of the local community would conflict with the business needs for profit, land use, etc., and dialogues and negotiations would ensue, between the "natural" people involved. Often, natural solutions would result. Because of this human scale, employees were often known personally by owners and the more enlightened ones would address employee concerns, precluding the need for a labor organization to go into battle for benefits. It could be seen to be in the best interests of owners to have happy and cooperative employees.

Smaller businesses and even smaller corporations, limited in number of employees and geographical location, continue to be
influenced by these varied values.

With the advent of the large corporation, however, this natural check-and-balance began to disappear. One main reason corporations were created was to end the restriction on size, and offer the maximum economy of scale. To do this, great capital was needed. This was often raised by selling shares of stock in the stock exchange, so ownership became shared by a large, diverse group with no loyalty to, or concern for, either the employees or the community in which the enterprise existed.

As a result, business activity in the West has come to be dominated by billion dollar, multinational corporations and conglomerates with tens of thousands of employees and millions of stockholders around the world. These are governed by a small Board of Trustees or directors of ten to fifty people, who are "legally bound" as trustees to act at all times in the interests of profitability for investors.

In pursuit of profits, such corporations can and do move around the world with impunity to achieve the best advantages for their investors, often at the expense of employees, communities, nations and other businesses whose fortunes are inextricably related to those of the corporation.

As a consequence, all other activities which are not profitable are left to be done by others, usually the government, which must tax for its capital, and non-profit corporations, which must seek contributions from individuals or businesses and grants from the
government to do their work.

Corporations, of course, do make very significant contributions to non-profit charitable and social service organizations for a variety of reasons, not the least of which are public image and tax benefits. These, however, are relatively small, and much smaller than is legally allowed: in 1979, for instance, the for-profit corporations in the U.S.A. contributed an average of only 1.2 percent of their net profits to such groups, substantially less than the five percent permissible by law.4

One would be hard-pressed to argue that the "natural persons" in the for-profit sector are less well-intentioned than those in the non-profit or government sectors, but the pressure for profits and nature of the competitive market have severely limited the ability of the corporation to help meet these other human needs with its own surplus, and still survive.

So, limited liability; and the ability to accumulate large amounts of capital (both to attend to extremely expensive undertakings such as the drilling of oil, and to utilize the economy of scale in mass production to reduce the cost to consumers per item) were positive results of the creation of for-profit corporations. Yet, there was one very negative result which was perhaps not fully understood or even projected by the legislators who created the corporation throughout the Western capitalist countries--that for-profit corporations would no longer be free to decide how to spend a portion of their net profits for the good of society as a whole, but would be
bound by the contract between the substantially unknown pool of stockholders and themselves to focus on maximum profitability first.

And largely as a result, society has come to accept that it is not even the business of corporations to be concerned about anything but profit. (The Boston Globe, in an August 1981 feature article on corporate morality, told of a consultant who gave programs on the ethics of business. He frequently gets this sardonic retort: "Must be an awfully short course." This is a common opinion.) One can, with little imagination, understand how such a legal structure has actually transformed the values and expectations of society in regard to one of its primary components, productivity.

The relative importance of profits vs. social concerns has been an essential difference, and bone of contention, between the two dominant political parties in this country. At no time has that difference—and the impact of major shifts of policy been—more apparent than at present.

The conservatives have traditionally supported the for-profit sector and the liberals have traditionally been more willing to be directly concerned with other values besides profitability, by giving greater support to governmental and non-profit activities. For decades the voters have vacillated back and forth, unsuccessfully seeking an ultimate solution to the problem. Clearly, the problem is structural: the legal foundation of our productivity is based on "unnatural persons" which are at all times legally bound to focus on one value above all others: increasing profitability. If we are "a
nation of laws and not of individual people," as both outgoing
President Jimmy Carter and incoming President Ronald Reagan were
insisting as the Iranian hostage crisis was concluding, then only a
change of the laws will resolve the problem.

As we shall discuss in detail later, a trusteeship analysis
suggests a conversion from both for-profit and non-profit corporations
to cooperative corporations to make it possible for corporations to
act for any of the wide range of human values as a first priority at
any time—that is, to especially make the for-profit corporation free
and natural again, without eliminating the positive aspects of capital
accumulation or limited liability.

The Inequities of the Business Cycle

No one can argue about the many evident blessings of the capi-
talist economic system—the explosion of information, progress,
increased standards of living, health care, food production, etc. But
it should be clear that capitalism leaves us with many problems and
inequities, which the other dominant system—socialism/communism,
which evolved essentially as a reaction to capitalism—has not
successfully addressed either.

The business cycle, very much a phenomenon of giant corporate
enterprise and its increasingly complex relationships with big
governments, has caused untold havoc for the working class, which
eventually formed powerful trade unions for protection. These now in
turn cause havoc for corporations and for all of society, as the busi-
ness cycle turns round and round.

The impact of the adversary relationships built into this system, not just on laborers but on their families, communities and countries, is enormous, especially in leaner times. Unemployment, economic hardship, emotional anguish and insecurity are direct by-products; and hunger, poverty, terrorism, revolution and war are abetted, and often caused, largely because of this cycle and its affects.

The resolution of these problems is left to governments, non-profit organizations, and individuals to address, because that is not within the legal purview of corporations to address. And their solutions are proving increasingly inadequate. Relationships between the needy and governments or non-profit groups are most often unequal and unhealthy: no matter how good the intentions of these providers, they must, by nature of the system, offer short-term, paternalistic or other limited forms of assistance which inevitably depend upon the good or ill fortunes of the profit sector. Rarely can they give the needy the one thing they most need for self-sufficiency and respect—a decent job in a moral economy, especially a worker-owned job.

In more affluent countries, workers are increasingly hungering for a bigger piece of the consumer pie which the agents of the corporate system dangle before them on billboards and television screens. A majority tolerate meaningless or less than satisfying work—when they are not striking for better benefits or wages—and live for the weekends and evenings when they will be able to spend the fruits of
their labor on leisure diversions. As the belt is tightened, they worry and complain; yet they live very much at the expense of workers and peasants in the Third World countries, who are unimaginably poorer--because their labor and raw material provide the basis of wealth for the richer nations in the Western and Northern Hemispheres.

Nowhere is the inequity in this system clearer than many countries in the Mid-East, Africa and Central and South America, where tiny ruling elites hold virtually all the land and wealth in collaboration with the multinationals--supported in their efforts by foreign governments which offer arms and counterinsurgency services to "stabilize" the areas. The class violence erupting in these places would indicate that the lid on this volatile global economic cauldron is very loose indeed.

Instead, this business cycle is accepted as a given. Opposing political parties fight over different ways of tinkering with the government controls to bring it back to a level of discontent which can be tolerated. The evils of the business cycle will never be cured because the owners will always be looking for ways to squeeze through it to make more money at the expense of the workers; and the workers will always be seeking "more, always more," in the words of the labor leader Samuel Gompers, from their second class legal and financial position which, by definition, always assures them of less as long as the structure is the same.

Yet no amount of balancing the federal and state budget, changes in government expenditures, taxes, incentives, or monetary
controls—the main measures available to governments in capitalist countries—will fully end the basic structural inequities of the business cycle. (Nor will the conversion of businesses to state ownership, as has been the attempted solution in socialist and communist countries, solve the problem. The balance of freedom of the individual and action for the good of the whole is skewed too far in the other direction, toward the entire group deciding what is best and managing nearly all matters as a group. This results in military style, top-down "command economy."

The Origins of 'Economic Man'

Before we address Trusteeship in more detail, and present the case for it as a replacement to the present systems, it will prove instructive to probe briefly into the origins of modern economic philosophy; what our culture has understood it to be about; and what view of humanity is encoded within it.

The so-called "classical" theory of economics was first spelled out by Adam Smith in England in 1776, when he presented the argument for a "laisser-faire" system in which the "natural" play of the marketplace could better serve society than the restraints theretofore imposed by monarchies. His ideas, and those of others who followed him, evolved in the "Age of Reason"—when Western civilization was newly infatuated with the mechanistic world view of Issac Newton. In contrast to the dark subjectivity and preoccupation with spiritual salvation that characterized the Middle Ages, this epoch was
fascinated with secular concerns on Earth: with matter and the phenomena of objective nature, mathematics, physical science and quantifiable knowledge. This preoccupation has dominated Western thought ever since, and has perhaps peaked in the post-Industrial "Information Revolution" of the late 20th Century.5

As a direct consequence, the classical economic theorists sought a basic formula which was mathematically pure and subject to the newly-understood laws of physical nature particularly the laws of supply and demand and the principle of maximization of economic growth. Into this they cranked what was both known and predictable about human behavior in Western society: our propensity for self-interest, progress, acquisitiveness, and competition (articulated in the notion of social Darwinism)—all factors which influenced the laws of supply and demand.

John Stuart Mill (1806-1873), for example, defined economics as a science which is occupied with production and distribution of wealth so far as they depend on the laws of human nature.6 But—Mill explicitly excluded different and higher laws of human nature which relate to the positive feelings called forth in a human being by other people or intelligent beings. "It is in this dimension, Lutz observes, "that mutual trust, responsibility, mutual caring, honesty and love, all based on commitment, conscience, the heart, can truly flourish, even exist."7

While Mill and others recognized the presence of what Lutz calls "social affection," they also knew that these could not be
counted upon to operate in the economic equation. As "inconsistent" factors, they had to be eliminated from a "mathematically exact and pure science" of economic processes--and allowed back on an individual basis, each person caring for another outside the economic process, on his own time, with his own resources. Self-interest however, was seen as a "constant." It could always be counted upon to be present and therefore factored in.®

It was John Ruskin, a contemporary of Karl Marx who was a British essayist and sometime critic of political economy, who understood the core delusion in this conventional perspective. He described this in his Unto This Last: Four Essays on the First Principles of Political Economy (1862).

Ruskin perceived that, "the disturbing elements in the social problem are not of the same nature as the constant ones; they alter the essence of the creature under examination the moment they are added; they operate, not mathematically, but chemically . . . "

(emphasis added). The elements of social affection are subjective, while the laws of mathematics are objective. The laws that pertain to the world of the physicist are inappropriate for the laws that pertain to the psyche and the spirit, as Lutz and Lux clarify. (They understand this oversight, on the part of the classical economists, to be a fundamental and fatal error that Ruskin and subsequent humanists have flouted, to little avail.)

Ruskin argued that the paradigm of mechanical law cannot be successfully applied to economics or other social sciences, because
the more complex paradigm of chemical interaction is at work. And at the core of this subjective element, he believed, was "the motive power of the soul":

... the force of this very peculiar agent, as an unknown quantity, enters into all the political economist's equations, without his knowledge, and falsifies every one of his results. 11

Ruskin insisted that both sets of laws are natural, and both must be factored into the development of economic laws and concerns: constants and non-constants, subjective and objective; rational and intuitive; material and spiritual. Both polarities must be attended to simultaneously and understood as related, different ends of the same wholistic stick.

For Ruskin, the delusion that man might remove love from the economic equation and hope to arrive at an advantageous code of social action was a curious and most improbable one--yet it was, and remains a tenet of mainstream economic theory. And this theory clings doggedly to the myth of the non-loving, pleasure-seeking, egotistical Rational Economic Man--homo oeconomicus.

The Pleasure Principle

For this less than agreeable being, the acquisition of wealth was more important than health, the pursuit of profit more important than happiness. Service to self was a given, while service to others became a variable that had to be expurgated from the body economic as a surgeon cuts out a cancerous kidney. The possibility that what Mill labeled a "disturbance" could be healed or integrated was no longer
considered. Integration was simply not an objective. The objective of economic activity, according to the emergent neoclassical theory at the turn of the 19th century, had become the maximization of pleasure—referred to in the economists' jargon by the perplexing euphemism "utility." 12

In this system, there is no hierarchy of needs and desires. Food, water and shelter are no more or less valuable than electric hot-dog cookers unless the consumer demonstrates a preference by his or her behavior, which is constantly subject to change. No qualitative difference between these is acknowledged; all needs and desires are seen quantitatively, which is the only way they can be explained and predicted in the prevailing formula. Values, therefore, become highly subject to the capricious whims of fashion and media manipulation. Only in such a system can an unblemished six-pack of Billy Carter's private label beer sell at auction to collectors two years after manufacture for $9,000.

This hedonistic impulse was certainly fueled by the rather sudden proliferation of consumable goods made available by the burgeoning technologies of the Industrial Revolution, and the exploitation of labor. It presented a serious problem for a society that had also acquired a self-denying Puritan morality, especially in England. So it was ironically appropriate that a student of theology, Alfred Marshall, should become one of Britain's foremost economists by 1900. He assumed the task of forging hedonism into a more noble frame of reference, aligning the explosion of desire with the moral and
good. Marshall saw this new appetite not as mere gratification, but as evidence of an evolutionary process that distinguished civilized man from the brute: it was entirely natural, he reasoned, that people should wish a greater variety of experiences, which these goods offered.

His theory conveniently complimented Charles Darwin's theory of natural evolution, where the inevitable order of the universe was for the whole to become constantly larger and more complex, and for the fittest to survive. Marshall's theory of course sanctified the consumer economy, which by the time of his writing had made misery an institution of the working class. The variety this system produced, and the hedonism it stimulated, were rationalized as the just desserts of the Protestant work Ethic. No matter if those desserts were prepared by some and consumed by others.

So material need and desires, for this Economic Man, not the means to achieving social and spiritual fulfillment and evolutionary growth, had become ends in themselves. This man's relationship to his society and universe had become decidedly one-dimensional and alienated. He related to other beings as objects that were means to personal gratification, rather than as fellow subjects (Buber's I-It rather than I-Thou).

Given a laissez-faire economic dogma which rewarded self-interest and in no way encouraged benevolence, it was entirely reasonable that the social mainstream would become hooked on materialism: society did not expect altruistic, loving behavior from Rational Economic Man, and for the large part he did not offer it.
Reference Notes


12Ibid., pp. 12-14.

CHAPTER III
AN EMERGENT POSITIVE VISION

Dissenting economists along the way have observed *homo oeconomicus* and his short-comings, and pondered how the economic equation which encourages him might be modified. The contemporary Kenneth Boulding, who has consistently had the courage not to ignore Ruskin, has also expressed confidence that much of the heroic, noncommercial values, such as honor, community, love and respect can be incorporated into the economic equation after all. "All we need to do," he opines, "is to make appropriate adjustments to the utility function and so allow for benevolence."¹

But as Mark Lutz argues, Boulding does not accept or understand that the introduction of love—being so fundamentally different in nature—must transform the very principal of maximization and growth on which the entire economic system hangs, and which Boulding expects to maintain by more tinkering. Lutz introduces Amartya Sen, who attacks economic man as a "rational fool," a "social moron": "What economic man tragically lacks," as Lutz paraphrases Sen, is a sense of social commitment, a sense which cannot be incorporated into the existing economic equation without profoundly changing it—because a committed person no longer has the same drive to maximize or serve himself. Commitment implies a willingness to sacrifice—reputation, belongings, career, even life—for the sake of an ideal.²

As Lutz explains, such a person becomes fiercely dedicated to
his or her work but remains detached from the result, acting without regard to personal consequences.

If this behavior seems unpredictable, it is common enough, especially under situations of crisis and stress: there are countless examples of "normal," self-centered people who have made startling and supreme sacrifices on behalf of family, friends, and sometimes strangers. If we extend this limited commitment to the point where the average person should come to regard all humanity as his family, human affairs would be very different indeed. Given this improbability, the potential of love to transform the very nature of economics and society becomes obvious.  

Ah, smirks the neoclassical economist, there is no scientific evidence and precious little empirical evidence that suggests this improbability will ever occur, so it must be discounted.

Yet Ruskin, Gandhi and other humanists had a radically different view of human nature. They recognize this love and commitment as a higher human value which could, under the right conditions, eventually replace the supremacy of self-interest, and become predictable. Behind their views is a new evolutionary understanding of human nature and potential.

With a few notable exceptions, the sages of Western society have held and perpetrated a negative, cynical or at best neutral view of human nature. As our study of the dominant economic paradigm shows, society has not seen benevolent behavior to be intrinsic to our nature, which is understandable, if one examines a dominant premise of
the Judeo-Christian world view: man is evil, born in original sin. From the time of Adam until the appearance of the Christ, he maintained a highly personal if tenuous relationship with a God who was compassionate, but demanding and stern. Christ attempted to intercede in this paternalistic relationship to bring humanity closer to the divine, and to introduce love and forgiveness as the new order of life. History suggests that he was perhaps premature; the Roman Catholic Church distorted much of his teaching. Love and forgiveness remained available, but only to good Christians and only through the ministrations of a bureaucratic and often ruthless ecclesiastical hierarchy.

Man learned that his lifetime's mission was to thread the eye of salvation's needle, or suffer the consequences of Dante's Inferno. This onerous assignment grew more formidable through the Dark and Middle Ages, when mortification of the flesh became a common practice. By this time, man had experienced the nadir of dualism. He had become separate, helpless and hopelessly inconsequential in his relationship with the Universe.

The New Subjective Science

It was inevitable that such repression would give way to the unbridled secularism that emerged in the later Renaissance, the Age of Reason and Enlightenment, and the Industrial Revolution that followed, heralding the primacy of Economic Man. In a different way he too was alienated, not only from God but from himself and humanity,
as he relentlessly pursued materialism and objective knowledge, which he increasingly atomized into separate departments and disciplines. God increasingly disappeared from the equation, except on Sundays, and the positive human qualities attributed to man's relationship with God were reduced to "variables" in "behavioral equations."

It took Freud, with his new understanding of the psyche, to remind us of our inherent evil. Simply stated, Freud believed it was the nature of human beings to be greedy. If a human was not controlled, he would want to own everything, eat everything, and make love with everyone. In other words, he felt that humans must impose good upon themselves.4

If Freud's picture of humankind was not an attractive one, his work broke the ground for a study of subjective science, which the economists had chosen to ignore. This discipline was far more elusive than the physical sciences, although certain schools inevitably tried to reduce the psyche to a quantifiable commodity.

The behaviorists, led by B.F. Skinner, offered a psychology more appealing to the mainstream economists and more consonant with the mechanistic world view from which their theories evolved. They believed that the human being is naturally neutral, a tabula rasa, who could be conditioned or programmed by tinkering with his behavior and the social or political structures which influence him.5 As Lutz points out, it was this notion of man as an object (subject to physical laws) "which led behaviorists to the absurd conclusion that consciousness and purpose were either non-existent or at best, irrelevant."6
Maslow's Self-Actualization

Yet by the second half of this century, a decidedly positive and evolutionary psychology had appeared in which behaviorism was replaced by a reappreciation of free will and inherent human goodness. Abraham Maslow, called the father of humanistic psychology, put into the language of social science what Ruskin and Gandhi intuitively knew to be true. This became his theory of self-actualization.

Humankind, he believed, is oriented toward an increasingly harmonious, cooperative, loving social order. He demonstrated this through clinical studies—not of the pathology, but of the health of the psyche, as exhibited in exceptional individuals. From this study, he discerned his remarkable hierarchy of needs, which for the first time clearly articulated the levels of satisfaction to which human beings naturally gravitate. Curiously, this work was foreshadowed by the work of earlier humanistic economists backing the classical trend, notably Count Sismondi in the early 19th Century and Ruskin's disciple John Hobson in the early 20th. Such a hierarchy was anathema to mainstream economists, because it defied quantitative analysis.7

Basically, Maslow's hierarchy of needs states that the first concern of a human being is his (or her) "physical need" for food, clothing, shelter, etc. His second concern is his "security need," the protection of his life from harm and a continuous satisfaction of his physical needs. Third, he is concerned with his "affective need," his need for love and affection. Fourth, he is concerned for his "ego
need," how he is being viewed and esteemed by others and himself: confidence, mastery, independence, prestige, status, appreciation. The most stable and therefore the most healthy, Maslow believed, deserved respect from others, rather than external fame and celebrity or undeserved adulation.

Once all these preliminary needs are met, one becomes finally concerned with self-actualization, the psychological need for individual growth, development and realization of potential--"to become more and more of what one is capable of being." Maslow found that people expressed this need by contributing to the health of society as a whole, pursuing ultimate intangible values such as beauty, wisdom, justice or love.  

There is a tape of a talk by Maslow which was recorded shortly
before his death in which he discussed his latest research on self-actualized people. He interviewed a lawyer, social worker, artist, scholar, and others who had all their "needs" very well met--the physical and security needs were met, they had excellent love and family lives, were respected in their community for making significant contributions, and were focused on an ultimate value. The lawyer was focused on a just society, the social worker on a loving society, the artist on a beautiful society, and the scholar on a wise society.

What Maslow found most noteworthy, however, was how each person defined the ultimate value he or she was focused on. Each gave it the same definition even though each was focused on a different ultimate value. They all defined their ultimate values as contributing to a cooperative, harmonious, just, beautiful, loving, wise society. In other words, one could not define one of the ultimate values without using all the others. Ultimately, he concluded, everyone becomes focused on furthering the evolutionary process of all of life and society.9

Maslow's theory has suggested to many that it is necessary to be wealthy to reach the higher levels of self-actualization. This is not so, as many great artistic and scientific works and acts of social service have been accomplished under conditions of poverty. Such achievements reveal another aspect of human relationship to the hierarchy of needs. Once a higher need is experienced and fulfilled, less value is placed on the lower needs; many parents who experienced the Depression worked especially hard to provide their children with
all the material needs and wants they themselves had lacked. In turn, many expected their offspring to remain focused on similar goals. As the children now had the time and resources to pursue higher needs of belongingness and greater social justice, they pursued radically different paths in large numbers, often to their parents' disappointment or consternation—as apparent in the "movements" of the 1960s and 70s. Perhaps ironically, many of the same children were on the front lines of the battle against war, racism, sexism, and injustice in the 1960s became involved in the gamut of personal growth and spiritual activities of the 1970s. These have frequently been criticized as indulgent, narcissistic, and regressive. Yet from Maslow's perspective, this "regression" makes sense: those people had attempted to jump the hierarchy by meeting higher needs before lower ones to too great an extent.

Maslow's theory also explains the behavior of a Mahatma Gandhi, who was the quintessential embodiment of self-actualized man well before Maslow put his theory into words. Gandhi, who is usually pictured in a dhoti and considered primarily a spiritual leader, was the first child of rather affluent Indian parents, who was schooled in London and became a highly successful lawyer and political activist. Once he had experienced the joy of focusing on truth as his only goal and on love as his only process, he consciously reduced his possessions to the minimum necessary for health, so as to leave the maximum time for pursuit of the greater joy he had discovered at the top of the hierarchy of needs.
While Maslow never lived long enough to express it, he actually discovered the intrinsic nature of the relationship between a person's responsibility to self, and to society—a new law of human nature which cannot easily become fully operative until a person has minimally fulfilled all lower needs and risen to the top of the Maslovian triangle.

In other words, the individual has a responsibility to take care of himself or herself for the simple reason that no one else can do it for him—only he can walk his legs, digest his food, think his thoughts, make his choices, and meet his needs for self-esteem. However, his greatest joy lies in doing it so well and so efficiently that he can use his surplus energy to improve social service. (The theory of "trusteeship" is evident here on the psychological levels also: serving as "a trustee" over one's surplus energy for the good of society as a whole.)

Thus, it is very possible that had Maslow lived longer, he would have redrawn his hierarchical diagram to complete the circle, because this conclusion was all but evident in his research:
The importance of Maslow's vision for human development is profound. He has revealed a natural process which any reasonably sentient person can observe at work and apply in his or her own life. This enables us to understand and accept our own needs, however disturbing, as genuine. It gives us new permission to meet them, and offers as well a chart with which to measure our own evolution and a roadmap toward an ultimate and satisfying goal. The pertinence of Maslow's theory to the design of social policy is obvious: fulfilling all human beings' lower needs is the best, indeed the only way to improve the health and happiness of all society.
Reference Notes


2Ibid., pp. 16-20.

3Ibid.


5Ibid., pp. 423-93.


7Ibid., pp. 30-31.


9"Abraham Maslow on Self-Actualization," (Lecture at University of California) (an undistributed tape made by Kenneth Apfel).
CHAPTER IV
GANDHI AND TRUSTEESHIP

Before Abraham Maslow codified his new view of the psyche and the hierarchy of needs, Mahatma Gandhi was putting this understanding to work in a dramatic practical context thousands of miles to the East in India. He was organizing large cooperatives and leading a nation of people out of political slavery.

Gandhi's understanding went beyond Maslow's in two crucial ways. Maslow described self-actualization very much in terms of the Western, capitalist context in which he lived and worked, where supreme emphasis was placed upon the development and freedom of the individual in society. In the East, the individual has historically been less important than the social whole. Gandhi, seeing individual and societal needs as equally essential parts of the same continuum, focused on achieving a proper balance between them—and expressed a new subjective law regarding the ideal relationship between one's responsibility to self, and to society. For Gandhi, this was a practical resolution of the inherent conflict between the Eastern and Western world views.

Gandhi's greatest genius, however, was that he understood how to apply this theoretical understanding in the "real" world, where for him psychology was part of an indivisible whole that included politics, economics, education and religion—and that guided his behavior in government, at work, in the marketplace, and at home.
Although Mahatma is usually pictured in a dhoti (loin-cloth) and is known more as a spiritual leader than a political activist, he saw no difference: he was fond of saying, "A man who claims to be religious and isn't involved in political activity doesn't know what religion is." He would probably be comfortable saying as well, "A man who claims to be a teacher and isn't involved in political activity, doesn't know what teaching is."

In this respect, his life was a remarkable break from the prevalent dogmas of his Hindu tradition. Haridas Chanduri, president of the California Institute of Asian Studies and a professor of integral philosophy and psychology, saw Gandhi as a leader of the early 20th century spiritual renaissance in India with Tagore, Aurobindo and Vivekananda—which "mounted a protest against medieval mysticism and its other-worldly orientation away from the creative flow of history and global evolution." This perspective emphasized the unreality or illusion of the physical world (samsara), and encouraged disciples to escape the earthly prison of endless rounds of birth and death by pursuing individual enlightenment or "cosmic unity" (moksha). The appropriate arena for this pursuit was the ashram or cave, where the needs of the body and emotions were sacrificed for the goal of transcendence—resulting in a withdrawal of psychic energy from the needs of society.

While only a minority actively pursued this path, the philosophy had a profound impact on the masses in India, where many peasants to this day resist taking steps to improve their worldly
condition. In a peasant's view, reincarnation means that he is poor in this life but may be rich in the next. So he doesn't want to make trouble for the rich man in this life just as he would not want a peasant to make subsequent trouble for him if he became a rich man. The rigid caste system also supported this posture, keeping people in their born places. Chanduri and many others see these attitudes as main reasons for the anti-materialism and torpor which has held India in extreme poverty to this day.

Chanduri draws the parallel of Eastern medievalism to Western medievalism, which saw the world as evil (vis a vis unreal), also to be escaped by transcendence. Both forms of medievalism stand in marked contrast to the aggressive materialism which has prevailed in the modern West. (This may in some measure explain the recent extreme appeal of Hinduism in its various imported forms, to Westerners, who yearn for a balance of flesh and spirit and sometimes for escape.)

Gandhi understood that flesh and spirit were more directly related, and led spiritual activity back into the marketplace and legislative hallways which he felt were their natural home. He reasoned that if God had put him on earth, earth is where God wanted him to live, and he should not spend his life trying to get to heaven. Thus, the right spiritual path for him was to behave wisely, lovingly, beautifully, and justly where he lived and worked, regarding things of the earth and of flesh as part and parcel of God. (This view finds striking parallels in the teachings of the Buddha and the Christ, whose messages have endured many distortions in both hemispheres.)
Gandhi's vision led to a process of conflict resolution called ahimsa, or non-violence (literally translated) the worth of which he proved in many personal and political confrontations. Because ahimsa became a cornerstone of his economic philosophy of Trusteeship, it is important to learn more of Gandhi's personal history and thought.4

Gandhi's History

Mohandas Karamchand Gandhi was born in 1869 in the small northwestern peninsual called Kathiawad, a Gujarati-speaking area near Bombay. His family belonged to the Vaishya (trading) class—the third of the four castes of Hinduism. However, his father and grandfather served as ministers and were known for their honesty and uncompromising sense of honor.5

His family were followers of Vaishnavism, the traditional theistic faith. According to Dhirendra Mohan Datta it "inclusates the worship of God as the Supreme Person endowed with all auspicious qualities, and which rejects the belief in God as the Indeterminate Absolute transcending all assignable attributes. Devotion and self-surrender are the keynotes of this faith. Offering worship in the temples, taking sacred vows, and observing fasts on different holy days round the year, are the usual practices of the devout Vaishnavas."6 Gandhi grew up in such an atmosphere. His mother and nurse were particularly devout.7

Gandhi was a frail, nervous, and shy boy. He was not a very good student, but he was honest and laborious.8
The Vaishnovas were the most rigid about the Hindu view that harmlessness or nonviolence was the highest virtue and thus were the strictest vegetarians. However, the British and Western influence began to pour into Indian schools and, as a young man, Mohandas went astray:

Young Gandhi came for a time under the influence of some older students who secretly visited places where they could eat meat and smoke cigarettes tabooed at home. He even stole a few coppers and once some gold to meet such forbidden expenses. But soon he was seized by remorse and made a clean breast of his lapses to his father, gathering the moral courage to receive any punishment his father might inflict. But to his utter surprise his father forgave him with silent tears which completely washed away Gandhi's secret leanings. This was for him the first double lesson on the powers of truthfulness and love (ahimsa)--how truthfulness can arouse love, and love can silently, but most effectively, reform the heart. This sowed the seed of the twin principles of Truth and Love which grew larger and wider every day throughout his life.9

In 1888 Gandhi was sent to London by his older brother to study law. There he learned the ways of the West, and spent much time experimenting and learning in many areas from diet, to Christianity, to sciences, to music and dancing.10

Datta reports that Gandhi learned two great things from his legal studies "First, the maxim that two-thirds of law are facts."11 Throughout his legal and political life he would laboriously collect facts and let the accumulated strength of well-arranged and attested facts decide the case. "The second legal principle," Datta continues, "that left an abiding impression on his mind is the idea of 'trusteeship,' which he tried to apply later for the equal distribution of wealth by persuading the rich to realize that they were the trustees of the people's wealth and should voluntarily spend it for
their welfare."12

By the time he left London for India in 1891 as an attorney, he thought his way of life was the best the world had evolved through its greatest people and on which the East and the West could meet. As a lawyer in India and South Africa, where he went to conduct the case of an Indian Mohammedan merchant, he toiled to collect all the facts in a case and persuade the parties to compromise the case and live in peace rather than ruin themselves by litigation.13

In South Africa he was influenced by good Christians and Quakers. Tolstoy's book, The Kingdom of God Is Within You, and Henry David Thoreau's essay on "Civil Disobedience" were read with great admiration because they broadened his own view that one conquered hatred with love and evil with nonresistance. Ruskin's book Unto This Last taught Gandhi the dignity of manual labor and the idea that the good of the individual is contained in the good of all and that each can and should serve society by his or her own labor and profession in the field of his choice.14

When South Africa passed legislation proposed by the British rules to debar Indians from rights of citizenship and other privileges, Gandhi saw it as an opportunity to apply his principle of conquering evil with love. He refused to cooperate with laws he viewed as immoral, courting assault, imprisonment, and all kinds of suffering without retaliation or mental hatred or anger. He hoped the hardhearted rulers would take pity, reflect, and rectify the wrongs. He ultimately succeeded with his first mass, nonviolent movement which
returned Indians to full rights of citizenship and other privileges in South Africa.\textsuperscript{15}

Gandhi became focused upon living a life of sacrifice and firmness in the cause of truth and righteousness. "He found," reports Datta, "that if he were to serve the society wholeheartedly and train workers, he must give up his greed for money, hankering for pleasures and lead a life of utter simplicity and self-control and teach others by his own example the possibility of such a life."\textsuperscript{16} So he founded a large, international rural community with common ownership in South Africa. During this time he had many jobs: a school master, an accountant, an editor, a gardener, a barber, a tailor, a shoemaker, a compounder, a nurse, a midwife, and a naturopathic physician. Several times when the British Government was at war he raised an Indian ambulance corps. Given his values this was his way of being a responsible citizen of the British Empire.\textsuperscript{17}

After about twenty years he returned to India with some of his intimate co-workers to place himself at the disposal of his native land. Near Bombay he founded a farm and training center and named it Satyagraha Ashrama. The primary attention was social service: the removal of untouchability, bring about unity between the Hindus and the Muslims, and to encourage the spread of cottage industries to help the poor. But soon he was asked to help in the struggle with the British Government and he became focused upon the greatest problem of his country--political slavery. As the result of the increasing success of his method of truthfulness and love, Gandhi was gradually
installed in the hearts of millions as their supreme leader.18

However, he did not see the task as merely a political one.

His methods could only be applied

...when the people could follow the path of truth and nonviolence. This demanded that they should first of all analyse themselves to find out their own defects which had made foreign rule possible. They should then purify themselves by removing their vices and should express their unanimous determination to be free. If the rulers still did not agree, all cooperation with the Government should be withdrawn by the people, which would automatically paralyze the Government, the machinery of which was ultimately run by the people. It was not, however, an easy method. Yet by repeated attempts through untold persecution and suffering Gandhi ultimately led India to freedom in 1947—thanks largely also to the moral pressure of the world at large, particularly of America, whose sympathy was roused by the high ideals and the nonviolent methods adopted by Gandhi.19

For Gandhi, the political freedom of India was not the end but only an important means to the education and social evolution of his people. He was anxious for Indians to apply his method of nonviolence to other problems in India, especially economic injustice and religious conflicts. Even though he was eighty years old, he continued on this mission until he was shot to death in 1948, ostensibly for his love of people other than those of his Hindu community.20

Sarvodaya: The Welfare of All

Gandhi, through his studies, travels and work, came to regard economics as the science of human welfare, with its proper goal sarvodaya, the welfare of all. This requires satisfaction of the basic material, social and spiritual needs of the poorest of the poor.21 As a doctrine, it stands in contrast to the theory of "the greatest good
for the greatest number," which he found to be a heartless doctrine that has caused humanity irreparable harm: "It means in its nakedness that in order to achieve the supposed good of 51 percent, the interest of 49 percent may be, or rather should be, sacrificed."22

He was candid on the subject of conventional economics:

An economics that inculcates Mammon worship, and enables the strong to amass wealth at the expense of the weak, is a false and dismal science. It spells death.23

In his recently published book Gandhi Today (1978), J.D. Sethi, a member of India's Planning Commission until the reelection of Indira Gandhi in 1980, states that on the strength of Gandhi's theory, Modern capitalism and communism jointly stand condemned ... as engines of exploitation and as prime begetters of selfish materialism and alienation that were produced by the hard dichotomy between man and society. All the Third World countries and their elites and eclectic models too have lost their legitimacy because of the perpetuation of privileges and poverty.24

Truth Is The End

To Gandhi both systems were violent in overt and subtle ways, not just physically but emotionally and spiritually, especially to the individual. Their focus on the material undermined what he understood to be the higher purpose of being. Writes Mark Lutz: "Absolutely central to Gandhi was his notion of the essential difference between man and what he called "the brute" ... Above all is the inborn quest that characterizes every Man as man, a quest for life fulfillment, a quest for Truth (Satya)."25

"My uniform experience," Gandhi wrote at the conclusion of his
autobiography, "has convinced me that there is no other God than Truth." 26

Lutz continues:

And intrinsic to Gandhi's vision, is his insistence on the limitation of poor reason and mere thought in finding, ... Truth, the universal glue which "binds man to man in association" is not so much to be found in solitary contemplation or rational speculation as in living engagement with other men. Ultimately Truth is a matter of neither body, nor mind, but of the immediate apprehension of the heart ... the truly rational individual will be guided not by rational calculation but by his conscience which he equated with what he called the inner voice. According to Gandhi, personal growth is essentially in response to conscience, in an ever-renewed choosing between love-based truthful action leading to Truth and selfish and undirected action based on fear and greed leading to violence (himsa). 27

Gandhi was humble enough to realize that he did not know ultimate reality, or Truth, and he used that word to define all that he did not know. What truth he or another had was necessarily relative, and he called these partial truths his "beliefs," which evolved from his experience. Because life was the pursuit of ultimate knowing, he concluded that it was valuable to learn everyone else's beliefs as well, that he might find increasingly more accurate beliefs that would increasingly approximate truth. Thus he acquired a posture that was consistently open to change and evolution, and told his readers to resolve contradictions in his writings by assuming that his latest belief was probably his current view.

Given that people held different beliefs--Gandhi saw as the 19th Century German philosopher Hegel did that some conflict was inevitable in the pursuit of truth. Will Durant, in his History of Philosophy, offers this very cogent explanation of Hegel's theory of
dialectics:

Every condition of thought or of things—every idea and every situation in the world—leads irresistibly to its opposite, and then unites with it to form a higher or more complex whole. It is an old thought...embodied in the "golden mean" of Aristotle, who wrote that "the knowledge of opposites is one." The truth (like an electron) is an organic unity of opposed parts....The movement of evolution is a continuous development of oppositions, and their merging and reconciliation. Schelling was right—there is an underlying "identity of opposites"; and Fichte was right--thesis, antithesis and synthesis constitute the formula and secret of all development and all reality....

Not that strife and evil are mere negative imaginings; they are real enough; but they are, in wisdom's perspective, stages to fulfillment and the good. Struggle is the law of growth....

Hegel is perhaps best known for his influence on Karl Marx, who in later years reduced the theory of dialectics to his own materialist theory of class struggle; he concluded that violent confrontation was an unpleasant but necessary part of the process of resolution, where the working classes would inevitably defeat the forces of capitalism.

Mahatma Gandhi saw things quite differently. He not only disagreed with Marx's ultimate conclusion, he disagreed that violence was inevitable. He understood that one cannot achieve a peaceful end through a violent process, that means and ends are essentially identical—a wholistic view popularized by Marshall McLuhan in his epigram, "The media is the message." Gandhi believed that he was not at the mercy of the dialectical process, nor imprisoned by the apparent truth of the theory. He knew that he could choose to have those struggles be loving and mutually respectful, and that humans are potentially masters, not victims, of that process of evolution.
Furthermore, he argued that the choice of process—violent or non-violent—ultimately determined the nature of the end result: the more unitive that process, the more unitive the end.

Ahimsa is the Means

If Truth was to be the end of any struggle, there had to be a new means, which was ahimsa. This essential concept of Gandhi's thinking has become one of the most misunderstood. Literally "non-violence," ahimsa possesses not a passive but a powerful active quality that, to capture Gandhi's connotation is better translated "loving struggle to agreement."29

Force, Gandhi knew, cannot cause a person to accept a higher truth; no one comes freely to another position if forced or coerced. The means become the end. If we believe others are making the wrong choices, the wiser choice is to approach them with love, and attempt to persuade them of the error of their ways, while remaining open to the possibility that in the discussion they may persuade us of our errors. Even if one approaches us with force, it is still wiser to respond with love insofar as it is practically possible.

He was not afraid of, nor was his life void of, violence or even advocacy of violence. He was for enhancing the degree of non-violence wherever possible in all conflict situations, and in teaching the skills of non-violence. He recognized that there were inevitably situations where the only possible action would be violent, which was better than no action at all. All of Gandhi's concepts are relative,
although critics and students make the frequent mistake of making them absolute.

**Ahimsa** in any form was an unfamiliar and most radical approach in India. Yet Gandhi insisted—and repeatedly attempted to demonstrate by his example in many political confrontations—that if his loving way was really better, it had to be eventually recognized as such by all involved. How, he asked, can one know the greater truth of something one does not believe, unless one experiences it? The practice of loving-struggle-to-agreement, he realized, can itself teach others to struggle lovingly.

**Satyagraha: Soul Force**

_Satyagraha—"soul force" or "truth force"—is a Gandhian principle closely related to **ahimsa**. And like **ahimsa**, it too is commonly misunderstood—as "passive resistance."

In her book *The Aquarian Conspiracy* (1980), author Marilyn Ferguson quotes psychologist Timothy Flinders: "To call **satyagraha** passive resistance is like calling light non-darkness; it does not describe the positive energy in the principle."30 She goes on to describe the principle in graphic personal terms:

"**Satyagraha** derives its power from two apparently opposite attributes: fierce autonomy and total compassion. It says, in effect: 'I will not coerce you. Neither will I be coerced by you. If you behave unjustly, I will not oppose you by violence (body-force) but by the force of truth—the integrity of my beliefs."31

The result, explains Ferguson, is this: if you experience my compassion, my openness to your needs, you will respond to me in a
different way than if I threatened, pleaded, bargained with you or used violence.\(^{32}\)

"Satyagraha is the strategy of those who reject solutions which compromise the freedom or integrity of any participant. Gandhi always said it is the weapon of the strong because it requires heroic restraint and courage to forgive. He turned the whole idea of power upside down . . .

Satyagraha, by whatever name, is an attitude that removes politics from the old territory of confrontation, deal-making, seduction, and game-playing, and into a new arena of candor, shared humanness, a search for understanding. It transforms conflict at the source, and the hearts of the participants. It is an environment of acceptance in which people can change without feeling defeated."\(^{33}\)

In changing the nature of a conflict, Gandhi did a remarkably clever thing: instead of identifying with one position or the other, he instead identified with the positive or best elements of both sides—escaping the dualistic trap that must make one side right and the other wrong—and identifying the problem, not the participants, as the opponent. In this way the conflicting parties had a novel new choice: they could become allies working for a synthesis, resolution that would be better because it contained the best of both positions.

Gandhi was always watchful to be boldly for both sides of a positive dichotomy—for example, boldly for freedom of the individual and boldly for responsibility to the social whole; for gentleness and firmness; spontaneity and planning; flesh and spirit; worker consciousness in owners and owner consciousness in workers. Apparent opposites are not separate and autonomous, but different poles of the same sphere which evolution would synthesize into a higher order of unity.
Pure Intentions, Equality and Humility

To actually use "truth force" in the practice of "loving-struggle-to-agreement," Gandhi knew that one had to develop two beliefs about people, which are challenging indeed: if non-violence assumed nothing else, it assumed that every human being has, at heart, the purest of ultimate intentions. He would argue that while people obviously demonstrate unhealthy behavior, this is the result of inaccurate beliefs, not of bad intentions. Each person sees reality through the prism of his or her beliefs; and he or she acts for the best results that those beliefs permit. One might not even be conscious of one's good intentions, and instead be riveted by hatred or fear. But beneath that, Gandhi knew all human beings to be innately good. All human beings seek to survive, to be healthy and happy, and to share consciously in the evolutionary process-usually in that order--and that this is good and evolutionary in itself. Therefore, all humans should be trusted to move from a pure and equal orientation, and approached from this spirit until their defenses fall away.

For him, this uncommon faith in others was an essential requisite for successful negotiation. It was far from a blind faith, because of his distinction between intentions and beliefs. What this creates, in a struggle, is a common ground of equality: if nothing else is equal, basic pure intentions are. Only from this place of mutual respect can each person truly hear the other's position, and allow that there might be merit in it.
The secret of achieving this perspective, for Gandhi, was developing true humility: knowing and admitting that he did not have all the answers, and being open to doubting his own beliefs and remaining open to persuasion by others.

Gandhi felt that if he could sit eyeball to eyeball with a person and act from a total confidence in the others' ultimate goodness—and at the same time, have no superior or inferior airs about himself because of their fundamental equality of core goodness—there would be nothing else to do but seek an amicable and just solution.

Without this faith in good intentions, one would necessarily come to the bargaining table or arena with biases and charged emotions. Without this posture of equality, one would be either a superior or a supplicant. The remedy was for the persuader to approach the situation from a place of love.

Gandhi was convinced that if the process changed to encourage a creative, consensual way of struggle-to-agreement, each person would inevitably develop a more accurate view of a universal Truth—and that in time all humanity could come to a process of concord and peace. In this regard he differed from Hegel, who saw the dialectic process approaching but never reaching the asymptote of Truth.

Democracy and non-violence are examples of processes which have been increasingly embraced by humanity as the best known ways for human beings to act. They may give way to higher processes; yet even as they do, disagreements will remain among us. We will continue to
struggle over and debate truth, confusing what is objective and what is subjective—and rarely seeing or recognizing the rare confluence of the two. Since this confluence is, in Gandhi's view, the only goal, the only way around the polarity is to surrender to truth. In surrendering, through love, we allow Truth (as we best perceive it) to become our master. We become a servant of reality, taking our orders from what really is, rather than what our dreams and desires dictate. Learning the subtle distinction between the two voices is an art which Gandhi knew could only be accomplished by the exercise of discipline and will.

Transforming Behavior Through Personal Will

To practice such a process in a political environment, especially in the face of entrenched opposing beliefs, was and remains an intensely difficult, seemingly impossible task. Yet Gandhi knew it was ultimately possible for humanity to take such a step, because he had done so himself. He knew the secret to be love and the power of commitment—bringing the force of personal will to first recognize, then to transform the habitual patterns of behavior which lock us in the trap of dualism.

To encourage this, Gandhi did much meditation and inward reflection, guiding his followers to prepare themselves in a like manner. If in the proceedings he found ahimsa flagging, he sought a recess so he and his party could regain their faith and feelings of love.
That *ahimsa* has not become a model for conflict resolution in international politics or other conspicuous theatres, goes sadly without saying. This certainly reflects the fact that Gandhi was years or centuries ahead of his time; and may suggest that his expectations for common man were unrealistic. At the time, his followers depended on an individual of the magnitude of a Gandhi to put the theory into practice. Yet individuals of Gandhi's calibre come rarely to the world. We can occasionally look to them for new models of living, for inspiration and teaching; but we cannot depend on such leaders to carry the everyday load.

Many who have attempted to practice Gandhi's teaching in India and in the West have not succeeded. Until very recently there has not been a supporting structure for education and practice, which such a difficult method necessarily requires. Quite possibly too, those disciples have been too ambitious--attempting to realize Gandhi's selfless level of social commitment before they have recognized, much less resolved, their own lower needs. As long as people (no matter how well-intended) act unconsciously to fill their personal needs in the guise of serving others, *ahimsa* cannot operate. Gandhi would insist that one need not be fully self-actualized to be of genuine service, but only in touch with reality: aware of one's own needs and how to meet them.

If Gandhi's disciples were not prepared to carry on after his death, there is some evidence that his values and methods are being increasingly learned and attempted by people in many disciplines and
countries who actively seek positive alternatives. The human potential movement has begun to provide a base of support for learning new ways of relationship, and people who have had experience here are emerging in political, economic and other arenas, from the local to international levels. Concurrently, the more progressive mainstream organizations are looking to this movement for instruction and advice as well.

Gandhi on Ownership and Property

Mahatma Gandhi's specific views about ownership are as radical as his attitudes about human nature and resolving conflict, and may be even more challenging to the individual because they directly test the satiety of our lower needs, especially for security. While it is common for people to agree with Gandhi from the level of the mind, it is usually much harder to agree from the "gut," the part of the body that corresponds with our emotions. It is useful, in assessing Gandhi's beliefs, to remember that he—with only a relative handful of others on the planet—had truly evolved beyond the common human needs which possession of property fulfills. From that perspective, he could see how there were more important and satisfying needs, and urge us to use our will and hearts to move up the hierarchy of needs. Yet he was also brilliant and compassionate enough to see a new way to meet the needs for security and self-esteem that most of the world's population still has, without risking the violence that so often comes with owning excessive property. Gandhi saw that as trustees, we could
share in the control of property and enjoy its use, without having to possess it.

Gandhi believed, essentially, that all that IS belongs to God. What rightfully belongs to individuals is the right to an honorable livelihood, and all livelihoods—Butcher, Baker, Lawyer, Priest—are equally valuable. One's basic wealth is not material property, but one's ability to work.

Gandhi believed that a fundamental law of nature is that there is enough on the planet for everyone's needs:

If only everybody took enough for himself and nothing more, there would be no pauperism in the world, there would be no man dying of starvation. But so long as we have got this inequality, so long we are thieving. If somebody else possesses more than I do, let him. But so far as my own life has to be regulated, I do say that I dare not possess anything which I do not want.34

The problem with personal property, in Gandhi's view, is that we often use more than we need; and we tend to accumulate and horde things which others need, and which ought to be in circulation. Others then suffer at our expense. By his definition, private possession, as we know and practice it, inevitably leads to violence because of its impact on others.

Yet he also argued that to suppress ownership by violence using the state or any other means, is to use a violent means, and perpetuate the circle of violence.35 So essential to trusteeship is the right of the individual to freely choose how much wealth one needs for one's own life. The wealth an individual accrued brought with it two basic responsibilities: the responsibility to look after oneself,
and a social responsibility to look after others.

How much one should take for oneself, Gandhi believed, was determined by use of one's conscience, carefully weighing the differences between genuine needs and wants and desires. He felt it essential to recognize that many so-called "necessities" seem so because of established customs and habits which are not right; and that these social behavior patterns an individual can choose to change by exercise of personal will.

The right path, Gandhi believed, was to meet one's own needs as efficiently and simply as possible, so that one could get on with the more satisfying and creative task of providing for others and society as a whole. The individual then became a trustee of his or her surplus wealth, using it as he or she saw appropriate for the commonweal.

This put the burden for social change not on the state, but on the individual—who was encouraged to make moral decisions of his own accord.36 For Gandhi, a pittance that was freely surrendered was better than a fortune taken forcibly. Yet he did advocate affirmative action to non-violently persuade the powerful and wealthy to divest themselves voluntarily, through structures that further social justice.37

Because of Gandhi's preoccupation with the liberation of India from England and his assassination, he was not able to complete his design of a politico-economic system based on these views. Yet he did answer many of the relevant questions. While he preferred state
ownership to private ownership, he objected to that as well because it would have to suppress capitalism through violence:

The state represents violence in a concentrated and organized form. The individual has a soul, but as the State is a soulless machine, it can never be weaned from violence to which it owes its very existence. Hence I prefer the doctrine of trusteeship. 38

If unavoidable, he was willing to support a minimum of state ownership and a minimum of taxation and other forcible or mandatory means of taking excess property from those who could not subscribe to a voluntary method. But his preference was to develop structures that would encourage individuals to change freely. As an agent of change, he looked upon the state...

...with greatest fear, because while apparently doing good by minimizing exploitation, it does the greatest harm to mankind by destroying individuality, which lies at the root of all progress. We know of so many cases where men have adopted trusteeship but none where the state has really lived for the poor. 39

Swaraj and Swadeshi: Complete Independence and National or Local Self-Reliance

Gandhi knew that individual freedom and power were best protected by having all decisions made at a local level where they could be "personal," rather than at the state level where it is extremely difficult to be personal. Thus, two of his basic principles were "Swaraj" (complete independence) and "Swadeshi" (national or local self-reliance).

Indian planner J.D. Sethi writes that Gandhi evolved Swashedi as the most relevant model for developing nations that sought a non-
dependent model which involved a very high degree of self-reliance at the individual, social and political levels. For a village, therefore, it made sense to emphasize production of goods for direct use, rather than primarily for exchange. This would protect a community from heavy reliance on and domination by cities. The same principle extended to the nation, to prevent dependence on or exploitation by more developed nations.\(^4\) And taken to higher levels, Sethi writes,

Swadeshi meant that after everybody's basic needs had been satisfied there should be some overall constraints on material demands so that resources could be diverted towards the fulfillment of man's non-material needs.\(^4\)

Sethi goes on to say, "The combined force of Swaraj and Swadeshi laid the foundation for Gandhian economy."\(^4\) Gandhi believed in the freedom of the village or the nation and the responsibility of those collections of people to seek to know truth and choose processes and structures which not only make it easy to follow truth but also support the continuous search for it. Thus, truth must be freely chosen. Nothing can be forced upon another (violence). All the processes of change must be non-violent, through persuasion. Thus, we must each do what we know is true, convert others, and trust that as all change, all will improve the only way they can—freely.

So basically, if freedom is to be protected, people have to become converted, do it freely as individuals, and band together and do it freely as groups, not competing with but converting the wealthy and powerful as they go, and demanding of themselves that their actions be in the spirit of trusteeship, whether rich or poor, at all
times. If they fail significantly, it is the responsibility of those affected to prevent the misuse of public wealth and power by non-violently resisting—by non-cooperation in a Gandhian trusteeship style with the Gandhi trusteeship people who ascended to power. In this way the balance of "freedom of the individual" and "social responsibility" is constantly watched over non-violently, lovingly.

For Gandhi, it was essential that people establish at all levels what Sethi called "institutions of parallel polity"—organizations which gradually take over tasks and responsibilities of the state, thus providing an effective counterbalance and continuously diminishing the state's importance and power.43

**Bread Labor**

Perhaps the most advanced concept concerning economic activity put forth by Gandhi was his concept of "Bread-Labor," which he directly attributed to reading John Ruskin's *Unto This Last* on a 24-hour train trip in South Africa in 1904. In his autobiography, Gandhi recounts that this was the one book "that brought about an instantaneous and practical transformation in my life."44 He writes there of this revelation, gleaned from Ruskin: "That the life of a labourer, i.e., the life of the tiller of the soil and the handicraftsman, is the life worth living."45

Bread-Labor, in essence, is the amount of physical work that must be spent to produce one's necessities. It did not suggest everyone should produce his or her own goods, but that the quantity of
physical labor ought to be expended, or at least approximated, by everyone:

Anyone who does not work with his hands or other limbs runs the risk of being a parasite. Even the greatest thinker, poet or philosopher is likely to be misled by his own ideas and plagues of sophistication if he is not involved in some physical action. The concept of bread-labour in the Gandhian system is what alone produces unity between action and thought.46

The reason Bread-Labor was such a unique departure, according to Sethi, was because of its fundamental equality. While socialism, collectivism, etc., have claimed to reduce the immense disparities of material wealth that exist in many modern societies, they "have by the very process of reducing one kind of equality in fact produced another kind . . . reaching unprecedented and monstrous proportions in political and status inequalities."47 Unless all shared in the central operational concept of bread labor, Gandhi believed, no system could eliminate inequality. "It is tragic that in the Land of Gandhi, Sethi adds, that "physical labour should be looked down upon."48

In summary, Gandhi's trusteeship economic theory was based on his six major concepts: Truth, Non-violence, Satyagraha, Swadeshi, Equality, and Bread-Labour. Discovering and living according to Truth as he or she sees it is a human being's preoccupation. Taking care of one's needs is his individual responsibility, and being of service to all is his social responsibility . . . as well as his pleasure and fulfillment. All conflicts are to be resolved through non-violence rather than violence, through trust in the innate goodness of human beings and therefore in their equally pure ultimate intentions.
unresolvable through negotiations, one must resist non-violently by ceasing to cooperate until the opponent convinces one of the error of his ways or vice versa or until a compromise is found (Satyagraha). All systems must be founded on individual, village, and state independence (Swadeshi). All social and political elitist forms must be eliminated, and democracy must be the form of decision making (Equality). And all must share equally in the labor to provide for individual and collective basic needs (Bread-Labor).

We shall let Gandhi have the final word in this discussion of trusteeship:

Supposing I have come by a fair amount of wealth--either by way of legacy, or by means of trade and industry--I must know that all the wealth does not belong to me; what belongs to me is the right to an honourable livelihood, no better than that enjoyed by millions of others. The rest of my wealth belongs to the community and must be used for the welfare of the community. I enunciated this theory when the socialist theory was placed before the country in respect to the possessions held by the zamindars and ruling chiefs. They would do away with these privileged classes. I want them to outgrow their greed and sense of possession and to come down in spite of their wealth to the level of those who earn their bread by labour. The labourer has to realize that the wealthy man is less owner of his wealth than the labourer is of his own, viz., the power to work.

The question how many can be real trustees according to this definition is beside the point. If the theory is true, it is immaterial whether many live up to it or only one man lives up to it. The question is of conviction. If you accept the principle of Ahimsa, you have to strive to live up to it, no matter whether you succeed or fail.49

Trusteeship Principles

Now that we have had an exposition of Gandhi's philosophical, psychological, and economic thought it is possible to list twenty
Trusteeship Principles:

1. Truth exists in and beyond man in an absolute, external and living essence. Nothing else exists besides it. Truth, not man, is the measure of all things.

2. The purpose of all life and evolution is to realize Truth. For mankind this translates into the biological need for self-realization, to know one's self.

3. While truth is the end, self-giving love (or commitment to the good of the whole of creation) is the means. Truth and love are ultimately two sides of the same coin. One implies the other. Pure self-realizing love knows no distinction between ends and means. Realization of the goal is in exact proportion to that of the means. If we take care of the means we are bound to reach the end sooner or later.

4. Human truth is always relative. Although we have the innate need to perfect ourselves, no man is perfect. Truth as we can apprehend it is always personal, subjective and to that extent relative to our individual context of culture and history. What is "true" in one context may not be so in another. All we can do is to serve ultimate truth by being truthful, open-minded and tolerant in each moment. Whatever is "perceived" to promote life and serve the vital needs of all human beings, particularly the poorest of the poor, is true.

5. All human beings, by their very nature, have purely good ultimate intentions at all times. Their behaviors may differ because
of the differences in what is "perceived" to be the truth (because of differing "beliefs"). However, each human being's ultimate intentions are pure and, therefore, equal.

6. Differences between and among people's perceptions of truth are fully resolved to the degree the process of resolution is truthful, that is respectful of each other's equally pure ultimate intentions as the foundation for building a dialogue which searches for a consensual agreement to what is true in that particular context. This is what is known as "loving struggle to agreement" ("non-violence").

7. Truth is the religion of religions, the philosophy of philosophies, the science of sciences, the aesthetics of aesthetics, the feeling of feelings, and the intuition of intuitions. Truth is God.

8. Conscience or one's inner voice (one's inner sense of unique direction toward truth which seems to involve the harmonious action of body, mind, heart, and soul), is the individual's guide to rational action. To act on it is to exercise one's free will.

9. Since rational action is by its very nature committed to truth through love, it has no room for a utility function where everything and everybody is treated as means or objects to one's welfare. The conventional means/end distinction is in direct conflict with love as the means and therefore devoid of truth. To choose between means and end is not rational but irrational. To attend to both equally and as one, as opposite ends of the same stick, is rational.
Also it is more foolish than rational to exclude love (the "commitment" one man feels to particular others, and all others, regardless of the consequences to himself) from wise decision making.

10. Human beings grow through a series of needs to higher levels of self-realization. As the joy of the higher levels is experienced the lower levels diminish in importance relative to the higher levels. The process is one of trial and error as a result of free will exercising itself through differing rankings of values.

11. The more mature a human being is the more he acts in sensitivity to needs at every level of the hierarchy but with his focus and emphasis on the highest level, the ultimate values of truth, love, justice, beauty, wisdom, etc.

12. Economics, ethics, politics and religion constitute an indivisible whole.

13. All appropriate institutional and social arrangements in a trusteeship society enable optimum satisfaction of the hierarchy of human needs; that is, they are supportive rather than detrimental to human development. For instance, appropriate technology must be used, "appropriate" meaning to use the technology which maximizes human need satisfaction for everyone. Thus, all things being equal, where there is high unemployment, labor intensive procedures are most appropriate; where there is full employment, more automated procedures are more appropriate because they free human energy for the fulfillment of higher needs.

14. Economics is the science of human welfare. Its goal is
welfare for all.

15. Each individual and group is responsible for his or their own livelihood as best one or the group is able.

16. Those who end up with more than they need are to keep for themselves the amount they freely determine is necessary to meet their needs. The remainder is surplus, not their's but society's. They are the trustees of it and, therefore, responsible for the management of it for the good of all.

17. There will be those who were unable to meet their needs. These, especially the poorest of the poor, are a priority for the surplus wealth of others (the saving of lives).

18. The second priority is the nurturance of life, the assistance of human development through education (sophistication of one's beliefs) and institutional change (improvement of the processes by which things are accomplished to maximize human development).

19. Human welfare economics requires a personal, community based, cooperative economy. Only through the bonds of voluntary cooperation and interdependence where man can respond to his fellow man can the social cohesion tantamount to the universal glue of truth be realized.

20. Each person has a responsibility to share in the physical labor ("the bread labor") necessary to provide for the socially determined necessities. Anyone who does not share in this runs the risk of becoming a parasite and perpetuating a dual class society of elite and masses.
Reference Notes


3Ibid.


6Ibid.

7Ibid., pp. 7-8.

8Ibid., p. 8.

9Ibid., pp. 9-10.

10Ibid., pp. 10-11.

11Ibid., p. 11.

12Ibid., pp. 11-12.


14Ibid., pp. 12-14.


16Ibid., p. 15.

17Ibid.

18Ibid., p. 16.

19Ibid., p. 17.

20Ibid., p. 17.


31 Ibid.

32 Ibid.

33 Ibid.


36 Ibid.


39 Ibid.


41 Ibid.

42 Ibid., p. 39.

43 Ibid., pp. 198-99, 186-87.


45 Ibid.

46 J.D. Sethi, _Gandhi Today_, p. 36.

47 Ibid.

48 Ibid.

CHAPTER V
THE MONDRAGON COOPERATIVES

While the debt owed to the inspiration of Arizmendi by the Mondragon community is universally acknowledged, two features of his role are particularly stressed. One is his indefatigable search through the jungles of Spanish law to find a suitable legal form for each institution as it came into existence, from the Education League (the legal entity formalising the sponsors of the technical college), to ULGOR, to the Caja Laboral*--a thoroughly practical form of assistance. The second is his role as a challenging thinker; as each institution came into existence and the movement gathered scale and momentum, his attention, one is told, was always on the faults of the structure that was being built up, its inadequacies in meeting the aspirations, both of individuals and the community.1

Worker-Owners: The Mondragon Achievement

Mahatma Gandhi and Father Jose Marie Arizmendiarrietta**, the person who provided the inspiration and guidance behind the Mondragon Cooperatives, seem to have much in common. They were both very religious men and yet very practical men. They both explained what they came to see as "relative truth" in the languages, rules, and symbols of their culture--for Gandhi it was Hinduism and for Arizmendi it was Catholicism. They both focused on helping the poorest of the poor in permanent ways through (1) educating people and (2) re-structuring society while they were helping with immediate needs. Most significantly they both saw life wholistically which allowed them to see beyond the seeming conflict between the individual and the society.

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*"ULGOR" was the first worker owned cooperative and the "Caja Laboral" is the cooperative bank.

**He is usually referred to as "Father Arizmendi" or "Don Jose Marie."
When talking about Father Arizmendi (who died in late 1976) with the people in the village of Mondragon, they nearly always mention that his basic principle was that all organizational structures must always serve both the needs of the individuals in them and society at the same time. To do one or the other more was seen as unhealthy. To only be concerned with society was to become a "do-gooder" who insults those being assisted by making them dependent. To only be concerned with one's self was to become hedonistic. A healthy individual or organization must do both, act for self and others, at the same time.

The results of Father Arizmendi's work are all but stunning. Starting in 1941 as an assistant pastor in a Catholic Church in Mondragon with his main responsibility being the youth group, Father Arizmendi guided the community and especially five boys in the group through the process of creating the Mondragon Cooperatives.

First we will tell the story of how they began and describe the structures and processes of the cooperatives today. Then in the next chapter, we will evaluate them to determine to what degree these are "trusteeship" cooperatives and an economic system in harmony with Gandhi's theory of trusteeship.

**History of the Mondragon Cooperatives**

During the 1930s Jose Maria Arizmendi had fought in the Spanish Civil War on the losing republican side. He had been captured by Franco's armies, imprisoned, and sentenced to death. However, he managed to avoid execution and upon his release joined the Society of
Jesus to become a Jesuit priest. His plans were to become a religious scholar. However, after a year of studies in the seminary he was sent to Mondragon to carry out his religious duties ("cargos") which were to counsel the Catholic youngsters of the town.

Father Arizmendi was Basque, and the Basques claim to be "the original Europeans" descended from Cromagnon man. Their language seems to be unrelated to any other language. Thus they have a strong sense of nationalism. They were solidly against Franco in the Civil War and fought in alliance with the official republican government of Spain between October 1936 and June 1937 as the independent Basque Republic. The Basque clergy were strongly identified with the nationalist cause. Fourteen Basque priests were shot by Franco's forces during the Civil War.²

Robert Oakeshott, an English journalist and one of the most extensive researchers of the Mondragon cooperatives, describes the situation in the Basque country after the Civil War as follows:

The Spanish Civil War lasted into 1939, but Bilbao, the final Basque outpost against Franco's armies, had fallen in June 1937 and Mondragon seems to have been overrun some months earlier. The ensuing years were ones of almost unrelieved wretchedness: the Basque language was officially forbidden; Franco's troops and paramilitary policy, the Guardia Civil, evidently behaved like an army of occupation; the people by all accounts, were deeply demoralized and cowed.³

Before the war Mondragon had been a town of considerable socialist orientation*, but the war had divided and polarized it.

In Father Arizmendi's own words:

*There is no apparent link between Mondragon and the Spanish anarchist movement (Robert Oakeshott, *The Case for Workers Coops*, p. 169).
The Mondragon to which the bishop sent me was a divided one. The unity of the people had been destroyed as a result of the war. This is why my concrete mission was to be counselor and advisor of young people.4

Father Arizmendi arrived in Mondragon in February of 1941. He was twenty-five years old (he was born in April 1915 and died in late 1976).5 Unusually perceptive for such a young man of the cloth, he realized that the solution to the deep poverty in the area was not religion but technical education for youth. Primary schooling was available, but beyond that, there was only the apprentice school at the Union Cerrajera, an iron foundry that manufactured locks and other products. This school was limited in size to meet only the company's own modest needs, and not designed for higher eschelons of job training.

Lecturing at the Union's apprentice school was one of Fr. Arizmendi's duties. As an insider, he was unhappy with its limited capacity and focus, and pressed the company to expand the school—taking the initiative to raise the needed monies from parents and church organizations.

The company refused. It was not to be the last time that the owners of the Union Cerrajera were to refuse to help, nor the last time Fr. Arizmendi and his supporters would remain undaunted and carry on in spite of it.6

His next tack was to develop a new and separate technical school, which he went about in an ingenious and daring way. He and his youth group solicited community support by placing ballot-box "urns" about the town, and invited community members to register their
willingness to support such a venture with cash or in kind. About 25 percent of the families in town responded—a clear mandate to proceed, despite the lack of support from the local authority or the company. A small new school, with only 20 students at the start, opened in October 1943. The initial bonds created with the community were developed and became essential to the evolution of what was to come. The people who contributed to the school elected its management committee, and the students themselves played a major part in the fundraising that would remain necessary for years—establishing by this a permanent link with the community, and gaining practical experience in organizational skills.7

Ana Gutierrez Johnson, an American student of the Mondragon Cooperatives, has paid special attention to the historical processes that institutionalized the bonds between cooperatives and community. She reports that a School Parents Association planned cultural activities, social gatherings and sports events, which the students managed:

In this process, parallel to their studies, they had the opportunity to become acquainted with the problems and techniques of management and financing and also they became indebted to the community in a very special way. In Don Jose Maria's words, "They became linked to the community in a broad sense since they showed themselves as worthy of help but also developed a sense of obligation to the community (se hicieron acreedores a la comunidad)."8

This school provided apprentice level and intermediate courses for junior technician and foremen-type posts, but students with the potential to go further persuaded Fr. Arizmendi to approach the school of technical engineering in Zaragoza to help them. In 1947
arrangements were made for a small group to study at night in Mondragon for the appropriate Zaragoya examinations—none of them could afford to stop working and attend school full time. In 1952 eleven of these young men passed the Zaragoya engineering examinations with honors. Five of them, Usatorre, Larranaga, Garronogoita, Ormaechea, and Ortubay, had been some of Fr. Arizmendi’s youth organizers from the beginning and were to be the founders of the first cooperative industry ULGOR (the name is an acronym of the names of its five founders).^9

Fr. Arizmendi and his five young friends, all of whom worked for the Union Cerrajera, again gave the benefit of the doubt to its owners. Johnson describes the difficulties that arose:

Among the 11 there were five who remained close to Don Jose Maria because of the friendship they had developed. These five had, at the beginning of their careers, a rather unusual background for children of industrial workers. Don Jose Maria had seen that side by side with their technical training they receive knowledge about the workings of the prevalent labor management relations system from a humanist and socialist perspective. As members of the Blue Collar Workers Youth they had participated in round table discussions of the traditional roles of capital and labor in industry from the perspective of the Social Doctrine of the Catholic Church; they had also been exposed to plans for implementing new forms of industrial organization (la reforma de la empresa) and the ideology of participation of labor in the benefits of the enterprise.

They continued working in the enterprise in which they had worked while studying. They were talented and soon progressed to lower level executive positions (jurados y contramaestres de empresa). In these positions they began to enter into conflict with the hierarchy of the enterprise. Their ideology, no doubt influenced by Don Jose Maria's humanist and socialist teachings, was not that traditionally espoused by workers in such positions. They managed to maintain their loyalty to the workers and this loyalty was put to a test when strikes took place over firing of workers, over wage disputes,
and insufficient social security for workers. They took the unorthodox position of supporting the strikes and they had problems. After a while, in view of their differences with the enterprise and knowing that they could neither hope to modify it nor, being workers' children, arrive at positions important enough to carry out structural changes, they decided to leave.10

They were practical enough to not just leave in a fit of anger and frustration. Because Franco's autocratic Spain at the time was closed to significant trade and attempting to develop its own internal resources, "any new enterprise minimally managed had a good chance of success, given the protectionist policy of government. Thus they saw an opportunity to start a shop on their own."11

However, they lacked the necessary resources, and they believed (ideologically) that the resources should be supplied by the workers themselves. So they opened up a consulting firm which they operated for about two years. This did not work very well. So they again turned their attention to the possibility of opening a collectively-owned and self-managed enterprise and to borrow whatever additional start-up capital needed. A small business making paraffin cookers in a nearby town, Vitoria, was going bankrupt. Here they saw an opportunity. Fr. Arizmendi approved and agreed to help.

Johnson tells the story of how, with help from the community again and a little luck, they put it all together:

They encountered the usual difficulties: financing, obtaining an industrial permit to produce, and institutionalizing an unorthodox form of industrial enterprise within the legal framework of the time.12

They had very little in their combined savings accounts, and
no chance of obtaining adequate bank credit. So again, they appealed to the town, using the "chiquiteos," or social drinking clubs, where men gathered after work each day in the town. In visiting such clubs they advertised their intentions. They had nothing concrete to offer, no assets, collateral and of course no business. What they proposed was highly unorthodox, a worker-owned-and-managed cooperative, without precedent in the region. They promised to return all loans when and if they succeeded, a process the potential lenders were told might take years. They had only their personal integrity and good reputations to offer as a guarantee.

About 200 people offered them support, in total the equivalent of $133,000—an unusual and generous vote of confidence, given their proposal. Through a stroke of luck, they were able to get an industrial permit that met their needs from the bankrupt shop in the nearby town: This spared them the hazard of applying for a new permit, at a time when a government prone to intervene in industry would have frowned on anything so revolutionary as a worker-owned shop. This accomplished, they started operating with 40 workers. It was 1956.13

It is worth noting that these "chiquitoes" are a custom in Basque cultural life that reinforces the sense of solidarity among Basque people, a quality which Robert Oakeshott believes has been the key element in the success of the cooperatives from the start.

Oakeshott describes the clubs:

These drinking clubs are quite small—with not more than ten
to twenty members—and they characteristically encourage lasting relationships of high trust and solidarity between fellow members. Their normal premises consist of a rented kitchen and dining-room. Apart from more formal gatherings at regular intervals, members are free to make use of these premises and to consume stocks of food and drink whenever they wish. All takes place on a basis of mutual trust; whatever is consumed is simply signed for. 

The groups did not have a commitment to a cooperative ideology. There is no evidence of a local cooperative tradition or that the men who established the cooperatives even knew of the Rochdale Cooperative principles. They were quite clearly creating an enterprise that would simply meet their practical needs. Because of their strong religious and human values training from Fr. Arizmendi, their continued friendship and working relationship with him, and the Basque traditions of solidarity which had been reinforced by Franco's oppressive hold on them, they wanted an enterprise that served equally their own needs, those of future workers and those of the greater community. They simply believed in themselves and obviously the community believed in them. The whole process was so personal that the new business operated for two years without a formal constitution or by-laws as a self-managed enterprise.

With Don Jose Maria's aid, they drew a loose set of guiding principles of self-management, which were discussed and refined in the light of daily operations. These principles were solidarity, individual economic contribution, labor contribution by all members, democratic government and progressive expansion to incorporate other workers from the community. From this process, the first by-laws
When ULGOR did finally become legally registered as a cooperative, they chose that form by default: there was no legal structure which would accommodate their self-created procedures. In addition, they only attended to it because they were forced to by industrial legislation which required the registration of all enterprises.

Of course, it was Fr. Arizmendi who found the time to search through the maze of Spanish Law to find the vehicle that would institutionalize, and not destroy, their principles and procedures. In the Law of Cooperatives of Spain of 1941, written for agricultural cooperatives, he found the only possibility. Even though they were an industrial cooperative they adapted their ruling principles to this law and became a fully legal and recognized enterprise in 1958. Part of the reason so little was known about the Mondragon cooperatives while Franco was alive is because they avoided publicity lest this technicality be discovered and they be forced to change their operating procedures.

It was Arizmendi who put together the first draft of ULGOR's social values and internal code of rules to have the new form of worker-ownership be regularized so others could use it. It was he who dug in the law books again to find the form of cooperative banking that would be appropriate and convinced his former students and friends of its importance to the community. It was he who allowed the safe haven of the Church to be used to launch the bank. And it was he
who would join the men each day for "potash." (The Basque custom of a
number of men meeting after work each day and walking slowly from bar
to bar having one very small glass of wine at each bar. The purpose,
one is told, is to keep the conversation moving while giving business
to all the people in town who have a bar rather than just one. This
is, perhaps, the Basque tradition most worth imitating, according to
those who have participated in it.) Father Arizmendi never held a
post of any kind in any of the cooperatives; yet each day during
potash and in the evenings at their chiquitoes he would talk with the
members of the cooperatives and keep them philosophically clear in
their practical and organizational activities so as to always meet
both the needs of the individuals and the community. This process was
institutionalized in the Mondragon Cooperatives.

ULGOR, this first cooperative, started in 1956 with 23
worker-owners. In 1958 butane gas reached Mondragon for the first
time. They had been lucky again. They began producing gas cookers.
By 1959 ulgor had 170 worker-owners and they and Fr. Arizmendi had
assisted others in creating six other worker-owned businesses. Also,
to assure itself a source of supply for some of its main inputs
because of the constant possibility of being seen as rebellious
against Franco's regime, ULGOR effectively absorbed two previously
capitalist foundries in the nearby village of Escoriza. As a result
of a general policy of breaking workforces down into more personal
units, these two foundries were split off in 1963 and became
Ederlan.17
What is extraordinary is the entrepreneurial vigor which ULGOR's young leaders, their friends, and Fr. Arizmendi were beginning to demonstrate. Less than two years after the founding of ULGOR, the Caja Laboral Popular (CLP), the cooperative bank, was a two room operation, one in the school and one in the Catholic Action Center, with ULGOR's founders doing the necessary paperwork without pay.18

When Fr. Arizmendi first put the idea of the bank to his friends they were very reluctant:

One of ULGOR's founders has described their initial reaction to Fr. Arizmendi, when he put forward the proposal, thus: "We told him, yesterday we were craftsmen, foremen, and engineers. Today we are trying to learn how to be managers and executives. Tomorrow you want us to become bankers. That is impossible."19

Unlike Gandhi, Fr. Arizmendi was not a charismatic speaker; he was capable of putting people to sleep from the pulpit. But he had remarkable clarity of vision and conviction, and he was eventually able to persuade the coop leaders that they would solve a number of pressing problems by establishing the cooperative bank, which would actually be a credit cooperative, much like an American credit union. This crucial addition would reduce the chance of unwanted antagonism from established institutions, and it offered a remarkable advantage which Arizmendi had discovered in his dogged research of existing legislation. Worker's savings (el ahorro abrero) were entitled to half a percent more interest than regular savings, and at the time, that was an additional 10 percent earned.

Arizmendi realized that the bank would close the circle of
development in several ways. First, it would provide legal guaranty for the community's investments, which remained in the enterprise. Second, it would provide an important new access to essential capital. Third, it offered a logical channel for the profits from the enterprises into expansion and the funding of new coops.

Initially, the coops offered this new savings plan in collaboration with the Savings Bank of Guipuzcoa, which protected the funds while the coop's entrepreneurs attracted the funds and carried through on the paperwork. Eventually, this operation was absorbed under the aegis of the fully independent Caja Laboral Popular, which gave the cooperatives full control over all deposits.

With this new plan, the entrepreneurs had to promote to the community a radical new concept of savings—not just as a means of securing money and getting interest, but as a tool to finance local enterprise and create local jobs. Their success, which will be described in some detail later, was considerable.20

The credit cooperative was structured to solve another problem as a result of more legal digging by Fr. Arizmendi. It could also provide "a central social insurance service" for the worker members of the various coops. Under Spanish Law members of cooperatives are rightly treated as self-employed. They are thus not eligible to participate in the national unsurance scheme. A section of the bank, which was later to become a separate organism with the name of Lagun Aro, took on social insurance responsibility for the group as a whole.21
However, Fr. Arizmendi had even more important concerns in mind than adequate capital and insurance. He realized that individual coops faced formidable risks in starting up in an unsupportive business climate; and that the gamut of specialized skills needed to do this successfully were unlikely to be available to most workers' groups. If the task of midwifing new enterprises was left to those groups by themselves, the potential of cooperative development would be severely limited. If on the other hand, there was an institution with the explicit role of coordinating support services for a group of coops, each enterprise would be freed to focus on productivity. It made obvious sense for the new bank to take on these tasks.22

So the Caja Laboral Popular came into existence in 1959 with three functions: (1) banking, (2) social insurance, and (3) coordinating of coops and creation of new ones. "To avoid extreme vulnerability they established their first two formal offices in two different Basque provinces. One in Mondragon (Guipuzcoa) and the other in Elorrio (Vizcaya), both important centers of cooperative experience and areas in which there was support for cooperativism. This strategy was developed in the event that if one of the provinces refused to allow its operations, the other province (being a different administrative unit) might."23

By 1960 all the principal elements of the Mondragon cooperatives were in place. "Including ULGOR, there were half a dozen industrial co-ops employing nearly 400 people. There was the Professional and Polytechnic School--to ensure, among other things,
that the group's needs for skilled manpower were met; and there was
the bank, which, as well as performing its straightforward capital
mobilization and social insurance functions, was charged both with
overall coordination and promotion.\textsuperscript{24}

Constant expansion followed. New enterprises were added and
existing ones kept growing. In summary, Alastair Campbell, the author
of \textit{Mondragon 1980}, sees the following five reasons for this rapid
growth:

(i) a minor industrial revolution in that part of Spain;
(ii) an opportunity for Basques to create their own
businesses;
(iii) an agreed policy of reinvesting business income in order
to create jobs for fellow citizens;
(iv) the availability of finance from the savings bank;
(v) belief in an ideal.\textsuperscript{25}

The following is a list of the Mondragon Cooperatives in
detail as of the beginning of 1980:
<table>
<thead>
<tr>
<th>Production</th>
<th>Cooperatives</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foundry &amp; Forge</td>
<td>7</td>
<td>2,026</td>
</tr>
<tr>
<td>Capital Goods</td>
<td>22</td>
<td>3,440</td>
</tr>
<tr>
<td>Components</td>
<td>27</td>
<td>3,782</td>
</tr>
<tr>
<td>Consumer Durables</td>
<td>15</td>
<td>4,825</td>
</tr>
<tr>
<td>Building</td>
<td>5</td>
<td>1,584</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Members</th>
<th>Cooperatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 400</td>
<td>10</td>
</tr>
<tr>
<td>400-200</td>
<td>11</td>
</tr>
<tr>
<td>200-100</td>
<td>11</td>
</tr>
<tr>
<td>100-50</td>
<td>23</td>
</tr>
<tr>
<td>Under 50</td>
<td>21</td>
</tr>
</tbody>
</table>

The Other Cooperatives

(1) The Bank (Caja Laboral Popular) has two divisions:

(a) The Division Economica, with a staff of 697, carries out the normal work of raising money from the public. Its 93 branches have an average staff of 6 each.

(b) The Division Empresarial, with a staff of 118, has the task of lending money to the cooperatives, in the process of which it has evolved into their commercial headquarters. It has a technical research unit (Ikerlan) associated with it.

(2) The 'service cooperatives' comprise the following:

(a) Lagun-Aro is the social security organization, with a staff of 93, which collects members' dues and pays the agreed rates of sickness and retirement benefit.

(b) Centro Assistencial is the medical and hospital service with a staff of 131.
(c) Auzo-Lagun is a laundry and meal service organization staffed by 454 women.

(d) Liga de Educacion y Cultura consists of 317 staff at the Technical College.

(e) Club Arkitze is an experimental social club for cooperators with 585 members in Bilbao.

(3) There are 36 Basque school cooperatives with 1,098 staff.

(4) There are 14 housing cooperatives with 863 members.

(5) There are four agricultural cooperatives with 323 members and one consumer cooperative with 746 members.26*

Control of the Cooperatives as a Group

There are "first degree" cooperatives and "second degree" cooperatives. Each first degree cooperative is a sovereign enterprise controlled by their own workers and free to leave the group if they wish. The bank, social security, and research units are termed "second degree" cooperatives because majority control is exercised by the group. For instance, the CLP's Junta Rectora ("Control Board" and the equivalent of the Board of Trustees of an American corporation) of twelve is elected, eight by the other cooperatives and four by the Bank staff.

Although each first degree cooperative is independent, if it wants to share in the benefits of the association of cooperatives,

*The consumer cooperative has over 50,000 consumer members and 746 worker-members who jointly control the cooperative. Also, "The first co-operative, ULGOR, has become Spain's leading manufacturer of refrigerators, cookers and washing machines; it has won contracts to establish similar plants in Tunisia, Russia and Mexico. Danobat, established in 1966, has become Spain's leading manufacturer of machine tools, with over 20 per cent of sales for export." (Alastair Campbell, Charles Keen, Geraldine Norman, and Robert Oakeshott, Worker-Owners: The Mondragon Achievement, p. 32.)
including the second degree cooperatives which include the Bank and its abundance of capital and managerial expertise, it must enter into a formal "Contract of Association" (see Appendix C) with the Entrepreneurial Division of the Bank which serves as the headquarters for all the cooperatives. The control Board of the Bank, given that eight of its twelve members are representatives of the first degree cooperatives, and that each member cooperative is a member of its General Assembly, manages the association of cooperatives' affairs.

The Contract of Association between the Bank and each cooperative is a lengthy and detailed document (see Appendix C). It covers:

(i) The basic legal relationship; the co-operative will become a member of the bank's general assembly and will abide by its decisions; a representative of the bank will attend the co-operative's general assembly, if invited.

(ii) The co-operative will provide a legal guarantee of the bank's capital and will contribute to its social funds.

(iii) It will provide the bank with an annual profit and loss account, a plan for the forthcoming year and monthly operational data.

(iv) The bank will audit the co-operative's accounts free every four years, but at the co-operative's cost more frequently if the executive, the general assembly or ten per cent of members think something is going wrong.

(v) Surplus liquidity will be banked at the Caja; it will adopt a policy of mutual support with the other cooperatives in such matters as production plans and selection of personnel.

(vi) It will adhere to the basic policies of the group: the "open door" policy for job creation, the policy of democratic control, fixed interest on capital, contributions to community funds, membership extended to all employees.

(vii) It will adhere to the basic economic rules of the group: not less than 30 percent of surplus profits shall be divided between a reserve fund and a social fund (with further rulings concerning very large profits); all members shall
contribute a capital stake (payable over not more than two years); interest of not more than six per cent shall be payable on capital, etc. (In recent years this rate has been changed to match the inflation rate.)

(viii) Salaries shall vary by not more than the ratio 3:1; but executives may be paid up to fifty per cent over their basic salary to take account of unpaid overtime, special responsibilities, etc. Salary levels shall be established by comparison with local industry. The Contract of Association also sets out the terms under which the Contract can be cancelled either by the member co-operative or by the Caja. (Parenthesis added.)

In addition, many of the cooperatives have joined each other in area or trade "combines" (the equivalent of conglomerates in conventional industry) to gain efficiency of scale in overall management, personnel management, and planning. Certain agreed upon powers are delegated to the combine headquarters.

The Technical College--Escuela Professional Politecnica--is controlled partly by the group of cooperatives, staff, students, local parents, and the local authority. Similarly, the lower schools are controlled partly by the local parents as well as the teaching staff, students, and administrators.

Lagun Aro, the group's social security organization, and Centro Assistential, the group's hospital and medical insurance cooperative, are also second degree cooperatives with two categories of membership--the other cooperatives as institutional members and its own employees as individual members. Control is shared by the two groups in the same way--two-thirds of the Control Board elected by the other cooperatives and one-third by its own employees.
The Bank

Antonia Perez de Calleja Basterrechea, Director of the Entrepreneurial Division (Division Empresarial) of the Caja Laboral Popular,* the Headquarters for the group of cooperatives, has written in a paper distributed by the Bank what he believes to be the three main roles of the Bank:

As a financial and consultancy institution, the Caja Laboral Popular has three main roles:
- The Caja is the headquarters of the movement, the centre round which the group of enterprises is organised. This means that the Caja gives cohesion to the movement as a whole; it lays down the rules and co-ordinates both the activities of existing cooperatives and new initiatives which now tend to come spontaneously from groups of workers all over the Basque country. Even with individual enterprises that are autonomous and self-governing, it is important to see that they remain committed to the same social principles; the maintenance of these principles is a condition of association with the Caja. The group must have fixed guidelines and objectives; this is the very reason for the movement's existence.29

To the two roles of overall direction and banking services, Calleja continues, a third role was added in 1960—management consultancy and promotion, advising coops on the entire range of management problems and launching new coops:

Financial support, however indispensable, is not enough to ensure the continuity and healthy expansion of the cooperatives. For this, technical assistance, promotional and organisational advice must be constantly available, the object being to guarantee the optimal use of resources and to see that the Caja's objectives, specifically the creation of new jobs, are not forgotten. Further, since risks cannot be spread (the Caja having only a small number of active clients)

*The Caja Laboral Popular is referred to by different abbreviations by different authors who will be quoted. The abbreviations are "CLP," "the Bank," and "the Caja" ("bank" in Spanish). Also, if it was in America, because it is a credit union under our laws—it would not be able to use the word "bank" in its name.
members have to be carefully watched; their informal guarantee to operate on a profitable basis is the only security against which loans are made.30

Notice that twice he emphasizes the goal of "creating new jobs." The creation of new worker-owned jobs is the main goal of the group of cooperatives as a whole in terms of community service. Each cooperative and the group as a whole through the Entrepreneurial Division of the Bank is focused upon growing to accomplish this goal as well as to provide greater security for the cooperatives through market leverage and diversification.

When the tiny savings cooperative left the local savings bank soon after its beginning in 1959 and became organized as an independent credit cooperative, it had to conform to banking laws which required it to invest 21% of its funds in nominated securities with the government and to make 10% of its funds available for personal loans. "Nevertheless, by 1972, the Bank had more money available for lending to the cooperatives than they could use. That position continues; and it has been found possible to lend to cooperatives at between 2% and 5% below normal commercial rates. This phenomenal success is ascribed to progressive management, willing staff and the success of an appeal to local people to support local worker-owned enterprises."31

The Entrepreneurial Division of the Caja must earn some capital to pay for its expenses and is restricted on how much it can spend over its income within a year. It charges the individual enterprises for its standard services, but there is no attempt to make it 100 percent self-financing. Instead, two controls are currently applied when
its budget is being prepared. The first is that not less than sixty per cent of its outlay must be recovered in fees and charges. The second is that its net (i.e., non-recovered) costs must not exceed 0.2 per cent of the total balance sheet liabilities of the Caja. The Empresarial Division's budget as projected for 1977 divides as follows:

<table>
<thead>
<tr>
<th>Pesetas Million</th>
<th>Dollars (March 1981)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Expenditure</td>
<td>144</td>
</tr>
<tr>
<td>Recovered</td>
<td>93</td>
</tr>
<tr>
<td>Net Expenditure</td>
<td>51</td>
</tr>
</tbody>
</table>

It is the Entrepreneurial Division's special charge to be sure the management in all the cooperatives is always excellent while forming new cooperatives also. The combined capital and labor commitment of the worker-owners, and their willingness to make sacrifices if necessary, means that when a solution to a problem has been found on paper sound management is the only thing that stands in the way of its successful implementation:

Having effectively no labour conflicts, those at Mondragon are acutely aware that the key to their commercial success lies in good management and good management alone. Only the long-term financial soundness of the enterprise can justify the commitment of the workers' savings to it.33

The second division of the Caja is the Economic Division (Division Economica) which is effectively the savings bank. Its legal structure is similar to an American "credit union"—a cooperative savings institution. However, the main difference is that it can make unsecured, venture loans to commercial establishments whereas this is
not normally allowable to an American credit union except at the federal level and then only upon special permission which has seldom been requested.34

The main job of the economic Division is to attract local savings through a network of branch offices, which it has done astonishingly well. In the ten years between 1965 and 1975 the Caja had more than a twenty-fold increase in savings deposits and its own capital. A study by the Caja showed that it outperformed all its conventional savings bank competitors during those ten years ... with sizable portions of the capital being put at risk in unsecured loans largely to new cooperatives.

This caused researcher Robert Oakeshott to explain:

The achievement is, on the face of it, all the more impressive in view of the fact that the CLP is the first institution of its kind in the Basque country, in Spain, and indeed, so far as I know, in the world. Common sense suggests that people are likely to be especially cautious when deciding where to place their savings. Quite apart from anything else, the CLP has succeeded beyond all reasonable expectation in overcoming a natural 'conservative' resistance ....

What needs to be emphasized here is the CLP's success in the more traditional banking task of mobilizing the savings of the public. Britain has no banking institutions the main aim of which is to raise ordinary people's local savings and then invest them in local productive industry (whether private, state-owned or co-operative); the conventional wisdom has been that that cannot or should not be done. The CLP's record shows that that conventional wisdom can be wrong.35

It can be especially wrong when you return the profits to the members--the Caja returns 30-40% of its profits each year as patronage refunds to its members.36

By 1972 the group of cooperatives were no longer constrained by a lack of capital sources, and by "mid-1976 the bank was unable to
foresee when future plans might again become limited by a shortage of cash." Thus, although highly capital intensive methods of manufacture were ruled out in the early years, they are able to be considered in the 1980s.

**Capital and Labor**

Through the progressive social doctrine of the Catholic Church as taught by Fr. Arizmendi the founders of the Mondragon cooperatives understood the importance of merging the tasks of worker and owner into one role. They recognized from the outset that a sizable capital investment by each worker was the most effective way of assuring this merger. Discussions with staff of the Entrepreneurial Division of the CLP always include an emphasis on the importance of the worker's capital contribution in making the cooperatives operate successfully. In Senor Calleja's words:

All those who work for a co-operative must be shareholders (i.e., make some capital contribution, however modest) and no one can be a shareholder who does not work for the co-operative. In other words, the system is based on combining, indissolubly, the roles of worker and employer. This means that every worker, after a short trial period, is required to put up an initial capital stake.38

This capital entrance is around 100,000 pesetas (approximately $1,200). However, no one is ever prevented from employment because they can't afford it. If necessary the cooperative or the CLP will loan the capital to a worker at a low interest rate or free and it will usually be taken out of his salary over a two year period. However the commitment of the capital to the cooperative is final upon joining the cooperative.
One of their basic principles is that "capital is the servant of labor." As such capital is only rewarded with agreed rates of interest and never with a portion of profits.

This is explained by Senor Calleja in his description of the two main implications of combining the roles of owner and worker:

In the first place, every man must have a say in the control of the enterprise. Capital is the servant of labour and every worker is entitled to participate democratically in running the firm on the basis of 'one man, one vote'. This vote is used at the annual general assembly. The assembly elects a control board, roughly equivalent to a board of directors, which meets once a month and takes overall responsibility for running the firm. The control board appoints top management which is thus effectively the executive arm of the control board.

In the second place, worker participation is reflected in the distribution of profits. Depending on how large they are, a proportion, which may vary between 20 and 60 per cent, must be allocated to a reserve fund. This fund is indivisible and belongs to the collective of workers as a collective, rather than to any individual. After this, a further proportion must be earmarked for the social fund out of which loans are made to the community in which the co-operative is situated. The remainder, referred to in other types of concern as residual profits or dividends, is divided between the individual accounts of the workers in proportion to their contribution in the form of work; the shares they receive are calculated in proportion to wages, which are looked on as monthly advances against group profits.

In other words, profits are divided between the workers in proportion to the work they have contributed--labour is the true boss of the concern--as measured by wages or 'advances' and not in proportion to capital holdings. Capital is considered a tool and, as such, qualifies for a fixed return: interest. Thus, it is the fact of working for a firm that entitles a man a say in management and a share in profits, not the fact that he has put up a capital stake.

The latter is considered a less important contribution and is required largely in order to give the workers a closer involvement in the success of the firm.

Senor Calleja, of course, goes on to explain how the profits are used to serve the community as well as the workers:

With this set up, the working capital of the firm automa-
tically varies from year to year. It is made up of the workers' initial capital contributions plus aggregate profits, whose reinvestment is made obligatory as a direct means of supporting the movement's 'open door policy'. The cooperatives were not founded to advantage a single group of workers, but to reinforce solidarity among workers in general by letting a continual stream of new workers in. In this way new jobs are created while the enterprises themselves expand. This principle of reinvestment has purposely been built into the structure in order to accelerate the extension of the cooperative experiment.41 (emphasis added.)

Of course, the worker can use this capital as collateral at the Caja to acquire a loan at an interest rate not far from the interest rate he is receiving from his cooperative. So he has the use of the capital also.

In fact, this is one of the most striking features of the Mondragon cooperatives structure: the profits at the end of each year virtually go in two directions at the same time.

If there are profits, at least 10% must be distributed to educational or social projects* in their region as contributions or loans. As of 1980, approximately 20% of the net profits was undistributed and remains as collectively owned forever (that is, in trust),

*This is a requirement of Spanish Cooperative Law since the distribution of "patronage refunds" to workers, unlike dividends on stock to stockholders in conventional corporations, is a deduction from the net profits of the cooperative. Thus, cooperatives do not pay taxes if they distribute all their net profits as patronage refunds to their members. (They do not have the problem of double taxation--corporate profits being taxed and dividends to shareholders being taxed--as do conventional corporations). Thus, Spanish Cooperative Law legislates that 10% of any patronage refund distribution must be to educational and social projects in the local community. This requirement is not in the states cooperative laws in the USA; however, cooperatives in the USA also do not have to pay taxes on patronage refund distributions. As of 1980 most of the 10% to contributions by the Mondragon cooperatives was donated to assist Basque speaking schools.
and approximately 70% is distributed to the workers on the basis of the number of years a worker has been a member of the cooperative and his job rating. (The job rating is based upon the worker's level of responsibility in the cooperative.) The contributed portion serves the community and provides the cooperative and worker with tax benefits and the fulfillment of values other than monetary return. The undistributed profits remain in the cooperative assisting its security which is beneficial to both the worker and the community. The distributed portion of profits, although loaned back by the worker, is his and able to be borrowed on at little cost, and yet remains in the cooperative to serve the community through worker-owned job creation. Upon leaving the cooperative or retirement the worker must take his full balance with the firm in one lump sum or it must be converted into an annuity, since non-workers cannot own shares. Thus, both the worker and the community derive use out of the profits each year.

Should a member of a cooperative leave before retirement, he does not receive his full portion of the profits distributed and loaned back by him unless it was necessary for him to leave for some compassionare reasons. If, however, he leaves for no discernable reason, he automatically has 20% of his account deducted for "educational services received." If it is clear that he is leaving to take a job with the competition, he can have up to 30% of his account deducted for educational services by a decision of the Control Board.

Also, although there is the equivalent of a salary scale calculated as indicated earlier, all distributions including what might normally be called salary are paid in the form of profits or
advances of income ('los anticipos'). Care is taken to avoid the word 'wages'. All income, therefore, comes in the form of profits with a portion coming each week as an "advance on profits" according to the worker-owners classification on the 3:1 income scale, which is to some degree based on the incomes of similar workers in conventional firms. What net profits remain at the end of the year after these advances have been paid are the amounts distributed as "annual profits," a portion of which is credited to the worker-owner capital account. So, although all income to workers is considered profit distributions, a portion is treated as salaries and a portion as profits in a conventional firm's structure.
Figure 3: The structure of a Mondragon Cooperative.
The worker-owners each have one vote and the General Assembly of all worker-owners is the ultimate power in the cooperative. The workers elect three groups of their fellow workers (no non-members hold any voting positions within the cooperative to keep self-management unencumbered) to three councils or committees: (1) Control Board, (2) Accounts Checking Committee and (3) Social Council. The Control Board, the equivalent of a Board of Trustees in a conventional corporation, is the ultimate elected leadership which hires and downgrades (never "fires") management, sets policy, and resolves all problems among the workers and other councils or management that don't get taken to the General Assembly. The Accounts Checking Committee represents the workers to make sure all accounting, distributions of patronage refunds, and other financial matters are calculated accurately and honestly. The Social Council is elected on a representative basis (usually one representative for every twenty to fifty workers) which is the equivalent of a union within the cooperative. It focuses on working conditions, health and safety, and worker benefits. It is a permanent committee underneath the Control Board and has one executive responsibility--it distributes the capital in the social fund. The Management and Direction Council are not elected bodies. Management is hired for four year periods by the Control Council. The four year period and the hiring and oversight by Control Board gives management some freedom to move in relationship to opinions of individual workers. The Direction Council is composed of the senior members of the Control Board and Management. Its task is to maintain
excellent communication and coordination between leadership and management.

**Control of a Cooperative**

The General Assembly meets as often as is necessary, and determines policy issues by majority vote. Initially the value of a vote was decided by one's job rating, but this practice was dropped in favor of one-person, one-vote.

The Control Board, elected by the assembly for a four year term (rotating membership), directs the enterprise according to the mandate of the assembly. All workers are eligible, although managers are seldom elected to avoid an imbalance of power.

This committee appoints a general manager who in turn appoints his or her own managerial staff. Like other managers, they hope to continue in office, but can be downgraded or transferred to another cooperative if there are problems.

The Social Council is separately elected, and holds weekly meetings with constituents on the shop floor. It has direct access to the general manager and the Control Board and its task is to keep the shop floor informed of policy and management views (and vice versa) and to educate new cooperative members.

Auditing is done by the Bank, and an Accounts Checking Committee is elected to examine accounts, expenses, etc., on behalf of the members.42

To quote Alastair Campbell:

The effect of the above is that Management exercises the
same freedom of judgement and entrepreneurial skill as in conventional businesses; but its object is the personal, as well as the financial, satisfaction of the business owners. Discipline, which includes fines and even dismissal, is exercised by Management. However, everything is subject to the approval of the elected Control Committee, with advice from the Social Council; and contentious matters can be referred to the General Assembly for decision by majority vote. The ordinary workers are thus able to insure that all policy is decided in accordance with their requirements.

The two elements of the internal cooperative structure which developed out of practical experience and seem to be remarkable improvements to a cooperatively functioning organization are the Social Council and the Direction Council. The Social Council is the equivalent of a union within the cooperative and the Direction Council is similar to a traditional capitalist enterprise's Executive Committee.

Each group of 50-200 workers, depending on the size of the cooperative, elects a representative to the Social Council which is a permanent committee under the Control Board. This group handles all shop floor concerns such as health, safety, working conditions, and payment systems and makes recommendations to the Control Board. This has greatly reduced the amount of time management has to give to labor relations which consumes a substantial portion of a traditional company's management time. Also, the Social Council decides where to contribute the 10% of profits in the Social Fund.

The Direction Council is the "support group" for management. Senior management and senior members of the Control Board are on it. It has a consultative and assessment role which also brings the "management" and "leadership" together. Without the Direction Council communication between the two could break down. The Direction Council
allows for the maximum communication and solidarity between the two. The President of the Control Board automatically sits on both the Social Council and the Direction Council to assist optimum communication and solidarity in and from all directions.

Through these two additional councils both management thinking and shop floor thinking flows through the entire workforce and yet is organized so every worker can input into the process either through his Social Council representative or closest Direction Council or Control Board member.

In addition, any worker can approach the Control Board with any issue he chooses and the Accounts Checking Committee representatives elected by the workers watch to be sure there is no financial fraud by anyone.

Thus, Management is free to focus mainly on the product and growth and is somewhat insulated from shop floor meddling in management decisions by the Control Board (a chronic cooperative problem in the past and elsewhere). The Social Council handles the on-going and immediate needs of workers. The Control Board hires or down-grades management, makes policy decisions not subject to a decision by the General Assembly, and arbitrates any differences among divisions, groups, or individuals. The General Assembly can act anytime these procedures break down.

Finally, any cooperative needs an on-going education program especially when it is constantly accepting significant numbers of new members. The Social Council's weekly meetings, on paid time, provide this opportunity. They also keep each individual closely involved in
the carrying forward and evolution of the ideology to which they have all committed themselves by becoming a member of the Mondragon Cooperatives.

**Internal Code of Rules and Social Statutes**

Each cooperative has an Internal Code of Rules (see Appendix B) and Social Statutes (see Appendix A). Oakeshott has identified "eight key and distinct groups of provisions which together form the foundations of the cooperatives' structure and policies":

1. Provisions designed to ensure full bottom-upwards and democratic self-government.

2. Provisions to promote efficient management.

3. Provisions to promote management-shop floor solidarity, communication between the two, and intra-enterprise solidarity more generally.

4. Provisions which require the contribution of capital stakes by all worker-members, which distinguish the collective indivisible elements in enterprise ownership from those credited to individual worker-member accounts, which limit the return on capital, and which regulate the distribution of profits (or losses).

5. Provisions designed to protect job security and to impose a regime of work behavior and discipline appropriate to a cooperative structure.

6. Provisions designed to promote inter-coop solidarity and to ensure optimum group co-ordination.

7. Provisions designed to promote solidarity both with the local community and with non-coop workers and enterprises in the neighbourhood. (Emphasis added.)

8. Provisions designed to ensure that the coop does not become inward-looking but pursues 'open door' policies of maximum job creation.44
Financial Management of Workers Accounts

It has been previously explained that each worker, after a short trial period, makes a financial investment in his cooperative by purchasing a cooperative share for what is now a standardized sum for all cooperatives of 1000 pesetas (approximately $1200).* Twenty-five percent of this is automatically added to collectively owned funds and 75% is credited to the workers' "capital accounts." Each worker's portion of this capital, as also described earlier, cannot be withdrawn unless the worker leaves his job, and then possibly with a penalty, or upon retirement when it must be withdrawn in full or converted to an annuity because only workers can own a share of stock. The share of stock, of course, is not transferable to another person or legal entity.**

Of the remaining net profit 10% is donated by the Social Council to the educational and social needs of the local community and at least 20% remains in the undistributed collectively owned funds. Also, twice a year the workers receive an interest payment on their capital accounts which had been 6% but is now adjusted to inflation. These payments are treated as a cost and, therefore, are deducted before any net profit or loss is calculated. "Notionally the 6 per

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*The Contract of Association indicates that at least 90% of the workforce must be coop members (normally all are).

**If a person changes jobs within the group of cooperatives his capital stake is normally transferable. Also, some members who have been with the cooperatives since its early days had built up $25-30,000 in their capital accounts at the end of 1977. (Alastair Campbell, Charles Keen, Geraldine Norman, Robert Oakeshott, Worker-Owners: The Mondragon Achievement), p. 30.)
cent figure is made up of two elements; a 4.5 per cent element of basic interest (or money rent); and 1.5 per cent element regarded as compensation for risk of loss."

The formula for distribution of the up to 70% of net profit which is distributed to the worker owners takes into consideration the number of profitable years a worker has been with the cooperative as Robert Oakeshott explains:

... the capital accounts of the individual worker-members play some part in determining individual profit (or loss) shares when these are calculated at the end of an accounting period. Once the total amount to be distributed in credits (or debits) has been calculated, the figure is divided in proportion to the sum of the individual's work income and of his capital account interest income over the relevant accounting period--and not just in proportion to the former. At least in successful coops, therefore, the profit (or loss) shares of long serving member-workers--who have larger accumulated capital accounts--will tend to be boosted compared with the shares of more recent arrivals. This sum--of work income and interest income--is used again in its own right when profits exceed a specified high level.46

Oakeshott then goes on to explain the formula used in the case of very high profits and concludes from his analysis of these matters that "capital is seen as 'accumulated work' rather than as some foreign or hostile element:

The formula which covers profit distribution when profits are high must next be briefly explained. It is only applicable when net profits exceed 50 per cent of the sum of members' work income and interest income during the accounting period. When that happens, instead of the normal 30 per cent minimum net profit allocation to collective reserve funds and social projects the 'collective percentage' is determined in accordance with the following formula:

$$C_p = \frac{p}{p+1} \times 100$$

where $C_p$ = the percentage of net profits to be allocated to collective funds.
P = net profits to be distributed

I = the income of worker members: both work income (including social security benefits) and interest income.

In effect the formula means that, once the 50 per cent condition has been met, the percentage of net profits allocated collectively will be the same as the percentage which net profits themselves represent on a base of net profits plus all workers' income. Quentin Garcia supplies a valuable concrete example of the application of this formula to ULGOR's 2967 results. The key figures, in millions of Pesetas, were as follows:

| Net profits | 101 |
| Work income | 67  |
| Interest income | 15 |
| Total income | 82  |

Thus in ULGOR's case in 1967:

\[
C_p = \frac{101}{101 + 82} \times 100 = 55 \text{ per cent}
\]

In this case, therefore, 55 per cent of ULGOR's net profits (or Pesetas 55.55m) were allocated collectively and 45 per cent (or Pesetas 45.45m) to individual member-workers' accounts. It is easy to see that the higher the level of profits, when this formula applies, the higher also will be the proportion of net profits allocated to collective funds.

The inclusion of interest income as well as work income in this key formula reflects partly pragmatic, partly theoretical considerations. There is the common-sense requirement that those with longer service and thus normally larger accumulated capital accounts should not be penalized compared with relative newcomers; but there is also a theoretical consideration. The first chapter of ULGOR's statutes which is headed 'Fundamental Guidelines' (Normas Fundamentales) talks about the need for a 'just reward' for capital and states that this is to be found in balancing the amount of compensation paid for sacrifices past and present. The theoretical justification is that capital is seen as 'accumulated work' rather than as some foreign or hostile element.47

Re-evaluations of each coop's assets, with the individual's capital accounts re-evaluated correspondingly, are periodically undertaken by the Caja to take account of changing money values. These
exercises are tightly controlled by the Caja and are done in accordance with asset-value figures which the Caja compiles and circulates. 48

If there are losses, a maximum of 30% may be written off against collective reserve funds. The balance must be deducted from the individual capital accounts of the worker-owner members. However, this stipulation does not apply to new cooperatives until they have become profitable in the first place and are judged to be on their feet. 49

Thus when times are bad the workers will see their capital stakes dwindling.

If there is a reduction in production at a cooperative with a corresponding reduction in the need for some workers, the first effort will be to see if there is a need for additional workers at the same professional and skill level in another associated cooperative. If so, an arrangement is made for the potentially laid off workers to be temporarily transferred with their hours being credited to them as if they had done the work in their own cooperative while the cooperative receiving the work pays the "advance on profits" according to the workers' professional classification on the 3:1 ratio scale.

If work cannot be found for a worker, there are rules which provide for how those to be laid off will be selected. Those whose work is directly affected will be laid off first. If the lay offs have to go beyond that, the rule is the trade union principle of "last in-first out." 50 Robert Oakeshott describes ULGOR's rules governing
laid off worker-owners, which are typical of the other cooperatives:

... where any worker-members are laid off ULGOR's rules provide that they receive 80 per cent of their normal work income until their direct and active employment resumes. This, of course, is the provision which differentiates Mondragon from normal capitalist practice (public or private). It constitutes an earnings and thus, indirectly at least, an employment guarantee.

With characteristic attention to detail, ULGOR's rules also lay down how the cost of meeting this guarantee will be met. If moneys are available, pending investments which have not yet been made, in the funds allocated for community projects, then the incomes of those laid off will be maintained by debiting the following accounts in the following proportions: 25 per cent community projects fund; 25 per cent collectively owned funds; 50 per cent individual capital accounts of all worker-members. Where no community project moneys are available, the costs will be debited 50:50 to collective funds and personal accounts.51

This guarantee has never been dishonored by any of the Mondragon cooperatives.

Views on Work

Work is viewed as something beautiful in itself and fulfilling to man. Article 3 of ULGOR's Social Statutes (see Appendix A)* explains that this was the main reason for choosing the cooperative structure:

Article 3:
The cooperative structure is adopted because of its ability to ensure that the conjunction and regulation of production factors are carried out in keeping with the dignity and aspirations of human work within a framework of human and Christian solidarity.52

The next article, Article 4, defines "work" itself:

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*Each cooperative has its own set of Social Statutes which are almost identical to ULGOR's.
Article 4:
Work is the means adopted for attaining a higher level of satisfaction for human aspirations and demonstrating collaboration with the other members of the community to promote the common good.53

First these reinforce the view that work is the means for "attaining a higher level of satisfaction for human aspirations." Work is not something which is a necessary evil to be avoided if possible. It is not merely an input toward the accumulation of wealth which can then be spent for pleasures (for non-work activities). Rather, it is viewed as the pleasurable art of thinking and dextrorose beings moving alone or with other such beings to individual human fulfillment, all of which is but a part of the grander art of promoting "the common good." On a day to day basis they do what they can to approach their work in this manner, reduce chaos and tension, reduce repetitive and difficult jobs with automation, and have easy relations with their fellow workers. One can feel this attitude as one walks through factories.

In keeping with the spirit of integrating ideals with practicality, Article 4 continues directly into a discussion of one of the most difficult issues in cooperative developments, hierarchical structures of work organization:

To ensure that it is contributed freely, productively and in a manner that makes everyone's collaboration viable, the members shall respect its discipline, namely a hierarchy and level of remuneration dictated by professional classifications each of which will be consigned a numerical coefficient indicating the valuation of the respective post on a scale of indices ranging from one to three. These indices will serve as the basis for calculating social and economic rights respectively.54

This is emphasized a second time in ULGOR's Internal Code of
Rules (see Appendix B) in Article 3 entitled "Authority":

Human work must be subject to discipline and its performance as a team effort requires order and thus authority. The members of this Cooperative, once they have elected those most suitable for government, must show spontaneous and rigorous respect for the orders of those who hold positions of command within their internal structure.\(^5\)

Armies have known for a long time that a smooth functioning hierarchy of authority is the most efficient way of accomplishing a task with a large number of people. Cooperatives have often been created in reaction against hierarchical power structure abuses and insensitivities. As a result they have sought to avoid any differentiation of authority or its stratification into a hierarchy, which has usually caused them ultimately to be uncompetitive with the competition. The Mondragon Cooperatives recognize the innate power of hierarchical organization in accomplishing a task efficiently and successfully; but, at the same time, they believe this value is secondary to human and social development through the democratic process among equals. So, they have structured their cooperatives so they make the best use of both. The cooperative's ultimate power lies in the General Assembly where all are equal and structures and procedures have been developed so as to assure its on-going stability in that role. At the same time, underneath this structure, the power and efficiency of the hierarchical structuring of authority for task functioning is respected and embraced.
Solidarity, the 3:1 Income Ratio, and Strikes

As indicated in Article 4 of the ULGOR Social Statutes quoted earlier, the cooperatives have chosen to limit both the upper and lower limit of salary income to members. This was done toforge bonds of solidarity among all who need to work for a living, whether in the cooperatives or not, as Senor Calleja explains:

All the cooperatives recognise the principle of solidarity in two ways. The first can be described as internal: it affects wage and salary differentials. The ratio between the highest salary and the lowest (unskilled) wage is not permitted to exceed 3:1.

There is also a second, external rule: average wages or 'advances' are fixed annually at the level paid, for similar jobs, in comparable capitalist enterprises within the region. The reason for this ruling can be explained on two grounds:

- In the first place, wages should not be lower than elsewhere because this would reduce the earnings and standard of living of the rest of the community.
- At the same time, they should not be higher because this would set them apart from workers not involved in a cooperative; we do not consider either situation desirable because the member-owners of the cooperatives are above all ordinary workers. It is, however, worth noting that several cooperatives are efficient and profitable enough to pay higher wages if this principle were not enforced.56

In recent years it has been recognized that managers habitually work longer hours and should be compensated. Thus, overtime salaries have been allowed which has made the effective maximum salary differential about four to one. This is not so very different from Britain, for example, when account is taken of its higher level of taxation.57

Even so, the conscious action to maintain solidarity in income scales and to reinvest all profits to create more worker-owned jobs
reveals a clear ideological basis for the cooperatives which has remained institutionalized for twenty-five years. It has remained steadfast both through substantial success and growth, and through the passing from the autocratic home rule for the Basque Country. However, it was significantly challenged at least once.

In 1974 there was a strike as a result of disputes over a new set of job classifications which would effect individual workers' income scale. Robert Oakeshott gives his interpretation of what happened:

No attempt is made to conceal that there has been at least one strike at ULGOR for reasons internal to the enterprise. (It is arguable that there have been two, depending on one's definitions and judgments of fact.) The stoppage occurred in 1974 and lasted less than one week. The main cause seems to have been dissatisfaction with a new set of job classifications which the management were seeking to introduce. These had evidently provoked considerable shop-floor resentment notwithstanding the fact that the existing classification of the entire workforce had been officially protected. However, the key point is that, by a decision of the Junta Rectora (Control Board), the punishment of expulsion was imposed on seventeen ringleaders and lesser penalties on 397 other worker-members. These punishments were appealed before the full ULGOR assembly (Junta General de Socios), but the assembly ratified them. (Parenthesis added.)

Expulsion seems rather drastic and suggests that Oakeshott may not have received the full story. From conversations with members of the cooperatives in Mondragon in 1979 it seemed clear that the seventeen leaders were also arguing for a more drastic turn to the left (rather than to the right as one might have more easily expected) in support of stronger socialist values and bolder, more militant risks by the cooperatives in support of Basque nationalism. The seventeen
were directed to leave and given their entire account balances and a bonus. Obviously, this was a way of saying "We respect you, but do not want to join you in your methods. You are clearly committed to them and, therefore, should not be here. We wish you good luck." This was both self-serving to the cooperatives who wanted to be sure they were not seen as in anyway reluctant in their support for Basque Nationalism; and genuinely respectful of the views of those with whom they differed.59

ULGOR's rule about strikes for reasons "internal" to the enterprise states flatly that they are in contradiction with the cooperative arrangements which have been accepted. The penalty for strike instigators is expulsion. On the other hand, strikes for reasons "external" to the cooperative are acceptable and will be decided upon by the Control Board in each case. The cooperatives have gone on strikes a number of times in sympathy with Basque Nationalist demands especially for the release of political prisoners. The framers of this rule may also have had in mind the possibility of strikes in sympathy with other non-cooperative workers objectives.60

**Recruitment of Skilled Personnel**

Choosing the 3:1 ratio for income differentials was done to maintain a balance. In Senor Calleja's words:

In choosing a 3:1 ratio we have tried to hold a balance between the desirability of worker solidarity (implying the minimum variation in levels of pay) and the need for managers and technicians of a high enough calibre to ensure dynamic growth of the cooperatives (implying that they must not be paid too far below market rates).61
This ratio would seem to present a problem in Spain where salaries outside the cooperative sector are at a ratio of 8 or 10 to 1. Keeping or hiring skilled managers and technicians could be a problem. Senor Calleja argues that cooperative members have come to find other needs fulfilled by the cooperatives to compensate for the reduced financial rewards:

We are continually asked whether this ratio does not present us with difficulties over recruiting and keeping qualified staff. It is a principle which we have adopted of our own free will for good reasons. It is important to understand that the managers of cooperatives are not martyrs just because they are paid half what they would receive in other concerns. The loss in economic terms is compensated for by other considerations:

-Our cooperatives are all located in the Basque country, a fairly prosperous region, where average incomes are high enough to give us a fairly comfortable living even with the 3:1 ratio.

-People are not only motivated by materialist considerations. There are other motivations which find satisfaction within cooperative structures and can be summarised as follows:

a) The cooperatives are normally very dynamic concerns, a reflection of their democratic structure, their social objectives and their statutory obligation to create new employment opportunities. A manager is constantly having to prove himself, by launching new ideas, by launching new investment programmes and creating new posts. These constant opportunities for achievement need to be taken into account when one assesses personal motivations.

b) For all the reasons we have already discussed, the cooperatives generally have better and more qualified management than other concerns. They are thus a very good training ground for those with entrepreneurial ambition.

c) The cooperatives offer a working environment which is more informal, more democratic and less authoritarian than private enterprises where the power structure is much more rigid.
These advantages easily outweigh straight economic considerations. It is a sacrifice we make very happily. Nevertheless, it does force us to make much greater efforts over internal training to meet the skills we require; we cannot buy specialist skills from outside the group and have to ensure that skilled manpower requirements can be met from within.62

The Anglo-German Foundation study corroborates Calleja's contentions:

One of the most striking features of Mondragon is the openness of those in executive positions to new ideas, indeed their appetite for them. The process of self-criticism and adaptation is continuous with the single overriding aim of matching their structures to the needs of individual human beings and the community. It is rather like an informal think-tank, for they do not just tinker with enterprise structures but confront the most fundamental problems of society. This is no doubt a reflection of Arizmendi's influence.63

It is interesting to note that the ages of the Mondragon workforce, and especially its managers, are unusually low. The average age of those working in the bank's Empresarial Division, according to Oakeshott, was just over 28 in mid-1976.

Another principle of Fr. Arizmendi often stated by cooperative members is that any person can learn to do anything. Thus, many of the people in positions of authority have little formal training in their field. Senor Idigoras, the person in charge of implementing the work team program (where workers manage themselves in small groups and are evaluated as a group) at Capreci, the large, old cooperative where work teams were first tried, was a dye press operator who took an interest in work teams. He was encouraged to research the idea further and to bring forth suggestions.64 Two of the original five boys in the youth group who began the first cooperative, ULGOR, are
now the head officers of the Bank. Jose Maria Ormaechea is the CLP's Chief Executive Officer and Alfonso Garronogoita is its elected President. Education is important, but skill, and not credentials, is the only thing judged when deciding whether someone is appropriate for a job. This very personal, almost familial, process of movement from job to job based upon one's interest changes and skills, this mobility within the system, is an additional attraction to skilled managers.

It was mentioned above that a dye press operator now directs the team production procedures at Capreci. As a result of experiments in the mid-70s it was decided that no future factories would use traditional production line processes. The production-team concept implemented in Sweden, Norway, and Germany was studied and it was found to be preferred by most workers. So instead of each unskilled worker having a repetitive task, he or she works with an integrated group on larger units of production and evaluations are done of the group rather than the individual. It was found that production increased by as much as 30%. Also, intellectual participation by each worker was required in group decision-making which was found to be healthier for workers.

Size

Senor Calleja:

Experience has taught us another lesson about participation. As work units, cooperatives should not have a labour force of more than 400 or 500 per establishment; above this figure the problems associated with how personnel get along with each other, and how they can participate in any
real sense in the control of the enterprise, become insoluble. In future we have decided that different production tasks, which in the past have often been combined within a single cooperative, will be split off into autonomous units. This should not reduce efficiency, given that commercial, administrative and financial management remains centralised. Our objective is quite obvious, to give the enterprise a human atmosphere--in other words, that they should all know each other, have a real knowledge of what they are doing and why they are doing it.65

For this reason it has long been thought desirable to split ULGOR, the original cooperative which now has over 3000 workers operating line production into a combine (the equivalent of a "conglomerate" in conventional enterprises). However, the members of ULGOR cannot arrange this without very large capital expenditures.

The combine system in the Mondragon cooperatives seems to have solved the problem of having limited size cooperatives with their familial atmosphere and the needs of large scale industry according to Alastair Campbell:

The Combine technique shows how it is possible for cooperatives to obtain the advantages of scale whilst retaining those of 'small is beautiful'. With the advent of the 'chip' it will rarely be necessary for more than 400 people to work in one factory. So this is the way in which worker-ownership, operated in cooperatives of limited size, can be applied to large scale industry.66

The headquarters of the combine is given responsibility for planning, finance, sales, transport, and personnel selection for all the member cooperatives. This gives individual cooperatives all the advantages of conventional business combines or conglomerates. In 1978 model rules for a cooperative Combine were issued and all the cooperatives were encouraged by the Entrepreneurial Division to join
with each other in (horizontally or vertically integrated) combines. At the beginning of 1980 there were five area combines: Ularco, the original one formed in 1968, Orbide, Gorlan, Learko, and Urbilkor. Two more were forming and others were planned.67

**Job Security**

Theoretically, and largely in practice, once one becomes a member of a Mondragon cooperative, one has a guaranteed job for life. "The overall picture in Mondragon," as Alastair Campbell explains, "is one in which a cooperative member will never lose his job and never get less cash than 80 percent of normal wages, however big a muddle he and his friends may make of their business."68

The workers pay for job security in two ways. They support a group headquarters staff (Empresarial Division), which is maintained through direct fees to coops which request its consultation, and from bank income. Since a portion of this is interest on loans to coops, the workers pay at both ends. They also (by contract) accept personal losses when chips are down for their enterprise, a commitment which

... exemplifies the Mondragon belief that each cooperative should be responsible for its own success or failure. This differs from a group of capital-owned businesses, where the profits of one are used to offset the losses of others. However Mondragon members have agreed to some 'tempering of the wind to the shorn lamb', and:

(i) loans made to new cooperatives, and to any in serious trouble, are now at half the normal rates of interest.

(ii) in similar circumstances, no charges are made for advice and aid.69
On a couple of occasions, Campbell adds, successful enterprises have taken over endangered fledgling coops before these actually borrowed funds from the Bank.

If a cooperative gets in trouble the Bank will help by reducing interest rates on loans (obviously the riskiest of its loans) and not charge for its advice and assistance. In other words, keeping the number of those worker-owned jobs growing is more important than bank profits. The Bank believes that with its expertise, sooner or later it will pull the faltering coop out of its troubles. It is willing and able to change product, management or anything except workers to succeed.

The consequences of a serious coop default on a bank loan could be dire, because it might undermine the confidence of the large community which now commits personal savings to the bank for local development. The Bank realizes that it is in its own best interests to reduce Bank profits to ensure success. It is in a strong position to do this, as its profits are far in excess of other coops' profits—and are paid out in patronage refunds to bank depositors. (The salaries of bank coop members are based on a 3:1 ratio comparable to salaries in the banking community; the overall worker share of bank profits is based on the average profits of all the first degree coops rather than its own—another indication of the commitment to solidarity.)

Because bank profits, and consequently patronage refunds, may need to dip to rescue a coop in distress, the entire community
indirectly places its profits on its ownership interest in the Bank second to the creation of worker-owned jobs.

So losses, if incurred by a Mondragon enterprise, are taken first from the members of the coop involved, and then are taken in a small and very widely distributed measure from the nearly 300,000 individuals and the cooperatives which have investments in the bank. No cooperative is in a position to perceptibly drain another. If one gets into trouble, it must depend first on its own skills and resources. The threat of loss of personal investment and savings is a powerful incentive to worker owners; and the readily available services of the bank, with its considerable commitment to the health of both the individual enterprise and the whole, is a unique support. In this arrangement is an exceptional balance of personal/group responsibility with protectionism.

To date, the Bank has never failed to rejuvenate a failing business and no worker-owner in the Mondragon cooperatives has ever lost on his investment or lost his job.

**Code of Discipline**

The internal rules of ULGOR describe a very specific discipline code:

Three levels of errors or misdemeanours are classified: light, grave and very grave (faltas leves, graves and muy graves). Some examples of each are:

- *light* - more than five unjustified cases of unpunctuality in six months;
- - unjustifiably missing more than two hours' work in one month;
'grave' - more than ten unjustified unpunctuality cases in six months;
- unjustifiably missing more than eight hours' work in one month;
- the display of public or violent incompatibility in a way which interferes with collaborative teamwork;

'very grave' - more than twenty cases of unjustified unpunctuality over a six month period;
- unjustifiably missing more than twenty hours' work in one month;
- theft from either a fellow member of from the coop;
- refusing to accept punishment for a grave misdemeanour;

Some examples of the corresponding penalties are:
'light' - written warning;
- suspension from employment and forfeiting of income for up to two days;

'grave' - suspension from employment and the forfeiting of income for up to fifteen days.

'very grave' - suspension from employment and the forfeiting of income for up to sixty days;
- disqualification from that part of any year-end profit share associated with work income.70

What stands out is a combination of professionalism and tough-mindedness. The attention to detail is the professionalism. The tough-mindedness is the seriousness with which what might seem like little things to a worker-owner after a while yet do reduce his productivity for the cooperative are treated. This tough-mindedness is quite the opposite from what people tend to expect from cooperative enterprises.71 It is recognized that, although each worker-owner may be well-intended, if he should become sloppy or disruptive in his work it reduces everyone's return on their investment and, worse, could cause others to feel justified in doing the same. A subtle snowballing could occur. This has been the case in many cooperatives throughout history where the assumption has been that all worker-
owners will behave well at all times "naturally" because of their initial good intentions. However, if the snowballing occurs, of course, it undercuts the viability of the enterprise.

It can be seen here that this tough discipline code is a direct result of each worker having a capital investment at stake. The importance of this sizable investment requirement by each worker-owner to merge the two consciousnesses into one new one is here again appreciated.

**Inter-cooperative Loyalty**

Father Arizmendi argued for the formation of a cooperative bank partly because he knew that each cooperative would have enough to do just taking care of itself. Thus, an important purpose of the Caja was to coordinate activities among cooperatives. This, as we have seen and shall describe in more detail later (see "Information Flow and Planning"), the Caja is doing quite well. However, the question of solidarity among the independent base cooperatives is still open. Robert Oakeshott alerts us to the potential value of such solidarity among cooperatives vis-a-vis its capitalist competitors and then suggests that the large number of industrial cooperatives at Mondragon may be one of the first opportunities to study such cooperation at the industrial level:

One of the great comparative advantages which, according to traditional theory, a coop sector should enjoy vis-a-vis its capitalist competitors, private and public, is the advantage of inter-enterprise support and assistance, inter-cooperative solidarity. The fact that there have been
precious few concrete examples of anything of the kind in industrial coop history, does not necessarily mean that these advantages are not available. The Mondragon experience apart, the industrial coops of Western Europe over the last century have been too dwarfish—and too scattered—for there to be really significant possibilities in this direction.2

Oakeshott then studies inter-cooperation of the base coops and concludes that, since the Caja has never failed to do its job of keeping each cooperative viable, we don't really know what would happen if the Caja wasn't a factor. On other issues he does, however, find no evidence of an absence of solidarity among the base cooperatives:

The injunction to the 'base' coops to practise policies of solidarity is spelled out in a long, extended clause (4.4) of their Contract of Association with the CLP thus: "In order to ensure the strongest possible support for all institutions and to optimise the business efficiency of the group as a whole, the Associated Cooperative will respect the principle of intergroup loyalty and mutual assistance when formulating future plans concerning production, selection of personnel, the establishment of business links between cooperatives, where to place orders, and other facets of their business by which cooperatives associated with the Caja Laboral could be made to benefit, without affecting the interests or autonomy of the cooperative itself."

On the other hand, no hard data are available about the extent to which any of this happens. Of course, it is almost certainly correct to make some negative and neutral assumptions: that there is no 'poaching' of superior labour and management as between one base coop and another (because of the generally applied differential limits the scope for this may anyway be rather reduced); that others things being equal, one 'base' coop will order its supplies from another; and that the two 'base' coops will avoid manufacturing the same product in competition. However, what we do not know is how far, if at all, one 'base' coop will actually initiate positive policies which support another, or offer aid and succour if a neighbouring coop is hard pressed. It is true, in relation to employment protection, that these things do happen within the federated sub-group of ULARCO. The CLP itself is also very much a source of help to 'base' coops in trouble,
but it is not clear how much support the average 'base' coop is likely to give to its neighbour, nor how far inter-coop solidarity has been an important factor in the success of the Mondragon experience.\textsuperscript{73}

However, there is one area which has been a cause for competition among the base cooperatives which may also explain why there have been fewer new cooperatives in recent years although not a reduction of job creation. The competition is over which industrial cooperative will take responsibility for producing a new product for which a clear market has been identified either by a number of the base cooperatives or the Caja. Whichever cooperative produces the new product is assured of greater job security and return on its worker's investments. This is a crack in the structure worth watching. If it is not handled well it could cause factionalism among the base cooperatives and disruption of the balances and collective solidarity.\textsuperscript{74}

Social Security and Medical Insurance

Here is Alastair Campbell's description of the social security system:

Spanish law treats business worker-owners as self-employed; and self employed persons are largely cut out of the state social security system. The Mondragon Group thus had to set up its own social security and health organisations, comprising the service cooperatives Lagun-Aro and Centro Assistencial. These are financed by a levy on all the Group members, which varies from year to year according to the amount expended. This in turn depends on the benefits which the members decide they want. Currently these include: (i) full pay on retirement, (i.e., a continuance of an individual's normal rate of cash drawings.) (ii) full pay during sickness (after three days). (iii) free health treatment, (Sickness benefit is never improperly drawn, since a Mondragon worker's fellow members would
soon find out).

In describing the discussion that takes place each year between the members on the benefits to be made available, the General Manager of the social security cooperative remarked "and, if all these people were in the national scheme, not only would they have no say in deciding on costs, but they would not even know what these were"!75

The forfeit of three days "advances on income" for the first three days missing because of illness legislates against any misuse of the accident and health insurance program. (Campbell's use of the word "never" above, however, must be questioned.) The hospital, Centro Assistancial, is a non-profit 'second degree' cooperative. As a result the insurance premium varies each year based on costs only. Also in order to acquire the services of doctors an exception had to be made in the 3:1 ratio in salary differential. They argued that they were "entitled to be repayed for the time and money spent in acquiring their qualifications."76

To diversify their risks, the pension fund is mostly invested outside the group of cooperatives.

Formation of a New Cooperative

"There are three things that go into making a cooperative business," said Senor Jose Jiminez, Vice-President of the Entrepreneurial Division of the Bank, "(1) workers, (2) management, and (3) product. We only start with workers who come to us asking us to help them start a worker cooperative. We never gather workers together on our own. We evaluate the groups of workers who come to us and agreed to work with the group we think is best able to at that
We choose the group because they have the abilities, motivation, and commitment to our cooperative principles and procedures. We are from then on partners. We do not try to change them. From that point on they are our "given" element. We will change managers and products with their agreement as much as necessary, but we will never abandon our partners, the workers, until we have a successful business and our loans are returned. Then, they are on their own."

This in a nutshell is the secret to the Entrepreneurial Division's 100% success rate at creating more than twenty-five industrial cooperatives.* They define a business as "the workers" rather than as "the product" as do conventional capitalist businesses. Regardless of whether or not the product is commercially successful, the business continues forward accumulating deficits while trying new

*There has been only one loss of investment capital on commercial loans made by the Caja and it was to a nonindustrial cooperative, a fisherman cooperative, in the early years:

In the late 1960s, in order to encourage the fisheries sector, the government had offered fishermen large grants in order to buy their own boats and run them as cooperatives. It was for this reason that the fishermen approached the Caja for loans to cover the residual capital required. In the event the state contributed 72 per cent of Copesca's capital requirements, the Caja and other sources 24 per cent, and the fishermen themselves five per cent. The initiative did not prove profitable, and it was wound up by the state. The Caja tends to explain this failure on two grounds: the very low level of understanding of cooperative philosophy among the fishermen, and their low capital involvement. One also draws the conclusion that a cooperative system imposed by the state rather than arising from the workers' own initiative has much reduced chances of success. (Alastair Campbell, Charles Keen, Geraldine Norman, and Robert Oakeshott, Worker Owners: The Mondragon Achievement, p. 45.)
products or new management until it succeeds. The workers and their jobs are the constant, the first priority, to which all else must adjust.

Senor Calleja, Director of the Entrepreneurial Division, describes this crucial relationship between the group of workers and the Entrepreneurial Division of the Bank:

It seems to us clear that the will to cooperate can only come from the people. Like revolution, it is a grass roots movement which cannot be invented or exported. Certain pre-conditions must exist; above all, there must be people around who want to be involved with each other both commercially and socially. With the management and financial resources at its disposal, the Caja Laboral Popular could, without much difficulty, start setting up new cooperatives from scratch, but this would contradict the very nature of our experiment. It is essential to start with a group of people who want to work together as a cooperative. Experience, however, has taught us that such ventures run very great risks if they cannot call on management and financial assistance.

This is a necessary condition for success, but let us also point out what is a sufficient condition. The cooperators must have some person or institution capable of fixing the policies that they should adopt concerning product, market, and the type of growth to aim for, in a way that meets their own aspirations. This is what the Caja Laboral does.

If the first initiative must always come from the workers, it is equally vital that the kind of back-up support is available to make it economically viable.

From this point of view, the Caja Laboral is an indispensable tool without which the cooperative experiment could never been made to work.78

So the first rule in the formation of a cooperative is "to start with a group of people who want to work together as a cooperative."

The second rule is to arrange for the necessary management and financial assistance.
The Entrepreneurial Division of the Bank is usually approached by three different kinds of groups seeking to form a cooperative:

(1) people without any particular plan;

(2) a manager of an existing Mondragon cooperative or non-cooperative business in the area who is ready to leave his job and start some particular production and has a group of people who want to work with him, or

(3) workers in an existing business who want to convert it. The staff of the Bank can find managers and products for the first group, but they consider the second situation as the most likely to succeed.79

The problem with the third group (conversion of a conventional business to a cooperative) is that some of the workers may not be motivated by the cooperative principles as much as is necessary for success. Their personal job security may be their main motivation. Indeed, this does seem to have been the conclusion of the Entrepreneurial Division since, although a number of such groups have come forward, there has not to date been even one conversion of an existing business into a Mondragon cooperative. This is significant in light of the fact that most American industrial cooperative consulting groups focus upon the conversion of existing companies into cooperatives. Usually it is a result of the pending shutdown of a factory because of relocation plans or financial difficulties where maintaining one's job as it was is the primary concern, rather than both contributing to an increase in job security and being of greater
service to the community through an ideological commitment to creating cooperatives.

If the Bank decides to join in partnership with a group without a particular plan or designated person to be trained to be the manager, the Bank directs them to either choose someone from among their number, or someone they know, to take on the task. The Bank, of course, must approve their selection; although, because of mistakes on its part in the past, it tends to yield to the group in the manager selection process. If they cannot find someone, the Bank and group jointly conduct a search for an appropriate person.

As can be easily seen, when a group comes to the Bank with one of their number desiring to be trained as the manager and found to be capable by the Bank, the motivation and cohesion of the group and their manager is greater.

No matter what product or service the cooperative is to provide, the staff of the Entrepreneurial Division likes to set aside at least two years to launch a new cooperative.

Alastair Campbell has outlined the basic qualities the Bank seeks in what it designates as the three ingredients of a cooperative business. (There are really four main ingredients of a cooperative business of any kind, by the way, the fourth being capital. However, since the Bank has an abundance of that, its staff never feels a need to mention it in these discussions):

The People, who must have:  
   (i) family or local or political or other natural affinities.
(ii) the necessary mix of skills.
(iii) a commitment to their undertaking.

The product (or Service), which must be
(i) sure of a market.
(ii) appropriate to the skills of the group and the locality.
(iii) preferably prestigious.

The Manager, whether provided by the group or proposed to them, who must:
(i) have appropriate business experience.
(ii) be genuinely keen to succeed.
(iii) be capable of inspiring confidence.

Once the group is selected, it has come to understand and embrace the democratic, commercial, and disciplinary arrangements in a Mondragon cooperative, and the manager has been finally decided, the manager designate (referred to as "promoter") is provided office space at the Entrepreneurial Division's quarters at the Bank. There he or she will be assigned to and share an office with a special headquarters member known affectionately as the new cooperative's Godfather. "It has been found in practice that each 'Godfather' can handle two or three incipient cooperatives simultaneously. This means that the Caja has the capacity to launch four or five new cooperatives each year."81

The Bank pays the salary of the promoter and any travel and research expenses; however, if the cooperative is successfully formed these costs are charged as a loan to the cooperative.

The product or service of the new cooperative has to be decided, operating procedures for producing it need to be agreed upon, and a five year marketing projection developed.82 The promoter and godfather will work together on these agendas. As indicated earlier,
if the Bank concludes the manager trainee (the promoter) is not the right person for the job or that the original product idea is not viable, the group will be consulted and changes made. The original promoter may stay with the group or, if desired, a place is sought for him in one of the other cooperatives. The bank is now more prone to go with products that its product group has found to be a good possibility. (As of May 1979 there were two men in the Entrepreneurial Division whose only job was to search for viable products and services for future cooperatives. Ikerlan, the long range research division is developing new products also.)

The result of this work is a "Product and Operations Feasibility Study" and a "Social Feasibility Study." There use to be only the former; however, they have recognized a number of environmental and community planning errors in their earlier drive to relieve poverty and create jobs. Too many new cooperatives, for instance, were built in the little valley in which Mondragon resides, and there is no longer room for expansion or adequate housing for workers near their place of work. Also the land, rivers, and air were allowed to become polluted. However, once they became aware of their errors they were able to move swiftly and decisively to make reparations. The appropriate local cooperatives pooled the necessary capital to build a large sewage treatment plant in Mondragon and to begin cleaning up the river. Now, a Social Feasibility Study is also necessary to attend to these and similar issues in the future.

Once these studies are presented to the directors of the
Entrepreneurial Division of the Bank and have received final approval to go ahead, the new cooperative comes into legal existence. About half the groups who come to the bank to begin a cooperative abandon the idea in the early stages of discussion, sparing the expense of proceeding on to later steps.

As of May 1979 the Bank expected the original members of the group, if possible, to invest 20% of the start up costs or at least 300,000 pesetas ($3600) per worker—while surely accounts for the early ending of discussions with the Bank for so many of the groups who approach it. Yet the Basque people tend to save substantial portions of their income, so the groups can often find it among their family members if they do not have it themselves.

The Spanish government provides substantial long-term loans at the very low rate of interest of 3% to new cooperatives which normally accounts for about 20% of the capital of a new enterprise. The Bank, therefore, provides the remaining 60%; however, because it is required to underwrite the government loans, its risk in the venture is 80% of the start-up capital. The Bank's loan is made at a fixed interest rate for as short a period as the new cooperative can afford. As of May 1979 the interest on the loan for the first three to five years was 8%; over five years the rate increased to the Bank's normal rate at that time of 14-15%. Normally all loans to new cooperatives are repaid in 6-8 years. For at least the first year of operation, and longer if necessary, the Bank maintains control over the new cooperative to be sure it gets solidly on its feet.
Even when the godfather finally lets the new cooperative go off on its own, the Caja's watchfulness does not cease:

... when a 'godfather' finally takes leave of a new coop, that does not mean that the 'emprearial' division ceases to be interested in its fortunes—quite the contrary. Under the Contract of Association the coop must submit regular control figures to the bank. The operative point is that these figures come through monthly—not just annually. By comparing actual results with projected budgets on a monthly basis the 'emprearial' staff should be in a position to foresee any serious difficulties before they become unmanageably large. Early corrective action should therefore be possible.85

There have been times when godfathers have had to step in and assume complete control of the management of the business. Once committed, however, the Bank is there for keeps even when things get drastic:

The case of one industrial cooperative which changed its production line provides ... [an] ... optimistic example of the flexibility of the system. The cooperative began by manufacturing machine tools under license from Churchill's in England; the line did not prove economically viable. The cooperative almost closed down for a few months, most of the workers either being sent home on full pay or found temporary employment with other cooperatives. The machinery was ripped out, and they moved on to an entirely new production line which is now proving profitable. The Caja provided bridging finance and were the architects of the changeover.86

The success of the Entrepreneurial Division of the Bank at creating these new cooperative enterprises is seen by Alastair Campbell as a remarkable evolution in economic structures because two things have happened that he believes cannot happen in conventional businesses:

It was found that there are two prime requirements for securing loans to cooperatives. One is that loans are only made to enterprises organised in such a way that their mem-
bers are strongly motivated to stock to the business. The other is that central umbrella of advice and aid. These requirements can only be satisfied in conditions of worker-ownership, for two reasons. Firstly a conventional business offers workers no incentive to remain with it when it gets into difficulties. Secondly, conventional businesses cannot work together under a central headquarters unless there is also central ownership.87

Information-Flow, Planning and Group Management

The Entrepreneurial Division ("Empresarial Division") of the Caja is "the hands of management" in which the financial success of the Mondragon Cooperatives lies. This provision by the group of cooperatives for an expert management, planning, and coordination unit is its most important contribution to cooperative development.

Management weaknesses are historically the major problem of producer cooperatives, and by contrast it is interesting to see the constructive and productive approach to management at Mondragon. Because the profits of the workers are divided among the workers, they simply have no interest in obstructing management, and recognize that the key to financial success lies clearly and absolutely in the hands of management: they point out that, given a

group of people willing to contribute their labour, their organisation into a economically viable enterprise is purely a matter of management engineering.

Within the British context this argument would be countered by pointing out that the best management can be frustrated by trade union resistance. Up to now trade unions have been illegal in Spain; but within cooperatives structured as at Mondragon their relevance would anyway be small.88

This group headquarters at the Caja has a large staff (118 as of the beginning of 1980) with which to fulfill its function of
forming new cooperatives, providing managerial and technical assistance, and coordinating planning. The Entrepreneurial Division is subdivided as follows, including the number of staff in each division as of 1977:

Promotion (staff of nine). This section is responsible for feasibility studies and assisting in the creation of new cooperatives. Seven of the team act as "godfathers" (see below) to the new cooperatives. This section is also responsible for studying marketing problems, relations with outside firms, investigation of cooperatives' problems, and methods of day-to-day operation.

Engineering (staff of four). This section advises on the design of new plants, monitors the execution of new projects, advises on the organisation of production, and handles stock and quality control.

Town Planning (staff of five). This section handles the purchase and controlled use of land, both for industrial complexes and housing. The Caja tends to buy up sites with potential when they become available; these are subsequently resold to industrial or housing cooperatives. The use of the land is planned and carried through by this section.

Industrial Building (staff of nine). This section works closely with the last, planning new projects, working out the detailed requirements of a new installation and overseeing the works.

Direction (staff of six). This section handles overall planning for the group and monitors performance, represents the Empresarial on the management council and control board, takes the initiative when intervention in the affairs of members cooperatives becomes necessary. It also includes a legal department.

Personnel (staff of five). This section advises on salary levels and job evaluation (differentials), the optimal use of manpower, selection of personnel and general recruitment, training, and planning of future manpower requirements.

Accountancy (staff of nine). This section handles the annual audits of member enterprises, advises on cost control and the mechanisation of accounting processes, assesses the
need for management intervention, and advises on general matters of accountability.

Housing (staff of sixteen). This is a large section since it includes a team of architects and provides the basic services needed by the housing cooperatives.

Agricultural (staff of three). This section deals with the problems of the agricultural cooperatives.

Education (staff of three). This section deals with the problems of the technical school and the new primary and secondary schools.

Research (staff of four). This section is involved in basic economic research into: socio-economic trends, regional development and the international economy. It also handles training.

The rest of the Empresarial staff is made up of juniors who man the reception, the switchboard, the computer, the archives, etc.

Robert Oakeshott describes the process of information flow, planning, and the mutuality of relationship between the Entrepreneurial Division of the Caja Laboral Popular and the base coops:

The Contract of Association is careful to provide that the information flow will be a two way affair. While the 'base' coop undertakes to supply the CLP with its annual balance sheet and proposed budget, and to provide monthly data on actual performance, the bank undertakes to send periodic reports down the line to the base coop. These will cover the progress of the bank's own budget as well as 'other information of an economic and technical nature'.

The mutuality of the relationship also features in the provisions for the financial dealings between the base coop and the CLP. On the one side the associated 'base' coop will have access to the resources of the CLP for 'its own financing under all agreed credit terms'; on the other side the 'base' coop commits itself to deposit any surplus cash with the bank. Finally, in the matter of auditing, the Contract of Association lays down that the CLP will, as a free service, produce a comprehensive audit of the 'base'
coop's affairs every four years. It can, of course, be asked by the 'base' coop for a more frequent audit; but the service will then normally have to be paid for.

These essentials which govern the relationship between the CLP and the 'base' coops seem deliberately to have been confined to a formal minimum. There seems also to have been a deliberate attempt to achieve a balanced relationship. Certainly, the bank is very conscious of the need to preserve as genuine as possible an independence for the 'base' coops. By confining itself to questions of audit, information flow and finance, the Contract of Association leaves the emphasis by implication on the side of enterprise independence. However, a visit to the bank suggests that in practice the banks coordinating function goes a good deal further. The information gathered from the independent coops is used, for example, as the starting point for plans covering the group as a whole. The elaboration of rolling five year plans has become established as one of the bank's most important functions. Though the information comes from the independent 'base' enterprises, the bank's role in group planning evidently goes beyond a scissors-and-paste assembly of individual enterprise budgets.91

There is an old maxim in business lore: "Whether you're making money or losing money you always need more money." If you are losing money, the need for more is necessary to keep you going while you regroup. If you are making money you see opportunities to expand and need capital to do it. This reality of commerce keeps the base coops and the Caja very friendly and allows the Caja to impose terms to loans which will redress any shortcomings of management. If these are seriously wrong,

...the Caja can request the opportunity to present their analysis of management error to the elected control board of the cooperative. As long as this board is, as it should be, fully representative of the workforce, its first loyalty is to the financial protection of the workers' capital. If they are convinced by the Caja's presentation of the problems threatening their enterprise, they can decide to sack the existing executive management and appoint new officers to resolve the situation. This has, on occasion, occurred.92
Trade Unions

When the Anglo-German Foundation for the Study of Industrial Society did its study of the Mondragon Cooperatives in 1977, the ban on trade unions had just been lifted. It had been in existence since before the Mondragon Cooperatives had begun. The Foundation's researchers picked up some concerns about it:

... it must be borne in mind that trade unions have been illegal in Spain throughout the period of Mondragon's evolution. The ban is being lifted in 1977, and Mondragon's "thinkers" are already wondering how this is likely to affect their group. On the one hand they would wish their members to join unions in order to maintain working-class solidarity. At the same time, they have no wish to see their worker-owned enterprises commercially undermined by irrelevant sympathy strikes or their sensitively structured organisation of industrial relations upset.93

As of early 1980 there appeared to be little interest by the workers in demonstrating further than their structures already reveal their solidarity with other workers by joining the trade union movement.94

It is worth noting at this point that the Mondragon cooperatives commitment to avoiding layoffs is not remarkable in Spain. The legal restrictions on dismissing workers is so complex that layoffs almost never occur in Spanish industry except, of course, in bankruptcies.95

Workers Reinvestment of Profits vs. Borrowed Capital

The question can be asked, "If the cooperatives are doing so well, why not borrow on them and let the workers take their annual profit shares in cash?" Senor Calleja answers:
The role that capital should play within a cooperative is currently being widely argued over.

Many people, even economic theorists, are convinced that loan capital is preferable to the ownership of capital by workers. As far as this argument concerns us, we are opposed to loan capital, not only because we have not ourselves adopted that route but also because we consider it to have many negative implications.

In the first place, the workers' capital stake is not just a means of financing enterprises; above all it is a means of involving the workers in the success of their own enterprise. The psychological attitude of a man who has invested capital, thus putting his own financial position at risk, is radically different from that of the man who has kindly been granted a loan; the latter rarely completely identifies with the success of the enterprise he works for.

Furthermore, the use of loan capital would put a burden on the community as a whole, given that funds available are limited and that we are still an underdeveloped country with a shortage of investment finance.

The experience of Mondragon is clear: the 9 billion or so pesetas* which worker-members have invested, both through initial capital contributions and through the annual reinvestment of profits over 20 years, have played a crucial role in the development of the cooperative experiment and in bringing it up to its present size. If the workers had not made this contribution, and capital had been provided by a bank or some outside agency, the Mondragon group could only have grown to half its present size—if the experiment had succeeded at all.

It is altogether more logical that the workers themselves should put up most of a cooperative's working capital, calling on outside resources only during start up or periods of very rapid expansion. In a non-socialist country it is very difficult to find financial institutions who are prepared to put up capital for a cooperative without having a say in management. This seems to us to mean that loan capital, which makes things so easy for the cooperators but gives them no financial motivation, is a mistaken course. Quite apart from the fact that it is often an alternative which is not even on the board.

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* $108 million (at 83 pesetas to the dollar as of March 1981).
Automation

Automation is a fear of workers in conventional businesses because it could mean an end to their jobs. Yet one of the main reasons given by economists today for Japan's increasing superiority industrially is because of its greater capital investment per work, its greater number of "robots." Automation if done well reduces the costs of mass production in a free market system.

Because of this hard fact and their guaranteed jobs for life (theoretically) the worker-owners in the Mondragon cooperatives have embraced automation without any hesitations. Ikerlan, the long range research division, is working on a number of "robots."

During a visit by the author to the Capreci factory in 1979 a worker-owner joyfully pointed to a machine and said it "had replaced four people." They see the reduction of the number of repetitive and dirty tasks that need to be done by human beings as one of their goals. The 30% annual rate of new job creation, of course, does make automation easier to embrace. Recognizing the competitive edge automation provides in the marketplace, they want to be the leaders and innovators in it and increase the number of cooperative jobs through business expansion and diversification.97

Recessions

There have been recessions in Spain during the twenty-five year history of the Mondragon cooperatives and some cooperatives have had losses during these periods. However, all the enterprises sur-
vived and new ones continued to be started. Acceptance of new members would have slowed down or stopped of course; and in some cases it was necessary to send worker-owners home for awhile. However, since they received 80% of their salary, they weren't home long. The cooperatives easily move workers from one to another in situations such as these, which was done as much as possible.

Perhaps of greater interest is that there were no permanent layoffs or closings, or the disruptions to individuals and communities which those cause. Others, though, did meet this fate.

"The workers in a number of failed conventional firms," reports Alastair Campbell, "have asked to be converted to Mondragon cooperatives; but they have mostly not been accepted, on the grounds of difficulty of saving an enterprise in which the workers have had no previous cooperative experience." 98

There was a recession occurring in Spain in early 1980, at which time Alastair Campbell was visiting. He reported:

Economists have criticised the Mondragon arrangements as being unlikely to weather a widespread business recession; but that is exactly what the Group is now doing. In a recession, there is no compulsion on worker-owners to stop production for long. They may have to accept lower prices for what they produce and thus receive lower personal money incomes; but, if prices fall, people need less money. 99

As we know, prices no longer seem to fall much during a recession or at any time because of the absence of genuine free market conditions in our American economy. Even so, less income for all is always better than none for some, if the good of all is one's concern.
Participation

Alastair Campbell notes that some have criticized the less than desirable participation of workers in the cooperative:

Participation by workers in control of their cooperatives has been criticised by some observers as being less than desirable. However, there is no doubt that the managers, let alone the Control Committees, are most concerned to see that the worker-owners get what they want. It appears that what the Mondragon workers mostly want is interesting and remunerative work, with job security and capital accretions.100

Especially in larger enterprises, the flow of information becomes important. The Social Council and Direction Council help facilitate this. However, Senor Calleja points out that this problem can never be completely solved nor even needs to be:

The problem of participation can never be completely solved. It is a problem of culture and one that evolves rather than standing still. It becomes more acute as the level of education rises and the social or cultural sophistication of the workforce increases.

You can never sit back and assume that full participation has been achieved; not only must management be kept continually aware of its importance, it must be actively encouraged at shop floor level. Even so, one will never succeed in involving all the workforce. There are some who really enjoy helping to run the enterprise, while there are others who simply refuse to get involved. This may be a character trait or simply that they prefer obeying instructions.101

Managers

Managers in the Mondragon cooperatives are notably enthusiastic. They clearly suffer no discouragement from being 'controlled by the workers'. Difficulties do arise between professional managers, responsible for getting things done, and Control Committees, responsible for policy
decisions; but the experience of management in Mondragon is that leadership of a band of fellow workers is a most rewarding task.102

The Anglo-German Foundation's study concludes with some amazement at the enthusiasm of management in light of their significantly lower incomes as compared to conventional managers.

The other notable features of the operation concern group philosophy and approach. The management are highly motivated; while the production-line workers are generally at a financial advantage compared with their counterparts in capitalist industries, management and executives are at a financial disadvantage. They appear to be motivated by a mixture of Basque nationalism with deep commitment to their community, and to the political idea of cooperation. To outsiders this looks like idealism, though the bank staff strongly reject the suggestions, pointing out that the intellectual challenge of working for so dynamic and pioneering a group, and the experience thus gained, more than outweigh material considerations. They admit, however, that a special accent has to be laid on internal training since expertise cannot be bought from outside. Non-materialist attitudes are more often found among the young, and the youth of top management at Mondragon comes as a continual surprise.103

Perhaps one of the main attractions of the Mondragon Cooperatives to managers is its "best of both worlds" quality. A manager is allowed to manage quite freely with much expert advice and assistance always available, while at the same time he is viewed as an equal with his fellow workers rather than as an adversary. "The enterprises are carefully structured so as to ensure that the reality of democratic control does not interfere with effective management. The Control Board has the power to hire and fire top management, but unless prepared to use this final sanction, must leave the managers to manage."104
Community Support

The main material form of community support is the deposit of capital in the Caja Laboral Popular which, as noted earlier, has been substantial. Even though they receive $\frac{1}{2}\%$ more interest than they would at another savings bank (similar to the policy of credit unions in America) and receive a share of the profits, they are also putting their capital more at risk since it is substantially loaned without collateral to new cooperatives. Also, now that the Bank has been very financially profitable for a number of years, there are substantial sums in reserve for bankruptcy.*

Originally, and until there was a change in Spanish Cooperative Law, depositors in the Bank had a share in control of the Bank. However, "there was never any question of their sharing control of local cooperatives. The idea of community cooperatives, owned wholly or partly by the community, would have contravened the Mondragon principle of worker ownership."

By the way, the cooperatives do accept Spaniards (whom the Basques regard as 'foreigners'). Many have joined the cooperatives and, although there have at times been some difficulties, on the whole the integration on a personal basis has gone well.106 Also women are at most levels in the cooperatives, but male-female relationships in

*Spanish Cooperative Law requires "that 25% of profits must go to obligatory reserve funds; a further 20% to obligatory funds against the possibility of bankruptcy and 10% to community projects. In practice the Caja has chosen to plough back even larger sums." (Alastair Campbell, Charles Keen, Geraldine Norman & Robert Oakeshott Worker-Owners: The Mondragon Achievement, p. 29).
the Catholic Basque Country are rather traditional and there is evidence of little demand for change to date. However, prosperity, mobility, and a shrinking world has brought these issues into the heads and hearts of Mondragon's young people.

There is a women's cooperative called Auzo-Lagun (Your Friendly Neighbor). They largely work for the other cooperatives doing cleaning, food service, and bartending--there is a bar in all buildings with a substantial number of workers or students.

Senor Calleja has some words on the relationship of the community to the cooperatives:

Economic growth is basically a process of mobilising human energy, of using the resources available within a given community. The main achievement of the cooperative approach, indeed the reason for its success, has lain in making the best possible use of these resources. Other types of enterprise in the region only began to make proper use of them once the cooperatives had shown the way.

The Mondragon experiment thus owes an incalculable debt to the community that has supplied its main resource: the human beings without whom no experiment could have been made. I repeat, the main achievement of the cooperative experiment has lain in making the best possible use of the human resources available.

The cooperative approach has never been an end in itself as far as we were concerned (an organization designed only to advantage those who worked within it); we have seen it as a means of serving the community. By creating jobs and new cooperatives we have in a sense only been repaying the community for what they have given us, namely human beings. This is true at many levels, financial as well as social. The Caja Laboral effectively provides a link between the cooperative enterprises and the community as a whole, a community which entrusts its savings to the cooperative movement. The people know that their savings will be used to finance the creation of jobs since this is what the cooperatives are committed to doing.

One can say that the most significant feature of the Mondragon experiment is that it is taking place in the Basque
country, and that it appeals to the people of the region. The way in which it ties together workers, cooperatives and the community itself is both explanation and justification of the experiment.107

A waiting list of people wanting to join, or to start, Mondragon Cooperatives has always existed, "and now, with a business recession, the queue is longer."108

Because there is some concern throughout the Basque Country that local money be used to start local cooperatives--many depositors in branch banks do not like the idea of using their savings to assist coops in distant areas--the Bank has limited the use of deposits for regional development, effectively confining the entire coop operation to Basque.109

Finally, although the community does not own the cooperatives, the entire group can be seen as a new form of a "cooperative community":

The Mondragon cooperatives are grouped within a small geographic area. They attach particular importance to the regional nature of the development. It means, on the one hand, that they receive the support and backing (notably savings) of the local residents; on the other, it makes possible the integrated planning of industrial initiatives, housing, education, the training of skilled personnel, and community services (medication, and social services). In other words, the whole operation is run by the community in the interests of the community.110

Technical College

The Technical College began by Father Arizmendi serves as the educational headquarters for the cooperatives and educates people for jobs in conventional as well as worker-owned businesses. It is
financed and controlled by local parents' associations and the local authority, as well as by the cooperative group, yet it acts primarily as the education headquarters for the group. A special cooperative, Alecoop, run by students, is attached to the college and is run just as the other coops are. Students have the choice of working here for up to half of each day, so poorer students can pay their way and all can learn first-hand about worker-ownership. While earnings here vary, they provide students with the equivalent of local wages.\(^{111}\)

Alecoop, the student cooperative, was started with capital the teachers borrowed in their own names. The original plans were to have students manage it but that was found too difficult in combination with their studies. So the manager is now a full-time non-student with students being on a management team with him. About 50% of the graduates acquire jobs with the Mondragon Cooperatives.\(^{112}\)

Some of the conventional enterprises in the area, which supported the school in its early days, are also institutional "members" of the school cooperative and able to make use of its training facilities. Children whose parents work in the cooperatives receive no special treatment; "places are open to students from the community as a whole."\(^{113}\) Any student is capable of paying his entire education bills by working in Alecoop if he chooses. The little school with twenty-four beginning students in 1943 now has over two thousand and it offers instruction to the college level and engineering degrees.\(^{114}\)
Ikerlan--The Research Unit

In a conversation with Senor M. Quevedo, the Director of Ikerlan, the research unit, it was learned that Ikerlan began with some teachers in the Tecynical College (of which he was one). They had come together in 1968 to learn state-of-the-art technologies from highly industrialized developed countries, primarily to teach them to their students and secondly to adapt them to the needs of producing industrial appliances, the main products of the cooperatives. In 1974, priorities of this teacher team switched to adaptation of technologies to the needs of production in the cooperatives. Their large building--with wings devoted to electronic, electrical, and mechanical research--was completed in 1978.

Quevedo emphasized that it is not so much a highly select group of researchers, as much as it is a group whose focus is to "socialize technology"--to make technology easier, cleaner, safer, and more enjoyable for workers to use. This involves developing both technologies and methods of production particularly suited to their preferred organizational structure in small, interrelated cooperatives. Replacing assembly lines with team production is one example.115

Ikerlan's short-term work is to help solve problems in the individual cooperatives. The cooperative requesting the work pays for it and has at least one of their staff work with the team at Ikerlan. Their long term work is not only developing new technologies and pro
ducts for the cooperatives, but training students at the school to use them, so they can take them into the cooperatives.

As of May 1979 thirty-six of the cooperatives were institutional members of Ikerlan. Approximately 28% of Ikerlan's budget comes from their billings for work done and approximately 72% is paid by the member cooperatives. The member cooperatives with similar technology to the areas of research of Ikerlan pay more per worker than those with different technologies.

Their General Assembly, being a second degree cooperative, is comprised of Ikerlan's workers, the member cooperatives, and institutional members such as the Caja, Technical College, and other conventional manufacturers. Not completely humorously, they commented that they would like the government to join so they could get some of its money.

As of May 1979 Ikerlan was still under the auspices of the Technical College and not a legal entity in itself.

Consumer Cooperatives

The first consumer store associated with the group was founded in 1959. Others followed. Ten years later in 1969 all were formed into a single enterprise, Eroski. Total turnover in that year was worth just under 1.5m pounds ($750,000). By 1976, the figure was over 10m pounds ($5 million) from thirty branch stores which together employed around 300 people.116

By early 1980 there were 746 people employed at over 35 stores. These employees also have to put up a capital investment as do the workers in the other cooperatives. They also share in the
control of Eroski and in its profits. Thus, the merging of the worker and owner-investor roles is not forgotten even in the consumer cooperative sector, unlike consumer cooperatives elsewhere in the world.

The Eroski stores also differ from their consumer cooperative counterparts elsewhere in the Western World in another way. Eroski is dwarfed by worker producing cooperatives in Basque Country, where worker producer coops are a small minority among consumer coops in the United States and many other countries.

Housing Cooperatives

The intense industrial development of Mondragon and environs has had a negative impact on non-economic quality of life, a truth which the Caja Laboral Popular candidly reports in its 1975 promotion book under "housing." As this excerpt describes, one role of Housing Cooperatives (besides the obvious task of putting roofs over workers' families heads) is to recover or create quality in a planned manner:

As this region has high industrial development and an increased standard of living, plus a difficult geography, it demands a very specific social order as there is no available communication network, either for urban or for service roads, which would normally facilitate orderly and harmonious community life.

Nowhere is this more noticeable than in the housing sector of the community where both the quantity and the quality of development have been overpowered by the stronger and more obvious progress of industry. Industry has meant the total absence of any urban planning and the total lack of the most essential social facilities (green belts, sports centres, leisure facilities, etc.). It has also caused the mass production of accommodation and the deterioration of the basic elements of community life.
The Housing Department of the Caja Laboral tries to fulfill, as far as possible, a deeply felt need which made itself apparent some time ago at the very start of the cooperative promotion when efficient technical and advisory help was missing.

However, determination alone is not sufficient nor even simply economical resources. What is required is a disciplined urban precision and adequate planning to afford the rarest of all commodities: urbanized land. Since it was first established the Housing Dept. has been responsible for some 500 dwellings per year all over the Basque Country, all of which meet the requirements for desirable community life.

**Strategy for the Future**

Not surprisingly, now that the worst days of poverty and oppression in the Basque Country are now behind them, the exclusive emphasis on creating more jobs is changing to include increasing quality of life on the job. Senor Calleja elaborates this point:

The real involvement of workers is the first of our priorities and this is certainly going to lead in future to some modifications in the group's development strategy.

We have possibly in the past, out of necessity, put a greater accent on the word 'enterprise' than the word 'cooperative'. We have been more concerned with the economic viability of our enterprises than with their existence as cooperative and social groups. We are now in the process of shifting the emphasis. We probably now have to find a new balance between human considerations, the personal involvement of the workers, and the entrepreneurial side. The principle of participation must be given priority.

One possible result is that group strategy will be concentrated less on quantifiable objectives (expansion) and more on qualitative ones (internal reorganization).

The policies of our group have got to take into account the fact that professional people today are very different from 20 years ago; they are infinitely better qualified and better educated, both technically and culturally. It is our duty to the community to create the kind of jobs that people...
now want. Further, the technologies that we now employ being more advanced, production processes require much more highly qualified personnel; this forces us to put a greater accent on change as opposed to growth.119

Fewer new industrial cooperatives have been formed in recent years as compared to earlier years. This would seem to be an indication that these words written by Senor Calleja in 1979 have been acted upon.

Also, as the work force increasingly views themselves as "professionals," which usually includes a strong sense of independence, improving the quality of work life, increasing job mobility, and providing challenging tasks become more important. That is, the more skilled and independent the work force, the more the cooperatives must be desirable workplaces every day.

**Distinguishing Features of the Mondragon Cooperatives**

In summary, we can detail a number of structural, institutional and ideological factors which together distinguish the Mondragon enterprises from all other democratic and cooperative organizations in the Western world:120

1. **Democratic control:** Ultimate control lies firmly with the entire workforce, which acts through the General Assembly, which in turn assigns decision-making power to a Control Board and to management. No outsiders may be members, and no workers may not be members. This enables cooperation between shop floor and management.

2. **Worker Initiative:** The first impetus for establishing a
new enterprise must come from interested workers themselves. This assures a personal commitment from the beginning.

3. **Worker Investment:** Each worker-member must invest a significant amount of his or her own money to become involved. This directly links his interests with the interests of the enterprise, and inspires responsible behavior and the positive attitude toward success that ownership brings.

4. **Fixed Salary Differentials:** Fixed and modest differentials for compensation assures vertical solidarity and team work among all members of the work and management force, as well as a competitive edge in the marketplace. This facilitates cooperation which is often the anathema of conventional labor-management relations.

5. **Effective Management:** Vertical workforce solidarity and democratic policy control of management puts management in an eminently workable framework. In the long-term managers answer to the whole for their actions. In the short-term they have a mandate to carry out daily functions efficiently, professionally and without undue interference. This is a marked difference from many cooperative operations which are impaired by vague collective decision-making at all levels and a hestiancy about professional management.

6. **Access to Capital:** Because of the cooperative bank with its multiple community deposits, the individual coops have access to capital at least equal to most of their conventional competitors—a crucial key to expansion and survival in difficult times.

7. **Access to Skilled Manpower:** Mondragon's commitment to
creating jobs, and its technical training school from which the coops emerged, assure a steady supply of labor, professional and managerial staff trained in Mondragon techniques and principles. Given the rapid technological changes in industry, such a pool yields a comparative advantage.

8. Reserve Capital: The policy of reserving a portion of profits for collective ownership enables the indefinite survival of the enterprise.

9. Cooperative Alliance and Interdependence: While individual enterprises function with reasonable autonomy they have the many advantages offered from collective organization—labor, capital, expertise, research, etc., which enables each to focus on the task of production. This support and access to high-level professional advice allows individual coops, especially small-scale coops, to survive and flourish in a non-cooperative marketplace.

10. Community Support: Without strong community support, these enterprises might never have begun. This support has become institutionalized through the cooperative bank, and assured because of the jobs the coops provide and their commitment to education and social issues in the community.

11. Commitment to both Enterprise and Community: Mondragon's resolution to serve both its own members and society is codified in its by-laws very specifically. They are joint primary goals.

These distinguishing factors emerged and became institutionalized very deliberately over many years. The five founders of the
Mondragon cooperatives told Robert Oakeshott that "what they emerged feeling most strongly was that existing enterprise structures had to be changed." On the other hand this courage to face the very difficult issue of institutional change flowed from a very clear wholistic ideology of solidarity between seeming opposites, which flows through the entire structure and processes of the cooperatives. Robert Oakeshott sees this as "two key ideas" which pervade these structures—"balance and solidarity":

Looked at as an exercise in creating balances, the features of these structures which stand out most clearly are:

1. The balance between capital and labour.
2. The balance, within the enterprise, between the individual's interest and the interest of the enterprise as a whole.
3. The balance between democratic control and efficient management.
4. The balance between the interests of the enterprise and the interests of the local community (or region) within which it works.
5. The balance between individual responsibility (capital stakes, tough disciplinary provisions) and collective responsibility (e.g., for employment protection).
6. The balance between the independence of the individual base enterprises and the strong central coordination by the bank of the group's operations as a whole.

Alternatively we can put the emphasis on the idea of solidarity and see the key structural features as those which encourage:

1. Solidarity between capital and labour.
2. Solidarity between shop floor and management.
3. Solidarity between the enterprise and the local community.

4. Solidarity between the base enterprises and the bank at the centre.

It is, I think, in these terms of solidarity and balance, rather than in terms of more traditional cooperative categories, that the Mondragon structures can best be understood.121

Clearly what we have is a new model for cooperative development which has proven itself to be viable and, more important, competitive with all other conventional private and public enterprises.

The Significance of Mondragon

On the most practical level, Mondragon has proved that worker cooperatives, which have a poor to dismal record of success in general, have considerable potential to operate profitably in a capitalist world. This moves cooperatives from the world of fanciful ideology, to which many detractors and sympathizers alike have relegated them, squarely into the marketplace.

Robert Oakeshott insists that "at Mondragon for the first time in history, Marshall's conditions for a fair test between capitalist enterprises and 'associations of laborers' have been met."122 He believes that Mondragon's competitive abilities, its steady growth and its stability open the entire question of what economic structure is more socially attractive, given the possibility that both can work. Furthermore, he believes the very reasons for Mondragon's extraordinary success—especially their access to capital and good
management—reveal the reasons why so many other cooperative efforts have failed. In essence, others have not had the strength to compete.

Senor Calleja describes what he sees as the significance of Mondragon in a few words:

To sum up the real significance of the Mondragon experiment: it has demonstrated that workers with a common objective, though widely differing backgrounds, can bring into being a new enterprise structure which is more fair and democratic but at the same time perfectly viable from an entrepreneurial point of view.

From a humanist's standpoint, the economic viability of a new economic system is essential, but ultimately secondary, to other values which must share the bottom line. And from this perspective, one can see that Mondragon has demonstrated—in a place and situation pundits might have least expected—the possibility of a new industrial paradigm, at once markedly different from the prevailing economic system yet able to coexist with and compete in it during a long process of transformation of structures and attitudes.

The greater question, of course, is whether what has worked at Mondragon can work elsewhere, which will be addressed in some detail below. Reserving judgement, for the present, consider just a few of the changes that Mondragon seems to have wrought:

1. A major industry assured to be local in both ownership and base, with absolutely no risk of translocation and subsequent loss of jobs and other disruptions so common in large industry today; yet both competitive and flexible enough to adapt to any foreseeable change in market demand.
2. Elimination of the problems resulting from the division of labor and ownership (not the least of which is #1); and the conflict between shop floor and management. And at the same time demonstrating that these elements can have common interests, compatible goals and supportive, cooperative relationships for the greater good of all.

3. A profit-making enterprise which is by contract dedicated to the welfare of the surrounding community; which has successfully aligned the interests of worker and manager, enterprise and community, and serves all in a way determined democratically by the organization's members.

4. Demonstration that top-level professionals and managers can live comfortably and achieve high personal satisfaction with substantially less income than is common in their positions, because of the compensation of many less material benefits not offered in conventional work situations.

5. Great reduction of the unjust differential in income between laborers and managers and owners which characterize developed and undeveloped capitalist countries alike--thereby reducing poverty and genuinely increasing the standard and quality of life for many more people.

6. Development of strong bonds and mutual support, materially and spiritually, between private cooperative enterprise and the community it exists in--where the focus is increasingly on cooperation and commonality, rather than exploitation and conflict.

Obviously, the insight of Fr. Arizmendi and his young
associates, tempered and expanded by practice and experiment over time, are the root of these changes. Their changing attitudes about the reasons for, and purposes of work, capital, wages, community service, etc. have--through the new structures they institutionalized--changed the attitudes of much of an entire region. Basic to this change in industrial consciousness is a shift from emphasis on quantity (output and profit) to quantity (the importance of a right livelihood for the entire community.)

In reading what follows, bear in mind that this is from promotional literature distributed by the Caja to the customers of the cooperatives:

Life is a web of events connecting the past and the present, which provides a base for building the future. All experience, whether our own or that of others, is an enriching positive benefit and must not impede evolution if in fact we wish it to accelerate.

Our cooperative movement began modestly with very few resources. These were, however, compensated for by our ambition and our honest procedure, plus our unfailing consideration for society. We have been strengthened by work and solidarity and we have taken full advantage of good business. Our course of development has proved that when one has the essential human resources--given power technically and given cooperative form--one can achieve anything. It has also demonstrated that cooperativism, when used in the service of a just community, is capable of making the fullest use of the manpower which that community provides for it. In this way, traditional industry has been made to progress and individual sacrifice coupled with collective determination has been used as a lever of change for a society in a critical period of transformation.

As we face a difficult future, although we may analyze or classify the new problems arising from the establishment of better living conditions, we shall still be doing no more than acknowledging the imperative need for a type of social reeducation of the institutions hitherto created, in order to confront the new problems.
We ourselves, being numerous and economically powerful, are evidence of this and, as cooperatives, we must act on this evidence, always keeping in mind that quality must never be sacrificed to quantity. Our cooperative experiment has already proved itself by promoting better living conditions in the Basque Country, and everything which. It has contributed to the cause of human progress, will transcend our material limits, and will live on under whatever circumstances.

It is always worthwhile working for human well-being. It is this which makes people leave a capitalist society for a humanist one. We have never been inspired by material reward, but rather by a consciousness of the need for human progress; we are convinced that there is no other way to achieve social improvement in place of social oppression.
Reference Notes


3Ibid., p. 169.

4Ana Gutierrez Johnson, The Development of Industrial Democracy in Mondragon (unpublished paper), p. 3.


6Ibid., p. 170.

7Ibid., p. 170.

8Ana Gutierrez Johnson, The Development of Industrial Democracy in Mondragon, p. 5.

9Robert Oakeshott, The Case for Workers' Coops, pp. 171, 166.

10Ana Gutierrez Johnson, The Development of Industrial Democracy in Mondragon, p. 8.

11Ibid., pp. 8, 9.

12Ibid., pp. 9, 10.

13Ibid.


15Ana Gutierrez Johnson, The Development of Industrial Democracy in Mondragon, p. 10.

16Ibid., pp. 10, 11.


18Ibid., p. 175.

19Ibid., p. 175.
20 Ana Butierrez Johnson, The Development of Industrial Democracy in Mondragon, pp. 11, 12.


22 Ibid., p. 176.

23 Ana Gutierrez Johnson, The Development of Industrial Democracy in Mondragon, p. 13.


25 Alastair Campbell, Mondragon 1980, p. 6

26 Ibid., p. 17.


30 Ibid.

31 Alastair Campbell, Mondragon 1980, p. 11.

32 Alastair Campbell, Charles Keen, Worker-Owners: The Mondragon Achievement, pp. 42, 43.

33 Ibid., p. 5

34 James Clark, "Community Development Credit Unions" (Washington, D.C.: presentation at National Consumer Cooperative Alliance Conference, July 1980).

35 Robert Oakeshott, The Case for Workers' Coops, pp. 184, 185.


37 Robert Oakeshott, The Case for Workers' Coops, p. 185.

39 Ibid., p. 3.
40 Ibid., pp. 3, 4.
41 Ibid., p. 4.
43 Ibid.
46 Ibid.
48 Ibid., p. 192.
51 Ibid.
53 Ibid.
54 Ibid.
60 Ibid.

62Ibid., pp. 5, 6.

63Terry Mollner, Conversations with Members of the Mondragon Cooperatives in May 1979, p. 121.

64Alastair Campbell, Charles Keen, Geraldine Norman, and Robert Oakeshott, Worker-Owners: The Mondragon Achievement, p. 25.


67Ibid., pp. 12, 13.

68Ibid., pp. 13, 14.

69Ibid.

70Robert Oakeshott, The Case for Workers' Coops, pp. 196, 197.

71Ibid., p. 197

72Ibid., pp. 197, 198.

73Ibid., p. 198

74Terry Mollner, Conversations with Members of the Mondragon Cooperatives in May 1979, p. 120.


76Ibid., p. 16.

77Terry Mollner, Conversations with Members of the Mondragon Cooperatives in May of 1979, p. 125.

79Alastair Campbell, Mondragon 1980, p. 18.

80Ibid.

81Alastair Campbell, Charles Keen, Geraldine Norman and Robert Oakeshott, Worker Owners: The Mondragon Achievement, p. 44.

82Ibid., pp. 18, 19.
83 Terry Mollner, *Conversations with Members of the Mondragon Cooperatives in May 1979*, p. 126.


93 Ibid., p. 50.


97 Terry Mollner, *Conversations with Members of the Mondragon Cooperatives in May 1979*, p. 123.


99 Ibid., p. 16.

100 Ibid.


104 Ibid., p. 31.


106 Ibid.


109 Ibid.


112 Terry Mollner, *Conversations with Members of the Mondragon Cooperatives in May 1979*, pp. 118.


114 Ibid.

115 Ibid.


117 Ibid.


121 Ibid. p. 201.

122 Ibid., p. 244.

"Caja Laboral Popular," p. 41.
The positive vision and remarkable appetite for constructive change so publicly expressed by Senor Calleja of the Caja Laboral Popular at the end of the preceding chapter permeates the leadership of the cooperatives at Mondragon. Inherent in this perspective is the inherent openness and trust that change of institutional structures can be good; and that the unknown or unexplored—approached with a balance of wisdom and practicality—need not be feared. The courageous pursuit of truth at Mondragon has yielded a rich reward.

The source of this energy must be attributed to Fr. Jose Marie Arizmendi, his teachings, exhaustive research, and dogged insistence on principles. As a young and inexperienced priest, he faced an extremely difficult task. On the one hand, he risked being stigmatized by the people as a collaborator with the established regime; on the other, he risked being accused of subversion and imprisonment or worse.

Like Mahatma Gandhi, he was a non-formal educator who worked with people in their environments, focusing on their immediate human needs and aligning with their strong religious faith. He had to operate in a community with some reputation for its violence, at a time when tempers were taut and conflict particularly rife. Yet the process and structures he facilitated were deeply non-violent.
Arizmendi was able to achieve this by adopting the exactly same sort of strategy for which Gandhi was renown—advocating the positive aspects of both sides of an equation, going boldly for the best of both, and not attending to the contentiousness and ideological haranguing that serves to enhance divisiveness.

While he was guided by an evolving humanistic ideology that was very clear to him, he projected the issues not in ideological terms but as practical human needs—for food, jobs, good working conditions, honor, self-respect. One of ULGOR's founders recalled, many years later, that the safe policy Father Arizmendi developed was to stress the need for technical skill and work first, and the progressive social teaching of the Catholic Church second. It proved an effective way to finesse his goals and avoid confrontation with opponents.1

When Robert Oakeshott met Arizmendi in 1972, four years before his death, he was struck by the priest's emphasis on the technical and practical character of his educational initiatives:

He seems to have been impatient of any theory divorced from practice. It was from practice, he told me then, that new theories and structures must come—not the other way round. He was proud that the Professional and Polytechnic School was much more notable for its cooperative practice at that time than for the teaching of coop principles.2

From this Oakeshott rightly concludes that Don Jose Marie was more concerned with relative truth—what works—then dogma, a main pillar in the Catholic Church.3

The most interesting experience that Robert Oakeshott had was a night in 1972 when he knocked on Father Arizmendi's rectory door,
found him home alone, and sat and talked with him late into the night. He particularly recalls their discussion of freedom:

What struck me most, when I was lucky enough to meet him, was his commitment to the values of freedom as well as to the importance of work and of technical skill. His emphatic preoccupation with the second had seemed to me to align him rather with Mao Tse Tung. I can still remember the amused delight in his eyes when I suggested the parallel. He opened a locked drawer at the bottom of his desk and proudly produced for my inspection a copy of the Spanish translation of the Little Red Book. On the other hand, I was then all the more surprised when he repudiated Mao's reliance on compulsory productive work. The context, I hasten to add, was not labour camps, but the inclusion in the curriculum of schools and colleges of sessions of compusory productive work. Fr Arizmendi had just described—and described with obvious satisfaction—how students at the professional and polytechnic school were able to cover their required contribution to school fees by taking part in productive work for the market—but he insisted that they must be free not to do that if they so wished.4

Obviously he had read Mao Tse Tung. However, just as obvious is his adherance to his own learnings from his own experiences. Like Gandhi he rejected Mao Tse Tung's compromising of freedom.5

Father Arizmendi was, if anything, wholistic. He was concerned with changing human behavior and human institutional structures together—and wisely recognized something few others seem to have, that changing behavior without changing structures could not effect significant and positive social change.

This, of course, was a fundamental understanding of Gandhi's as well. While their styles differed considerably, there are many striking similarities between their ideas and methods. (What is intriguing is that there is no evidence that either man was aware of the work of the other. The significance of this coincidence will be
considered in a subsequent chapter.)

The extent to which Mondragon's practical ideology and structures demonstrate Gandhi's Trusteeship, becomes evident on comparison with the basic principles of Trusteeship listed earlier in this thesis.

Let us consider these similarities, first in terms of economics.

The individuals who are the members in the Mondragon Cooperatives each take responsibility for their own livelihood; and each base cooperative and the entire group of cooperatives are independent. Also, only workers can be members and normally members must be workers; thus each individual and each cooperative remains free of any outside control.

Thus, Trusteeship Principle No. 15 is met: "Each individual and group is responsible for his or their own livelihood as best one or the group is able."

Each member of the cooperative has agreed to limit his income: the three-to-one ration limitation in weekly income based on conventional salaries for the same work and the loaning back of the portion of yearly profits distributed until one leaves the cooperative or retires. The net profits at the end of the year are all managed by the cooperative as a group for the good of society as a whole:

1. At least 10% are distributed to meet charitable and educational needs in the community,

2. At least 20% are held in trust in the cooperative never to
be distributed; that is, donated to the cooperative to be managed to provide permanent solutions to poverty by creating worker-owned jobs.

3. No more than 70% of the net profits are credited to the individual member's account, which remain in the cooperative's possession on a loan basis from the member also to be managed to provide permanent solutions to poverty by creating worker-owned jobs until the member leaves or retires. If he leaves he must forfeit at least 20% to the indivisible funds held in trust, unless there were compassionate reasons for his leaving. If there are compassionate reasons, or upon his retirement, he receives the accumulated profits in his account. For the years up to this point the cooperative has managed "the surplus" capital for the good of society. From this point on it is the individual member's responsibility to do so.

In the "relative truth" of the situation, the existence of the cooperatives in the midst of conventional capitalist enterprises and culture, the three-to-one ratio for weekly income being based on responsibility rather than need seems reasonable, given that provisions are made for full medical, life and pension needs through other organizations. The combination of the two assures each member of at least adequate income. That ratio is based upon levels of responsibility, rather than need, is a relatively small adaptation to the capitalist culture context, in contrast to the commitment of 100% of year-end profits to the service of community needs until members retire.

Also, allowing each member to receive his profits upon retire-
ment is another adaptation to the capitalistic culture context which, relative to the use of this 70% or less of profits each year for as long as 35 to 45 years to serve the community's needs seems also a relatively small adjustment, given that trusteeship encourages service for self and others, and not just one or the other. Each worker owner commits himself to a trusteeship productive process and then leaves with some capital after thirty-five to forty years. One has to assume that the member has a highly developed sense of trusteeship after spending that much time acting on its principles. Secondly, the aspect of freedom to decide how he will manage his surplus for the good of society is not contravened.

Trusteeship does not deal in absolutes; however, one could argue that in a more mature trusteeship productive community the weekly profit distributions would be based more on need, and the annual "surplus profits" would all stay in the cooperative forever. On the other hand, one could also argue that the freedom of the individual is compromised if he is not paid to some degree according to his contribution in relative value and allowed to remain, at least ultimately, individually responsible for the entire profit generated as a result. The important point is that, relatively speaking, the Mondragon Cooperatives have a very high degree of trusteeship processes, structure, and commitment compared to both capitalist and socialist structures as of 1980. Moreover, their processes nurture a further development in the trusteeship direction (self and society) vis-a-vis either a self (Capitalist) or mass (Socialist) oriented
Thus, it would have to be concluded that they fulfill Trusteeship Principle No. 16 to a very high degree: "Those who end up with more than they need are to keep for themselves the amount they freely determine is necessary to meet their needs. The remainder is surplus, not theirs but society's. They are the trustees of it and, therefore, responsible for the management of it for the good of all."

It should also be pointed out that most producer cooperatives developed in the past, especially in the USA, have viewed all profits as those of the individual; that is, they have operated as collective capitalist organizations. If a new worker wanted to join, it was necessary for him to buy out another worker's shares at the fair market value or to invest the same amount to purchase new shares. If the cooperative had been profitable for a number of years, this restricted membership to only those with access to substantial capital. "In Mondragon," state Martin Carnoy and Dered Shearer in their recent book Economic Democracy: The Challenge of the 1980s, "new members are not even required to put up subscription money; shares are held in trust, and only the income of the trust belongs to the members. Membership may change, but the trust goes on." 6

Trusteeship Principle No. 17 says: There will be those who are unable to meet their needs. Those, especially the poorest of the poor, are a priority for the surplus wealth of others (the saving of lives)."

The Mondragon Cooperatives use their power and wealth to
create worker-owned jobs. This is a service to those in need. The 10% of net profits which is donated each year has to some degree gone to help "the poorest of the poor" but mostly to schools which teach in the Basque language. There has not been the development of an arm which is solely concerned with meeting the needs of the poorest people either in the Basque Country or elsewhere. Much is surely done on an individual basis through the Catholic Church. And, perhaps because Father Arizmendi was the founder and/or because of tradition and the nearly 100% Catholic membership of the cooperatives, it and its affiliated organizations are left to attend to the immediate needs of the poor with contributions made by coop members and others. There is no data readily available on this. However, either the Cooperatives are leaving this to individuals and existing charitable institutions, or they are not attending to, at least, "the poorest of the poor" as the first priority of their Social Fund contributions.

Other than recognizing the significantly greater commitment to the charitable needs of the community than do conventional corporations, this question will have to remain to some degree unanswered.

Trusteeship Principle No. 18 says: "The second priority is the nurturance of life, the assistance of human development through education (sophistication of one's beliefs) and institutional change (improvement of the processes by which things are accomplished to maximize human development).

Here the Mondragon Cooperatives clearly excel. Both their educational institutions and the on-going education, through the
Social Councils and management of worker-owned enterprises, are given importance. The structuring of their enterprises as trusteeship cooperatives and their constant evolution into more mature trusteeship enterprises (e.g., the addition of the Social Council, the development of combines, etc.) reveals a clear commitment to human development through institutional development. The mobility of individuals within the cooperatives: the belief that "anyone can do anything," the provision for opportunities to improve or take on more responsibilities; and the focus on health, safety, and working conditions which are as enjoyable and stimulating as possible, are other examples of their commitment to the maximization of the human development. Finally, management's enthusiasm for new ideas which might improve things, in process as well as product, is a positive indicator of support for human development.

Trusteeship Principle No. 19 says, "Human welfare economics requires a personal, community-based, cooperative economy. Only through the bonds of voluntary cooperation and interdependence where man can respond to his fellow man can the social cohesion tantamount to the universal glue of truth be realized."

Here also the Mondragon Cooperatives excel. The base is in the community; their process is cooperative and personal. The independence of each individual is guarded; yet there are strong bonds of interdependence through voluntary cooperative organizations created to meet social needs. Their commitment to keeping things this way is evidence in their restriction on the size of producer cooperatives and
the breaking up of the cooperatives which have grown large into smaller, more familial groupings.

Trusteeship Principle No. 20 says, "Each person has a responsibility to share in the physical labor ("the bread labor") necessary to provide for the socially determined necessities. Anyone who does not share in this runs the risk of becoming a parasite and perpetuating a dual class society of elite and masses."

The Mondragon Cooperatives seem to be fulfilling this principle also. Everyone has to work for a living, and everyone's salary is restricted to the one to three ratio. "The primacy of work" as the determiner of all things, rather than mainly capital, is a commitment to the principle of bread labor.

However, not everyone does a portion of the strictly physical labor. There are those who work on the shop floor and those who fulfill management functions. The one strike in the history of the Mondragon Cooperatives was partly a reaction of shop floor (physical) laborers to some actions of management. It resolved itself, but a dual class system of physical laborers and management is an actual reality. To what degree it is a psychological reality is not fully answerable from the data available. There is equality of ownership which technically supercedes the physical labor-management division, and some would argue that management has a degree of physical labor in it also (even if it is only moving pencils and papers), so that the distinction is not all that important.

The issue for Mahatma Gandhi was, first, that everyone share
in the work necessary for all to have their needs met with no one being free of a share in this (as is the case with the stockholder or absentee owner). Of second concern is the equal sharing of the more undesirable jobs. Of course there can not be an absolute solution to either one of these issues. The Mondragon Cooperatives clearly do the first and do not do the second, except in the case of elected positions which do seem to be rotated around for the most part. Otherwise a member works full time at a particular job which is somewhere on the continuum of physical-mental labor and on another continuum of maximum-minimum responsibility/skill. The preponderance of the evidence suggests there is little effect on attitude as a result of where one is on the first continuum—largely because of the ability of any member to move into management eventually if he desires, and the Basque people's respect for manual labor. The salary scale is based solely upon the latter continuum (expertise, responsibility, and, to some degree, market value of skills); and not to any degree on the physical-mental labor continuum.

This seems to go a long way toward the fulfillment of the principle of bread labor, especially relative to conventional enterprises. (Most noticeably is the absence of outside shareholders who contribute no labor and receive profits.) However, if one insists upon absolutes, Mondragon falls short because there is not an equal sharing of the very physical labor.

So, strictly in terms of economics, the Mondragon Cooperatives are highly evolved forms of trusteeship organizations and community.
It is more difficult to evaluate them on some of the philosophical and psychological Trusteeship Principles, but some assumptions can be made because the cooperatives so clearly fulfill the organizational and economic Trusteeship Principles.

Trusteeship Principle No. 1 says, "Truth exists in and beyond man in an absolute, external and living essence. Nothing else exists besides it. Truth, not man, is the measure of all things."

The most basic truth may be that we are each here on this planet for a very short period of time relative to even the known age of the universe. It will go on; we will not. Thus we are trustees of it to the degree we affect it. Everything we do must be done with our first view being to the health and evolution of the universe--the actions of self-realization in the Maslow-Gandhian Hierarchy of Needs.

By structuring their organizations as trusteeships which both meet the needs of the individuals working in them and the "on-going" needs, (especially human development needs) of the community, the members of the Mondragon Cooperatives are focusing on "truth" rather than "man" as the measure of all things.

Trusteeship Principle No. 2 says, "The purpose of all life and evolution is to realize Truth. For mankind this translates into the biological need for self-realization, to know one's self."

The very evolutionary nature of the development of the Mondragon Cooperatives, and their clearly expressed purpose, reveals goals that go beyond the goals of self-interest canonized by the prevailing economic and industrial systems. There is a commitment, which
has been institutionalized mainly in the Entrepreneurial Division of the Caja Laboral Popular, to continue to grow, serve and evolve. In addition the Entrepreneurial Division has been provided with everything it needs in abundance, especially the surplus stored valuables of the community (the money in the bank) with which to attend to this greatest of individual and group purposes--to realize Truth. One doubts that Senor Calleja would express this purpose so abstractly, yet the evident quest for a more evolved functional form of operation surely comes under the rubric of this principle.

Trusteeship Principle No. 3 says, "While truth is the end, self-giving live (or commitment to the good of the whole of creation) is the means. Truth and love are ultimately two sides of the same coin. One implies the other. Pure self-realizing love knows no distinction between ends and means. 'Realization of the goal is in exact proportion to that of the means.' 'If we take care of the means we are bound to reach the end sooner or later'."

The commitment of the Mondragon Cooperatives to an "open door policy" of constantly creating more worker-owned jobs is the most obvious "commitment to the good of the whole of creation." They are using what they have to serve others in this self-giving way, as well as through the production of products; and, as indicated above, it is of such an important priority that the savings of the community are used to do it. The means (working in worker-owned jobs in trusteeship cooperatives) is on the other side of the coin from the end (creating more worker-owned jobs in trusteeship cooperatives). Relative to
capitalism and socialism, their end is clearly more truthful and their process is clearly more loving.

Trusteeship Principle No. 4 says, "Human truth is always relative. Although we have the innate need to perfect ourselves, no man is perfect. Truth as we can apprehend it is always personal, subjective and to that extent relative to our individual context of culture and history. What is "true" is one context may not be so in another. All we can do is to serve ultimate truth by being truthful, open-minded and tolerant. Whatever is 'perceived' to promote life and serve the vital needs of all human beings, particularly the poorest of the poor, is true."

Throughout this discussion the improvement of productive activity in the Mondragon Cooperatives over the capitalist and socialist systems in existence today has been indicated. They are not perfect nor should they be expected to be; what they are is a significant and proven improvement in our collective earthly efforts to reach a greater truth in human relationships. As indicated earlier, the enthusiasm of managers, especially for new ideas, reveals an open-mindedness and a continuing reaching for more improvements--once the joy of the higher levels of self-realization is experienced, there is less interest in the lower levels. There is general evidence that the Mondragon Cooperatives (and by extension, a majority of the members of the cooperatives) are independent, self-sufficient, successful, cooperative, and respectful, and have therefore largely met the lower needs on the hierarchy. This allows for freedom, openness, tolerance,
creativity, and power to act. As a group the Mondragon Cooperatives have achieved this. There is no question that their history is one of attempting to promote life and the vital needs of all human beings, particularly the poorest of the poor. Because they were in the beginning all very poor, and what they created is unique in the evolution of social systems on the planet.

Trusteeship Principle No. 5 says, "All human beings, by their very nature, have purely good ultimate intentions at all times. Their behaviors may differ because of the differences in what is 'perceived' to be truth (because of differing 'beliefs'). However, each human being's ultimate intentions are pure and, therefore, equal."

There is clearly a respect for each other as well intended and equal individuals or the purely cooperative form as the basis for organizing themselves would not have been chosen.

Trusteeship Principle No. 6 says, "Differences between and among people's perceptions of truth are fully resolved to the degree the process of resolution is truthful, that is, respectful of each others equally pure ultimate intentions as the foundation for building a dialogue which searches for a consensual agreement as to what is true in that particular context. This is what is known as 'loving struggle to agreement' ('nonviolence')."

All differences within the Mondragon Cooperatives are solved through discussion in a democratic context. This keeps the struggles around differences usually more loving than adversarial and agreements are more embraced than tolerated by those affected.
In addition, the organization of decision making within and among cooperatives was done to optimize participation in the democratic process. It was not just given lip service. There have been substantive improvements in cooperative organizational structuring, e.g., the Social Council, Direction Council, combines, etc., which have enhanced the checks and balances within democratic organizations. Keeping insofar as possible each independent cooperative smaller than five hundred workers has made policy decisions easier, because everyone has some personal knowledge of everyone else.

Trusteeship Principle No. 7 says, "Truth is the religion of religions, the philosophy of philosophies, the science of sciences, the aesthetics of aesthetics, the feeling of feelings, and the intuition of intuitions. Truth is God."

Father Arimendi's equating of the practical and the universal and avoidance of everything in between seems to have helped them focus on "truth," the living synthesis of the two, while going to church and learning their science. It is evident that there is not a particular religious or philosophical bent to what they are doing other than that it serves their needs well. Truth (what works best in meeting their different levels of needs), and not Catholicism, Darwinism, or even Basque nationalism, is their primary focus.

Trusteeship Principle No. 8 says, "Conscience or one's 'inner voice' (one's inner sense of unique direction toward truth which seems to involve the harmonious action of body, mind, heart, and soul) is the individual's guide to rational action. To act on it is to exer-
cise on' e free will."

What the people of the village of Mondragon created is unprecedented, and at the same time is utterly rational. They had to have followed their own minds, their own consciences.

Trusteeship Principle No. 9 says, "Since rational action is by its very nature committed to truth through love, it has no room for a utility function where everything and everybody is treated as means or objects to one's own welfare. The conventional means/end distinction is in direct conflict with love as the means and therefore devoid of truth. To choose between means and ends is not rational but irrational. To attend to both equally and as one, as opposite ends of the same stick, is rational. Also, it is more foolish than rational to exclude love (the 'commitment' one man feels to particular others, and all others regardless of the consequences to himself) from wise decision making."

The solidarity of the Basque people, and the basic love that that posture implies, is evident throughout the systems and procedures developed at Mondragon. This is clearly a people who have not ennobled the exploitation of others, and have repeatedly preserved opportunities for all, not just self or some, in the cooperative structures.

From the beginning there was effort to provide jobs for as many people as possible. The doors were open to all. Even within the managerial hierarchy the ranks were open to all. The technical school, too, is open to all—not just to cooperative trainees, not
just to family of cooperative members. Even the poorest of the poor can attend because he or she can earn all the costs in Alecoop.

How Mondragon has worked is perhaps even more telling than what Mondragon's goals and principles avow. There is no indication, for instance, that the people at Mondragon are conscious of designing a system which would have application anywhere else. There is at Mondragon none of the self-consciousness or self-importance so evident in many groups today which claim to be redesigning society. Yet because of the Gandhian quality of their thought and action and their undeniable success, there is no question that their work concerns many others who have not heard (and may never hear) of Mondragon or Basque. Intentionally or not, Mondragon is working for society at large.

Trusteeship Principle No. 10 says, "Human beings grow through a series of needs to higher levels of self-realization. As the joy of the higher levels is experienced the lower levels diminish in importance relative to the higher levels. The process is one of trial and error as a result of free will exercising itself through differing rankings of values."

Father Arizmendi's rule that anyone can learn to do anything has allowed for mobility within the cooperatives of each individual, at least more so than in conventional firms. The expert training and educational opportunities available add respecability to this philosophy.

However, as indicated earlier, the high degree of focus of the entire complex of cooperatives on the highest level of human develop-
ment, self-realization, allows everyone the joy of sharing in it through doing their own particular part. As Alastair Campbell said, a "conventional business offers workers no incentive to remain with it when it gets into difficulties." The Mondragon Cooperatives do. They offer two incentives: (1) job security and a share in the eventual profits, and (2) being part of a community of people committed to doing for others what they are doing for you. The latter is love. The Mondragon Cooperatives have taken us closer to solving the planetary debate on how to institutionalize love.

Trusteeship Principle No. 11 says, "The more mature a human being is the more he acts in sensitivity to needs at every level of the hierarchy but with his focus and emphasis on the highest level, the ultimate values of truth, love, justice, beauty, wisdom, etc."

The Mondragon Cooperatives seem to be a very mature complex of human institutions in that the focus of every cooperative is to grow, in quality, and the focus of the complex and community through the savings bank is loving service to others through the formation of other worker-owned trusteeship cooperatives.

Trusteeship Principle No. 12 says, "Economics, ethics, politics and religion constitute an indivisible whole."

One need only look at the variety of balances built into the theory and practice of the Mondragon system: and the integration of ethical, economic and political concerns in both avowed goals and daily operations; to see how much closer this system is to wholistic than the schizophrenic worlds of work, home and community life that
prevail in most of the modern industrial world, where conflicting values often apply in each situation.

Trusteeship Principle No. 13 says, "All appropriate institutional and social arrangements in a trusteeship society enable optimal satisfaction of the hierarchy of human needs, that is, they are supportive rather than detrimental to human development. For example, appropriate technology must be used, "appropriate" meaning to use the technology which maximizes human need satisfaction for everyone. Thus, where there is high unemployment, labor intensive procedures are most appropriate; where there is full employment, more automated procedures are more appropriate because they free human energy for the fulfillment of higher needs."

The Mondragon Cooperatives seem to be very appropriate for their situation. They have had to compete with the mass production procedures of industrially developed nations. To have focused on labor intensiveness would have been economically unfeasible, and has not been necessary since their is no limit of jobs available. As long as they create jobs, their aggressive policy of automation serves all: it decreases drudgery and increases quality in the workplace, and makes them more competitive in the marketplace.

The way in which the institutional and social arrangements enable the optimal satisfaction of the hierarchy of needs was described above.

The last Trusteeship Principle to discuss, No. 14, says, "Economics is the science of human welfare. Its goal is the welfare
of all." That is, it is not the welfare of the majority or the most. It is the welfare of everyone.

The commitment of the Mondragon Cooperatives to creating jobs is its service to human welfare for both itself, through growth and diversification, and society. By the standards of Basque society, members of the cooperatives take what they need and not much more. In fact, their goals preclude getting much more, or they would work elsewhere where that was possible. The surplus, and indeed their personal capital while they continue to work, is held in trust and used for the commonwealth to improve and expand the enterprises, creating more jobs and a better climate for the community.

Wealth--and value--is not seen so much as money, as work: it is the jobs which are valuable. Whereas in capitalism the money is extracted and held in perpetuity, in trusteeship the money is largely held in trust to assure an increasing supply of jobs; and it is those jobs--the ability to earn a livelihood--which are held in perpetuity by the community. The purpose of the system is to preserve and increase that asset, which assures survival with dignity and satisfaction. In this sense, the Mondragon Cooperatives are trusteeships.

From this discussion of the Trusteeship Principles it is evident that the Mondragon Cooperatives are both theoretically and practically well within the boundaries of the concept of trusteeship as Mahatma Gandi defined it. The members of the Mondragon Cooperatives have contributed to the theory in a very substantial way. Fr.
Arizmendi in essence picked up trusteeship where Mahatma Gandhi left off by applying the philosophy and building on it by demonstration. The people at Mondragon have shown how to structure a group of people into a productive unit that works in a rapidly developing, highly industrial and technological society based on the theory of trusteeship.

Inevitably, what has emerged at Mondragon is not exactly what Gandhi envisioned, or what probably would have evolved in India had he been able to complete his task. If Trusteeship can be established elsewhere, it will and should bear differences that reflect different cultures, circumstances and needs. Nor should all Trusteeship models adhere to Gandhi's plan or Mondragon's example, because the principle is an evolutionary one still in a young and experimental stage as Gandhi would certainly insist. It is apt to bear inconsistencies and imperfections as it is developed and refined. Indeed, its ability to be flexible enough to adapt to many different human conditions and needs will ultimately decide whether it is as viable a social form as this thesis contends.
Reference Notes


2Ibid., p. 171.

3Ibid.

4Ibid., p. 172.


CHAPTER VII

CAN MONDRAGON BE IMITATED?

It is easy to see that if we could divest ourselves of the baggage of history and start again, the model of the Mondragon cooperatives would be a much more compelling blueprint for production enterprises than either the private or state capitalist models that we use. No one in their senses would choose a model which sets the two key elements in the enterprise, the shopfloor and management, effectively at each other’s throats. No reasonable and freedom-loving member of a prospective enterprise team would wish to hand over final control to faraway capitalists—still to far-away Civil Service bureaucrats in some industrial ministry who, on the rare occasions when they do visit the enterprise, travel first class at the taxpayer’s expense.\(^1\) Robert Oakeshott

Can Mondragon be imitated elsewhere? This is usually the most heated subject of discussion among students of Mondragon, and it is a key question indeed. To answer it, we must look at the special conditions that existed in the Basque region that enabled the cooperatives to take root and flourish. From that, we may obtain a more general assessment of the sort of conditions and criteria one would look for elsewhere.

The Anglo-German Foundation for the Study of Industrial Society sent four people—Alastair Campbell, Charles Keen, Geraldine Norman, and Robert Oakeshott to do a study of the Mondragon Cooperatives. Two of them, Alastair Campbell and Robert Oakeshott, were already committed to the idea of worker-cooperatives. The other two were initially unengaged, neither for or against. In their study they concluded that “there is at least a fair chance that its struc-
tures could be imitated elsewhere with success."

Since their study is the most objective and thorough analysis available, we will summarize their findings here. The group concludes that both organizational structure and special historical, cultural and geographical facts have clearly played a part.

The single most important factor, they find, is the driving emotional force of Basque nationalism—the sense of strong, regional solidarity and collective sense of purpose which exists because of a myriad of shared experiences, traditions, etc. As a proud people, the Basques have always had separatist leanings. They sided with the losing republican side (in power at the time) against Generalissimo Franco during the Spanish Civil War, and were defeated and humiliated.

This left them in the post-war years with their traditional economy in ruins and a repressive right-wing central government highly suspicious of the political overtones of any Basque initiative.

In its contradictory way this provided the perfect breeding ground for the cooperative movement. In the first place there was an underemployed labour force hungry for work; secondly, since the whole economy had to be rebuilt there were many industrial opportunities. Spain's post-war isolationist policy made these opportunities easier to grasp by warding off overseas competition. And, most importantly, Basque nationalism, denied a political outlet, ensured strong community backing for this strictly regional, commercial initiative.

The cooperatives were a highly creative and constructive response to a most difficult situation, and they helped solve a variety of regional problems of channelling energy into non-violent productivity.

The geographical isolation of Basque and the presence of several steel producing plants in the area, with the long tradition of
The study reports that Jose Maria Ormaechea, one of the original five founders, expressed the view that the one vital condition for establishing an industrial cooperative was that the working people must be relatively sophisticated and oriented toward this sort of work at the outset. This goes hand in hand with the importance of solidarity, and an ideological orientation that can embrace a cooperative approach.

It must be said that the cooperatives did not have to compete with any labor movement, which certainly reduced the likelihood of opposition from threatened vested interests. When Spain finally allowed labor unions in 1977, there was considerable speculation among observers of Mondragon about the consequences, but to date there is no evidence of impact.

Another contributing factor was the tax system in Spain.

*Though large scale development took place in the nineteenth century, the iron- and steel-making traditions of Vizcaya and Guipuzcoa are ancient. Some of the iron mines around Bilbao are said to have been worked since pre-historic times. Moreover, Mondragon has been anything but a peripheral participation in this tradition. As unlikely a source as the fourteenth edition of the Encyclopedia Britannica (1929) tells us that the 'swords of Mondragon were renowned before those of Toledo'. Quintin Garcia amplifies this account by reporting that the fame of Mondragon's forges dates from the Middle ages; ships' anchors and chains were manufactured there from mediaeval times—as well as the swords and lances in demand for Don Quixote and Sancho Panza. (Robert Oakeshott, The Case for Worker Coops, p. 167.)
Cooperatives are exempt from corporation tax for the first ten years, and then pay half the normal rate, 16% visavis 32 percent. On the other hand, the requirement that they pay 10 percent to a social fund applies only to cooperatives, and may be seen as tax. Characteristically, Mondragon sees this more wholistically: it is an important way of servicing society.

Two other crucial factors at Mondragon were the community's willingness to support an unfamiliar new venture, and their strong tradition of savings, which enabled them to put cash on the line. The English researchers were astonished by the number of savings banks in any small Basque town. Almost all families have something tucked away. This, the study says, "is of particular relevance to the Mondragon principle of requiring a capital contribution when a worker joins a cooperative. Either the worker himself or his family is much more likely to have savings that can be disposed of in this way than their counterparts in Britain."

The cooperative bank capitalized on this availability and willingness, and certainly the fact that funds were being used locally to create jobs and improve conditions helped attract savings--as did the additional half a percent of interest offered. Probably most important is a common ideology, and a lack of haranguing about that ideology. The solidarity inherent in Basque nationalism; the strong family and community structures, with many cooperative values (if not a history of cooperative structure in the workplace); a dedication to hard work and the dignity of manual labor; and the progressive
Catholic social doctrines so emphasized in their practical application by Fr. Arizmendi. While cooperatives were not familiar forms in Basque, and while there was no conscious intent to adopt this form (it was chosen by default as the only available option which met the needs of the situation), the form itself proved highly suitable. Lastly, Mondragon had essential catalysts: an initiator of the vision, will and quality of Father Arizmendi; and a group of strong disciples, the principles of ULGOR, who were able to translate the vision into action, institutionalize it and sustain it.

There were a variety of obstacles to Mondragon as well. Curiously, most of these—especially the oppressive policies of the Franco regime and suspicion of any innovative Basque activity that might smack even remotely of politics—actually worked as assets in forging the community spirit and solidarity necessary to make such a "long-shot" successful. This common bond gave an impetus to form organic systems that were more fully cooperative than they might have been in less imperiled situations.

This liability and others—an unsupportive business community and municipal government, lack of precedent or guidelines for a new business structure, lack of conventional access to capital and legal impediments—forced Arizmendi and his associates to move off the beaten paths to discover altogether new ways of defining and meeting their needs. So a sense of benign opportunism, and more than a touch of serendipity, are subjective attributes of considerable value.
Historically it is not uncommon for people to evolve new behavior, structures and practices in times of hardship and evident need, and for most of those changes to recede when the status quo is restored. The cooperation in America during the Second World War, and even the wondrous camaraderie and helpfulness that overcame New York City during the great blackout of 1965, are examples. But New Yorkers resumed their characteristic suspicion and reserve in a matter of days.

Victory Gardens and other de facto community institutions also largely disappeared rapidly after the war. (It is worthy of note that there is today not only a resurgence in family and community gardening, but in the values and concerns which prompted their resurrection in the 1940s.)

What is extraordinary about Mondragon is that the structures engendered under difficult conditions have endured so well after the oppression and other obstacles have dissipated. This fact is probably a testimony to the quality of the systems themselves, and their evident appropriateness for the region.

In assessing the success of Mondragon, one can break the many contributing factors into two main areas: environment—the objective facts of geography, economy, legal factors, politics, social customs, and history; and beliefs—the more subjective amalgam of political, social, psychological and spiritual attitudes which play upon the environment.

Obviously there were unusual, perhaps unique conditions
existing at Mondragon which are not likely to be repeated elsewhere. And there was also an absence of obstacles which are more common elsewhere (such as strong labor unions, negative attitudes about hard manual work and weak community identity).

Yet any situation will offer some peculiar advantages, and many may offer positive and negative environmental conditions which may neutralize each other. Given that possibility; and given a workers mentality, which is relatively sophisticated and oriented toward producing whatever goods or services are in mind, industrial or otherwise; it should be possible to build a Mondragon-type economic sector in America or other democratically-oriented societies because, as Robert Oakeshott states, "the structures and institutions which have been evolved at Mondragon seem so well suited to the realities and the real problems of democratic and cooperative enterprises, that it would be odd if other 'Mondragons' were to end in total disaster." 7

"But perhaps the real problem," Oakeshott continues, "is that the attitudes and values of which the Mondragon coops are both cause and effect--of collective and individual self-reliance, of collective and individual responsibility and of hard work--are so out of tune with the predominant attitudes in the welfare state, trade union and class-struggle dominated societies of the Atlantic world," that a genuine experiment of this kind might be very difficult to launch. 8 And in the end, he believes, the strength of opposing positions--threatened labor unions, socialist bureaucrats, even indifferent communities preoccupied with maintaining their status quo--may be more
important factors than replicating the ingredients of Basque culture. Can an emerging force of worker-owners develop the vision, strength and support to make a new system work in the face of the complex of environmental and attitudinal factors which mitigate against it?

The Anglo-American Foundation Study of Mondragon, of which Oakeshott was a principal member contributor, stressed the importance of Basque nationalism as a motivating force. Yet it also found it "plausible to argue" that a similar driving force may be present elsewhere for other reasons; and that the strength of the institutional structure of Mondragon itself might be strong enough to survive stiff opposition, given a reasonable balance of positive and negative factors. 9

It will prove useful to list the positive conditions that made Mondragon possible, and from that to extrapolate a list of more general factors one would look for, in assessing the viability of beginning a Mondragon-type sector in any given situation. One should bear in mind that even such a rational assessment has limitations, because it cannot possibly take into account the complex and extremely subjective chemistry of the interaction of these many factors.
## Conditions Encouraging Trusteeship

### Mondragon

**Ideological**
- Basque nationalism
- Progressive Catholic social values
- Religious, political solidarity

**Economic**
- Economy in ruins
- Underemployment, labor pool
- Poverty and need
- Industrial tradition
- Protectionist trade policy
- Not significant competition
- No labor unions
- Favorable tax position
- Isolated industrial environment
- Access to capital

**Social/Cultural/Historical**
- Common but outlawed Basque language
- Strong community support
- Strong family, club traditions
- Common religious bond
- Strong work ethic
- Iron and steel making history
- Geographical/cultural isolation

### General

**Ideological**
- Common base of values embracing dual commitment to self and society
- Cooperative spirit
- Commitment to positive change
- Evolutionary perspective
- De-emphasis of material growth and acquisition: quality equals/replaces quantity

**Emotional/Spiritual**
- A unifying cause or motive to endow courage, insight, persistence needed to establish new forms
- A vision of what could be

**Economic**
- An unusual opportunity in the existing structure--
- Clearly defined market for product or service
- Need for new way of delivering service or product
- Access to capital

**Social/Cultural/Historical**
- Common values or traditions
- Common religious/spiritual base (or accepting pluralistic attitude)
- Community orientation and support
LEGAL/STRUCTURAL

*a cooperative law that could be adapted
*willingness to research and invent appropriate structures

LEADERSHIP

*a strong, visionary individual well-positioned to initiate
*a core of able, dedicated associates capable of sharing responsibility and working cooperatively
*a supportive and responsive community
*an impressionable (and receptive) work force
*access to competent management

*an organizer or leader able to respond to an interested group, or to interest a responsive group
*capable, motivated people able to fill different functions (and learn) and to work cooperatively
*an intelligent work force able to take responsibility for themselves and share leadership responsibilities

EDUCATION

*informal drinking club network
*Fr. Arizmendi's pulpit
*Technical school from which enterprises began

*effective communicators
*non-formal educators and information network
*access to public media
*access to community groups and institutions
However useful such a list may be to community organizers, non-formal educators, academics, theorists or planners, it is important to bear in mind that such a linear and rational assessment has great limitations. It cannot possibly take into account the extremely complex and subjective chemistry of the interaction of these many factors. Even if a similar assessment of Mondragon could have been made in 1941 or 1950, who then could have forseen either the form of Mondragon's evolution, or its great success?

We will return to this notion of chemistry in the conclusion, where it will be seen that it is an extension of the same concept which John Ruskin espoused, when he understood that economics cannot operate only under the objective, mathematical laws, because the more complex paradigm of chemical interaction--including the unpredictable elements of social affection and "the motive power of the soul"--are at work as well.

Can a Trusteeship Sector Grow and Survive in the Contemporary American Context?

This is a question of crucial interest, and on the surface there seem many factors which mitigate against the success of such a movement. Martin Carnoy and Derek Shearer send us a warning, after discussing a number of worker-owned enterprises in Europe and the United States in their book Economic Democracy: The Challenge of the 1980s:

The experiences of workers in the plants we have discussed give us important insights into the worker control process in capitalist societies. Workers in each of these societies are,
after all, a product of the society. When they form a cooperative, or take over ownership, or even occupy a plant for a long time, they are attempting to secure employment as well as material and nonmaterial benefits that are not provided by strictly capitalist firms.\textsuperscript{10}

They cite the importance of Basque nationalism and other factors in Mondragon, and the high political consciousness of French workers. They took over 200 enterprises in that country in 1974 and 1975, and . . .

. . . are highly conscious of their role as members of a political movement to transform the French economy; to them, participation at the plant level is as much a political process as an attempt to preserve their specific jobs. U.S. workers have neither the cooperative outlook and nationalism of the Basques, nor the political consciousness of the French industrial worker. For this very important reason, worker control in the United States --either through the creation of co-ops or through worker takeovers to form co-ops--may be much more difficult to develop than in Europe.\textsuperscript{11}

After further discussion the critical point concerning the formation of cooperatives in the United States is stated:

Much more than in Europe, American workers are still imbued with the wish to become capitalists, to see the value of their capital grow as a result of their efforts. Cooperation becomes a way of accumulating capital rather than merely assuring stable employment, good working conditions, decent wages, and control over the work place. As long as this capital-accumulation aspect is the central focus of the co-op and worker-takeover movement (every worker a capitalist), American cooperatives will face the type of problems encountered by the plywood firms and Vermont Asbestos: degeneration into private ownership in either the short or the long run. Ironically, the more financially successful the co-op, the greater the pressure on the workers to sell to private industry.\textsuperscript{12}

Not only are Americans not educated to produce cooperatively and prone to use cooperatives for collective capitalist reasons, they also get little support from other institutions, such as banks and the
government, which are organized to function within corporate hierarchies.

The third major potential barrier to the development of trusteeship cooperatives in the United States is the nature of most unions, something with which the Mondragon Cooperatives didn't have to contend. The experience of the group of plywood cooperatives in the northwestern United States is an example:

The International Woodworkers of America and the Lumber and Sawmill Workers Union in the Pacific Northwest have not opposed the plywood cooperatives, but they do not advocate worker ownership. The fact that worker-owners receive wages higher than union scale during good times leads to conflict, and, by lowering their wages in slow times, argue the unions, cooperatives make it difficult for unions to protect their contracts.13

There is an essential ambivalence in trade unionism which is at the root of its problems with worker-ownership. As labor historian Richard Hyman has pointed out, unions are

... on the one hand, a protest and defense against the economic and human deprivations imposed on workers by their role in capitalist industry; on the other, a means of accommodation to the political economy of capitalist industry.14

This situation, according to Carnoy and Shearer ... produces contradictory pressures in union organization and collective bargaining: though a basic conflict of interest exists between employers and employees on matters of pay, working conditions, and control of production and investment, and unions' acceptance of capitalist management forces them to support corporate growth and a stable, compatible bargaining relationship. So while ameliorating the terms of workers' subordination, they do not contest the fact of this subordination. To do so would be to challenge the very structure that gives legitimacy to the present unions and their hierarchy.15

The authors of Economic Democracy conclude that this "creates
two fundamental problems for unions."

First, when workers own and manage a firm in a truly participatory way, the union becomes redundant at the plant level. Unions are defined (and define themselves) in a collective bargaining role; this requires two conflicting sides, with the control of investment, work, and wage decisions formally in management hands. Once the dichotomy between workers and management is removed, collective bargaining is obsolete. Second, and perhaps more important, today's unions represent a particular form of workers' organization. If workers begin to gain control of production and participate in decision making, the nature of worker organizations will change. Democratic worker self-management turns power over to the workers, not to hierarchical worker organizations. The workers in each plant would gain power over many aspects of production that would not derive from decisions of national union offices. So were there to be a national worker self-management movement, many unions would be likely either to oppose it or to try to control it.16

To these three significant potential barriers to a trusteeship cooperative sector we must add a fourth: the dominance of megascale capitalism. Since its origins, American capitalism has espoused freedom of the individual enterprise often very much at the expense of the individual and society as a whole. This has, in fact, somewhat distorted the intent of the founding fathers, to insure freedom of the individual from a multitude of oppressions, to pursue life, liberty and happiness in harmony with others. The cliche, "What's good for General Motors is good for the country," indicates just how much trust our society has put in corporate capitalism to serve the needs of the commonwealth. Yet evidence that corporate freedom has been encouraged to the point of direct harm to workers, consumers, the environment and American society as a whole, is today epidemic.

Since the unbridled capitalism of the Vanderbilts and Morgans that raged at the start of this century, unions, non-profit and
government sectors have waged long battles to protect threatened rights. Today these gains seem threatened on countless fronts. Programs and funding serving other interests—small business and farms, poor, education, handicapped, environment, cooperatives, etc.—are being slashed or decimated. The assault on much hard-won enabling legislation is on.

At the same time, new monies and legislation appear (or threaten to) to stimulate the burgeoning defense industries (which produce no consumable goods) and to resuscitate such floundering dinosaurs as Chrysler Corporation and the nuclear power industry. The much maligned "welfare state" forged by recent democratic administrations has become welfare capitalism.

In the face of this not-so-free enterprise, the less favored are expected to pull themselves up by their figurative bootstraps, tighten their belts and do the best they can. One is reminded of the classic 1964 cartoon depicting Barry Goldwater towering over a ragged mother and infant huddled on a curbstone, suggesting that they "go inherit a department store."

Positive Indications

Such a climate might discourage armchair advocates of trusteeship. Yet some of these obstacles may also serve as advantages, just as difficult conditions abetted the development of Mondragon. And there are other positive indications as well.

Let us first briefly consider the union situation, which con-
tinues to be weaker in the United States than in many other industrialized countries, especially Britain. Despite the flagrantly brandished power of union magnates, and the loud laments of corporate management, unions here are simply not the formidable forces they are sometimes made out to be. There is considerable lack of respect among a significant portion of union members for leadership here, as well as growing acceptance of self-management by union leaders. And there are too many small and medium sized businesses without union shops.

The dominant preoccupation of union leadership is their battle with management and owners. It would take much time, growth and publicity before the unions or their corporate adversaries perceived a small trusteeship sector to pose enough of a threat to turn their attention from the issues which presently so engage them. This creates running room for such a Mondragon-type organization to get started.

Secondly, there continues to be high ideological regard for a free enterprise system which encourages or allows a plurality of productive forms and processes. Unlike England, India and other countries with a mix of firms owned by private interests and by the government, there is little government ownership in the United States, and little evidence of desire for state takeover. This keeps the focus for solutions in the private sector, where trusteeship cooperatives are one of the few viable possibilities. Furthermore, if trusteeship enterprises were to become established even on a small scale; if they could demonstrate financial viability; and could pro-
vide better quality products and services, American consumers and workers alike might very well buy them. There is more room for innovation and experiment in the United States, and Americans do love success.

Third, there is considerable interest and experiment with economic democracy in the mainstream workplace. Flagging profits, overseas competition, and high interest rates limiting corporate expansion have led to study and increasing adoption of profit-sharing programs and worker participation in management, as well as outright takeover by worker-owners.

At least two forces seem to be at work. The first is demonstrated evidence that productivity increases markedly when workers are given participation and their income is more directly connected to the profits of the companies. The second is the phenomenon of the "runaway shop"—where local companies are purchased by conglomerates, for a variety of reasons—and then the conglomerates close the operations, moving production from high-labor-cost areas, especially in the Northeast, to the South, West or overseas. The impact on communities is often dire. As a result, worker and community ownership has been initiated and in some cases, had genuine success.

Paul Bernstein, author of **Workplace Democratization**, has examined these issues in the newsletter **The Corporate Examiner**. The advantages of worker-ownership in the United States that he details echo the benefits so evident at Mondragon: increased worker identification with the pride in the company and its products; more satis-
faction and enjoyment with work; more control over work life and a sense of freedom; better income; and much more job security, as capital is kept under local control and the company need not answer to distant headquarters or absentee stockholders interested only in the bottom line.  

Bernstein cites a variety of studies which have compared worker-owned firms with comparable ones in the conventional private sector, which show consistent advantages of worker-owned firms. Over two decades, a dozen plywood producing cooperatives in the Northwest have demonstrated 20-40 percent more productivity than conventional plywood plants per person-hour: and a University of Michigan Institute for Social Research Study found 30 worker-owned firms to be 50 percent more profitable than conventional competitors in the same industry and size category. Similarly, when companies switch to worker-ownership, productivity usually rises dramatically. South Bend Lathe in Indiana experienced a 25 percent increase in productivity the first year under worker control.  

Bernstein also notes that in cases where "management preserves its customary secrecy, status and power and excludes worker-owners from meaningful participation in decision making, the initial rise in performance usually fizzles out. The same is true if the workers do not transcend their customary adversarial stance viv-a-vis management."  

Many innovations that have been initiated within conventional corporations seem only token attempts to hold restive labor at bay by
offering token crumbs of profit or participation, and have not significantly lessened management's grip. Yet there are genuinely innovative, far-sighted owners, usually of smaller firms, which have made these changes for the benefit of all. Consumers United Group, Inc. an insurance company, and Texas Distributors, Inc., primarily a distributor of air conditioning equipment, are two examples with each having over six hundred employees.

The worker-ownership trend here has not come close to what is found in France, where there are now 600 successfully operating worker-owned companies; or Italy, where 150,000 are employed in producer cooperatives in manufacturing, construction and service roles.20 One reason is perhaps revealed in the case of the Lykes Corporation of Youngstown, Ohio, a steel manufacturing firm which closed in 1977, leaving 5,000 people out of work. The community organized a proposal to reopen the company under joint worker-community ownership, but President Carter decided not to approve the necessary loan guarantees. As to whether or not the community proposal was a viable one is still an open question. However, the capitalist corporate model is evidently so well-thought of here that we assume that if private business cannot make things work, no one else can. One conclusion to be drawn from this underscores the experience at Mondragon: do not look to the government for assistance in founding worker-owned enterprises.

The foundation of the National Consumer Cooperative Bank, after years of work by many people with cooperative values, was one positive result that did emerge during the Carter Administration, and
another sign of a growing cooperative movement. Yet today, it has arranged to go private very prematurely rather than continue to struggle for its very life before the onslaughts of Reagan's budget-cutting offensive, and this administration is known not to think highly of cooperative enterprise.

How much better off would the cooperative movement be today if all the energy (and employees, most of whom were recently fired when the outbacks came) which went into a vulnerable government-controlled bank had gone into the formation of professionally managed local cooperative banks, credit unions, investment funds, and trusteeship cooperative enterprises which were "independent and locally controlled"—another cardinal rule of trusteeship and the Mondragon Cooperatives.

**Emerging Cooperative Values and Culture**

The fourth and most important indication for the development of a Mondragon sector, is the strong emergence of corresponding values in the United States. A myriad of interest groups and bonafide movements have developed over the past two decades which have insisted upon, and tried with varying success to put into practice, democratic process and some measure of trusteeship spirit.

Some of this has been under the mantel of the liberal Democratic tradition. And a distinct and parallel culture is also emerging, which has developed new values and experimented with new forms and structures in this period. Some of these groups have faded
out and are marginal today. But the people within them have joined other groups; the groups have diversified as they have evolved, and the number of people involved directly or touched by these groups is certainly in the millions. Correspondingly, there have been major changes in the mainstream culture which are making many of these alternative ideas and forms more appealing. The bankruptcy of the liberals' power in the wake of the Reagan election and the conservative resurgence has left them in disorder, and desperate for new approaches. In aggregate, these groups comprise a strong and positive force for change toward an economy and society in which a Mondragon sector would be welcomed.

Many alliances need to be built to facilitate such a major shift, and it is obvious that the country is not ready for a whole-scale lunge into trusteeship.

Strategists intending to help establish a trusteeship cooperative model here have essentially two choices: they can wait until a critical mass of people have become educated in cooperative values, and are responsive to and familiar with the ideology and processes--or they can begin on a small scale with whatever groups have indicated genuine cooperative interest and have appropriate producing skills (or willingness and aptitude to acquire them). If they heed lessons learned at Mondragon, they will take the latter course. Attempts in Mondragon to convert established conventional workforces to a trusteeship operation failed; and most efforts at the formation of producer cooperatives in the United States have failed or achieved
only mediocrity because they compromised on this cardinal rule of beginning with people who already have the requisite values.

As Mondragon's example indicates, size and scale is initially irrelevant. Whether one begins with a housepainters' cooperative or a computer chipboard plant is less important than beginning with the right spirit; finding good management; establishing a functional model; and developing the crucial second degree cooperatives, especially one to provide the banking and entrepreneurship functions. A journey of a thousand miles must begin with the first small step.

When this has been done, the model will serve to demonstrate the value of the trusteeship process to mainstream groups less open to change, and less familiar with cooperative values. Others can come and learn from this model, just as people are coming to Mondragon now. Educating society and building a significant cooperative sector will come as a matter of course, and will be far easier if there is more than a paper tiger to be observed. The importance of the media and great public interest in new developments in this period of increasing economic chaos cannot be underestimated. (During Mondragon's development, public attention was shunned because of potential disagreeable consequences.)

Because these interest groups and alternative movements may be so important in founding a trusteeship model, it is relevant to explore them in some detail here. The following list, while far from complete, gives an indication of the scope and breadth of those involved. It should be noted that some listed will not be remembered
for their cooperative and non-violent behavior; yet many of those involved have gone through deep personal changes, and moved on to new groups which are increasingly productive and positive.
Consumer Cooperatives (primarily food, but increasingly branching into building materials, wood, oil etc.)
Producer Cooperatives (primarily arts, handcrafts, and services).
Cooperative Housing
Community Development Corporations
Land Trusts
Civil and Human Rights groups
Women's Movement and Feminism
Liberation Movements: blacks, gays, elderly, etc.
Peace and Anti-war groups
Anti-Nuclear groups
Hunger activists
Environmental movement
Back-to-Land and self-sufficiency movements
Organic farming and regional small agriculture
Urban and community gardening
Appropriate technologies: solar, wind, wood, food production
Holistic Health and Healing: brain and consciousness research; acupuncture, chiropractic, psychotechnologies (consciousness and brain research, kinesiology, bioenergetics, biofeedback, hypnosis); preventative medicine, macrobiotics, vegetarianism, whole foods diet, massage, exercise, yoga etc.
Human Potential Movements: humanistic and transpersonal psychology and therapies; encounter and group counselling; bodymind; hospices; Esalen type centers; EST, etc.
Self-Help Movement (including many disciplines above, focused especially in urban and depressed areas)
Spiritual Renaissance: meditation, TM, eastern mysticism and yogas, Western esoterics, Unity Church, etc.
Artist Collectives
Alternative Education and continuing education programs
New Business and Economics: barter exchanges, right livelihood networks, natural foods and products, prosperity workshops, etc.
Urban Neighborhood alliances and activities: tenants groups, childcare coops, free schools, urban solar, etc.
Intentional Communities: New Alchemy, The Farm, Twin Oaks, Chinook, etc.
Much of this activity has been viewed with skepticism and even ridicule by the media, and not taken very seriously by the prevailing power structures which have interpreted much of it as passing fads or minor annoyances. Few historians or social critics have looked at these developments as a whole—perhaps in part because not many of those involved have looked beneath the apparent surface differences to underlying connections. Yet as will be explained, they are indeed present, and many involved are coming to understand that this is so.

Historically, this explosion of alternative politics, economics, lifestyle and livelihood began on the upbeat note of John Kennedy's New Frontier, and emerged rapidly into social protest and action with the civil rights movement and the Vietnam War. The children of the complacent Eisenhower years began to awaken and organize for a multitude of reasons and purposes; their groups spring out from the mainstream like so many spokes on a wheel. The dominant activity of the 1960s was protest and "liberation"—often angry and sometimes lawless resistance to oppressive prevailing values of middle class and corporate America. What was less obvious, at first, were intentions beneath the rage to express the need for, and to create, positive alternatives and constructive reforms. Especially in the political activity of this period, much was learned about non-violent action, political process and group awareness. Different groups, however, frequently saw others as opponents rather than allies. For example, no groups were more polarized than urban social activists and environmentalists. Yet by the late 1970s, these elements had disco-
erged common enemies and interests, and were hard at work "greening" the cities. By this time, many of the divergent spokes had gone sufficiently far in their respective directions to discover the unifying rim of this wheel.

The communication and cooperation which is increasingly evident today probably could not have happened without the tempering experiences that began in the early 1970s. At this time, there was a clear shift of activity, as people became less concerned with changing others and more interested in changing themselves. This was very much a period of self-styled research and development. For many activists, it was a retreat from the hotbeds of urban activism toward more rural endeavors. For others who had been uninvolved in the 60s, it was a shift from unquestioning materialism to purposeful exploration and introspection.

One quadrant of this emerging wheel focused more on new ways of doing: reviving farms, learning trades and crafts, simple living, developing new forms of energy and housing. Another quadrant explored new ways of being: health and healing, consciousness research, personal growth, spirituality—understanding and changing patterns of emotion and thought which contributed to the cultural malaise, and designing a new culture and consciousness.

Hard-core activists who remained in the trenches did not often look kindly on either line of pursuit; many interpreted these changes as assorted forms of fiddling while the new Rome burned. This view was dignified by conventional social critics such as Christopher
Lasch, who coined the term "New Narcissism." The "Me Generation" became another popular epithet, and it would not be difficult to list a variety of pursuits which merited the disparagement.

From a Maslovian perspective, there was considerable purpose in the intent, if not always in the practice, of this multi-faceted exploration. On Maslow's hierarchy of needs, service to society—the transformations many activists were hoping to achieve—follows the achievement of personal security, identity, love and self-esteem. In retrospect, it seems obvious that these needs were also very much on the agenda of social and political activists. Their actions were too often discolored by anger, self-interest, internal conflicts and annoying or even violent tactics, which neither met the needs on their hidden agendas nor helped them achieve effective changes. In many cases, process did not reflect avowed positive intentions. The need for alignment of means and ends, which Gandhi so well understood, would be better recognized and increasingly practiced by the end of the 1970s. So it might be said that among the purposes of the 70s retreat was an effort, however unconscious, to put the proverbial horse back before the cart.

From this perspective, the changes of the late 70s and early 80s bear testimony to the truth of the hypothesis above: there now appears a deeper transformative purpose to the so-called narcissism of the 70s. Many early activists have recycled into activism again, and many who were so absorbed in personal transformation have emerged into activist roles. This new surge of activism, which greets the
retrenchment of the Reagan administration, is far less confrontative and violent, and the cloaks and trappings of the counterculture are mostly gone. It is far more purposeful, practical and positive, and is tempered with a new spirituality and cooperation learned in the withdrawal of the 70s.

With this change in attitude came new understanding of the emotional roots of conflict; and new skills for conflict resolution and group process which are just beginning to be translated and applied in conventional political, social and business arenas.

In the late 70s, the phenomenon called "networking" became identified and increasingly practiced, as groups in many disciplines discovered others with related interests and like minds across the country and indeed the globe. Concurrently a new style of leadership emerged, less hierarchical and more democratic in nature; gurus and forceful leaders became less important, as shared group leadership and individual responsibility developed. Many groups began to experiment with new communications technologies, and to develop decentralized organizations--linking with growing numbers in the mainstream who were working on common concerns. Quite suddenly, nuclear armament, world hunger, human rights, environmental destruction and other giant issues became urgent concerns not just for activists and social bureaucrats, but for a rapidly growing minority of mainstream society.

This is only one indication that the emerging values of a new culture are penetrating the conventional world. "Solar" became a buzzword that was promptly seized, (and largely coopted) by industry
and government alike. Personal and organizational change became institutionalized and marketed to white-collar society by EST, TM and their innumerable ilk. While many in conventional jobs brought new insights to their work in the mainstream, others fled (and continue to flee) establishment jobs, retreating or seeking new careers more in harmony with their new perspectives.

Concomitantly, many who had long been involved in this new research and development returned: holistic health practitioners, therapists and backyard inventors cut their hair, donned suits and opened new businesses as vendors and consultants to corporations and institutions. Solar advocates and organic farmers began to work in urban neighborhoods. Natural foods moved into the supermarkets.

Economic survival was and continues to be a very real challenge for most involved in these transformational enterprises, especially for those who had cut their teeth on the counterculture and learned to live on the economic fringes. For many, the words "business" and "money" had become anathema, practically synonymous with evil. Some who had been quick to denounce corporations and government were equally eager to feed on food stamps, welfare and unemployment benefits proferred by the hands they had bitten. More constructive elements often ignored the efficient structures and technologies that conventional organizations had developed, as they tried to invent wheels more to their liking, often without much success.

Yet there were those in the parallel culture who understood this dichotomy, and sought to integrate the useful experience of the
mainstream with new values and ideals, applying the synthesis to new businesses and economy theory. As more people enter the marketplace, they look to models and leaders in the new economic sector for assistance in the struggle to do well by doing good in a stagflation economy—and to establish a parallel system that can coexist and compete in the conventional economic sector. Mondragon is one of a very few models which is large, and has withstood the test of time.

Reagonomics has been a rude and bitter awakening for the multitude of minority groups, non-profit social action and community organizations which have depended on government funding; and it has dowsed icy water on many new enterprises (such as solar) which have eyed the federal gravy train for assistance in getting started. Yet many now see this curse as a blessing in disguise. The present mushrooming of social and political concern that Reaganomics has stimulated suggests that the intent of liberalism is far from dead, but the means—deficit spending, welfarism, rampant bureaucracy, paternalism and resulting dependence—are clearly endangered, and better so. As a result of the fiscal crisis and the Reagan Administration economics has come into the forefront of the media, increasing public concern and understanding. And more significantly, people everywhere are realizing that they cannot look to government funds and leadership to solve their problems. They are going to have to find ways to organize and finance their own programs, and this is as evident in the inner city as it is in the dramatic trend toward self-employment and entrepreneurship.
This is a truth which many academic and political proponents of a humanized economy seem slow to grasp. As a result of their analysis, Economic Democracy authors Carnoy and Shearer "see the government--the public sector--as the primary source of financing and technical assistance for the worker control movement." They recognize the major shortcoming of this strategy but believe there is no other choice:

In a way, this is a top-down strategy: organizers and intellectuals push a particular idea, progressive elements in the government come to accept its validity and promote it and, finally, under this stimulus, workers respond. Given the ideological and financial difficulties confronting democratic work organizations, however, this is the only course to follow.

It will not be found surprising that Carnoy and Shearer are intellectuals who have recently become involved and successful in electoral politics. They are not business people. They do not take their ideas, invite others to join them, and do it on their own. They take their ideas, invite others to join them, and then organize to get power to make others do it. This intellectual approach through the forums of politics is doomed to limited success at best, with little justification relative to the energy which will be exerted. It is not that legislative actions and government programs cannot be beneficial to a worker-owner movement; they surely can and should be pursued. However, the main thrust must be the direct creation of a trusteeship cooperative sector in the economy. All the legislation necessary to do this was enacted in most states over a hundred years ago. What is needed is for some individuals and groups to do it. And it is not
being suggested that one needs to be a business person to do it. Father Arzmendi was certainly not a businessman. He was, however, unintimidatable.

When Derek Shearer spoke at Hampshire College in December of 1980, he was confronted with the issue of going into business to accomplish these goals, as opposed to going into politics. With a smile that revealed some of his true inner feelings on the subject he responded, "Politics is a lot easier."

As for the process of power politics, a meeting with Senator Paul Tzongas of Massachusetts is a telling experience. He professed to share the views being presented; and, indeed, he did. However, he insisted, "I am powerless to do anything for you without a groundswell of demand." Again, the question: does one wait for this groundswell to emerge, or try to create it so the political wheels can begin to grind, in an increasingly resistant administration? Or does one roll up one's sleeves in the most likely environment and begin to develop a model?

The absence of a forceful argument for directly beginning trusteeship cooperatives and communities by Carnoy and Shearer may be less a concern about union, corporate, and government responses and barriers, than it is the recognition that--other than Mondragon, which is only now being well known in the United States--no one has known exactly how to structure a successful trusteeship cooperative and community. Thus, a supportive environment and government assistance has seemed essential to competing with the capitalist enterprises.
Perhaps we now know better.

Whatever the case, groundswells do seem to be what moves government when the wealthy special interests aren't. To create a groundswell for trusteeship legislation there will have to be many people who believe in it. That means education. The best way to learn something is to do it. In nonformal education for community development, doing it accomplishes both goals—education and institution building—at the same time, because you need to go to people for help—as Father Arizmendi's youth group did when it was starting the technical school. This is an opportunity to educate people in the community and build support.

Given the limited success of a Mondragon type model somewhere in this country, there will be a place to which people can come, learn, and return home to do the same in their communities. There seems to be remarkable enthusiasm for this sort of bold activity today. Much of it may not be initially focused on cooperative structures, but cooperative values are indeed alive and well in much of the entrepreneurial activity in this emerging sector.

Robert Schwartz, a successful corporate businessman and management consultant who owns the Tarrytown (N.Y.) Executive Conference Center, and who founded the School For Entrepreneurs there, comments on this perhaps with overstatement:

There's an entrepreneurial revolution going on in America today like you wouldn't believe. Like swallows at Capistrano, entrepreneurs come historically at the advent of any major social shift. It's assumed they're there for the money. Not true. They're visualizers and actualizers with passion and purpose, looking for unconquered social peaks on which to make
statements. The marketplace is the greatest feedback system in the world. The corporate captains are clearly ignoring entrepreneurship because they think it's a fad.23

Many of the people who are emerging into this difficult arena of new business have a great deal to learn, and failures will undoubtedly outnumber successes as lessons are learned in the school of hard knocks. Yet in this pool of human resources are some valuable assets. Many of the same values and energies which tamed American frontiers and established free enterprise in the 19th century—determination, ambition, perseverance, and inventiveness—are apparent in this new movement, tempered by humanistic and spiritual concerns.

Some are inevitably seduced by mammon; material prosperity is a welcome salve to years of self-imposed poverty. Yet altruistic poverty and selfish prosperity are no longer the only options apparent to those pursuing transformation in the marketplace. A new understanding of money—at least new to this generation—is increasingly in evidence. Money is no longer regarded necessarily as an end in itself, nor inherently bad or good, but as a form of energy for getting important work done in a physical world, a necessity for achieving social change which cannot be ignored, and which needs to be understood and harnessed by the right people.

A growing comfort with money as a means, instead of an end, accompanies a need for less money and an increasingly reliance on barter and trade. Voluntary simplicity—the art of living with less material stuff and seeking more subjective and satisfying forms of wealth—information, skills, peace of mind—grows in popularity and is
encouraged by necessity. The obsessive materialism and ladder-climbing that characterized the parents of many in their twenties and thirties today becomes less important than personal growth, family, social change and service. The underground economy is burgeoning. While a majority may be involved as a means of escaping taxes, more and more enjoy the process of trading, doing for oneself, community exchange and simply making do. In the underground (or non-monetized economy), economics can begin to make sense on a human scale.

Paul Hawken is a young journalist and entrepreneur who has become a respected economic theorist—having learned his lessons in the field, not the ivory tower. In the Tarrytown Newsletter of June 1981, a publication of Robert Schwartz’ Tarrytown Group, he describes the paradigm change in economics he sees as a shift from a “mass” economy to an “informative” economy:

The mass economy is the economy based on the mass production and mass consumption of a mass of goods. It is about 250 years old now and has passed its zenith. Literally, it has been an orgy of goods and materials and things and stuff shuffling around the globe . . . It has worked well for a lot of people and it still works. But the mass economy is dependent upon growth, growth, growth: endless market expansion. And that growth depended upon two things: cheap resources (including energy) and cheap money.

The informative economy adds information to raw material, rather than adding mass. . . The end result of this shift will be that well-informed, high quality products—fewer in number and longer lasting in practice—will replace stamped-out “stuff”: Please note that I use the word “informative” in its less common usage: “to inform, to give form to, to imbue or inspire with some quality or nature”. . . Because these new things will be smaller, better and more thoughtful, they will require more input of human intelligence and less input of mass capital.24

Hawken’s informative economy is most analogous to the “steady
state" economy, one in which earth's limited resources are conserved, recycled and apportioned wisely to meet needs rather than to pacify endless material desires. David Morris and Karl Hess, authors of Neighborhood Power: The New Localism, observe that it was the ecologists and environmentalists who first introduced this concept of a steady-state economy, and predict that ironically, the last to change their thinking to this view will probably be the economists weaned on utility and growth. They assure us that a steady state economy does not mean that we have no progress, no changes, no advances. It does mean that those changes will have to be much more conscious, because we cannot continue to "waste" our resources on industries based upon fast obsolescence and rapid changes of style. It means that we will have to begin making choices between qualities as well as quantities of production.

A steady state economy recognizes the concept of stewardship—seeing humankind not so much as owners and consumers but as caretakers, managing the planet's goods for the welfare of all and for the generations to come. This means "choices," which means "planning," which means "cooperation." The need for such a change is painfully apparent, and this change need not mean deprivation and sacrifice for the affluent, as so many in the alternative movements have joyfully discovered.

The "steady state" and "informative" economic models are of course part and parcel with the humanistic economics so well summarized by Mark Lutz and Kenneth Lux. They define this as a "third
force" economics, and not surprisingly they see Gandhi as its founder. The humanistic perspective questions the very purpose of economics-as-usual, asking what human values the manifest goals of growth, acquisition and profit really serve—and redefines the discipline in a multi-dimensional, interdisciplinary context that integrates the concerns of politicians, prophets and priests.

Coincidentally, Mark Lutz did not begin his study of humanist economics as a true believer, but as a curious conventional economist. Even after writing The Challenge of Humanistic Economics in 1979, he was hesitant about Gandhian economics, considering it perhaps appropriate for the Third World or possibly in urban ghettoes on a community scale, but "too idealistic" and "meaningless in the modern world of advanced technology and urbanization." A study of his publications reveals a steady change to his embrace of Gandhi's approach: "...we cannot envision easily a plausible, viable alternative that is too different from Gandhi's blueprint."26

By 1981 he was convinced, and suggested a new more Gandhian model which he was beginning to call "transpersonal economics":

To advocate policy building this tissue is the New Challenge of Humanistic Economics. What is needed is to complement analysis of impersonal forces with an advocacy of a more personal, community based economy. In the process, Schumacher's Small is Beautiful, K. Sale's Human Scale, and Gandhian economics shine in a new light. The emphasis shifts even more from competition and centralization to decentralized and voluntary cooperation. Loyalty is no longer surrendered to mobility, honesty no longer has to yield to deception...this domain is not accessible to maximizing behavior, it transcends individual selves. Competition will not reach it but erode it. It is in this domain that love occurs and human realization becomes possible.27
The conversion of once mainstream economist Mark Lutz to trusteeship is another small, but real sign of the change in progress. Third force economics is an inclusive, holistic phenomenon, manifesting not just in remote pockets or utopian retreats but universally in varied ways. If these new forms and values have yet to reach critical mass; if their experiments are sometimes fraught with contradiction, failure and disturbing distortions; their ubiquity begs that they be seen as signposts toward a desirable future--and as reflections of a change in consciousness which will be necessary if trusteeship is to grow and thrive.

So as we consider the likelihood of establishing a Mondragon sector in the United States, we find a growing population which has recognized the profound need for, and has begun to define a new economics that can serve the modern world--a global civilization in the throes of evolution which has a newly identified and very urgent set of needs, largely unmet by the capitalist or socialist economic paradigms.

As we list briefly the qualities appearing in this cultural and economic shift, it will be instructive to bear in mind how frequently these are evident--and institutionalized--at Mondragon, bearing in mind that most of the "transformational" activity so apparent in America and Northeastern Europe is barely known in traditional and isolated Basque.

1. Multidimensional (holistic, pluralistic, chemical paradigm, synthesis) replaces One-Dimensional (linear, atomistic, separative).
2. **Subjective** (qualitative, receptive, intuitive, spiritual, loving, feminine, process-oriented) becomes balanced with **Objective** (quantitative, active, rational, wil-full, material, masculine, product-oriented). Yin/yang, East, West, etc. anima/animus, right/left brain, etc.

3. **Solidarity** (cooperation, unification, relationship, social affection, trust) replaces **Separation** (conflict, isolation, alienation, selfishness, fear, hatred).

4. **Stewardship** (conserving, sharing future, whole/planet-oriented) replaces **Ownership** (acquisitive, present/consuming/self-oriented).

5. **Individual Responsibility** (responsive to self and society—personal growth, social action) replaces **Mass Mentality** (reactive to others—unaware, obedient, subserviant, retaliatory).

6. **Democracy** (group leadership, horizontal structure) replaces **Hierarchy** (individual leadership/dominance, vertical structure).

7. **Decentralization** (regionalization, self/community sufficiency, appropriate/human scales, networking) replaces **Centralization** (big government, business and institutions; multinational controls, welfarism). "Global thought, local action"—Renee Dubos.
Reference Notes


3Ibid., pp. 48-49.


5Alastair Campbell, Charles Keen, Geraldine Norman, and Robert Oakeshott, Worker-Owners: The Mondragon Achievement, pp. 49 and 50.

6Ibid., p. 50.


8Ibid.


11Ibid., p. 182.

12Ibid., p. 185.

13Ibid., p. 188.


16Ibid.


18Ibid.
19Ibid.

20Ibid.


22Ibid., pp. 192-193.


CHAPTER VIII

THE DESIGN OF A NONFORMAL EDUCATION PROCESS TO ESTABLISH
A COMMUNITY DEVELOPMENT PROGRAM BASED UPON
MAHATMA GANDHI'S THEORY OF TRUSTEESHIP

Early evening in a slightly smoky, tea shop of a small village in a remote mountainous zone of Nepal, three government workers and a multinational employee are chatting over their evening meal of tea and bahl-doht. Conversation inevitably drifts towards sharing impressions, happenings and issues about their daily village work. The young man from the Water Resource Agency, newly arrived out of Kathmandu is full of anxious questions about local conditions, villager attitudes, how to personally survive during his tour of duty here. He is especially concerned with problems of communicating with village leaders and opinion-makers. A quiet, austere Nepalese gentleman, with years of world wide experience as a Surpha soldier and now in agricultural extension, offers bits of useful advice. A personable and articulate woman, employed by the UNICEF organization, adds her insights gained from twenty years of varied Third World assignments dealing with nutritional problems. The fourth member of the group, the local district Panchayat representative of Nepal's political structure, says little at first, but becomes highly voluble as the evening progresses and the tea shop grows darker in the flickering kerosene lantern.

Throughout the world in thousands upon thousands of such situations, vital information is shared that helps characterize education in out-of-school settings. And when these village level workers interact with individuals and groups of villagers, they are practicing nonformal education.1

Perhaps the most distinctive aspect of nonformal education is that its process helps keep "living" (and doing) more important than "learning."

If the process is the end, then the result of raising our children in schools instead of in the workplace or marketplace is to risk making "learning" the dominant concern of their lives. A person becomes conditioned to take the actions which will provide the most
stimulus, whether theoretical or personal; that is, to focus on "accumulating experiences." This provides raw data with which to draw conclusions and make generalizations (that is, to develop personal operational theories). The person focused on "living" is a person who is focused "on fulfilling his needs." This person will be more prone to "get on with it," to draw the conclusions as quickly as possible, to make the generalizations to fulfill higher and higher levels of needs. The next time a similar situation arises the latter person will be more prone to apply his learned generalization. The former "learning" conditioned person will be more prone to not apply the learned generalization but to hold it in abeyance while he focuses, again, on "having the experience" to gather more data with which to make generalizations "later." This process of "learning conditioning" keeps the former individual trapped at a lower level of development (to use Maslow-Gandhian hierarchy of needs again), at the physical and security level rather than at the higher levels, especially the self-realization level which assumes a confident embrace of a group of generalizations upon which one feels compelled to act to serve the whole of creation.

If one of the generalizations one has come to believe from one's experiences is the one Mahatma Gandhi came to believe--that the universe is one integrated whole and a human being is an integrated whole within that whole--then one cannot, as was discussed earlier, treat education as separate from politics, economics, or anything else in the process of "living."
So, to the person believing in the Gandhian philosophy of trusteeship, nonformal education is the process of "living" in a community "wholistically" as a first priority, and only secondly as a teacher or a learner, whether in a formal or nonformal setting. The non-formal process, by its very nature, more easily keeps "living" above "learning" in the process, as Horace Reed's example in the Nepalese tea shop reveals.

This chapter will outline a nonformal education process to establish a trusteeship community development program, such as the Mondragon Cooperatives, in a community in the United States, although it may surely be adapted to communities in other industrialized countries. It is not within the purview of this thesis to examine specific locations where trusteeship is likely to succeed. Let it suffice to say that one would look, following the logic of the last chapter, to areas where cooperative values are already concentrated, and to an extent practiced in some of the enterprises, institutions and organizations. Progressive urban areas which have become centers of alternative culture such as San Francisco's Bay Area, Boston, Ann Arbor and Los Angeles; and sophisticated rural areas such as the Pioneer Valley of Western Massachusetts come to mind.

Before outlining the nonformal education process, we will summarize the requirements for both a Trusteeship Cooperative and a Trusteeship Community from the experience of Mondragon. While these are not absolutes, it is safe to say that these are important building blocks for perpetuating the trusteeship spirit in a group and community.
Requirements of a Trusteeship Cooperative

1. Each individual who becomes a member of a trusteeship cooperative is free to leave at any time.

2. Each trusteeship cooperative group is autonomous and controlled only from within; that is, normally only members of the group can hold roles of authority within the group (no room is made for creeping paternalism).

3. Each person in the group, after a short trial period, must commit a significant amount of capital to insure the merging of roles of owner and worker.

4. The group must be managed democratically, that is, one vote per member.

5. Within the democratic structure differentiation of tasks and hierarchical structures, when necessary or chosen, must be respected for the efficiency and increased service to society and evolution which they can provide. At the same time, self-management at all levels must be nurtured.

6. There must be at least a lower and upper limit to the income of each worker based on the group's judgment of who deserves more or less and what are the necessary incomes to meet people's normal needs.

7. Profits beyond these salary-profits must remain in the firm (or committed to some other trusteeship cooperative) to be managed for the good of society until the individual leaves the firm. If he leaves before retirement, he could have an educational fee
extracted as seen justified by the group.

8. A portion of profits must be donated to meet the immediate charitable needs in the community and world. A portion must remain in the group as collectively owned funds (to be held in trust for the community). A portion may be distributed as profits to the individual members of the firm all of which remains in the firm on a loan basis at a reasonable interest until the individual leaves the firm. The more the group and surrounding community matures in terms of personal, economic, social, and political stability and justice the more of the profits will go to the first two categories and the less to the latter because the need to "put up for tomorrow" is less.

9. Profits or benefits, which are distributed to members of a trusteeship group must be on an equal basis or on the basis of contribution in work and, perhaps, number of profitable years with the firm, but not on the basis of capital accumulated. Capital can only earn a reasonable interest return, not a share of profits.

10. Losses will be taken from the collective funds to the same degree, on a percentage basis, profits had been contributed to the collective funds, or to a less degree but never to a greater degree.

Requirements of a Trusteeship Community

1. The individual, autonomous trusteeship cooperatives must be integrated into a group on a democratic basis, either one vote per number of people in a group, one vote per group, or a combination of
the two.

2. The more broad community support, the better.

3. Provision must be made for the accumulation of capital both to support trusteeship development and to provide people and other enterprises a way to join in the effort with their capital.

4. Provisions must be made for a group to be responsible for the formation of new trusteeship cooperatives, provide expert managerial assistance, and coordinate the community of trusteeship cooperatives.

5. Provisions must be made to educate and train people within the association of trusteeship cooperatives as much as possible at all levels so there remains a high consciousness of trusteeship principles in the membership and especially at the higher levels of management.

The Design of a Nonformal Education Process for Trusteeship Community Development

The following are the educational steps to undertake:

1. It must be remembered that the main task is twofold: teaching trusteeship and assisting in the formation of correctly designed trusteeship community structures. To teach is to empower. The focus must be on empowering others rather than on the accumulation of power by the nonformal educator.

2. A few appropriate people should be invited to become members of a group which will focus on meeting the needs of those interested in a trusteeship community and promoting it.

3. Working with the Trusteeship Group, ways of spreading an
understanding of and appreciation for trusteeship community processes and structures must be identified and implemented.

4. Working with the Trusteeship Group, those who express interest in structuring their working groups as trusteeship cooperatives should be assisted.

5. Working with the Trusteeship Group, do the research and development work to meet the banking, coordination, management assistance, and trusteeship cooperative formation functions met by the Caja Laboral Popular and then this organization must be created.

6. Working with the Trusteeship Group, support for trusteeship in all political parties and in government should be sought.

7. Working with the Trusteeship Group, a local land trusteeship should be organized.

It is not within the scope of this dissertation to go into the details of community development. The purpose herein is to provide an explanation of the philosophy of trusteeship, to provide a thorough description of the Mondragon Cooperatives which is a model for trusteeship, and then to provide a design of a process for a nonformal educator to teach trusteeship to people in a community through the building of institutions which better meet their needs. As any nonformal educator knows, there is always much thinking on one's feet and adapting to the on-going activities of out-of-school circumstances. For those who will embrace this role, a thorough grasp and appreciation for the philosophy and operational model of trusteeship will be most important, which is why so much time has been given to them.
The educational steps listed above are in the order which is most probable in most situations if there is any order—that is, if they don't all begin at the same time, which is a possibility if a large number of people come together to do it and create committees to develop each one. This order may not be best in many situations.

1. It must be remembered that the main task is twofold: teaching trusteeship and assisting in the formation of correctly designed trusteeship community structures. To teach is to empower. The focus must be on empowering others rather than the accumulation of power by the nonformal educator. This is listed as a step in the design because the effect of this attitude, genuinely held, is significant. Because of the capitalist values and "up the organization" orientation of Americans, as discussed earlier, working together in a cooperative process is challenging. The willingness of the nonformal educator to not accumulate power unto himself allows him to focus more easily on the goal and the process, serve more easily as facilitator in resolving problems among others, and experience the power he is given as a trust rather than as a gift. Thus, the first step is the cultivation of this attitude.

Most people cultivate this attitude through what are normally referred to as "religious" or "spiritual" activities. But whether through prayer, meditation, self-reflection, therapies, journals, or whatever, the on-going cultivation of this attitude is the important first step to trusteeship leadership.
2. A few appropriate people should be invited to become members of a group which will focus on meeting the needs of those interested in a trusteeship community and promoting it. The nonformal educator, of course, could or could not be living in the community where trusteeship development is being pursued. It is certainly better if he does. If he does not, there are additional issues which will not be discussed herein. For our purposes it will be assumed that the nonformal educator is doing his teaching in the community in which he lives.

In the beginning a small group (five to ten people) allows strong working relationships to be developed. First, each should be found by the nonformal educator to genuinely share the values of trusteeship to a significant degree. This, of course, is most important and not to be compromised for what the group creates will reflect its values.

There does not need to be an attachment to the word "trusteeship" or any other words. Nor does the word trusteeship need to be used or appear in the name or literature that emerges. What is important is that "truth" be the goal of the community development activities and "love" be the process. Now, as we have discussed a number of times, what is truthful and loving is always relevant. So what the nonformal educator must look for is individuals with high commitment to truth and love in ways which he finds to be the same as or similar to trusteeship. Few people would deny a high regard for truth and love, because all humans have pure ultimate intentions as discussed
earlier. However, the nonformal educator must find individuals who have come to as high a development of trusteeship beliefs and behavior patterns as he can find.

Secondly, these people should be respected members of the community as much as possible. This doesn't mean that they hold important positions as much as it means they are respected for who they are. For instance, in our society women do not hold as many positions of power in a community as do men. Still as many women as men are well known and respected in most communities.

Thirdly, as much as possible they should bring the skills which the group will need. These are mainly business skills, legal skills, banking and financial skills, management skills, and organizational development skills. The group is best developed on an organic membership basis—the first person chooses the second person, the two of them choose the third person, etc. Before each new person is added there should be a meeting of at least one of the group with the new person to plant clearly in his or her mind what is the purpose, philosophy, process, and goal of the group. This is very important, for nothing is more disruptive than differing visions of a group along these lines. Also, the concept of the group which a person has upon entering the group does not easily change later, which is very good if the concept is the one the group shares.

The appropriate individuals may have to be hunted for, especially if one is new to the community. However much time is necessary to be sure the group is formed in a healthy, clear way should be
taken. The health and clarity of this group will be projected into the community as trusteeship.

Also, because of the cooperative nature of trusteeship, if others not invited into this group get the same idea, they will be prone to not act on it since a trusteeship group has already been begun. Thus it becomes all the more important to have a healthy successful group in the first instance. Remembering that the goal (truth) and the process (love) is the primary focus, the nonformal educator should be fully supportive of others who want to form a group to promote trusteeship also, even in the same ways. It ought to be possible to cooperate and assume different focuses, but even if it isn't for whatever reason, there is no reason to fear two distinct trusteeship community sectors in the same community by definition.

This Trusteeship Group's first task is to increase the awareness in the community of the workability of trusteeship structures and their ability to meet the needs of individuals and communities better than conventional organizations. The focus is always on meeting immediate needs in practical ways that use trusteeship procedures and structures to demonstrate their greater justice and service to both the individuals in them and society.

This process will no doubt begin by one-on-one discussions with many people. Then it can progress to presentations for friends and community groups. Just telling the story of the Mondragon Cooperatives, especially with the assistance of slides or a full slide show with voice over (this can be obtained from the Trusteeship
Institute, address below) or the one hour BBC documentary on Mondragon (this can be rented from the Association for Workplace Democracy, address below), is probably the best way to excite people about the idea and convincingly demonstrate its viability at the same time.

Showing these media pieces or making other presentations to groups throughout the community is educational; creates a positive and receptive climate; and, especially, alerts those forming new businesses or wanting to form new businesses, and who are interested in doing it cooperatively, of your existence.

This group could operate informally or it could be part of another community group such as a church, education center, or business. Or it could incorporate and seek tax exemption as a public supported foundation. This would allow contributions to its work to be tax deductible. After the other trusteeship community structures are all operating it could continue on as an educational and/or charitable trusteeship cooperative to fulfill some or all of the community's needs which are best done under a tax exempt organization and are not already adequately or properly provided for.

3. Working with the Trusteeship Group, those who express interest in structuring their working groups as trusteeship cooperatives should be assisted. The first service the Trusteeship Group must prepare itself to meet is to assist in the formation of trusteeship cooperatives. This will necessitate facility in three areas:

(a) Explaining the workings and benefits of the Mondragon model in detail,
(b) Being able to present and explain trusteeship cooperative by-laws, and

(c) Understanding the different legal forms which are possible and the differing tax treatments and procedures.

While this dissertation includes the fullest explanation and description of the Mondragon Cooperatives known to exist, it would also be worth acquiring all the references used and listed in the footnotes and bibliography. The national organizations which would be worth joining and which focus on educating people in the development of trusteeship cooperatives would be:

Trusteeship Institute, Inc.
Baker Road
Shutesbury, MA 01072

Association for Workplace Democracy, Inc.
1749 Connecticut Avenue, N.W.
Washington, D.C. 20009

Model by-laws for a trusteeship cooperative corporation are attached as Appendix G. They need to be studied, understood and explained to the groups starting new trusteeship cooperatives. A friendly lawyer, preferably one in the Trusteeship Group, can be asked to assist in this self-education. He can also help the nonformal educator understand the different legal forms which are possible—partnerships or different forms of corporation in the particular state—as well as the special tax considerations for cooperatives.

These are very practical things which most small groups beginning a business do not know and which few lawyers could explain with a view to trusteeship features. Thus, it is important that the
nonformal educator learn these rules and regulations well. It will also be much cheaper for the nonformal educator to do this than for a lawyer, which the group will appreciate. (Although in the beginning fees may not be charged for these services, a fee structure can or cannot be developed based on the realities of the situation. Normally, it is best if groups pay for their services so they are not abused and an accountable business relationship is established—not to mention that the nonformal educator needs income also.)

Armed with this material and knowledge, the nonformal educator is able to answer the important structural and procedural questions that will make the difference between the formation of a genuine trusteeship cooperative or a hybrid. It also will assure that they all operate on much the same procedures and principles, so forming them into an association will be easier.

The nonformal educator needs to be watchful during this formation time that he is empowering the group and not parenting it. He is in partnership with the emerging group and should spend as much time as is necessary to help them with their structuring, but as little time in their decision-making meetings as possible so they have a clear sense of themselves as an independent, autonomous group.

4. Working with the Trusteeship Group, do the research and development work to meet the banking, coordination, management assistance, and trusteeship cooperative formation functions met by the Caja Laboral Popular and then this organization must be created. The trusteeship cooperatives are going to need capital. They can approach
the conventional lending sources in town like any other business. If their presentations are well done and if the loan is justified, it should be granted whether or not the group is a cooperative. There are a number of things which can be done to prevent the loan request from being rejected because it is a cooperative.

First, the banks should be studied and evaluated. The one which would seem to be the most helpful should be approached by members of the group to establish a working relationship. The more people at the bank who know members of the Trusteeship Group personally the better, because the issue is mainly one of trust. Technically and legally a cooperative is no more prone to failure in business than a conventional business. The problem is one of the "image" of cooperatives in the minds of bankers and their unfamiliarity with them. Thus, the need is to change this image through developing a mutually respectful, responsible, and trusting relationship with those in the bank responsible for approving loans. This will develop over time as a result of responsible behavior on the part of the Trusteeship Group and the trusteeship cooperatives as well as through processes designed to get to know each other better, such as the meeting of some of the members of the Trusteeship Group and the appropriate people at the chosen bank to explain what you are organizing.

It must be remembered that trusteeship cooperatives benefit the community in many ways—especially in stabilizing it and keeping enterprises there once started, which is very good for the banking
business. Also, banks make their money by making loans. They want loan requests. It is best to begin this relationship with a commercial bank because it will more easily be able to make all the kinds of loans the trusteeship cooperatives will need than to a savings bank. Finally, if you don't get very far, most banks will make personal loans up to $5,000 or more to individuals without collateral as long as they have good credit ratings and adequate income. Loan relationships with a bank can always begin on this basis, admittedly not at the most favorable interest rates, since each member of a trusteeship cooperative will need to make a capital investment. Once these loans have been well managed the bank will be much more prone to make loans to the cooperatives themselves.

No matter how excellent the relationship with a bank, it will not meet all the needs of the trusteeship cooperative efforts unless it is genuinely a cooperative bank. This is because there are two important goals which must be accomplished with regards to capital:

1. The capital of all who support trusteeship must be able to be used to foster trusteeship, and

2. there must be capital controlled by those who are committed to fostering trusteeship so the flow can not be stopped by an outside force.

The best solution to this is, of course, a cooperatively owned commercial bank. However, organizing one of these is a long, difficult and very expensive proposition demanding much expertise. Not impossible or too difficult; just difficult. There are other less
difficult actions which could accomplish what would be needed.

The first thing to do is to search for a geographically-based credit union or cooperative bank and to research the state laws to see, mainly, if there is any way commercial uncollateralized loans could be legitimizated. As indicated earlier there is a way that federal credit unions, which can be organized on a geographical basis, can be allowed to make commercial uncollateralized loans. For information on forming a federal credit union for this purpose write:

Jim Clark or Cheryl Bentley  
National Federation of Community Development Credit Unions (NFCDCU)  
16 Court Street  
Brooklyn, NY 10201

Organizing a federal, geographic-based credit union which is chartered to make commercial uncollateralized loans is the easiest and best solution. It allows all the functions desired to be done under one organization just as in the Caja at Mondragon.

In the meantime, since this will take some time, or if this is more than one wants to undertake at the time, there are other, simpler procedures to follow which can build to a demand for such a federal credit union. Most state Blue Sky laws (state securities laws) and the federal Securities and Exchange Commerce (SEC) laws allow a small number of people (up to 10 people or so under the federal law) to buy stock in a corporation without having to do any registration with SEC. After that, by following certain procedures and just filling out a one sheet form, up to thirty-five people can purchase stock under what is called a "private offering." Under certain conditions, thirty-five
additional investors can join every six months or so.

The following is a way these laws could be used to provide the capital for unsecured loans in a step by step development program.

(a) Sympathetic people in the community with wealth can be approached on an individual basis and asked if they would be willing to make loans to the individual trusteeship cooperatives directly with a small fee going to the Trusteeship Group for providing this brokerage function. Through this process a group of "capital supporters" can be developed and loans can be provided to the first trusteeship cooperatives directly from the capital supporters.

(b) Next a limited partnership or for-profit corporation could be formed into which up to ten or so people could invest their capital. This is the equivalent of an investment club and does not need to register with the SEC, although it may need to deal with state Sky and broker-dealer registrations which in most cases is not difficult. The value of this is that the investor doesn't have to share in each loan decision which most people wouldn't want to do anyway.

(c) Once this has worked for a while a "private offering" could be made by the same investment fund. This would allow for an additional thirty-five investors and any number of institutional investors such as banks, insurance companies, etc., or people who invest $150,000 or more.

(d) Every six months, under certain conditions, a similar offering to that made in item (c) above could be made again and an
additional thirty-five or more investors included.

(e) Eventually, with continued success and growth this investment fund could be taken public (do a full registration with the SEC) and allow investments from as many people as it can get. Then everyone could invest (or deposit capital) and the investment fund could do everything the Caja is able to do including paying interest on the equivalent of checking accounts, only the minimum size of a check withdrawal would probably have to be $500. (This would be using the procedures developed by the money market funds over the last few years.) It could be structured so one-third of the Board of Trustees is elected by the workers and the other two-thirds by the trusteeship cooperatives in the community just as the Caja's Board is.

The value of the investment fund approach is that it allows a higher interest to be paid to investors than any banks or credit unions at this time. The shortcoming is that it could not provide full checking account services. However, this could be provided by an existing state credit union or cooperative bank which already exists in the community, has checking services or could acquire them, and just needs some active support. Then the investment fund and credit union could work as partners and ease the transferability of capital from one to the other, even the investment of some of the credit union's capital in the investment fund may be possible.

Obviously, whichever one of these legal routes is pursued, legal advice will be necessary.

Whether the federal credit union route or investment fund
route is chosen, the result will be a vehicle through which at least some of the capital assets of supporters can be made available for loans to trusteeship cooperatives. Their emergence will force the issue of association of the trusteeship cooperatives which have begun if the association hasn't happened already or has been less than vibrant. A Contract of Association will have to be agreed upon and the appropriate people elected to the Board of the investment fund and/or credit union. Finally, skilled and committed people will have to be found to provide the managerial, coordination, and trusteeship cooperative services. This may be the most difficult task of all because people with trusteeship values "and" venture capital expertise are rare. One of the people who is committed, has had some business experience, especially in a trusteeship cooperative, and has an aptitude for the job as well as a desire to do it would probably be better than someone with a Masters in Business Administration from Harvard University and is new to trusteeship cooperatives.

There is one new organization, as of a few years ago, which can be very helpful to the new business formation group. It is:

American Entrepreneurs Association
2311 Pontius Avenue
Los Angeles, CA 90064

This group does research on new small business opportunities, develops booklets which tell everything one needs to know to go into the business including profit projections, and then sells them to their members. There are hundreds of new businesses for which they have done the ground work, many of which could be excellent
trusteeship cooperatives.

So far we have been suggesting small businesses of all kinds because these are easier to begin and succeed with in 1980s America than the manufacturing of washing machines, stoves, etc. It is also the way for trusteeship cooperatives to begin in any community. However, another task of the Trusteeship Group and the new Entrepreneurial Division of the federal credit union or investment fund will be to grow into bigger enterprises which require many workers. The overall purpose is to grow in the ability to offer a worker-owned job in a trusteeship cooperative to as many people who want them.

Another issue which will arise especially in 1980s America will be the conversion of existing industries to trusteeship cooperatives. This is certainly possible but very difficult. The Mondragon Cooperatives, as we saw, have not become involved in it because the motivation of the workers is difficult to change to the perpetuation of a trusteeship society from that of a capitalist one from which they have come. Obviously, if there is to be success here there must be an excellent and thorough education program, and the workers must have to put substantial amounts of initial investment into the new worker-owned business. Also the trusteeship cooperative lending group should be sure to maintain ultimate management control over the firm until the education program has clearly succeeded, and the business is on a sound footing or the loan capital has been repaid. As risky as this task is, it is a growing need in the USA and must be responded to--with compassion and sound business judgment.
5. Working with the Trusteeship Group, support for trusteeship in all political parties and in government should be sought. Assisting people to move into trusteeship cooperatives in the economic sector, the sector of most of people's daily lives, is most important because permanent changes in a free enterprise society are so dependent upon changes in the economic sector. However, there will be those who will support trusteeship and be interested in politics.

The two-party system is very rooted in the American political traditions and mores. Beginning a third party from the outset is not an approach with much potential. This is especially true when the task is to end the adversarial approach to decision-making and to replace it with a cooperative one.

Thus the goal must be to educate the members of all parties in the value of trusteeship and trusteeship economic development.

Therefore, people in all political parties can be informed and asked to support trusteeship. This is especially true given that the two dominant parties in the USA are not true political parties which hold their elected candidates to the support of the party platform. Rather, they are vehicles for individuals to seek election, each of which often pays lip service to the party platform and runs on his own platform. We are really a country without political parties. We are in politics as we are in economics--focused on the rights, freedoms, and activities of the individual.

Trusteeship, on the other hand, is, politically speaking, a platform. Thus, the focus should be to educate the public and the
candidates in it and seek support for proposals presented to further it. Any efforts to get it on the parties' platforms should be recognized for what they are at best, which is an educational activity. The important forums in the political arena are the candidates themselves and the voters. This is why there has been such a proliferation of "special interest groups." There are no real political parties to work through. Thus, in this system, trusteeship supporters have no choice but to be a special interest group also.

7. Working with the Trusteeship Group, a local land trusteeship should be organized. Many trusteeship cooperatives may emerge to meet the needs of people—such as educational, medical, social security, housing, and research trusteeship cooperatives as was the case at Mondragon—once a number of trusteeship cooperatives have been formed and the Caja equivalent is operating successfully. There is one, however, which was important to Mahatma Gandhi but unattended to by the people at Mondragon: land trusteeships.

The land and all its resources, in fact all of the universe, are not ours in Gandhi's view. They are God's. We are the trustees of them while we are here. The earth and its resources should, therefore, be held in trust and not squandered for selfish interests.

For instance, there are people starving throughout the world, yet cities continue to be built and expanded on prime farmland. Worse, the same piece of land is sold over and over again to the great benefit of the banking community and expense of the individual.

Gandhi proposed the cooperative ownership of land which would
be managed with foresight for the good of perpetual life on the planet. This could be done most easily by the Caja equivalent, as a separate second degree trusteeship cooperative, or as a first degree trusteeship cooperative depending on the situation. If done as the latter it is organized to buy land and buildings within a local geographic area—a township or neighborhood. Only the residents of that geographic area can be members of the land trusteeship. The cost of a share could be much smaller than in a worker cooperative to allow all residents to become members and share in the spirit of trusteeship, the profits to a degree, and the management of the community's natural resources. Using private offerings (the Securities and Exchange Commission's words used earlier describing a low cost issue of securities which is limited to a certain number of people also) capital could be borrowed as preferred, non-voting stock with a fixed interest return (so that when it is used as a downpayment for property at a bank it will be in an equity rather than a bond position and thus acceptable). Land and buildings could be purchased and legally separated into different deeds. The house or other buildings could be sold, but the land will be held in trust forever. Those using the land will pay a rental fee and sign an agreement which protects the land from exploitation and allows access for forest management and such.

Initially the fee would be set to cover costs. However, as more and more land became owned and paid off and there were profits made from the sound management of the resources, especially those
which are recyclable, this income surplus could to some degree be used to reduce the land rents and to some degree distributed to meet other needs. Some could go to charity, some could remain undisturbed and held in trust, and some could go to the members as in other trusteeship cooperatives. However, since there is no labor by the owner-members, this would seem to some degree appropriate for those who work for the land trusteeship but not so for the owner-members. Rather, it would seem more appropriate to have none or a small portion of profits distributed to its supporters, and the bulk of the profits held to purchase more land, a greater portion distributed to meet the social and charitable needs of the community and some invested in beginning land trusteeships at other places on the globe.

As discussed in the second chapter, the highest percentage of any investor's portfolio is nearly always in very secure investments. There is nothing more secure than land. Thus, it should not be difficult to attract capital investment in the land trusteeship if it is packaged well and provides a reasonable fixed or variable rate return to the investor.

Much has been discussed which may seem like very different teaching aids to most nonformal educators--private offerings, by-laws, credit unions, entrepreneurial associations. These are, however, the teaching aids used in this form of nonformal education, education where people live and around what matters the most to them.

The legal details and choices must be sorted out with local lawyers giving advice or as the result of some Father Arizmendi type
of legal book reading.

The design presented is a step-by-step approach to replicating the Mondragon model of trusteeship on the American scene from the grassroots up as it was done there rather than from the top down as is proposed by Carnoy and Shearer. What they propose is excellent when matched with the kind of grassroots doing which this process design for the nonformal educator will accomplish. Clearly the world needs more nonformal educators who teach in the style of Mahatma Gandhi and Father Arizmendi—or more groups who can cooperatively synthesize and add upon their assets as each situation demands.

After the formation of one or more models, others can come learn, and return home to do the same in their communities. In time there may be enough advocates to form Tsongas' "groundswell," which could demand the enabling legislation, structural changes and trusteeship cooperative processes that would enable a shift in the dominant economic paradigm to become actualized nationally and internationally.
Reference Notes

1Horace Reed, Nonformal Education (unpublished), p. 3.
CHAPTER IX
CONCLUSION

One key ingredient that Mondragon's experience adds to the challenging equation for transforming our world's immature economic systems is the objective know-how that may help lead us to a new way. The people of Mondragon have institutionalized a loving economics. The other crucial ingredient needed is the driving force equivalent to Basque nationalism, the spirit and will that could provide the motivation for many others to make a change of this magnitude. Those interested in this model will have their own motivations which will be shaped by the particular circumstances of their environment, and that may be sufficient for one or more communities to take root.

Yet for trusteeship to have the global impact that this thesis maintains it merits, there will need to be a larger, more profound shift of values—the emergence of a new collective consciousness, a new world view. And, given the volatility of the world situation, the motivation is increasing to have it happen not in a matter of centuries, but in decades or years.

Perhaps an ordinary assessment of the world today does not tender a plethora of hope. The forces of resistance to change, the leviathan concentrations of misdirected power, the conflict and chaos are great.

On reflection, however, where we look and what we see is very
much a matter of unconscious or conscious choice. One can become mesmerized by the cancers on the trees in the forest, by the seeming raging epidemic, and succumb to cynicism, terror or despair. Or one can consider that forests have suffered countless epidemics over the eons, survived and evolved—sometimes, when time was ripe and need great, quite rapidly. So with humanity. Rome was built slowly and became great, but it fell quite suddenly, and we survived the darkness. Classical Greece, the Italian Renaissance, the Age of Reason followed rather rapid changes in consciousness. The changes in this century alone are staggering.

At the turn of the century, for instance, there were very few organizations for humanistic social change. Yet today, 80 years later, the daily mail brings an undigestible flood of correspondence from activist groups of every conceivable stripe, from local conservationists to vast international agencies. One can document their failures or their successes, but in the long run, it is their growing presence which matters.

Aurelio Peccei, founder of the Club of Rome, described these groups and the many others listed in Chapter VIII as "the yeast of change," which have arisen "like the antibodies in a sick organism." Perhaps it is not coincidence that Gandhi and Father Arizmendi operated without knowledge of each other's work, yet produced something so similar—and that countless others have experimented with their ideas with no or little knowledge of their sources.

The impact of their work to date seems rather minor. Whether
that work will become a flash in the history of a declining civilization, or the basis of a new one, is a moot question—and very much up to us to decide.

Heretofore, humanity has largely trusted the future to God and Fate. Understanding human evolution has been a task of past reflection and analysis, left largely to historians and anthropologists. Predicting the future has been the province of psychics and prophets. But suddenly, we have a discipline called futurism. The bulk of futurists are academics fixated on high technology and social engineering, and are winning government funds for their research. Yet among respected futurists are intuitives and humanists as well, exploring a new subjective science our culture is only beginning to consider. These people are less interested in the objective knowledge, and more concerned with the underlying esoteric laws and chemistry that can enable humanity to create its future in more satisfactory ways than have been known before.

This century has seen the culmination of human understanding of objective physical matter, the tangible fruits of the Industrial and Technological Revolutions. With Sigmund Freud, we began the formal exploration of the psyche, an entirely new kind of science focused (thus far) primarily on the individual. Today, we just begin to have conscious knowledge to make intended and desired changes in ourselves and our personal relationships.

The next frontier in human evolution may not be outer, but inner space on a collective level—applying the mastery of ourselves.
the new understanding of what causes our individual psyches to function, to our entire society--our institutions, communities, nations. If this virtually inconceivable wisdom and skill should come to pass, we will be able to create what we envision and will: a future of our informed and transformed collective choice.

The principles of trusteeship, the Mondragon experience and the design for a nonformal educational process are offered with this possibility in mind and heart.
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APPENDIX A

ULGOR
Industrial Cooperative Society

Social Statutes

CHAPTER ONE
Basic Rules

Article 1:

With the designation ULGOR, an Industrial Cooperative Society is set up under the protection of the Cooperative Law. It will be subject to the present Statutes and current regulations for cooperatives.

Article 2:

The industrial objective of this Cooperative Society is to make and sell domestic equipment, rectifiers using continuous alternating current, and foundry items and to engage in whatever industrial activities it decides to undertake.

Article 3:

The cooperative structure is adopted because of its ability to ensure that the conjunction and regulation of production factors are carried out in keeping with the dignity and aspirations of human work within a framework of human and Christian solidarity.

Article 4:

Work is the means adopted for attaining a higher level of satisfaction for human aspirations and demonstrating collaboration with the other members of the community to promote the common good. To ensure that it is contributed freely, productively and in a manner that makes everyone's collaboration viable, the members shall respect its discipline, namely a hierarchy and level of remuneration dictated by professional classifications each of which will be consigned a numerical coefficient indicating the valuation of the respective post on a scale of indices ranging from one to three. These indices will serve as the basis for calculating social and economic rights respectively.

Article 5:

Advances on profits shall be made to workers to meet the immediate demands of their family budgets and shall conform in global average
with the middle salary level in the region, to insure solidarity in consumption levels with their respective social communities.

Article 6:

Capital is the surplus generated by work or the group's wealth and intended to meet adequately the needs of the present activity. The lending of it shall be fairly remunerated in a manner which takes balanced account of past and present sacrifices.

Article 7:

The loans made by members shall be of the level required for the competitive development of the cooperative, for an up to date level of productivity and for expressing human solidarity through expansion. In principle, these contributions shall receive 4-1/2 percent annual interest, unless a more appropriate level is dictated by the current situation or by other reasons of a legal nature.

Article 8:

The cooperative democracy is a means for selecting the best persons for self government and demands spontaneous and rigorous respect for the orders of men in command, who should offer efficient management for a dynamic process of adaptation to circumstances and overcoming of difficulties for the good of all.

Article 9:

Living up to their obligations, whether individual or collective, requires of the members a constant striving towards personal improvement and cultivation, as well as the maintenance of an adequate communal organization.

Article 10:

The lifetime of the Cooperative is to be indefinite, subject to the powers of the General Assembly of Members and such regulations as are in force for winding up. The group domicile shall be fixed in Mondragon.

CHAPTER TWO
The Members

Article 11:

The members of this Cooperative shall consist of workers, manual, administrative or technical, of both sexes who, being suitable under its rules, shall ask for membership and be accepted by the Control Committee.
Article 12:
Membership is not transferable. However, the members' heirs shall be
entitled:
a) in all cases, to the total of the economic rights represented by
the members' certificates of entitlement and
b) to the social rights inherent in the same, should they themselves
be admitted as members.

Article 13:
The number of members shall be limited. To be admitted, they must
fulfill the following conditions:
1. Be 18 years of age. Persons of less than 18 and more than 14
years of age can join as trainees or apprentices, with special
rates of pay.
2. Put up the obligatory capital contribution or hold an option on
the certificates of entitlement or share of a member whose mem-
bership has terminated under the previous article.
3. Prove that they are of good conduct and have the aptitude for the
duties or activities with which they are entrusted.
4. Be presented by 2 members and admitted by the Control Committee,
after an obligatory probationary period, normally 3-6 months.
A favourable report will be required from the Management in order to
obtain formal acceptance by the Control Committee.
5. Preference will be given to applicants who fulfill the following
conditions:
a) Members, previously surplus to requirements, who ask for read-
mission.
b) Trainees/apprentices who pass the final tests.
c) Those applying under Article 19.
d) The children of cooperative members who fulfil the necessary con-
ditions of suitability and other family members up to the second
degree.

Article 14:
The members shall enroll in the Membership Register once they have
been accepted and they shall be given their certificates of entitle-
ment, duly formalized. Appeal against the decisions of the Control
Committee on admission and expulsion of members can be made to the
General Assembly of Members.

Article 15:
The duties of the members are:
1. To perform the job or duties with which they are entrusted in
accordance with their professional abilities, and to carry out the
orders given by their superiors at work.
2. To accept and perform diligently the group responsibilities which they may be allocated.
3. To attend the group functions to which they may be summoned.
4. To meet the group charges and, where applicable, the fines and sanctions which may be imposed on them for failing to fulfill their duties as members.
5. Not to be a member of any organization with the same or similar industrial objectives; nor to lend their services to, or work for, any other industrial or commercial organization, without express authorization from the Control Committee.
6. To fulfill all the agreements, observing good behaviour in close collaboration with their fellow workers.

Article 16:
The members' rights are:
1. To hold a job of work in keeping with their professional abilities and qualifications.
2. To have the right to speak and vote at Ordinary and Extraordinary General Assemblies.
3. To receive formal information about the group's operations through the regular channel of the Control Committee and the Council of Vigilance.
4. To enjoy the benefits and services due to cooperative members.

Article 17:
Membership shall be terminated because of:
1. Personal choice. A month's notice shall be given in writing to the Control Committee.
2. A serious breach of discipline. The agreement of the Control Committee must be obtained before the negotiation of proceedings.
3. The loss of civil rights through the imposition of a firm sentence of conviction for common offences.
4. Death.

Article 18:
The economic shares of members who cease membership because of death shall be realized according to their real value. The shares of members who leave for other reasons may, at the discretion of the Control Committee, be liable to a deduction of up to 30 percent of their real value. This deduction will be credited to the Reserve Fund. In both cases, the departing members shall have the right to the part which is due to them from the returns of the financial year in which they leave.
Article 19:
The Cooperative shall not use any personnel other than its own members, as a general rule. Through appropriate agreements with other cooperative enterprises, whether in similar or complementary fields, it will arrange, among other things, to transfer its own excess work or to take on that of others, even to the extent of transferring members, in such a manner as to maintain its process of development and spontaneous organic growth, according to the conditions prevailing in the group economy.

Article 20:
The technicians, travellers, representatives and other staff who work on a contract basis with the Cooperative shall not consider themselves in any way as cooperative members and do not have any rights other than those required to fulfil the obligations contracted in accordance with Common Law.

CHAPTER THREE
The Economic System

Article 21:
The group capital shall consist of the contributions which the members shall make, under the present Statutes, in the form of capital transfers, part obligatory and part voluntary. And a collective cooperative fund, which is required for the development of the Cooperative, under the control of the General Assembly.

Article 22:
All members shall contribute, as part of their capital transfer, some amount to the Reserve Fund already existing in the Cooperative. The nominal sum payable shall be clearly fixed by the Control Committee for the members admitted in each financial year.

The obligatory contributions of capital shall be liable to change and vary between a minimum laid down by the Control Committee and a maximum which current regulations require.

The voluntary contributions, once accepted, shall have the same rights as the obligatory capital contributions in all respects, unless the General Assembly agrees otherwise.

Article 23:
The members' contributions, whether voluntary, obligatory or collective, shall receive 4-1/2 percent annual interest. The General Assembly of Members can authorize whatever increases over and above
this amount it thinks fit with the aim of stimulating the maximum economic collaboration of the members whenever this is required for the development of the Cooperative.

Article 24:

The economic contributions of the members shall be adjusted each financial year to take into account the depreciation in value of the fixed assets. These adjusted figures will also take into account the payment of interest and refunds.

Article 25:

The liability of the members for the group's operations shall be limited to the value of the contributions which they are obliged to make under these Statutes and under resolutions which have been validly adopted.

Article 26:

Of the residual surplus, 15 percent shall go to the Reserve Fund and 15 percent to the Social Fund. These percentages can be altered in that one can be increased and the other decreased, but together they must not total less than 30 percent. Further community payouts will be made when examination of the occasion and a balanced investigation of personal and social effects demands. The remainder will be distributed in cooperative bonuses to members in direct proportion to the amount of service rendered by each one of them.

Article 27:

The Reserve Fund shall be totally dedicated to the financing of the fixed assets of the Cooperative and shall not be divisible or repayable. It shall contribute to the consolidation of the organization as a community of work.

The Social Fund is intended primarily to aid the development of a community substructure suitable for the progressive application of equality of opportunity in culture and health with the promotion of the corresponding cultural and welfare institutions.

Article 28:

For the bonuses paid to members to be, wholly or in part, freely disposable by them, the following conditions must be met:

a) The contribution of the member must be sufficient to cover the average fixed assets tied up per employee, after deduction of the proportion financed by the Reserve Fund.
b) The working capital necessary for the competitive execution of the Cooperative's programmes must remain adequately covered.

c) A communal sum adequate to promote the extension of Cooperative membership must have been decided on and provided for.

Article 29:

This communal retention of bonuses, which shall be regulated by the Internal Code of Rules, is to enable the Cooperative, in its role as guardian of the group's interest, to renew equipment, reinforce its position and help the community. Similarly, intercooperative solidarity will be encouraged and one of the expressions of this will be reciprocal arrangements with cooperatives resulting from the agreements foreseen in Article 19.

Article 30:

The bonuses which are not freely disposable, as calculated in each financial year, will be paid to each member of making a book entry in his contributed capital account. And against this security members shall be able to obtain credit up to such limits and under such conditions as are laid down by intercooperative agreements or by communal welfare organizations that have been established in collaboration.

Article 31:

The accounting shall be done in double entry. The books shall be made available to the Vigilance Council ten days before they are to be published and they shall be published ten days before the day fixed for the General Assembly which must review them. (The name of the Vigilance Council has been changed to Accounts Checking Committee.)

Article 32:

The Control Committee shall name the date for payment of interest and cooperative bonuses agreed by the General Assembly.

CHAPTER FOUR
Governing Bodies

Article 33:

The government of the Cooperative shall be carried out by the following bodies:

The General Assembly of Masters, the Control Committee, the Management and the Vigilance Council.
CHAPTER FIVE
The General Assembly of Members

Article 34:
The General Assembly of Members is the body through which the members express their wishes. There can be ordinary or extraordinary meetings.

Article 35:
The powers of the Ordinary General Assembly shall be:
1. To review and approve the accounts and balance sheets at the end of the financial year.
2. To agree to the level of capital contributions and financial cooperation of the members, the requirement of additional contributions or issue of loan stock, whether or not group assets are used as security.
3. To approve the Internal Code of Rules and to establish and modify the rules for the organization and regulation of the various services of the Cooperative. In the Internal Code of Rules shall be laid out the methods by which the Councils and other complementary bodies shall function.

Article 36:
The powers of the Extraordinary General Assembly shall be:
1. To change the Social Statutes.
2. To arrange for amalgamation, union or collaboration with other cooperatives or organizations.
3. The dissolution of the Cooperative.
4. The nomination of persons to constitute the Control Committee and Vigilance Council, in accordance with current regulations and the appropriate Statutes.
5. The nomination of or proposal of liquidators.
6. All matters of serious import which fall outside the sphere of responsibility of the Control Committee or which the Control Committee thinks fit to submit to its judgment and consideration.

Article 37:
The General Assemblies, both Ordinary and Extraordinary, shall consist of all the members present and the agreements taken according to the rule are binding on those absent and those who voted against them.

Article 38:
The Ordinary General Assembly must meet within three months of the end of the financial year and will be called at eight days' notice by the President of the Control Committee, by means of a notice, together
with an Agenda, posted on the noticeboard of announcements at the group's premises.

Article 39:

The Extraordinary General Assembly shall meet by special request, with a definite list of matters to be dealt with, on the initiative of the Control Committee or of one third of the members. If, at the first meeting, there are not present 50 percent plus one of the members, a second meeting shall be held half an hour later and decisions can then be taken by whatever number of members are present. The regulation of the General Assembly shall be subject to current government regulations and the special rules, which shall be laid down in the Internal Code of Rules.

CHAPTER SIX

The Control Committee

Article 40:

The Control Committee shall be made up of a President, Vice President, Secretary and six committee members. When the nominations are made, arrangements shall be made for some substitution among them. It shall be the directive body of the Cooperative.

Article 41:

The duties of the Control Committee shall be unpaid, accept whatever receipts they may earn by the administrative or technical jobs they perform while members. Their term of office shall last for four years. Half of the Control Committee shall be renewed every two years, retiring members being eligible for re-election. The half to be changed after the first Control Committee has been in office for two years shall consist of the Vice President, Secretary and two members.

Article 42:

The officials of the Control Committee shall be selected by the members by secret ballot. Each member shall hold as many voting papers as he does unitary fractions corresponding to the coefficient of his professional classification, and will obey the rules of the Internal Code of Rules and current government regulations throughout the proceedings. (This has been amended to be one vote per member.)

Article 43:

Vacancies which occur between two General Assemblies shall provisionally be covered by the Control Committee itself and filled definitively at the first General Assembly that is held. Those chosen to
cover these vacancies shall only fill them for as long as there are no substitutes and this shall not prejudice their chances of re-election.

Article 44:

The Control Committee is obliged to meet once a month and there is no need for notice to be given beforehand. On its own account it can meet as often as the President sees fit or if two members request it. Decisions will be taken by majority vote of those present at the meeting. In cases of stalemate, the President shall have the casting vote.

Article 45:

The powers of the Control Committee, in general terms, are:
1. The admission of new members; setting the level of capital contributions, both obligatory and voluntary, and of bonus payments to capital accounts; deciding how the surpluses should be distributed; fixing the members' personal coefficients; agreeing on outside, voluntary contributions; fixing the level of workers' wages.
2. The appointment of management and Directors to run the technical, economic, commercial and labour affairs of the Cooperative.
3. To work out and agree on the Internal Code of Rules which shall be submitted for the approval of the General Assembly of Members.
4. To work out and agree on the general plans for the conduct and development of the Cooperative on the various financial, industrial, commercial and social levels.
5. To have charge of making deposits, opening current accounts, buying and selling of liquid and fixed assets; the disposition of funds, the contracting of debts and the granting of loans.
6. The expulsion of members or suspension of their rights.
7. Decisions upon judicial actions.
8. The resolving of any doubts about the interpretation of the Statutes and Internal Code of Rules which may arise; the supplying of omissions, for which it shall account to the next General Assembly that takes place.
9. The assumption of any powers that are not reserved for the General Assembly or entrusted to the Management.

Article 46:

The President of the Control Committee shall be the official representative of the Cooperative both in a legal and non-legal capacity and shall have the power to delegate specific duties to third persons. He shall have the power to sign on behalf of the group and shall call and preside over meetings of the General Assembly of Members and the Control Committee. The Vice President shall stand in for the President in the latter's absence and on any other occasions he is required to by the Control Committee.
Article 47:
The Secretary's duties are: to look after the books, documents and seals of the organization except for the accounting books; to take charge of the Membership Register; to draft the minutes of the General Assemblies and the Control Committee; to make out certificates with reference to the books and documents of the Cooperative with the consent of the President; to deal with the organization's official correspondence.

Article 48:
The members of the Control Committee shall perform those duties which shall be respectively allocated to them by the agreement of the Control Committee.

CHAPTER SEVEN
The Management

Article 49:
The Management is the executive body of the Cooperative as a productive unit and may consist of one or more persons at the discretion of the Control Committee who shall nominate the individual or individuals. The managers cannot be members of the Control Committee but may attend their meetings, at the discretion of the latter, at which they may speak but not vote. Their appointment shall be for a minimum term of four years and cannot be terminated during this period except for serious reason--abuse of confidence, exceeding of authority, failing to obey the rules agreed by the Control Committee, causing harm to the Cooperative's interests--all of which must be proved in transactions documented by the Control Committee and agreed to by an Extraordinary General Assembly.

Article 50:
If the Management consists of more than one person, these managers shall meet once a week and whenever they so decide by mutual agreement. These meetings, at which minutes shall be taken, shall be attended by a representative of the Control Committee--which shall select him from among its own members in the capacity of a delegated advisor. He will be able to speak but not to vote.

Article 51:
The Management shall be kept under review by the Management Council and the Social Council.
Article 52:

The Management Council shall be a body that reviews arrangements and provides advice to the Control Committee and the Management. It shall consist of the Management and high ranking executives of the firm and such representatives who become eligible under agreements arranged under Article 19. It will study general problems that affect the ordinary running and business success of the Cooperative. It shall meet once a month by order and as often as its President decides.

The executives, who are not managers, belonging to the Management Council shall be automatic members of the Control Committee, allowed to speak but not to vote, if their membership of the same is not already assured by election.

Article 53:

The Social Council shall be the representative of the cooperative members as workers and will be a body that reviews arrangements and provides advice to the Control Committee and the Management, being required to keep them informed on everything relating to the prevention of accidents, security and hygiene at work, social security, systems of remuneration, administration of the Social Fund and welfare matters. It shall have a maximum of 50 members, 3 from each group of more than 30 cooperative members who work and live together. They will be nominated by whatever means the Internal Code of Rules shall specify. The members of the Control Committee with a professional coefficient of less than 1.6 shall automatically be members of the Social Council. Their meetings shall be presided over by whoever the Control Committee designates, according to the nature of the subjects to be dealt with. The President of the Control Committee or of the Management can always preside at their own discretion.

Article 54:

It shall be the role of the Management to deal with all administrative matters concerned with finance and trade, the execution of production programmes and the nomination of subordinate personnel, which shall be carried out in agreement with the Internal Code of Rules, and the coordination of programmes and plans from the various divisions, offices, sections and workshops. All this shall be done in agreement with the general plans approved by the Control Committee and the information on everything to do with production and administration that has been passed to the Control Committee.

These powers shall be granted by a notarised authorization from the President of the Control Committee, and in the case of a management team it shall specify the duties allocated to each manager.
Article 55:

The Control Committee shall enjoy wide powers to adjust the economic circumstances of the Management, Directors, Management Council members and also technical or highly qualified research personnel, so as to arrange their personal agreements and terms of collaboration.

CHAPTER EIGHT
The Vigilance Council

Article 56:

The Vigilance Council shall be made up of three members of the Cooperative who shall be nominated by the General Assembly of Members in accordance with current government regulations and special rules.

Article 57:

The members of the Vigilance Council shall hold office for four years--unless in the meantime they are elected to the Control Committee or given jobs in Management in which case their office shall at once be automatically terminated--and a whole new Council shall then be elected, the members holding office being eligible for re-election.

Article 58:

The powers and duties of the Vigilance Council relate to financial control or inspection, to provide information requested by the General Assembly of Members or other competent bodies and it can be advised in its assignment by outside experts from a second degree cooperative, who can even be taken on to do the job instead as long as they are recognized as capable of such duties by their own institution.

Article 59:

The Vigilance Council shall act in accordance with current government regulations and those established by the Internal Code of Rules and can take upon itself some powers of arbitration in the first instance.

CHAPTER NINE
Dissolution and Liquidation of the Cooperative

Article 60:

The Cooperative shall be dissolved by agreement of two thirds of its members at a General Assembly, by reduction of its members to the minimum permitted under current regulations or by the decision of a competent superior institution. In these circumstances, the General Assembly of Members shall decide the rules of liquidation, which it shall be their duty to carry out, and shall fulfil the legal requirements.
Article 61:

Questions which arise on the interpretation and application of these Statutes or as a result of the acts or contracts of the Cooperative with its associates, shall be settled by obligatory arbitration by the appropriate bodies or by the formulas laid down in current regulations.
APPENDIX B

ULGOR

Industrial Cooperative Society

Internal Code of Rules of Ulgor

Fundamental Rules.

1. The dignity of work
   The constitution of this firm as an Industrial Cooperative Society is due to its members' intention that human work should enjoy the prerogatives inherent to its dignity by means of the structural subordination of the other necessary elements in all productive process.

2. Solidarity
   The members of this Cooperative proclaim their need of each other and willingly accept the sacrifices and limitations imposed by team work, considering such sacrifices as a loyal expression of brotherhood in honour of the common good.

3. Authority
   Human work must be subject to discipline and its performance as a team effort requires order and thus authority. The members of this Cooperative, once they have elected those most suitable for government, must show spontaneous and rigorous respect for the orders of those who hold positions of command within their internal structure.

4. Capital
   In order that work shall be increasingly productive it must be able to have backing from its own proceeds accumulated by means of saving and provisions made or whatever is obtained through incentive of a just correspondence. All shares issued by the Cooperative shall receive 4-1/2% annual interest and its payment shall be considered in the same way as the payment of wages.

5. Social security and mutual provision
   Except for what is stipulated in this respect with an obligatory and general nature by the binding regulations, the social security and provision of this Industrial Cooperative Society, as corresponding to that of the workers on their own account, shall follow these basic concepts:
   a. It shall fulfil the need to establish a system of aid and social provision adequate for the cooperative members, in keeping with the economic requirements of their community of work.
   b. It shall be of a complementary nature because the long-term
loans which shall be arranged must be covered, mainly by the building up of a patrimony produced by work and the capitalization of a member in his cooperative (i.e. capital which is built up by work and shares issued to members).

c. It shall be channelled via a specialist mutual body set up in collaboration with other cooperative organizations. Membership of this body shall be obligatory for cooperative members.

d. To achieve the level of responsibility required of each member, it shall be financed exclusively by means of part of the wages earned by the same.

6. These shall include the value of current payment, called 'advance of payment' and those things necessary to finance its own social security called 'provisionary advance.' These two together shall make up the 'total working wages' or simply 'wages.' They shall correspond overall to the medium salary level of the zone, taking as their comparative base the most representative firms. They shall also take into account as subsidiary concepts:

a. The level of family needs, in cases of salary policies which are obviously insufficient in the zone.

b. The conditions prevailing in the social economy of the region.

c. The competitive position of their own cooperative on a strictly business level.

d. The production levels technically achievable in relation to the corresponding salaries.

7. The coefficients

The members shall be classified according to their abilities and their effective working collaboration within the firm and their wages shall be in proportion to their professional classification.

The indices shall relate to actual duties and not to professionally or academically defined qualifications. The possibility shall remain open that posts can change classification as a result of technological or structural advances.

The structural valuation of each duty, which shall be reviewed periodically, shall be decided upon after due consideration of the factors which define each job. The personal work index of each member shall lie within the limits of a field of duty around the structural index of the job which he performs, in accordance with his actual performance.

8. Social participation

The members of this Cooperative shall share in its government as equals; each member shall have a vote in the General Meetings and his vote, except in cases foreseen in Rule 26 (Article 26) of this Code of Rules, shall be secret.

9. The returns

The members shall share in the Cooperative's returns in proportion to the amount of collaborative effort they perform within it. The
returns shall be proportional to their total wages and their capital investment.

10. Conditions of Work
It is the wish and firm decision of this Industrial Cooperative Society to aim towards the best progression of working conditions at all levels. The articles of this Internal Code of Rules shall not be of a restrictive nature, but rather a guide to internal discipline and better social collaboration. In the internal rules of the community of work everything of an obligatory and general nature in the rules upon work matters shall remain in force and everything related to them shall be compatible with the nature of this Body and the condition of the members of all its collaborators, and, as such, subject to the consequences of its contract of association.

11. The contract of association
The contract of association which regulates the reciprocal relations between the Cooperative and the members, constitutes, besides the Social Statutes and Internal Code of Rules, the rules of the Bodies of which the Cooperative forms a part, and other rules and agreements validly adopted, which to this end shall remain incorporated in the aforementioned contract of association.

12. Sphere of application
The application of what is stipulated in the present Internal Code of Rules shall remain subordinate to what is laid down in the Statutes and Rules pertaining to bodies of the second grade, like CAJA LABORAL POPULAR, etc. to which the Cooperative is associated by agreement validly adopted by its General Meeting. In cases of conflict, real or apparent, between them, those rules pertaining to the associated bodies, or, where these are lacking, the conditions controlling agreements with arbitors, shall prevail.

Social Structure And Government Hierarchy

13. The organs of government and high level management of the Cooperative are the General Meeting and the Governing Body, and it is their job to study and approve the plans of action. Their members shall be worthy of the confidence and respect of all the members, and must take upon themselves the normal carrying out of the aims and wishes of all the personnel.

14. Without encroaching on the powers which, as a result of that foreseen in article 12, pertain to the organs (bodies) of ULARCO, the executive command shall be as follows:
   a. The execution of plans and consequently decisions on their application shall be the job of the Management, which shall answer to the Governing Body for the carrying out of the same.
   b. The Management shall be nominated by the Governing Body. The directors and high level executives with an index rating above
2.4 shall also be nominated by the Governing Body, but at the proposal of the Management.

c. Those who hold posts between the indices of 1.6 and 2.4 inclusive and are fundamental to the carrying out of industrial plans, shall be nominated by the Management, at the proposal of the corresponding executives.

This chain of command shall be set up and shall act with the maximum autonomy, aided by the advice stipulated in the Statutes without their field of action being liable to other interference.

The members can present their dissatisfactions in this respect—once the executive level has been applied to—to the President of the Governing Body, but they can never be excused from carrying out the orders of their superiors.

15. A member who holds a high social or executive post and asks to leave the Cooperative and is permitted to, or is submitted to proceedings as a result of a serious breach of the rules, shall have his present post automatically suspended from the date his departure is requested or proceedings are started against him, unless the Governing Body decides to the contrary by a two thirds majority.

16. The members of the Governing Body and the Directive Council (Board of Directors) shall, on account of the posts they hold, be obliged to observe professional secrecy on matters which they understand to be confidential. Anyone who fails to do this shall be liable to suspension from their post, proceedings previously having been set in action by the Governing Body.

17. The execution of plans and the study of problems related specifically to business promotion shall be the responsibility of the Directive Council. One of its basic duties shall be the drawing up/editing of the annual management plans. Its president, together with his powers and prerogatives, shall be decided by the Governing Body, in the same way as the rest of the components of the same (all the other members?).

18. The Social Council shall represent the members in the specific sphere allocated to it in the Social Statutes. It shall be set up on the level of the production plants (i.e. works) if the Cooperative has more than one. The designation of the members of the Social Council shall be carried out when the total personnel has been distributed among social work nuclei. This distribution shall be independent from the functional (labour) division laid down by the administration. In each work nucleus a spokesman shall be elected by each ten workers, unless the total number of spokesmen elected in this way would exceed 60 per plant, in which case this number shall be ratified according to the importance of each nucleus.
Once the election has been opened, the personnel of each nucleus shall vote only for their own nucleus members. The spokesmen shall be elected for 3 years and can be re-elected. Each year one third of the Social Council shall be replaced.

19. In the case of Social Councils being established per plant, the full general session of the Social Council of the Cooperative shall be made up of a maximum of 50 members, each plant council nominating representatives for the full session in proportion to their respective number of members. The full session of the Social Council shall meet at least every three months and the plant councils at least every month.

The Social Council, both at cooperative and plant levels, shall nominate from its midst someone to act as Secretary and can even set up a permanent commission to which it shall have the authority to delegate any of its powers that it thinks fit.

20. Even though the paths of recourse and arbitration and the institutionalized defence of persons and different bodies of the Cooperative shall be guaranteed within their own organization under the social Statutes and this set of rules, unforeseen discrepancies of a particularly serious nature shall go to the arbitration, in the last instance, of the CAJA LABORAL POPULAR, once all paths of internal conciliation have been exhausted.

21. The worker members who join the Cooperative shall sign the corresponding membership contract when their entry to the Cooperative is formalized. All members shall have free access to a copy of the Social Statutes and the Internal Code of Rules which are in force.

22. Students who are credited with regular attendance and good academic progress at technical centres and who are part of a cooperative body whose aims are collective action and solidarity, shall be allowed to undertake daily work in keeping with their ability via intercooperative agreements arranged with their own cooperative. The clauses of agreements of this kind shall regulate the agreed reciprocal earnings. During, or at the end of their training period, they may be admitted as members, consideration being given to the other requirements demanded.

The Government of General Meetings

23. General Meetings can be ordinary or extraordinary. The Ordinary General Meeting can be called, at one and the same time, with the character of an Extraordinary General Meeting in order to make decisions upon matters which are within the sphere of the latter, as long as this is explicitly indicated in the Order of the Day.

24. The Extraordinary General Meeting shall be called in the same way
as the Ordinary General Meetings. It shall also meet when one third of the members request it in writing to the Governing Body, giving a full exposition of the matters which they wish to submit for its decision. The Governing Body cannot delay more than a month in calling these Extraordinary General Meetings, but it can arrange that other matters are included in the Order of the Day.

25. So that the General Meeting, Ordinary or Extraordinary, can take decisions, at the first meeting 50% plus one of the members must be present. If this number is not reached, a second meeting shall be called half an hour later in the same place and validly binding decisions can be taken by whatever number of members are present.

26. For relative agreements about or questions touching on the stability or development of the Cooperative, excluding those which imply judgment upon persons, individual votes can be used, at the discretion of the Governing Body.

27. The General Meeting shall be set up under the Presidency of the President of the Governing Body or the person who statutorily substitutes for his authority; and the Secretary of the latter, or the person who stands in for him under the rules, shall also act as Secretary to the General Meeting.

The President shall direct the discussions and take care, as is responsibility, that there is no sidetracking or submission to the General Meeting of matters not included in the Order of the Day.

28. For the General Meeting to proceed, in the first instance all those attending shall meet and their respective representations shall be made. Protests made shall be included or excluded from the records at the discretion of the President and the Vigilance Council.

The minutes of the last General Meeting shall be approved and then an examination of the matters to be dealt with shall be made in the order provisionally stipulated by the President.

29. The matters submitted for the decision of the General Meeting shall be resolved either unanimously or by vote. Unanimous approval shall be understood to exist when the motion submitted for the consideration of the General Meeting does not arouse reasonable public opposition, bringing to light the existence of different points of view which demand a vote to be taken.

In cases where voting is necessary, a simple majority of votes shall carry a motion, except in those cases where a qualified majority is needed in agreement with binding requirements of a legal, statutory nature of relating to regulations.

30. Without prejudice to the rights to receive information, to inspect, to be present and to speak, the use of the member's right to his vote in the General Meeting shall be conditional on his fulfilling the following requirements:
   a. To have paid up the total minimum share.
b. To have been present--except in the first instance--at the preceding General Meeting, either in person or indirectly by means of approved representation, except in exceptional circumstances, to be decided by the Governing Body.

c. Not to have been submitted to disciplinary procedures because of a very serious social offence nor to be subject to temporary suspension of the right to vote under article 131.

31. A two thirds majority of the voters present and represented in the General Meeting shall be needed to make decisions upon the following questions:

a. The dissolution of the Cooperative
b. The joining, union, association with or separation from other cooperatives or bodies
c. The modification of the Social Statutes
d. The obligatory increases in capital foreseen in article 59

32. For the purposes of representation referred to in article 28, each member can forward the representation of only one other member, assuming the power by means of written authorization provided by signing on the verso of his own personal letter of convocation and that of the member represented.

33. A Minutes Book of the General Meetings shall be opened and duly started in accordance with the binding regulations and the minutes of each meeting, together with a list of the decisions adopted in each case, shall be entered in it.

The minutes shall be authorized by the signatures of the President, Secretary and members of the Vigilance Council present.

34. Decisions reached validly by the General Meeting shall be executory and shall be carried out within the agreed terms without waiting for the approval of the minutes at the next meeting, without affecting the other agreements and requirements that may be necessary and may result from express legal or regulatory precept.

The Electoral Regime

35. In order to select the members of the Governing Body and the Vigilance Council, all the members who are in full possession of their social rights shall be electors. Only those who, having fulfilled the aforementioned conditions and have been proclaimed as candidates according to the rules laid down in the following article, shall be eligible for election.

Moreover, to be eligible for the office of President, the candidate must have been a member of the ULARCO cooperatives for at least 4 years.

36. The nomination of candidates shall be carried out in the following
manner:

a. 3 candidates shall be proposed for each seat on the Governing Body or Vigilance Council which is vacant.

b. A third of the offices shall be open to members who wish to present themselves directly. In order to do this, the applications must be backed by the signatures of 20 per 100 of the members, or alternatively of 200 members, as a minimum. If directly presented candidates number more than the anticipated third, those in excess shall be eliminated by the process of discarding those with the least number of supporters.

c. Another third of the candidates shall be chosen by the Social Council by majority vote. If the total of directly presented candidates does not reach a third, the number lacking will also be made up by persons selected by the Social Council.

d. Finally, the last third of the candidates shall be made up at the discretion of the Governing Body who shall also carry out the definitive nomination of candidates in the aforementioned manner, giving a minimum of 8 days' notice to the General Meeting.

37. Voting at these elections shall be secret and to this end each elector shall have one vote which he shall place on the Electoral Table at the time of election.

38. Any member who, under article 32 represents another, must produce the said representation for verification at the Electoral Table before voting.

39. The Electoral Table shall consist of 3 members, the Table Secretary and an Inspector from the Vigilance Council. The 3 members shall be those who have most seniority as members and hold no social office from each of the following professional groups: administrative, technical and workshop personnel.

40. The President of the Electoral Table shall be the most senior of the 3 members and the Secretary shall be that of the Governing Body. The count shall be public and carried out by the Electoral Table in the presence of all its members. Minutes shall be taken and signed by the President, Secretary and Inspector of the Table, the report being produced after publication of the results.

The Economic Regime

41. The economic regime of the Cooperative, considered as a whole, shall be governed by what is laid down in the following articles. Nevertheless its application can be temporarily suspended, if their contents are found to contradict the binding regulations on any relevant matter and in this case, the precepts in force shall be applied according to the criteria of what is the nearest possible equivalent and most suitable in each circumstance.
Nature of Shares

42. The members of this Cooperative shall take out shares as surrendered capital, deducted voluntarily or by order of the Cooperative.

The term 'surrendered capital' shall be understood to be the total of the fixed shares (subscriptions) which, in the terms of allocations to the Reserve Fund, satisfy the members at the moment of entry.

The 'deducted capital' shall be made up from the shares of members up to the legally binding level. Excess of subscriptions above this limit shall be considered as voluntary shares (contributions).

Under the heading of 'obligatory cooperative capital' shall be numbered the shares (subscriptions) of other bodies which become liable under cooperative or intercooperative pacts or agreements without altering the judicial standing of the bodies, and which are necessary to ensure full development and execution of social and economic aims of the cooperative.

The total of the shares held, voluntarily and obligatory, in the cooperative shall make up the accounting shares.

43. In no circumstances can any individual member hold shares totaling more than 5% of the total accounting shares. As (As for?) the minimum accounting share, for each financial year, the payment shall be fixed in that year from the unit one in the concept of advance of consumption.—I think this must mean 'wages.' The total of obligatory shares shall be regulated under the pacts mentioned in the previous article.

44. The share (subscription) in the concept of surrendered capital of each of the initiatory members shall be 1,000 pesetas. (each share or total amount contributed?) Afterwards there shall be set up yearly:

a. An index resulting from the quotient of the Reserve Fund divided by the accounting shares paid, the division being carried out in the same way as the year before.

b. A second index quotient of the last divided by the prevailing general index of prices of 'metals, metal products and machinery' published by the National Institute of Statistics.

The resulting value of the product of these two indices shall be multiplied by the previous sum allocated in shares to 'surrendered capital' in order to determine that for the following financial year.
However, if circumstances require it, the Governing Body shall have the power to alter the sum resulting from the application of the above formula.

45. Each year a bringing up to date of the assets and a setting of the accounting shares shall be carried out. (preparation of balance sheet and profit and loss account?)

This bringing up to date shall be carried out by applying the index obtained in accordance with part b of the preceding article to the Balance Sheet which represents the fixed assets, although these may be higher than the sum of the aforesaid shares in which case these shares shall be updated by means of the index aforementioned.

Revaluations or depreciations applying to one year shall be put into force from 1 January of the following. They shall not be exactable or valid for accounting purposes to any economic end until this date.

46. The economic shares of the members cannot be pawned without the previous permission of the Governing Body. Members who carry out pawning of this sort without permission shall become subject to conditions laid out in article 51.

47. The Cooperative shall guarantee to be responsible for all those economic contributions (shares) which it has contracted with outside bodies, giving preference to such credits over and above all other bills, even to the extent of decreasing wages and payments due on shares.

Shares, Basic Returns

48. An interest rate of 4.5% per annum shall be payable on shares of surrendered capital, both voluntary and obligatory.

This rate of 4.5%—to be paid half yearly in arrears, whether there are surpluses or not—shall be applied according to the corrected values of each member's shares, which shall be agreed under article 45.

49. Independently of the payment fixed beforehand, variable payments complimentary to the total sum of surrendered capital, voluntary and obligatory, shall be arranged to compensate for the risk entailed by investment made until this risk is eliminated by means of repayments totalling the entire sum furnished. The risk premium shall in principle bear 1.5% annual interest and cannot, in any case, be less than 1%. Above this minimum, the General Meeting, at the proposal of the Governing Body, shall agree any changes in level that variations in risk and market circumstances make advisable. These risk bonuses agreed by the General Meeting
shall remain in force for 3 years, unless an increase is negotiated during the period laid down.

The risk bonus shall only be drawn in years which show a profit and shall be paid half yearly in arrears, in relation to the same. It shall be applied in itself to the corrected share values.

**Shares--Paying Up Of**

50. The contributions (shares) shall be paid up at times and in amounts decided by the Governing Body. The members must normally pay the initial contribution that they have undertaken within 90 days from receiving notification of their admission. The Governing Body shall fix the conditions applying to the situation and consequences of persons who do not pay their initial contribution within the fixed period.

51. The members who refuse to pay the financial contributions they have undertaken to provide in agreement with the Social Statutes, this Code of Rules and validly adopted agreements, shall in the first instance be suspended from taking part in the Cooperative's government and after examination of their case, with all necessary formalities, their expulsion can be proceeded with.

**Shares--Liquidation Of**

52. For purposes of liquidation—and also of evaluation of the corresponding returns—the real value of the member's share at the beginning of the financial year shall be understood to be the balance yielded by his share account or entry in his title-deed, once the returns, positive or negative, of the previous financial year have been taken into account and the updating foreseen in article 45 has been carried out.

Normally, and except for the things stipulated in this respect by binding legislation, the liquidation of the economic rights of the members who cease membership because of death or marriage (members who marry shall automatically cease to belong to the personnel from that moment except for professional workers of levels 5 or 6) shall be carried out in two stages:

a. within 90 days of cessation of membership, the real value of the share at the beginning of the financial year shall be liquidated, plus the basic interest and risk bonus earned up until that date and not already paid.

b. after the Ordinary General Meeting of the year following the cessation, within 60 days, the value of the returns, positive
or negative, of the financial year in which the cessation took place shall be liquidated together with the revaluation or depreciation of the year. (after revaluation and depreciation have been taken care of?)

54. In the case of liquidation of economic shares of members who cease membership voluntarily or on account of disciplinary action, the governing Body can, at its discretion, impose a deduction of up to 30% of the real value of the shares as accounted at the beginning of the financial year or of their real value 6 months previous to the date of cessation. The cancellation of the economic rights of those ceasing membership shall be carried out as laid down in the previous article.

55. In the case of death of a member, the persons named in the clauses of his will shall, when this has been proved, be considered as his heirs. If he dies intestate, recognition of heirs' rights to the economic share of the dead member shall depend upon laws in force.

Shares--Increases In, Transference of

56. The Governing Body shall ask the General Meeting for authorization to negotiate whatever increases in the economic contributions (number of shares) it thinks fit and necessary for the development of the Cooperative.

In order to achieve these increases agreed by the General Meeting, each member shall inform the Governing Body at its request and within one month, of the amount he proposes to contribute.

57. If the proposed share increase does not cover the expansion projected, each member shall be allowed to make effective the total which he has proposed, taking into account the limitations of article 43, the Governing Body retaining the liberty to contract the quantity missing up to the approved total in the manner and under the conditions agreed by the General Meeting. If the number of proposed shares exceeds the expansion projected, the Governing Body shall update some issues (allocations), distributing pro rata the amount of the increase in inverse proportion to the capital investment already held by each subscribing member in such a way that no member's share can, after the said increase, exceed that of another subscriber to the proposed increase who formerly held a bigger share.

58. The issues thus established shall be submitted for examination by the Vigilance Council who must communicate their approval or objections to the Governing Body within 15 days (fortnight). Once they have been approved, the Governing Body shall inform each member of the size of the increase to which he is committed and the circumstances under which he must fulfil it by means of a formal, written communication signed by the President of the
Governing Body, upon which copy the member must signify his agreement.

59. The General Meeting can agree by two thirds majority obligatory increases in capital for all members in direct proportion to their professional classification. The same General Meeting, at the proposal of the Governing Body, shall lay down the remaining conditions for the fulfillment of this kind of increase. Members who refuse to pay increases of this sort may be expelled from the Cooperative after the normal course of proceedings has been followed.

60. The possibility of each member's increasing his number of capital shares at will under the conditions previously mentioned in article 43 shall remain open. In order to achieve this, it shall be enough for the member to communicate his wish to the Governing Body who can then, when the relevant registration has been carried out, pass it through automatically.

Transfer of shares between members can be carried out, whatever the type of shares, once authorization has been obtained from the Governing Body, and in accordance with the conditions laid down in article 43.

Reserve Fund

61. The Reserve Fund shall be made up of the total sum of the shares of surrendered capital and of the amounts which, in the distribution of returns, shall be allocated to this end.

62. The right of all members to receive returns from work (wages) even in the initial period, shall be recognized. However, in general, there will be a period of lack amounting to the first 3 months of business. The returns from this shall go to the Reserve Fund as a contribution of solidarity towards the building up of the businesses infrastructure.

The Returns—Their Definition

63. The returns, positive as well as negative, shall be shared among their creditors i.e. work, capital and the social community once the sum corresponding to the risk premium has been deducted from the positive returns.

64. The drawing up of the Profit and Loss account shall be done each financial year, applying to expenditure and revenue accounts the usual accounting practices and following the regulations set out in articles 66 and 67 for the entries made as a result of the stocktake of the warehouse and the provisions for tax. Among
expenditure shall be counted the base rate of interest paid to the 
shareholders, the repayments allocated under the following article 
and, allowing for natural waste, only in these respects, wages. 
65. The repayments (i.e. paying off of loans, HP etc.) shall be 
carried out in accordance with the technical criteria adopted 
upon the purchase of the fixed assets to which they apply and 
registered on the corresponding date. The total repayment quota 
shall be approved by the Governing Body and communicated to the 
General Meeting for the financial year in question. Changes made 
in the repayment quotas of the different elements shall be sub-
mitted by the management to the Governing Body for its approval. 
The repayment shall be applied to the fixed assets registered at 
the beginning of the financial year.
66. The valuation of the stock held in store and work-in-progress, 
both in terms of component costs for articles and orders for internal 
fixed assets, shall constitute elements of the inventory and shall 
be valued at cost price. The management shall have the authority 
to discount (write off?) any parts which are difficult to realise 
at its discretion.
67. The endowment of the fund for the payment of taxes corresponding 
to each financial year shall be carried out in accordance with 
technical criteria and the payment proposed for this endowment 
shall be submitted by the Management to the Governing Body at the 
opening of the financial year. In the first instance, the General 
Meeting shall be informed of the criterium established for the 
year in question and, at the time, the actual sum destined to be 
paid to the said fund with the proposal of liquidation of its 
eventual try: balance.

Liquid Returns, Their Distribution

68. The returns shall be destined for:
a. the cooperative returns (dividend payments)
b. the Reserve Fund
c. the Social Work Fund
The cooperative returns shall be payments from the cooperative to 
the member as a positive return if a profit has been made, or from 
the member to the Cooperative as a negative return if a loss has 
been made.
69. The value allocated to the Cooperative returns, both positive and 
negative, shall be distributed among the members in direct propor-
tion to the sum earned by each during the financial year in terms of:
a. total wages, in the strict sense and 
b. base interest and risk premium, whose total shall make up the 
payment to capital.
Total wages in the strict sense shall also include payments for
temporary periods of inability to work as a result of accidents at work, and extraordinary gratuities, which are not in the nature of temporary payments for inability to work through illness, nor fall into the category of indemnities for incapacity, partial or total, or for death in work accidents.

70. The proportion of the returns destined for cooperative payouts, positive as well as negative, shall be so many percent of the total payouts in the Cooperative under the terms of parts a and b of the proceeding article, whose payments shall make up the 'accounting base' for the distribution of the returns.

71. The percentage of the returns foreseen in the previous article shall be fixed in such a way that the representative amount of the same shall be equal to the so many percent which, applied to the returns, provides the total of the sums destined for the Reserve Fund and the Social Work Fund.

72. Once the amount allocated to the cooperative returns has been deducted from the positive results (profit), the rest shall go to the Reserve Fund and the Social Work Fund. The proportion to go to each shall be agreed by the General Meeting at the suggestion of the Governing Body according to the relevant statutory precepts.

73. The possible (temporary?) losses shall be written off in the loss account and the Reserve Fund only. The total of negative returns shall be liquidated in the financial year by means of corresponding deductions in the members' share accounts. If a succession of losses causes the share of a member to disappear and his corresponding share account to show a negative balance, this shall be cancelled out by means of partial handouts drawn from the wages of the member, defined by the Governing Body.

74. In no circumstance may the proportion of profits intended for the Reserve Fund be less than the sum of the positive returns paid in the periods of deficiency mentioned in article 62. In itself, the minimum amount which can be destined for the Social Work Fund shall be that represented by the 'repayment to capital' corresponding to the said Fund used by the Cooperative during the financial year.

These minimums shall have a preferential character but in the case of a fall (?) in the amount of the profits, the (award payout) shall be limited to the payment of these.

75. In order to achieve the free availability of profits foreseen in article 28 of the Social Statutes, matters shall proceed as follows:

a. The decision to invest (payout?) in metals all or part of the profits allocated to the members shall be taken in the ULARCO General Meeting. In no circumstances may investments (payments) in metals be made until the sum of all the capital sums belonging to the cooperatives of ULARCO amount to more than a minimum of 125% of the net valuations of ULARCO's fixed
assets, the sum of the shares for accounting purposes and the Reserve Fund, once the profits have been distributed, being regarded as capital relevant to this total;
b. Once the general nature of the former decision has been agreed, this right can only be exercised by those members whose share at the time exceeds the mean tied up in their post of work (whose share equals more than half what they earn?), when the fixed assets financed by the Reserve Fund have been deducted. This share shall be called the 'threshold share.' This shall refer to the whole of the sphere of ULARCO and shall be calculated on the basis of the overall statistical data of the same.

Work Regime

76. The present work regime and similarly the powers of the different bodies recognized in the chapter are a subsidiary of the most general rules collected in the ULARCO and LAGUNARO Codes of Rules in the fields in which these apply.

Wages

77. The Governing Body shall fix annually the wage for a normal hour's work at level 1. In order to decide this, by means of article 5 of the Social Statutes and 6 of this Code of Rules, they shall carry out a comparative study of the wages of the Cooperative and those in force in the two largest noncooperative firms in the zone.

78. In order to define the average wage for the zone, they shall take into account the data relative to the working day, activity, grade of qualification, extraordinary gratuities, gratuity payments, relief bonus, seniority and amounts payable by the Social Security and other bodies, in such a way that their comparison with those of the Cooperative shall be homogeneous at an annual level of payment in all these respects, except, of course, in respect of the shares in the profit of the Cooperative.

79. The comparisons shall be carried out on the level of total wages, that is to say, that when the payments corresponding to Social Security within the wages of the zone have been included as much shall be paid by workers as by firms. In any case, the advance provisionary payment shall reach a maximum of 30% of the (wages?) advance payments of consumption for the middle (average) index worked out by the Cooperative.

80. The comparative study of payments foreseen by the previous articles shall attempt to establish an 'equivalent payroll' to
that of outside companies to be paid by the Cooperative, through which after the percentage differences which result from this comparison have been applied to all the Cooperative staff and distributed among the professional levels and typically paid groups, the average percentage of deviation of the Cooperative's payments from those of the zone shall be determined.

81. Once the average percentage of deviation indicated in the previous article has been decided, a definitive percentage of increase in the Cooperative's wages shall be achieved in the following way:
   a. 4 percentage points shall be added to the aforementioned average deviation percentage, on the level of (advance wages(?) payments of consumption) in order to compensate for the normal dynamic upward tendency of the zone's level of payment.
   b. In all cases, the increase in the (wages(?)) advance payments of consumption) of index 1 shall be equal to a greater percentage than the rise in the cost of living throughout the previous year published by the National Institute of Statistics. The greater percentage of the two shall be used to correct the value of a normal hour's work at index level 1 in order to determine the wage that shall be in force the following year.

82. Wages shall only be paid for hours worked and those corresponding to each work index shall automatically be deduced from that set down for index level 1. On top of this basic, on this basis, certain hours shall be paid extra with the following percentages:
   a. all extraordinary hours 10%
   b. hours worked between 6 a.m. and 10 p.m. on a Sunday or holiday 10%
   c. night hours 35%. These shall consist of those between 10 p.m. and 6 a.m. the following morning except for the hour which, in order to complete the usual weekly number of hours, is added to the first relief day shift from 5 a.m. to 6 a.m. and to the second shift from 10 p.m. to 11 p.m.
   d. hours worked as relief 5%.
   If several of these conditions coexist, all the percentages corresponding to them shall be paid. Some Special cases, such as guards, chauffeurs or others who by the nature of their profession are obliged to work Sundays or at night or on relief shall not be entitled to the aforementioned increments.

83. The payment of wages earned shall take place periodically, not less than once a month and the payment shall be carried out at the due times.

The Working Day

84. The length of the normal working week—which shall be the same for all members whatever sort of day they work—shall be the same as
that legally in force in the siderometallurgic industry in the
province, whatever the means used to define it. This length of
normal working week shall be divided between the different days of
the week as the Governing Body decides. Anyone whom this distri-
bution gives as free any day of the week shall not presume that
this day of leave gives him freedom from the application of other
aspects of this work regime. The governing Body can, in a general
way, fix weekly timetables longer than (different to) normal, with
reference to needs of production or the socio-economic ambience of
the zone.

85. All the hours in the week which exceed the normal number allocated
to each working day of the week in the type of day worked by the
members shall be considered extraordinary.

86. The establishment of days of normal, intensive relief working and
rest days, and their corresponding timetable- can be different
in the various different work centres, sections or departments in
the interest of the overall efficiency of the Cooperative--shall
be the unquestionable responsibility of the Management.

87. The beginning and end of working hours shall be signalled by siren
(whistle) blasts. The member shall be at his post of work at the
exact time. Lateness shall be liable to a deduction of 15 minutes
minimum. In cases where a worker is being relieved he must wait
until the next man arrives to take over the post.

Holidays

88. Annual paid holidays shall be one of the characteristic features
of the work regime and the right to enjoy them shall be considered
an unalienable, even though the plans for their execution must
take into account community needs and the ensuing complexities of
both technological requirements and the Cooperative in its
cooperative capacity which demand that certain services, depart-
ments and installations should remain in permanent operation.

89. The length of holidays--which shall be the same for all members--
shall be the same as that prevailing in the siderometallurgic
industry in the surrounding province. As a rule, they shall be
taken during the summer months of July, August and September,
though cases of dire need (force majeure) or urgent necessity on
the part of the Cooperative can, at the discretion of the
Governing Body, oblige them to be taken at other times. Within
this defined period of time it shall be the task of the Management
to arrange at staggered intervals the holidays of members who run
services and sections which must continue working without
interruption.

90. With respect to holidays, each day taken shall be counted as
equivalent to one normal working day, whatever kind of day the
member usually works.
Holidays which are allocated within the period of time indicated in the previous article but on different days to the rest of the factory shall carry an extra 10% on the normal wages. Those which are allocated outside the indicated period, also on different days to the rest, shall carry an extra 20%.

If exceptionally because of unforeseen circumstances more members have to give up their holidays in one year, their work shall earn an extra 100% on their wages, substituting this percentage for any other arrived at under article 82.

The voluntary work of a member for his own special reasons during the holidays or the taking of holidays at a time chosen by the member and permitted by the Cooperative shall not be liable for any of the compensatory payments outlined in the above paragraphs.

91. All members shall have a right to holidays—or alternatively to the pay corresponding to them—even if they are in military service or under threat of compulsion in the Cooperative.

The number of days of leave shall be proportional to the months of work done by the member in the proceeding year running from 1st August to 31st July inclusive.

Gratuities (Bonuses)

92. The number and amount of extraordinary gratuities (bonuses) shall normally be equivalent to what is customary in the work regime of the zone, unless the General Meeting agrees to do away with them, incorporating their equivalent worth (?) in the ordinary months payment.

In any case, whatever their nature, extraordinary gratuities as outlined in article 78, shall be considered as an extra sum over and above the normal annual wage in such a way that any change in them (increase or decrease in the gratuities taken into account at the time of firing the working wage) shall affect the usual monthly wage in a contrary sense. The amount of the wages for a normal day shall be considered as the basis for gratuities which shall suppose their quantification in the monthly sums whatever sort of day the members do.

All members shall have a right to extra gratuities even those doing military service or under threat of expulsion from the Cooperative. The amount of each gratuity shall be proportional to the number of months that the member has worked in the last half yearly period.
Professional Classification

93. The coefficients which shall be applied within the structural classification of the different posts of work shall be divided into 6 levels with differential indices within each level (see the following specification). The generic denominations or the members who hold them are also given:

- **Level 1:** Operational and auxiliary staff - 1 to 1.4 inc.
- **Level 2:** Professional staff and those holding responsibility - 1.4 to 1.5 inc.
- **Level 3:** Lower grade executives - 1.6 to 1.8 inc.
- **Level 4:** Intermediate grade executives - 1.9 to 2.1 inc.
- **Level 5:** Important executives - 2.2 to 2.4 inc.
- **Level 6:** High ranking executives - 2.5 to 3 -- normally not subject to valuation.

The different levels shall group together members whose work is characteristically of the nature of the category, without this classification being of a restricting or limiting nature.

- **Level 1:** 1 to 1.4

  Within the classification of this level are the jobs of assembly and machine production in general. Also office duties of a routine nature without much structural content.

- **Level 2:** 1.4 to 1.5

  Jobs which normally require professional preparation such as skilled worker, master of craft or the equivalent in the commercial or administrative fields. Also jobs requiring a certain amount of responsibility or authority.

- **Level 3:** 1.6 to 1.8

  Jobs which normally require professional training of the middle grade as master of craft, commercial (trading) expert, etc. Also duties requiring a noticeable amount of authority like being in charge of (responsible for) workshops, services, offices etc.

- **Level 4:** 1.9 to 2.1

  Jobs normally requiring detailed professional training as industrial expert, commercial expert of a high grade. Also those jobs involving an appreciable amount of responsible duties and authority, like Heads of Workshops etc.

- **Level 5:** 2.2 to 2.4

  Jobs normally requiring full professional training as industrial expert, a university course or an engineering diploma. Also duties of a specialized executive or 'staff' nature involving high responsibility.

- **Level 6:** 2.5 to 3

  Jobs of high management executives or 'staff' like Management, Departmental Controllers, Directors or Subdirectors of divisional, technical and commercial departments, General Secretary etc.

94. The Governing Body, at the request of the Management, shall approve the rules relating to the method of valuing the posts of
work and the duties of the workers, as well as, in concord once agreement with the levels described in the previous article and the position resulting from the development of the business, the general layout of the structure of organization, levels and ranks.  

95. The quantitative expression of the professional qualification of the number shall be the 'working index' which can be obtained from the algebraic sum of the 'structural index' and the 'functional index'. The 'structural index' shall be the factor which defines the post of work and the 'functional index' the expression of the efficiency of the member in carrying this out.  

96. The indices defined in the previous article can be modified by the application of a 'differential coefficient.' This correcting factor, variable in time and amount, shall serve as an elastic adaptation to the temporary possible tensions (means of relieving the possible temporary tensions?) created by certain determined activities or jobs of work necessary in the productive process. Decisions relating to the application of the 'differential coefficient' shall be the responsibility of the Governing Body, at the request of the Management.  

97. The list of personnel, together with the professional classification of the members, shall be displayed in a prominent place. The claims which arise as a result of professional classification (i.e. any disagreements with professional classifications given) shall be presented in writing to the head of the corresponding division, department or section, who together with a personal note, shall forward them to the Management.  

The Management shall, within 20 days, issue a statement about the claim and present it, together with all the relevant documentation, to the Governing Body who shall pronounce upon it at the first meeting hold. Its decisions shall not be open to appeal by any member.  

98. Professional classification is the responsibility of the Governing Body. It shall be raised in conjunction with the assessment of and, as a general rule, at the request of the Management. Professional qualifications being equal, a rise in coefficient shall be awarded in preference to members who have the best records for discipline (conduct), work and social matters. In cases where these factors are equal preference shall be given to seniority unless there are any others who, being suitable on account of their efficiency and ability, have already asked for the vacancy/vacancies. The Management shall hold interviews to decide who is chosen.  

Promotion  

99. The effective adoption of a regime of solidarity in cooperative integration shall encompass possibilities for individual promotion
through community needs, in such a way that results obtained through effort and common sacrifice shall compensate for and override personal limitations in the first instance.

100. The affirmation and expectations of opportunities for personal promotion must conform with the fluidity, dynamism and efficiency of the domestic organization of the cooperative; stability as instability in personal service must be accepted in the carrying out of the community plans according to actual needs.

101. The policy of personal promotion must be conceived in such a way that, although it may not always be viable within the limited sphere of the Cooperative in all its intentions and aspirations, at least not without a vigorous plan of development, it should not abandon interest in the possibilities of promotion, but encourage it by means of the development of methods and the provision of possibilities for personal ability in keeping with special aptitudes. The desire for personal improvement by way of professional and cultural abilities shall merit the whole attention of the Cooperative, independent of the possibilities of putting into action more or less immediately such attainments. (i.e. such improvements in these abilities)

Seniority Payments (Supplements)

102. The conventional concept of 'supplement for seniority' as a reward for loyalty to and connection with the firm contradicts the social commitment which the cooperative's regulation implies, other important values relating to seniority and worthy of economic consideration in the eyes of the Cooperative shall not be ignored. In this respect shall be considered:

a. the amount of work and service performed for the community, which in themselves imply seniority,

b. the different internal promotions that the special dynamism and organization of the firm encourage,

c. the affirmation of the sociological fact of the inequality of educational opportunities enjoyed by the members before starting work, an essential condition of their professional future, and

d. the solid testimony (evidence) which supposes that work shall be continued or limited as little as possible, when the professional horizon can be considered closed.

Upon consideration of these factors, it may be concluded that there is a necessity for an economic regulation in this respect, which shall be formulated within the terms laid down in the following articles.

103. A member who remains in the same professional category, which under these regulations shall be judged every 3 years, shall be paid a supplement with the following exceptions:
a. There shall be a period of suspension of payment for all members consisting of the first 6 years of work within ULARCO. During this time there shall be no allowance for seniority even when the job in question is subject to 3-yearly reviews.
b. Payment of supplements shall not affect members with a professional classification greater than 2.4.

104. Each 3 year period served in the same category shall be equal to a quarter of an index point (actually says a quarter of a tenth of index, which does not make much sense). It shall be worked out after each 3 years served and awarded at the beginning of the next year if it ends in the second half yearly period or from the end of the same year if it ends in the first half yearly period. There shall be no limit to the number of 3-yearly members may accumulate during his working life. Points of index corresponding to the 3-year periods shall be incorporated in the member's and be relevant to all payments received. (affect the amount of all other payments due to the member i.e. share dividends, etc.) in the professional classification of a member seniority payments, the amount of 3-year awards to the increase in index shall be discounted the rest of the 3-yearly awards he may have.

106. In the case of reduction in professional qualification (grade):

a. where he has formerly received increases, the situation of the member shall revert to what it was when he first achieved the classification which he is now being given, in such a way as to maintain the seniority payments he has already been awarded as well as to allow for the computation of new 3-year periods, which shall begin from that date.
b. where no increases have been received, the number of years in the new category shall be added to the number spent in the former one for the sake of computation of 3-year periods.

107. In all cases where seniority payments apply, the professional classification i.e. the working index shall be considered, except in measurable posts of work or equivalent, where the structural index shall be taken into account.

Seniority payments shall have no affect whatsoever on the computation of extra working payments awarded to members under article 111, nor time spent on military service.

108. In cases where through loss of physical faculties--not necessarily through illness, this being dealt with by LAGUMARO--a change in post of work is imposed upon the member which of necessity involves him taking a job of a lower professional classification, the difference can be made up to him, either partially or in full, by awarding him a supplement which as a maximum shall be equal to sums of money given for periods of 3 years' service with ULARCO. Awards shall be based on the professional activities that the member played an important role in and the professional classification he enjoyed at that time. (i.e. formerly)
109. Members shall be entitled to paid leave, while receiving the equivalent to their usual wage, in the following cases: one day in case of death or burial of parents, children, grandparents, grandchildren, spouse or brothers/sisters; one day in case of serious illness of parents, children or spouse; indefinitely in cases where they are called upon to carry out an unavoidable duty of a public nature imposed by law or administrative command, except for military service.

110. Members shall be allowed to take unpaid leave as long as they ask for it, giving the two days' notice required, in the following cases: five working (consecutive? lit. 'natural') days in the case of illness of parents, children or spouse and for private matters which must be dealt with outside the locality; in each case reasons must be justified and this kind of leave may not exceed ten working (?) days per year.

111. Members shall be entitled to all the extra leave allowed to personnel subject to the National Siderometallurgic Regime. The founding members of the Cooperative may enjoy indefinite leave at the discretion of the same always and whenever they are not required by the Company to offer their services within the profession, activity and economic circumstances similar to that they enjoy in that moment. The founding members now working shall not have the right to indefinite leave unless exceptionally serious causes beyond their control encourage the Governing Body to grant it. Other extra leave shall depend upon the circumstances under which it is granted.

112. The sharing of the members partially or fully in extra leave from work shall be regulated by special conditions to be fixed in each case by the Governing Body or Management. These special conditions shall apply to members whose working ability is limited by illness or other factors which suggest special consideration.

**Working Discipline**

113. All members shall be obliged to do whatever kind of work is demanded by needs or unusual situations arising in production, independent of the specific and habitual tasks they perform in their posts of work. The authority of the relevant superior to make decisions in this respect shall be inalienable and members who refuse to fulfill them shall face disciplinary measures.

114. Decisions as to which personnel must carry out the tasks anticipated in the previous article as well as decisions about transference of personnel within ULARCO shall be taken with reference to work criteria without any influence being brought to bear upon
them by seniority, the status of a founding member or any other similar factors which shall have no value in themselves in a working level.

115. The establishment of a member in a post of work is a statement of his capability and his presence, while he works for the firm, shall be considered indispensable to the smooth running of production.

As a consequence, a request for a change in post made by a member who has not spent a minimum of four years in the same job can be denied without any consideration being given. This, however, shall not be an obstacle to the consideration of any requests which are accompanied by an increment in specific professional training.

In the case of interviews being called, the Management, at its discretion and for practical reasons, can dismiss the candidatures of those persons who have not fulfilled the minimum period of time stipulated in their post of work.

Internal movements, whether or not they imply a move up in the structure, shall be the exclusive concern of the Management who shall decide them in the manner and at the time they consider convenient.

116. Each member shall be responsible for the cleanliness and good usage of his work tools and all members shall clean machines and surroundings on the days at the times stipulated.

117. All members, if suffering from illness, may be visited by the Cooperative's doctor so that he can establish their state of health. If the member is found, in the doctor's judgment, to be fit for work he must present himself to do his job.

Unemployment

118. Although unwelcome, the possibility of stoppage or unemployment through lack of work resulting from changes in demand or other causes outside the Cooperative's sphere of influence is a phenomenon that cannot be ignored in the internal organization of the Cooperative. The possibilities of mitigating this situation in the individual community by calling upon the options of the rest of the Cooperatives integrated in ULARCO may even be considered.

In this eventuality, the rules dealing with the subject of unemployment, as specified in the following articles, shall come into force.

119. In the case of a stoppage through lack of work within ULARCO affecting the members of one or some of its Cooperatives, the
selection of those who shall temporarily stop work, which shall be the concern of the respective Management, shall be made in the following way:

a. Members who work in the centres of work, sections or departments affected by the stoppage shall stop their work without affecting those in other centres.

b. If the stoppage in the affected centres is not total, members shall stop work on a basis of seniority of service with ULARCO.

120. The amount of pay to which the member is entitled in the case of involuntary stoppage shall be such that his wages shall represent 80% of what--as a consequence of the application of the following article--would be the wage earned in a normal day by a member of the same category who continues working during the stoppage. This payment shall be based on the amount of returns (i.e. on what profits are made during this period?).

If during the period of unemployment the member undertakes paid employment in another firm or business, this circumstance shall be taken into account and within reason affect the aforementioned pay.

In any case, the member who is laid off shall be at the disposal of the Cooperative either to take on any other post of work for which he may be needed or to take part in other activities, in the nature of training or otherwise, which the Cooperative may organize. The member who refuses to undertake these jobs or activities shall automatically lose his right to unemployment pay and be considered guilty of being 'absent from work' and, therefore, liable to disciplinary proceedings.

122. Unless in each case and according to the magnitude of the problems, other economic solutions can be found, normally the total of unemployment pay/benefit shall be financed as follows:

a. If an accumulated Social Work Fund exists as a result of investment, unemployment pay shall be financed as follows:
   1. 25% of the overall said benefit from the Social Work Fund.
   2. 25% from the Reserve Fund.
   3. 50% from the payroll of the remaining working members in proportion to their respective wages.

b. If there is no money in the Social Work Fund:
   1. 50% of the overall said benefit from the Reserve Fund.
   2. 50% from the payroll of the remaining working members in proportion to their respective wages.

The financing of unemployment shall be carried out at the level of ULARCO, i.e. it shall be based upon the resources of all the associated Cooperatives.
Various

122. It is understood that the work done by the member shall be done in the place where the Cooperative is based, or where any of its other buildings are situated, without his having any right to help with individual moving (travelling) expenses unless the plant is at a later date moved to a place more than 12 kms away from its original site. In this case, the unsought transference of a member shall be credited under a specific regulation dealing with this type of thing.

Nevertheless, collective means of transport, organized or contracted by the individual Cooperative to bring members from other localities, used by them casually and communely, shall be subsidized by that Cooperative by up to 50% of the cost.

123. Changes in conditions outlined in the previous articles shall be automatic for all professional categories.

The various disagreements which may anse between the different bodies and/or between these and members relating to the interpretation of this working regime shall always be settled by the Vigilance Council, in the last instance, and it shall proceed to its judgment--using all relevant information.

Disciplinary Regime

124. In order to ensure an adequate climate in social and working matters there must be a serious disciplinary code under which, so that the brotherly unity between members may in no way deteriorate, certain defaults shall imply automatic application of sanctions (punishment). On the other hand, considering the inseparable double personality of the member as a worker and participant in social duties, the present disciplinary regime must be prepared to deal with both facets.

Disciplinary Work Regime

125. Breaches in discipline at work shall be of a slight, serious or very serious nature and shall incur respectively slight, serious or very serious punishment under the present ruling.

126. Slight defaults are:
1. Those which merely have a detriental effect upon the smooth performance of tasks and responsibilities entrusted to each member.
2. More than 5 occasions of lateness without good cause at work over a half yearly period.
3. Absence from work for a total of two hours in a month without justified cause.
4. Lack of attention or consideration among work companions.
5. Lack of cleanliness and personal care.
6. Lack of precautions leading to slight accidents and failure to carry out instructions to prevent accidents.
7. Small defaults committed by the member against LAGUM-ARO rules.

127. Serious defaults are:
1. Continuing to perform slight defaults after punishment has been applied.
2. More than 10 occasions of lateness at work without good cause during a half yearly period.
3. Absence from work for a total of 8 hours in a month without previous authorization or reasonable cause.
4. Noisy or insolent disagreements.
5. Failure to be efficient (obedient) after previous warning.
6. Refusal to carry out sanctions (punishment) given for slight defaults.
7. Serious breaches in discipline or respect towards superiors on work matters.
8. Public or violent incompatibilities of a nature which prevent collaboration at work.
9. Failure to take precautions resulting in serious accidents.
10. Serious defaults committed by the member against LAGUN-ARO rules.
11. In general, those defaults which are designated as such by the Governing Body in order to guarantee the smooth running of the Cooperative.

128. Very serious defaults are:
1. More than 20 occasions of lateness without good cause at work during a half yearly period.
2. Absence from work for a total of 20 hours in a month without previous authorization.
3. Fraud, disloyalty or abuse of confidence in performance of duties entrusted, robbery, theft both from fellow members and workers and from the Cooperative while on the latter's premises or in any place while performing services for it.
4. Removing, abusing, destroying or damaging raw materials, tools, implements, machines, pieces of equipment, installations, buildings, goods and documents of the Cooperative.
5. Being found guilty of robbery, fraud, theft or embezzlement committed outside the Cooperative or of any offence which could suggest a lack of trust in the doer.
6. Violation of the secrecy of the correspondence or documents belonging to the Cooperative, revealing to outsiders reserve dates binding on the Cooperative, or merely taking part in
activities which question the Cooperative's competence.

7. A proven decrease in efficiency, if the doer has previously been punished for a similar reason.

8. Dedication to work or activities outside the Cooperative when these have expressly been forbidden by the Cooperative because they interfere with normal efficiency or a sense of spiritual collaboration with the Cooperative.

9. Refusal to fulfil sanctions imposed for serious defaults.

10. Very serious disciplinary defaults.

11. Lack of respect for superiors in working matters when this gives rise to adverse public opinion of the firm or workmates.

12. Repetition of serious defaults which suggest a spirit of obstruction or lack of collaboration.

13. Very serious defaults committed by the member against the rules of LAGUN-ARO.

In keeping with the above, the Governing Body shall specify as very serious defaults other cases of lack of discipline which they shall communicate to the members at an opportune moment.

129. The punishments applicable in each case shall be as follows:

1. For slight defaults, written warning, suspension of work and pay or imposition of deductions from (reduction in) wages, of up to two days.

2. For serious defaults, all the above mentioned punishments, suspension of work and pay for 3 to 15 days, deduction of (reduction in) wages of up to 6 days, transference of post within the Cooperative, reduction in category for a given time, independent of the structural coefficient of the post occupied.

3. For very serious defaults, all the above mentioned punishments, suspension of work and pay for 15 to 60 days, (reduction in) of wages for up to 2 months, deduction in part or in full of the returns from work done in that year, disqualification from rise in category independent of the post occupied for a given time, dismissal and expulsion from the Cooperative. In addition, the expulsion of a member from LAGUN-ARO as punishment for a very serious default committed against it shall automatically entail his expulsion from the Cooperative.

Social Discipline Regime

130. Social defaults, as well as working ones, may be slight, serious or very serious according to the default committed, the damage done or intended and the mitigating or aggravating circumstances, at the discretion of the Governing Body.

Members' social defaults shall consist of:

1. Failure to accept or relinquish the social duties for which they are nominated without, in the opinion of the Governing
Body, justified reason.

2. Failure to carry out diligently the social duties they hold.

3. Failure to take part, without good cause, in the social functions to which they are summoned, particularly the General Meetings.

4. Becoming a member of or offering their services or work to any other body which has the same or similar industrial objective as the Cooperative unless this has been expressly authorized by the Governing Body.

5. Failure to carry out the social agreements validly adopted by the relevant bodies.

6. Systematic opposition to or proselytizing against the social and ideological fundamentals upon which the creation and development of the Cooperative are based, both inside and outside the Cooperative.

7. Failure to fulfil the social contract entered into with the Cooperative.

8. Defaults which in themselves hinder the Governing Body from functioning its best efficiently for the Cooperative.

In all cases, defaults mentioned in numbers 6 and 7 of the preceding article shall be considered as very serious.

131. The punishments applicable to social faults shall be, as well as those listed in article 129 for working defaults, others of a strictly social nature such as suspension for a given period of the right to vote or other such rights. Punishments shall be imposed at the discretion of the Governing Body.

Rules Relating to Procedure

132. Punishments shall never be applied without proceedings in writing previously having been taken.

The primary assessment of working defaults shall be the concern of the Management who shall carry it out at the request of, and with information from, the relevant superior in command. The assessment of social faults shall be the concern of the Governing Body which shall carry it out at its own discretion or at the request of the relevant body.

All communications on defaults and punishments shall be in duplicate; one copy shall remain in the Cooperative's archives together with the member's file. Each year, punishments imposed or records of past defaults can be cancelled if during the course of the past financial year the member has re-established himself in the performance of his duties.

133. In the case of slight working defaults, proceedings shall be
instigated by the relevant director who shall inform the member involved, in writing, of the category of the default and the corresponding punishment. The member may make a deposition to the same director who shall confirm or modify the punishment. In the case of disagreement over punishment, the member has recourse to the Management who shall pronounce judgment in the final instance.

In the case of serious working defaults, proceedings shall be instigated by the Management who shall inform the member in writing of the category of the default and the corresponding punishment. The member may make a deposition and present it to the Management who shall confirm or modify the punishment. The member has the right of appeal against this decision to the Governing Body who shall pronounce judgment against which there is no appeal.

In the case of very serious working defaults, the list of accusations shall be formulated by the Management and the deposition to which it may lead shall be presented to the Governing Body who shall take a decision against which there is no right of appeal, except in cases where the punishment imposed is expulsion when the member may appeal in the final instance to the General Meeting.

The same procedure shall be followed in the case of social defaults except in the matter of proceedings which for this kind of default shall always be instigated by the Governing Body.

134. The periods allowed for the presentation of each of the appeals mentioned in the preceding article, commencing with notification of the punishment imposed, shall be:
1. 3 working days for slight defaults
2. 6 working days for serious defaults
3. 10 working days for very serious defaults
Slight defaults shall be prescribed in the month in which they were committed, serious ones 4 months after and very serious ones 8 months after except for those which incur expulsion.

135. All punishments shall come into force the day after the relevant appeal period has run out without the member taking advantage of this right, or the day after the final decision to which there is no right of appeal has been given. In cases where, during the proceedings, conduct and discipline are seriously affected by the member under judgement, the Management, or in the case of social defaults, the Governing Body, shall have the power to suspend him temporarily from work until the definitive sentence (verdict decision) is pronounced.
Strike Discipline

136. Since strikes for internal reasons are an essential contradiction of the Cooperative regime that we have adopted, the Cooperative shall within its regulations have the means necessary to arbitrate on disagreements which may occur however serious they may be, with provision for appeal in the final instance to the General Meeting as the body through which the members' wishes are expressed.

And since strikes must, moreover, be considered as unacceptable proceedings under all the concepts that the Cooperative embraces, the Cooperative must formulate a disciplinary regime to which the outward expression of this sort of thing shall be subject. The nature of this regime is laid down in the following articles.

137. All members who promote or support strikes for internal reasons Whatever the cause, origin or type, shall be subject to disciplinary proceedings which shall be instigated directly by the Governing Body.

138. A strike for internal reasons shall automatically be categorized as a 'very serious' default and the punishment, taken from among those applicable to very serious defaults, shall be in proportion to the personal involvement of the member as adjudged by the Governing Body. In every case, the punishment proposed for the instigators shall be that of expulsion. In themselves, all the punishments proposed because of a strick shall r provisionally become operative from the day after the commencement of proceedings without affecting the appeals' procedures mentioned in article 133.

139. With regard to strikes caused by matters outside the Cooperative--and taking into consideration all the many circumstances of every nature which affect these and prevent their definite categorization with reference to liabilities required by the disciplinary regime--the Governing Body shall in each case establish the consequences for the strikers.

Welfare System

140. The Cooperative's members shall in no way whatsoever consider themselves as workers for any other business and therefore, in the same way as they work to receive personal wages so shall they attempt to satisfy their own needs through their own special provisions or those adopted in coordination and collaboration with other allied bodies.

141. The Governing Body shall agree whatever pacts and arrange whatever affiliations, individual or collective, are of most advantage to its members, except for those which are imposed with an obligatory
nature. It shall aspire that the members of the Cooperative shall enjoy the greatest social and economic help in all cases of accident, illness, retirement and general provision, but neither accident nor illness shall be a means by which extra money can be accrued through handouts over and above the rate paid for periods of normal working. The members of this Cooperative must be entitled to these benefits in one form or another at least on the same average level as the workers of the main firms in the locality.

142. Everything referring to relations with LAGUN-ARO and the development of its functional and aid facilities shall be the special concern of the Social Council.

143. By means of the methods mentioned in article 27 of the social Statutes, the Social Work Fund shall be intended for cultural work and welfare institutions of the widest social nature, without the possibility of it being considered to be for the exclusive use of members and their families.

However, it must not be used to alleviate special contingencies particularly serious ones of its own members if this possibility has not been provided for by LAGUN-ARO nor by other similar means.

In any case, the entire sum of the Social Work Fund shall be assigned to awards promoted with finance from its funds, and if this is lacking, to complement the loans foreseen in the regime of social security and provision itself.

Matters concerning the economic position of the Social Work Fund shall be the responsibility of the Governing Body, once it has been griefed by the Social Council. The entire amount collected from the payment of sanctions and deductions as a result of members' defaults shall go to the Social Work Fund.

144. The Cooperative's provisions for welfare are wide but they shall come to an end as soon as personal circumstances permit and within the limit judged most suitable in each case. These provisions relate to retirement, widowhood, orphining, child benefit, study grants, humanization of leisure, accommodation, etc. and their continuing award is intended to create a peaceful outlook upon life for the members, so that the work regime shall be a means of providing spiritual and material advancement.

Notice:
The present Internal Code of Rules of ULGOR, S.C.I., was approved at the Ordinary General Meeting of 26 April 1959 and modified by agreements passed by later General Meetings up until 15 January 1972, as is set out in the Minutes Book of the General Meetings of this Cooperative.

Mondragon, May 1972
APPENDIX C
MONDRAGON COOPERATIVE'S CONTRACT OF ASSOCIATION

1. Ratification of Agreement

, an Industrial Co-operative Company, represented by Mr., having applied for admission as a member of the Caja Popular on which admission was approved by the Caja Laboral Popular at the meeting of the Control Board of, they do hereby execute this Agreement in fulfillment of the above commitments. Mr., doing so on behalf of the Caja Laboral.

2. Basic Points of Law

The points of law governing rights and obligations under the present Association Agreement, will be those set forth in the Social Statutes and Internal Procedures of the Caja Laboral.

Should the legal norms applicable to the Caja Laboral be modified, either because the law so requires it or because its own General Assembly has so decreed, such modifications will apply to mutual relations, since all changes put before the Assembly, which may affect industrial co-operatives directly and specifically, shall be submitted to the co-operatives' representatives before proceeding to their enactment.

The Associated Co-operative undertakes to attend the General Assembly of the Caja Laboral, and the agreements reached therein shall be binding upon it, dissent or absence notwithstanding. Further, a representative of the Caja Laboral shall be present at the General Assembly of the Associated Co-operative, as a simple observer and without any voting rights, whenever his presence is requested by the Control Board, the Management, the Social Council, or 10 percent of the shareholders of the Associated Co-operative.

3. Economic Relations.

3.1 Capital Guarantees

The Associated Co-operative agrees, in principal, that the capital backing it provides for the Caja Laboral shall be variable, and that the amount of the contribution shall be set annually in accordance with the agreements reached and validly adopted, by the General Assembly of the Caja Laboral.
The size of capital contributions that may be required of the associated co-operative, as a whole shall not exceed the percentage "guarantee" of cover for business, and similar technical requirements made by the Bank of Spain; as far as the contribution required from individual member co-operatives is concerned, an effort will be made not to allow one year's contribution to exceed the previous fiscal year's by more than 20 percent.

3.2 Third Party Guarantees

The Associated Co-operative accepts a supplementary liability toward third parties who are creditors of the Caja Laboral, so as to guarantee the latter's business operations by committing a maximum of 25 percent of its own member capital, reserves excepted; that is to say, of the sum total of its members' paid-in contributions. The absolute value of the guarantees thus established will be adjusted annually, so as to reflect the above-mentioned percentage.

4. Operational Relations

4.1 Provision of Periodical Reports

The Associated Co-operatives undertakes to send the Caja Laboral, each year, its balance sheet for the previous year and a copy of the annual budget under preparation, which budget should be drafted in accordance with the norms set by the Caja Laboral, and to provide monthly statistics from its own Budget Control Report.

At the same time, the Caja Laboral will send the Associated Co-operative periodical reports on the progress of its own budget planning, developments affecting all of its industrial co-operative, and other information of an economic and technical nature which it may deem of interest.

The executive bodies of both parties agree that, as far as the nature of such information may require it, the data reported shall be treated in the strictest confidence, especially if it concerns value judgments which could harm the image of the Co-operative or that of its management or governing bodies.

4.2 Auditing

The Associated Co-operative expressly agrees that audits shall be carried out by the Auditing Department of the Caja Laboral at least once every four years, with the purpose of reviewing the economic, social and business development of the Associated Co-operative.

The Auditing Department's duty is to issue a report on the status of the Associated Co-operative, on the basis of data collected in the
course of the audit, and to frame recommendations to correct any existing or potential problems that may have come to its attention.

Besides the above-mentioned audits, the Caja Laboral will have the right to carry out others if, in its opinion, special circumstances of the Associated Co-operative warrant it. The Associated Co-operative can also request voluntary audits, at its own expense, if its General Assembly, Watchdog Committee, Management, Social Council, or 10 percent of members so desire, which audit will be carried out by the Caja Laboral in the interest of its own Planning Department.

On every occasion, two copies of the audits carried out will be sent to the Associated Co-operatives, one addressed to the President of the Control Board, and another to the Managing Director.

4.3 Financial Relations

The Associated Co-operative will be able to call on the resources of the Caja Laboral for its own financing under all the agreed credit terms, and in line with the general regulations of the Caja. At the same time, the Associated Co-operative will deposit any surplus monies with the Caja Laboral on the understanding that all operations, whether they concern credits or liabilities, shall be carried out in a spirit of mutual co-operation, having regard at all times to any special conditions which obtain either at the Caja Laboral or the Associated Co-operative, which may require the variation or limited application of the principle established by this clause.

4.4 Relations Between Associated Co-operatives

In order to assure the strongest possible support for all institutions and to optimise the business efficiency of the group as a whole, the Associated Co-operative will respect the principle of intergroup loyalty and mutual assistance when formulating future plans concerning production, selection of personnel, the establishment of business links between co-operatives, where to place orders, and other facets of their business by which other co-operatives associated with the Caja Laboral could be made to benefit, without affecting the interests or autonomy of the Co-operative itself.

5. Basic Co-operative Principles with Which the Associated Co-operative Shall Comply

5.1 Open Door Principle

Membership in the Associated Co-operative shall be voluntary, and open to all persons who can render the services for which it was established, provided they agree to assume the responsibilities membership entails.
5.2 Democratic Principle

Its organization shall be democratic, and its affairs shall be administered by persons who have been elected, or appointed, according to the procedures which the members have settled on for running the enterprise, these elected persons being accountable to the Co-operative's members.

5.3 Limited Interest on Capital and Distribution of Profits

The profits obtained shall be distributed by paying a fixed interest on capital and dividing the surplus, should there be any, in proportion to work contributed to the Associated Co-operative.

5.4 Creation of Community Funds

The Associated Co-operative must have collectively owned funds, including both a reserve Fund large enough to insure that new workers can be brought into the co-operative sector and a Social Fund devoted to co-operative projects within the community, which may not include (unless the exception is strictly justified) projects for the direct and exclusive benefit of the Associated Co-operative's members.

5.5 All Workers Must Be Members

While as a general rule all of the Co-operative's workers must be members of the same, the Co-operative may, as a legal entity, hire other workers, numbering up to 5 percent of the total of members, if circumstances urgently require this.

5.6 Co-operative Spirit

The membership of the Associated Co-operatives must give proof of its respect for the governing and executive bodies of same, carrying out their respective duties efficiently and honouring the Social Statutes.

They should maintain due flexibility in their working relationships and make sure that all posts, and especially those of an executive and management nature, are filled in accordance with Co-operative guidelines. Members in general, and most especially the management, through their professional behaviour, social involvements and responsibility, should make clear their commitment to the Co-operative, and their desire to help in its promotion and development.
6. Economic Principles for the Management of the Associated Co-operative

6.1 Distribution of Profits: to the Reserve Fund, the Social Works Fund, and Capital Payments

Once overheads, authorizations and limited interest on capital have been deducted, the Associated Co-operative will fix the percentage earmarked for the Reserve and Social Funds, allocating the rest of the profits to capital pay-outs to members.

In fixing such percentages, the Associated Co-operative will be guided by the following rules:

The Reserve Fund and the Social Fund together shall not receive less than 30 percent of the surplus;

If the capital payments made to members could amount to more than 50 percent of the available base pay, the percentage of profits allocated to the Reserve Fund plus the Social Fund should be the same as the percentage of basic pay represented by capital payments, begin calculated in accordance with the following formula:

\[
X = \frac{SI}{SI + Sq} \times 100
\]

where

\( X \) = capital payments as a percentage of basic pay;

\( SI \) = the percentage of profits allocated to the Reserve and Social Funds

\( SI \) = the surplus to be distributed

\( Sq \) = basic pay = the sum total of advance payments (both in wages and social security) made to members during the fiscal year, being payment for the work they have contributed to the Co-operative.

The same rules and formula used for the distribution of a surplus, or positive result, shall apply to the division of any negative results or losses which may occur during the fiscal year. To the extent that losses are borne by collectively owned funds, they shall be charged against the Reserve Fund, and 30 percent of losses shall be the maximum that can be so charged.
6.2 The Social Fund

A minimum of 10 percent of the real liquid surplus, that is to say, of the same surplus which is the basis for the allocation of individual capital payments, shall be paid into the Social Fund of the Associated Co-operative.

6.3 Members' Initial Capital Contribution

All individual members of the Associated Co-operative shall make, upon joining it, a compulsory contribution which shall not be less than 80 percent or more than 120 percent of the initial contributions required of new individual members of the Caja Laboral itself, during the fiscal year in question.

The contributions can be made in installments, over a maximum period of two years from the date of joining the workforce, or from the date of the presumptive member's eighteenth birthday, should he have joined the Co-operative before this time.

The non-returnable contribution, which the Co-operative may demand of members when they join, shall not amount to 25 percent of their initial capital contribution.

6.4 Individual Drawing Rights on Capital

If the Co-operative is to fulfill the requirements of an "open door policy," towards the community, or, in other words, if it is to promote the creating of new jobs and at the same time ensure that production is maintained at a level to justify new posts, the encashment or drawing by its members of their capital payments earned from profits in each fiscal year cannot be permitted unless the following social and entrepreneurial conditions have been met:

(a) the Associated Co-operative's collective resources must be the equivalent, at least, to 100 percent of fixed capital assets, plus 50 percent of the value of stocks, whilst, individually, the personal capital account of the member must be high enough to cover the average cost per job in the Co-operative, after fixed assets have been deducted from the Reserve Fund;

(b) the Associated Co-operative's investments must be largely covered by its own capital resources, and the "ratio" of independence (own resources/loan capital) must be 2:1 or higher.

(c) the admission of new members is not likely to be limited by lack to financial resources.

Even when the above requirements have been met, drawings on capital account must not be, individually, in excess of 25 percent of the sum allocated to the member during the fiscal year in question.
6.5 Fixing of Maximum Interest on Capital

The interest paid on capital each year as decided by the General Assembly, shall be limited and may in no case exceed by more than 3 percentage points the basic rates of interest paid by the Bank of Spain during the longest period of that year for which such interest rates remain unchanged.

Interest can be received in cash up to a maximum of 6 percent annually on members' capital contributions and, notwithstanding other conditions set down by the Co-operative for its payment, this payment shall only be made in cash when economic conditions allow.

6.6 Revaluation of Assets

In re-evaluating fixed assets, the Associated Co-operative will use the same corrective index which the Caja Laboral chooses to apply from among those currently in force and published by the Instituto Nacional de Estadistica, whilst the balancing adjustments made to the capital accounts of members is not to exceed the same index, measured in percentage form.

7. Principles Governing the Associated Co-operative's Labour Structure

7.1 Maximum Wage Rates

The Associated Co-operative will establish a suitable range of wage differentials to enable members to participate in its income, both as regards the payment of wages, considered as an advance of profits, and the distribution of surplus (for which the same differentials are used).

In order to honour the principles of solidarity inherent in the Co-operative guidelines mentioned above, these differentials will range between extreme limits of 1 to 3. The size of the enterprise, its development potential, and its technological and industrial sophistication will determine the limits to be set within this range. Special payments above the level 3 may be made up to a maximum extra payment equivalent to 50 percent of salary, in recognition of extra hours worked and other special circumstances.

7.2 Limits on Advance Payments (Wages)

In principle, the total annual payments (wages and salaries) cannot be in excess of personnel costs (salaries, extra payments of any sort plus social security) which obtain, on average, in other concerns in the Associated Co-operative's zone of operation, assuming the same number of active working hours. By total advance payments are meant
the sum total of monies including social security payments, which the member may receive during the entire year, and including "extra month" payments, bonuses, or pay type of monies advanced, in effect, against expected profits.

In practice, and in order to avoid the complicated calculations to which the above paragraph may give rise, the Associated Co-operative will set annual advance payments so that the payments on all counts fall between 95 and 105 percent of those used by the Caja Laboral in calculating its own staff payments and for the same number of years/hours of active work, although the 95 percent level may not apply if the Associated Co-operative needs to neutralise expected losses within a given fiscal year.

7.3 Evaluation of Jobs

The Associated Co-operative shall apply wage differentials to all its members, within the previous established range, and the allocation of such differentials to the respective jobs shall follow the same norms generally applied among the rest of the associated co-operatives, making use, if necessary, of the Evaluation Manual complied by the Management Division of the Caja Laboral for the industrial co-operative.

8. Co-operative Taxation

The Associated Co-operative shall make every effort to fulfill the conditions set down in the co-operatives' Fiscal Statute of 9 May 1968, and successive ones, so as not to lose its status as a subsidised co-operative.

9. Annulment of the Present Agreement

The following shall be ground for annulment:

(a) serious and repeated non-fulfillment by any of the parties of any one of the obligations set forth in the operative sections of this Agreement, a previous accusation of same having been duly made to the respective General Assembly;

(b) the desire of the Associated Co-operative.

9.2 Negotiation

Should the Caja Laboral annul the present Agreement, thus depriving the Associated Co-operative of the status of member in same, the following steps must be taken before such annulment is effective:

(a) the Associated Co-operative must have already received two warnings, duly drafted and delivered by the General Assembly
of the Caja Laboral, setting forth clearly which principles have, in its opinion, been violated. The governing bodies of the Associated Co-operative have the obligation to publish these warnings within the firm and not to suppress them, even after the second;

(b) once the General Management Board of the Caja Laboral has taken the decision to proceed with the removal of the Associated Co-operative, a general meeting must be called with representatives of the members of associated cooperatives whose decision, after a hearing has been granted to the Co-operative on trial, shall require a two-thirds majority of such members before the General Assembly can proceed with the removal;

(c) if the Associated Co-operative's removal is irrevocable, the Assembly shall so inform it; but, in order to give it time for settling the credits and loans of all kinds, that it may have contracted with the Caja Laboral and, at the same time, to negotiate substantial credits with other financial institutions, it shall be allowed a term of six months to one year for these operations.

9.3 Secondary Liabilities

Notwithstanding the provisions of the previous clause, the secondary liabilities incurred by the Associated Co-operative at the moment of its separation shall be those set forth in the Social Statutes of the Caja Laboral. In all cases, if the Associated Co-operative loses its status as a member, it shall continue to be liable to the Caja Laboral for the share of third-party guarantees for which it was responsible before the date on which it lost its status as member.

10. Exceptions to be made in the Application of this Agreement

If the Associated Co-operative believes that, in the real context of its development, the strict fulfillment of any clause or clauses of this Agreement is not possible, it may negotiate a temporary exemption there from with the General Assembly of the Caja Laboral, who will decide accordingly.¹

¹Alastair Campbell, Charles Keen, Geraldine Norman and Robert Oakeshott, Worker-Owners: The Mondragon Achievement.
APPENDIX D

MODEL RULES FOR A CO-OPERATIVE COMBINE OR FEDERATION
(summary of the salient points)

Objective

"The main object of the combine is the harmonious and balanced development of its member co-operatives." This includes the promotion of new co-operatives.

Autonomy

The member co-operatives will retain their separate sovereignty.

Resignation, Dismissal and Discipline

A member co-operative may resign or be dismissed; and it may be the subject of sanctions, if if contravenes agreed combine rules.

General Assembly

The general assembly will be made up of the members of the control committees of the co-operatives, plus their general managers and inspectors of accounts. Voting will be according to the number of members in each co-operative on a formula of . . . (as each combine may decide) A very important matter can be referred for decision by all the co-operative general assemblies on a majority vote.

Control Committee

The control committee will be made up of between two and four members from each of the co-operative control committees. Committee members will retire whenever they cease to be members of their own co-operative control committees.

Management Staff

The general manager, who must be a member of one of the co-operatives, will be appointed by the control committee for 4 years. He and his staff, under direction of the control committee, will be responsible for:

* long-term planning;
* harmonizing accounting methods in the member co-operatives;
* harmonizing the organization of the member co-operatives;
* promotion of new co-operatives
* research;
* Personnel recruitment and classification;
* standardization of the rates of cash drawings.

The decisions of the combine general manager, within the powers delegated to the control committee, will be binding on individual co-operative managements. There will be a management board to advise the general manager, which will comprise the general managers of the co-operatives plus co-options as desired for the combine staff.

Central Services

The services provided by the combine staff will be as follows:

(a) Personnel services will include:
* selection of members on the basis of their technical and co-operative qualifications;
* evaluation of the rewards for different kinds of work;
* evaluation of the work required for different jobs;
* advice on personnel transfers between co-operatives;
* responsibility for security and hygiene measures.

(b) Financial services will include:
* raising capital;
* financial advice;
* budgetary control.

(c) Organizational services will include:
* advice on, and assistance in, the provision of information required for decision-making;
* operations of a data procession center, if applicable.

(d) Promotional services will include the provision of:
* land, buildings and equipment;
* any other requirements of the proposed operation, whether a new co-operative or an expansion of an existing one.

(e) Legal services will include fiscal advice and help.

(f) Research work will be carried out in co-operation with the Mondragon research co-operative.

Combine Budget

Each co-operative will contribute to the combine budget according to the number of its members, and they will share ownership of the assets of the combine on that basis.
General Concepts

The member co-operative agree to:

* the establishment of central services;
* the transfer of personnel between themselves;
* give priority to supplies for each other;
* avoid competition with each other;
* pool their surplus earnings.

Personnel Transfers

Unless and until a member decides to join the co-operative to which he has been transferred, he will remain a member of his original co-operative, which will reward him. Money earned by him in his new co-operative will be paid to the old co-operative.

Pooling of Surplus Earnings

The agreement for pooling surplus earnings will be brought into effect by stages, with 20% pooled in the first year and an addition 10% each year thereafter. The ultimate arrangement will be either 100% or 70% sharing of surpluses.

External Relations

The members of the combine will all:

* be members of the Mondragon group;
* contribute to the Mondragon social security co-operative;
* pursue research in conjunction with the Mondragon research co-operative;
* support the local education co-operative.

Arbitration

The members of the combine agree to submit all disputes, which cannot otherwise be agreed, for arbitration by the Mondragon Group headquarters.1

1Alastair Campbell, Mondragon 1980, pp. 20-23.
## APPENDIX E

LIST OF ENTERPRISES ASSOCIATED WITH CAJA LABORAL POPULAR - END 1976

<table>
<thead>
<tr>
<th>Name</th>
<th>Activity</th>
<th>Place</th>
<th>Founded</th>
<th>Employees '76</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FORGES &amp; FOUNDRIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amat</td>
<td>Pipe Fittings</td>
<td>Mondragon</td>
<td>1963</td>
<td>368</td>
</tr>
<tr>
<td>Aampo</td>
<td>Moulded Steel</td>
<td>Idiazabel</td>
<td>1964</td>
<td>212</td>
</tr>
<tr>
<td>Enderland</td>
<td>Iron &amp; Steel Smith</td>
<td>Escoriala</td>
<td>1963</td>
<td>614</td>
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<tr>
<td>Enara</td>
<td>Forgings</td>
<td>Onate</td>
<td>1962</td>
<td>177</td>
</tr>
<tr>
<td>Funcor</td>
<td>Moulded Steel</td>
<td>Elorrio (V)</td>
<td>1956</td>
<td>306</td>
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<tr>
<td>Tolsan</td>
<td>Forgings</td>
<td>Amorebieta(V)</td>
<td>1957</td>
<td>132</td>
</tr>
<tr>
<td><strong>MACHINE TOOLS, ETC</strong></td>
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<td></td>
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<tr>
<td>Arrasate</td>
<td>M.T. for Steel</td>
<td>Mondragon</td>
<td>1957</td>
<td>469</td>
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<tr>
<td>Batz</td>
<td>Die Moulds, etc.</td>
<td>Yurre</td>
<td>1963</td>
<td>52</td>
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<tr>
<td>Danobat</td>
<td>Machine Tools</td>
<td>Elgoibar</td>
<td>1966</td>
<td>597</td>
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<tr>
<td>Egurko</td>
<td>Woodwork Machines</td>
<td>Zumaya</td>
<td>1969</td>
<td>98</td>
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<tr>
<td>Electrida-Haztelu</td>
<td>Electrical Plant</td>
<td>San Sebastian</td>
<td>1967</td>
<td>48</td>
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<tr>
<td>Fagor</td>
<td>Laundry &amp; Catering Plant</td>
<td>Onate</td>
<td>1973</td>
<td>266</td>
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<tr>
<td>Industrial</td>
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<td></td>
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<tr>
<td>Goiti</td>
<td>Machine Tools</td>
<td>Elgoibar</td>
<td>1962</td>
<td>118</td>
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<tr>
<td>Guria</td>
<td>Excavating Plant</td>
<td>Irun</td>
<td>1961</td>
<td>282</td>
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<td>Irizar</td>
<td>Coach Bodies</td>
<td>Oremistegui</td>
<td>1963</td>
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<tr>
<td>Lealde</td>
<td>Mouldings</td>
<td>Liqueitio (V)</td>
<td>1974</td>
<td>19</td>
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352
### INTERMEDIATE GOODS, COMPONENTS AND MISCELLANEOUS

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<td>Mondragon</td>
<td>1966</td>
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<td>Gatika (V)</td>
<td>1965</td>
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<td>San Sebastian 1975</td>
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**Consortiums:**

- **Most Recent Establishments:**

  - Sakana
  - Ederfil
  - Lacunza
  - San Sebastian

**Consortiums:**

- **Governor:**
  - Guimara
  - Orona
  - Ulma
  - Ursssa
  - Vivendas y-Contratas

**Components:**

- **Electric Conductors:**
  - Sakana
  - Ederfil
  - Lacunza
  - San Sebastian
<table>
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<td>Collegio Alazaga</td>
<td>Education</td>
<td>Lejona (V)</td>
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<tr>
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<td>Education</td>
<td>Baracal(A)</td>
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<td>Coop de Ensenanza Padre Raimundo</td>
<td>Education</td>
<td>Vittoria (A)</td>
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<td>de Olabide</td>
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<td>Education</td>
<td>Elgiobar</td>
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<td>Javier Salbatore</td>
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<td>Mitzelena</td>
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<tr>
<td>Coop de P &amp; A Club Arkitze</td>
<td>Recreation</td>
<td>Bilbao (V)</td>
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<tr>
<td>S. Coop</td>
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</table>
HOUSING

Altzasusko  Housing  Alsusua (N)
Auzoa
Auzoa  Housing  Marquina (B)
Auzoa  Housing  Elorrio (V)
Elorrio
Auzoa  Housing  Estella (N)
Gebella
Auzoa  Housing  Arechavaleta
Azatsa
Auzoa  Housing  Cegama
Cegama
Auzoa  Housing  Anzuola
Eguzki
Auzoa  Housing  Pamplona (N)
Iruna

N.B.  V = Vizcaya,  A = Alava,  N = Navarra
All others are in Guipuzcoa Province.¹

¹Alastair Campbell, Charles Keen, Geraldine Norman and Robert
Oakeshott, Worker-Owners: The Mondragon Achievement.
APPENDIX F

ECONOMIC PERFORMANCE OF MONDRAGON COOPERATIVE

The statistical data we were able to assemble about the economic performance of the co-ops and of the Caja are limited and incomplete in a number of ways. Operating statistics are reported to the Caja on a strictly confidential basis, and we did not have time to approach individual co-ops for statistics. On the other hand, limited sectoral and group data are available and are vouched for by the Caja. Without further clarification of the definitions and conventions they use, we are unable to suggest how far these data are comparable with United Kingdom statistics.

The sales figures per head are straightforward enough.

SALES PER EMPLOYEE

<table>
<thead>
<tr>
<th>Year</th>
<th>000ptas</th>
<th>Year</th>
<th>000ptas</th>
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<tbody>
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<td>1968</td>
<td>627</td>
<td>1972</td>
<td>1045</td>
</tr>
<tr>
<td>1969</td>
<td>827</td>
<td>1973</td>
<td>1173</td>
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<td>1970</td>
<td>827</td>
<td>1974</td>
<td>1284</td>
</tr>
<tr>
<td>1971</td>
<td>867</td>
<td>1975</td>
<td>1467</td>
</tr>
<tr>
<td>1967</td>
<td></td>
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<td>1637</td>
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</tbody>
</table>


For value added per head the available figures, with a breakdown into five subsectors, run from 71 to 75 as follows:

VALUE ADDED PER HEAD 000ptas

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<td>Foundries &amp; Forges</td>
<td>318</td>
<td>376</td>
<td>454</td>
<td>646</td>
<td>658</td>
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<td>344</td>
<td>436</td>
<td>549</td>
<td>592</td>
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<td>Intermediate Goods</td>
<td>226</td>
<td>299</td>
<td>355</td>
<td>420</td>
<td>434</td>
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<td>Consumer Durables</td>
<td>224</td>
<td>235</td>
<td>407</td>
<td>467</td>
<td>528</td>
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<tr>
<td>Building Materials</td>
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<td>336</td>
<td>448</td>
<td>470</td>
<td>585</td>
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<tr>
<td>AVERAGE</td>
<td>247</td>
<td>334</td>
<td>412</td>
<td>496</td>
<td>543</td>
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</table>

Source: CLP

Figures for profits and for return on capital are available for the years '68 to '73 for the group and for six subsectors. They are in
the form of percentages and indicate the percentage of net profits on the base of the following four variables:

<table>
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<th>Building Materials</th>
<th>I.C.</th>
<th>L.C.</th>
<th>T.A.</th>
<th>T.S.</th>
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</thead>
<tbody>
<tr>
<td>23.00</td>
<td>19.90</td>
<td>11.30</td>
<td>12.70</td>
<td></td>
</tr>
<tr>
<td>21.30</td>
<td>17.40</td>
<td>9.70</td>
<td>10.60</td>
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<tr>
<td>17.50</td>
<td>15.00</td>
<td>7.10</td>
<td>8.60</td>
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<td>13.00</td>
<td>11.40</td>
<td>8.40</td>
<td>9.40</td>
<td></td>
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<tr>
<td>18.20</td>
<td>14.30</td>
<td>12.90</td>
<td>13.50</td>
<td></td>
</tr>
<tr>
<td>29.50</td>
<td>24.60</td>
<td>20.41</td>
<td>10.88</td>
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<table>
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<th>T.A.</th>
<th>T.S.</th>
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<td>13.70</td>
<td>10.00</td>
<td>5.30</td>
<td>2.10</td>
</tr>
<tr>
<td>(2.30)</td>
<td>(1.60)</td>
<td>(1.00)</td>
<td>(0.40)</td>
</tr>
<tr>
<td>16.70</td>
<td>11.20</td>
<td>6.50</td>
<td>3.30</td>
</tr>
<tr>
<td>31.40</td>
<td>20.00</td>
<td>12.10</td>
<td>6.00</td>
</tr>
<tr>
<td>43.50</td>
<td>29.50</td>
<td>14.30</td>
<td>9.20</td>
</tr>
<tr>
<td>36.80</td>
<td>29.50</td>
<td>14.80</td>
<td>9.70</td>
</tr>
<tr>
<td>23.30</td>
<td>16.38</td>
<td>8.66</td>
<td>4.98</td>
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</table>

Source: Inaki Gorono o. cit. pp. 148, 149.

Taking these data as a whole, our view is that the sales and value added figures per head imply a competitive performance. Because of the problems of definition and conventions are more complex, the profit margin and return on capital performance of the co-ops are necessarily more difficult to judge. On a straight comparison these profit percentages appear low by British standards, but the profit performance has, on the face of it, been entirely adequate, especially when other less directly measurable indicators of performance--like the group's total job security up to now--are taken into account.

We are not in a position to comment from any background of detailed knowledge on the comparative performance of the different sectors. But we see no reason to challenge the view of Inaki Gorono that comparative market conditions are the main explanation of those differences--and of the year-to-year changes in performance.

The record of new enterprise creation can best be grasped from a table showing the number of industrial co-ops in the group in each successive year since 1960. The figures are as follows:

<table>
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<td>12</td>
<td>18</td>
<td>29</td>
<td>32</td>
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<td>1967</td>
<td>39</td>
<td>43</td>
<td>44</td>
<td>46</td>
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<td>1973</td>
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</table>

These figures show a quite sharp fall off the rate of new enterprise creation in the 10 years from 1967 onwards. On the other hand, the graph overleaf shows that there have been no really significant changes in the rate of new job creation since 1960. If more jobs were
being created in enterprises started from scratch in the earlier years, then it is also true that more jobs in existing co-ops would be coming forward in the later ones. Moreover, since a new job is a new job—whether it is created in an existing or a new enterprise—it is clear the job creation, rather than enterprise creation, figures are the more important.

**Internally Owned Capital**

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<td>I.C.</td>
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<td>21.80</td>
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**Long-Term Capital**

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<td>10.90</td>
<td>17.30</td>
<td>12.40</td>
<td>6.10</td>
<td>14.00</td>
<td>18.30</td>
<td>13.16</td>
</tr>
</tbody>
</table>

The sectoral breakdown includes, in this case, a final miscellaneous category as well as the five identified above. In the value added table enterprise in this category appear to have been lumped in with "intermediate goods."

2. For the six subsectors the corresponding percentages are as follows:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Forges &amp;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I.C.</td>
<td>(4.70)</td>
<td>16.10</td>
<td>24.10</td>
<td>13.40</td>
<td>22.90</td>
<td>29.50</td>
<td>16.88</td>
</tr>
<tr>
<td>L.C.</td>
<td>(2.90)</td>
<td>8.60</td>
<td>13.90</td>
<td>8.30</td>
<td>13.60</td>
<td>19.70</td>
<td>10.20</td>
</tr>
<tr>
<td>T.A.</td>
<td>(1.90)</td>
<td>5.50</td>
<td>8.70</td>
<td>5.90</td>
<td>9.30</td>
<td>13.20</td>
<td>6.95</td>
</tr>
<tr>
<td>T.S.</td>
<td>(2.50)</td>
<td>6.00</td>
<td>8.90</td>
<td>6.70</td>
<td>9.50</td>
<td>11.60</td>
<td>6.70</td>
</tr>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Goods</td>
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<td></td>
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</tr>
<tr>
<td>I.C.</td>
<td>10.00</td>
<td>17.50</td>
<td>19.50</td>
<td>5.40</td>
<td>21.60</td>
<td>28.60</td>
<td>15.43</td>
</tr>
<tr>
<td>L.C.</td>
<td>8.10</td>
<td>14.10</td>
<td>14.70</td>
<td>4.40</td>
<td>13.80</td>
<td>19.70</td>
<td>12.46</td>
</tr>
<tr>
<td>T.A.</td>
<td>5.20</td>
<td>8.10</td>
<td>8.80</td>
<td>2.80</td>
<td>8.10</td>
<td>10.00</td>
<td>7.16</td>
</tr>
<tr>
<td>T.S.</td>
<td>6.60</td>
<td>9.80</td>
<td>9.70</td>
<td>3.20</td>
<td>9.40</td>
<td>10.20</td>
<td>8.15</td>
</tr>
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</table>
Expansion of Industrial Employment 1960-76

Sources: 1960-65 F. Aldabaldetrecu & J. Grey p.26
1966-76 Caja Laboral Popular Annual Reports
1976 CLP Verbal Estimate
Intermediate Goods

<table>
<thead>
<tr>
<th></th>
<th>I.C.</th>
<th>L.C.</th>
<th>T.A.</th>
<th>T.S.</th>
<th>Consumer</th>
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</thead>
<tbody>
<tr>
<td>19.10</td>
<td>15.60</td>
<td>10.00</td>
<td>11.60</td>
<td>17.40</td>
<td>15.60</td>
</tr>
<tr>
<td>21190</td>
<td>17.40</td>
<td>11.40</td>
<td>12.30</td>
<td>16.40</td>
<td>17.40</td>
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<tr>
<td>20.50</td>
<td>16.40</td>
<td>10.60</td>
<td>11.70</td>
<td>12.70</td>
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<td>9.20</td>
<td>8.20</td>
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<tr>
<td>27.20</td>
<td>21.80</td>
<td>8.60</td>
<td>9.20</td>
<td>5.90</td>
<td>21.80</td>
</tr>
</tbody>
</table>

Turning finally to the record of CLP itself, its performance can perhaps best be judged from the growth in its total volume of savings held—and in its own capital growth—over the last ten years. The figures, in millions of Pesetas, are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Savings</th>
<th>Own Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>659.7</td>
<td>60.5</td>
</tr>
<tr>
<td>1967</td>
<td>1015.7</td>
<td>73.1</td>
</tr>
<tr>
<td>1968</td>
<td>1449.9</td>
<td>151.3</td>
</tr>
<tr>
<td>1969</td>
<td>2359.2</td>
<td>236.9</td>
</tr>
<tr>
<td>1970</td>
<td>3204.2</td>
<td>311.9</td>
</tr>
<tr>
<td>1971</td>
<td>4669.3</td>
<td>415.8</td>
</tr>
<tr>
<td>1972</td>
<td>6355.6</td>
<td>572.2</td>
</tr>
<tr>
<td>1973</td>
<td>8389.6</td>
<td>778.0</td>
</tr>
<tr>
<td>1974</td>
<td>11351.2</td>
<td>1069.3</td>
</tr>
<tr>
<td>1975</td>
<td>14699.0</td>
<td>1519.5</td>
</tr>
<tr>
<td>1976</td>
<td>19351.0</td>
<td>1982.2</td>
</tr>
</tbody>
</table>

Source: Caja Laboral

On the basis of this growth record, our assessment is that the bank has been remarkably successful as a mobilizer of local savings. This assessment can, in fact, be confirmed by a recent control study by the bank's staff. That shows that the CLP has significantly outperformed its main provincial savings bank rivals since it was first set up. But, of course, the bank's success as a mobilizer of funds cannot be divorced from its success as a lender, and this from the success of the industrial co-ops to which the great bulk of its investment funds has gone. Had the co-ops not succeeded, then the fund-raising operation would clearly have failed, too.1

1Alastair Campbell, Charles Keen, Geraldine Norman and Robert Oakeshott, Worker-Owners: The Mondragon Achievement.
APPENDIX G

MODEL BY-LAWS FOR A TRUSTEESHIP
COOPERATIVE CORPORATION

The attached by-laws were created to model a Mondragon Cooperative under the cooperative corporate laws of the Commonwealth of Massachusetts. They will need to be adapted to the corporate laws in whichever state the trusteeship cooperative incorporates. Some states do not have cooperative corporate laws and it is necessary to incorporate under the non-profit or for-profit corporate laws. Of course, if that is cumbersome, the trusteeship cooperative could incorporate in Massachusetts, which has excellent cooperative corporate laws, or another state which does and then register in the home state as a "foreign corporation"--something which is very easy to do.

DISCLAIMER: The Trusteeship Institute, Inc., provides these Model By-laws as a suggested model for a properly structured trusteeship cooperative. There is no guarantee, explicit or implied, by the Trusteeship Institute, Inc., that the use of these By-laws, or some variation thereof, will obtain the patronage dividend tax break from the IRS or will insure compliance with all relevant local, state, or federal regulations. A local lawyer or expert should be consulted to help insure compliance with any relevant local, state, or federal laws.
Model By-Laws for a Workers' Cooperative

Published By

Trusteeship Institute, Inc.

Trusteeship Institute, Inc.

Baker Road, Shutesbury, MA 01072, (413) 253-7500
ARTICLE I

Articles of Organization

The name and purposes of the corporation (which is herein referred to as the "corporation" or as the "cooperative") shall be as set forth in the articles of organization. These by-laws, the powers of the corporation and its directors and stockholders (who are herein referred to as "members") and all matters concerning the conduct and regulation of the business of the corporation, shall be subject to the provisions of the articles of organization. All references in these by-laws to the articles of organization shall be construed to mean the articles of organization of the corporation as from time to time amended or restated.

ARTICLE II

Fiscal Year

Except as from time to time otherwise determined by the directors, the fiscal year of the corporation shall in each year end on ________________.

ARTICLE III

Membership and Membership Shares

This cooperative corporation (change "cooperative corporation" to "cooperative business corporation" if incorporated under for-profit statutes) shall function on a cooperative basis with the patrons all being employees of the company. The holders of capital stock shall also be referred to as the "members" of the corporation. Stock may be held only by natural persons. The corporation shall issue stock only to those persons who have met the qualifications contained in this article. The corporation shall issue stock only in accordance with the procedures contained in this article and in article IX hereof.

The board of directors must extend an offer to become a member to any person who has worked as an employee of the corporation on the corporation's business premises for an average of ____ hours per week for ______ consecutive months unless the board of directors votes to terminate
entirely such a worker's employment. Persons rendering services to the corporation as independent contractors shall not be considered employees of the corporation.

If a person to whom an offer to become a member has been extended agrees to work for the corporation at least _____ hours per week thereafter, the board of directors shall issue one (1) share of common stock to such person upon receipt of a single, cash payment equal to the par value of the stock. Upon issuance of said stock, said person shall be a member of the corporation.

An employee of the corporation to whom an offer of membership has been extended may refuse such offer. After such refusal such an employee may continue to work as an employee of the corporation. While such an employee's employment by the corporation continues at a rate of no less than _____ hours per week, the employee may request the board of directors to reconsider extending an offer of membership. Upon receiving such a request, the board of directors shall either extend an offer of membership to such employee or terminate his or her employment. Similarly, the board of directors may from time to time reextend an offer of membership to an employee who works at a rate of no less than ________ hours per week.

In addition to the cost of a share of stock, a membership fee of __________ Dollars shall be paid by every worker-member. The board of directors may determine whether such membership fee shall be paid in a lump sum or installments and the length of time over which its payment may be deferred, which shall in no case be longer than ______ months from the date of issuance of the worker-member's stock.

Restrictions shall be placed on the ownership and transfer of the shares of stock so that the shares will function for all intents and purposes as membership certificates. Accordingly, one and only one share of common stock shall be issued to each member, and that share shall be referred to as a "membership share." The existing members shall have no preemptive rights to the membership shares issued to new members. The legal consideration paid to the corporation for a membership share shall be determined by the board of directors and shall be referred to as the "membership fee."

The board of directors shall not discriminate in extending offers of membership to employees on the basis of race, sex, age, religion, or national origin.

Work requirements affecting the rights of members to vote are contained in article IV hereof. The members may create additional membership requirements or modify those contained herein by adding to or revising these by-laws. The board of directors may not of its own accord add additional membership requirements or restrictions on the rights of members to vote at meetings of the cooperative.

At no time will more than _____ (we would suggest a maximum of 15%) percent of the full-time workers be non-members.
ARTICLE IV

Membership Meetings

Meetings of the members shall be known as "membership meetings."

Section 1. Annual Meetings.

The annual membership meeting shall be held on the [Month and Day] in each year (or if that be a legal holiday in the place where the meeting is to be held, on the next succeeding full business day) at [Time] o'clock in the [Place] unless a different hour is fixed by the board of directors and stated in the notice of the meeting. The purposes for which the annual meeting is to be held, in addition to those prescribed by law, by the articles of organization, or these by-laws, may be specified by the president or by the board of directors or by at least ten percent of the members. If no annual meeting has been held on the date fixed above, a special meeting in lieu thereof may be held, and such special meeting shall have for the purposes of these by-laws or otherwise all the force and effect of an annual meeting.

Section 2. Special Meetings.

A special membership meeting may be called at any time by the board of directors or by the president. A special membership meeting may be called by the clerk, or in the case of the death, absence, incapacity, or refusal of the clerk, by any other officer, upon written application of ten percent of the members. Such call shall state the time, place, and purposes of the meeting.

Section 3. Place of Meetings.

All membership meetings shall be held at the principal office of the corporation, unless a different place is stated in the notice of the meeting. Any adjourned session of any membership meeting shall be held at such place as is designated in the vote of adjournment.

Section 4. Notice of Meetings.

A written notice of the place, date, and hour of all membership meetings stating the purposes of the meeting shall be given at least seven days before the meeting to each member entitled to vote thereat and to each member who is otherwise entitled by law or by the articles of organization to such notice, by leaving such notice with the member at his or her residence or principal place of business, or by mailing it, postage prepaid, and addressed
to such member at his or her address as it appears in the
records of the corporation. Such notice shall be given
by the clerk, or in case of the death, absence, incapacity,
or refusal of the clerk, by any other officer or by the
person designated either by the clerk, by the person or
persons calling the meeting, or by the board of directors.
Whenever notice of a meeting is required to be given a
member under any provision of law, of the articles of
organization, or of these by-laws, a written waiver thereof,
executed before or after the meeting by such member or
his or her authorized attorney and filed with the records
of the meeting, shall be deemed equivalent to such notice.
It shall be the duty of each member to notify the corporation
of her/his post office address.

Section 5. Quorum.

At any membership meeting, a quorum shall consist
of a majority of all the members then entitled to vote
at the meeting. Any meeting may be adjourned from time
to time by a majority vote (change to "by a consensus"
if that is your choice) of the members present, whether or
not a quorum is present, and the meeting may be held as
adjourned without further notice.

Section 6. Action by Vote.

When a quorum is present at a meeting of the members,
a majority of the members present or represented and
entitled to vote shall decide any matter to be voted upon
by the members unless a larger vote is required by law or
by the articles of organization or these by-laws; except
that any election of an individual to an office by members
shall be determined by a plurality of the votes cast.
(If consensus decision making is your choice, the
following wording should be used instead of the above:
When a quorum is present at any meeting, a consensus
(as defined in article XI hereof) of the members present
shall decide any question or elect any person to an office,
except when a different vote is required by law, by the
articles of organization, or by these by-laws.)
A secret ballot is required if requested by any member
present or represented at the meeting. The corporation
shall not directly or indirectly vote any share of its
stock.

Section 7. Voting and Proxies.

Each member of record according to the records of the
corporation at the time of the meeting is entitled to one
and only one vote. Voting by proxy shall not be permitted;
except, in the election of directors, members may vote
by absentee ballots, signed by the absent member and dated
not more than _____ weeks before the meeting for which
they are authorized. Absentee ballots may also be cast by absent members in cases where the question(s) before the membership meeting have been expressly stated in the written notice of the meeting. Such absentee ballots must be clearly marked, dated not more than _____ weeks before the meeting for which they are authorized. Absentee ballots shall be filed with the clerk of the meeting prior to being voted. Unless otherwise specifically limited by their terms, such proxies shall entitle the holders thereof to vote at any adjournment of such meeting but shall not be valid after the final adjournment of such meeting. A proxy purporting to be executed by or on behalf of a member shall be deemed valid unless challenged at or prior to its exercise and the burden of proving invalidity shall rest on the challenger.

ARTICLE V

Directors

Section 1. Powers.

The business of the corporation shall be managed by a board of directors who shall have and may exercise all the powers of the corporation except as otherwise reserved to the members by law, by the articles of organization, or by these by-laws. In particular, and without limiting the generality of the foregoing; the directors may at any time issue to new members unissued capital stock of the corporation from time to time authorized under the articles of organization. In the event of a vacancy in the board of directors, the remaining directors, except as otherwise provided by law, may exercise the powers of the full board until the vacancy is filled.

Section 2. Appointment and Term of Office.

The board of directors shall consist of not less than _____ directors: the number of directors shall be determined by the incorporators at their initial meeting and thereafter as determined from time to time by the members. The directors shall be chosen at the annual membership meeting or at such time as the members vote to increase the number of directors. Each director shall hold office until the next annual membership meeting and until his or her successor is chosen and qualified or until he or she sooner dies, resigns, is removed, or becomes disqualified. A director must be a member. A chairperson of the board shall be elected annually by the board of directors at its first meeting following the annual membership meeting or at the special meeting held in place thereof. The chairperson of the board shall be a director.
Section 3. Regular Meetings.

Regular meetings of the board of directors may be held at such times and places as the board of directors may fix from time to time and, when so fixed, no notice thereof need be given, provided that any director who is absent when such times and places are fixed shall be given notice as provided in Section 5 of this Article V of the fixing of such times and places and provided further that any resolution relating to the holding of regular meetings shall remain in force only until the next annual membership meeting. The first meeting of the board of directors following the annual membership meeting may be held without notice immediately after and at the same place as the annual membership meeting or the special meeting held in lieu thereof. If in any year a meeting of the board of directors is not held at such time and place, any action to be taken may be taken at any later meeting of the board of directors with the same force and effect as if held or transacted at such meeting.

Section 4. Special Meetings.

Special meetings of the directors may be called by the president, treasurer, clerk, or by any two directors and shall be held at the place designated in the call thereof.

Section 5. Notices.

Notices of any special meeting of the directors shall be given by the clerk or secretary to each director, by mailing to the director, postage prepaid, and addressed to the director at his or her address as registered on the books of the corporation, or if not so registered at his or her last known home or business address, a written notice of such meeting at least seventy-two hours before the meeting, or by delivering such notice to the director in person or by telephone at least twenty-four hours before the meeting, or by sending such notice to the director at least twenty-four hours before the meeting by prepaid telegram addressed to him or her at such address. If the clerk or secretary refuses or neglects for more than twenty-four hours after receipt of a call to give notice of such special meeting, or if the offices of clerk and secretary are vacant or the clerk and secretary are incapacitated or absent from the state of ____________, such notice may be given by the officer or one of the directors calling the meeting. Notice need not be given to any director if a written waiver of notice, executed by the director before or after the meeting, is filed with the records of the meeting. A notice or waiver of notice of a directors' meeting need not specify the purposes
of the meeting.

Section 6. Quorum and Voting.

At any meeting of the directors a quorum for any election or for the consideration of any question shall consist of a majority of the directors then in office. Whether or not a quorum is present any meeting may be adjourned from time to time by those present, and the meeting may be held as adjourned without further notice. When a quorum is present at any meeting, a majority vote (or a "consensus" (as defined in article XI hereof) if that is your choice) of the directors present shall be requisite and sufficient for election to any office and shall decide any question brought before such meeting, except in any case where a different vote is required by law, by the articles of organization, or by these by-laws.

Section 7. Committees.

The board of directors, by a consensus of the directors then in office, may elect from its number an executive committee or other committees and may delegate thereto some or all of its powers except those which by law, by the articles of organization, or by these by-laws may not be delegated. Except as the board of directors may otherwise determine, any such committee may make rules for the conduct of its business, but unless otherwise provided by the board of directors or in such rules, its business shall be conducted as far as possible in the same manner as is provided by these by-laws for the board of directors. All members of such committees shall hold such offices at the pleasure of the board of directors. The board of directors may abolish any such committee at any time. Any committee to which the board of directors delegates any of its powers or duties shall keep records of its meetings and shall upon request report its action to the board of directors. The board of directors shall have power to rescind any action of any committee, but no such rescission shall have retroactive effect.

Section 8. Action by Consent.

Any action by the directors may be taken without a meeting if all directors then in office consent to the action in writing and the written consents are filed with the records of the directors' meetings. Such consent shall be treated as a vote of the directors for all purposes.
The officers of the corporation shall be a president, a treasurer, a clerk, and such other officers, if any, as the incorporators at their initial meeting, or the directors from time to time may in their discretion elect or appoint. The corporation may also have such agents, if any as the incorporators at their initial meeting, or the directors from time to time, may in their discretion appoint. The president may be elected from the board of directors, but need not be. The president, if not a member of the board of directors, sits ex-officio on the board of directors. All other officers must be members, and the chairperson of the board shall be a director. The clerk shall be a resident of the state of______. Any two or more offices may be held by the same person. Any officer may be required by the directors to give bond for the faithful performance of his or her duties to the corporation in such amount and with such sureties as the directors may determine. The premiums for such bonds may be paid by the corporation.

Section 2. Powers.

Subject to law, to the articles of organization, and to the other provisions of these by-laws, each officer shall have, in addition to the duties and powers herein set forth, such duties and powers as are commonly incident to the office and such duties and powers as the directors may from time to time designate.

Section 3. Election.

The treasurer and clerk shall be elected annually by the members at the annual membership meeting of the cooperative. The president and all other officers shall be elected annually by the directors at their first meeting following the annual membership meeting of the cooperative or failing such election, at any other time.

Section 4. Tenure.

The treasurer and clerk shall hold office until the next annual meeting of the cooperative and until their respective successors are chosen and qualified, and the president and each other officer shall hold office until the first meeting of the directors following the next annual meeting of the cooperative and until their respective successors are chosen and qualified, unless a different period shall have been specified by the terms of his or her election or appointment, or in each case until the officer sooner dies, resigns, is removed or becomes disqualified. Each agent shall retain his or her authority at the pleasure of the directors.
Any officer may resign by delivering his or her written resignation to the board of directors. Such resignation shall be effective upon receipt unless specified to be effective at some other time. No officer resigning and (except where duly authorized written agreement with the corporation) no officer removed, shall have any right to any compensation as such officer for any period following his resignation or removal, or any right to damages on account of such removal, whether his compensation be by the month or by the year or otherwise; unless in the case of a resignation, the directors, or in the case of a removal, the body acting on the removal, shall in their or its discretion provide for compensation.

Section 5. Chairperson.

The chairperson of the board shall preside at all meetings of the board and of the members and shall have such other duties and powers as determined from time to time by the board.

Section 6. President and Vice Presidents.

The president shall be the chief executive officer of the corporation and shall, subject to the direction of the board, have general supervision and control of the business of the cooperative. It shall be his or her duty and he or she shall have the power to see that all orders and resolutions of the directors are carried into effect. The president, as soon as reasonably possible after the close of each fiscal year, shall submit to the directors a report of the operations of the corporation for such year and a statement of its affairs and shall, from time to time, report to the directors all matters within his or her knowledge which the interests of the corporation may require to be brought to its notice. The president shall perform such duties and have such powers additional to the foregoing as the directors shall designate.

The president has the power to enter into contracts in the name of the corporation, and such contracts shall be binding on the corporation and not subject to reversal by a membership meeting, except that any single transaction involving over _____ dollars, or any transaction to be carried out over a period of time exceeding ______ years (months?) will not be binding on the corporation unless approved before its execution by a membership meeting.

In the absence or disability of the president, his or her powers or duties shall be performed by the vice president, if only one, or, if more than one, by the one designated for the purpose by the directors. Any vice president shall have such other powers and shall perform such other duties as the board of directors may from time to time designate.
Section 7. Treasurer and Assistant Treasurer.

The treasurer shall, subject to the direction of the board of directors, have general charge of the financial affairs of the corporation and shall cause to be kept accurate books of account. He or she shall have custody of all funds, securities, and valuable documents of the corporation, except his or her own bond and except as the board of directors may otherwise provide.

In the absence or disability of the treasurer, his or her powers and duties shall be performed by the assistant treasurer, if only one, or, if more than one, by the one designated for the purpose by the directors. Any assistant treasurer shall have such other powers and perform such other duties as the board of directors may from time to time designate.

Section 8. Clerk and Assistant Clerks.

The clerk shall maintain the records of the membership meetings of the cooperative and the meetings of the board of directors. If there is a policy of rotation of note taking duty among members at the membership meetings of the cooperative and among directors at the meetings of the board of directors, the clerk shall oversee this process to insure that there is kept an accurate record of all membership meetings and board meetings.

In the absence of the clerk from any meeting of the cooperative, an assistant clerk if one be elected, otherwise a temporary clerk designated by the person presiding at the meeting, shall perform the duties of the clerk. An assistant clerk shall have such other powers and perform such other duties as the board of directors may from time to time designate.

The clerk shall keep in the state of _______, at the principal office of the corporation, the stock and transfer records of the corporation, in which are contained the names of all members and the record address of each.

ARTICLE VII

Resignations, Removals, and Vacancies

Section 1. Resignations.

Any director or officer may resign at any time by delivering his or her resignation in writing to the president, to the clerk, or to a meeting of the directors. Such resignation shall take effect at such time as is specified therein, or if no such time is so specified then upon delivery thereof.

Section 2. Removals.

Directors may be removed with or without assignment
of cause at a membership meeting of the cooperative by a consensus of the members eligible to vote.

The directors may by vote of a majority (replace "by vote of a majority" with "by consensus" if that is your choice) of the directors then in office remove any director for cause.

The directors may remove any officer other than the treasurer or clerk from office with or without assignment of cause by vote of a majority (replace "by vote of a majority" with "by consensus" if that is your choice) of the directors then in office. The treasurer and clerk may be removed from office at a membership meeting by vote of a majority (replace "by vote of a majority" with "by consensus" if that is your choice) of the members eligible to vote.

If cause is assigned for removal of any director or officer, such director or officer may be removed only after a reasonable notice and opportunity to be heard before the body proposing to remove him or her.

The directors may terminate or modify the authority of any agent or employee.

Except as the directors may otherwise determine, no director or officer who resigns or is removed shall have any right to any compensation as such director or officer for any period following his resignation or removal, or any right to damages on account of such removal whether the compensation be by the month or by the year or otherwise, provided, however, that the foregoing provision shall not prevent such director or officer from obtaining damages for breach of any contract of employment legally binding upon the corporation.

Section 3. Vacancies.

Any vacancy in the board of directors shall be filled by vote of a majority (replace "by vote of a majority" with "by consensus" if that is your choice) at a membership meeting, or pending the next membership meeting by vote of a majority (replace "by vote of a majority" with "by consensus" if that is your choice) of the directors then in office.

If the office of any officer becomes vacant, the directors (or the members in the case of a vacancy in the office of treasurer or clerk) may elect a successor by vote of a majority (replace "by vote of a majority" with "by consensus" if that is your choice) of those present at the meeting at which such election is made.

Each such successor shall hold office for the unexpired term of his or her predecessor and until his or her successor shall be elected or appointed and qualified, or until he or she sooner dies, resigns, is removed, or becomes disqualified.
ARTICLE VIII

Indemnification of Directors and Others

The corporation shall, to the extent legally permissible, indemnify any person serving or who has served as a director or officer of the corporation, or at its request as a director, trustee, officer, employee, or other agent of any organization in which the corporation owns shares or of which it is a creditor, against all liabilities and expenses, including amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees, reasonably incurred by him or her in connection with the defense or disposition of any action, suit, or other proceeding, whether civil or criminal, in which he or she may be involved or with which he or she may be threatened, while serving or thereafter, by reason of being or having been such a director, officer, trustee, employee, or agent, except with respect to any matter as to which he or she shall have been adjudicated in any proceeding not to have acted in good faith in the reasonable belief that his or her action was in the best interests of the corporation; provided, however, that as to any matter disposed of by a compromise payment by such director, officer, trustee, employee, or agent, pursuant to a consent decree or otherwise, no indemnification either for said payment or for any other expenses shall be provided unless:

(a) such compromise shall be approved as in the best interests of the corporation, after notice that it involves such indemnification;
   (i) by a disinterested majority of the directors then in office (or replace "by a disinterested majority" with "a consensus of a disinterested majority" if that is your choice)
   (ii) by a majority vote (replace "by a majority vote" with "by a consensus" if that is your choice) of the members at the time entitled to vote; or

(b) in the absence of action by disinterested directors or members, there has been obtained at the request of a majority vote (replace "of a majority vote" with "of a consensus" if that is your choice) of the directors then in office an opinion in writing of independent legal counsel to the effect that such director or officer appears to have acted in good faith in the reasonable belief that his or her action was in the best interests of the corporation.

Expenses, including counsel fees, reasonably incurred by any such director, officer, trustee, employee, or agent in connection with the defense of disposition of any such
action, suit, or other proceeding may be paid from time to time by the corporation in advance of the final disposition thereof upon receipt of an undertaking by such individual to repay the amounts so paid to the corporation if it is ultimately determined that indemnification for such expenses is not authorized under this section. The right of indemnification hereby provided shall not be exclusive of or affect any other rights to which any such director, officer, trustee, employee, or agent may be entitled. Nothing contained in this article shall affect any rights to indemnification to which corporate personnel other than such directors, officers, trustees, employees, or agents may be entitled by contract or otherwise under law. As used in this article the terms "director," "officer," "trustee," "employee," and "agent" include their respective heirs, executors, and administrators, and an "interested" director, officer, trustee, employee, or agent is one against whom in such capacity the proceeding in question or other proceeding on the same or similar grounds is then pending.

ARTICLE IX

Provisions Relating to Membership Shares

Section 1. Stock Authorized.

The total number of shares of capital stock, or membership shares, and the par value of the stock that the corporation is authorized to issue shall be as stated in the articles of organization.

Section 2. Issue of Authorized Unissued Membership Shares.

Subject to the limitations and procedures contained in Article III hereof any unissued membership shares from time to time authorized under the articles of organization may be issued by vote of the directors. No such shares shall be issued unless the cash, so far as due, or the property, services, or expenses for which it was authorized to be issued, has been actually received or incurred by, conveyed to, or rendered to the corporation, or is in its possession as surplus.

Section 3. Certificates of Stock.

Each member shall be entitled to a certificate in form selected by the board of directors stating that he or she is the owner of one share of the capital stock of the corporation. Such certificate shall be signed by the president or a vice president and the treasurer or an assistant treasurer and embossed with the corporation's seal.
Every certificate for shares shall set forth conspicuously on the face or back either the full text of the restrictions contained in the articles of organization or a statement of the existence of such restrictions and a statement that the corporation will furnish a copy to the holder of such certificate upon request and without charge.

Section 4. Surrender of Stock.

Subject to the requirements of the articles of organization, certificates representing membership shares may be surrendered to the corporation, whereupon the corporation shall, within thirty (30) days purchase and pay for such surrendered stock at its par value. Except as may be otherwise required by law, the corporation shall be entitled to treat the record holder of membership shares as shown on its books as the owner of such membership shares for all purposes, including the payment of dividends and the right to vote with respect thereto, regardless of any transfer, pledge, or other disposition of such stock, until the shares have been surrendered to the corporation in accordance with the requirements of these by-laws. It shall be the duty of each member to notify the corporation of his post office address.

Section 5. Lost, Mutilated, or Destroyed Certificates.

Except as otherwise provided by law, the board of directors may determine the conditions upon which a new certificate of stock may be issued in place of any certificate alleged to have been lost, mutilated, or destroyed. It may, in its discretion, require the owner of a lost, mutilated, or destroyed certificate, or his or her legal representative, to give a bond, sufficient in its opinion, with or without surety, to indemnify the corporation against any loss or claim which may arise by reason of the issue of a certificate in place of such lost, mutilated, or destroyed stock certificate.
ARTICLE X
Worker Dividends and Other Financial Provisions

Section 1. Capital Accounts and Net Worth

There shall be an individual "internal capital account" in the name of each worker and a single "collective internal capital account" that is not allocated to any individual. (For the purposes of this article the word "worker" shall be defined to refer to the members and in each fiscal year of the corporation to all other employees of the corporation (excluding independent contractors) who have worked as employees of the corporation for not less than fifty (50) hours during the fiscal year. The sum of the balances of the individual internal capital accounts plus the balance in the collective internal capital account shall equal the corporation's net worth (i.e., total assets less total liabilities).

The membership fee, as received by the corporation, and whether paid in cash or payroll deductions, shall constitute the initial balance in each member's individual internal capital account. Any gift, grant, or contribution to capital of the corporation shall be credited to the collective internal capital account. The individual internal capital accounts shall accrue interest at a rate not to exceed __________ percent per annum, as determined from time to time by the board of directors.

At any time a member's individual internal capital account shall consist of two parts: (1) The first part shall be known as the member's "internal dividend account" and shall be the sum of the corporation's written notices of allocation of worker dividends issued in accordance with section 3 (a) of this article as discounted or reduced in accordance with section 3 (b) of this article plus accrued interest, and (2) The second part shall be known as the member's "non-dividend internal capital account" and shall be comprised of all other additions to the member's individual internal capital account, such as the member's original membership fee payment plus accrued interest minus loss distributions.

Section 2. Net Income.

Before-tax net income for a fiscal year shall be determined by conventional accounting principles. Taxable income shall be determined by deducting from before-tax net income any allowable loss carryovers from previous years and, in accordance with section 1382(b)(2) of the IRC, the amount paid during the "payment period" for the taxable year in redemption of non-qualified written notices of allocation that were earlier delivered as all or a portion of a worker dividend. In accordance with section 1382(d) of the federal tax law, the "payment period" for a taxable year is the period beginning with the first day of such taxable year and ending with the fifteenth day of the ninth month following the close of the taxable year.
Corporate income tax on the corporation's taxable income shall be computed in the conventional manner. After-tax income is before-tax net income minus tax paid for the fiscal year. After-tax-net-net income is the after-tax net income minus interest credited to the individual internal capital accounts of the workers as determined according to section 1 of this article.

After-tax-net-net income may be positive or negative. In either case, __________ (a minimum of thirty (30%) percent is suggested) percent of the after-tax-net-net income shall be allocated to the collective internal capital account. This allocation shall be referred to as the "collective capital allocation." The remaining __________ (a maximum of seventy (70%) percent is suggested) shall be allocated among the members' individual internal capital accounts as provided in section 3 of this article. These allocations shall be referred to as worker dividend allocations and collectively as the "worker dividend allocation."

Section 3. Worker Allocations.

At the close of each fiscal year the workers' hours worked for the corporation shall be totalled. The total of hours worked for the corporation by each worker during the fiscal year shall also be determined. Worker dividend allocations shall be made according to the percentage of hours worked (regardless of variations in the workers' rates of pay). For purposes of construing these by-laws in view of the provisions of subchapter T of the Internal Revenue Code, or its successor provisions, the number of hours worked by a worker or a member shall be deemed to be that person's "patronage," and worker dividends shall be deemed to be "patronage dividends."

(If you would prefer to the other method of allocation allowed by the federal tax laws, the above paragraph should be replaced by: At the close of each fiscal year the workers' labor compensation received from the corporation shall be totalled. The total labor compensation received from the corporation by each worker during the fiscal year shall also be determined. Worker dividend allocations shall be made according to the percentage of labor compensation received. For purposes of construing these by-laws in view of the provisions of subchapter T of the Internal Revenue Code, or its successor provisions, the amount of labor compensation received by a worker or a member shall be deemed to be that person's "patronage," and worker dividends shall be deemed to be "patronage dividends.")

(a) Positive Worker Dividends.

If the corporation's after-tax-net-net income for a fiscal year is positive, the board of directors shall declare a worker
dividend to be paid to each worker for that fiscal year. The total of the worker dividends so declared shall equal the worker dividend allocation as determined in section 2 above. The worker dividend so payable to each worker shall equal the product of his or her percentage of the total hours worked for (change "the total hours worked for" to "the total labor compensation received from" if that is your choice) the corporation by its workers in that year times the worker dividend allocation for that fiscal year. The board of directors shall declare the worker dividend as soon as practicable after the close of the corporation's fiscal year, but in no event shall a worker dividend be declared later than six (6) months after the close of the fiscal year.

The board of directors shall, within the "payment period" for the taxable year, make payment of the worker dividends so declared either in cash or in the form of non-qualified written notices of allocation (as defined in section 1388(d) of the Internal Revenue Code, or its successor provision) or partly in each. The portion of the worker dividends payable in cash and the portion payable by non-qualified written notices of allocation shall be determined by the board of directors. The portion paid in non-qualified written notices of allocation shall be credited to the workers' internal dividend accounts. Delivery of cash and/or non-qualified written notices of allocation to each worker shall be made within the "payment period," which ends nine and one-half (9 1/2) months after the end of the corporation's fiscal year.

Earnings and profits of the corporation represented by workers' non-qualified written notices of allocation may be commingled with all other funds of the corporation and used for any and all corporate purposes, without restriction.

(b) Negative Worker Dividends.

If the corporation's after-tax-net-net income is negative, a negative worker dividend allocation shall be made to the workers' individual internal capital accounts. The negative worker dividend allocation for each worker shall be the product of his or her percentage of the total hours worked for (change "of the total hours worked for" to "of the total labor compensation received from" if that is your choice) the corporation by its workers in that year times the negative worker dividend allocation for that fiscal year.

A negative worker dividend allocation shall be first applied to the workers' non-dividend internal capital accounts, as a debit against said accounts and reducing their values. In no event, however, shall a worker's non-dividend internal capital account be reduced below the value of the par value of the worker's share of stock in the corporation. When negative worker dividend allocations can no longer be used to reduce a worker's non-dividend internal capital account, the remaining
negative worker dividend allocation shall be applied to his or her internal dividend account. This negative allocation shall be applied to the workers' most recent written allocation notices first, so as to first reduce the value of a worker's most recent written notice of allocation.

The board of directors shall cause a negative written notice of allocation to be delivered to each affected worker as soon after the close of the corporation's fiscal year as practicable, but in no event later than the end of the "payment period," which ends nine and one-half (9 1/2) months after the end of the corporation's fiscal year. Each negative written notice of allocation shall state the total negative allocation applied to the worker's individual internal capital account, stating the reductions made to his or her internal dividend account and to his or her non-dividend internal capital account and further stating the resulting balances in the two portions of his or her individual internal capital account.

Section 4. Redemption of Written Notices of Allocation.

The corporation shall redeem all written notices of allocation by making payment of their face values, plus accrued interest and less reductions for negative worker dividend allocations, at such time as the board of directors may determine is appropriate; provided that such payment shall be made within five (5) years of the issuance of said written notices of allocation unless the board of directors rules that extraordinary circumstances require an extension of the deadline.

Payments in redemption of written notices of allocation shall be made in the order of the date of their issuance, the oldest allocations being paid first. The board of directors may, however, determine that extreme compassionate grounds exist that require and justify payments to individual workers according to a different priority.

When making payments in redemption of written notices of allocation, all allocation notices of the same fiscal year shall have the same priority. If the board of directors determines that funds are insufficient to redeem in full all written notices of allocation of a certain fiscal year, payment shall be made on all such notices at a fraction of the value thereof. The unpaid fraction shall remain a valid written notice of allocation to be redeemed at a later date.

All payments in redemption of written notices of allocation shall reduce the workers' internal dividend accounts. The corporation's written notices of allocation shall be debts subordinate to trade or other creditors of the corporation.

Section 5. Payments and Surrender of Stock on Termination of Membership.

When a person's membership in the cooperative is terminated,
any positive balance in the member's capital account after the end of the fiscal year adjustments will consist of two parts: the dividend capital account and the non-dividend capital account. The written notices of allocation, representing the dividend part of the balance in the person's capital account, shall be reclassified as subordinate debts of the corporation and shall be paid off within five (5) years of the date of issuance as specified in section 4 of this Article X.

The membership share of the person with terminated membership shall be immediately transferred back to the corporation. If the non-dividend part of the balance in the person's account at the end of the fiscal year (the part not represented by allocation notices) is positive, that amount shall be paid in any combination of cash and/or five-year subordinate promissory notes, as the board of directors shall determine, to the ex-member as the legal consideration for the returned membership share. If that non-dividend part of the account's balance is zero, the share shall be returned to the corporation for no legal consideration. After the end of the fiscal year adjustments, the internal capital account of the ex-member shall be closed. The issued promissory notes, if any, shall be payable on such terms as the board of directors shall determine, provided that the notes shall be payable in full within five (5) years of the termination date—unless the board rules that extraordinary circumstances require an extension of the deadline.

Section 6. Transfer of Written Notices of Allocation.

Unless otherwise provided in writing by the board of directors, written notices of allocation shall not be transferable. In addition, the encumbrance of a written notice of allocation, by pledge or otherwise, may not be made without the written approval of the board of directors. In the absence of such written approval of the board of directors, any transfer or encumbrance of written notices of allocation, whether voluntary or involuntary, shall be of no effect and shall not entitle the transferee or pledgee to receive payment from the corporation. The foregoing notwithstanding, a deceased worker's executor, administrator, or heirs-at-law shall succeed to the rights of the worker in his or her written notices of allocation.

Section 7. Unclaimed Payment on Written Notices of Allocation.

When the corporation is unable to redeem and make payment on all or a part of a non-qualified written notice of allocation because it cannot learn the whereabouts or address of a former worker, so much of the former worker's account as has been payable for over eighteen (18) months shall be removed as
a liability on the books of the corporation. Such cancellation of liability shall be made no sooner than thirty (30) days after the corporation has sent a notification of such intent by certified mail to the last known address of the worker.


Positive collective capital allocations shall be credited to the collective internal capital account, and negative collective capital allocations shall be debited from the collective internal capital account. Such credit or debit shall be made as soon as practicable after the corporation's after-tax-net-net income is determined. Earnings and profits of the corporation credited to the collective internal capital account may be commingled with other funds of the corporation and may be used for any and all corporate purposes, without restriction.

When the corporation's after-tax-net-net income for a fiscal year is positive and exceeds two (2%) percent of the corporation's gross sales for that year, \( x \) (we recommend at least "one-third (1/3)" which would have the next blank filled in with "ten (10%) percent" which is assuming you chose 30% of the after-tax-net-net to be allocated to the collective capital account in section 2 of this Article) of the collective capital allocation (i.e., \( y \) percent of the after-tax-net-net income) shall be paid in cash to associations, corporations, or other organizations selected by the board of directors on the basis of their ability to contribute to the encouragement of trusteeship cooperatives and other appropriate social goals. Such payments shall be made to a single recipient or to multiple recipients in proportions determined by the board of directors. Such recipients need not be organizations tax-exempt under the Internal Revenue Code. The corporation's rules and regulations may contain guidelines for determining appropriate recipients for such payments.

When the corporation's after-tax-net-net income for a fiscal year is positive but does not exceed two (2%) percent of the corporation's gross sales for that year, the board of directors may, at its election, direct the payment of a fraction of the collective capital allocation to a recipient or recipients as described above. In no event, however, shall more than \( z \) (fill in with "one-third (1/3)" if above suggestions taken or whatever is appropriate if not) of the collective capital allocation be so paid.

The earnings and profits of the corporation represented by the collective internal capital account shall not be appropriated individually by any member; nor shall they inure to the benefit of the individual members. Accordingly, any distribution in liquidation or dissolution of the corporation of assets remaining after the payment of all of the corporation's liabilities and the payment of all individual internal capital
accounts shall be distributed to organizations that have qualified as exempt from taxation under Section 501(c)(3) of the Internal Revenue Code, or its successor provision and that have as a primary purpose the encouragement and promotion of trusteeship cooperatives.


(This section is necessary in the Commonwealth of Massachusetts.)

Any foregoing provision notwithstanding, no worker dividend may be declared until the following minimum allocation has been made to the collective internal capital account: At least ten (10%) percent of the corporation's after-tax net income determined at the end of each fiscal year shall be retained and allocated to the collective internal capital account until an amount has accumulated that is equal to thirty (30%) percent of the par value of the corporation's stock issued and outstanding at the end of such fiscal year. If the collective internal capital account exceeds such percentage at the end of any fiscal year, no such minimum allocation need be made.
ARTICLE XI

Miscellaneous Provisions

Section 1. Execution of Papers.

All deeds, leases, transfers, contracts, bonds, notes, releases, checks, drafts, and other obligations authorized to be executed on behalf of the corporation shall be signed by the president or the treasurer except as the directors may generally or in particular cases otherwise determine.

Section 2. Voting of Securities.

Except as the directors may generally or in particular cases otherwise specify, the president or the treasurer may on behalf of the corporation vote or take any other action with respect to shares of stock or beneficial interest of any other corporation, or of any association, trust, or firm, of which any securities are held by this corporation, and may appoint any person or persons to act as proxy or attorney-in-fact for the corporation, with or without power of substitution, at any meeting thereof.

Section 3. Corporate Seal.

The seal of the corporation shall be a circular die with the name of the corporation, the word "(your state)," and the year of its incorporation cut or engraved thereon, or shall be in such other form as the board of directors may from time to time determine.

Section 4. Corporate Records.

The original, or attested copies, of the articles of organization, by-laws and records of all meetings of incorporators and members, and the stock and transfer records containing the names of all members, and the record address and the stock held by each, shall be kept in (your state) at the principal office of the corporation or at the office of the clerk. Said copies and records need not all be kept at the same office. They shall be available at all reasonable times to the inspection of any member for any proper purpose but not to secure a list of members for the purpose of selling said list or copies thereof or of using the same for a purpose other than in the interest of the applicant as a member relative to the affairs of the corporation.

Section 5. Consensus Voting Procedures.

Whenever in these by-laws action by consensus is
required, the following procedure shall be followed. The cooperative, board of directors, committee, or other group shall attempt to reach a consensual agreement on the issue before it. If no consensus is reached after significant discussion spanning at least two (2) weeks and two (2) meetings, a deadlock may be declared by a vote of at least eighty (80%) percent of the persons entitled to vote in attendance at the meeting. After a deadlock has been declared, the issue shall be resolved in favor of a decision approved by at least eighty (80%) percent of the persons in attendance and entitled to vote thereon. (Change the length of time, number of meetings and voting percentage required as you judge is best for your cooperative.)

Section 6. Evidence of Authority.

A certificate by the clerk or secretary or an assistant or temporary clerk or secretary as to any matter relative to the articles of organization, by-laws, records of the proceedings of the incorporators, members, board of directors, or any committee of the board of directors, or stock records or as to any action taken by any person or persons as an officer or agent of the corporation, shall as to all persons who rely thereon in good faith be conclusive evidence of the matters so certified.

Section 7. Rules and Regulations.

A set of internal cooperative rules and regulations may be established at a membership meeting or by the board of directors. The rules and regulations shall be separate from these by-laws. The rules and regulations may be added to, amended, or repealed at any membership meeting or meeting of the board of directors, which has a quorum, in the normal course of business.

The rules and regulations may not conflict with these by-laws, the corporation's articles of organization, or any applicable law. If and to the extent of such conflict, they shall be null and void.

The rules and regulations shall be binding on all employees of the corporation and on all members. A current copy of the rules and regulations shall be maintained by the clerk, and a copy shall be available to any member requesting a copy.

Section 8. Registered Office and Registered Agent.

The address of the registered office of the corporation is __________________ and the registered agent at this address is the clerk.
ARTICLE XII

Amendments

These by-laws may be amended or repealed in whole or in part by a majority vote (change "by a majority vote" to "by a consensus" if that is your choice) of either the membership or the board of directors. This power may be exercised by a majority (change "by a majority" to "by a consensus" if that is your choice) of the members present or represented at a membership meeting, provided that the notice for such a meeting indicated a change in the by-laws was to be considered. This power may be exercised by a majority (change "by a majority" to "by a consensus" if that is your choice) of the directors in office, provided that:

(a) The board of directors may not make, repeal, or amend any provisions of these by-laws which by the law, by the articles of incorporation, or by these by-laws requires an action by the membership;

(b) The board of directors may not create, repeal, or amend any provision of these by-laws which alters the procedures for making, repealing, or altering the by-laws; or, which alters the provisions regarding the removal of directors;

(c) Any new by-laws or amendments or repeal of any provisions made or adopted by the board may be amended or repealed by a membership meeting; and

(d) Not later than the time of giving notice of the membership meeting next following the making, repealing, or amending by the board of directors of any by-law, notice thereof stating the substance of such change shall be given to all members.

(If you would prefer that only a membership meeting have the power to amend these by-laws use the following wording instead of the above:

These by-laws may be amended or repealed in whole or in part by a majority (change to "by a majority" to "by a consensus" if that is your choice) of the members at any annual or special membership meeting, provided that notice of the substance of the proposed amendment is stated in the notice of such meeting. No change in the date fixed in these by-laws for the annual membership meeting may be made within sixty (60) days before the date fixed in these by-laws, and in case of any change in such date, notice thereof shall be given to each member in person or by letter mailed to his or her last known post office address at least twenty (20) days before the new date fixed for such meeting.)