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MONDRAGON

SPAIN'S OASIS OF DEMOCRACY

Although the idea of workers' participation in the control of industry is attracting an increasing number of adherents, Franco's Spain might seem inhospitable soil for it to grow in. But at Mondragon, in Guipuzcoa Province,

a co-operative enterprise employing 10,000 has grown up, in which the directors can be fired by a general assembly of workers. It offers, argues Robert Oakeshott, important lessons for advanced industrial countries.

THIRTY years ago a young Catholic priest, Fr José María Arizmendi, came to the small town of Mondragon in the Basque country of northern Spain. He had supported the losing Republican side in the Spanish Civil War. The normal roads to progress – political or trade union activity – were closed. So Fr José María set out to find a different one. It led him first into technical education and then, in the middle 1950s, into co-operative industrial production. Today the co-operatives that he inspired – a group of

linked enterprises employing roughly 10,000 people – are the largest producers of refrigerators in Spain, and among the largest producers of machine tools. They have their own bank. They have their own hybrid educational institution that turns out both machine operatives and craftsmen, and engineers with degree qualifications. At least in western Europe, this co-operative complex is unique.

'You can think of our dynamic as coming from an alliance between the Catholic Church and

technology,' one of the most senior co-operators told me. It is an unusual combination to underpin rapid economic growth. But this Basque enterprise is unusual in other ways too. Historically, co-operatives have been fairly successful in the retail trade and to some extent in agriculture. With the odd exception in France, co-operative manufacturing, where it exists at all, is usually confined to low-technology activities like boot and shoe production. But production at Mondragon is heavily concen-

trated on manufacturing and, within that, on capital-intensive, high-technology activities. The average age of those involved is 32.

Mondragon is set in mountainous country about 50 miles inland from the big coastal cities of San Sebastian and Bilbao. Today its population, swelled by immigrants attracted by the new employment opportunities, is probably close to 30,000. And economic advance has brought with it the inevitable depressing crop of high-rise blocks of flats.



TWO FACES OF MONDRAGON. Accommodation, recreation and educational facilities (left) are all owned by the co-operative. Above: Fr José Maria Arizmendi, founder of the enterprise, preaches in his church. 'Only the minimum of my work is in church,' he declares.

rate' for their jobs. There is a clear link between these economic differentials and workers' participation in control.

All the co-operatives are ultimately controlled by general assemblies of all their members - which normally meet once a year to elect boards of directors and decide basic policy.

Voting in these general assemblies used to be weighted in proportion with wage rates. Thus an assembly-line worker might have 1.2 votes, compared with three votes for the tiny minority paid at the top rate. The system was replaced earlier this year by a simple one member one vote arrangement.

Ownership of the Mondragon co-operatives, like control, is distributed among all members. In this narrow sense - the sense in which it is something separate from control - ownership means

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But an ancient flagstoned square, with a church on one side and a sort of mayor's parlour on the other, seems to have remained, as it must have been for centuries, the real centre of the community's life. On a saint's day during my visit the church was packed with a congregation of all ages. They sang each successive hymn as if it were the Hallelujah Chorus. In the evening the square was thronged with young people dancing to pop music.

The Mondragon co-operatives include a number of consumer societies - retail stores - an agricultural co-operative, and a few not very successful co-operative fishing boats. But manufacturing and construction account for more than 90 per cent of the group's operations, whether measurement is made in terms of jobs or value added. Construction is much less important than manufacturing - less than 10 per cent. The co-operators of Mondragon do not aim to lead the world back to a rural Arcadia of cows, market gardens and cottage industries; nor do they reject modern technology with talk of ecodoom. They are engaged in an exciting attempt to reconcile

modern industry with social justice and democracy. And most of them seem to be having rather a good time in the process.

Production started in 1956, when five graduates from a technical school started by Fr José María formed the nucleus of the first industrial co-operative. They made simple stoves and cooking equipment. Today there are a total of 55 producer co-operatives in the group, of which 47 are industrial. The largest unit, ULGOR, which produces mainly refrigerators, employs more than 2,500 people. Total group sales last year are expected to exceed 10,000 million pesetas (£65 million).

Sales have been growing at an annual rate of over 30 per cent since 1966, and the increase in value added has been only slightly less fast. Another indication of the group's success is its high degree of self-financing. Over the five years from 1967 to 1971 it financed more than half its investments from ploughed-back profits. A recent study by the Bank of Spain showed that this figure was roughly twice the average for Spanish private industry as a whole.

But it is their co-operative

structure - shared ownership and democratic control - that makes the Mondragon co-operatives so unusual and exciting.

Take wage and salary differentials. These are laid down in the constitution of each co-operative; all have a maximum 3:1 pre-tax differential. Thus a managing director, or a professor who teaches in the Mondragon educational institution, or the top man in the co-op bank, cannot receive more than three times as much as the lowest-paid workers. As a result of the rather lightly progressive Spanish income tax the maximum after-tax differential comes down to roughly 2½:1. And since new recruits in the lowest paid grades can normally expect a 20 per cent wage increase at the end of one year, the difference in take-home money only rarely exceeds 2½:1. This is, of course, very much narrower than is usually found in enterprises of a similar size, in Spain or anywhere else. Because the rates for the lowest-paid are fixed just a little above the highest level for similar work elsewhere in the region, it follows that the top managers and professionals are receiving a good deal less than the 'market

participation in profits. Though a few people are occasionally taken on for temporary work, all who join the co-operative on a permanent basis must make a minimum contribution to their capital, which entitles them to a share in profits. No individual may own more than five per cent of the total capital.

The capital contribution required of new members seems relatively high. It has been changed from time to time, but was fixed at 100,000 pesetas (about £650) in the middle of last year. On the other hand only five per cent of this sum is required as an initial down payment. The balance can be paid out of earnings over a period of years. It is worth pointing out that the average cost of creating a new industrial job in the Mondragon co-operatives is 800,000 pesetas – eight times the required capital contribution. In any case it was clear from conversations with both management and line workers that the contribution did not deter people from applying to join. 'Everybody these days,' I was told, 'can somehow lay his hands on 5,000 pesetas.'

Capital is rewarded at a fixed rate of interest. The current figure is six per cent, though there is provision for some distribution above this if profits exceed a certain level. The effect of these arrangements has been the re-investment of a very high proportion of profits – and thus a very high rate of growth.

The system does not exploit members unreasonably, because the greater part of their contributions is paid back when they leave. A proportion of the payments – currently 12½ per cent – is allocated to the reserves of the co-operative. This money is not paid back; nor does it earn a rate of interest. But the balance is normally repaid to the departing member under an equitable formula that takes into account changes in the retail price index and the real capital accumulation of the co-operative since the contribution was made. Thus, apart from the 12½ per cent, a member shares fully in any capital accumulation through ploughed-back profits; and his original stake is protected against price inflation. It is difficult to imagine a fairer set of 'workers' ownership' arrangements.

In their wage and salary differentials and in their control and ownership structures, these Mondragon co-operatives are clearly

strikingly different from anything to be found under normal private or State capitalism. All the co-operatives have a fairly conventional management arrangement from top directors down to foremen. But election of top managers obviously makes for greater feelings of confidence and security among the workers. 'You aren't pushed around here in the way that happens elsewhere,' I was told by several young workers. Others referred to the right of appeal against disciplinary action or proposed dismissal. And a senior executive said: 'You can't give orders in the tone of a general around here, and you can't walk round as if you own the place – anyway not if you are hoping for re-election.'

Lively discussions about income differences take place continuously among the workforce. While I was at Mondragon some of the professionals were saying they intended to propose a widening of the differential limit – from 3:1 to 5:1 – at the next general assembly. Lower-paid and assembly-line workers took a different attitude. 'This 3:1 is already too large,' one spirited girl told me. 'It should certainly not be allowed to widen; if anything it must be narrowed.' A number of the younger professionals have left for private industry and higher salaries over the last year or two. However, there still seem to be enough who are ready to forego the chance of higher incomes in exchange for the non-financial satisfaction of working at Mondragon. And the probability is that, if the issue is raised at all at the next general assembly, a decision will be made to keep the differentials as they are.

One wonders what differentials

would result in Britain if they were decided by even a partially democratic voting system, as at Mondragon. Sir Joseph Lockwood, head of EMI, was quoted some months ago as saying that 'the chairman of a major company cannot live on less than £50,000 a year.' That must represent a differential, before tax, of at least 50:1, compared with the lowest-paid.

A striking demonstration that Mondragon democracy has some 'teeth' came when the evening shift workers demanded a wage rise. They took their case to the general assembly. The management opposed the demand. But a majority of votes in the assembly awarded the evening shift an increase of five per cent compared with the day workers.

Even the most committed supporters of the experiment admit that there is still much to be done. For one thing the general assembly's democratic working is hindered by the level of education of the majority of the workers. One man, after favourably comparing Mondragon's shop-floor conditions with what he had experienced elsewhere, said that 90 per cent of what went on in a general assembly meeting was quite incomprehensible to him. He was perhaps an extreme case. He was well above the average age and told me that his education consisted of '10 years studying the Catholic religion'. Even a young woman who held a position of some authority on the assembly line said she could understand less than half of what was said at the meetings.

It is plain too that the two sides of industry have not disappeared at Mondragon. In February 1971 there was a wide-



ADVANCED TECHNOLOGY. Product

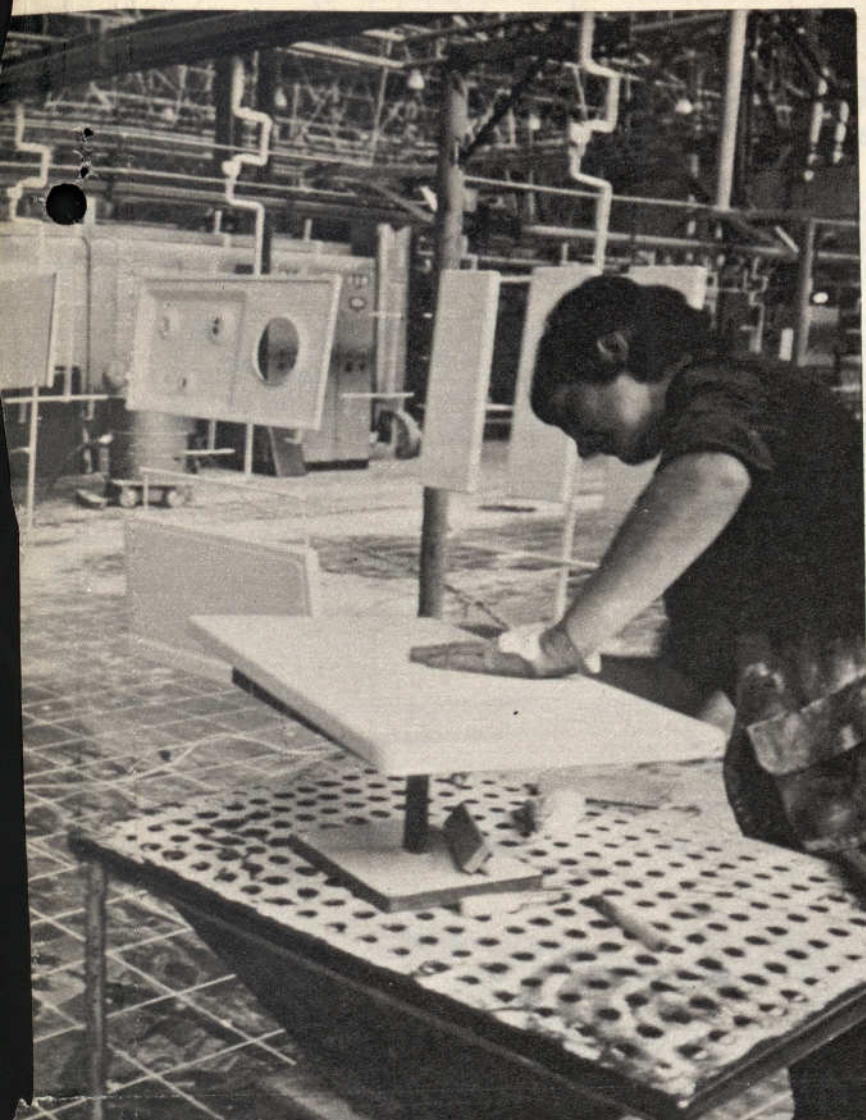
spread strike for higher wages that lasted a full day. Obviously the strikers did not stop work 'against themselves', so their action must have been directed against the management.

That the situation was still perceived as being one of two sides was made even plainer by management's reaction. An extraordinary general assembly was called. A new statute covering strike action was proposed by the board of directors and passed by a narrow majority. External or 'solidarity' strikes were to be treated with reasonable tolerance. But in the case of internal strikes, the new statute laid down that the 'instigators' would be sacked – though dismissal would be subject to appeal. Of course it may be reversed; and at least up to now it has never been used. But it obviously reflects the survival of traditional attitudes.

It would be wrong to make too much of the strike. For to do so would distract attention from the real successes at Mondragon in solving the two crucial and connected problems of social justice and economic growth – successes



THE BOSSES. Fr José María (centre) with some of the top men at Mondragon. There have been strikes, although it is possible for management to be overridden.



at Mondragon contrasts with labour-intensive co-operative manufacturing elsewhere.

that are all the more striking because they have been achieved with virtually no help from outside experts or members of the financial establishment, but simply by ordinary people. Have 'special factors' also contributed to be success? Or would similar experiments elsewhere be similarly successful?

Historically the Basque priesthood has had close links with popular movements. And the association of the founders of the Mondragon co-operatives with the church has obviously been a source of strength and popular support for them. But the fact that this support has been mobilised and channelled into constructive action is due more than anything else to the ideas and leadership of Fr José María Arizmendi. He set up a technical school in the early 1940s. And it was to him that a small group of graduates from the school came for advice when they started to think about setting up a co-operative enterprise in the middle 1950s.

Now aged 58, Fr José María has a thin face, grey hair, and wears spectacles. His appear-

ance suggests an elderly don. He wears clerical dress on Sundays and major saints' days, but the day I saw him he was wearing a light grey jacket and trousers and a grey shirt buttoned to the top. He emphasised that he performed all his customary duties in church. But he put even greater stress on his non-clerical work. 'As a priest only the minimum of my work is in church,' he said.

His key idea is that 'politics' and 'theory' must be rooted in productive work. Since this obviously requires skills and techniques, it is easy to understand why his first step was to start a technical school. There is the closest possible connection between his ideas and what he has done.

Three other ideas came across very strongly in our talk, and help to explain what has been developed at Mondragon. The first seemed to combine 'social obligation' and 'social justice'. He used the phrase '*educación social*' and spoke both of the need for the more privileged to help those less fortunate, and of the need for systems, like those at Mondragon,

designed to satisfy people's demands for social justice and fairness.

Secondly, he repeatedly emphasised the importance of freedom. The democracy at Mondragon, even if imperfect, provided for the exercise of free choice. He insisted that people should be allowed the maximum of choice at all times. The issue came up in particular when we discussed an arrangement under which students at the Escuela Profesional Politécnica (Mondragon's educational institution) can contribute to their school fees, and earn themselves pocket money, by doing productive work. I asked whether he would object to this arrangement being made compulsory. His reply was unequivocal. Though nearly all the students in fact chose to take part in productive work, it would be totally wrong to force them to do so.

Thirdly, Fr José María emphasised time and again the importance of working with young people. That, as well as his insistence on the importance of productive skills and techniques, helps to explain why it was the technical school that he founded first. It also helps to explain his particular identification with the school - he has an office there - and why it has prospered and grown. Started in 1943 with an enrolment of 20, by the middle 1950s - when co-operative production first started - its student population had grown to 200. Today's figure is around 2,000.

The school's contribution to the development of the Mondragon complex has been enormous. For it has meant, in effect, that the enterprise possesses its own internal source of skilled manpower. It has meant too that the courses taught can be continually adjusted to meet the changing needs of production. So it has been able to bridge the gap between education and production. And it has been able to do so while continuing to satisfy official Spanish requirements for Government-approved qualifications.

The role of the Mondragon bank has also been crucial. It is called the Caja Laboral Popular, not succinctly translatable into English, but meaning roughly the 'savings bank of the people's labour'. Established in 1959, the bank had a total of 54 branches by the end of 1971. Its functions combine those of a savings and an investment bank. On the one hand it mobilises private savings. On the other it has a key role in

the planning and authorisation of all new Mondragon investment. It is very proud of the growth rate achieved up to now and is very expansionist-minded.

Mondragon's achievements cannot be ignored by anyone who seriously advocates industrial democracy. Of course there are imperfections. The structures are not fully democratic; relationships between management and manual workers are not without friction. There is a big educational job to be done before a majority of the ordinary workers really understand what is going on. Some would argue too that the differentials, though probably the narrowest in Europe, are still too wide. On the other hand it is clear that in terms of both economic success and social justice, the men and women of the Mondragon co-operatives have advanced well beyond anything that is normal in western Europe. There are lessons here for the British Labour Party.

Some of the more imaginative leaders of the Third World, like President Nyerere of Tanzania, might also find something in the experience of the Mondragon co-operative to think about.

IN NEXT WEEK'S MAGAZINE



Colette's mad, hot July

Scandal followed Colette everywhere. She shocked by appearing nude on the stage, and her bizarre relationships with men and women outraged Parisian society. But nothing quite matched the events of July 1911. 47