WORKERS CO-OPERATIVES - THEIR EMPLOYMENT POTENTIAL

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ABSTRACT

The purpose of the paper is to show how workers co-operatives have contributed to employment creation in a number of countries and how local authorities in Ireland might use the movement to alleviate youth unemployment. The paper commences by explaining what workers' co-operatives are, and their advantages and disadvantages as a form of business organisation. It then summarises the situation regarding the WC movement in a number of countries throughout the world. Reasons for the lack of development in some European countries based on an EEC study are outlined. Among these are absence of ideological foundation, lack of legal and financial advice, lack of state and trade union support and disinterest by the lending institutions. The study concludes by showing the type of enterprises which have proved successful in the UK and shows how Irish local authorities might go about organising co-operatives to create employment.
The very high level of unemployment throughout Europe is a matter of serious concern for governments and all responsible citizens. Young people in particular are becoming disillusioned and alienated. They look to the private sector and to governments for work, but despite good qualifications few jobs are forthcoming. In these circumstances people are losing faith in outside agencies and more and more are coming to believe that self-help is the only solution. One kind of self-help is through the formation of workers' co-operatives. There are, of course, other systems but the co-operative idea has many appealing advantages. Let us examine briefly therefore what a workers' co-operative is, and what are its advantages and disadvantages.

A workers' co-operative can be regarded as an advanced form of worker participation (O'Connor and Kelly, 1980). Under the orthodox form of worker participation a few workers are chosen to sit on the Board of Directors. In a workers' co-operative the enterprise is owned and controlled entirely by the workers. These societies are often referred to as closed co-operatives in contrast to agricultural and other societies where membership is open to non-workers and the workers are seldom members.

The workers' co-operative or labour managed firm has four main characteristics, (Vanek, 1971):

1. The first and most important is that the enterprise is controlled and managed by those working in it. Participation should extend (though it does not always do so) to all workers and is on the basis of equality, each member having one vote.
The second characteristic of the labour managed firm is that the workers share in the income of the enterprise on an equitable basis. This does not mean that everyone gets the same wage; but the distribution of shares must be agreed by all, and equal shares go to work of equal intensity and quality.

The third characteristic is that the members of the working community do not own the capital assets used by the firm. Ownership resides in the firm as a legal entity and the members cannot sell or destroy these assets - they use them to the best of their ability.

The fourth characteristic is the principle of freedom. This has two aspects. On the one hand a worker is free to take, not to take or leave a particular job. On the other hand, the firm is free to hire or not to hire a particular individual.

Advantages and Disadvantages of Workers' Co-Operatives

Advantages

(1) According to some writers the labour managed firm is better able than other kinds of business organisations to produce optimal incentives to work, and if everything else remained the same this type of firm would be more productive than any other.

(2) Labour managed firms can be more efficient than capitalistic ones in avoiding market imperfections and lapses from competition. This arises because the co-operative can usually operate just as efficiently on a comparatively small as on a large scale. There is no need therefore why such firms would need to grow since growth would not increase the income of members.
(3) Since members are working for themselves they stand to benefit directly from the firm's success. There should therefore be little labour/management conflict and fewer strikes. This should lead to greater productivity.

(4) In times of recession, workers' co-operatives can help in maintaining existing levels of employment by undergoing short-term sacrifices in order to keep the firm going. Also capitalistic firms which close down in bad times are often taken over by the workers and turned into co-ops. This has happened in the past and is still happening in many countries, particularly in the USA, Italy and France.

(5) Because there are no outsiders creaming off the profits, there is usually strong local community support for workers' co-operatives and indeed in very many cases a high proportion of investment and working capital is subscribed by local non-workers. This is a most important factor in the formation of co-ops, which very often have difficulty in raising capital.

Disadvantages

(1) Many co-ops tend to be small and suffer the disadvantages of all small firms.

(2) Workers co-ops are usually under-capitalised, reflecting the lack of finance which members can contribute and the lack of collateral which they can offer against borrowed funds. Students of co-operatives claim that the "Dilemma of collateral" as this is called, is one of the most serious problems facing co-ops.

(3) In the past many co-ops have failed due to poor management and marketing expertise. This can happen for three reasons:

(a) the workers are usually expert at producing goods but weak on management and marketing, hence those forming workers' co-operatives should see to it that suitably trained managers are included in the teams.

(b) the rules of many co-ops specify that all members receive the same or very nearly the same pay. Such firms cannot therefore pay high incomes for good
management. If they do, it is by giving high wages to all workers - skilled and unskilled alike; this can bankrupt the firm.

(c) If the co-operative is a successful and expanding one, the Committee may be loathe to take on new members as this would reduce the size of the individual shares. Hired workers are therefore employed and eventually the co-operative may change into an ordinary company with the members as shareholders.

Workers' Co-Operatives throughout the World

Though the general co-operative movement is widespread throughout the world (catering for about 326 million members) the numbers employed in workers' co-operatives are relatively small except in a few specific areas. In June 1984 there were almost 1,000 self managed firms in Great Britain compared with a handful 10 years ago. The total number of full-time workers however was only 6,500 with 2,230 part-time workers or an average of 9 workers per firm (Luyster 1984). There are, however, a few very large firms such as the Scott Badar chemicals plant in Northamptonshire employing about 500 workers. About 10 years ago the British Labour Government invested several million pounds in converting three large bankrupt firms into workers' co-operatives, i.e., the Scottish Daily News, the Kirkby Manufacturing and Engineering Co. and the Meridan Motor Bicycle Manufacturing Co. None of these is now in existence. The Daily News lasted only a few months, Kirkby kept going for about 4 years, while Meridan lasted about 7 years. (O'Connor and Kelly, 1980 op cit pp. 49-53).

A big drive was made a few years ago by the Welsh trade union movement to establish workers' co-operatives, but the effort has not been as successful as hoped from the employment creation point of view. Though 57 co-ops have been established in the last few years, total employment in June 1984 was only 245 whole time and 143 part-time workers. (Rigge and Young 1981).
In Scotland there are now 68 workers' co-operatives employing 381 full-time and 127 part-time workers, while in Northern Ireland there are 18 co-ops employing 337 full-time and 46 part-time workers. Of the full-time workers 250 are employed in the Newry and Larnie Co-Op Society in the industrial estate Newry.

In the Republic of Ireland there are at present about 20 workers' co-ops employing about 200 workers (Linehan and Tucker 1983). There are, however, several training programmes going on in different locations around the country and it appears likely that several more self managed firms will develop out of these courses over the next 12 months. Also there are further groups of unemployed people in both urban and rural areas who have started small co-ops which are at different stages of development and about which I have little or no information.

Mondragon in the Basque region of Spain where there are over 18,000 people employed in self managed industrial firms is the world's showpiece for workers' co-operatives. It is visited every year by hundreds of people from all over the world. Twenty five years ago Mondragon was a poor under-developed region. Today even in the midst of the depression it is a thriving industrial centre. In addition to the 62 industrial firms there are 6 agricultural co-ops, a chain of co-operative stores, 14 housing co-ops 40 educational institutions organised on co-operative lines and 5 service Co-ops (laundries dry cleaning etc). Most of the industrial firms are small, having less than 150 workers, but there is one large firm with 3,000 workers. The group has at its centre a very successful co-operative bank which mobilises the savings of the Basque province and uses as much of these as it prudently can for the creation and maintenance of employment in the Co-op firms. Most students of co-operatives believe that the bank is responsible for the phenomenal success of the Mondragon venture, but the Basque separatist movement is also an important factor which cannot be discounted, (Campbell 1981(a)).

Another example of widespread co-operative development is the Yugoslavian
After the Second World War the system of central planning was followed in Yugoslavia as in all the East European Communist Countries. In 1948 friction which had been developing for some time with the Soviet Union came to a head. Stalin mounted an economic and political blockade which he expected would break Yugoslavia, but Tito was able to mobilise the people to overcome the difficulties. To this end he revived the free market under a self managed system which came into force in 1950, (Campbell 1981b). Self management was first introduced in the industrial sector but was gradually extended to all sectors and by 1974 it became an integral part of the whole social system.

Because Yugoslavia is a communist state one must be wary of saying that its system of worker management could be adopted in a mixed economy. The Yugoslavian model must, therefore, be taken with a good deal of reserve.

Other countries with strong workers' co-operatives movements are France and Italy. According to a study by the EEC Commission in 1981, (Country Reports, Vols. II, III) the number of workers' co-operatives in France in 1980 was 726 and the numbers employed 32,500.

The most strongly represented sectors are:

(1) Construction and allied industries with 40 per cent of all co-ops.
(2) Professional and cultural services with 17 per cent.
(3) Printing and publishing with 12 per cent and
(4) Engineering metal working and electrical with a further 12 per cent.

About 8 per cent of these co-ops have over 100 people employed while a further 8 per cent have between 50 and 100 workers. The remainder are small businesses.

In Italy on the 31 December 1979 there were 1632 workers' co-operatives with an estimated 70,000-80,000 workers. The four main categories of business are:
Building Co-operatives 752
Industrial Co-operatives 276
Service Co-operatives 488
Craft Co-operatives 116
Total 1632

The total number of co-ops rose from 905 in 1974 to 1632 in 1979, an increase of 80 per cent in four years. On average 145 co-ops were formed and 5,000 new jobs created each year. Some 80 per cent of the new industrial co-ops were formed on the basis of small or medium sized businesses in financial difficulties (with less than 100 employees). The bulk of the building and service co-ops were formed from scratch. A high proportion of the Italian co-ops are strongly communist orientated (Oakeshott, 1978).

In the Scandinavian countries and Israel where the general co-operative movement is very strong, workers' co-operatives have not developed to any great extent even though various attempts have been made to get a workers movement going. The Israeli movement, however, seems to be getting off the ground in recent years. Most of the Kibbutzim now have industrial units attached, though many of the workers in these are ordinary hired hands and not members. However, the whole public transport system in Israel is a workers' co-operative. (O'Connor and Kelly, op. cit. p. 103).

Though the workers' co-operative movement is usually associated with a socialistic ideology some of the most successful workers' co-operatives in the world are to be found in the USA. Figures are not available for the total number of such firms in that country or for the numbers employed, but the movement seems to have gained great impetus in the 1980 to 1982 period in response to the close down of many capitalistic firms. Those organising US co-ops seem to have little interest in ideological matters; they are mainly interested in preserving their jobs in a depression and are prepared to
try any system which can be expected to work. This is not surprising considering the poor unemployment and social welfare benefits available in the States. You either work in that country or go on the breadline.

The pressure for workers co-ops in the USA has come as much from the local communities in which large plants have closed down as from the workers in these plants. When big firms are closed the local community is badly hit, purchasing power in the neighbourhood diminishes and shops and service industries of all kinds are forced out of business. In these circumstances great efforts are made by the whole community to get the ailing firms restarted. (Woodworth 1984).

US firms which are wholly or partially worker owned are several plywood co-ops in the North West which have existed since the 1930s. The giant Sears empire with 400,000 employees is now 20 per cent worker owned; the Chrysler Corporation has $162 million worker ownership while the Milwaukee Journal and the Chicago North Western Railroad are wholly worker owned. Currently 2,000 workers in Philadelphia are in the course of buying out 20 A and P food stores that have closed. The aim is to turn them into a supermarket. Early in 1984, 10,000 workers purchased the Weirton steel mill in Virginia from National Steel while US Sugar, the largest in the industry, has been bought out by its workers.

There are many others recently formed or in the course of formation, while in a great many capitalistic firms workers are now being offered shares at reduced rates. For example, four US airlines have traded 20-30 per cent of their stock in exchange for wage concessions and hundreds of others are doing likewise. The Japanese penetration of the US market is causing a rethink among managers about traditional industrial organisations and new methods of improving competitiveness have to be tried.
So much for the USA. Other countries, and particularly the UK have not been so successful in turning ailing capitalistic firms into co-ops. It seems that unlike the USA it is difficult to get local communities in the UK to take an interest in co-operatives as a means of saving jobs. This is probably due to the fact that social welfare payments are relatively high compared with the USA. In Britain and also in Ireland you do not starve if you lose your job; in the USA you may do so unless the community comes to the rescue. Another thesis often put forward, is that in fairly socialistic economies, such as those in Western Europe, the strong trade unions, though they pay lip service to the idea of self-management, are not very keen on it in practice; it undermines their power, (Plunkett Foundations 1981). In a strongly capitalistic society on the other hand the weak trade unions welcome the idea as a means of keeping their workers employed. Perhaps at the end of the day self management may be regarded as enlightened capitalism. The traditional idea of divorcing labour from capital no longer seems to be working well.

Reasons for Lack of Development of Workers' Co-Operatives in Some Countries

In a study of workers' co-operatives for the EEC in 1981 (Vol. I, Overview) the National Aid Centre in London issued a questionnaire to all member states asking the reasons for lack of development of these organisations in the countries where this applied. The following is a summary of the more intelligible answers received.

**Germany:** The absence of an ideological foundation especially from Trade Unions.
The lack of concern shown by co-operative federations for producer co-operatives; the conflict of interest which results from the role distinction between those who contribute capital and those who contribute labour. The problem of raising capital.

**Ireland:** Industrial co-operatives are an unfamiliar concept in Ireland and there is a lack of legal and financial advice for new societies. Banks are not entirely enthusiastic about lending money.
Italy: Lack of state support; trade unions' attitudes which were generally anti co-operative in the past, inefficiency or incapacity of national co-operative organisations; the attitudes of the working classes who have handed over the practical management of business to others and who do not wish to participate in management themselves.

The Netherlands: The strength of private industry where the concept of industrial democracy is ignored; the lack of interest shown by the trade union movement whose only active encouragement has been to the consumer co-operative movement; the lack of stability of many early co-ops which often folded due to tension among the workers and the lack of interest demonstrated by public authorities, financial institutions and universities towards the co-operative movement.

UK: Capitalistic industrial and financial organisations are so well developed as are the nationalised industries, that people are unlikely to want to risk their savings for the kind of returns allowed by co-ops.

More formal views on lack of development

In a more formal examination of the reasons for the lack of development of worker co-operatives O'Mahony (1979) says that "In spite of the apparent advantage of labour management and in spite of the goodwill of some of the most eminent economists including Mill, Jevons, Walras and Marshall toward worker co-operatives, the self-managed firm does not seem to be capable of emerging as a normal form of business organisation in the market economy. Despite its defects it is the traditional capitalistic firm in its various forms which flourishes while the labour managed firm, though it is certainly the subject of a flourishing literature scarcely exists in practice. The reason for the paradox we suggest is to be found in the terms of entrepreneurship". O'Mahony then goes on to conclude that the establishment of any firm involves the performance of the entrepreneurial functions and the traditional capitalist firm in all its various forms permits them to be performed in an ordinary straightforward way. The labour managed firm on the other hand, is not conducive to the performance of the entrepreneurial
function and is not likely to be regarded as a good proposition by workers, other resource suppliers or by savers. Moreover the concept of labour management itself is based on the erroneous assumption that direction and control in the conventional firm is derived from ownership. Once it is recognised that control under business conditions derives from entrepreneurship (mainly from the ability of one person) the inherently contradictory nature of the labour managed firm and therefore, the impossibility of its emergence, except in special cases, in the market economy becomes obvious.

Replying to this argument, Fanning (1982) says that O'Mahony has proposed a very particular model, the implications of which cannot be assumed to hold directly in the real world. O'Mahony's functional category analysis does not necessarily require that the promoter be a single person. Once this is made explicit then the justification that the entrepreneurial initiative cannot be performed collectively is inadequate. Fanning goes on to say that if entrepreneurship is confined to being undertaken by one person then much of contemporary capitalistic business would be excluded. It is hardly the case in the large corporations that the entrepreneurial function is carried out by one person. In such organisations the entrepreneurial function is broken down and delegated among many departments and possibly subcontracted.

Fanning's reply does not, however, dispose entirely of O'Mahony's arguments. Marshall (1925) said that entrepreneurial qualities are lacking among workers and he ascribed this deficiency to the low level of workers' education which leaves them without the practical and mental training and "habits of mind" necessary to deal with the complex problems of business. Walras (quoted in Fanning and McCarthy, 1983) on the other hand, said that it is entirely logical that the entrepreneurial function be
exercised by the workers. However, he said that co-operative workers were very often unwilling to accept the prices of products and wages determined by market forces.

Numerous other arguments to have been put forward, both for and against the idea of worker co-ops, but the author (O'Connor and Kelly, op. cit. p. 38) has stated that despite the theoretical arguments used against them, worker co-operatives have developed in different countries over the years and they are likely to go on developing, but because of the many difficulties which they face they are never likely to displace, to any great extent, the ordinary capitalistic firms in market economies. However, in times of high unemployment they provide an outlet for young people to become involved in business and for unemployed people to become re-established in the labour force.

Conclusions and Recommendations

From the experience of workers' co-operatives throughout the world it appears that their potential for employment creation in a mixed economy is limited except where special circumstances prevail. Though the situation in Ireland is very poor in this regard it should not be taken that there is no role for workers' co-operatives in this country. In our present depressed state, self managed firms could serve to provide employment for groups that fare badly under the existing economic system, particularly young people. Where such people are motivated to undertake self help schemes the co-operative is an ideal organisation through which work could be provided. Such enterprises, however, are more likely to be successful in the service sector than in manufacturing Industry because capital requirements in the latter are large and there are always difficult marketing problems to be overcome. Indeed, it is impossible for small firms to compete with large ones in the production of mass produced goods. The small groups must therefore concentrate on the manufacture of products which the large firms are not producing.
In the service sector the marketing problem is not so difficult. Here the co-op is selling a skill and the good craftsman has a chance to prove his worth. The package must, of course, be competitive but the competition is with other small groups and not with the giants. A service area where co-ops could operate is in the building industry doing such jobs as block laying, plastering, interior decorating, painting, electricity, joinery etc. Any small group of skilled and unskilled people could set themselves up in one or more of these areas and develop a profitable business. There are many others, such as landscape gardening, clerical services, craft work etc.

The business areas in which co-ops have been established in the UK together with the numbers employed are shown in Table I.

Table I: Total number of workers' co-ops and employment in the UK on 1 June 1984 classified by business area.

<table>
<thead>
<tr>
<th>Business Area</th>
<th>No. of co-ops</th>
<th>Nos. employed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>F.T.</td>
</tr>
<tr>
<td>Building and Construction</td>
<td>67</td>
<td>353</td>
</tr>
<tr>
<td>Fishing and Agriculture</td>
<td>7</td>
<td>41</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>133</td>
<td>2610</td>
</tr>
<tr>
<td>Community Services</td>
<td>45</td>
<td>213</td>
</tr>
<tr>
<td><strong>Other Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Printing and Publishing</td>
<td>89</td>
<td>517</td>
</tr>
<tr>
<td>Performing Arts and Media</td>
<td>111</td>
<td>375</td>
</tr>
<tr>
<td>Business and Professional</td>
<td>62</td>
<td>246</td>
</tr>
<tr>
<td>Education and Training</td>
<td>16</td>
<td>90</td>
</tr>
<tr>
<td>Repairs and Restoration</td>
<td>20</td>
<td>74</td>
</tr>
<tr>
<td>Vehicle Repairs</td>
<td>27</td>
<td>63</td>
</tr>
<tr>
<td>Cleaning Landscape Gardening</td>
<td>22</td>
<td>54</td>
</tr>
<tr>
<td>Retail (Books Catering Crafts)</td>
<td>190</td>
<td>989</td>
</tr>
<tr>
<td>Wholesale (Books food other)</td>
<td>19</td>
<td>154</td>
</tr>
<tr>
<td>Transport</td>
<td>5</td>
<td>33</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>98</td>
<td>732</td>
</tr>
<tr>
<td>Total</td>
<td>911</td>
<td>6544</td>
</tr>
</tbody>
</table>

FT = Full-time,  PT = Part-time.

Numerous methods have been suggested for setting up self managed firms (Paton 1978, Linehan et al 1981, Taylor 1983) but for the purpose of this discussion I concentrate on what the local authorities (LAs) can do in this regard. My first suggestion is to have it made known widely that LAs are interested in promoting this kind of development. The next step is to have County Development Officers identify groups in their areas who are looking for work and who may be interested in forming co-ops. These groups should then be brought together and asked to suggest the type of enterprise or enterprise they would be interested in establishing. The Development Officer should have these ideas examined by the Industrial Development Authority (IDA) or some other experts in order to see if they are likely to be successful and if there is a market for the product. When a feasible project is identified the group should be asked to prepare a feasibility study stating the equipment, factory space or other accommodation required, the source of raw materials if any, the markets to be tapped and the training, if any, needed. Costs should be worked out for all purchases and for working capital, and set against grants and other sources of funds. Help and advice from various sources will be required in making out this scheme and, here again, the County Development Officers and the IDA can give valuable advice. AnCO (the National Training Authority) can also help with any training required, and indeed, I have suggested elsewhere that AnCO should device a scheme for training groups who wish to set up in business (O'Connor and Kelly 1980, Op Cit, p. 203). This training should include book-keeping, commercial methods, marketing etc. in addition to manual skills. Post primary schools should also consider offering such

* In Ireland County Development Officers are employed in a number of counties for the purpose of establishing industries in their areas.
specialised training courses under the new Vocational Preparation and Training Programme. Information on Co-ops and how to set them up should also be given at such courses. Such information can be obtained from the Bank of Ireland Centre for Co-operative Studies, University College Cork (see list of references).

Groups setting up Co-ops will usually be short on capital and banks may be reluctant to put up the excess funds required. In these circumstances appeals may have to be made to local residents and to credit unions. Organisers of Co-ops must therefore seek the involvement of local leaders, such as clergymen, teachers, public representatives etc. if they are to be successful in this regard.

One further link in the chain must be mentioned. When a group is formed a manager will have to be obtained to direct it. Ideally the manager should come from among the group but it is unlikely that such a person will be found there at least for a start. The manager, therefore, is likely to be an experienced person from outside the group. The type of person required, who should be identified by the County Development Officer, might be a retired or unemployed person with management experience, but if such a person cannot be obtained, attempts should be made to have somebody with the required skills seconded for a year or so from a large organisation such as Guinness, P. J. Carroll and Co. or some other such firm. Local Authorities which decide to foster co-operative developments should set about identifying a pool of such managers who could be called on when needed. This, together with some encouragement and advice, is what groups need.

The lack of a well funded national organisation to promote workers' co-ops is a serious drawback in Ireland and is one which must ultimately be overcome if any real progress is to be made. In the meantime however, Local Authorities can help greatly by showing interest, giving encouragement and probably supplying advance buildings and other accommodation.
Selected References


