After Occupy

Economic Democracy for the 21st Century

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2 Should Workplaces be Democratized?

The modern corporation may be regarded not simply as one form of social organization but potentially (if not yet actually) as the dominant institution of the modern world.

(Berle & Means, [1932] 1962, p. 356)

Introduction

In many ways these words of Berle and Means have now come true. Large corporations today are vastly influential and massively powerful. They are among the most powerful organizations in the contemporary world, central features of liberal-democratic societies, yet they themselves are fundamentally undemocratic, since the people at the top of the structures are unaccountable to the people at the bottom. This means that a dominant institution of modern “democratic society” is not democratic itself. Is this justifiable? Although we are appalled at states that do not allow their citizens to elect their leaders, we take it for granted that workers should have no ability to elect their bosses. Why is this so? The present authoritarian structure of workplaces means that the majority of the population spends the majority of their lives in associations that are severely undemocratic and hierarchical, yet we unhesitatingly call our societies “democracies.” This is a puzzle and a paradox.

But the lack of democracy at work is not simply an academic puzzle. It is also a fact of life, and an often terrible one at that. Many workplaces in our society, particularly for working-class jobs, are organized so hierarchically that they are deeply unpleasant if not outright oppressive. Almost everyone has experienced at some time or another the degradations of workplace hierarchy—yelling bosses, managers who act like petty tyrants, supervisors who stonewall and stifle feedback, arbitrariness and inequality, favoritism and snobbery, privilege and superiority. In such ways hierarchical work can undermine the freedom of large numbers of working people to adequately control their own lives.
Arguments for workplace democracy are not new and tend to reappear every generation or so. The first theoretical defense of cooperatives as “working men’s associations” appeared in the writings of Phillipe Buchez in France in the 1830s and 1840s (Estrin, 1989, p. 169). More recently, most countries in the West experienced a wave of substantial enthusiasm for workplace democracy starting in the 1960s, galvanized by the student movements. From that generation, some of the most well-known political theorists—Carole Pateman (1970), Michael Walzer (1983), and Robert Dahl (1985)—came to advance justifications for workplace democracy. In recent years we are perhaps witnessing another wave of interest (e.g., the international Occupy movement) galvanized in part by the global financial crisis and in part by unprecedented levels of economic inequality.

The central argument of this chapter is that the current system of hierarchical work is deeply unjust because the majority of workers are compelled to join workplaces within which they are fundamentally unequal—in their functional role, essentially servants. It is very difficult for the average person to choose an alternative to hierarchical work in the form of a democratic workplace. The argument here is that no one should be compelled to be subservient at work and so everyone should have a meaningful choice of workplace democracy. For such a choice to be real, the state needs to foster and facilitate the expansion of worker cooperatives.

The argument proceeds by first examining the hierarchical nature of most workplaces, and then showing the degree to which people are compelled to join them due to a combination of material pressure, cultural pressure, and lack of alternatives. The following section differentiates workplaces from purely private associations, such as clubs, to clarify why the state should be involved in fostering the expansion of democratic workplaces. The next section examines what this concretely means in terms of spreading worker cooperatives. The final sections consider some common objections to workplace democracy.

**Workplace Hierarchy and the Compulsion to Accept Subservience**

Perhaps the most common perspective on work in contemporary capitalism is that it is structured on the basis of voluntary contracts so there are no problems of “power” or “hierarchy.” Alchian and Demsetz (1972) are among the most influential defenders of this position. They argue that there is no question of authoritarian control at work because work is simply a series of voluntary contracts that the worker can terminate at any point: “the employee ‘orders’ the owner…to pay him money in the same sense that the employer directs…[the employee] to perform certain tasks. The employee can terminate the contract as readily as can the employer” (1972, p. 783). The intuition behind Alchian and Demsetz’s argument is that because work involves a voluntary contract there can be no exercise of power of one over the other. The employer and worker are just exchanging something for something in a deal that both agree to. This is why they do not see any difference between the standard employer-employee relationship and the standard customer-seller relationship.

[The firm] has no power of fiat, no authority, no disciplinary action any different in the slightest degree from ordinary market contracting between any two people… telling an employee to type this letter rather than to file that document is like my telling a grocer to sell me this brand of tuna rather than that brand of bread. (1972, p. 777)

I find this portrayal of contemporary society highly inaccurate. In general, workplaces in capitalist society are hierarchies: they are based on structural inequality in a way that gives employers significant and unaccountable power over their employees, and are therefore deeply damaging to most workers’ freedom. In stark contrast to Alchian and Demsetz, I will argue that the average person in our societies faces intense material and culture pressure to get a job. But due to the large inequality in ownership of productive assets and skill levels, most workers apply for jobs in situations where they have significantly less bargaining power than their employers, and so are compelled to sign contracts handing over large discretionary power. This means that the average working person in developed societies is, in his or her functional role at work, essentially a servant.

Most workers are compelled to join hierarchical workplaces because of two essential factors: (i) pressure to get a job, and (ii) lack of alternative democratic options.

(i) Generally speaking, pressure to work comes in two forms: material and cultural. The precise degree of material pressure that individuals face varies from country to country and depends on a number of factors, most importantly, the level of unemployment, one’s bargaining power in the labor market, and the generosity of social security. For our purposes, the simplest way to think about the labor market in developed countries is to recognize that the working population can be divided into three main categories, which we might label, “owners,” “professional workers,” and “average workers.” In the United States, for example, owners represent roughly 8% of the population; they are the richest portion of society, defined by their ability to live off the income generated by their private property. Professionals are highly skilled
workers representing about 25% of the population, while what I am calling “average workers” are medium or low-skilled and constitute about 60% (the remaining 7% are self-employed). The point of this distinction is that it gives us some nuance in terms of the degree of material pressure different people face in our societies. While all workers (or non-owners) are compelled to work to make ends meet, professionals clearly face less intense pressure than other workers because they possess scarce skills that put them in a stronger bargaining position. Material pressure is also clearly contingent on the level of social support. While no developed country yet provides their citizens with a guaranteed basic income, material pressure to work is particularly severe in the United States due to the weak welfare supports. The average welfare provision is about $17,000/year for a family of four, whereas a living wage is calculated to be close to $50,000.

In terms of cultural pressure to get a job, it is well known that the lack of work in the form of chronic unemployment often leads to severe psychological suffering. We cannot be flippant about the seriousness of this deprivation when we recall that there is a strong correlation between unemployment and suicide (Lewis & Sloggett, 1998). Work is often an important element of one’s social status and is crucially important for many people’s sense of dignity and self-worth (Jahoda, 1987). This means that the pressures of finding work can extend far beyond purely financial ones.

(iii) The final important factor is that there are very few alternatives to hierarchical work. (Again, by “hierarchical work” I mean workplaces where managers are structurally unequal and accountable to workers.) Most workers are unable to choose to work in a democratic firm for the simple reason that there are basically no options to do so. In most Western countries (Italy is a partial exception), genuinely democratic workplaces (i.e., worker cooperatives) make up only about 1% of firms. In the United States, 99.9% of private workplaces employing more than one person are, strictly speaking, hierarchical firms (Dow, 2003).

That said, over the years there have been occasional waves of interest in trying to soften workplace hierarchy through experiments with worker participation in management (Strauss, 2006). The best overview of the contemporary US economy comes from Blasi and Kruse (2006), who analyzed a large, random sample of survey data from 3,081 firms in 1997. They found that in 11.9% of firms the majority of nonmanagerial employees worked in self-managed teams. Moreover, in 47.2% of firms, a majority of employees regularly participated in meetings covering workplace issues. Although this sounds impressive, it must be recalled that meetings by themselves need not mean very much. The simple fact of having a meeting does not imply any democratic equality or accountability between the participants, as managers in all of these firms are perfectly within their rights (though perhaps unwise) to completely ignore workers’ complaints if they wish. Overall, the authors find that only 1.10% of firms in the United States are what they call “high-performance workplaces,” meaning they make use of at least half of the following eight participatory and good management practices (self-managed work teams, work-related meetings, training, benchmarking, job rotation, flatness of the organization, advanced practices of recruitment, and pay/benefits).

So we can see that the US economic landscape does contain some opportunities for limited participation within the overarching hierarchical management structures (the 11.9% of firms with self-managed teams is not meaningless), but very few opportunities to escape hierarchical, undemocratic work itself.

So other than the minimal number of worker cooperatives, are there any other ways to escape hierarchical work? One potential route is to become self-employed. This is, at present, the most institutionally plausible path for some people to achieve self-determination at work—roughly 10% of the labor force do this—but, of course, it is only available to those who can afford to start their own business, are willing to take the substantial financial risks, and able to dedicate the requisite time and energy. For everyone else, the only way that is currently institutionally possible for workers to acquire democracy at their present workplace is to become co-owners, through buying enough shares from their employers that they acquire equal decision-making power with the other owners. But, of course, for most people this is merely a formal possibility. Many firms are private and will not sell their property rights, and even if they would, most workers could never afford to buy sufficient shares to acquire equal decision-making power. It is estimated that 80% of families have an average net worth of only 50% of the capital stock of their firm per employee; and of this, about half again is tied up in cars and homes (Dow, 2003, p. 189). The bottom line from all of this is that democratic alternatives to workplace hierarchy are, in general, highly inaccessible.

So force of circumstance and lack of alternatives mean that most workers find themselves compelled to join hierarchical workplaces. Due to the large inequality in ownership of productive assets and scarce skills, average workers apply for jobs in situations where they have significantly less bargaining power than the owners, and so are compelled to sign contracts handing over large discretionary power to the employers. It is standard for contracts to give management not only the power to fire and discipline but also to determine the rules and regulations by which employees are expected to abide. Workers who are unionized may have some general level protections, especially around wages, but most union contracts include a so-called “management clause,”
which reserves essential powers and decision-making ability to management alone. The broad discretionary powers given to managers allow them to compel workers to do things that they would not otherwise do—to do this task, in this way, at that pace, and so on. This is the sense in which contracts typically establish the governing of workers. The most important point about contracts for regular kinds of work is that since all the precise tasks and minutiae that a worker must do can never be fully described in all the specific details, what contracts really establish is the general parameters of authority and obedience (we might say, parameters of government) that are expected to be followed. If workers simply followed the contract to the letter, doing nothing more and nothing less, the workplace would grind to a halt almost immediately—which is precisely the rationale behind work-to-rule strikes. In other words, a fundamental purpose of the standard employment contract for low-skilled work is formalizing inequality by establishing power and authority over the worker in order to extract a variety of particular work from an inevitably general contract (Simon, 1951).

Of course, we should not over generalize about the position of workers in their firms. At the very least, we need to recognize a spectrum between highly skilled professionals and low-skilled workers. Professionals (e.g., university professors or programmers at Google) can sometimes bargain for increased levels of decision-making autonomy at work and often have a choice about the kind of job they take. However, the average low-skilled worker typically lacks this bargaining power and so is compelled to accept unequal voice at work. (As a spectrum there is no sharp demarcation between “high” and “low” skill—in the middle they may blur into each other—but for the most part the distinction is clear.) The average worker is, in a functional sense, essentially a servant. Since the collection of work tasks can never be definitively adumbrated, a central duty of every non-professional job in a hierarchical workplace is obedience to whatever the boss or manager wants (within, of course, legally defined boundaries).

This is not to say that all jobs in hierarchical workplaces are terrible or that all employees in such firms are oppressed or powerless. Not at all; professionals are often able to demand an important degree of autonomy at work, and managers sometimes initiate worker participation schemes (usually with the hope that it will increase productivity). The point is rather that as far as formal structures of power are concerned, average workers are fundamentally unequal in decision-making power with respect to their employers. In the rich societies of the West average workers are, in a functional sense, like Alfred—the butler of Bruce Wayne (Batman's alter ego); they are not starving or living terrible lives (indeed, by global standards they are quite rich). And they are definitely not slaves, since there are clearly defined limits to employer power and even the most dependent worker is not usually utterly dependent on her employer for life and limb. But neither are they equals. When Bruce Wayne calls, Alfred comes running.

The reason that it is so important for average workers to have a choice about democratic alternatives is that workplace hierarchy can be terrible. Hierarchical workplaces deprive individuals of freedom in two senses mentioned in the last chapter—first, they make workers unfree from the (potentially) arbitrary power, coercion, and bullying of those in authority. This is the sense of unfreedom as subservience. It is the result of inequality in terms of formal decision-making power. This kind of unfreedom often manifests itself in hierarchical workplaces through arrogance and caprice, on the one hand, fear and fawning, on the other. Additionally, workplace inequality tends to make workers unfree in the republican sense of lacking self-determination or sovereignty. This is the sense of unfreedom as helplessness and dependence, marked by the inability of workers to collectively manage the direction of the firm themselves. This is unfreedom as impotence, the stultifying of creativity and the stifling of enthusiasm that results from disempowering work.

Overall, it is clear that Alchian and Demsetz's claim that workers can fire their bosses just as easily as the reverse is a strange perspective as it implies that the employee is in general in a position of equal bargaining power vis-à-vis the employer—a perspective that flies in the face of practically all the evidence of recorded capitalist history. They mistake the formal truth that a worker may legally terminate a contract just as well as the other way around, with the substantive truth that an average worker is usually far less able to do so. The standard situation in the Western world is that inequality of resources (in terms of money and skills) compels the average worker to accept unequal authority relations stipulated by standard employment contracts. So employers' power over workers comes de jure from the employment contract but de facto from unequal bargaining positions. This produces the paradox that the typical worker is largely compelled by force of circumstance to be subservient at work in a society that prides itself on its democratic equality.

Free to Choose?

When Milton and Rose Friedman named their book Free to Choose (1980), they were attempting to advance their conservative arguments by appeal to a widely held sentiment that a core goal of liberal societies is that individuals should be free to choose the products, services, and kind of employment that they desire. In an important article, Ian Maitland (1989) argues in a similar
vein that there is no need for the state to foster workplace democracy because workers can freely choose to have meaningful work if they so desire. In a competitive market system, he argues, workers are free to bargain for whatever kind of benefits they want; if they desire more meaningful work they can trade it off against lower wages so that firms have an incentive to offer it to them. And the fact that this does not seem to happen very frequently is taken as evidence that in fact workers do not want more meaningful work. The upshot of his argument is that workers are presently free to choose and indeed have chosen en masse to stick with subservience.

Now while Maitland's argument focuses on "meaningful work" we can easily imagine a similar argument about "democratic voice." The argument would go as follows: workers are free to choose the degree of democracy at work that they want by bargaining with employers for more/less democracy in exchange for lower/higher wages. There is no reason that workers cannot bargain for more democracy just like they commonly do for more vacation time or better benefits. A competitive labor market allows for workers to bargain for any particular package of benefits that they may want.

In fact, democracy at work is not something that workers can easily bargain for. There are two basic reasons why. The first is that it is not institutionally available. It is simply not common practice anywhere for firms to offer varying degrees of democratic rights to prospective workers. This does not mean that it would be impossible for them to do so (the current practices of limited worker participation in management could conceivably evolve into more robust forms of democratic equality and power sharing), but it does mean that there is currently no well-functioning market for democratic rights. There is a market failure, in other words, in the sale of democratic rights, and this is precisely one of the reasons why the state should help to expand democratic workplaces—in order to provide a choice for democratic work that the market is failing to provide. The broader point is that choice always happens against a set of background conditions. Think about a cafeteria in a university. If there are ten restaurants all of which are corporate fast food chains, and after a year 99% of the students have eaten at one of the chains at some point, we cannot sensibly conclude that this proves that students overwhelmingly prefer fast food to healthy or fair-trade alternatives. People's choices are inherently constrained by the existing institutional options.

The second, and more profound, issue is that workers have not generally been strong enough to put the issue of firm governance on the bargaining table. The lack of widespread bargaining for democratic voice that we see today does not, I think, reflect a lack of interest in democratizing work (pace Maitland) but rather reflects a lack of bargaining power. The reason that the shark and the tuna do not harmoniously share the sea has little to do with the wishes of the tuna. The evidence for this is clear: at the height of workers' bargaining power—in the 1970s in social democratic countries—governance issues and economic democracy were firmly on the bargaining table. Indeed, it was precisely at the height of this union power that major moves toward economic democracy were made in the form of co-determination in countries like Sweden and Germany, the Auroux laws facilitating autogestion in France, Tony Benn's call for industrial democracy in the United Kingdom, and so on (Sassoon, 1996).

In other words, I share the liberal sentiment that people should be free to choose. The choice of workplace governance structures, of whether to spend thousands of hours of our lives in associations in which we are formally equals or in which we are formally servient, is a very important one with profound consequences for our freedom, happiness, and well-being. But I disagree that such a choice is currently open or institutionally accessible for the majority of people. In fact, as we will see below, there is strong evidence that many people do desire more democracy at work; the problem is that there are so few avenues for people to actually choose this option.

Are Workplaces Private Associations?

So far the argument has been that the average person is compelled to join hierarchical workplaces due to force of circumstance and lack of alternative options. Widespread inequality in the possession of skills and ownership of productive assets leads to unequal bargaining positions which in turn lead to inegalitarian contracts that establish hierarchical relationships where most workers are essentially servants. This, I believe, is unjust and so requires that the state foster democratic alternatives to remedy the situation. Implicit in this argument is that workplaces are different kinds of associations than, say, clubs. They are not "private" in quite the same way.

It is a widely accepted liberal notion that private associations such as clubs do not need to be democratically organized. Liberals have long maintained, and rightly so, that people should be free to start or join any kind of association that they choose, and that there is nothing wrong with undemocratic kinds of clubs as long as one can always exit easily. As Mayer (2001) says: "Clubs do not have to be democratic, even in a democratic society. Founders are free to craft the governance structure they deem best, and new members have no moral right to require political equality where it does not exist" (p. 240). Rawls (1971) echoes this sentiment, "Particular associations may be freely organized as their members wish, and they may have their own internal life
and discipline subject to the restriction that their members have a real choice of whether to continue their affiliation (p. 212). Liberals are quick to point out that if the state were to mandate particular kinds of club structures (such as democratic ones)—this would be deeply paternalistic (Rosenblum, 1998). Forcing democracy on private associations (e.g., mosques or churches) would drastically and dramatically undermine the freedom of individuals to associate together through whatever governance structure they prefer. It would limit individuals’ choices and require the state abandoning neutrality to impose a particular vision of the good life on the civic lives of its citizens.

Several critics of workplace democracy have made the same kind of argument vis-à-vis workplaces. For example, Arneson (1993) implies, and others are more explicit (Mayer, 2001, p. 240), that workplaces should be seen as analogous to clubs. The implication being that since workplaces are private, workers and employers should simply be left alone to associate however they please, democratically or not; the state should not be involved.

This, I think, is wrong because workplaces are fundamentally different kinds of associations than clubs. First, it is not nearly as easy for workers to exit their workplace as it is for people to exit their clubs. Most people are compelled to join workplaces for a variety of material and cultural reasons that are simply not the same with joining, say, a typical bowling or bird-watching club. That means that the power that is exercised in hierarchical workplaces cannot be easily avoided. This is not to say that people are completely bound to any particular workplace—I accept the general empirical claim that most people can exit their workplace easier than they can exit their state, for example. And so there may well be a deeper inalienable right to democracy in the state that does not exist in the workplace (see Arneson 1993 and Malleson 2013a for this argument). Nevertheless, it is also true that, generally speaking, it is significantly harder to exit workplaces than clubs. While people can exit particular workplaces (one can leave a hierarchical job at McDonalds for an equally hierarchical job at Burger King), it is much more difficult to avoid hierarchical work altogether. The compulsion to join a workplace is of a different order of magnitude than for clubs.

Second, workplaces occupy a position of central importance to people’s lives that is largely different from private clubs. On the one hand, people typically spend much more time and energy at work than at clubs at work. The average employed American, for instance, spends about 35 hours per week working, compared to only 2 hours per week involved in religious or other associations (Elslund, 2000, pp. 8–9). Moreover, work plays a crucially important role in determining one’s social status. One’s position in the workplace has broad implications for one’s overall social standing, sense of self-respect and dignity, in ways that are not all comparable to most clubs. For these reasons, the power that is exercised in workplaces and the significance of the internal governance relationships are much more “socially consequential” than in clubs (Bowles & Gintis, 1986). The state cannot be totally “hands off” vis-à-vis workplaces because ignoring long-term inequality in such associations means abandoning people to second-class status. For this reason it is not quite right to characterize workplaces as either straightforwardly “public” or “private” associations. We might more accurately call them “socially consequential private associations” (Malleson, 2013a).

The fact that workplaces have these differences from clubs means that we must be much more concerned and proactive to ensure that, as Rawls puts it, people have “a real choice of whether to continue their affiliation” to their workplace (emphasis added). Unfortunately, the current state of affairs is one in which people generally do not have such a choice; the typical working person is compelled to join a hierarchical workplace where she is essentially a servant. Because of the centrality of work to people’s lives this is a serious problem. Long-term involuntary subservience at work can be detrimental to one’s self-respect, damaging to the full development of one’s moral powers, and an affront to one’s ability to exercise meaningful control over one’s own life. Since work is so socially consequential the state does need to be involved in order to ensure the background conditions are such that an individual’s choice to enter such associations is genuinely voluntary: the choice of joining a hierarchical workplace must be “real.” There is nothing particularly radical about this. All liberals would agree that it is unjust to compel people to join other kinds of hierarchical associations—such as churches or mosques—since a compulsion to join such organizations would curb one’s personal pursuit of the good life. Likewise, we need to ask: Does it not restrict people’s pursuit of the good life when so many people are systematically denied the opportunity to be equals at work (in the sense of possessing formally equal governing influence)?

To clarify the underlying argument, consider another important association: that of marriage in the 1930s or 1940s. Recall that the “governance structure” of the family at this time was often intensely patriarchal. The husband was the head of the family—making the important decisions and controlling the family’s resources—while the wife was informally but substantively subservient. Women were the second sex. They could be raped by their husbands without legal repercussion; they married young, were expected to have children, and devote themselves to care-giving and life within the home.

The essential fact about marriage in this era is that it was characterized by a limited degree of exitability. Although divorce was legal, there was nevertheless
substantial pressure—both material and cultural—for women to get married. In 1940, for example, white married women relied on their husbands to provide an average of 86% of their economic support (Sorensen & McLanahan, 1987, p. 669). Moreover, while marriages were (and still are) intensely private affairs, they were also deeply socially consequential—one’s position in family life was often a central locus of one’s time and energy and an important determinant of one’s social standing, self-respect, and sense of moral worth.

So what does justice require for the internal governance relationship of the marriage? This is a thorny question because the family has characteristics of both private and public associations. On the one hand, marriage is an intensely private affair; we clearly do not want to paternalistically tell families how to organize their internal relationships because it is important that we respect people’s choices about organizing their private family life as they see fit. On the other hand, the personal is the political; we cannot in good conscience abandon women to a lifetime of subservience in hierarchical marriages, which they may deeply dislike, but are constrained to remain in due to the lack of viable alternatives. We should neither abandon women to subservience nor mandate democratic equality.

I would argue, and suspect that many liberals would agree, that justice in such cases requires that the state should foster the background conditions so that women are empowered to choose alternatives; they should be free (but not forced) to choose egalitarian relationships if they so desire. Concretely, this requires a range of state policies—facilitating divorce, ensuring child support, alimony, and pension sharing, instituting laws against physical abuse or rape within marriage, facilitating material independence by outlawing discrimination at work, legalizing maternity leave, providing affordable daycare, and so on.

Historically, what has happened in most developed countries is that state policies such as the above helped to increase the bargaining position of women (by reducing women’s dependence on a husband and increasing the economic ability to leave). Such policies, combined with a growing culture of gender equality galvanized by second wave feminism, allowed women to leverage their new bargaining power to insist on more democratic equality. So, state policies that fostered women’s ability to leave had the indirect effect of simultaneously fostering egalitarian voice.

Moreover, it is worth noting that as the background conditions have changed over the last 70 years (though perhaps not as much as we would want), and as women’s choices about marriage have become less constrained, we have concurrently witnessed a corresponding surge in egalitarian relationships. Today the egalitarian marriage is (for the most part) the norm. The more the choice of equality has become a real possibility, the more that such a choice has actually been made.

Now I want to argue that the same argument holds in the case of workplaces. Workplaces today are likewise characterized by a limited degree of exitability. While exit is legal, the average worker is nevertheless largely compelled to join a hierarchical workplace due to force of circumstance and lack of alternative options. Additionally, workplaces, like families, are deeply socially consequential since they constitute a central locus of people’s time, energy, and social standing. And just as justice requires that women should not be compelled to be subservient in their marriages, justice requires that workers should not be compelled to be subservient at work. This does not mean that people should be forced to adopt workplace democracy; people should be allowed to sign up for subservience at work if they so choose (just as consenting sexual partners can choose to engage in BDSM). The point is only that the choice needs to be genuine; people must have a real choice about whether to work in a hierarchy or a democracy. And for that to happen there need to be real alternatives. The bottom line is that justice requires the state to foster the background conditions so that just as women are free (but not forced) to choose egalitarian relationships, workers become likewise free (but not forced) to choose democratic workplaces. Concretely this requires that the state foster the expansion of workplace democracy so that this choice becomes readily accessible (in ways that are discussed below).

It is important to realize that while the argument advanced here is not standard among liberals, it is in no way illiberal. It is based on standard liberal convictions that long-term relations of subservience are dangerous (because they risk undermining human autonomy and dignity) and that free choice is important for safeguarding people’s freedom. Liberals are right to be wary of forcing a particular form of association (democratic or otherwise) on people because of a respect for individual free choice. But the intuition that says “people should be free to associate however they want—even subserviently” must be balanced by another intuition—just as rich in the liberal tradition—that says with Kant and John Stuart Mill “sapere aude!” Subservience conflicts with human dignity. Free men and women cannot be content and are unlikely to develop their capacities and moral powers to their full potential in long-lasting relationships of subservience. We cannot force people to be free. But we can and should arrange the background conditions so that those people who desire democracy at work are genuinely able to choose it. Granted, this is no strict state neutrality. A state that acts to foster opportunities for people to replace hierarchical relationships with democratic ones is not strictly neutral, but it is nevertheless entirely defensible on a relatively
thin account of the good life that many people can endorse—based only on common liberal-egalitarian values of the importance of equal opportunity, self-determination, and individual choice.

**Fostering Workplace Democracy**

What would it mean for a workplace to be organized democratically? While democratization can take multiple forms, the standard model of a democratic workplace is that of a worker cooperative where ultimate authority resides with the general assembly on a one-person one-vote basis. This means that, although different jobs may have different roles and pay different wages, the management of the firm is decided on a strictly egalitarian basis. In small firms, decisions might be made collectively through direct participation of all members. Many small cooperatives, such as co-op cafes, restaurants, bike shops, and so on work in this way. For instance, the Mondragon Bookstore in Winnipeg (named after the famous Mondragon co-op) has used its democratic structure to implement a system of balanced job complexes (BJCs) (Burrows, 2008). The idea here is that normal capitalist firms tend to have a stark division between workers with more empowering jobs at the top of the hierarchy and those that get stuck with the less empowering “drudgery.” The basic idea behind BJC’s is that an attempt is made to share out the unpleasant work as well as the more empowering work so that neither falls entirely on one group of people, without meaning that everyone is expected to do everything (Albert, 2003). What is crucial about the democratic structure of the workplace is that it has allowed the Bookstore to experiment with new ways of organizing things in an attempt to improve the quality of people's working lives.

Larger co-ops with high levels of complexity and specialization can clearly not make all their decisions through general participation—they require delegation of authority by electing representatives in the familiar ways of representative democracy. For example, the 40,000 or so worker-members of the Mondragon co-ops meet as a whole in a Cooperative Congress, which acts like a mini-parliament, composed of elected representatives from every co-op (in rough proportion to their size).

Co-ops often hire new workers on a temporary basis who do not have equal democratic rights. Of course, this may not be a problem for those workers who want to be only temporary, but it is important that a significant majority of the workers in a co-op be full members so as to prevent the emergence of an exploited subgroup of disenfranchised workers. I would argue that for co-ops to be genuine they must fulfill two standards: the significant majority of the workers are full members (perhaps 75% or more), and, even more importantly, the nonmembers are able to become members should they wish to do so (after a reasonable probationary period and a not prohibitively high investment stake). It is hard to characterize workplaces with less than 50% members as genuine co-ops; they are more accurately seen as “capitalist partnerships” (Malleson, 2013b).

Large co-ops that meet these specifications will still require specialization and so still have order-givers and order-takers. But those who give orders are now fundamentally accountable to those who take them. This is what makes a co-op a democracy and not a hierarchy. The democratic structure of the firm creates an important basis of formal equality in terms of decision-making power and basic freedoms. The basic parliamentary structures protect workers' freedom in the negative sense, while the avenues that exist for direct participation enable workers' self-determination in the positive sense. Participation is easy in small co-ops but it must be cultivated in large ones (we examine how this can be done in the next chapter). Ideally, a co-op structure means that all people in positions of power and authority are elected, revocable, and accountable to the rank and file. Authority no longer derives from shareholding and property rights, but, ultimately, from the consent of the workers themselves. Whereas capitalist firms are characterized by the fact that capital hires labor and uses it for its benefit, cooperative firms are characterized by what Mondragon workers call the “sovereignty of labour.” This explains the fact mentioned above that workers in hierarchical firms are, in a functional sense, “servants”—a word that I use purposefully in order to highlight the heteronomy or subservience of work for the average worker. In most cases, average workers are tools; their hands and brains are directed by others, for projects determined by others, toward goals selected by others. Whereas servants are functional tools of their bosses, co-op members are, at root, self-determining equals who have chosen managers for their purposes (and can remove them should they wish).

However, it must be immediately pointed out that it is entirely possible for structural equality to coexist with informal hierarchy. Most real-world co-ops and democratic organizations are negatively affected to a greater or lesser degree by the informal hierarchies that can stem from expertise, control of information, patriarchy, and so on. But this does not diminish the importance of formal equality. Creating formal equality is an absolutely necessary (if not sufficient) step toward developing genuinely empowering workplaces, which will be discussed further next chapter.

Notice that workplaces have the potential to be substantially more democratic than contemporary states. In particular, workplaces have the potential to be much more deeply democratic than states because they are much
smaller and so have much more scope for direct participation and therefore more possibility for meaningful self-determination. In 2007 the American economy had a total of 6.05 million firms (involving more than one person). Of these, 5.41 million had fewer than 20 employees. In other words, 89% of all American businesses (discounting single-person businesses) involved the cooperation of fewer than 20 people (and 99.7% involved fewer than 500 people) (SBA, 2010, p. 121). The economy with its millions of small firms thus provides fertile ground for democratic participation, and therefore meaningful self-governance at a scale and scope that is simply unimaginable in the political arena. Additionally, the fact that there are huge numbers of workplaces means that there is vastly greater opportunity for democratic experimentation—workplaces can experiment with different kinds of governing structures, different organizations of work (such as using BJsCs), different patterns of remuneration (such as according to effort instead of productivity), and so on. In this respect workplaces offer much more fertile ground for the flourishing of democracy than the state which has been its historical pasture.

Concretely, what is required to foster the expansion of opportunities for democratic work? There are two broad public policy paths available. The first is to follow the same route as with marriages: increase the bargaining power of workers in relation to hierarchical firms. This could be done by facilitating the growth of the union movement or by facilitating workers’ ability to leave undemocratic work. Over the short term this latter possibility could be accomplished by enhancing the welfare system, and over the long term by implementing a guaranteed basic income. The higher a basic income is set, the less compulsion workers face to accept the first job that they are offered, thus providing them increased bargaining power to demand increased democratic say from conventional employers.

The second public policy route is for the state to encourage the formation of democratic workplaces in the form of worker cooperatives. This requires both legal and material support. Legal support ranges from short-term objectives of establishing a robust legal framework within which cooperatives can operate (some American states still lack this); the most important long-term legal objective would be for the state to pass legislation giving a majority of workers the right to transform their workplace into a cooperative if they so wish. What would this require? In the majority of cases, this would require a legal right for workers to buy out their workplace from their employers. Theoretically, workplace democracy can be achieved without direct ownership, for instance, by workers collectively renting the facilities and capital stock of the firm from the bank or from old owners (Ellerman, 1992). This might be possible for small NGOs or service-oriented businesses with little reliance on physical infrastructure. However, in practical terms, it is an empirically robust fact that generally cooperative businesses require collective ownership of the business property to succeed. So in order for workplace democracy to become a meaningful option for large numbers of people, workers require a right to buy out their employers or shareholders in order to transform their workplace into a co-op.

These legal rights require material support for them to be fully meaningful since such buyouts would clearly be expensive. Over the short term, material support could include tax breaks or the establishment of a cooperative bank to provide financing help. Over the long term, an economy-wide profit-sharing program, such as a variant of the Meidner Plan, would have the most potential for greatly increasing workplace democracy. Such proposals are discussed more fully in the next chapter.

While I have been arguing in favor of democratization, I do not mean to imply that such reforms would be costless. Arguably the democratization of families had costs associated with it. For instance, the increased ability of women to leave their husbands has likely led to an increase in single-parent families. Although not ideal, I think most would agree that such costs are clearly outweighed by the benefits of female independence. Similarly, democratizing work is sure to have costs (most obviously the financial costs associated with paying for its expansion). It is important not to sweep these costs under the rug. Indeed, a central goal of this chapter and the next is to provide a full picture of the relative costs and benefits, so that we are in a position to sensibly decide whether expanding workplace democracy is worth it.

A Caveat

At this point we need to introduce an important caveat into the argument. Although I have argued that workers should have the option of transforming their workplace into worker co-ops, there are several sectors of the economy where this is not appropriate (Nove, 1991). The two main areas where worker cooperatives are not an appropriate model are the public sector and areas of very high capital intensity.

Workplaces that are public tend to be so because they are thought to directly fulfill a general public interest that the market would be unlikely to satisfactorily provide (e.g., hospitals, schools, post offices, water, electricity, transportation, etc.). Such workplaces are particular in that they significantly affect two different constituencies—the smaller association of internal workers and the larger association of the community itself. How a school operates, for instance, is obviously of concern to the internal teachers as well as to the
broader public. Public workplaces today are partially democratic in that they are supposed to be accountable to the citizenry at large via their elected representatives who ultimately control them, but they are not currently democratic with respect to the internal workers. The denial of democracy to the internal workers seems to me unjust for all the reasons of freedom and equality articulated above. But in cases like this, it does not make sense for such workplaces to be entirely controlled by the workers. We would not want all the electricity in a country to be controlled by the handful of workers who worked the plants, nor the school curriculum decided unilaterally by the school staff, since this would be undemocratic from the perspective of the larger community who genuinely do have a public interest in such things. So, in these cases, some broad type of co-management seems appropriate. This might mean having a board of directors for public firms which splits authority between state and worker representatives, or having certain public sector workplaces (such as schools or hospitals) reorganized as cooperatives, but with their funding remaining contingent on meeting state-specified objectives (Hirst, 1994).

Indeed, in northern Italy, many social services are provided by this kind of "social cooperative" (Restakis, 2007).

The final sector that is inappropriate for co-ops consists of firms with large capital intensity (i.e., few workers but very expensive equipment) (Drèze, 1993). These kinds of industries (oil, steel, auto, pharmaceutical, etc.) are inhospitable for cooperative governance because it is basically impossible for a group of average-income workers to acquire ownership of firms like this. Nor would we want the state to help fund a small group of workers to take over multi-million-dollar capital stock, since far from increasing societal equality, this would simply create a handful of new elites. So in this sector too, a better solution is that of co-management: firms like this could be bought by the state, but instead of being run in the usual way, management should be divided between representatives of the internal workers and representatives of the community. This kind of nationalization-with-democratization need not be costly for the state (indeed it can be very profitable) provided such firms are run well. It would give workers some control over their workplaces without requiring the enrichment of a handful of workers to render such control possible.

The Social Democratic Objection

At this point it is important to consider the social democratic objection. Think of Sweden or another social democratic country where workers have heightened bargaining power due to a combination of a strong welfare system, powerful unions, and state regulation of business. In such a context is there still a need for workplace democracy?

While social democratic institutions are an important advance over neoliberal ones in the increased protections they offer to workers, they still do not address the fundamental issue which is that workers do not have a genuine choice of working in democratic workplaces; the option of equality at work remains largely unavailable. It is true that there is less compulsion to take a job in, say, Sweden because the safety net makes it easier to leave. But the average Swedish worker who does not want to be on welfare her whole life (i.e., the vast majority) is still effectively compelled to join a hierarchical firm because there are so few democratic alternatives. The worker cooperative sector accounts for a miniscule amount of the economy (about 0.2%), and given that only about 0.12% of the adult population stay on welfare for long periods of time, the vast majority of the population clearly has little alternative to hierarchical work.

Social democratic institutions do indeed increase workers' freedom in the negative sense of protection. This is a good thing, but it is still inadequate for two basic reasons. First, workplaces within social democracies retain deep-seated structural inequality. Protective regulations do not change the basic fact that business owners have power over workers not because they were elected, but because they own property. Perhaps they acquired their property through inheritance; perhaps they were frugal all their lives and saved it; perhaps they won the lottery. Whatever the case, it is fundamentally unfair for some to have substantial decision-making power over others simply on the basis of their wealth. Walzer (1983) is right to insist that "what democracy requires is that property should have no political currency, that it shouldn't convert into anything like sovereignty, authoritative command, sustained control over men and women" (p. 298). The idea that legitimate decision-making power over other people can stem from property ownership is a feudal anarchism that we need to outgrow. Getting rid of the last remnants of feudalism, which we have not yet fully done even in the progressive social democracies, means recognizing that legitimate authority can only rest on agreement between equal human beings. No matter how strong unions are in social democracies, the workers are never the equals of managers and owners. In a co-op, however, workers and managers are fundamentally equal. Although elected managers have more decision-making power, both managers and workers are subject to the same rules and enjoy the same fundamental rights and status. In other words, social democratic workplaces retain structural inequality in the form of hierarchy. As long as they do so, there is a constant and ubiquitous danger of workers getting abused, mistreated, and oppressed. Unions and regulations
may soften the dangers, but they cannot alleviate their source. They are like taking aspirin for cancer: painkillers but not a cure.

Second, unions and state regulations are fundamentally inappropriate institutions for enhancing the freedom of self-determination. Unions (ideally) are defensive organizations. They exist to soften the work hierarchy and make inequality bearable. Although they are responsible for most of the freedoms that citizens in the Western world now enjoy (from public pensions to universal healthcare to the existence of the weekend), they are not designed to transform the management of the workplace or to challenge who is in ultimate control. Fundamentally, G. D. H. Cole (1920, p. 20) is right to say that unions have in their hands only a brake and never a steering wheel. They maintain workers in the passenger seat of history—unable to steer for themselves and able only to pull the handbrake in times of emergency. In contrast, co-ops (ideally) are organizations for workers’ self-management and self-determination. They are not designed to soften work hierarchy, but to abolish it (in the sense of removing formally unaccountable power). They are not simply defensive organizations but are active ones, enabling workers increased power to navigate their own path. This is not to say, of course, that co-ops are always successful at doing so. Too often they prove inadequate in their defensive role (as the strike in 1974 at Mondragon famously demonstrated) and equally inadequate in their active role of providing meaningful avenues for widespread participation (as we will see in the next chapter). Nevertheless, co-ops offer a real potential to foster the freedom of self-determination that is lacking in social democracy.

Notwithstanding the welfare system, the unions, and the state regulations, workplaces in the social democracies do not allow for egalitarian self-determination. This is a major problem. Having the power to influence the direction of your workplace, being able to participate as an equal in the evolution of a project, these are things which are currently a privilege in our society, available only to a lucky few. Cooperative workplaces are hardly paradises. But, when they work well, they provide definite improvements by fostering broader avenues for participation than conventional firms, as well as significantly reducing the alienation and powerlessness from which the bulk of workers suffer in a manner of quiet frustration which for too long has simply been accepted as the norm.

Further Objections

The skeptical reader will likely have a number of further objections to the idea of workplace democracy. Three in particular deserve our attention. First, there is the objection that people do not really want democracy at work. Second, one might worry that workplace democracy undermines the freedom of the entrepreneur to direct her business as she sees fit. Third is the Platonic or technocratic objection that employers and/or managers should have superior say because of their expertise in running the business.

The Desire for Workplace Democracy

It is sometimes suggested that talk of workplace democracy is moot since most working people do not actually want it. Indeed, it is true that there are valid reasons why one may well feel hesitant toward the prospect of increased democracy at work. Most obviously, people may not want to risk the money required to buy out their firm or start a new one. But beyond the familiar material restraints, there may be other reasons why people are resistant to democracy itself. They may not want the time commitment that democracy requires—reflecting Oscar Wilde’s quip that the chief defect of socialism is that it would take too many evenings; they may not want the responsibility and stress that comes with being “in charge”; all in all, people may feel that self-determination is simply too hard work for it to count as “freedom.”

Those who value increased democracy at work do so because they subscribe to the ethic that self-governing through participation in decision-making is an important aspect of freedom (though not the only kind of freedom, since being left alone to engage in one’s own pursuits is clearly an important kind of freedom too). Yet if there is one critique that I find most difficult to answer, it is the rejection of the notion that self-determination counts as a type of freedom. For some, this simply cannot be freedom. Freedom cannot be an endless meeting, but must be the opposite, such as collapsing in front of the TV. Life is hard as it is, so freedom must be light and relaxing. Easy, like a tremendous exhale. This is the intuition that many have which runs precisely counter to the ideal of self-determination. Although it is true that life is hard, I think that freedom is hard too. Which is not to say that it is terrible—in fact it can be one of the best things in life—even if it is hard. I do not know how to counter the common intuition that freedom must be easy except by juxtaposing it with another equally powerful intuition: that abandoning self-determination requires relinquishing something very deep about the desire of human beings to not be controlled. A character in Ursula Le Guin’s novel Dispossessed puts it this way: "It's always easier not to think for oneself. Find a nice safe hierarchy and settle in. Don't make changes, don't risk disapproval, don't upset others…It's always easiest to let yourself be governed" (1974, p. 149). It goes without saying that easier is not always better.
What is the empirical evidence concerning workers' desire for increased democracy at work? The answer depends a lot on how you phrase the question. On the one hand, it is clear that most countries in the West have very limited amounts of workplace democracy right now (Dow, 2003). We have seen that some on the Right argue that this shows that workers do not actually want it, for if they did they would be willing to take lower wages for increased democratic voice (Maïtland, 1989). However, the empirical fact about the rarity of workplace democracy may simply reflect businesses' intransigence and hostility toward the idea of forfeiting control over the firm, combined with the fact that even if workers really do value workplace democracy they may perfectly reasonably not wish to sacrifice substantial amounts of income for it. That does not mean that workers do not value increased say at work, only that it may not be their primary concern.

On the other hand, when workers are directly asked whether they would like more say at work, they clearly answer yes. In a comprehensive study of social attitudes, Zipp et al. (1984, pp. 406–7) report that although most Americans report job satisfaction, there is also "widespread favorable feelings toward increased democracy in the workplace"—with 79% of respondents stating they would rather work for an employee-owned firm than an investor- or government-owned one. A Federal Commission sponsored by the US Department of Labor found that 84% of workers would like to participate more in workplace decisions (Commission on the Future of Worker-Management Relations, 1995, p. 39). Probably the most comprehensive analysis of American workers' attitudes toward workplace relationships is Freeman and Rogers (1999). Their data show "as conclusively as any survey can that the vast majority of employees want more involvement and greater say in company decisions affecting their workplace," with 63% of workers indicating their desire for more influence over workplace decisions (1999, pp. 40–41). Even this degree of enthusiasm for increased worker influence is somewhat surprising given the dominant cultural norms that take for granted the need for experts and superiors, the naturalness of hierarchy, the idea of work as a drag, and freedom as independence understood as relaxing in front of the TV.

Related evidence for people's desire to control their own lives is the widespread desire to be self-employed. Indeed, the fact that so many people—10% of the labor force in most countries—are willing to face the daunting odds (the high risks, the long hours, the low pay, and the fact that roughly 40% will fail in their first year (Taylor, 1999)), speaks volumes about the widespread desire to escape hierarchical work. Not only is self-employment a dream of many people, but whenever people are asked why they want it, their answers invariably refer to the absence of a boss, the capacity to make decisions oneself, to be in control of one's own working schedule; in short, the ability to self-determine.21

The bulk of the evidence thus indicates that while a minority may indeed choose subservience at work the majority has subservience thrust upon them.

One of the most interesting aspects of the evidence on participation is that once workers begin to participate, they tend to want to more and more; in other words, participation breeds participation (Mason, 1982; Sobel, 1993). This trend has been noted in co-ops all over the world, from England to Venezuela (Cornforth et al., 1988; Pinheiro, 2007). Such a trend suggests that, in general, the more people are exposed to workplace democracy, the more they will desire it (other things being equal). I suspect this is generally the case, since freedom is like a muscle of the human spirit; it tends to atrophy and diminish with neglect, but grows and becomes stronger from regular use. It is instructive to recall that throughout the 1950s millions of middle-class women started to work outside the home, even though the work conditions were often unpleasant and the material requirement to do so was often quite limited. Sixty years later, the desire to work outside the home, and the recognition of the kind of freedoms that can come with this, have grown immensely and become normalized. Indeed, today, the denial of the freedom to work outside of the home would strike us as atrocious. The radicalism of the second-wave feminists in demanding opportunities to participate in the workforce has become our common sense. Similarly, I suspect that were the real material opportunities for workplace democracy to increase, we could expect a drastic increase in the number of cooperatives as well as in the number of people who desire increased workplace participation and feel distinctly unfree without it.

Property Rights versus Democratic Rights

Consider the case of an entrepreneur; call her Rana. Most would agree that there is nothing wrong with her renting capital and/or machines in order to start a business. Such a process is often an important source of innovation, and should she produce something that others wish to buy (and assuming they can afford it), her self-interested behavior can serve the public good. Should the business prosper, Rana will likely wish to hire employees in order to expand. But this is where difficulties arise. It is not a problem for Rana to rent the capital or machines and use them however she wishes, but it is a categorically different issue to rent human labor and use it however she wishes. Some have argued that it is never acceptable to rent human beings (Ellerman, 1992)—but I want to sidestep that debate here. The important point is that when a business is a one-person business, then the entrepreneur legitimately
has total control over it. However, when Rana starts hiring others, the business becomes less and less a simple extension of her particular vision and more and more an association of work. Time is the crucial factor here. On the day that Rana hires Hanan, it seems clear that we would still want to call the business Rana’s. Yet if Hanan were to work there for several years, then so much of the business would be the product of joint labor, joint effort, joint intelligence, joint creativity, and so on that it seems increasingly false to see the business as solely Rana’s, and increasingly unfair for Rana to retain supreme control over it, to be able to direct Hanan as she sees fit, order her around, and so on. After a certain time a group of people working together start to constitute a work association, and Hanan should acquire a right to choose whether she wishes to become an equal in the association.

Consider the injustice we would feel at the following (common) situation: Rana decides to give the company to her daughter Ranette. All of a sudden Ranette is in charge. She may have never set foot in the business before and know nothing about it, but she comes in on Monday morning, twenty years younger than all the workers, with the power to hire and fire, to give raises, slash pensions, and much more. She orders Hanan and the others to change the business direction, ordering them to scrap one project that they had been working on for years to take up an entirely different one. She insists on a more formal workplace than her mother did—requiring the workers to dress differently and refer to her as “Ma’am.” We feel the injustice of such a situation because it is clear that what is being inherited here is not simply wealth but power.

After a certain time the employer should not lose her right to her property, but she should lose the right to use her control over property as a means for controlling other people. So we see that conventional private enterprises are really a bundle of two distinct things: (i) a set of property and capital (offices, machines, etc.) and (ii) an association of work involving power relations between people. Usually, (i) implies (ii); that is, unequal ownership of property compels those without property—Hanan in our example—to accept the work relations within the association dictated by the owner. Usually, unequal ownership of property is translated through the employment contract into power over people.

It is important to remember that firms are always both of these things (a set of property and an association of workers) because ownership of things should not translate into power over people. This should be a basic principle of a democratic post-feudal society. Since work is a particularly important type of association—one that is deeply socially consequential—Hanan and the other workers should have the legal right to choose to democratize the workplace.

But this is difficult as long as Ranette is the sole owner of the property of the firm (because if one person owns the property there cannot be equal decision-making about how to use it). So in most cases what is required is a right for the workers to hold a referendum to decide if they would like to buy out Ranette (so that the workers can collectively own the firm, and therefore are in a practical position to democratically govern it). The right to do this is conditioned in part by time. Having worked for one week does not seem to be enough time to give an employee a right to equal say, whereas 10 years is more than enough. Deciding the time limit at which point a worker is considered no longer temporary but part of the association is, of course, slightly arbitrary, but the underlying principle should be clear: after sufficient time the right of property owners to direct labor is eclipsed by the right of the associated laborers to choose whether they would like to self-determine. One year seems to me about right. Note that no workers are forced to work in a democratic firm: this remains purely a private choice. What is at stake here is simply the provision of a real opportunity for workers to access workplace democracy should they desire it. The purpose is to foster egalitarian opportunities not dictate democratic outcomes.

Connected to this issue is the worry that giving a voice to employees might seem to require unfair redistribution of property. For instance, if Rana initially invests $10,000 into her business then works hard on it by herself for 10 years, it seems unfair for Hanan, a new employee, to immediately acquire say over the business property now worth $100,000. Indeed, for Hanan to have equal say over this capital is tantamount to expropriation. This kind of expropriation would strike many as unjust. Hanan should not instantly acquire a right to voice, but only after a certain time. And even then, her right should be to buy out Rana (or become co-owners with her) so there is no issue of expropriation of property, only redistribution of voice.

Democracy and Experts

While the legal basis of the authority of management rests on contracts and ownership, the ideological basis for their authority usually involves some claim of expertise. CEOs typically justify their exorbitant salaries with the claim that such is the market value of their managerial expertise. Does expertise justify a lack of democracy in the workplace? The first thing to say about this is to point out that in fact managers (and this is even truer for external shareholders) may have very limited knowledge of much of the complex inner workings of a firm—and often substantially less than the workers who engage in such operations on a daily basis. The mass of workers are likely to have
hundreds of ideas for improving the firm's operations; however, they usually have no incentive (or power) to implement them, since whatever benefits result will flow to the employers alone. In Colin Ward's words, "the fantastic inefficiency of any hierarchical organization is the outcome of...[the fact that] the knowledge and wisdom of the people at the bottom of the pyramid finds no place in the decision-making leadership hierarchy of the institution" (1982, p. 41). One of the fundamental arguments in favor of democratization is that it unleashes the creativity and contributions of all those who had been disempowered but now feel a sense of ownership.

This said, it is clear that complex organizations do require specialization and expertise—so the question remains as to whether experts should have authority over rank-and-file workers on the basis of their expertise.

This is a difficult question. On the one hand, we should reject the idea that ordinary people, nonexperts, should be disenfranchised from decision-making. Just as the state should not be controlled by the political science professors or philosopher-kings on the basis that they know the most politics, neither should business be run by "economist-kings." Democrats throughout history have rejected this Platonic justification for elite rule and rightly insisted on the capacities of ordinary citizens to decide for themselves what is best for themselves. Experts need to remain accountable to the workers. On the other hand, there may well be situations where experts require substantial autonomy to do their job well—constant surveillance and monitoring would only serve to undercut their effectiveness.

There is a real tension here—it is an instance where democratic practice is more art than science. Overall I would stress two things: first, the importance of balance. Both accountability and autonomy are important for experts, but since these cut in opposing ways they need to be kept in balance. Ultimately, I think a wise co-op would treat experts as indispensable and respectable tools to be used for the co-ops' purposes. Just as members of parliament will often assemble a group of experts to inform and advise them, so should various departments or work-teams in co-ops use experts to advise them and guide their own decision-making. The important point is that the experts see themselves as equals to the workers, and view their role as that of "advisors" not "bosses." Experts are necessary, but they should serve, not lead—they should be "kept on tap, not on top" (Dahl, 2000, p. 71).

**Conclusion**

The central argument of this chapter is that the current system of hierarchical work is deeply unjust because the majority of average workers are largely compelled to join workplaces within which they are fundamentally unequal—essentially servants. In both neoliberal and social democratic contexts, it is very difficult for the average person to choose an alternative to hierarchical work in the form of workplace democracy. I have argued that no one should be compelled to be subservient at work, which means that everyone should have the opportunity to choose workplace democracy should they so desire. For such a choice to be real, the state cannot be hands off, but must foster and facilitate the expansion of worker cooperatives.

Although my focus has been on issues of equality and freedom, these are not the only reasons for caring about workplace democracy. There are good reasons to think that a cooperative-based economy would have substantially more income equality and job security. Co-ops are less likely to abandon their town or city to engage in a race-to-the-bottom, and they are less likely to sacrifice employment for profit maximization. And yet they operate with a degree of economic efficiency that is largely comparable to standard firms. It is to these kinds of arguments about the real-world performance of co-ops that we now turn.
3 Worker Cooperatives in Practice

The decision-making process [of cooperatives] as a whole can be seen as the assertion of economic rationality with a human face.

(Morrison, 1997, p. 188)

Introduction

One of the most striking facts about life in the developed world today is that the average person is more than twice as rich as 50 years ago, and yet for all the tremendous increase in wealth, people's overall happiness has not improved at all (Layard, 2005). No one knows for sure why this contemporary malaise is so pervasive, but one thing is clear: work has not become the place of creativity and freedom it was often hoped it might be. One suggestive study of 900 women in Texas reported that of normal day-to-day pursuits working was their least enjoyable activity, and overall, the very worst part of their regular day was interacting with the boss (Kahnenman et al., 2004). Across the economy, even in the richest countries in the world, many workers continue to suffer from hierarchy at work, feeling powerless and demoralized. Such is the reality of work at the present time. But is there no alternative?

Many people can see the strength of the theoretical case for workplace democracy. That working people should not be compelled to accept subservience at work and so should have a real democratic alternative. However, for many, the fatal problem with workplace democracy (and economic democracy more generally) is not the theory, but the practice—the fact that there do not seem to be obvious real-world examples, particularly since the major attempts to democratize the economy—the USSR in the East and social democracy in the West—have largely failed in terms of providing genuine workplace democracy.

This chapter (as well as the other two empirical chapters) thus has two major goals: first to look at the empirical evidence concerning the kinds of democratic economic institutions that already exist, and second, to inquire about how transition to a fuller, more robust form of economic democracy might be accomplished. In other words, the goal is to explore how the democratic examples that we have here and now might be deepened and expanded.

Here we are concerned with the practical experience and empirical evidence that we have of democratic workplaces in the form of worker cooperatives. We assess this evidence by contrasting co-ops with conventional hierarchical firms, on the one hand, and egalitarian collectives, on the other. The central finding of the chapter is that the evidence shows that cooperatives operate with levels of economic efficiency that are comparable, if not superior, to normal capitalist firms. They are very much viable economic organizations. Moreover, they appear to be socially superior in certain ways. There are, however, a number of key obstacles that keep co-ops rare, which will need to be overcome to enact any transition to an economy with widespread democratic workplaces.

Before turning to the real-world examples it is worth pointing out that there is now a sizable theoretical economic literature attempting to predict and describe cooperative behavior. Unfortunately, the literature is extremely contradictory (see Bonin & Puttermann, 1987).

Among the critics, the two most well-known critiques of cooperatives come from Ward (1958) and Furubotn and Pejovich (1970). Ward argued that co-ops will strive to maximize net income per worker. Since co-ops share their profit equally the more members they have means the more slices of the pie there are. So the attempt to maximize personal income will mean that co-ops will react perversely to changes in the market—hiring in bad times, and firing in good times (Domar, 1966; Ward, 1958). Furubotn and Pejovich (1970) theorized that co-ops are doomed to underinvest and so will never be able to compete with capitalist firms. Their critique centered on the idea of the “horizon problem,” which is essentially the idea that in co-ops that are collectively owned, the individual worker will not see any benefit from making an investment until that investment pays off down the road (unlike a capitalist firm where investment increases the value of sellable shares today by representing the value of future profitability). And since some of the workers will retire before the investment pays off, their limited time horizon will create a disincentive to invest, thus leading, at least in theory, to substantial underinvestment in comparison to capitalist firms.

Other critics have argued that worker co-ops will be less disciplined (Alchian & Demsetz, 1972; Jensen & Meckling, 1979), less innovative (Roemer, 1994), or suffer from collective decision-making problems (Hansmann, 1996). Still others have argued that co-ops will inevitably degenerate over time due to market pressure (Luxemburg, 1900; Mandel, 1975; Marx, 1867; Webb & Webb, 1907) or due to problems of internal structure (Ellerman, 1984).
On the other hand, a number of economists have predicted quite the opposite, that co-ops will react normally to market changes (Vanek, 1970), be sustainable over the long term (Ellerman, 1990; Vanek, 1970), and that they will in fact be more efficient than capitalist firms because co-op workers will be more motivated, more self-disciplined, more trustful, and less conflictual (Ben-Ner & Jones, 1995; Bowles & Gintis, 1993; Bradley & Gelb, 1981; Greenberg, 1981; Horvat, 1986; Stiglitz, 1993). These authors also tend to stress the social advantages that are predicted to flow from the co-op form: greater job stability, greater equality of wages, better workplace conditions, and increased self-management.

Which of these perspectives is better reflected by the evidence? The rest of this chapter reviews the empirical evidence to attempt to answer this question. Indeed, I hope to provide the most up-to-date review of the empirical literature on worker co-ops that presently exists. We will see that the popular stereotype of cooperative inefficiency is better known in theory than it is supported in fact.

We begin by looking briefly at some of the most important and widely studied co-ops in the Western world: Mondragon in northern Spain and La Lega network in northern Italy. These examples have much to teach us about how co-ops should (and should not) be structured, as well as how they might be replicated elsewhere.

**Mondragon**

Mondragon is seen by many as the world’s outstanding example of a cooperative economic system within the global capitalist economy (Gibson-Graham, 2003; Morrison, 1997; Whyte & Whyte, 1988). The Mondragon cooperatives (often referred to simply as Mondragon) started when five young workers graduated from a technical training school run by Catholic priest José María Arizendiarría in the small town of Mondragon, in the Basque country of northern Spain. In 1956, with minimal resources, they managed to scrape together enough money from friends and acquaintances to buy a bankrupt factory in order to start producing stoves as a small worker co-op.

After a few years, demand for the products was sufficient for the co-op to expand, though they soon found themselves with limited access to finance as local banks were skeptical about the long-term viability of co-ops and were hostile to worker ownership (Morrison, 1997). A decisive breakthrough came in 1959 when a small handful of co-ops affiliated together to create a cooperative bank—the Caja Laboral (CL)—to pool the co-ops’ resources and attract local savings in order to finance their development. The CL was set up as a second-degree cooperative, meaning that it was structured as a co-op of co-ops, managed by a mix of its own workers as well as representatives from the co-ops that were its principal clients. The CL was designed to perform two basic functions: to provide finance at below market rates and, through its Empresarial division, to provide business and managerial advice to help set up new cooperatives and assist those in economic trouble. The CL was (and still is) organized like a credit union, which allows it to attract the savings of the local population, as well as to hold the deposits of the associated co-ops. In this way the CL acts to recycle the community’s capital through the democratic workplaces. Its significance can hardly be overstated: as Morrison (1997) points out, it effectively freed Mondragon from dependence on capitalist financiers. With the help of the CL, Mondragon grew enormously—by 2011 it employed 83,000 people, with assets of a tremendous €32 billion (Mondragon, 2011).

The co-ops operate according to ten guiding principles (Morrison, 1997). These are: (i) Open Admission—no one can be denied entry based on gender, ethnicity, and so on; (ii) Democratic Organization—one-member one-vote; (iii) Sovereignty of Labor—meaning that members control the co-op and distribute its surplus; (iv) Instrumental Character of Capital—so that the co-ops pay a just but limited return on invested capital and ensure that owning capital does not give any additional rights of governance beyond membership; (v) Participation in Management—to ensure member participation and the ongoing development of skills necessary to manage; (vi) Pay Solidarity—to limit the differential between highest and lowest paid; (vii) Intercooperation—cooperation among the co-ops; (viii) Social Transformation; (ix) Universalism—emphasizing solidarity with all workers; and (x) Education—which is ongoing in terms of both cooperative values and technical skills.

New members are required to pay a substantial investment fee (that goes into their personal internal capital account). This fee acts to screen out workers who are not committed to staying, is psychologically important in making workers feel like co-owners, and is important for providing an internal source of financing. In contrast to other co-ops, such as the Plywood co-ops in the northwestern United States, Mondragon is collectively owned (but with individual capital accounts instead of shares), so membership is not for sale. Each year a portion of the firm’s profits goes into the individual capital accounts, which receive interest. Workers are permitted to withdraw the interest but not the principal, until they leave the firm. This assures a large and vital source of internal finance. Since new members simply open new internal accounts, membership (with the corresponding governance rights) is importantly distinct from property rights. If a co-op does well, members get more money in
their individual accounts, but membership itself (and governance rights) does not become more expensive. In this way the co-ops avoid the structural problems that led many co-ops in the United States and elsewhere to degenerate.

Of a co-op’s surplus, 10% is mandated by law toward charities and non-profit organizations, 45% goes into the firm’s collective reserve fund, and the remaining 45% goes into members’ individual capital accounts (the bulk of which cannot be withdrawn until retirement (Freundlich, Greller, & Altuna, 2009)). In other words, this structure effectively means that up to 90% of profits are saved internally to help refinance the whole system.

The ultimate authority in each co-op has always been the General Assembly, which meets at least once per year. It elects the Governing Council, which is the highest governing body of the co-op—representing the Assembly between meetings, overseeing the execution of Assembly decisions, and monitoring senior management (Lafuente & Freundlich, 2012). The Governing Council also appoints the CEO and approves his or her choice of senior managers; the CEO and senior managers form the Management Council which runs the day-to-day affairs of the co-op. There is also a Social Council, elected by members in various departments to help with personnel issues (e.g., health benefits, safety). Although it officially has only advisory power, its purpose, while somewhat vague, is generally seen as a kind of internal union. It does not engage in collective bargaining but serves to strengthen communication, represent shop- or office-floor perspectives, and allow rank-and-file members more direct engagement with management. Whyte and Whyte (1988, p. 148) argue that whereas the Governing Council represents the members as owners, the Social Council represents them as workers—playing the essential role of guiding education, discussion, and decision-making. Finally, an Audit Committee audits the books.

Since 1987, the Mondragon co-ops as a whole have been collectively represented in a Cooperative Congress, which acts like a mini-parliament, composed of elected representatives from every co-op (in rough proportion to their size) to consider issues of broad concern to the whole system. It is important to note that while each co-op is independent (i.e., under the direct democratic control of its members), it is also embedded in a larger network of supporting structures that provide financial, business, technical, educational, and social support (Lafuente & Freundlich, 2012; MacLeod & Reed, 2009).

Mondragon underwent massive, some would say fundamental, changes in the 1980s and 1990s, due to substantial pressures from globalization. Members widely believed that they would have to adapt to the global competition if they were to survive. To get a sense of the global pressures they faced consider the dilemma of Irizar—one of the most successful co-ops associated with Mondragon. In the 1990s Irizar was able to manufacture a bus at home at a cost of €180,000, whereas the same vehicle could be produced by competitors in China for only €12,000 (MacLeod & Reed, 2009, p. 137). Pressures like these led Mondragon to undertake significant restructuring in the 1990s so as to be better able to compete internationally. The system changed its name from the “Mondragon Cooperative Group” to the “Mondragon Cooperative Corporation”; since 2007 the corporation has simply been referred to as “Mondragon.” The co-ops which had previously been organized into geographical groups were reorganized into four business groups: a financial group, a retail group (dominated by the Eroski supermarket chain), an industrial group (itself divided into several divisions), and a knowledge (research/training) group—thus allowing for greater inter-firm cooperation and synergy, as well as economies of scale (MacLeod & Reed, 2009, p. 120).

Probably the most significant change of this period was the composition of its workforce. Mondragon has witnessed a massive expansion of nonmember workers through two avenues. First, the 1990s saw a sharp increase in the number of temporary nonmember workers in the co-ops (reaching a high of 29.8% in 2000 (Arando et al., 2010, p. 19)). Second, and more significantly, there has been a dramatic increase in the number of nonmember workers working in Mondragon-owned subsidiaries and affiliates that are not co-ops. This happened primarily through the expansion of the large Eroski supermarket chain outside of the Basque region into other parts of Spain and France (Arando et al., 2011). It also happened from Mondragon becoming a multinational and, like others multinationals, establishing foreign subsidiaries in places with low-cost labor, such as China, Brazil, Mexico, Poland, and the Czech Republic. It is important to note that these firms outside of the Basque region, in Spain and overseas, are structured as conventional capitalist firms; the employees are not members of Mondragon. While Smith (2001) points out that there is no evidence that Mondragon has refused any requests for foreign subsidiaries to be transformed into co-ops, it is nevertheless clear that the priority is in maintaining the co-ops “at home” as opposed to democratizing the affiliates (Luzarraga & Irizar, 2012). The official rationale for not having democratized any of the foreign subsidiaries is (i) that legal barriers exist in certain countries to setting up worker co-ops; (ii) the fact that some of the subsidiaries are joint ventures with conventional investors; and (iii) the supposed lack of interest in cooperatives amongst many of the foreign workers (Azevedo & Gitahy, 2010).

This expansion has significantly altered the character of Mondragon (Errasti et al., 2003). While the base of Mondragon in the Basque country has remained staunchly cooperative, Mondragon as a whole has not. The fundamental fact
is that, according to José María Ormaechea (a past president of the General Council), by 2006 only 38% of workers in Mondragon were co-op members compared to 80% in 1990. In addition, four joint-stock companies were being established for every one co-op (in cited in MacLeod & Reed, 2009, p. 134). Today Mondragon encompasses 254 firms—111 of which are co-ops and 143 non-cooperative subsidiaries (of which 94 are abroad) (Mondragon, 2011). The fact that less than 40% of the personnel are actual co-op members means that members now represent only a minority of total workers in the business as a whole. The members have, in effect, become privileged quasi-capitalist employers of a larger body of nonmember workers. As I argued last chapter, firms of this type should not be seen as genuine co-ops, but more accurately as a kind of capitalist partnership.

In order to evaluate the empirical performance of the Mondragon co-ops, it is best to divide the analysis into two periods, corresponding to the original Mondragon Group (from the 1950s to the 1980s) and the global Mondragon Corporation (from the 1990s to the present).

Beginning with the first period, it is clear that, from an economic perspective, Mondragon has been a stunning success. Starting from five workers with basically no assets, by the late 1980s it had grown to 166 co-ops, employing 21,000, with $1.6 billion in sales (Morrison, 1997). In their analysis of Mondragon, Thomas and Logan (1982) found that co-op efficiency actually exceeded that of the largest conventional firms in Spain by 7.5% and medium and small enterprises by 40%. Levin (1983) confirms that Mondragon had higher labor productivity than the largest Spanish firms. Likewise, Bradley and Gelb (1981, p. 224) report that more than half the members considered themselves to be working “significantly harder” than they would for conventional firms. According to Whyte and Whyte (1988), “all economists who have studied Mondragon’s financial history report that the cooperatives have far outpaced private Spanish firms” (p. 131). Indeed, I am not aware of a single study finding Mondragon to be consistently less efficient than comparable conventional firms, though it is fair to say that the comparative empirical literature is not large.

Since the publication of Ward’s (1958) famous theoretical paper, neoclassical economists have often predicted that co-ops will react perversely to changes in the market—firing when demand increases and expanding during downturns. There is however, no evidence for this here. In fact, although Mondragon reacts to changes in market demand in the normal manner (rising demand leads to growth, slow times lead to declines), the kind of changes are often more humane than in capitalist firms. For instance, during the recession from the mid-1970s to 1984, when the region saw the loss of 100,000 jobs and a 20% unemployment rate, capitalist businesses tended to react to the downturn by disinvesting, often permanently closing their doors or moving to new sites where unions were weaker or taxes lower. The co-ops, however, reacted quite differently. The co-ops tended to treat labor as a constant cost, achieving flexibility in other ways. Recession was dealt with in the short term by transfers between co-ops, cutting prices, and producing for inventory, while in the long term, wages and hours were cut (in ways that were collectively chosen to be fair across the board), and large-scale reinvestment occurred. Lay-offs, at least of members (nonmembers is a different story which we discuss below), practically never happened, and only as a last resort. Indeed, this pattern of humane response to recession has repeated itself in the 2008 recession (Arando et al., 2010).

In terms of the social characteristics of Mondragon, the most striking social achievement is the virtual elimination of job loss and the minimization of business failure. For instance, Morrison (1997, p. 174) claims that during Mondragon’s first 30 years of operation over 160 co-ops were formed yet only 3 closed. Likewise, Moye (1993, p. 253) reports that even during the Basque recession not a single Mondragon member lost his or her job. Such stable employment in a capitalist context is practically unheard of.

Like other co-ops, the wage scale in Mondragon is greatly compressed in the direction of equality. In the early years the largest permissible difference between the highest and lowest paid was 3:1. In the 1980s this was relaxed to 6:1, at which level it has basically remained ever since (Arando et al., 2010). The general picture at Mondragon today is that the lowest earners tend to earn more than in comparable capitalist firms, the middle earners the same, and managers and the highly skilled earning up to 30% less (Arando et al., 2011). Managers stay for a variety of other reasons and moral incentives, such as their ethical commitment to the co-ops; indeed the fact that the co-ops can attract such loyalty (so that managers decline leaving even though it could substantially increase their salary) strongly suggests that the co-ops are socially different kinds of firms, and deeply rewarding in their own way—why else would managers stay?

Furthermore, the level of democracy and participation in firm governance in this period was much greater than in comparable conventional firms. The General Assemblies (through their Governing Councils) can fire the top management and have occasionally done so (Smith, 2001, p. 32). One study found that 13% of co-op members felt that they directly “participated in important decisions,” and 20% indirectly through representatives, compared to only 4% and 3% respectively in comparable capitalist firms (Bradley & Gelb, 1981, p. 222). Inversely, 30% of co-op members felt that they did
not participate in firm governance, compared to 80% in capitalist firms. This points to considerably more participation in the co-ops but clearly not any kind of universal engagement (at least during the time of this study).

A further social strength of Mondragon during this period was the connection with the community. One of its ten principles, of course, is “social transformation.” This principle is given some tangibility by the practice (mandated by Basque law) of directing 10% of annual profits toward charities and community projects. Beyond this, the community clearly benefits from the long-term stable employment, and the fact that the revenues of the firms largely stay in the community through the CL. Both of these factors have brought decades of positive externalities to the community. In this light, the deep roots that the Mondragon co-ops have laid in the region belie the traditional Marxist objection that co-ops are simply group-capitalists, interested only in profit maximization.

Moreover, even though in certain respects shop floor conditions have not been noticeably different than in capitalist firms (Dow, 2003), it is nevertheless apparent that members have far preferred working in a co-op to the alternative. Mondragon members have reported being much less likely to be willing to transfer jobs to a capitalist firm (even for monetary increases of up to 50%) than the other way around—27% compared to 54% (Bradley & Gelb, 1981, p. 220).

Overall these facts provide strong evidence for the viability of the cooperative model. Mondragon shows us the possibility of a democratic business model that is just as effective economically and substantially superior socially. Of course, we need to remember that such results were achieved in an era without direct competition from multinationals producing in quasi-sweat shops in the Global South. But given that the bulk of trade competition from countries in the Global North today does not actually come from the Global South (imports to the OECD from the Global South account for only about 20% of imports), and given that there are large parts of the economy (such as the service sector and many localized industries) that are not threatened by such competition, we can be confident that there is a large if not predominant part of the economy where cooperative practices of the type exemplified by the original Mondragon would likely be entirely appropriate and effective.

Turning now to the second period, the period of global Mondragon, we can see that, economically speaking, the internationalization process was very successful. Throughout the 1990s and 2000s Mondragon managed to substantially increase its growth and market share (Errasti et al., 2003). Moreover, Mondragon grew faster than many other firms: from 1996 to 2008, sales grew by 213% compared to 140% for similar firms in the same Basque region (Arando et al., 2010). According to the Economist Intelligence Unit, Irizar is “probably now the most efficient coach builder in the world” (Forcadell, 2005, p. 256). While this growth is impressive, and shows that Mondragon has been successful at sustaining its jobs at home in substantial part through expansion abroad, the fact that this has been achieved by a workforce of whom the majority are conventional, disenfranchised, non-co-op members, means that the success is not entirely different from that of other multinationals.

What have been the social results of global Mondragon? In certain ways it appears that the company has become more corporate. For instance Cheney claims that the democratic participation in the co-ops has become somewhat undermined by the routinization of participatory practices in the General Assemblies, centralization of corporate strategic policymaking, and the decline of the Social Councils—often accused of simply rubber-stamping management decisions; moreover, he argues that education in cooperativism is increasingly taking a back seat to financial and technical training (1999, p. 135). He also reports workers saying things like “this place feels a lot more like a corporation and a lot less like a cooperative than it used to” (1999, p. 75). In terms of employment stability, Mondragon has been able to maintain its record of virtual guaranteed employment, although again this fact is less impressive when it is recalled that global Mondragon is able to assure work for its members by firing its nonmembers when necessary. For example, in the midst of the recession of 2008–2009, the number of members rose by 6.1%, whereas the overall numbers of employment fell by 8.3%, meaning that the security of the members was achieved, at least in part, through the disposability of the nonmembers (Flecha & Cruz, 2011, p. 160).

However, even if Mondragon is no longer a true co-op, it is still by most measures a better place to work than most comparable multinationals. The job security, profit-sharing, and democratic opportunities clearly make Mondragon a great place to work for members. Indeed, Mondragon was ranked in 2003 by Fortune magazine as one of the ten best firms to work for in Europe (Forcadell, 2005). Additionally, employment in Mondragon may be somewhat better even for nonmembers than the alternatives. For example, Irizar pays the workers in its foreign subsidiaries 20% more than the local competition (MacLeod & Reed, 2009); while this is commendable, it is unclear how general this practice is, as the authors recognize that Irizar represents “best practice” with respect to internationalization (2009, p. 133).

Taking a step back now, what does Mondragon’s “degeneration” imply for our broader interest in co-op efficiency? Do we need to reevaluate our positive assessment of the original Mondragon in light of global Mondragon?
Does the recent “degeneration” imply that co-ops are an obsolete form of business, best rejected to the trash bin of history? I do not think so.

First, Mondragon itself may well re-democratize in the coming years and emerge as a competitive multinational cooperative. It is clear that the existence of so many nonmember workers in Mondragon has been a source of much soul-searching and debate within the organization and is something that many members wish to change. The bulk of Mondragon’s nonmembers emerged from the expansion of the supermarket chain Eroski during the 1990s. To combat this, by the late 1990s a partial employee-ownership structure was established, and starting in 2011, Eroski approved a multi-year initiative to cooperativize its operations, to be completed by 2014–2016; this is expected to bring the ratio of members to workers back up to 70–75% for Mondragon as a whole (Arando et al., 2010, pp. 20–21). If this is successful, it will represent a profound re-democratization of Mondragon. Beyond this, it is not inconceivable that the foreign subsidiaries will be slowly democratized, perhaps by being transformed into full member co-ops where local conditions allow, or at least acquiring increased rights to participation and profit-sharing. Moreover, it is important to remember that a fundamental reason that a re-democratization of Mondragon is possible is that, as many commentators have pointed out, its democratic culture is a key to its competitive advantage (Cheney, 1999; Forcadell, 2005; MacLeod & Reed, 2009). Its economic edge comes, at least in part, from the participation, motivation, loyalty, commitment, and constant training that flow from a democratically empowered workforce. This implies that even in a neoliberal global market environment, Mondragon may well be able to emerge as an exemplary model for democratic multinational business. Time will tell.

Second, it is possible that in the coming years the global marketplace will face little regulation or moderation and so will become increasingly harsh—characterized by a fierce race to the bottom. In such a case it is likely that any firm that cares about anything other than the bottom line (from co-ops to unionized firms to firms with environmental policies) will be forced under. Decent firms may well be unable to survive in such a brutal marketplace. But it must be remembered that this is not evidence of the invalidity of the cooperative form, any more than it is of the invalidity of unions or environmental protection. Indeed, most of us recognize that the fact that pregnant women are not as competitive as men does not justify their being paid less—it means that the market should be regulated (e.g., by mandating pay equity); the fact that green electricity companies cannot compete against coal-burning ones does not mean that we should abandon green firms—it means that the market should be structured differently (e.g., by putting a price on carbon emissions).

If socially decent types of business, like the original Mondragon, cannot survive in a harsh global market environment, this is a condemnation not of the firms, but of the environment itself. The answer is not to abandon co-ops (or other progressive kinds of firms) but to work toward reforming the market environment which is biased against them, for example, by striving to implement regulations and tax incentives to motivate firms to work toward a broader bottom line.22

To sum up, it is, I think, fair to say that Mondragon, particularly in its original 30 years, has been a hugely successful enterprise. It many ways it serves as conclusive evidence for the viability of the cooperative form and should give pause to anyone who intuitively doubts the feasibility of workplace democracy. We can learn much by noting several of the key innovations that have been instrumental to Mondragon’s success. First and foremost, the CL has been vital for loosening the constraints of finance, as well as providing an Empresarial division for providing business assistance and starting up new co-ops. Next, Mondragon has discovered a lasting structural form. It mandates high levels of internal investment (at least 45% but up to 90% of profits). The innovation of having personalized internal capital accounts allows for divorcing membership rights from property rights (thus avoiding degeneration à la Plywood co-ops). The presence of a Social Council importantly complements the Governing Council, providing a mechanism for workers to deliberate as workers as well as owners. Next, Mondragon has shown the importance of ongoing educational training both in terms of cooperativism (teaching the values of solidarity and participation as well as the practical skills of bookkeeping, information sharing, participating in meetings, learning how to manage, etc.) as well as technical training. This is vital because it is only through teaching people themselves how to manage that “self-management” becomes less rhetoric and more reality. Finally, the networking of co-ops together for social and economic support (for instance forming co-op Groups) has been extremely useful.

La Lega

Whereas Mondragon grew out of the Christian vision of one man, La Lega cooperatives emerged out of a vast socialist political movement. The early cooperative movement in Italy formed itself into various networks, one of which was The Federation of Italian Co-operatives, formed in 1886 with 248 co-ops representing 74,000 members (about 38% of these were worker co-ops, 44% were consumer co-ops (Ammirato, 1996, p. 69)). In 1893 the Federation changed its name to the National League of Cooperatives (commonly called “La Lega”).
In 1947, co-ops received formal recognition in the Italian constitution as organs to be promoted by the state. The Basevi Law determined the structure that co-ops were to adopt, reflecting the principles of the International Cooperative Alliance. It stated that co-ops are to be governed according to one-person one-vote (with the General Assembly electing the Governing Council, which in turn is to appoint and oversee the management). Admission must be open to all. Membership shares are not sellable. There are limits on the amount of money that workers can invest in their own firms, as well as limits on the amount of white-collar workers allowed in. Interest on capital is restricted to 5% (though this was later relaxed). The co-ops are to distribute their surplus by keeping 20% in a reserve fund (with reduced rates of taxation), allowing up to 20% for supplementing wages, while the remaining had to be used for social activity or reinvestment—thus guaranteeing substantial levels of reinvestment. In the event of dissolution, the co-ops are not permitted to distribute assets to members, which must instead be devoted to a public fund—the purpose of which is to ensure that co-ops will not degenerate by being sold off to private enterprises for speculative purposes. So although this law constrained the co-ops in certain ways, it also supported them through tax breaks and privileged access to public contracts (Ammirato, 1996, p. 82).

The structure of La Lega as a whole is formed by each individual co-op electing representatives to a National Congress held every four years, which then elects the overarching governing bodies. The main functions of La Lega are to provide general guidance, support, and cohesiveness to the member co-ops. For instance, La Lega lobbies the state for support, it provides legal, business, and accounting services, it provides research and development information, it helps coordinate business evolution, and helps finance the development of new cooperatives. Overall, the structure is broader than that of Mondragon, but less centralized. The main strategic economic direction does not come from above, but from decentralized consortia—which are groups of co-ops that have formed together for economic reasons, to pool resources and obtain economies of scale.

The 1950s was a period of economic stagnation for La Lega, which Ammirato (1996) attributes largely to the difficulty of acquiring finance as well as managerial skills (both of which were often disparaged as part of an alien capitalist culture). By the 1970s, however, these problems started to be overcome. The consortia were developing and became capable of providing managerial skills and business strategy (Menzani & Zamagni, 2010). In addition, La Lega developed its own financial system, around the financial consortium Fincooper. Fincooper provides three main services. First and foremost, it provides finance to the co-ops at below market rates; second, it provides financial services, and third, it acts as a major shareholder in strategic companies useful to La Lega as a whole. Fincooper finances itself by charging each co-op a fee as well as attracting deposits from co-ops. Attracting deposits is facilitated by the state, which allows depositors to pay only 12.5% tax on the interest received, compared to the 25% they would have to pay in regular banks.

These factors combined to help make the last several decades a time of great growth for cooperatives. Even with increased pressure from globalization, as well as attacks from Berlusconi's right-wing government, the co-ops have grown impressively. In 1950 there were about 10,000 Italian co-ops (including but not only worker co-ops) employing about 2% of all workers. By 2001, there were 53,000 co-ops employing 5.8% of workers (Zamagni & Zamagni, 2010, p. 56). During the 1990s, the number of people employed by co-ops rose by 60%, compared to an average of 9% for capitalist firms (Restakis, 2010, p. 70). Worker cooperatives, particularly large ones, are now major players across the Italian economy: accounting for roughly 18% of all workers in large firms in the food processing sector, 23% in construction, 16% in trade, 19% in hotels and restaurants, 17% in financial intermediation, and 17% in facility management services. By 2006, La Lega represented 15,200 firms, with 7,500,000 members and 414,000 direct employees (Zamagni & Zamagni, 2010).

Economically, La Lega co-ops have been remarkably successful. They constitute a vibrant sector of the economy and are now leaders in their fields of construction, agriculture, retail, housing, food catering, transport, health, ceramics, machineries, rubber products, furniture, and hi-tech equipment.

Bartlett et al.'s (1992) robust study summarizes the economic evidence from La Lega: they find that the co-ops have compressed wages compared to capitalist firms, fewer managers as a fraction of the workforce, more hours worked per person, significantly lower assets per person, significantly higher productivity (i.e., value added per worker per hour worked per unit of fixed capital), fewer strikes, absentee days, and quit rates (although interestingly not higher wages). Ammirato (1996, p. 93) concurs that the co-ops tend to outcompete capitalist firms. The co-ops increased their value-added by 42% from 1976 to 1980, whereas the national average was only 18%. Likewise, the co-ops maintained higher levels of employment for firms of similar size, increasing employment by 16% compared to 6% for conventional firms.  

So it is clear that notwithstanding certain neoclassical expectations, La Lega co-ops have not underinvested or underemployed (Ammirato, 1996, pp. 236–238; Bartlett et al., 1992). On the contrary, they have proven to be eminently sustainable. Many of the co-ops employ hundreds of people and have survived for decades (Ammirato, 1996, p. 2).
Can this success be attributed to state subsidy? Definitely the Italian state has been significantly involved in the economy, more so than in many parts of the Western world. The Italian state explicitly determined how co-ops were to be structured and how they were supposed to function—sometimes supporting, sometimes hampering. Italian co-ops have historically been much more explicitly political than elsewhere, leading them to prosper under sympathetic governments and be attacked or sidelined under others (Ammirato, 1996). On the one hand, co-ops have in some ways been supported over and above conventional firms, primarily through being allowed to bid for public contracts without competition and receiving tax benefits (Forte & Mantovani, 2009). However, it is also true that in certain ways the co-ops have been restricted vis-à-vis conventional firms: they were long restrained in the amount of interest on capital they could pay (to 5%), which acted as a deterrent to investing in co-ops. Likewise, the number of white-collar workers was long restricted. As well, the co-ops often received much less financial support from the state than capitalist firms. Furthermore, in many ways the state is not particularly focused on co-ops at all but is simply interventionist in general, supporting all kinds of firms. The issue of state support is thus complicated. It is probably fair to say that the Italian market environment has generally been supportive of co-ops, but undoubtedly it is inaccurate to dismiss La Lega’s success as simply due to subsidy.

Whereas capitalist firms, generally speaking, find themselves enmeshed in a political-legal system that has been set up with them in mind, co-ops are like freshwater fish in a capitalist sea. What is remarkable about La Lega, and a core ingredient of its success, has been its ability to develop its own system of supporting structures through a large and highly developed cooperative network. This network provides the best glimpse we have of what a cooperative market system might look like—where the market system itself is structured and regulated so as to facilitate the creation of new co-ops, provide credit and training, help problem-solving, and encourage expansion in ways that are specifically relevant for cooperative firms.

What about the social features of La Lega co-ops? Ammirato (1996) argues that the co-ops operate efficiently but with a different kind of business ethic. They have a broader bottom line than simply profit maximization, extending to social concerns of the workers as well as the community (e.g., through donations of a portion of profits and other solidarity initiatives). In many ways, the co-ops strive to balance social and economic considerations.

La Lega co-ops have significantly more internal equality than comparable firms, with wage differentials usually not exceeding 3:1 (Ammirato, 1996, p. 91). Additionally, most co-ops try to institute a culture of equality, which manifests itself in a variety of ways, such as through common cafeterias that everyone uses and replacing the formal language that is the business norm with the egalitarian “tu” between managers and workers (Holmstrom, 1989).

Moreover, the co-ops have much greater levels of democracy than in conventional firms: the General Assembly has final authority, with day-to-day authority delegated to management who serve at the pleasure of the Assembly. Some co-ops proudly proclaim signs on their walls with slogans such as “40 years of self-management!” (S. Smith, 2001, p. 32). Holmstrom (1989) provides an importantly balanced view, documenting the wide variability of democracy in different co-ops. He shows that, as Smith notes, the co-ops do have quite strong democratic structures, yet it is also true that there is rarely widespread rank-and-file participation in management. Most technical aspects of production are decided by management and simply assented to by the Governing Council. There is often little experimentation with direct democracy, or alternative work practices, and even General Assemblies are in some cases little more than symbolic events.

All in all, La Lega co-ops have shown themselves to operate with levels of economic efficiency at least comparable to capitalist firms, while being socially superior in many ways. What have been the main reasons for La Lega’s success? First, the co-ops have adopted a sustainable internal structure—mandating high levels of reinvestment and preventing sell-offs. Next, the league itself has been vital in allowing co-ops to cluster into a shared network which promotes shared values, lobbies the state, provides services, and promotes new co-ops. The consortiums have been important in terms of improving market competitiveness by pooling resources, achieving economies of scale, and promoting intersectoral co-op trade, thus providing the basis for national and perhaps even international competitiveness. The financial support and services provided by Finacoop and other financial/banking bodies devoted to cooperative success have been immensely useful. Finally, the self-identification of the co-ops as part of a political movement has allowed them valuable alliances with trade unions and political parties, which in turn has been valuable in galvanizing state support—and this has been consistently helpful in providing tax incentives, financing support, and access to public contracts.

**Egalitarian Collectives**

While co-ops are characterized by their democratic organization, they do not generally involve complete equality. Co-ops tend to utilize a division of labor
with different people performing different tasks: managers and specialists oversee various aspects of the business and possess the authority to direct others. However, at the extreme of the cooperative movement there are organizations that endeavor to organize on completely egalitarian grounds. These can be called "egalitarian collectives" and provide a useful contrast with normal co-ops as they illustrate the trade-offs that different kinds of business structures allow.

Egalitarian collectives are workplaces that aim for more-or-less complete equality between all the members; their goal is not democracy per se, but radical equality. Rothschild and Whitt (1986), in their excellent work on the subject, describe a number of firms of this sort. For example, in the small newspaper The Community News, which employed between 14 and 18 people, there were no managers or formal hierarchy of any sort. Decisions were made collectively and by consensus in meetings where everyone was encouraged to participate, usually taking up to four hours per week. Jobs were rotated—the photographer this month might be the writer or the layout designer next month—so that no one acquired expertise over anyone else.

In general, egalitarian collectives are defined by the following characteristics. The locus of authority rests with the whole group on an egalitarian basis and is not delegated. Decisions are made through a collective participatory process, usually by consensus. There tends to be no distinction in status between any members. Jobs are shared or rotated and wages are usually equal for all. Such firms are always small, with low levels of capital intensity and basic technologies, and tend to be quite homogeneous in their personnel. For instance Rotschild and Whitt (1986) describe how practically all of the American collectives that arose in 1970s were formed by middle-class participants of the student movement, well-educated, and ideologically committed (see also Schoening 2010).

Studying firms of this sort is extremely useful because it forces us to see the inevitable trade-offs that exist in social life. Total equality in the workplace, while an admirable goal in certain respects, brings with it at least two major requirements: collective decision-making (or else some will become managers) and shared tasks or job rotation (or else some will become specialists). What are the consequences of these requirements? Collective decision-making is much easier with similar kinds of people—similar cultural background, ideological perspective, and levels of education, which is why these organizations tend to be quite culturally homogeneous. Furthermore, collective decision-making necessarily requires smallness as groups much bigger than 10 or 20 simply cannot make decisions in this manner in any reasonable amount of time. And with smallness comes lack of broader impact. Small may be beautiful, but tiny and culturally homogeneous firms can only be marginal firms and are therefore unlikely to impact conditions of work for the majority of people. Likewise, sharing tasks or rotating jobs means that the firm's operations must remain quite simple with little advanced technology or production processes. Without a division of labor, people cannot specialize in activities in which they are particularly skilled but find themselves performing activities they cannot do particularly well, creating massive inefficiency and low-level productivity (Mansbridge, 1980, pp. 246–247); as Adam Smith ([1776] 2006) pointed out centuries ago, division of labor and efficiency are inextricably linked. With substantial inefficiency comes a lack of competitiveness, which is why firms of this sort are so few and far between.

Another trade-off that exists is between equal wages and motivation. Equal wages means that motivation must rely solely on moral incentives. Egalitarian collectives show that these kinds of incentives often are sufficient for stimulating substantial motivation, at least among particularly devoted people (Mansbridge, 1980; Rothschild & Whitt, 1986). However, the dark side of pure reliance on moral incentives is that it may encourage free riding, since you know you will get paid the same no matter how much you do or how much you shirk. Pure reliance on moral incentives also brings with it a culture of moral expectation and conformism—"why aren't you sacrificing as much for the collective as I am?"—which can be oppressive in its own way. Of course, this is not to say that equality of wages should be totally abandoned as a goal, but that there is probably a sensible balance to aim for between motivating via money, on the one hand, and via coworkers' moral expectations, on the other. Whereas conventional firms tend to be extremely unbalanced in the direction of inequality, egalitarian collectives tend to be unbalanced in the opposite direction of abolishing financial incentives altogether.

In the real world it is, unfortunately, not possible to combine any kind of characteristics one might want. One must choose either equality or large-scale transformative potential, either homogenization or expertise, either equal wages or material incentives. In practice this means that you can have democratic workplaces that are egalitarian, participatory, with no division of labor, that are small and homogeneous, or, you can have democratic workplaces, like most co-ops, that allow some inequality, are representative, use specialization, and are potentially large and diverse. The restraints of reality mean that this trade-off is inevitable: we cannot have our cake and eat it too.

In my opinion the weaknesses of egalitarian collectives usually outweigh their strengths. This is because complete equality in all kinds of decision-making requires serious leveling, smallness, homogeneity, and inefficiency, and therefore lacks large-scale transformative potential. It seems to me
advisable to relax our insistence on ideological purity in terms of insisting on absolute equality for the sake of building organizations that can grow, include diverse kinds of people, and operate efficiently so as to have real potential for actually improving the lives of broad swaths of the population. Egalitarian collectives do not have this kind of potential. However, as we will now see, worker cooperatives do.

**Compiling the Economic Evidence**

Historically, co-ops in the West have been almost entirely financed by personal savings. They therefore have tended to be small and confined to areas of low capital intensity, particularly in industries that lack significant scale economies, require few specialized physical assets, and have limited barriers to entry, such as construction and certain branches of manufacturing, printing and publishing, clothing, food production, textiles, glass, ceramics, wood and furniture (Dow, 2003). Traditionally, co-ops have had basically no presence in industries that are highly capital intensive, such as chemical or pharmaceutical industries, iron, steel, transport, or auto. That said, Mondragon and La Lega demonstrate that co-ops with significant capital intensity can be viable provided that financing difficulties can be overcome.

The central empirical question regarding cooperatives is “are they efficient?” This broad question can best be analyzed by breaking it down into the following criteria: productivity, ability to grow and create jobs, appropriate reactions to changes in the market, and sustainability over a sufficiently long term.

In terms of productivity, there is wide-ranging evidence that cooperatives have just as high if not higher productivity than comparable capitalist firms. This is seen in the United States (Berman, 1967; Craig & Pencavel, 1995; Pencavel & Craig, 1994), in West Germany (Cable & FitzRoy, 1980), in Italy (Ammirato, 1996; Bartlett et al., 1992; Maletta & Siena, 2008; Zevi, 1982), in Sweden (Thordarson, 1987), in Denmark (Mygind, 1987), in France (Defourny, 1992; Fakhfak, Perotin, & Gago, 2009), in Spain (Bayo-Moriones, Galilea-Salvatierra, & De Cério, 2003; Thomas & Logan, 1982), and in Poland compared to state-owned firms (Jones, 1985). Of particular interest is Doucouliagos’s meta-analysis compiling the results of 43 studies comparing the productivity of co-ops to capitalist firms. He concluded that there is a strong association between co-op profit-sharing and productivity and a small but statistically significant association between worker participation in decision-making and productivity thus “rejecting the traditional view that democratic management of the firm is associated with reduced efficiency” (1995, pp. 67–69). Probably the most rigorous and large-scale comparative study is from Fakhfakh et al. (2009), who analyzed 7,000 French firms, about 500 of which are co-ops. They found that “overall these results suggest that...[the co-ops] are as productive as conventional firms or more productive, and use their inputs better” (p. 18).

The evidence is thus robust that being your own boss does seem to improve productivity. This likely comes from two main sources: the increased motivation that comes from profit-sharing and the smoother coordination that comes from increased trust and reduced alienation. There is now wide-ranging evidence that profit-sharing enhances productivity (Doucouliagos, 1995; Elinson, Jones, & Svejnar, 1987; Kruse, Freeman, & Blasi, 2010). But what about workplace coordination? Co-ops do not appear to have the lack of discipline that authors like Alchian and Demsetz (1972) suspected (Cornforth et al., 1988). On the contrary co-ops tend to have an efficiency advantage in terms of smoother coordination that stems from increased trust. This manifests itself in terms of reduced worker-manager conflict which can be empirically seen from lower levels of absenteeism and quit rates (Bartlett et al., 1992). Increased trust also allows co-ops to substantially reduce monitoring costs (Bartlett et al., 1992; Fakhfakh et al., 2009; Greenberg, 1986). This is important because monitoring costs for capitalist firms typically account for as much as one-fifth of total labor costs (Bowles & Gintis, 1998). Trust is important because it is like the grease applied to the gears of a machine, lubricating the coordination of the parts; co-ops tend to have more of it, and hence less friction in their operation.

Indeed, we should not find co-op productivity surprising, since even in capitalist firms the coordination that happens is only partially order-giving and order-taking. An enormous amount is achieved by workers solving problems amongst themselves on the basis of mutual aid (“can you show me how to do X?,” “send me an email about Y,” “remind me to do Z”). Coordination does not generally happen through endless commands among finely grained hierarchy. Indeed it is impossible to imagine any sophisticated coordination whatsoever happening without extensive amount of co-operation even within hierarchical structures. The only reason that the gears of a hierarchical system can turn at all is that they are constantly lubricated by millions of micro-acts of cooperation. The coercion, not the cooperation, is the anomaly.

Next, the evidence demonstrates that co-ops have no trouble in generating jobs and growing. Zevi (1982) shows that Italian co-ops tend to grow faster than capitalist firms, as do Arando et al. (2010) in Spain, and Burden and Dean (2012) in Uruguay. Fakhfakh et al. (2009) and Arando et al. (2011) find the growth rates to be neither better nor worse. The worry that co-ops will not grow is based on the underlying concern that they will underinvest—perhaps
because workers might prefer to siphon off the surplus into their personal wages instead of reinvesting, or perhaps because of short time horizons. Whatever the case, in practice there is no evidence that cooperatives underinvest (Dow, 2003, pp. 162–63). Bonin, Jones, & Putterman (1993) are conclusive about this: "No strong empirical support for the underinvestment hypothesis is found either in France or the UK" (p. 1311). They conclude that "the empirical literature contains no econometric support for this hypothesis" (1993, p. 1316). Recent studies confirm this (Arando et al., 2010; Fakhfakh et al., 2009). Indeed, in practice many co-ops overcome horizon problems by simply mandating a portion of surplus toward reinvestment (e.g., Burdin & Dean, 2009).

In terms of their ability to react to market changes, it is clear that co-ops do respond efficiently to broad changes in market demand: expanding in times of increasing demand and slowing in times of recession (e.g., Burdin & Dean, 2009; Mygind, 1987). Although as we will see below, co-ops tend to adjust to changes in demand in different ways (reducing wages or hours rather than laying people off). Indeed, Jossa and Cuomo argue that a co-op dominated economy would likely be economically superior in that it would have downturns that are less severe than capitalist ones. This is because when capitalist firms have downturns, they face wages that are quite rigid. Since workers' wages cannot be reduced they have to be fired altogether leading to some productive capacity remaining idle. Thus the familiar capitalist paradox of recession: unemployment side-by-side empty factories, which is caused in part because wage rigidity leads to underutilization of capacity. But in a co-op economy, downturns mean that workers can choose to take pay cuts (an option that does not exist in typical capitalist firms), resulting in less unemployment and underutilization, and therefore a less severe recession (Jossa & Cuomo, 1997, pp. 283–285).

Next we might ask if cooperatives are efficient in the sense of being sustainable over the long term. If degeneration happens at all it is more likely due to organizational reasons than purely economic ones, such as hiring of nonmembers (e.g., the Plywood co-ops) or hiring members who are not committed to workplace democracy (e.g., the Burley co-op in Oregon (Schoening, 2010)). Such forms of degeneration can generally be avoided with appropriate care and the implementation of rigorous democratic structures, though as Mondragon shows, economic pressure can lead to organizational degeneration. According to Smith (2001), co-ops degenerate into capitalist firms only with "extreme rarity" (p. 28). The most important issue in this regard is whether co-ops can successfully compete over the long term. Here the evidence is clear: co-ops do not fail more often than comparable firms, rather they have robust survival rates (Bellas, 1972; Ben-Ner, 1988; Cornforth et al., 1988). Gregory Dow's excellent work is arguably the most authoritative synthesis of the literature. He ends his comprehensive study with the following: "The general conclusion…is that [co-ops] are not rare because they fail disproportionately often. Once created, they appear robust. Rather, they are rare because in absolute numbers they are created much less often than [capitalist firms]" (2003, p. 227).

Finally, it is clear that the efficiency of cooperatives cannot be written off as simply due to state subsidy. While co-ops (like capitalist firms) clearly perform better when supported, most states possess market environments that contain a complicated mix of supportive and hampering measures. For instance, co-ops often receive tax breaks but almost never receive institutional financial help in any way comparable to the gigantic banks and stock markets set up to aid capitalist firms. So while it may well be desirable to support co-ops more in the future, studies to date indicate that co-ops are robust and efficient despite the political-economic environment, not because of it.

The bottom line (pun intended) is that co-ops operate with levels of economic efficiency that are comparable to conventional firms; they are eminently viable kinds of businesses. Whatever efficiency losses they may suffer from the time that is required for participation, or the rigidities that come from the difficulties in firing bad workers, are balanced out by enhanced motivation and smoother coordination. Their rarity is not caused by any inherent inefficiency, or internal tendency to degenerate, but by contingent factors (such as structure and financing) which can in certain cases be decisively overcome—as early Mondragon and La Lega powerfully demonstrate. (We examine the reasons for the rarity of co-ops below.)

Of course, even if we can be relatively confident about cooperative efficiency on a small scale, this does not prove that an entire cooperative economy would be similarly efficient. We cannot know this for sure until we try. But what can we expect? A skeptic might argue that small co-ops can be efficient by attracting highly motivated people who are ideologically committed to the co-op model, but that economy-wide, co-ops would not work so well. I think such pessimism is unfounded. It is likely that worker co-ops possess a number of productivity advantages over conventional firms that stem from their motivational and coordination advantages: being one's own boss, having incentives to work hard because remuneration is directly tied to the firm's performance, mutual monitoring, being more involved in decision-making, having a more pleasant culture and therefore less turnover and absenteeism, and so on. Nothing about these factors relies on cooperatives being small and peripheral; logic suggests that they should be just as effective on a large scale
as they are today.\textsuperscript{30} Indeed, the indisputable economic vibrancy of places like Emilia Romagna (home of Parmesan cheese and Ferrari cars and one of the richest parts of Europe) where co-ops play a large role is compelling evidence of their large-scale potential. In Imola, for example, with a population of 100,000, approximately 50% of the people are stockholders in the area’s 115 co-ops, and over 60% of the town’s GDP comes from the co-ops (Restakis, 2010, p. 57).

**Compiling the Social Evidence**

It is interesting to note that the two main criticisms commonly leveled against co-ops are largely contradictory. The mainstream neoclassical view is that co-ops behave too differently from conventional firms, whereas the Marxist critique, on the other hand, is that they operate too similarly (i.e., degenerate to become indistinguishable from conventional firms). In fact, while competitive market pressure does provide a broad base of similarities between the two types of firm—in terms of concern about productivity and profitability, standardization of work, and establishment of pyramidal management—in various ways co-ops do consistently behave differently than conventional firms.

Co-ops do not generally aim for simple profit maximization. Indeed, it is unclear that they aim to maximize any one thing at all (Dow, 2003, p. 142). Most co-ops are interested in maximizing employment or job security in addition to profits, but this is not always the case (Burdin & Dean, 2012). Indeed, since co-op management is controlled by the workers collectively, it is unsurprising that there are a broader range of goals and priorities than a capitalist firm controlled by shareholders who are likely to share a uniform commitment to profit maximization (since that is why they bought shares in the first place). Most co-ops seem to have a broader notion of the bottom line, including profit, but also including various social concerns ranging from employment stability to community improvement. So the fact that co-ops are not single-mindedly profit-maximizing may make them less profitable than conventional firms in a narrow economic sense, but this “disadvantage” (if it is a disadvantage at all) may well be balanced out by the productivity advantages that tend to accrue to co-ops from reductions in antagonistic management.

One of the most important differences in co-op behavior is in regards to employment. This shows itself in two ways: co-ops have much greater job security than conventional firms, and they respond to downturns in more humane ways (Arando et al., 2010; Bartlett et al., 1992; Burdin & Dean, 2009; Fakhfakh et al., 2009; Pencavel & Craig, 1994; Pencavel, Pistaferri, & Schivardi, 2006). Indeed, Dow (2003) states that “one of the most robust empirical generalizations about LMFs [co-ops] is that they respond to negative demand shocks by maintaining employment, while restricting hours, wage rates, or both” (p. 198). In other words, co-ops deal with a downturn in ways that are egalitarian and collectively agreed upon. Instead of a capitalist management simply laying off workers to reduce costs, a cooperative structure allows workers to make shared sacrifices by collectively reducing hours or pay in a fair and equal manner. So in these respects, co-ops behave more progressively than conventional firms—economic rationality with a human face, as Morrison would say.

Likewise, there is wide consensus on the fact that co-ops allocate wages with much more equality than in capitalist firms (Arando et al., 2010; Arando et al., 2011; Bartlett et al., 1992; Berman, 1967). So it follows that a society largely composed of co-ops, other things being equal, would be significantly more equal too. Of course, by suppressing wage differentials co-ops may face difficulties acquiring scarce managerial talent; however, this problem is often overcome through a combination of educating managers from the internal workforce, modest wage incentives, and the moral incentives of working in a community of equals. While egalitarian collectives tend to operate with strict equality, many co-ops do allow some wage differentials (though rarely exceeding 3:1). But this differential is much more egalitarian than the comparative practices in social democratic countries (where the average CEO makes 15 times the average wage (Randy & Nielsen, 2002) and is tiny compared to the American context, where the average CEO makes 300 times the average wage (The Economist, 2006); indeed in 2000 the gap was an extraordinary 531:1 (Bogle, 2008).\textsuperscript{31}

Another important area of difference is in terms of relationship to the community. Although it is hard to precisely measure this, several points deserve mention. First, the practice of collective ownership serves to tie the co-op’s assets to the community, as they cannot be sold off for speculative purposes.\textsuperscript{32} More broadly, many co-ops (including Mondragon and La Lega) mandate a portion of their profits to go directly to the community for charities or social projects. Additionally, the fact that co-ops tend to maintain long-term, steady employment is clearly beneficial to the health of the community. Finally, since co-ops are controlled by workers who generally live in the community in which they work, there is less danger to the community from capital flight in the sense of the business leaving. This is an important point.

Normal firms, controlled by capital, will generally move wherever they can in order to maximize profit—sometimes responding to increased demand, sometimes simply to areas with fewer unions, fewer environmental protections, lower wages, lower taxes, and so on. This results in huge wealth
for some, and abandoned communities, ghost towns, rust belts, and lower standards of living for others. Co-op practices are different. Since they are controlled by labor, co-ops will seek profits, but only in ways that benefit themselves as workers as well as community members. Instead of moving, co-ops tend to use capital instrumentally in order to achieve competitiveness within the community, through reinvesting in existing jobs, retooling, furthering education, and so on. Co-op business success thus provides all kinds of positive externalities that are otherwise lacking (e.g., stability, community reinvestment, etc.). In other words, the link that exists for co-ops between firm success and community benefit means that it is much truer for co-ops than capitalist firms to say that a rising tide lifts all boats. Of course, it is possible that this lack of mobility may reduce efficiency somewhat, but efficiency gains from capitalist mobility tend to concentrate unequally among the owners. As long as new co-ops are able to form in areas where demand is growing, this should not be a massive problem. From a societal perspective, whatever efficiency losses occur are likely to be outweighed by the social benefits of treating capital (as opposed to actual laboring human beings) as a production variable.

There are two other areas where there are good reasons to suspect that co-ops will produce socially superior outcomes than conventional firms: the environment and health (though since there is less hard evidence for these claims they must be taken a bit more speculatively). In terms of the environment, Booth (1995) has argued that cooperatives operate in ways that are more environmentally sensitive than capitalist firms. Although more investigation needs to be done on this question, it does stand to reason that workers, presumably, are less likely to pollute the community they have to live in than a comparable capitalist firm controlled by distant shareholders.

In terms of health, a specific reason that co-ops may be better is that low job control has been associated with ill health. For instance, Marmot et al. (1984) found that men with low job control had three times the 10-year risk of suffering coronary heart disease. Their follow-up study, examining over 10,000 people, confirmed these results and led them to conclude that "policies giving people a stronger say in decisions about their work or providing them with more variety in work tasks may contribute to better cardiovascular health" (Bosma et al., 1997, p. 564). This connection between low job control and ill health has also been corroborated by a number of other investigators (De Jonge, 1995; Sauter, Hurrell, & Cooper, 1989). A more general reason is that it is now well-known that inequality brings all kinds of health risks (Wilkinson & Pickett, 2010); this implies that a co-op dominated economy, with much less inequality, may well be healthier.

However, it is important to point out that there are certain areas where co-ops have not produced the social outcomes that proponents hoped for. First, co-ops have provided only weak and inconclusive evidence for the "spill-over thesis" that participating at work will improve the civic virtue of people in their communities—making them better citizens, more eager to participate in politics, and less individualistic. In his extensive studies of American co-ops, Greenberg finds that the co-op workers were no more likely to vote in federal elections, though they were more likely to engage in local politics. Nor were they less classically liberal: they appeared to be just as "individualistic" as comparable workers (Greenberg, 1981). There is some evidence for a spill-over effect but it is indirect. Sabatini et al. (2012), in the first study of its kind, find that co-ops produce more trust or "social capital" than other firms; and Putnam (1993) famously demonstrated that higher levels of social trust are associated with a stronger civic culture and engagement; so there does seem to be some evidence for a causal chain.

Second, co-ops do not always result in more pleasant jobs or enhanced job satisfaction. The fact is that much work is inherently tedious or dull, and so no amount of organizational transformation is likely to alter this fact. Clearly democratizing workplaces cannot magically transform work into play. So many co-ops have shop floor conditions that are not noticeably different than capitalist firms (Grunberg, Moore, & Greenberg, 1996). For instance, Greenberg (1986, p. 80) points out that work in all the plywood firms, co-op or otherwise, "is universally noisy, dirty, dangerous, monotonous, and relentless." This is partly due to the fact that competition and dominant technologies exert some pressure on the way that work needs to be organized, but even so, it is disappointing that a larger number of co-ops have not experimented more with different modes of work organization. Also, co-op workers often complain of substantial work stress, which likely accompanies the increased expectations and responsibilities that workers have in democratized firms (Arando et al., 2011; Rothschild & Whitt, 1986).

On the other hand, since co-op workers who experience shop-floor conditions firsthand are also the ones in control of management, the possibility of experimenting with shop-floor work organization remains much greater. Indeed, many co-ops do consciously strive to improve the quality of work, such as the Mondragon Bookstore in Winnipeg via balanced job complexes (Burrows, 2008). Indeed, there is evidence that work can be more pleasant in co-ops. For instance, Blumberg (1968) states that "there is hardly a study in the entire literature which fails to demonstrate that satisfaction in work is enhanced...from a genuine increase in workers' decision-making power" (p. 123). As mentioned previously, co-ops consistently have lower levels of
quit rates and absenteeism (Bartlett et al., 1992), as well as less worker-manager antagonism (Greenberg, 1986). Even in large co-ops it is a consistent theme that members claim to prefer their workplace to the conventional alternative—usually pointing to some combination of the more egalitarian environment and the reduced antagonism and hierarchy so prevalent in conventional firms (though, of course, selection bias is possible) (e.g., Holmstrom, 1989). Additional evidence for the comparative pleasantness of work is that co-op managers consistently earn far less than they would elsewhere, yet nevertheless choose to remain.

So, overall, work satisfaction is only ambiguously related to workplace democracy. This can probably be explained by two factors. First, since work satisfaction is related not just to the objective conditions of the workplace but also to expectations of what work will be like, it is entirely possible for a co-op workplace to have somewhat better working conditions than conventional firms, but if there are also much higher expectations of what cooperative work should be like, overall job satisfaction might actually be lower. Second, it appears that participation at work—and the freedom of self-determination more generally—is not an easy breezy, obviously delightful kind of freedom. It can be both hard and stressful yet deeply rewarding at the same time.

Are Cooperative Workers Freer?

A central argument of this book is that a major advantage of workplace democracy is that it makes workers freer. So we must ask if the evidence backs this up. Do workers in co-ops actually feel freer? The answer seems to be “yes,” but with important caveats. Obviously how people subjectively feel about their work will vary immensely across workplaces and cultures. The experience of working in a six-person anarchist bike co-op in Toronto is very different from a 2,000-person industrial co-op in Italy. That said, the evidence points to several points. In general, it is clear that while co-ops are often successful at removing formal hierarchies at work, informal hierarchies often emerge, based primarily on bureaucracy and expertise which tend to dull the democratic freedoms.

The main constraints on democratic freedom are the classic albatrosses of democratic practice: size and complexity (originally pointed out by Weber [1922] 1968 and Michels [1911] 1962). As the workplace grows in size, it becomes increasingly difficult for workers to directly participate in decision-making; participation inevitably passes into representation and bureaucracy starts to form. It is practically impossible to feel that you are self-determining in a large co-op if you never get to directly participate.

Feelings of self-determination, in other words, require participation at some level (though not every level). The second major constraint is that of complexity. Complexity tends to lead to informal hierarchies because dealing with complex issues requires specialization and the creation of managers and experts who acquire a monopoly over critical information and relevant knowledge. This makes them difficult for the rank-and-file to engage with and can undermine democracy as shop-floor workers feel obliged to simply go along with the advice of the experts. In particular the specialists who have access to information regarding changes in the market (e.g., new products, new manufacturing technologies, new competition) often manage to get their way much of the time (Holmstrom, 1989). So both size and complexity lead inexorably to a pyramid structure of governance in order to coordinate the whole. Such a pyramid may be harsh and capitalistic—with the top being unaccountable—or it may be parliamentary and accountable to the bottom as in most co-ops, but regardless, all large firms will develop pyramid structures with bureaucrats and experts at the top, that if not circumvented in various ways will tend to create informal hierarchies, undermine participation, and ultimately undermine feelings of freedom and self-determination.

It is important to recognize that these constraints are real; they flow from the realities of the institutions themselves and cannot be simply abolished or dismissed as the mere bagatelles of capitalism. Feasible radicalism needs to squarely recognize the ways in which these restraints undermine participation, otherwise it risks falling into the nonsensical utopianism of thinking that somehow the “associated producers” will one day be able to participate in every decision.

Yet while these obstacles are consistent constraints on democratic practice, they can be largely mitigated, if not completely overcome, through sufficient dedication and the appropriate practices. The experience of successful co-ops points to two necessary things in this regard. First, workplace democracy requires solid parliamentary structures, by which I mean the establishment of a democratic constitution, regular General Assemblies, decision-making transparency, and availability of information. When these structures are operating well, they do provide an important sense of (negative) freedom: workers feel that managers are accountable to them, and that the gap between management and workers feels smaller and less intimidating than in conventional or unionized firms (Ammirato, 1996; Bradley & Gelb, 1983; Greenberg, 1986). Yet while these structures are clearly important, by themselves they constitute simply the shell or skeleton of a democratic body. For the workplace to be a living, breathing democracy—and for workers to feel free in the positive sense of self-determination—requires that the skeleton be fed with the oxygen and
nutrition of participation. So, second, healthy workplace democracy requires rigorous practices of participation.

These practices in turn require at least two things.

(i) The means for members to acquire the necessary skills and knowledge required to participate. To this end democratic workplaces need to invest in education for its members in both technical matters (so that regular workers are better able to deliberate with experts) and cooperativist values (so that a participatory culture can flourish). Indeed, a democratic culture cannot simply be expected to grow by itself; what stands out at successful co-ops is an intense effort to foster and build it. This has been a constant feature at Mondragon, for instance, with its training programs, its Knowledge Group, and its own university. In Arizmendiarreta's words, "people do not normally become co-operators spontaneously, they have to be taught—the soil may be fertile but it has to be cultivated" (quoted in Morris, 1992, p. 9).

(ii) The second practice of participation required for healthy workplace democracy is the opportunity for regular participation. In large co-ops this requires open channels of communication and efforts to decentralize where possible in order to have semi-autonomous teams or working groups where direct participation can take place. For example, Irizar has developed a flat organizational structure based on work teams, with no bosses but with "shared leadership." Not only is this participation good from a democratic perspective, it has also proven to be important from an economic perspective, as it increases innovation, the transfer of ideas, and overall productivity (MacLeod & Reed, 2009).

So it is an important, if not particularly surprising, conclusion that in practice, democracy in the workplace (particularly in large co-ops) has many of the same strengths and weaknesses as it does in the state (although, of course, workplaces are much more numerous, so there is more room for experimentation). Co-op workers, like citizens, rarely describe themselves as being totally free or "in charge." Holmstrom (1989) poignantly describes how many co-op workers feel that managers make the crucial decisions, and that opportunities to actually participate are often few and far between. Such criticism will strike a familiar chord to most citizens in the West vis-à-vis their political democracy. But although few citizens today are overly ebullient about the quality of their democratic participation, even fewer would be willing to give it up for some kind of authoritarian or technocratic rule. Co-op workers feel similarly about workplace democracy. Although few feel that it is utopia, those who have it consistently do not want to give it up. On the contrary, participating often breeds the desire to participate more (Greenberg, 1986). Cornforth et al. (1998) concur, "We found that people did not want to give back control over their working lives once they had experienced it" (p. 111). People value the freedoms they have, even if they are not everything they had hoped for. This may be progress of an incremental sort, but it is progress nevertheless.

Summarizing the Evidence

Taking a step back, a useful way to think about the different ways that businesses can be governed is with respect to the degree of equality in management decision-making. From this perspective there are three broad families of firms: egalitarian collectives, worker co-ops, and capitalist firms. Clearly there is much variety and variation within these categories, but if we were to attempt a general assessment, what could we say? The evidence, I think, points to several basic conclusions. First, egalitarian collectives have little large-scale transformative potential. This is because their insistence on total equality in theory requires a high degree of leveling and homogeneity in practice, which keeps such organizations small and inefficient. Second, co-ops are in fact a kind of hybrid of egalitarian collectives and capitalist firms. They retain the formal equality and democratic aspirations of egalitarian co-ops, but structure themselves in a way that allows for a division of labor and a largeness of operational scale, characteristic of capitalist firms. The fact that co-ops are hybrids may make them unattractive to purists, but for those of us interested in feasible progressive politics, we can see that their hybrid structure is actually a strength, allowing cooperatives to operate with robust economic efficiency within a fundamentally democratic framework. Third, when compared to conventional capitalist firms, co-ops have a lot to recommend them. Importantly, they operate with comparable levels of economic efficiency to conventional firms. The standard perception of co-ops as inevitably small and humbling organizations is a myth that should be disregarded; as examples like Mondragon and La Loga show, they can be large, complex, and immensely successful organizations. Fourth and finally, co-ops are not simply economically efficient; they are in many ways socially superior to conventional firms.

Obstacles to Co-op Formation

At this point we have reached a puzzle. If co-ops are roughly as economically efficient as capitalist firms (and arguably superior in certain social respects), then why are they so rare, usually making up less than 1% of most developed economies? Although there is no consensus on this question, several themes appear frequently in the literature.

First, probably the most basic obstacle to the formation of co-ops is what I call the "hiring bias," sometimes referred to as the "entrepreneurial
problem" (Cornforth et al., 1988) or a public goods collective action problem (Schwartz, 2012). The problem is this: every single new firm (be it a single-person firm or a small partnership) must at some point decide how to grow. There are two basic options: either to hire an employee, in which case the firm becomes a conventional business, or to bring in a new person as a partner to co-own and co-manage, in which case the firm can become a cooperative. Which is going to be more likely? For most people there is a strong bias toward hiring instead of forming a co-op. Hiring is much easier and less risky. It does not require an entrepreneur to make a long-term commitment to another person. An entrepreneur can simply hire an employee just like she might rent an office or some machinery. If it does not work out, it is not a big deal, she can just layoff the employee (the same way she might return unwanted rented machinery). Becoming co-owners with someone, on the other hand, is a massive commitment to sharing the firm's income, and doing so forever. Moreover, hiring an employee means that the entrepreneur retains sole control over the business development, whereas forming a co-op means that the entrepreneur is forced to share control and decision-making.36

This brings us to the second main obstacle that co-ops face—lack of financial support. All small firms need financing help to grow, but finance is particularly difficult for co-ops to acquire for several reasons. Co-ops cannot sell shares in the normal sense since that would compromise internal control37 (indeed, the joint-stock company was invented precisely to serve this function of raising capital). And co-ops often find it hard to convince conventional banks to lend to them, partly out of discrimination against worker-ownership, partly out of ignorance about how co-ops function.38

These are the two most serious obstacles that co-ops face, though several other points deserve to be mentioned briefly.

A third obstacle is that some co-ops adopt unsustainable structures that tend to degenerate. One problem that we have seen is with "mule" firms.39 Another common structural problem is not having procedures to guarantee sufficient reinvestment from revenues. An additional problem is the over-hiring of nonmembers, and a final problem is the ossification of democratic practices.

A fourth obstacle is a lack of cooperativist education, both among the general public, and especially among potential co-op workers. Cooperativist education is crucial, both in terms of the spreading the values of workplace democracy, as well as the requisite technical training.

Connected to this is the "familiarity effect" (Schwartz, 2012), which is that entrepreneurs are far more likely to start conventional firms than co-ops simply because they are much more familiar. It is easier to find out how to start them, easier to find models to emulate, easier to get advice about them, and so on.

A sixth obstacle is the difficulty in finding good compatible management. Some co-ops are ideologically hostile toward expert managers, and most offer smaller wages than they are likely to find elsewhere.

Taken together these obstacles explain why co-ops have lower birth rates than conventional firms, regardless of the fact that once they are set up they exhibit comparable longevity and economic efficiency.

Before moving on there is one final obstacle that needs to be mentioned, the issue of capital intensity. Industries with high levels of capital intensity (oil, steel, automobiles, pharmaceutical, etc.) are particularly difficult for co-ops to enter, since the always-prohibitive financing obstacles are here even more daunting. In chapter 2, I argued that these industries are unsuitable for traditional co-ops and are better suited for state ownership and co-management.

Hence, we must address the question of whether co-management is economically viable.

Exploring this issue in depth is beyond our present scope, but a basic summary can be made. Co-management of state-owned firms is currently being experimented with in a number of important firms in Venezuela (Wilpert, 2007), and in Europe co-management of private firms has existed in some form for many years under the name of co-determination in Sweden, Denmark, Norway, Austria, and Luxembourg. But it is Germany that has gone the furthest. The German Co-determination Act of 1976 updated the legislation from several decades before, and provides worker representation on the supervisory board of all large firms: one-third of the representatives on the board for firms of 501–1,000 workers, and just under one-half for firms greater than 2,000 workers, with shareholders getting the other half (and the tie-breaker vote) (Dow, 2003, p. 86). The supervisory board elects the management board, which controls the firm's day-to-day operations. This system is now well established and enjoys widespread support and legitimacy in Germany, thus providing compelling evidence of the viability of co-management.

Although co-determination is clearly feasible—large German firms are among the most efficient in the world—it is not clear that it has resulted in the productivity gains that supporters hoped would stem from worker participation in management (George, 1993; Svenjarg, 1982). A similar, and likely related disappointment, is that the degree to which co-determination has allowed for meaningful worker participation and empowerment seems ambiguous at best (Dow, 2003). So while the stability of co-determination in Germany provides compelling evidence of the viability of this form, there is clearly room for experimentation to improve its limitations.
Expanding Workplace Democracy

Last chapter we saw that workers are generally in too weak a position to easily bargain for workplace democracy. And, as we have just seen, there are also significant obstacles to creating new democratic workplaces. So what reforms should be pursued in order to help effect a transition to an economy characterized by significant workplace democracy?

Increasing the strength of workers to bargain for increased voice at work requires strengthening unions and increasing workers’ ability to exit through an enhanced welfare system or, more profoundly, a basic income.

Expanding the presence of worker co-ops requires help along three axes: legal support, financial support, and educational support. Over the short term, the most important reforms include the following.

A sustainable legal framework is needed to prevent degeneration. This requires collective ownership (to prevent “mules”), provisions to mandate adequate investment levels, a policy of limiting the number of nonmembers, and so on.

The most useful reform in many instances would be that which increases the provision of finance. An arm’s length co-op bank is vital in this regard—partly to provide access to cheap credit and partly to provide financial expertise (à la Mondragon’s Empresarial division of the CL) to help set up new co-ops. Beyond helping to set up co-op banks, the state could usefully help develop and legalize financial instruments suitable for co-ops to raise money on capital markets without having to cede control rights. Various suggestions for kinds of “cooperative bonds” of this sort have been put forward (McCain, 1977; Waldmann & Smith, 1999). Just as important, tax support is an immensely powerful tool for encouraging the spread of co-ops. For instance, in Venezuela in 1998 there were fewer than 800 co-ops. By 2007 it was estimated that there were over 30,000. This exponential growth is almost entirely due to legislative changes under Chavez that allowed co-ops to pay less tax and access cheap credit.

In terms of educational support, an important initiative would be the promotion of cooperative business schools to educate students about the operation and management of cooperative firms. It is noteworthy that Mondragon started from humble beginnings as a school. Similarly in Venezuela efforts have been made to train students in cooperative business models and encourage them to start their own co-ops.

Additionally, a league or network is vital to foster the spread of co-ops by providing a source of mutual aid in a capitalist sea. As S. Smith (2001) points out, “cooperatives are unlikely to be successful in a highly competitive environment without the roles played by higher level co-ops and networks” (p. 3). Networks provide a wide range of economic and political benefits. Economically, networks are vital in helping to reduce the “hiring bias,” because they can facilitate like-minded people with similar ideological and entrepreneurial ideas finding each other and working together. Additional economic benefits of networking include: sharing risk through cross investment, so that workers’ eggs are in many baskets; familiarizing regional workers, managers, bankers, and politicians with co-op practices; developing consortia to establish economies of scale; and providing examples of successful firms for others to emulate. Networking also provides important political benefits: a league provides increased leverage to lobby for political support; it helps to build a strong and vibrant political presence; and it helps maintain a culture of workplace democracy that prevents workers from feeling isolated and thus helps develop a new sense of the normality of workplace democracy. La Lega is a prime example of these benefits. Networking together in a league can provide a self-sustaining burst of energy as positive externalities reinforce each other, knowledge acquired in one place transfers over, an example here is emulated there, and so on. Lastly, networks like this are instrumental in building social movements to encourage broader changes toward economic democracy.

While reforms such as these are all important and eminently practical in the short to medium term, I want to propose two reforms of a more ambitious nature for the long term.

On the legal front, workers need a legal right to buy out their firm from the conventional owners. This is the only thing that can really overcome the hiring bias inherent in present-day corporate market systems. The underlying idea being that employers should only be allowed to rent people’s labor in the manner that one rents machines, if those same hired workers are legally entitled to turn around and buy in to become co-owners.

On the financial front, imagine a simple variant of the Swedish Meidner Plan, which we might call an “Incremental Democratization Plan” (IDP). An IDP would require by law that every company set aside, say, 20% of its profits every year in the form of new shares into an internal fund controlled collectively by the firm’s workers on a one-person one-vote basis. While workers would be able to use these shares to exert influence on the firm’s operations they would not be permitted to sell the shares for personal enrichment. This would have two results. First, since the profits are not taxed, but are issued as new shares which stay in the company, the IDP would not drain corporate cash flow or reduce investment. Second, and more fundamentally, the plan would have a dramatic cumulative effect. Over time workers acquire more and more say over the firm’s operations. They would be majority owners within
from the state in order to expand this form of business. Co-ops are not perfect organizations. Their democratic structures can work poorly and be subverted by informal hierarchies, and they can be stressful and time-consuming even when they work well. Yet for all that, I hope to have demonstrated that their benefits are significant enough to warrant quite substantial public investment. Workplace democracy is worth it.

**Conclusion: Evaluating the Costs and Benefits**

Democratization of workplaces would likely bring a number of costs. For interested individuals, starting a new co-op would require workers investing a sizable chunk of money, thus bringing certain financial risks. Most importantly, fostering workplace democracy (through increased bargaining power via welfare/basic income or through new co-ops via a co-op bank/tax breaks) requires public funds to pay for its expansion—funds that must be raised through additional taxation or diverted from existing social spending. Providing financial help for co-ops also brings with it the administrative costs of allocating money (and monitoring for fraud); so clearly a balance needs to be made between promoting co-ops but not in such a loose or unmonitored way as to open the door for fraud.

On the other hand, when it works well, democratizing work brings with it a number of important benefits: the increased freedoms of protection and self-determination most obviously. We have also seen that co-ops bring clear benefits in terms of job security and wage equality (the latter of which is immensely important given current societal levels of inequality). Co-ops are also likely to provide a number of positive externalities to their community: they provide the regional stability that comes from long-term job security and long-term investment in an area (since they are more geographically rooted than conventional firms); they are also likely to be better for the environment and may well be beneficial for people’s health.

How can we weigh these costs and benefits? Clearly the details of exactly how much money society should spend on fostering workplace democracy (versus other social needs) cannot be answered in the abstract, but depend on the most pressing needs of a particular polity at a particular time. As a left-wing Milton Friedman might say: there are no free freedoms. That said, the overall lesson is that co-ops are sufficiently superior to conventional firms that they deserve our support. They are important enough and successful enough to warrant ideological support from activists and material support...