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Promotion of Cooperative Enterprises in Distressed Urban and Rural Communities

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Promotion of Cooperative Enterprises in Distressed Urban and Rural Communities

Michigan State University

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EDA University Center for Regional Economic Innovation

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Contents

ABSTRACT.....	4
INTRODUCTION	5
THE MONDRAGON MODEL HISTORY	7
MONDRAGON AND CHANGING CULTURE.....	9
MONDRAGON’S OPERATING SYSTEM	10
.....	12
.....	13
.....	14
.....	15
WORKER-OWNER COOPERATIVES IN THE U.S.	19
EMPLOYEE STOCK OWNERSHIP AND COOPERATIVES IN THE U.S.	20
COMMUNITY-BENEFIT CORPORATIONS	21
INTERNATIONAL COOPERATIVE INITIATIVES	21
CURRICULUM MODULES.....	22
CONCLUSION.....	25
APPENDIX.....	27
.....	29

ABSTRACT

As defined by the U.S. Federation of Worker Cooperatives (USFWC), "worker cooperatives are

INTRODUCTION

Many rural and urban communities across Michigan share common economic problems that call for major policy change. For many years, Michigan has sustained high rates of unemployment and underemployment, with large numbers of discouraged workers. As illustrated in United States Department of Labor data for March 2014 (Bureau of Labor Statistics), Michigan continues to remain in the top tenth percentile for unemployment rates. Worse, the state's high rates increase greatly if we include the gap between those with part-time employment who want full-time jobs. Probing beyond the statewide average, distressed cities and rural communities often have rates of unemployment far higher than the state mean. As argued by Michael Marmot, socio-economic problems such as high unemployment have tragic health consequences (Marmot, 2004). The county health rankings for 2014 reflect this, with Wayne County and poor rural counties such as Arenac having far worse health outcomes than more affluent counties, such as Ottawa (Population Health Institute).

With grossly underfunded schools that are segregated by social class, youth have little expectation of success. According to the Detroit Public Schools emergency manager Jack Martin in 2014, Detroit Public Schools are attempting to balance a deficit of \$39 million, which is projected to jump to \$120 million. In addition to budget problems, "less than half of its students" are proficient in core subjects, enrollments are declining, and drop-out rates remain high despite the absence of job opportunities for people without a high school diploma. Many rural school districts have similar problems. Not surprisingly, statewide data from the Office of National Drug Control Policy show that the state has soaring rates of drug abuse, especially methamphetamine use. Michigan has recently become one of the several states concentrated in the rust belt where drug deaths exceed auto deaths.

There does not seem to be an end to this vicious cycle, especially if what we will call conventional economic development strategy remains unchanged. Its core approach of cutting taxes threatens to further impoverish already struggling schools. Failure to attract good work will both further demoralize youth and likely increase the prevalence of anti-social behaviors. Even casual drives through either the old residential areas of Detroit, Flint, or Benton Harbor or towns in poor counties such as North Star or Riverdale in Gratiot and other poor rural counties, reveal rows of decaying or vacant houses, abandoned schools, and poorly maintained public facilities. In 2014, Detroit's emergency manager estimated that there are roughly 85,000 abandoned buildings in Detroit alone (Davey). The cities Blight Removal Task Force, euphemistically called these "troubled properties."

With the desire to introduce alternatives to the current economic development approaches in Michigan, and noting the success of the worker cooperative models in Europe, a group of faculty and students from Alma College began an investigation on the feasibility of a cooperative approach to general political-economic organization. In 2013, the group travelled to Mondragon, Spain to meet with leaders of the large and struggling Mondragon system. Despite the challenges currently faced by Mondragon, arising from the five-year recession in Spain and neighboring areas in the EU, the cooperative system has survived and largely preserved opportunities for worker-owners. Worker cooperatives in Mondragon are guided by core principles focused on the betterment of the workers and their communities. While profit is essential to survival, the focus of entrepreneurship is balanced by equal concern with employment growth and community solidarity.

While few Michigan communities have a history comparable to the experiences of the people in the Basque country of Spain, a myriad of cities and rural communities in Michigan currently face economic and cultural challenges similar to the Basque region a half century ago, when Mondragon worker's cooperatives were established. In that era, the region around Mondragon had exceptionally high unemployment, unskilled youth, food shortages, ruined housing, and sharp social divisions from the Spanish Civil War. No Michigan community in 2014 has social and economic problems worse than what the Basques faced in the 1940s and early 1950s. The team developing this co-learning plan also has visited regions in northern Italy with both similar mid-twentieth century social problems and subsequent cooperative success.

This co-learning plan seeks to initiate a conversation among Michigan economic development professionals, residents, and, especially, young adults concerning innovative alternatives to the current approaches being used in economic development work. The goal is to identify and teach methods that empower youth to create enterprises aimed at restoring prosperity and addressing the social problems evident in many Michigan communities. The goal is to reverse the trajectory of downward income for workers, educational failure, and related social problems. Michigan's dominant economic development tools require enterprise to be subsidized either by direct government payments or efforts to keep wages low. For example, the Michigan Chamber of Commerce argued against a proposed minimum wage increase in early 2014 saying, “[I]t would result in Michigan having one of the highest minimum wage rates in the country, thereby making Michigan uncompetitive in the race for jobs” (Michigan Chamber of Commerce, 2014).

When discussing economic restoration in cities or one of the many low-income rural communities with high rates of social problems, the traditional approach to economic development envisions using tax breaks and subsidies to lure national or global firms that are presumed to want to hire at the lowest possible global wage. This approach has offered the chronically underemployed of the state's poor regions and cities little hope of meaningful net job growth that would in turn reverse the economic decline. Michigan workers are expected to diminish expectations of ever returning to the good economic times before the 1980s (Sugrue, 1996; Dandaneau, 1996; Edsforth, 1987; Kotlowitz, 1998).

Furthermore, the subsidy-low wage model is also linked to an environmental exploitation policy model that presumes we must weaken environmental regulations to attract industry. We must welcome firms doing egregious environmental damage grounded in the rationale that ‘we have no choice.’ Gus Speth has labeled this as political failure magnifying market failure (Speth, 2005). For example, in Michigan Russ Harding, the former head of the state environmental department and an environmental policy blogger for the Mackinac Center for Public Policy has written about environmental protection policies as “job-killing” (Harding, 2011). By contrast, Speth has become a leading advocate of place-based new economy solutions to development because they both offer jobs and address the environmental threats inherent in traditional growth initiatives.

This co-learning plan, produced in a community with not only high levels of rural poverty, but also egregious environmental problems (see appendix), accepts Speth's critique of our failed economic development model. A goal of this co-learning plan is to demonstrate that there is a workable alternative to the failed model. To prove this, we will begin with a focus on one set of successful worker cooperatives, in Mondragon, Spain. Then we examine the history and nature of worker cooperatives elsewhere, including in the United States. The Mondragon Model is subsequently linked to more general efforts to develop a “new economy.” The conclusion

describes planned course modules to help people—especially students—understand the rationale and process for developing place-based cooperative enterprises.

THE MONDRAGON MODEL HISTORY

Throughout the first third of the 20th century, Mondragon was a poor town in the Basque country of northern Spain, with acute social and economic problems. It had a history of having an impoverished working class and sharp social divisions. Most youth had little formal schooling and no tradition of education past primary school. It was inconceivable for most children in Mondragon to think of attending a university or ending their lives in a better condition than their parents. Workers stayed poor and the very small elite stayed on top and ran the handful of factories (Whyte). Could not much of this paragraph become the text for a description of poor Michigan communities?

All of the long-term problems in Mondragon were made worse by the Spanish Civil War (1936-1939). In the Basque country, those who supported democracy, called Republicans during the war, also supported local autonomy, permanent removal of the monarchy (the king had been forced to abdicate in 1930), labor rights, and the Basque language. A collection of right wing groups linked to Fascism, called the Nationalists, led by Francisco Franco, favored a strong central government, restoration of the monarchy, a traditional hierarchical society and use of Castilian Spanish. In many parts of Spain, the Nationalists were closely allied with the Church, but in the Basque country, the Republicans were strongly Catholic.

After the victory of Franco's Nationalists in 1939, many Republicans were imprisoned and otherwise ostracized and the Basque region's economy stagnated further. Into this dismal environment came Father Jose Maria Arizmendiarieta [often called simply Father Arizmendi]. He is a central character in understanding the history of place-based enterprises in Spain and needs to be a subject of detailed study, including as part of the course modules included in this co-learning plan. While largely unknown, he is widely admired by many in the cooperative movement, as demonstrated by a chain of cooperative bakeries in the San Francisco Bay area having been named after him.

Father Arizmendi was one of those rare people who applied complex theories to an impossible situation and provided real benefits to thousands. A fervent Republican, as well as a priest, he applied and personified a concept of the "social priesthood" that he had studied at the seminary in Victoria, Spain (Bakaikoa 16). Arizmendi's understanding of these ideas was filtered through the writings of José Joaquín Azpiazu Zulaica, S.J. developed in the crucible of the arguments between extreme advocates of laissez faire capitalism and communism. Azpiazu called for building a society that respected individuals, but was grounded in social justice and the pursuit of the common good (Azpiazu, 1951).

When Arizmendi became pastor to the parish in Mondragon, Spain shortly after the end of the Civil War, he began creating the cultural preconditions for worker cooperatives.

The Arizmendi approach is vital to understand if this co-learning plan is to be implemented successfully. He did not start by forming worker cooperatives, but by trying to form and learn from discussion groups made up of the community's impoverished workers. Later descriptions of his work said he was considered "a half spiritual and half organizational leader, who was qualified to try to reestablish social justice and fairness among men." His leadership role in tackling the economic crisis in the Basque region was described as "a process of mobilization, of

consciousness-raising and training, of theory and practice, of self-government and self-management [focused on] the young people who would later on be the protagonist of cooperative experiment" (Bakaikoa 19).

Despite being a wanted man, as a former Republican operative, Arizmendi brilliantly used both the cultural authority given him as a priest and protection afforded by his church role to maintain freedom to organize his followers. He worked with any parishioner who would listen to address the egregious social problems apparent after the Civil War—poverty, food shortages, housing without heat, and more amorphous social divisions. While he would work with anyone, he focused on changing the perspectives, hopes, and behaviors of the youth of Mondragon. He both used and hid behind a church movement called Catholic Action, which provided support for youth activities. This supposedly apolitical church social reform program had become linked to the Fascists in much of Spain. In the Basque country around Mondragon, Catholic Action had maintained its non-partisanship, but its national reputation gave Arizmendi cover. Using this cover, he was able to form groups that Franco's authorities normally would have seen as subversive.

His groups initially aimed to start community activities to make the ever present poverty of the region bearable. They formed associations to sponsor activities such as a soccer club, theater, and mountain climbing activities. Father Arizmendi wanted to change the culture as the first step in making Mondragon a good place to live, something that could be applicable to modern Michigan, even with its different religious and cultural history.

In addition to organizing events and groups for young adults in Mondragon, Arizmendi understood that he had to share knowledge of his social work with Mondragon's residents. He did this through distributing printed material, pamphlets, magazines, and posters, along with—his most effective method—sermons from the pulpit. The plan was to bring not only some programs to make life a little more enjoyable, but to change public opinion. There are churches in Detroit and many other distressed communities in Michigan that could provide a similar forum.

Among adults, one of Arizmendi's prime targets was business leadership. He not only had to change the thinking of the general population and the children of the next generation, he also had to reform the ideas of traditional business leaders toward competition and cooperation, reforms that required fundamental modifications in the very structure and objectives of many businesses.

In August 1943, Arizmendi, with the help of business owners and parishioners, launched the Arrasate-Mondragon Professional School to change the sense of opportunity in the community. The school was for people from humble backgrounds. This was not merely a trade school, but rather a school that educated people in the social ideals the community needed if the cooperative movement were to succeed. This cooperative training came before skill training.

When a core firm in the community rejected the efforts by two of his workers to fully reform the structure of their plant, he realized the community needed more fundamental institutional change. He and his followers decided to move away from reform of existing businesses and move towards founding new businesses that were based on worker ownership open to all men and women, democratically organized, and distributed wealth based on the labor provided. Basically, workers invested their labor and rented the capital of the firm. By 1959, they founded a cooperative bank to provide capital and managerial backing for new enterprises.

By the 1960s, Mondragon fully integrated the idea of common good into their culture and traditions. Mondragon became a town of four principles: equality, solidarity, responsibility, and democracy. Each firm was intended to "foster equality of opportunity at work and the distribution of profits" (Bakaikoa 29). Arizmendi involved all areas of the community in the cooperatives, and intertwined the cooperative's success with the town by creating three institutional pillars of Mondragon: labor, financial capital, and educational or human capital.

MONDRAGON AND CHANGING CULTURE

Sociologists William and Kathleen Whyte, two of the pioneering U.S. students of Mondragon, believed the cooperative's remarkable success depended on "two conditions: the unique nature of the Basque culture and the genius of the founder" (Whyte 4). If correct, the application of Mondragon to Michigan might be difficult. Following the visit to Mondragon in 2013, the team producing this plan reviewed information from the cooperative center at the University of Valencia in Spain. At the University of Valencia, Joan Sanchis and others have focused on the development of Mondragon style cooperatives in a culture very different from that of the Basques. They have tried to answer the question of whether or not Mondragon could be reproduced outside the Basque country. Around the province of Valencia, there are a number of thriving worker cooperatives formed after conscious training in 'the social economy.'

The research in Valencia and other non-Basque regions in Europe make clear that the conditions that contributed to Mondragon's success are possible to duplicate. While Arizmendi brilliantly worked with the historic values of his Church and its social teachings, as well as the community's traditions, the conditions in 1941 were far worse in Mondragon than in modern Michigan. Specific writings and organizational traditions from Spanish Catholic Action might seem foreign in the U.S. Midwest, but in reality all Arizmendi did was use ethical traditions within his community's experience to teach community collaboration and provide the inspiration—especially among the youth—that a cooperative work ethic could allow them to rise from an impoverished, war devastated society into a better life. In his community's historic memory, Arizmendi founded a 'Catholic commitment to work' to speak to the needs of his youth. But those ideas about work and traditions of shared governance are not radically different from those in the background of many people in Michigan, especially those with a family tradition originating in any of the Abrahamic faiths.

However, Arizmendi's initial religiously grounded efforts to liberate "workers from their condition as an exploited class" faced a major challenge with the end of the Franco dictatorship and Arizmendi's own death in 1976. While much of the religious influence is still seen in Mondragon, the worker cooperatives filled the religious gap after Arizmendi's death by "new Basque nationalism that would convert this business phenomenon into a symbol of Basque identity" (Bakaikoa 15). This new sense of nationalism has connected a wide-range of community members. Regardless of the loss of a religious foundation, Mondragon cooperatives continue to seek the benefit the local community and to elevate human values over individual monetary gain. The cooperative motto remains "to act and not to win, to create and not to possess, to progress and not dominate" (Bakaikoa 38). Throughout the region the ubiquitous Mondragon logo proclaims "Humanity at Work." Recalling the history and long educational work of Arizmendi, the answer to questions about the adaptability of the Mondragon model to other cultures appear to be generally affirmative.

The Whytes may have been right to conclude Mondragon has thrived because the Basque people share the same “beliefs and values and a set of characteristic behaviors used in organization social processes” (Whyte 270). Yet it should be noted that in 1941 it was not assured that Arizmendi could launch a cooperative that would have 80,000 worker members. He and his collaborators strengthened and perhaps created a vision of “Basque beliefs” far more than they benefitted from some unique group of basic values. At a minimum, Arizmendi achieved a monumental transformation from dream to reality of the region’s commitments to equality, solidarity, dignity of labor and participatory governance. He used these values to further the task of job creation, employment security, human and social development, self-governance, economic progress, and openness.

Proof that Mondragon has been shaped, more than been shaped by, Basque values can be seen in the cooperative’s role in the recent shift from an industrial to a postindustrial society. With globalization and the technological advancements of the 1990s, the community of Mondragon has incorporated modern theories of management and use of technology into its older ethical values and commitments to self-help and corporate social responsibility. As illustrated in the World Values Survey (Elzo 2002), where social representatives were asked "questions addressing work-related values and the understandings of work," workers of The Mondragon Cooperative Corporation (MCC) highly value the success of the community (Bakaikoa 41).

While not every Basque citizen shares these values, most worker owners in Mondragon perceived work is equally as important as other dimensions of life, including family and friends. There was an increase in workers’ organizational commitment, particularly in taking "initiative" and "responsibility." While the World Values Survey found Basques generally had the "highest percentage of individuals surveyed who prefer to collaborate with their supervisors rather than to obey them without question," the study concluded that Mondragon's worker cooperatives best fostered workers’ ability to identify with the firm's objectives and success (Bakaikoa 44).

As discussed earlier, due to the economic and financial similarities between Mondragon in the 1940s and various communities in Michigan, this may be an ideal time to ask people in Michigan to learn to cooperate in building place-based enterprises. The worker cooperative model utilized in Mondragon has been adapted successfully at places like the Arizmendi Bakeries in California. Not only is the Arizmendi Bakery known as San Francisco's best bakery, according to *The San Francisco Bay Guardian*, but the employees also make more than double the national median wage with health insurance, a share of the profits, and paid vacation (Dewan).

MONDRAGON’S OPERATING SYSTEM

In addition to promoting the cultural change that is a precondition of copying Mondragon, it is

roughly 40 percent work in the Basque Country, 44 percent elsewhere in Spain, and 16 percent abroad in 41 countries.

organization, employee development initiatives, and technical, environmental, and economic

The Mondragon Cooperative Corporation is governed by a set of basic principles, which align with Mondragon's humane and participatory approach to business. Included in the principles are:

1. Open admission to potential cooperative members
2. Democratic organization as a means to grant worker-members rights and power of choice regarding company operations
3. Sovereignty of labor, which enables a distribution of wealth congruent with the labor provided
4. The instrumental and key use of capital as a tool to enable the continuity and development of the cooperative business
5. Participatory management and transparency
6. Inter-cooperation between cooperatives as a means for all individual cooperatives to benefit from the success of other co-ops and to promote increased solidarity between co-ops
7. A focus on social transformation, including universality and an educational emphasis on social responsibility

e have a commitment towards social transformation, which is specified in our participatory model. We are a cooperative university, which belongs to the Mondragon Corporation, with a clear human vocation and a commitment to our environment, our society and our time" (Mondragon University 2014). The modules being developed within this co-learning plan attempt to specifically incorporate teaching related to the Mondragon principles outlined herein.

indivisible reserve fund, while 10 percent are donated to the community—specifically in the

ORGANIZING BODIES

Mondragon's cooperative policies are enforced by its efficient and capable system of organizing

MONDRAGON AND ECONOMIC CRISIS

The last five years have provided a special challenge to Mondragon. Spain has suffered through

The laws also regulate cooperative assets to increase the likelihood of survival. The laws both

COOPERATIVES OUTSIDE OF SPAIN

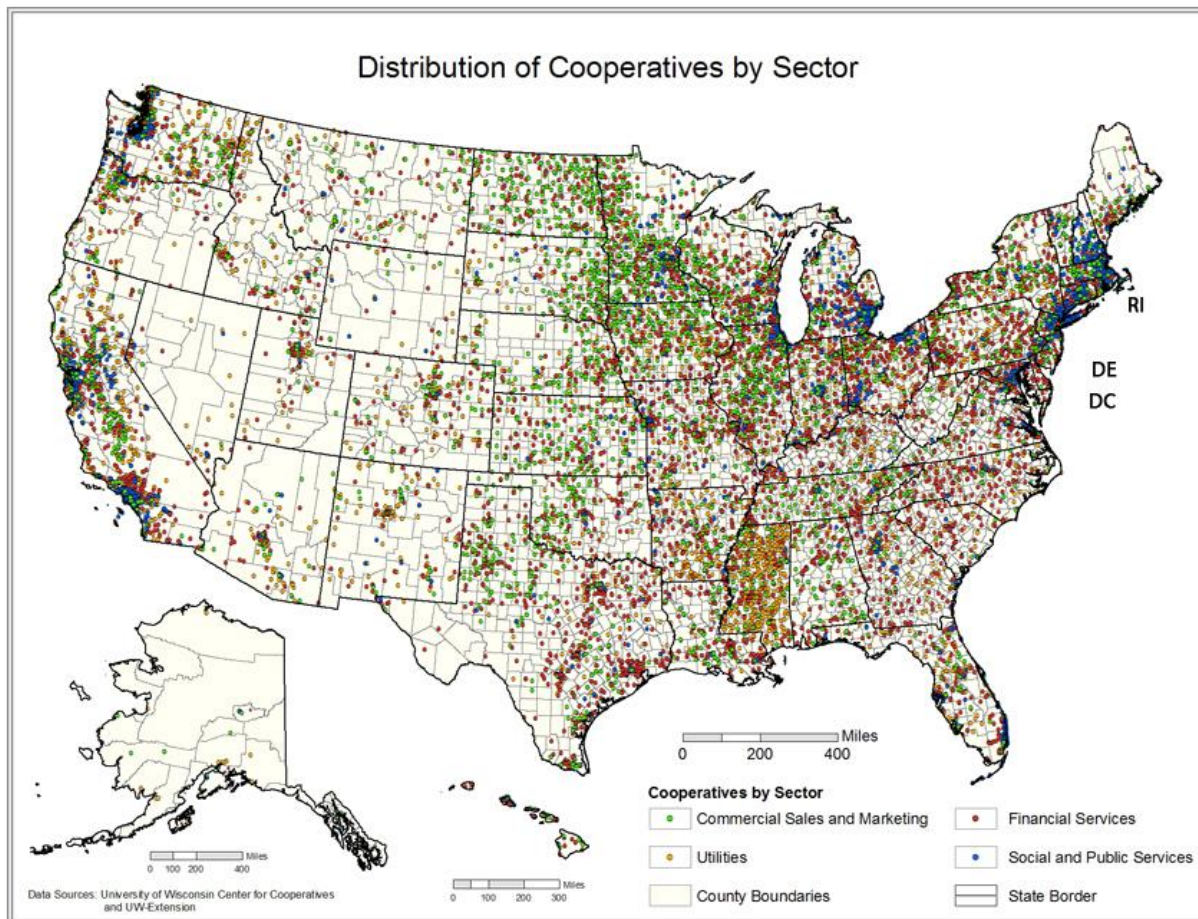
While most of the attention in developing this co-learning plan has focused on Mondragon as a

Italy first gave legal recognition to cooperatives in 1882, but originally considered them an

1.

UNITED STATES COOPERATIVES

Of course, cooperative enterprises are not only limited to Europe. According to the National Cooperative Business Association, 47,000 working cooperatives exist today in the United States. By a classification used by the Center for Cooperatives at the University of Wisconsin, they operate in fields such as agriculture, finance, and social services. There are retail cooperatives and more than 4,500 utilities providing power, water, and communication services. Their distribution is widespread across the U.S., although the types of cooperatives are concentrated in certain regions. The upper Midwest has many co-ops attributed to a variety of sources, from cooperative traditions brought from the nations that supplied many of the region's immigrants to the progressive political tradition that flowered in the region around the turn of the twentieth century (Chambers, C., 1962). Accordingly, the first laws recognizing and regulating cooperatives were in the Midwest.



Source: University of Wisconsin Center for Cooperatives (<http://www.uwcc.wisc.edu/>)

Cooperatives are so widespread in the United States that one study found 40 percent of the population regularly buys from, or participates in, a cooperative. More than 100 million Americans are members of at least one cooperative, such as a mutual insurance company or a credit union (Scarinci 13).

A legal challenge in understanding U.S. cooperatives is that the primary role in defining and regulating cooperatives rests with the states. Consequently, there is little universal national policy, except for some tax rules, anti-trust exemptions, and securities laws. The U.S. Department of Agriculture regulates some rural co-ops and exempts certain farm co-ops from the anti-trust restrictions. Among the states, Michigan passed the first state law regulating cooperatives at the end of the Civil War. At the turn of the 20th century, Wisconsin implemented a more thorough law, and the remaining states followed soon after. At a minimum, these laws recognize the following principles, copied from Rockdale in England: openness to all who wish to join, charging market prices for all co-op products, all members have shares and receive interest based on the proportion owned, and all have equal voting power in co-op governance, regardless of the number of shares an individual owns (Czachorska-Jones 2013).

The United States has primarily had experience with either producer or consumer cooperatives. There have been relatively few worker-cooperatives like Mondragon, due to the higher rate of failure than firms of other types and various barriers—lack of institutional support, lack of external and internal funding—to establishing a worker-cooperative. Nevertheless, as knowledge

of Mondragon has grown, there have been a number of recent efforts to copy it. Since a Mondragon style cooperative would have many of the features of other cooperative enterprises, it is important to first consider the structures of cooperatives under U.S. law and regulations.

A core problem, especially with large, successful cooperatives has been their status under anti-trust laws. A core goal of producer cooperatives is the control of market prices, which benefits their members, but not necessarily the wider public. For example, if sugar beet growers succeed in gaining control over the marketing of their sugar, they could mark up the price, hurting the general consumers of sugar. Because of this concern, agricultural cooperatives were given certain exemptions from anti-trust regulation under the Capper Volstead Act of 1922. However, the law carefully required that beneficiaries of this exemption had to be real producers of agricultural products—farmers—and not those engaged in some processing or other post-farm activity. A number of agricultural cooperatives have been some of the most successful of all cooperatives in the United States, often bringing important financial stability to the lives of their members, such as Ocean Spray and Land O'Lakes. However, some lack an equally good record of environmental-health concern, as when Ocean Spray launched a major pro-pesticide campaign in the 1950s (Lorenz, 2012).

The early twentieth century growth in cooperatives also spawned the formation of cooperative advocacy organizations. In 1916, the Cooperative League of the United States of America was founded. Today it is known as the National Cooperative Business Association (NCBA), which claims its purpose is to be an organization for cooperatives to share best practices and promote cooperative interests within the United States through collective lobbying efforts. During NCBA's first few decades, it focused on consumer cooperation, that is enterprises owned by consumers and managed democratically. Among the recent concerns of the NCBA has been digital protection for cooperatives. In 2000, NCBA successfully lobbied the Internet Corporation for Assigned Names and Numbers to have a domain exclusively for business cooperatives. The domain ".coop" became active in 2002 and is still widely used in the cooperative business community. Current members of the NCBA include such well known firms as Ace Hardware and Florida's Natural. Members of the NCBA come in varying cooperative models but with similar values and principles. For instance, Ace Hardware is a purchasing cooperative — a cooperative "made up of groups of business that wish to jointly purchase services or supplies," and helps its members lower operative costs — that pools its resources to purchase inventory. Many agricultural cooperatives, including Sunkist and Welch's are examples of producer cooperatives.

The basic procedures for organization and functioning of cooperatives under U.S. law are the same for all types of cooperatives; producer, consumer, or worker cooperatives. A group of member-owners will incorporate the cooperative. A producer cooperative is owned by the producers of crafts or farm commodities that band together to process their products and sell them in bulk. Consumer cooperatives are owned by the people who use the services or buy the goods of the cooperative. Worker cooperatives are democratically owned and governed by their employees. Regardless of the type, the U.S. Small Business Administration lists the steps in the process of forming a cooperative as similar to those followed by any new business:

1. **File Articles of Incorporation:** the articles of incorporation legitimize a cooperative and include information like the name, business location and purpose, duration of existence, and names of the incorporators (the charter members) and capital structure

2. Create Bylaws: bylaws list membership requirements, duties, responsibilities, and other operational procedures that allow a cooperative to run smoothly
3. Create a Membership Application: to recruit members and legally verify that they are part of the cooperative
4. Conduct a Charter Member Meeting and Elect Directors: during this meeting, charter members discuss, amend, or approve the proposed bylaws
5. Obtain Licenses and Permits
6. Hire Employees: even worker cooperatives may hire employees who do not seek or otherwise qualify for membership and therefore are treated as would be an employee of any other business.

One of the major benefits of a cooperative in the U.S. is that cooperative income is treated as “pass-through” income for tax purposes. That is, the cooperative as an institution does not have to file income taxes. Instead any tax liability is passed through to the members and is reported only on their individual income tax returns. Some cooperatives – specifically credit unions and rural utility cooperatives are exempt from federal and state taxes.

To summarize a complex issue is difficult. However, the cooperative structure offers a number of major benefits that could support more cooperatives in distressed communities. Among these are:

1. Taxation only of income that is passed through to owner members
2. Grants available under the U.S. Department of Agriculture’s rural development programs for cooperatives in rural areas. Urban based cooperatives with a food related purpose may also be able to use these grant supports
3. The mass purchasing benefits of cooperatives. Suppliers may not only sell to a cooperative at some mass discount rate, but may also want to provide better quality products and support to an operation larger than the individual owner-operator
4. The democratic organization of cooperatives. Unlike a for-profit incorporated business, where more power goes to those with more shares, the cooperative gives every member the same vote

Of course this last point can present difficulties for raising funds. Large investors generally will not support cooperatives, since each member gets only one vote and not the large, even controlling interest in a for-profit business as a result of providing large amounts of capital.

Cooperatives also face the challenge of maintaining membership engagement. Mondragon requires all worker owners to participate in the General Assembly. If attendance cannot be required, there is a clear danger of both important decisions being made by a few and lack of engagement by those not participating in their governance responsibilities, leading to declines in organizational strength, innovation, and commitment to quality.

WORKER-OWNER COOPERATIVES IN THE U.S.

Worker-owned cooperatives have existed since the early 19th century in the U.S, but they have been much more rare than either producer or consumer cooperatives. The United States Conference of Democratic Workplaces only founded an association of worker owned cooperatives in 2004. The United States Federation of Worker Cooperatives (USFWC) was created that year in response to growing regional organizing among U.S. worker cooperatives to share best practices and resources between the dates of national gatherings. The membership meets annually and holds bi-annual conferences called The Democracy at Work Conference to make sure members are involved and their voices are always heard. One of the USFWC's many members is the Arizmendi Association of Cooperatives, founded in the 1990s. This particular association of cooperatives explicitly celebrates its symbolic connection to Mondragon and reminds the USFWC of the Spanish model:

Arizmendi is the shortened name of José Maria Arizmendiarrieta, a young priest who inspired and helped found the Mondragon Cooperatives in the Basque Country of Spain. Although worker cooperatives have functioned in most parts of the world since the 19th century, the success of the Mondragon Cooperatives has attracted worldwide attention. What started as one firm and roughly 25 people in 1956 is now a major international business These cooperatives continue to be inspired by Arizmendi's belief that worker ownership and participation in the workplace should be an integral part of a just and democratic society. . . . The name Arizmendi acknowledges his inspiration in our effort to expand democratically owned and operated workplaces. (<http://arizmendibakery.com/faq>)

This explicit effort to copy Mondragon in the U.S. is exceptional, but there are many other U.S. worker cooperative structures less consciously copying the work of Arizmendi. The United States Federation of Worker Cooperatives classifies worker-cooperatives in the following categories, listed in what is seen as descending order of full worker ownership:

1. Worker cooperatives are organizations that meet the standard of a democratic workplace as defined by the International Organization of Industrial, Artisanal and Service Producers' Cooperatives (CICOPA) World Declaration on Worker Cooperatives
2. Democratic workplaces are defined as organizations that may fall short of the World Declaration but still exist as a democratic workplace. An example of that is democratic employee stock ownership plan (ESOP) owned by 100% of its workers
3. Federation partners include local and regional association of three or more workplaces
4. Cooperative developers receive one vote per developer
5. Start-up worker cooperatives that are either new enterprises or transitioning to a worker cooperative from another business structure
6. Associates are organizations that support worker cooperatives and worker rights but are not a worker cooperative or democratic workplace by definition. Examples include consumer cooperatives, labor unions, and Employee Stock Ownership firms (ESOPs) with less than 100% worker control

7. Lastly, individual allies may join the organization but do not have any voting rights (<http://www.usworker.coop/membership>)

These definitions are important to keep in mind while learning about cooperatives and how these definitions function within the United States.

EMPLOYEE STOCK OWNERSHIP AND COOPERATIVES IN THE U.S.

Employee Stock Ownership Plans (ESOPs) developed under U.S. pension laws, originating with the Employee Retirement Income Security Act (ERISA) of 1974. While some of these ESOPs seem to approach the Mondragon model of worker ownership others are simply mechanisms to run pension plans. Out of the legislative battle for ERISA an association of ESOPs called the National Center for Employee Ownership (NCEO) developed in 1981 and claims more than 11,000 member firms with over 13 million employees. Founded by Corey Rosen, who served on the Senate staff that developed ERISA, NCEO's annual conference brings together financial experts to discuss the complex rules to comply with the pension regulations and others interested in issues of employee motivation and thus with theoretical concern with the relationship of ESOPs and democracy.

Even though many ESOPs are hardly Mondragon model organizations, the great growth of ESOPs, likely more numerous than worker owned co-ops in the U.S., means the ESOP is an important vehicle to move to more place-based enterprises. Especially if the educational efforts of NCEO related to worker motivation and democratic practice can change the culture of some core businesses and their communities.

ESOP may be very important as a mechanism to address rural and urban development needs in Michigan.

A core problem with ESOPs is that in some, perhaps most, the majority of employees do not see themselves as owner-managers, but merely as employees with a special pension plan. In ESOPs it is possible for the ownership of stock to be largely in the hands of a few top managers, with other shareholders unable to out vote or otherwise influence decisions made by the firm. This difference from a full worker cooperative can arise from both the desire of a few managers to control the firm or poor education of the mass of employee owners of shares. Speaking with one, well-educated, and perhaps atypical member, of a major ESOP revealed that he, at least, sold his shares quickly and did not feel like an owner. He did appreciate, however, one core benefit of the firm being an ESOP, that it could do what was professionally correct rather than focus on short-run schemes to raise the value of shares for external investors. This worker owner felt ESOPs were especially geared to firms with many highly skilled professionals who do not favor short-run decision making.

One of the benefits of ESOPs could be to help save or reorganize firms that have had resources taken or lost by management who wishes to move away from the ownership of the now weakened firm. While other cooperative ownership may equally allow for preserving the firm, transitioning to an ESOP may be structurally the easiest way to achieve worker control. The challenge in such cases is to get workers, who may have some severance benefits and only modest surplus resources to risk them in restoring the firm. For example, in the case of several subsidiaries of Fruit of the Loom that had large market share and skilled workers as it prepared

for bankruptcy in 1999, key employees and union leaders undermined the move to an ESOP, instead selecting enhanced early retirement for core workers. In the cases of both Doehler-Jarvis in Toledo and Acme Boot in Clarksville, Tennessee, an ESOP effort almost succeeded only to be undermined by the caution of older workers (Lorenz, 2012).

COMMUNITY-BENEFIT CORPORATIONS

One of the problems inherent in traditional corporate support for community or worker development has been the explicit requirement that corporate management has a fiduciary responsibility to maximize shareholder value. If maintaining a living wage or practicing long-term sustainability costs shareholders short-term gains, management may be breaking their legal obligations to the investors. Full cooperatives can avoid this problem, but not ESOPs or simply community or worker minded management in a traditional firm.

Responding to this problem, the state of Maryland was a pioneer in the United States in the creation of an alternative corporate form, the benefit or B-corporation. Accountability in this structure requires directors and officers to consider the impact of decisions not only on investors but on communities and employees. In addition to more traditional reporting requirements, a B-corporation is required to make an ‘annual benefit report.’

Following Maryland’s example, since 2010 twenty-seven other states have allowed B-corporations. An equal number of countries have authorized benefit corporate structures. A host of advocates for a ‘new economy,’ especially stimulated by the 2008 financial crisis have come to advocate the benefit corporate structure. Gar Alperovitz at the University of Maryland’s Democracy Collaborative played a core role in launching this initiative. However, respected environmental and business scholars, such as Gus Speth at Yale, have advocated this change, winning quick legal changes in states ranging from Vermont to Hawaii, South Carolina to Washington.

INTERNATIONAL COOPERATIVE INITIATIVES

While the U.S. usually considers itself little bound by international organizations and their initiatives, both the United Nations (UN) generally and the International Labor Organization (ILO), Food and Agricultural Organization and other specialized agencies have made efforts to promote understanding of cooperative enterprises. The reasons for the broad endorsement of cooperatives by these organizations are quite relevant to concerns with urban and rural development in Michigan. In many cases the international development agencies have found cooperative enterprises provide the easiest way to bring economic growth that benefits a wide group of people to impoverished regions. As the ILO officially stated:

“[C]ooperatives [are] important in improving the living and working conditions of women and men globally as well as making essential infrastructure and services available even in areas neglected by the state and investor-driven enterprises. Cooperatives have a proven record of creating and sustaining employment – they provide over 100 million jobs today.”

(<http://www.ilo.org/empent/units/cooperatives/lang--en/index.htm>)

In 1968 the UN began a process of creating an institutional structure for promoting cooperatives. Working with the ILO and the Food and Agricultural Organization and other UN bodies, it launched the a formal initiative in 1971 and created what became after several name changes the Joint Committee for the Promotion of Aid to Cooperatives. These formal UN agencies received support throughout this process from one of the oldest non-governmental organization of any type, the International Cooperative Alliance (ICA), founded in 1895. ICA has more than 270 member federations of co-ops in nearly 100 countries.

The UN agencies and the ICA launched a decade of the cooperative, which ended in 2012. During that time, many new co-ops were established and general awareness of their benefits for economic development grew. While UN endorsement of an idea does not always produce a positive consequence in the U.S., among those sincerely open to best practices in economic development, the global research, thinking, and related cooperative support mechanisms growing from the last forty years of ILO and UN work provides much useful support material—especially for education about cooperatives.

One benefit of cooperatives from a UN perspective is potential reduction in violence. For example, in Israel the Arab-Jewish Center for Equality, Empowerment, and Cooperation (AJEEC) has worked for decades to promote cooperative enterprises. Organized by Yehudah Paz, AJEEC holds both that economic development is an essential precondition of peace in the region and that the development must not be brought through hierarchical or paternalistic structures. Cooperatives allow for achieving both economic opportunity and empowerment of local citizens and workers to shape how the opportunity is driven. The slogan of AJEEC is “empowering communities, promoting equality, building peace.” Much like the proposed learning modules that this co-learning plan assumes to be a first step to developing cooperative solutions in Michigan, AJEEC has a think-tank, the Negev Institute for Strategies of Peace and Development (NISPED).

CURRICULUM MODULES

The initial concrete result of this co-learning plan is to develop one or more course module(s) for inclusion in classes related to labor and management and corporate governance at institutions of high education in Michigan. The purpose of these modules, which would be appropriate for social science and business courses, would be to increase awareness of the worker cooperatives and similar cooperative or employee ownership models among the next generation of Michigan leaders. Universities and colleges that offer both undergraduate and graduate business, social science, and economic programs would greatly benefit by implementing various curriculums which focus on cooperative business models. The expectation is not to fully change any curriculum, but to start a debate about alternatives to current development models. At a minimum, the curriculum offered to incoming students should address the following subtopics:

1. The Historical, Political, and Cultural Background of Cooperative Development: Module Objective - This would be the first module for all students, studying especially the development of Mondragon, using works such as several of those in the co-learning bibliography, especially portions of the books by the Whytes and Bakaikoa. The core purpose of this module is to train students in:

- a. The similarities in initial conditions in places such as Mondragon, Emilia-Romagna and
- b. What was achieved over the half century after cooperatives emerged in those regions.

Without ignoring problems, this module is an essential first step in motivating students to give all modules attention.

2. Citizenship, Ownership and Restoration of Democracy: Module Objective – To assist students understand that participation in governance of worker cooperatives both promotes civic engagement beyond the enterprise and is mutually dependent upon greater civic engagement. There is an inherent link that needs to be consciously promoted to make one goal of enterprise development long-term community vibrancy and sustainability. The writings of Speth, the Whytes and Bakaikoa, will be used here as well the work of Alperovitz.

3. Changing Culture: Module Objective – The module will show the core role of cultural change, not only a good business plan, in allowing cooperatives to develop and thrive. It will train students in the specific methods that have been used elsewhere to empower workers to imagine working together, risking meager resources and developing a jointly owned enterprise. This subtopic would analyze the cultural change that was a precondition for a variety of worker cooperatives from around the globe and the ultimate shared values they have stress. An essential part of this module is training in methods of cultural change. Speth has given this much attention and has been consulted by Michigan business advocates of cultural change such as Peter Wege. The Center for Economicology in Grand Rapids has pioneered creation of curriculum components to foster such cultural change.

4. Financing and the Feasibility of Employee Ownership: Module Objective - Taking a case study approach this module will review specific examples of fund raising to launch worker cooperatives, especially in the U.S. but also abroad. [The authors of this co-learning plan will be attending the research conference hosted by the International Co-operative Alliance in June 2014 in Pula Croatia to learn of ‘strategies for co-operative development.’ That topic is one to be addressed at the conference.] Accordingly, by early July 2014 we will have more specifics and sources on this subtopic.

5. The Law and Regulations: Module Objectives – Using material available through the Sustainable Economies Law Center in Oakland, California, we will train students in the basics of law and regulations related to worker cooperatives, B-corporations and ESOPs. We obviously are not providing legal advice; simply the rudiments of law and regulations that would help someone become an educated consumer of legal advice on establishment and function of a cooperative. This module would analyze why there is such variation among worker cooperatives in Michigan, the United States and the international community.

6. Open-Book Management Styles: Module Objective – In this module we will train students in the basics of this concept promoted by John Case. We will train students in methods for improving enterprise effectiveness by making business financial information available to all workers. According to Case, there need to be in place data on basic measures of business success and every worker should be expected and enabled to use the data to improve performance and understand their stake in enterprise success. This approach also is a component of helping cultural change that moves workers from parts of an enterprise to willing and able leaders. This module will teach the basics of this accounting process and motivate students to want to learn more.

7. The Roles of Boards and Workers Assemblies: Module Objective – While theoretical until functioning enterprises exist, this module is needed so that students appreciate the structure that

must be established as soon as a cooperative is launched to prevent degeneration of the initial hopes of the worker founders. In addition to selections from the sources already mentioned, the general corporate leadership literature has important insights for students on the topic, such as the work of James Shaffer. From a critical perspective on current business management there is the work of Lawrence Mitchell.

8. Financial Literacy needs of Lay People: Module Objective – Building on the concept of open-book management, this module would expose students to the basic methods of financial reporting to allow worker-owners to participate intelligently in governance; including training in basic data analysis allowing workers to assess evidence for success and judge the use and abuse of basic statistical methods.

9. Contrasting Means of Worker Control of Enterprises: Module Objective – This module will contrast ESOPs, B-corporation structures and various forms (consumer, producer and worker) of cooperatives. It will aim to give a balanced assessment of alternatives to worker-cooperative governance to empower potential worker cooperative participants to understand better the opportunities and challenges they face and why they may wish to face them.

10. Employee Ownership and Creating an ‘Idea Driven Company:’ Module Objective – This module will review the need for innovation in worker management. The module will use material from Mondragon and Emilia-Romagna cooperatives to indicate the need and methods for getting worker-owners to buy into the need for vigorous involvement of everyone in concerns such as quality and changing product demand. We will also expose students to the thought of Abraham Zaleznik on innovation, leadership and management.

CONCLUSION

The goal of this co-learning plan is to establish the educational infrastructure to launch an

university in Georgia because Michigan's public health agency, which started the registry when

APPENDIX

The phrase ' race to the bottom' applies to Michigan's current business approach; it is the

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